PROCEEDING ON MOTION OF THE COMMISSION AS TO THE RATES, CHARGES, RULES AND REGULATIONS OF THE BROOKLYN UNION GAS COMPANY FOR GAS SERVICE

PROCEEDING ON MOTION OF THE COMMISSION AS TO THE RATES, CHARGES, RULES AND REGULATIONS OF KEYSPAN GAS EAST CORPORATION FOR GAS SERVICE

Rebuttal Testimony and Exhibits of:
Elizabeth D. Arangio
Rate Design Panel

Book 3

June 10, 2016
Submitted to:
New York State Public Service Commission
Case 16-G-0058
Case 16-G-0059

Submitted by:
The Brooklyn Union Gas Company and
KeySpan Gas East Corporation

nationalgrid

Before the Public Service Commission

THE BROOKLYN UNION GAS COMPANY d/b/a NATIONAL GRID NY and KEYSPAN GAS EAST CORPORATION d/b/a NATIONAL GRID

Rebuttal Testimony

of

Elizabeth D. Arangio

Case 16-G-0058
Case 16-G-0059

June 10, 2016

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Rebuttal Testimony of Elizabeth D. Arangio

I. Introduction

Q. Please state your name and business address

A. My name is Elizabeth D. Arangio. My business address is 40 Sylvan Road, Waltham, Massachusetts 02451.

Q. Are you the same Elizabeth D. Arangio who previously submitted direct testimony in these proceedings?

A. Yes, I am. The defined terms in my direct testimony have the same definitions in my rebuttal testimony.

II. Purpose of Testimony

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the gas supply-related recommendations of the Department of Public Service Staff Gas Policy and Supply Panel, Richard L. Levitan and Alexander J. Mattfolk on behalf of the Long Island Power Authority ("LIPA") (hereafter "the LIPA Panel"), Orlando Magnani on behalf of Direct Energy Services LLC and Ronald G. Lukas on behalf of Great Eastern Energy. Specifically, I will address the Gas Policy and Supply Panel's recommendations concerning (i) the balancing provisions applicable to electric generation customers, (ii) the allocation of peaking service costs to Temperature-Controlled ("TC") customers, (iii) the penalties associated with energy service companies' ("ESCOs") failure to deliver a minimum of 98 percent of their daily requirement as determined by the Companies, (iv) the development of a standard interconnection agreement between the Companies and providers of renewable natural gas ("RNG"), and (v) the terms under which the Companies purchase bundled peaking services for system supply. I will also address the LIPA Panel's recommendation concerning changes to KEDLI's SC-14 tariff, Mr. Magnani's claims concerning (i) the allocation of interstate pipeline capacity between KEDNY and KEDLI, and (ii) the allocation of the Companies' capacity on Tennessee Gas Pipe Line LLC ("Tennessee") to ESCOs, and Mr. Lukas' recommendations concerning (i) the allocation of interstate pipeline capacity to ESCOs that increase their loads during the winter period, (ii) proposed credits for ESCOs on days when the Companies utilize pipeline firm transportation ("FT") capacity that is normally used to transport storage gas to instead transport flowing supplies, (iii) the provision of credits arising from certain asset management agreements to ESCOs, and (iv) certain gas supply related issues associated with the Companies' service to TC customers.

Q. Do other of the Companies' witnesses address certain of the issues that are addressed in your rebuttal testimony?

A. Yes. Many of the issues associated with the rates and services provided to electric generation customers, TC customers and ESCOs are also addressed by the Companies' Rate Design Panel and Shared Services Panel.

Q. Do you sponsor any exhibits as part of your testimony?

A. I am sponsoring Exhibit ___ (EDA-1R), which was prepared under my direction and supervision and sets forth data concerning electric generator imbalances between January 2011 through May 2013 and June 2013 through December 2015.

III. Electric Generation-Related Supply Issues

Q. The Gas Policy and Supply Panel recommends (at 54-55) that the Companies should be required to perform and submit to the Commission within 90 days of the Commission's order in these proceedings a detailed analysis of the cost to serve electric generators and the contributions received from generators. Do you agree with this recommendation?

A. We do not object to preparing the analysis described by the Panel. However, it will take longer than 90 days from the Commission's order in these proceedings to perform a comprehensive analysis of the subjects identified by the Panel. As discussed by the Companies' Rate Design Panel, we believe the study should consider all of the costs imposed on the system by electric generators, including balancing provisions and cash outs. I recommend that the Companies be given time to confer with Staff to determine the precise analysis that should be prepared and, once that determination is made, the Companies should be given at least 150 days to perform the requested analysis. Once the analysis is completed, the Commission should determine the process to be followed to resolve issues raised by the analysis. I also recommend that, with respect to the services presently provided to electric generators, the status quo should be maintained until there has been a complete review of the Companies' analysis and any issues raised by the analysis are ultimately resolved.

Q. The Gas Policy and Supply Panel recommends (at 57-58) that the Companies' electric generation tariffs should be modified so that the Companies balance electric generation accounts back to a 2 percent level rather than to 0 percent. Do you agree with this recommendation?

A. No, I do not. Before I explain the reasons why I disagree with the Panel's recommendation, I will describe how the balancing provisions of the Companies' electric generation tariffs operate.

The balancing provisions of the Companies' electric generation tariffs are designed to encourage electric generation customers to balance their deliveries of gas to, and takes of gas from, the Companies' distribution systems as closely as possible. The reason for this is, as recognized by the Gas Policy and Supply Panel, that electric generators can create significant risk for the Companies' distribution systems if they take more gas from the system than they deliver to it. While underdeliveries of gas by electric generators represent the most serious risk to the systems, overdeliveries are also discouraged because they require the Companies to use their balancing capabilities in unanticipated ways to manage the excess gas.

Under the Companies' electric generation service classifications, daily imbalances are cashed out at prices that reflect the market price of gas in the terminal zones of the pipelines that directly serve the Companies' service territories – Transcontinental Gas Pipe Line, LLC ("Transco"), Texas Eastern Transmission, LLC ("Tetco") and Iroquois Gas Transmission System, LLP ("Iroquois"). These prices are adjusted in a manner that is less favorable to electric generation customers as the size of the customer's imbalance increases. Under KEDLI's tariff, electric generation customers in certain areas of the distribution system are permitted to balance on an aggregated basis to mitigate daily imbalances. Imbalances are cashed out back to 0 percent, meaning that the customer's entire imbalance quantity is purchased or sold each day at the applicable daily prices.

Prior to May 28, 2013, much of the generation that LIPA provides natural gas for was managed under an agreement that had no cash out mechanism. Instead, a rolling balancing account was maintained for these facilities. When this agreement was in effect, positive and negative imbalances of between 5 percent and 20 percent were routinely created. With increasing load on KEDLI's system, it was necessary and reasonable to modify the service provided to LIPA to ensure that imbalances created by electric generators were minimized. SC-14 has been very effective in achieving this goal. The majority of imbalances are now less than 2 percent. This is demonstrated by a comparison concerning the imbalance percentages and volumes of similar balancing pools for the June 2013 through December 2015 period and the January 2011 through May 2013 period. This data is set forth on Exhibit ___ (EDA-1R).[1] The reduction in the volume of imbalances is quite striking. It is clear that following the implementation of the modified SC-14 tariff, imbalance levels declined significantly.

The premise of the Gas Policy and Supply Panel's proposal to modify the daily balancing provisions to cash out imbalances back to a 2 percent

[1] The Jan 2011 – May 2013 pool included steam units at Port Jefferson, Northport and Barrett as well as Barrett GTs, while the June 2013 – December 2015 pool included includes these same units plus 8 additional GT sites (Bayswater Far Rockaway, Bethpage Energy Center, Caithness LIPA, Freeport Equus, Glenwood Energy Center, Pinelawn Power, Port Jefferson Energy Center, PPL Global/Pilgrim).

threshold instead of 0 percent is that balancing a generation customer's account back to 0 percent does not give the customer the ability to use the balancing services paid for through the Daily Balancing Demand Charge. I disagree with this claim. The fact that a generation customer is able to create an imbalance means that the customer is using the balancing services it pays for. However, unless the customer is cashed out each day, the Companies are either lending to, or borrowing gas from, the customer until its imbalance quantities are either cashed out or balanced later in the month. Under the Panel's recommendation, customers within the 2 percent tolerance would not be cashed out until the end of the month, presumably at some average monthly price.

The daily balancing provisions of the Companies' electric generation tariffs are designed to encourage electric generation customers to minimize daily imbalances. The changes proposed by the Gas Policy and Supply Panel would reduce that incentive. Moreover, it is possible that the proposed changes would impose costs incurred to manage electric generation customers' imbalances on other customers. In my view, there is no compelling reason why the balancing provisions of the electric generation service classes need to be modified immediately; in fact, the data presented in

Exhibit ___ (EDA-1R) provides a compelling reason to maintain the status quo.

Q. The Gas Policy and Supply Panel further recommends (at 58) that cashouts beyond the 2 percent level should not occur unless there is a systematic imbalance for the entire generator pool. Do you agree with this recommendation?

A. No, I do not. This proposal assumes, among other things, that, for example, positive imbalances in one geographic area of the system can be offset by negative imbalances in a completely different part of the system. This is not always the case. In addition, if cashouts beyond the 2 percent level are not imposed, then conceivably a party could accumulate a daily imbalance up to the 1.99 percent level each and every day, and then, at the end of the month, the Companies would need to cash this party out at a monthly price that may or may not compensate other customers for the costs imposed on the distribution system each day. As I discussed previously, KEDLI's tariff already gives generators in certain portions of the distribution system the ability to aggregate imbalances. Nonetheless, this is another subject that can be explored through the study I discussed previously for addressing electric generation-related issues.

Q. The Gas Policy and Supply Panel further recommends (at 58) that any imbalance opposite of the system wide imbalance should be applied to the customer's Monthly Imbalance Account. Do you agree?

A. No. Once again this proposal would weaken the incentive that customers currently have to minimize imbalances. The Companies' current balancing provisions are operating effectively and should not be changed without further analysis of all the issues identified by the Panel.

Q. The LIPA Panel (at 10, 70-71) recommends a number of changes to KEDLI's SC-14. Do you agree with those recommendations?

A. No, I do not. At the outset, however, I recommend that the process that I discussed earlier in my testimony should be the vehicle for considering the changes to SC-14 recommended by the LIPA Panel. As discussed previously, the Companies do not object to preparing a comprehensive report concerning electric generation rates and services issues and using that report as the basis for consideration of changes to KEDLI's SC-14 and other tariff provisions that govern the services the Companies provide to electric generators.

However, in evaluating such changes, the Commission should recognize that the Companies' current electric generation service tariffs have enabled the Companies to provide services to electric generators in a manner that has not resulted in a disruption of service to firm customers. As I have stated previously, the primary purpose of the balancing provisions of the Companies' electric generation tariffs is to encourage generators to minimize imbalances so as to ensure that the services that the Companies provide to electric generators do not disrupt or increase the cost of other services. The Companies' current electric generation tariffs have accomplished and are continuing to accomplish that goal.

Q. The LIPA Panel recommends (at 70) that the Tetco M3 price should be excluded from the cashout calculation under SC-14. Do you agree with this recommendation?

A. No, I do not. While the LIPA Panel is correct that Tetco does not physically connect to KEDLI's distribution system, KEDLI does hold firm transportation contracts on Tetco and is able to access a considerable quantity of gas from that system. Moreover, when operating conditions permit, electric generators served by KEDLI are permitted to deliver gas on Tetco. The pricing indices in the cashout provisions of the SC-14 tariff are intended to reflect gas prices on the pipelines where KEDLI would buy or sell gas on a daily basis to manage imbalances. Tetco M3 is one of those points and therefore it should be included as one of the pricing indices in the cashout mechanism.

Q. The LIPA Panel recommends (at 70) that KEDLI should eliminate the $10 per dekatherm ("dth") charge that is added to the cashout price when electric generation customers underdeliver by more than 10 percent. Do you agree with this recommendation?

A. No, I do not. In making this recommendation, the LIPA Panel fails to provide any meaningful reason why a change should be made to a provision that effectively discourages electric generation customers from underdelivering gas by more than 10 percent. Moreover, the LIPA Panel has not provided any meaningful reason why a generation customer cannot stay within a 10 percent tolerance and avoid the charge. Once again, the imbalance provisions of the SC-14 tariff are designed to encourage customers to avoid imbalances and the most difficult imbalance that the Companies encounter is one in which the generation customer underdelivers gas, forcing the Companies to obtain additional supplies for their firm customers. An under delivery of 10 percent or more could pose serious risk to KEDLI's system.

Q. The LIPA Panel compares KEDLI's SC-14 to electric generation tariffs of other utilities. Do you have any comments concerning those comparisons?

A. While I am certainly willing to examine the operating practices of other utilities, I assume that each of these utilities have designed their electric generation tariffs to meet their needs and operating circumstances. These operating circumstances may be far different from those faced by KEDLI. For example, the LIPA Panel (at 51-52) discusses the balancing provisions of KEDLI's regulated local gas distribution affiliates' tariffs in Massachusetts and Rhode Island and concludes that they are "less harsh." However, in making this comparison, the LIPA Panel ignores the fact that there is no significant level of generation on either of these systems that the local distribution company is responsible for balancing.

While the operating circumstances and tariff provisions of other utilities are something that should be considered as the Companies move forward with the process I have discussed, there is no basis to require KEDLI to make immediate changes to SC-14 merely because there are differences between SC-14 and other utilities' tariffs.

Q. The LIPA Panel recommends (at 71) that all overdeliveries of gas to KEDLI's system when an operational flow order ("OFO") is declared should be cashed out at 100 percent of the LIPA Panel's recommended cashout price. Do you agree?

A. No, I do not. Imbalances that result from overdeliveries can create adverse operating conditions and should not be encouraged. During OFO conditions, the Companies need their electric generation customers to balance receipts and deliveries of gas as closely as possible.

Q. The LIPA Panel recommends (at 71) that balancing penalties and premia should be reduced in the summer and shoulder seasons. Do you agree with this recommendation?

A. No, I do not. During the summer and shoulder seasons, KEDLI's flexibility to manage electric generation imbalances is reduced as a result of the fact that less gas is in the distribution system and KEDLI is using its upstream pipeline transportation capacity to fill storage in accordance with storage injection rules that require close adherence to a schedule of daily injections. The table below shows the KEDLI peak day, generation summer peak day (maximum gas burned by all Long Island generators), average winter day and average summer day as compared to the total generation load on the same days for the November 2014 – October 2015 period. On an average summer day, the generation load can be more than two times that of the KEDLI Sendout (total firm customer load). On a peak summer day for generation load, the total generation load can be more than six times that of the KEDLI firm customer load.

2014-15 Daily Gas Load Data				
Category	Peak Winter Day (dt)	Peak Summer Day (dt)	Average Winter Day (dt)	Average Summer Day (dt)
KEDLI Sendout	950,707	99,104	534,846	142,931
LI Power/Cogen	147,353	601,949	237,992	300,105
*Peak day occurred on 2/15/15				
**Peak summer day occurred on 7/29/15				

The operating circumstances on KEDLI's system do not justify less onerous imbalance provisions in the summer and shoulder months. On the contrary, given the generator load as a percentage of total load, the imbalance provisions are even more critical during these months.

IV. <u>ESCO Issues</u>

Q. The Gas Policy and Supply Panel recommends (at 48) that transportation customers that fail to deliver 98 percent of their forecast quantity should be assessed a penalty of $25 per Dth for underdeliveries during non-OFO events and $50 per Dth during OFO events. Do you have any comments concerning this recommendation?

A. I have no objection to this recommendation, which should strengthen the incentive for transportation customers to comply with the Companies' delivery requirements.

Q. Direct Energy Witness Magnani claims (at 7) that KEDLI allocates ESCOs insufficient transportation and storage capacity, forcing ESCOs to purchase peaking supplies at higher temperatures. Do you have any response to this claim?

A. On page 7 of his testimony, Mr. Magnani describes the Companies' methodology for allocating assets to KEDNY and KEDLI ESCOs. The allocation used is not static; rather assets are released according to the relative design day needs of all KEDNY ESCOs and all KEDLI ESCOs. Because each ESCO has a different load factor, the temperature at which peaking supplies are required will vary.[2] While Direct Energy required peaking supplies to serve its KEDLI customers on six days during the 2014/15 winter, the Companies actually dispatched peaking supplies for eight days during the same season.

Q. Mr. Magnani further asserts (at 8) that ESCOs should receive an allocation of interstate pipeline capacity on Tennessee. Do you agree?

A. The Companies presently do not allocate capacity on Tennessee to ESCOs because the delivery point between the pipeline and the New York Facilities System is operated by Consolidated Edison Company of New York, Inc.

[2] For the 2014/15 winter season, the KEDLI base/slopes were incorrect due to an error in the Companies' billing system. This error has since been corrected.

("Con Ed"). Each day the Companies receive an allocation of capacity from Con Ed at the White Plains delivery point of between 0 dth and 90,000 dth. The Companies currently have 160 ESCOs operating on their systems. To allocate a quantity of capacity that can change daily among 160 ESCOs would pose a considerable administrative challenge and would, on many days, result in a *de minimis* allocation of capacity to individual ESCOs.

As the Gas Policy and Supply Panel recognizes, the Companies are currently preparing to begin releasing physical storage to ESCOs. This is a complex undertaking. Once it is completed and it is confirmed that releasing storage will not jeopardize system reliability, the Companies would be willing to examine whether there is an administratively practical way to make Tennessee capacity available to ESCOs.

Q. Great Eastern Energy witness Lukas asserts (at 12) that the Companies' practice of assigning ESCOs long haul capacity on Transco when the ESCO loads increase during the winter period is "discriminatory." Do you agree?

A. No. During the winter the Companies need an administratively practical way of adding and subtracting capacity as ESCOs' loads change. Using Transco long haul capacity as the marginal source of capacity is fair to all ESCOs because it best ensures that the source of marginal capacity will remain constant throughout the winter. It is also an optimal way to assign capacity from an administrative perspective. There is nothing “inherently discriminatory” in assigning capacity in the same way to all ESCOs.

Q. Mr. Lukas recommends (at 13-14) that ESCOs should receive a financial credit when the Companies use FT capacity that is normally used to transport storage gas to transport flowing supplies. Do you agree?

A. No. This proposal would be extremely complicated to track and administer and Mr. Lukas has not demonstrated that the alleged harm to ESCOs justifies this administrative burden. In addition, it should be recognized that it is the Companies’ sales customers, not the Companies, that benefit when the Companies use storage-related transportation to transport flowing supplies. Furthermore, when the Companies use storage transportation to inject gas into storage, and in so doing, reduce the weighted average cost of gas in storage, the ESCOs realize a benefit that they can access by nominating Retail Access Storage.

Q. Mr. Lukas also recommends (at 15) that ESCOs should receive a benefit from certain asset management agreements that the Companies have

entered to maximize the value of their upstream capacity for the benefit of their customers. Do you agree?

A. Asset management agreements generally create value through transactions that involve sales of both upstream capacity and commodity. While there may be merit in Mr. Lukas' suggestion that ESCOs should receive a portion of the proceeds from asset management agreements, further study is necessary to determine whether it makes sense to do so, and if so, how such proceeds should be fairly allocated.

Q. Mr. Lukas recommends (at 15) that gas supply issues that affect the rates and services available to TC and interruptible customer should be considered in the TC collaborative. Do you agree?

A. Yes.

V. <u>RNG Standards Terms</u>

Q. The Gas Policy and Supply Panel recommends (at 62-63) that the Companies develop a standard interconnect agreement between the Companies and RNG providers. Do you agree?

A. We do not object to this proposal, but we would ask that the Companies be given 150 days to develop and submit this agreement as part of the Gas Transportation and Operating Procedures Manual.

VI. **Peaking Supply Issues**

Q. The Gas Policy and Supply Panel claims (at 39) that TC customers utilize peaking assets and therefore should pay demand charges that reflect an appropriate level of peaking costs. Do you agree that TC customers benefit from the use of peaking assets?

A. That has been the case in the past and, as discussed by the Rate Design Panel. TC customers are currently allocated a portion of peaking costs that the Companies view as appropriate. However, this issue should be addressed in the TC collaborative.

Q. The Gas Supply and Policy Panel (at 79) recommends that the Companies should ensure that any peaking supply be backed up with primary point capacity. Do you agree?

A. Yes. The Companies' practice has been to require suppliers of peaking service to attest that they have primary point capacity to the Companies' city gates. The Companies plan to continue this practice.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

Index of Exhibits

Exhibit __ (EDA-1R)

LIPA Pool Imbalance Data 2011-2015

KeySpan Gas East Corporation d/b/a National Grid
The Brooklyn Union Gas Company d/b/a National Grid NY
Case 16-G-0058 and 16-G-0059

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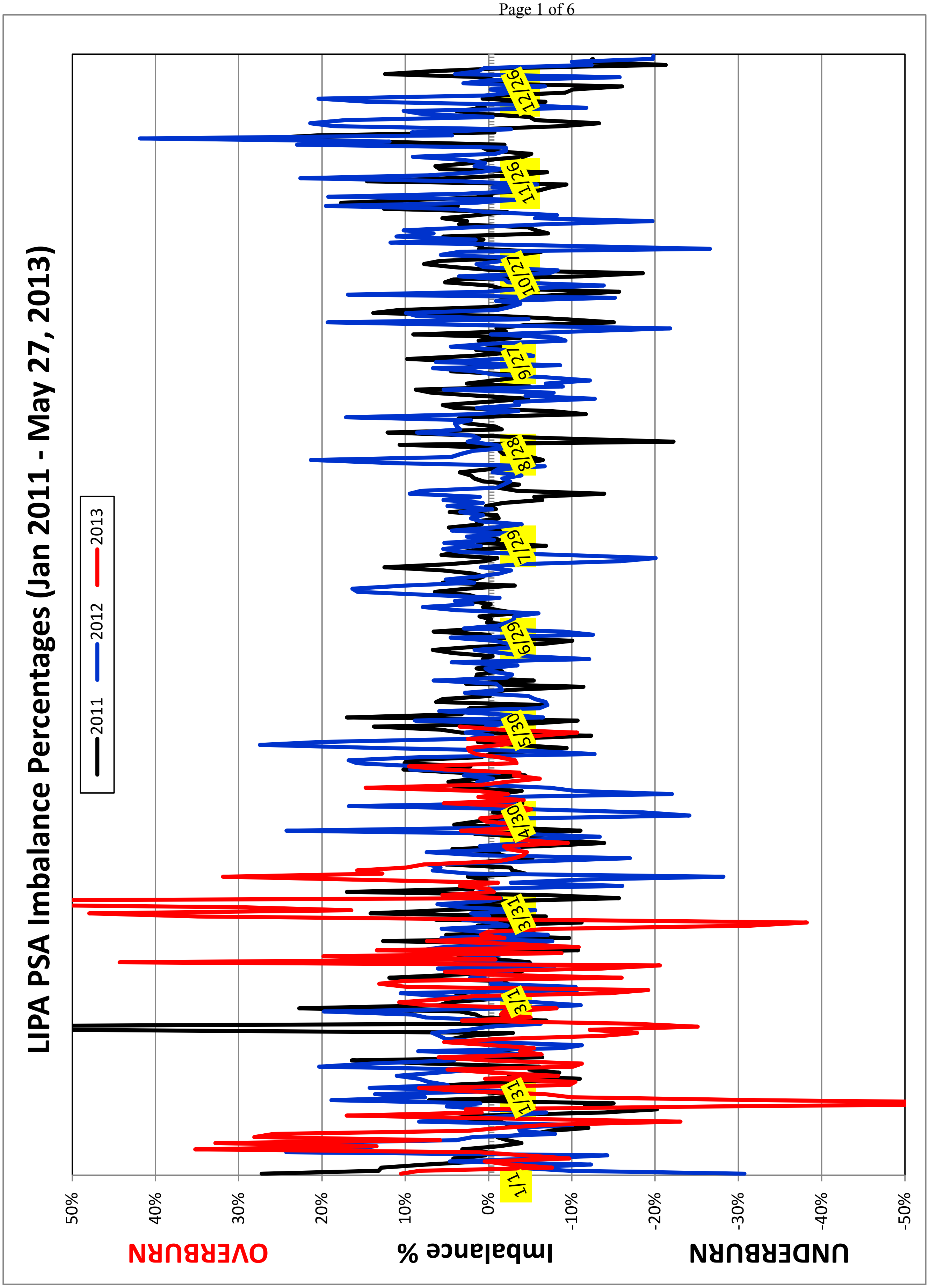

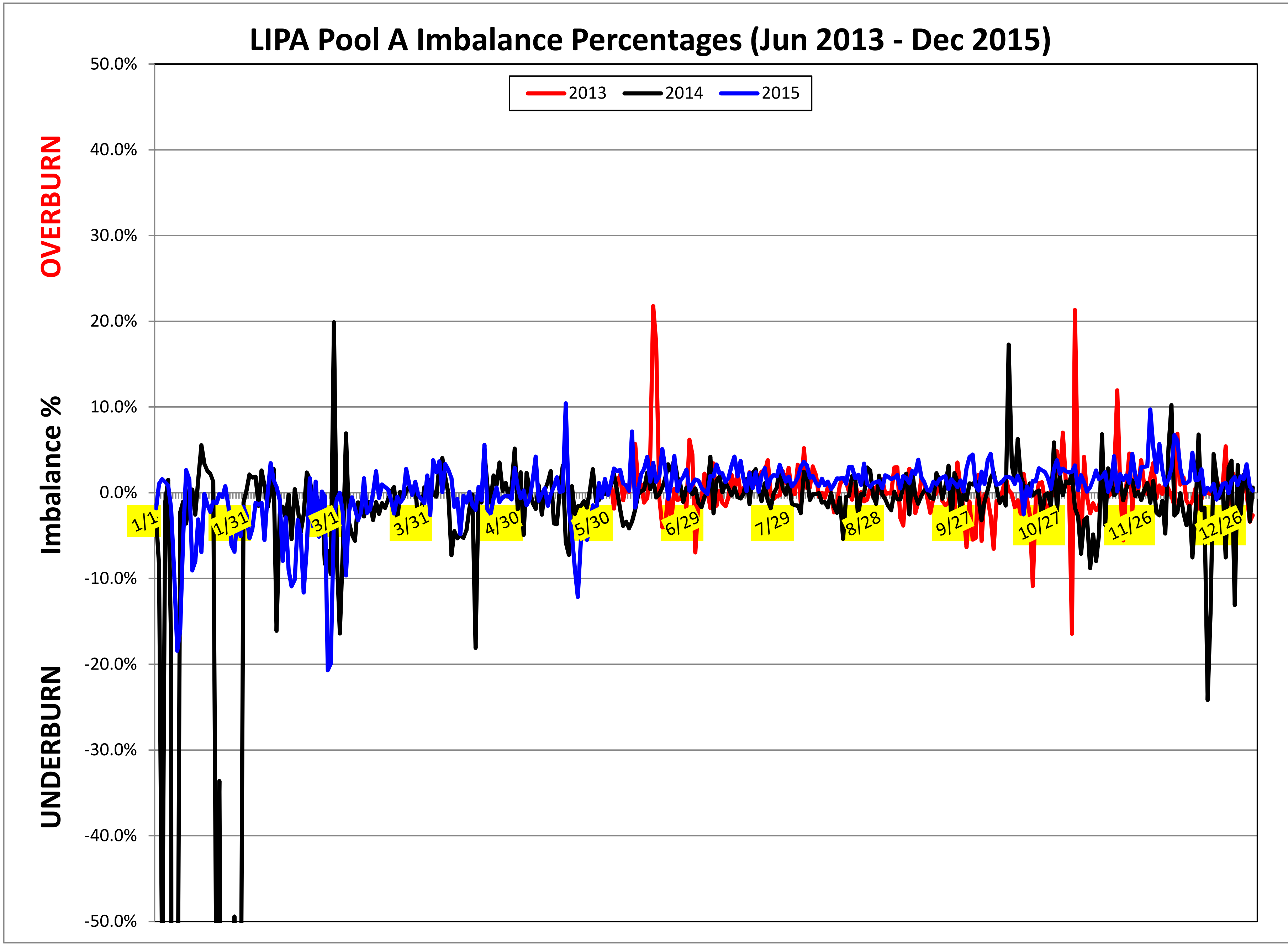

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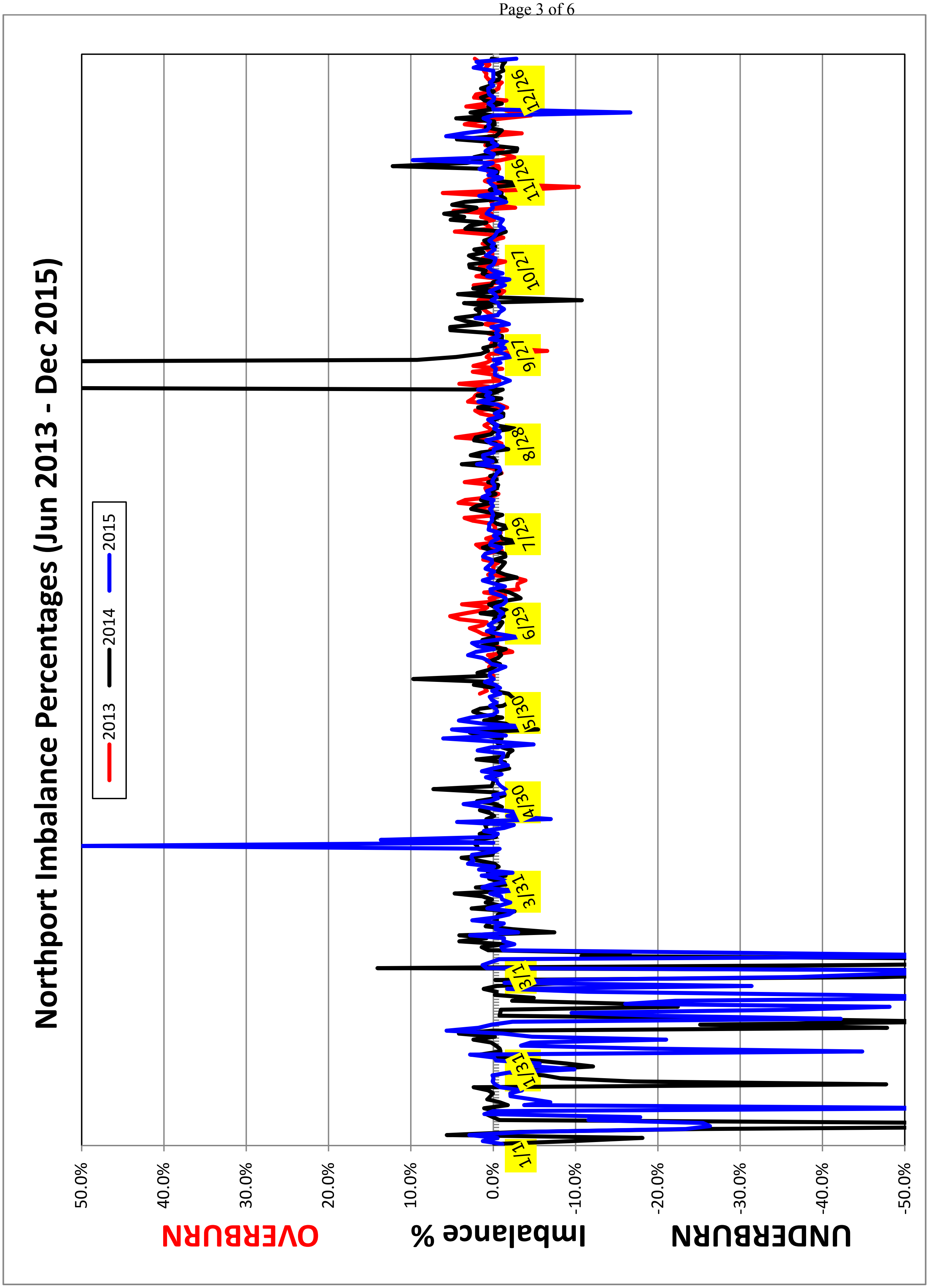

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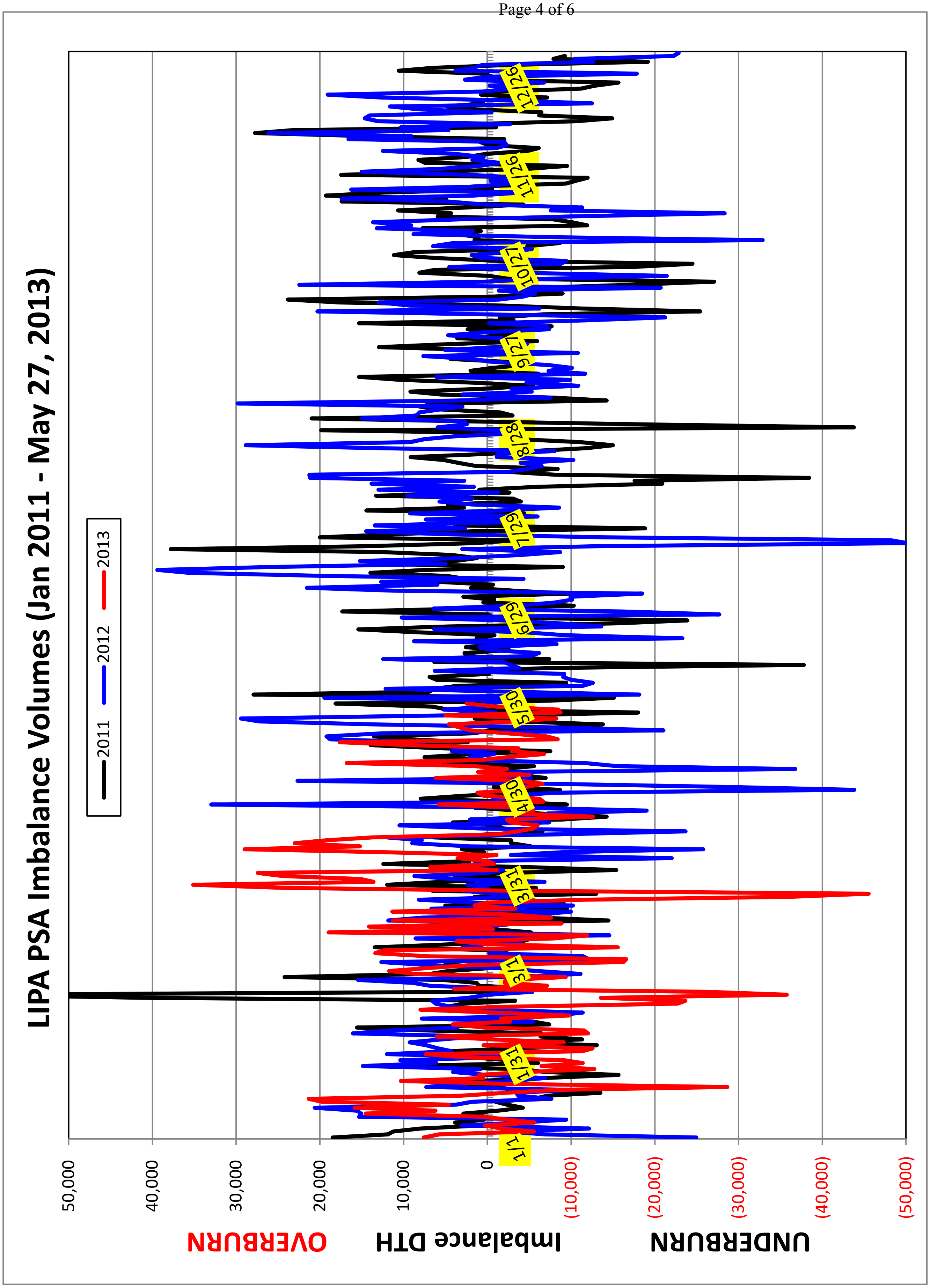

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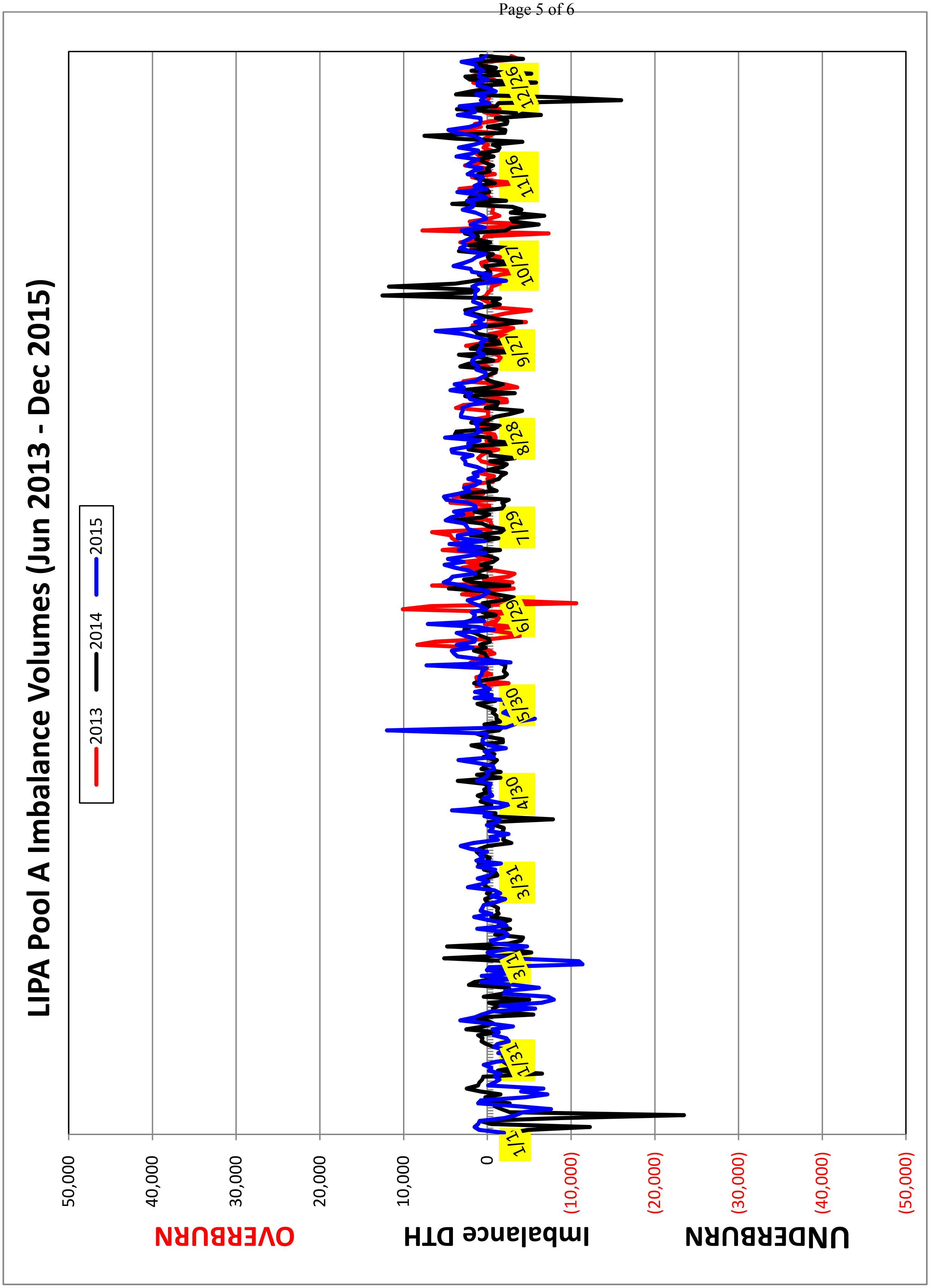

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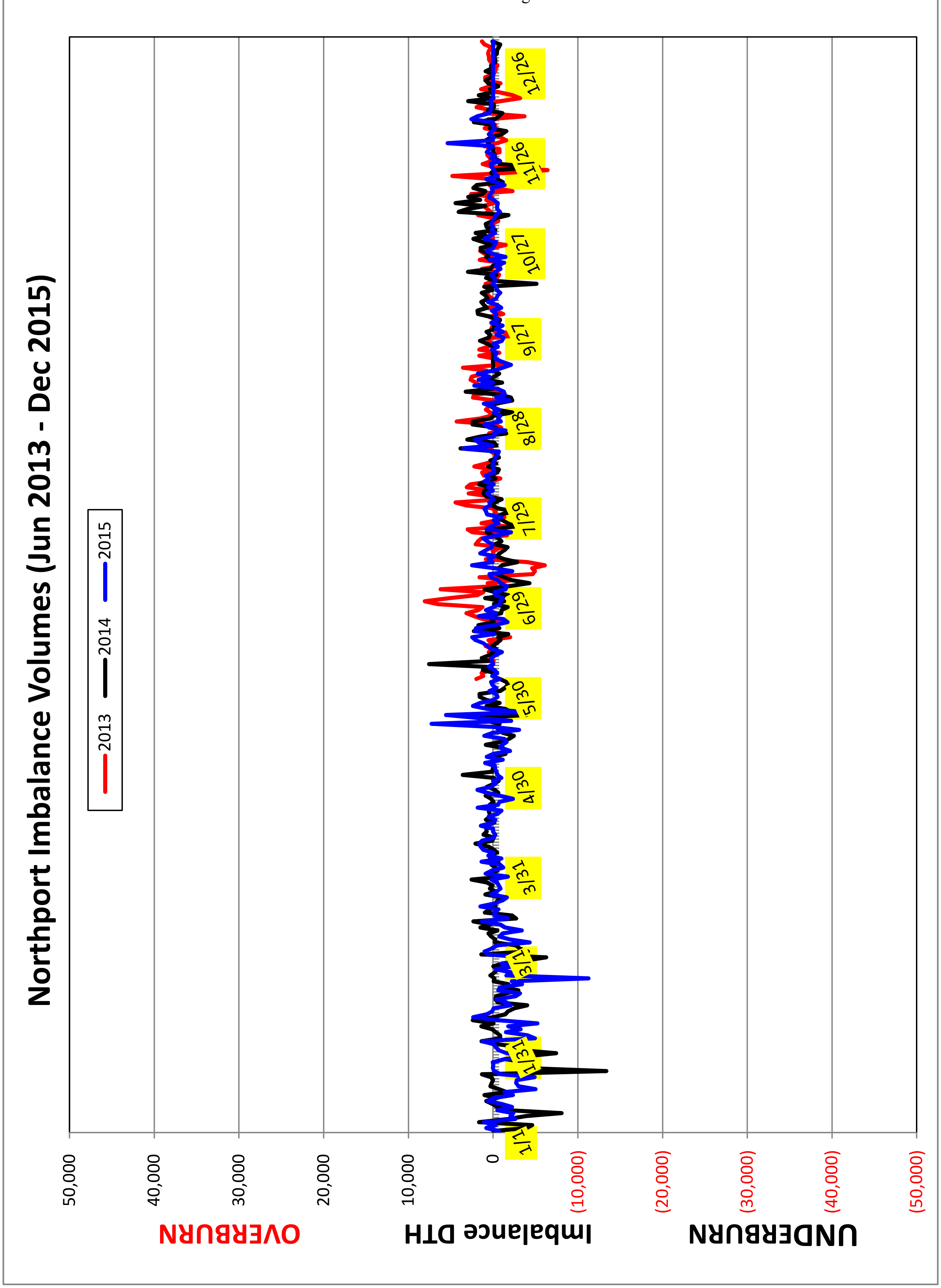

Before the Public Service Commission

THE BROOKLYN UNION GAS COMPANY d/b/a NATIONAL GRID NY
and KEYSPAN GAS EAST CORPORATION d/b/a NATIONAL GRID

Rebuttal Testimony

of

The Rate Design Panel

Case 16-G-0058
Case 16-G-0059

June 10, 2016

Rebuttal Testimony of the Rate Design Panel

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I. Introduction

Q. Please identify the members of the Rate Design Panel.

A. The Rate Design Panel consists of Pamela B. Dise, Dawn M. Herrity, and Howard S. Gorman and is testifying on behalf of KEDNY and KEDLI. This is the same Panel that submitted direct and corrections and updates testimony in these proceedings. The terms defined in the Panel's direct testimony have the same definitions here.

Q. What is the purpose of your rebuttal testimony?

A. The Panel's rebuttal testimony will address and/or rebut issues raised with respect to either KEDNY or KEDLI, or both Companies, by Staff and other intervenors in their respective testimonies filed in these proceedings on May 20, 2016.

Q. Is the Panel offering any exhibits?

A. Yes, the Panel offers the response of the Utility Intervention Unit of the Department of State ("UIU") to IR BULI-1 RDP-1 UIU-001 as Exhibit___(RDP-1R).

Q. How is the rebuttal testimony organized?

A. To the extent possible, the testimony proceeds by topic, rather than by party, to keep the positions of the parties on each issue together.

II. ECOS Studies

Q. Did Staff or any of the intervenors comment on the ECOS studies?

A. Yes. The ECOS studies were discussed in the testimonies of the Staff Gas Rates Panel ("SGRP"), UIU, and the City of New York ("NYC") Witness Richard A. Baudino.

Q. Please summarize Mr. Baudino's comments regarding the ECOS studies.

A. Mr. Baudino recommended that the Commission accept the Companies' ECOS studies. He stated that the ECOS studies provide a reasonable basis for cost and revenue allocation and are consistent with prior decisions of the Commission. He also agreed with the classification of distribution mains as both demand-related and customer-related, as presented in the Companies' ECOS studies.

Q. Please summarize the SGRP's comments regarding the ECOS.

A. The Companies used future Rate Year data in preparing the ECOS, but Staff would have preferred that the Companies used historic data. Regarding the classification of distribution mains as both demand-related and customer-related, Staff stated that it did not necessarily agree with the zero intercept method because allocating a portion of mains as customer related in the classification step may not identify the minimum customer costs for each SC.

Q. Does the Panel agree with the SGRP regarding the use of historic data in preparing the ECOS?

A. The Panel believes it is acceptable to prepare the ECOS using either historic data or future Rate Year data. The SGRP would have preferred using historic data because that approach does not rely on assumptions. The Panel agrees that if historic year data are used, the account balances are known. However, the Panel believes that using historic data has certain disadvantages that outweigh this benefit. Specifically, historic allocator values may not reflect normal weather and historic costs may be different in amount and type from the costs that will actually be recovered in rates. By using future Rate Year data in the ECOS, the Companies avoided these potential weaknesses. The Panel notes that the ECOS based on Rate Year data can easily be rerun to reflect the final revenue requirement, thereby reflecting the actual amounts to be recovered in rates.

In summary, the Panel believes that although either method is acceptable, the use of future Rate Year data is preferable, especially if future year costs and allocators, which are used for setting rates, differ meaningfully from the historic year.

Q. Please comment on the SGRP's discussion regarding the classification of distribution mains as both demand-related and customer-related.

A. First, a minimum system study, not a zero intercept study, was used to separate the demand-related and customer-related components of distribution mains.

Second, the Panel agrees that the customer-related component of mains is not usually included in the minimum customer costs for each SC. In fact, the Panel did not include those costs in computing the customer charge costs, as can be seen from Exhibit___(RDP-3) Schedule 4 for each Company. No portion of mains or the O&M costs related to mains are reflected in those schedules. The Panel believes the SGRP's concern is fully addressed in the Companies' ECOS studies.

Q. Did the SGRP rely on the Companies' ECOS for any of its analysis?

A. Yes. The SGRP used the ECOS to review the proposed MFCs and to aid in revenue allocation and rate design. The Panel understands that the term "revised ECOS studies" at page 44 of the SGRP's testimony refers to the ECOS studies filed by the Companies.

Q. Please summarize UIU's comments regarding the ECOS.

A. UIU recommended that the Commission reject the Companies' ECOS studies because the studies allocate a portion of distribution mains on a customer basis, and UIU asserted that the costs of distribution mains do not vary directly with number of customers. UIU argues that distribution mains should be allocated based entirely on demand (*i.e.*, peak requirements).

Q. Are the assertions of UIU correct?

A. No. The number of customers is an important consideration in planning and installing distribution mains. In fact, UIU acknowledged that the minimum cost of mains depends on the miles of streets served by the system. The miles of streets, and therefore the miles of main, is clearly affected by the number of customers served, among other factors (principally customer density). Therefore, there is no dispute that a causal relationship exists between the number of customers served on the one hand and the miles of street covered by distribution mains and the miles of distribution mains on the other hand.

Q. What reasons did UIU give for recommending that the Commission allocate distribution mains based entirely on peak demand?

A. UIU offered no affirmative reason why the entire cost of distribution mains should be allocated based on peak demand. Having rejected the Companies' method of allocating the minimum portion of mains (based on number of customers), UIU simply applied the demand allocator (which UIU and the Companies agree is appropriate for the non-minimum portion of mains) to the entire mains cost. However, by UIU's own testimony, the minimum system does not reflect demand. Rather, it reflects the miles of street served, which is causally related to the number of customers served, as the Panel explained above.

Q. UIU submitted its own ECOS studies (Exhibit___(URP-1) Schedules 2 and 3, and (Exhibit___(URP-2) Schedules 2 and 3). What weight should the Commission give these studies?

A. These studies should not be relied on for several reasons. One of UIU's ECOS studies allocates the minimum system component based on peak demand, and the other based on winter throughput. UIU provided no evidence, however, and does not even assert, that the minimum system is causally related either to peak demand or to winter throughput. There is no justification for allocating the minimum system on anything other than the factor to which it is causally related: the number of customers served. Therefore, the Commission should disregard UIU's ECOS studies because they are not based on cost causation.

III. Revenue Allocation

Q. Please explain how the Companies initially proposed to allocate revenue per class for KEDNY and KEDLI.

A. KEDNY proposed a uniform increase of 31.5 percent of delivery-only revenue for SC 1A, SC 1B, SC 1B-DG, SC 2-1, SC 2-2 and SC 3. Somewhat smaller increases were proposed for SC 4A, SC 4A-CNG, SC 4B, SC 6C-C, SC 6C-G, SC 6C-M, SC 7, and SC 21, which are producing above-average returns at present rates. See KEDNY Exhibit___(RDP-4).

KEDLI proposed a uniform increase of 26.7 percent of delivery only revenue for SC 1A, SC 1B, SC 1B-DG, SC 2-A, SC 2-B, and SC 3. Somewhat smaller increases were proposed for SC 4, SC 7, SC 12, SC 13, SC 9, SC 15, SC 16, and SC 17, which are producing above-average returns at present rates. See KEDLI Exhibit___(RDP-4).

The Companies' revenue allocation proposals moved the returns produced by each service class closer to unity (the system average rate of return), while mitigating extreme impacts, a widely-accepted concept known as "gradualism." To make more progress toward unity would have required increases of 30%-40% or more for some classes, which the Companies felt was not appropriate.

Q. Did Staff or any of the intervenors comment on the Companies' proposed revenue allocation?

A. Yes. The revenue allocations were discussed in the testimonies of the SGRP, UIU and NYC Witness Baudino.

Q. Please summarize the SGRP's comments regarding revenue allocation.

A. The SGRP recommended that all firm service classes receive the same percentage increase because of the size of the rate increases in these cases. The SGRP maintained that it is not appropriate to move service classes closer to the system average return at this time in light of the projected bill impacts. The SGRP also recommended that the rates for IT and TC customers be based on discounts from the rates for the corresponding firm classes, and the revenue assigned to these classes be determined accordingly.[1] The Panel

[1] The Panel notes that this approach introduces circularity into development of the revenue allocation, requiring an iterative process to determine the revenue allocation for all service classes.

discusses the rate design for TC/IT customers later in the TC/IT section of this testimony.

Q. Does the Panel accept the SGRP's recommendation on revenue allocation?

A. The Panel accepts the SGRP's recommendation to increase all KEDNY firm service classes by a uniform percentage, and all KEDLI firm service classes by a uniform percentage, subject to resolution of the revenue to be assigned to the TC/IT classes. The Panel notes that the result of the SGRP's revenue allocation proposal would be very similar to that originally proposed by the Companies for most customers.

Q. Please summarize UIU's comments regarding revenue allocation.

A. UIU found merit in the Companies' approach to revenue allocation, but disagreed with some aspects, especially the treatment of non-firm customers. UIU also disagreed with the ECOS studies on which the Companies relied for their proposed revenue allocation. UIU recommended that revenue allocation be based on the ECOS study it presented, while also recommending that the ECOS not be used for determining the revenue assigned to IT, TC, Distributed Generation ("DG") or Electric Generation ("EG") customers. UIU also recommended that the revenue allocation should show reasonable progress in reducing large deviations from the system average rate of return.

Q Please comment on UIU's testimony regarding revenue allocation.

A. UIU did not present a proposal regarding revenue allocation; it merely made suggestions to move rate classes closer to uniform rates of return while endorsing gradualism. These are the same goals the Companies established and then met in their proposed revenue allocations. As discussed above, UIU's ECOS studies should be rejected by the Commission because they are not based on cost causation.

Q. Please summarize NYC Witness Baudino's testimony regarding revenue allocation.

A. Mr. Baudino recommended that KEDNY service classes SC 1A, SC 1B, SC 1B-DG, SC 2-1, SC 2-2 and SC 3 receive a uniform percentage increase, and all other classes receive no increase. Mr. Baudino did not comment on KEDLI's revenue allocation.

Q Please comment on Mr. Baudino's testimony regarding revenue allocation.

A. As noted above, the Panel accepts the SGRP's revenue allocation recommendations for KEDNY and KEDLI firm service classes, subject to resolution of the revenue to be assigned to the TC/IT classes. The Panel notes that the result of Mr. Baudino's proposed revenue allocation for KEDNY is similar to that proposed by the Companies and to that proposed by the SGRP.

IV. Rate Design

Q. Please briefly describe the rate design proposed by the Companies in their filings.

A. KEDNY proposed no changes to the customer charges for SC 1B, SC 1B-DG, SC 2-1, SC 2-2 and SC 3, and increases for the other service classes. See KEDNY Exhibit___(RDP-4) Schedule 3.

KEDLI proposed no changes to the customer charges for SC 1B, SC 1B-DG, SC 2-A, SC 2-B, and SC 3, and increases for the other service classes. See KEDLI Exhibit___(RDP-4) Schedule 3.

Tail blocks were set to approximate the demand-related cost per therm computed in the respective ECOS studies, and other blocks were set to produce the balance of the revenue target for each service class.

The volumetric rates for TC and IT classes were set equal to the tail block rates for the corresponding firm service classes.

Q. Did Staff or any of the intervenors comment on the proposed rate design?

A. Yes. The Companies' proposed rate design for the firm service classes was discussed in the testimonies of the SGRP and UIU. The proposed rate design for other classes (*e.g.*, TC and IT) was also discussed by intervenor witnesses, and the Panel addresses those comments later in this testimony.

Q. Please summarize the comments of the SGRP regarding rate design.

A. The SGRP recommended the same customer charges as proposed by the Companies. However, to achieve the revenue target for each service class, the SGRP recommended an equal percentage increase for each block within each service class, except for service classes where the rates are computed by reference to other service classes.

Q. Do the Companies accept the SGRP's recommendation regarding rate design?

A. The Companies accept the recommendation of the SGRP to increase all volumetric rates within each service class by the same percentage over present volumetric rates. The Panel believes it is a reasonable approach that meets the goal of producing even bill impacts within each class, although it means foregoing the Panel's goal of aligning the tail blocks more closely with costs.

Q. Please summarize the comments of UIU regarding rate design.

A. UIU agreed with the Companies' proposal to leave most customer charges the same, and recommended that increases in revenue be collected by increasing volumetric rates, especially the tail blocks. UIU also believed that customer charges should not include costs related to service connections and that the current customer charges are therefore higher than the customer-charge costs for most classes (Exhibit___(URP-1) Schedule 5 and Exhibit___(URP-2) Schedule 4).[2] UIU recommended increasing tail blocks to develop a more steeply inclining block structure.

Q. Did UIU propose an alternative rate design?

A. No.

Q. Please comment on the testimony of UIU regarding rate design.

A. UIU is incorrect in its assertion that the Companies' ECOS studies incorrectly calculate customer-charge costs. First, in developing the customer-charge costs, the Panel excluded the customer component of distribution mains

[2] This exhibit appears to be mislabeled as Exhibit___(URP-2) Schedule 4.

(Exhibit___(RDP-3) Schedule 4 for each Company); this is exactly what UIU recommends.

In addition, UIU's contention that service costs should be removed from the customer charge component is incorrect. Although services are sized to meet peak demand, each customer needs to be connected to the distribution system by a service, even if some customers share a service. For customers that share a service, the customer-charge costs developed in the ECOS reflect that sharing, and allocate to each customer only its share of the cost of the service (Exhibit___(RDP-3) Schedule 9I for each Company).

In its response to IR BULI-1 RDP-1 UIU-001, presented as Exhibit___(RDP-1R) to this testimony, UIU cited a report from the American Gas Association ("AGA") that stated that utilities recover only a portion of their fixed costs in the customer charge. However, the AGA report includes services in the fixed costs to be considered in the customer charge; the AGA's issue is not whether service costs should be considered in the customer-charge costs (the AGA includes them), but what portion of total costs are typically included in the customer charge.

In the Panel's experience, including service costs in the costs considered for recovery in the customer charge is a universal practice.

Q. What does the Panel recommend regarding rate design?

A. The SGRP agrees with the monthly customer charges proposed by the Companies. In addition, the Companies have accepted the SGRP's recommendation to increase all volumetric rates within each service class by the same percentage over present volumetric rates. This approach can be applied even with changes in the revenue requirement.

Regarding the testimony of UIU, the Companies have demonstrated that the objections of UIU are not supported because UIU's ECOS does not reflect cost causation, and UIU's customer-charge costs incorrectly omit the cost of services.

V. <u>Merchant Function Charge</u>

Q. Did the SGRP agree generally with the Companies' MFC proposals?

A. Yes, the SGRP agreed with all of the MFC proposals except for the proposal to charge TC and IT sales customers any components of the MFC. Instead, the SGRP proposed a discounted TC/IT pricing structure and did not believe

TC and IT sales customers should be charged the MFC. NYC also opposed charging the MFC to TC/IT customers.

Q. Do the Companies accept the SGRP and NYC's proposal to not charge the MFC to TC/IT customers?

A. Yes, the Companies accept the recommendation that MFC charges not be applied to TC/IT customers at this time and believe that the Companies should await further direction from the results of the TC/IT collaborative.

Q The Staff Accounting Panel recommends that MFC revenue match associated expense. Does the Panel agree?

A. Yes. The current methodology consists of (1) calculating the total projected MFC revenues at current rates as shown on Exhibit___(RDP-2); (2) then calculating the total projected MFC revenues at proposed rates as shown on Exhibit___(RDP-6); and (3) reconciling the MFC revenues at current rates to revenues at proposed rates in the Companies' revenue allocation as shown on Exhibit___(RDP-4), Schedule 1.

As proposed by the Staff Accounting Panel, the Companies will change the MFC revenues to match associated expenses by calculating the total projected MFC revenues at proposed rates on Exhibit___(RDP-2), which will match the total projected MFC revenues on Exhibit___(RDP-6). Therefore, no reconciliation will be needed for the revenue allocation process on Exhibit___(RDP-4), Schedule 1.

VI. TC/IT Rates

Q. Please explain the Companies' proposed modifications to their TC and IT service classifications.

A. The Companies proposed to (1) establish a moratorium on new TC customers; (2) apply its TC volumetric threshold for new IT customers; (3) modify the rate design for the TC and IT service classes; and (4) initiate a collaborative to explore future offerings for non-firm service.

Q. Did the Staff Gas Policy and Supply Panel agree with the establishment of a moratorium on new TC customers?

A. Yes. The Staff Gas Policy and Supply Panel proposed a permanent moratorium on all new TC customers.

Q. Did Staff and the other parties agree with the application of the Companies' TC volumetric threshold for new IT customers?

A. No party disagreed with the proposal.

Q. Is there a need to lower the threshold for IT service to reflect that TC service will no longer be offered to new customers?

A Yes, there is. The SGRP did not discuss this but, with the moratorium on TC services, the threshold for IT service will have to be reduced to accommodate customers that would have qualified for TC service.

Q. Did the Staff Gas Policy and Supply Panel propose any modifications to the class eligibility?

A. Yes, the Staff Gas Policy and Supply Panel suggested three modifications to class eligibility: (1) merging the TC and IT service classifications; (2) allowing all existing TC customers the ability to switch to firm service as soon as firm service can be made available; and (3) allowing TC sales and transportation customers to switch to interruptible notification service.

Q. Do the Companies agree with these modifications?

A. The Companies believe that any additional requirements on class eligibility that are not currently allowed should await the guidance and resolution of the TC/IT collaborative and not be implemented at this time.

Q. What modifications did the SGRP propose regarding TC/IT rate design?

A. The SGRP recommended that a market price be established at a capped price set below firm rates (20% for TC and 30% to IT), and that both the current revenue imputation (adjusted for the Rate Year) and the 90/10 sharing mechanism continue.

Q. Do the Companies agree with the SGRP's recommendation relative to a discount?

A. No. The Companies believe their proposed TC/IT rate design, which sets the entire volumetric rate for TC/IT customers equal to the otherwise applicable firm class tail block rate, provides a sufficient discount to TC/IT customers as the tail block is the least expensive block. In addition, TC sales customers receive a further discount in the demand charge portion of the GAC. The proposed demand charge for firm sales customers is $2.17 per dth whereas the proposed demand charge for TC sales customers is $0.34 per dth.

Q. Please explain the 90/10 sharing mechanism proposed by the SGRP.

A. The SGRP proposed determining a revenue imputation that is at the midpoint of TC/IT customers priced at the current firm rates and those customers priced at the proposed firm rates. Additionally, the SGRP proposed that any variance from that imputation be shared 90% to customers and 10% to the Company. The SGRP believes that having a revenue imputation and 90%/10%

symmetrical sharing will incent the Companies to maximize the TC and IT revenue for the benefit of firm customers.

Q. Do the Companies agree with this proposal?

A. No. As explained above, the Companies are not proposing, and do not accept, a market based rate for TC/IT. The Companies believe there should be no incentive to add new TC/IT customers under the current program without the benefit of the guidance of the TC/IT collaborative and in light of the Staff Gas Policy and Supply Panel's recommendation of a permanent moratorium on TCs. Therefore, the Companies are proposing a 100% true up reconciliation of forecast TC/IT revenues.

Q. Did the SGRP explain how continuing the imputation and symmetrical sharing mechanism will provide an incentive for the Companies to maximize the TC and IT revenue?

A. No. Presumably, the SGRP believes that if the Companies have an incentive they will take actions to maximize TC and IT revenue. However, there is very little that the Companies will be able to do to affect TC and IT revenue. For example, if the winter is relatively free of very cold snaps, customers will not be interrupted as much and TC/IT revenue may be enhanced, but weather is certainly out of the Companies' control. Further, a moratorium will restrain any growth. Additionally, the SGRP's proposed method eliminates pricing flexibility, removing another way to affect revenue. Moreover, if customers were moved to firm service as a result of system reinforcements, TC/IT revenue would be further reduced. In short, the SGRP is proposing an incentive for an activity over which the Companies have very little control, and making recommendations that may erode TC/IT revenue, making the Companies more subject to sharing revenue reductions than revenue surpluses. It is far more equitable to adopt the Companies' proposed methodology, using revenue derived from the TC/IT rate design ultimately adopted at appropriate volumes, reflected in base rates, with a true up mechanism that will ensure that neither customers nor the Companies bear costs or benefits unduly.

Q. Did the Staff Gas Policy and Supply Panel agree with the Companies' proposal for a collaborative?

A. Yes. The Staff Gas Policy and Supply Panel felt the proposed collaborative would be a proper vehicle to bring gas demand response service into the 21st century. The Staff Gas Policy and Supply Panel recommended that the collaborative discuss a TC service class replacement or redesign. Additionally, the Staff Gas Policy and Supply Panel recommended that the Companies report back to the Commission on demand response and non-firm class further rate design as well as operating procedures for interruptions and curtailments.

Q. Do the Companies agree with the Staff Gas Policy and Supply Panel proposal?

A. Yes.

Q. Did the Staff Gas Policy and Supply Panel have any recommendations for items that should not wait for the collaborative? If so, what are they?

A. Yes, the Staff Gas Policy and Supply Panel had six recommendations.

(i) The TC demand charge should include an allocation of any peaking service demand charges appropriate with the level of peaking service that may be used by the service class.

(ii) Switch the use of Central Park temperatures to more appropriate temperature stations in the Companies' territories such as LaGuardia, JFK and Islip airports.

(iii) Waiver of the two-strike rule whenever an interruption occurs within 48 hours of a previous interruption.

(iv) Require the Companies to conduct an additional unannounced test of all non-firm customers within the last two weeks of January.

(v) Require all non-firm customers to file affidavits with the Companies at the start of the winter season showing that their oil tanks are full and that refill contracts exist for automatically refilling the tanks during the winter season.

(vi) The Companies should update their communication protocols.

Q. Do the Companies agree with the Staff Gas Policy and Supply Panel proposals for items prior to the collaborative?

A. Yes, with the exception that all non-firm customers file affidavits with the Companies. The Companies believe that the existing penalties for unauthorized use are adequate to ensure compliance. The Companies would also like to clarify that it did allocate what it views as an appropriate portion of the peak day demand costs to TC customers to account for the fact that there are instances where TC customers utilize assets associated with peaking contracts as shown on Exhibit___(RDP-9).

Q. What was UIU's position on TC/IT rates?

A. UIU recommended that the Commission increase the non-firm rates to a moderate extent, while maintaining a reasonable discount relative to firm service. UIU also recommended that the Companies continue to use value of service as the primary basis for setting TC/IT rates.

Q Do the Companies agree with UIU's position?

A. No. The Companies believe it is better to move to a cost of service rate as mentioned above. The Companies' proposal would offer non-firm customers a discount relative to the rate they would pay if they were on firm service.

Q. Please address NYC's position on TC/IT rates.

A. Mr. Baudino recommended a $0.30 per therm rate for KEDNY's TC classes. Mr. Baudino further stated that the Companies' rate design does not yield a cost based rate for the TC classes and believes that TC classes are still greatly in excess of the true cost to serve these customers. Mr. Baudino recommended that revenues for KEDNY's TC customers remain constant. Mr. Baudino also recommended that TC customers pay the average commodity cost of gas rather than the incremental cost of gas.

Q. Do the Companies agree with NYC's comments?

A. No. The Companies accept the SGRP's rate design proposal, which lowers the rate TC/IT customers will pay by lowering the tail block rate of SC 2 and SC 3 firm customers when compared to the Companies' original proposal. The SGRP's proposed rate design and resulting rates are provided in Exhibit___(SGRP-11) and produce tail block rates at or below the $0.30 proposed by NYC. Also, the Companies currently charge TC customers the average commodity cost of gas, and not the incremental cost of gas as asserted by NYC, which is used only as a floor price.

Q. NYC opposes the Companies' proposal to close TC to new customers. Do the Companies agree?

A. No. The Companies agree with the Staff Gas Policy and Supply Panel that there should be a moratorium on new TC customers until we receive guidance from the collaborative.

Q. NYC suggests that the Companies' tariffs be modified to provide TC and IT customers the option to pay a surcharge in lieu of a lump sum payment for any infrastructure upgrades that are required in connection with a request to convert to firm service. Do the Companies agree?

A. No. The Companies believe it is premature to propose tariff modifications regarding infrastructure upgrade payment methods. These types of proposals should be addressed in the proposed collaborative.

Q. NYC recommends that KEDNY's bill presentation for TC customers have separately stated customer charge, delivery service per therm charge and cost of gas per therm charge. Does KEDNY agree?

A. KEDNY does not object to changes to the TC customers' bills. However, it will need time to research and quantify costs as well as the scope of such an effort.

Q. Estates NY Real Estate Services LLC ("Estates") indicates that TC and IT customers are unable to participate in various energy conservation and efficiency incentives administered by the Companies and New York State. Would the Panel explain why non-firm customers are not entitled to these energy conservation incentives?

A. Most energy conservation incentives are only available to the Companies' firm customers that contribute to the costs of these programs. The System Benefit Charge, which is applied to firm rate classes, is used to fund NYSERDA's Clean Energy Fund, the program used to administer most energy efficiency programs in New York. Because non-firm rates do not include the System Benefit Charge, Clean Energy Fund incentives are generally unavailable to non-firm customers.

Q. Estates expresses concern regarding the future of TC service, explaining that their current negotiated agreement expires March 31, 2017. Will KEDNY continue to serve Estates following expiration of this agreement?

A. Yes. Earlier this year, Estates applied for firm service for 39 of its accounts currently served under the existing TC agreement, and KEDNY is working to process those application and convert the accounts to firm service where possible. While KEDNY has proposed to close TC service to new customers, it will continue to offer TC service to existing customers until such time as an appropriate long-term alternative is developed. Therefore, for all Estate's accounts not converting to firm service, KEDNY will work with Estates on an appropriate extension of the current TC agreement.

Q. Estates has proposed a negotiated rate for SC-3 – Multi-family firm rates. Does the Panel agree with this proposal?

A. No. KEDNY's tariff does not provide for negotiated rates for firm service classes, as it does with non-firm rates. Unless the tariff is changed to provide for it, KEDNY does not have the ability to negotiate a non-tariff rate. Moreover, Estates' proposal for a negotiated SC 3 rate would necessitate that KEDNY treat similarly situated SC 3 customers differently without a valid reason for doing so. Estates has not presented any reason why a negotiated, discounted rate is appropriate in this case.

VII. Gas Rates for Electric Generation

Q. Please explain the Companies' proposed changes to gas sold for electric generation.

A. The Companies proposed to credit 100% of electric generator revenue to the revenue requirement to reduce delivery rates to firm sales and firm transportation customers. Any difference between actual revenue and the amount included in base rates would be reconciled at the end of each rate year and be credited or surcharged to firm sales and transportation customers through the DRA for the 12-month period starting March 1st.

Q. Did the SGRP agree with the Companies' proposals?

A. Yes, the SGRP agreed with the Companies' proposals.

Q. Did the Staff Gas Policy and Supply Panel make any recommendations with respect to gas for electric generation?

A. Yes. The Staff Gas Policy and Supply Panel recommended that the Companies perform a detailed analysis of the cost incurred to serve electric generators to be filed within 90 days of the issuance of an order in these proceedings. The Staff Gas Policy and Supply Panel also recommended changes in the balancing rules for power generators and a number of tariff revisions.

Q. Do the Companies accept these proposals?

A. The Companies agree that a cost of service study should be done to reevaluate the contributions made by the electric generators on the Companies' systems. The Companies' Witness Elizabeth Arangio discusses the time frame necessary to complete this study. The Companies, however, do not agree with the Staff Gas Policy and Supply Panel's proposal to implement changes to any of the electric generator tariff provisions prior to completion of the recommended cost of service study. The Companies believe that changes to the electric generator tariff provisions should be addressed in totality and should be included in the overall evaluation of the cost of service.

The Companies' Witness Arangio explains the Companies' concerns and positions with implementing changes to the balancing provisions, cash out tiers and penalty provisions. The Companies have no objection to identifying surcharges and discounts involved with the daily balancing cash out tiers as penalties in their tariffs, as recommended by the Staff Gas Policy and Supply Panel.

Q. LIPA raised a number of issues regarding KEDLI's electric generator rates and the Value Added Charge ("VAC"). Does the Panel have any comment?

A. As explained above, the Companies propose that changes to the electric generator tariff provisions be addressed in totality and should be included in the overall evaluation of the cost of service that will be considered outside of these rate cases. Such a global approach will address the issues LIPA has raised in the context of the comprehensive review of rates for electric generators. With regard to LIPA's issues regarding the VAC, there is currently a VAC proceeding in Case 15-G-0469 (Proceeding on Motion of the Commission to Review the Appropriateness of the Value Added Charge for Natural Gas Utilities of New York State) to review the appropriateness of the VAC for natural gas utilities in New York State. That proceeding would be the correct forum to address any changes to the VAC.

VIII. <u>Low Income Rate Design</u>

Q. What was the SGRP's proposal regarding recovery of low income program costs?

A. The SGRP recommended that the costs of the low income program be moved from rate design and recovered in base delivery rates following the revenue allocation and rate design process to recover the total revenue requirement approved in this case. Differences between actual and projected low income program costs would be subject to full reconciliation. As discussed in the Revenue Requirements Panels' rebuttal testimony, the Companies accept the

SGRP's proposal and have made an adjustment to revenues and O&M expenses.

IX. LAUF Gas

Q. Please summarize the SGRP's position with respect to KEDNY and KEDLI's proposed LAUF targets.

A. Staff recommended that KEDLI use a four-year average instead of a five-year average to calculate the LAUF target. For KEDNY, Staff recommended the LAUF target be fixed at the value established in Case 12-G-0544 and the dead band removed. Staff also recommended adjusting the LAUF calculation to remove LAUF associated with inactive accounts older than 60 days and believes that inactive accounts should not be incorporated into usage calculation.

Q. Does the Panel agree with the SGRP's recommendation?

A. No, we do not. KEDNY and KEDLI followed the methodology prescribed in Staff's White Paper to calculate their respective LAUF targets. The White Paper provides for the LAUF target to be set at the five-year average LAUF percentage. There are no provisions in the White Paper for arbitrarily removing years or completely ignoring the five-year historic average. There are also no provisions in the White Paper for excluding specific factors that may contribute to the LAUF. Staff's proposal is inconsistent with its own White Paper and is further inconsistent with what the Companies have been required to use for their annual LAUF over/under reconciliations. Accordingly, the SGRP's recommendations should not be adopted.

Q. Is the Panel proposing any modifications to the LAUF calculation?

A. Yes. The SGRP is correct in stating that, in accordance with the White Paper, if the standard deviation of the five-year historic average is greater than 0.5 percent, the dead band should be limited to plus or minus one percent. KEDNY and KEDLI inadvertently included a standard deviation greater than 0.5 percent and propose to correct the respective dead bands as follows:

- KEDNY's five-year average LAUF equals 2.273% so the upper dead band will be 3.273% and the lower dead band will be 1.273%.
- KEDLI's five-year average LAUF equals 1.476% so the upper dead band will be 2.476% and the lower dead band will be 0.476%.

Q. Do you agree with the SGRP's recommendation for KEDNY that the LAUF target be fixed at the value established in Case 12-G-0544 and that the dead band be removed?

A. No. Such a recommendation, again, is inconsistent with the prescription in the White Paper for the use of a five-year average and for the calculation of the dead band. Although the SGRP claims that there needs to be a stronger incentive to control losses, it offers no support for this statement. In fact, the Companies incurred substantial penalties over the five-year period using the actual LAUF that Staff is proposing to ignore in proposing modifications to the targets. The LAUF targets set forth in the White Paper are adequate to incent the Companies to minimize LAUF to the extent they are able.

X. RDM

Q. Please generally describe the Companies' proposals to the RDM.

A. The Companies proposed an update to the SC 1B targets, to eliminate the lost revenue recovery mechanisms for SC 2 and SC 3 and to introduce an RDM for SC 2 and SC 3.

Q. Did the SGRP agree?

A. To a significant extent, yes. The SGRP proposed one modification to the Companies' RDM proposal to include in the RDM TC or IT customers that migrate to firm service.

Q. Do the Companies accept the SGRP's recommendation?

A. The Companies accept the SGRP's recommendation provided the Companies' proposal to include forecast TC/IT revenues in base rates and to reconcile the actual revenues to the amount included in base rates is adopted.

XI. <u>KEDNY – SC 2 Refunds</u>

Q. Please explain the SGRP's position on the matter of the SC 2 refunds.

A. In Case 14-G-0091, the Commission determined that KEDNY and KEDLI had improperly implemented provisions in their tariffs for designating non-residential gas customers (SC 2) as heating or non-heating on an annual basis. The Companies were required to refund with interest those customers who were incorrectly charged a more expensive heating rate for each 12-month period between March 2008 and March 2014. KEDLI customers were refunded in December 2015. The appropriate KEDNY refunds, however, were not easily calculated because of the difficulty of obtaining prior years' billing information, which is maintained on microfiche. The manual process of extracting the microfiche data from more than 35,000 individual bills and calculating the refunds would require thousands of labor hours and, therefore, was estimated to cost approximately $9 million. Alternatively, KEDNY undertook to estimate refunds using available data. Based on an analysis of the impact of this issue on KEDNY's SC 2 customers using electronic data, as well as the actual refunds calculated for similarly situated KEDLI SC 2 customers, KEDNY conservatively estimates total refunds of approximately $2.7 million due to its customers.

Q. Did the SGRP propose a resolution of this issue in the current rate proceeding?

A. Yes. The SGRP proposes a one-time credit for KEDNY SC 2 customers of $9.3 million. Staff proposes to refund SC 2 customers the estimated refund of $2.7 million plus 80 percent of avoided labor costs (80% of approximately $8.3 million, or $6.3 million) to manually calculate the KEDNY refunds. The SGRP contends that the one-time credit is an appropriate resolution of the issue.

Q. Does KEDNY accept the SGRP's recommendation?

A. No. KEDNY believes that the estimate of $2.7 million is the amount that should be refunded to its customers.

Q. Please explain why.

A. Although KEDNY does not have the electronic data to calculate the precise refunds for the period April 2008 through March 2013, it has electronic data to calculate the refund for the period April 2013 through March 2014. This resulted in a 0.2 percent error rate affecting just 89 of KEDNY's nearly 50,000 SC-2 customers for this period. The affected customers were entitled to refunds totaling approximately $25,000 or $280 per customer. In addition, KEDNY was able to recast April 2014 through May 2015 (which was billed correctly) and determined that, if the incorrect methodology was used for the heat/non heat reclassification, KEDNY would have overbilled 501 customers (1.0 percent error rate) by approximately $108,000 or $216 per customer.

Q. Is KEDNY proposing to use the two years of known data to extrapolate the five years of data that resides on microfiche?

A. No. KEDNY is proposing to use the average error rate identified for KEDLI of seven percent and the average refund per customer of $418. The KEDLI error rate is substantially higher than the 0.2 percent and 1.0 percent identified by KEDNY for 2013 and 2014, respectively, and the refund per customer of $418 is substantially higher than the $280 and $216 calculated by KEDNY for the same periods. Applying an estimate for interest and taxes to all potentially impacted customers equates to a total refund of $2.7 million. If KEDNY were to use the two years of its known refund information and extrapolate to the five years for which it does not have electronic data, the refund would be approximately $900,000. KEDNY believes that its proposed refund of $2.7

million is conservative and will more than fairly compensate customers for this issue.

XII. NYFS Revenue

Q. Please describe the Companies' proposed treatment for NYFS costs.

A. The Companies proposed to remove recovery of NYFS costs from base rates and include these costs in a surcharge that would be reset January 1st of each year based on an estimate of NYFS costs for the upcoming calendar year and reconciled to actual costs on an annual basis.

Q. Did the SGRP agree with this proposal?

A. No. The SGRP is recommending no changes to the current ratemaking treatment until the new cost methodology is finally negotiated with Con Edison and therefore does not agree to implement a surcharge mechanism at this time. When a new agreement is negotiated, the SGRP recommends that the Companies file a formal petition to the Commission seeking alternative ratemaking treatment for revenues received and costs incurred. The SGRP has reflected an upward adjustment to operating revenue for KEDLI of $4.299M and a downward adjustment to operating revenues for KEDNY of $6.493M.

Q. Do the Companies accept the SGRP's recommendations and cost recovery proposals?

A. No. The Companies are in active negotiations with Con Edison and anticipate that a new NYFS agreement will be finalized in the next few months. If the agreement is finalized during the pendency of these rate proceedings, the Companies believe that any changes should be incorporated in any rate settlement, including cost recovery through either base rates or a surcharge.

Q. Does the SGRP propose any other changes to the NYFS costs?

A. Yes. The SGRP also recommends that the Companies be subject to a 0.5 percent LAUF factor for gas transported through the NYFS based on the Staff White Paper recommendation that all customers should contribute to system line losses on a throughput basis.

Q. Do the Companies agree?

A. No. The Companies do not believe that a 0.5 percent LAUF factor is appropriate for the NYFS because these transmission facilities are not susceptible to leaks, theft of service, billing issues or other factors that generally contribute to LAUF on the distribution systems. While meter accuracy issues may result in some amount of LAUF on the NYFS, a recent analysis by the Companies and Con Edison suggests that the impact of meter accuracy on the ten NYFS metering points is much less than 0.5 percent. Moreover, any changes to the treatment of LAUF on the NYFS must be incorporated in the newly negotiated NYFS agreement. The Companies will work with Con Edison to consider whether a LAUF factor is appropriate in the NYFS agreement.

XIII. <u>Miscellaneous Rate Design Issues</u>

A. Gas Tariff Provisions

Q. The SGRP supports expanding the refund period and eliminating the cap on the GAC monthly imbalance, but does not agree with the Companies' proposal to implement a mid-year adjustment to the annual cost of gas or the MFC. Do the Companies accept the SGRP's recommendation?

A. Yes, the SGRP's limitation and conditions are acceptable.

B. GSRS

Q. The SGRP recommends that the Companies revise the allocation to first allocate the revenue to be collected in the surcharge to the service classes based on delivery revenues and then develop a specific rate for each service class. Do the Companies accept the SGRP's proposal?

A. Yes, the Companies agree to develop a specific unit rate for each service class based on total delivery revenues collected. This surcharge is unitized for each service class based upon the forecast percentage of each service classification's contribution of total firm sales and transportation delivery revenues (SC 1, 2, 3, 4A, 4A-CNG, 4B, 7 and 21 firm sales and SC 17 firm transportation customers) beginning January 1, 2017.

C. Paperless Billing Credit

Q. Please explain the issues involving the paperless billing credit.

A. The Companies proposed to introduce a paperless billing credit for customers who elect to receive a paperless bill (KEDNY = $0.49 per service period and KEDLI = $0.35 per service period). KEDNY also proposed an update to the credit if there was a change to the electronic billing system that would cause the Companies to adjust the KEDNY credit to better reflect the costs. The SGRP agrees with the paperless billing proposal, but disagrees with the proposal to update the KEDNY credit. The Companies would need to file tariff amendments so that the Commission could determine if the change in rates is warranted.

Q. Do the Companies accept the SGRP's position?

A. Yes.

D. Consumer Power Advocates ("CPA")

Q. Witness John Dowling on behalf of Spring Creek Towers ("Starrett") and CPA recommended that all of KEDNY's IT rates be limited to the delivery component of SC 4A - High Load Factor firm service. Does KEDNY accept this proposal?

A. No, KEDNY does not agree with this proposal. KEDNY believes its current proposal for interruptible delivery rates is reasonable. Furthermore, not all interruptible customers share the characteristics of the SC 4A - High Load Factor class.

Q. Mr. Dowling also recommends that delivery rates for all customers using distributed generation greater than 1MW have rates equal to the rates set for wholesale electric generators. Does KEDNY accept this recommendation?

A. No. If Staff believes that small generators should be addressed in the study of the cost of serving electric generators that it recommends, KEDNY will work with Staff and the parties in that regard. Furthermore, Mr. Dowling notes that the issue of pricing for small generators is a subject of the REV proceeding (Case 14-M-0101). KEDNY believes that this subject is more appropriately addressed in that case than in the more limited confines of these base rate proceedings.

E. Starrett – Eligibility for Electric Generator Rate

Q. Starrett states that because its gas delivery rate is significantly higher than the rates offered wholesale generators, KEDNY has unfairly limited Starrett's opportunities to participate in NYISO markets and in BQDM or other distributed energy programs. Do you agree?

A. Under the tariff provisions, Starrett does not qualify for the wholesale generator rate.

F. GEE issues

Q. Does GEE propose any change concerning demand charges for KEDNY's SC 4-A and 4-B high load factor rates and similar KEDLI rate schedules?

A. Yes. GEE proposes that demand charges be updated as overall demand charges change for each year the rates in these cases remain in effect.

Q. Do the Companies have any comments on this proposal?

A. The Companies anticipate updating the demand rate annually for the following service class groupings:

- Firm sales;
- High load factor;
- Wholesale NGV sales;
- Year-round space conditioning;
- TC;

- Off-Peak; and
- Interruptible sales.

G. URAC Issues

Q. What issues did URAC raise regarding a customer's access to factors required to do a bill calculation?

A. With regard to heating customers, URAC commented that the Companies apply a weather normalization factor and an internal base and slope method of calculating the bills, but that the information is not filed with the Commission or made available to the public. URAC notes that as a result, customers cannot calculate their weather normalization adjustment on their own.

Q. Is URAC's contention that these omissions violate the PSL a reasonable claim?

A. No. URAC notes that PSL §66.12 provides the Commission the right to require KEDNY to provide the weather normalization factor information to its consumers. However, URAC did not demonstrate that the Commission actually has required KEDNY to post such information. Consequently, URAC's charge is baseless.

Q. Are the Companies going to provide the weather normalization factors to the Commission?

A. URAC did not demonstrate that publicly providing the information is necessary or advisable. Upon such a demonstration and upon Staff's concurrence that the provision of such information is desirable from a public policy perspective, the Companies would be willing to explore the feasibility of providing this information on their website.

Q. Are the Companies going to provide customers with the base and slope factors used in calculating the bills?

A. Base and slope factors are in fact customer specific and are recalculated with each bill that uses an actual meter read. It is not feasible to post these factors either on line or on the customer's bill. However, these factors are available upon the customer's request.

Q. Is the Panel aware of URAC's contention that KEDNY's initiative to transfer residential customers from SC 1A to 1B based on usage violates KEDNY's tariff?

A. Yes. On page 11 of its testimony, URAC claims that even though "using an algorithm to identify possible residential heating and non-heating customers is a logical way to locate these consumers, changing their rate based solely on that information, and a non-response to a form letter, is not consistent with the terms of the tariff."

Q. Does the Panel agree?

A. No. URAC's contention is based on a misinterpretation of the tariff. The tariff, PSC No. 12 - GAS, Leaf 143, states only that "Classification No. 1B is available to customers using gas service to supply the principal residential space heating requirements of any of the following premises…." The tariff does not affirmatively require the verification of the existence of gas heating appliances. Consequently, if KEDNY suspects, based on an increased usage pattern, that a customer has installed gas heating equipment without notifying the Company, KEDNY will contact the customer before switching him or her to the residential heating rate. In this way, the customer is free to dispute the Company's suspicion and rate reassignment. If, however, the customer fails to respond to the Company's request, it is assumed that the customer is using gas for heating purposes and the reassignment from SC 1A to SC 1B will be made.

The SGRP agreed with the Companies' proposal, stating that if the customers' usage pattern indicates that they are heating customers they should be classified as such.

Q. URAC contends that "[c]onversely, KEDNY should also perform the opposite review to identify flat usage accounts and affirmatively confirm that no heat is being used; requiring the transfer from 1B to 1A." Do you agree?

A. No, the re-categorization of a customer from non-heat to heat is more easily and more accurately identified than the latter. A customer with relatively flatter usage may still be a heating customer and is properly categorized in his or her original, heating sub-class. The notion that KEDNY is attempting to take advantage of the higher customer charge for heating customers is baseless.

H. Consolidated Billing Charge

Q. Please explain the Companies' proposed changes to the consolidated billing charge.

A. The Companies proposed to update the billing charge from $0.76 to $1.42 for KEDNY and from $0.65 to $1.76 for KEDLI. In addition, the Companies proposed to charge the consolidated billing charge to TC and IT customers.

Q. Please address the issues raised by GEE and Direct Energy Services, LLC ("Direct").

A. Both GEE and Direct had concerns regarding the size of the proposed increase in the billing charge. They propose phasing in the billing charge increase to be consistent with the rate design principle of gradualism being proposed for the phase in of the delivery charges.

Q. Do the Companies agree with issues raised by GEE and Direct?

A. Yes, as explained in the Companies' response to IR GEE-42 (RF-42), the Companies do not oppose a phased in approach to the proposed billing charge increase if there is a multi-year settlement. If there is not a multi-year settlement, the proposed charges are cost justified and should be implemented.

Q. Please address the issues raised by NYC.

A. NYC Witness Baudino is opposed to charging the billing charge to TC and IT customers. Mr. Baudino contends that the rates paid by TC customers are not consistent with the true cost to serve those customers and he believes that the costs associated with consolidated billing are already being collected in the rates being paid by TC customers.

Q. Do the Companies agree with NYC's position?

A. No. The Companies are proposing to assess the billing charge to TC and IT customers because the Companies incur costs to bill TC and IT customers in the same way they incur costs to bill the firm service classes. As explained above, the Companies believe their proposed TC/IT rate design provides a sufficient discount to these customers. The otherwise applicable firm service classifications have variable rate steps, and the Companies are proposing to fix the TC/IT delivery rate at parity to the last step in those service classifications. The billing charges are not included in the firm delivery rates and are therefore not included in the proposed delivery rates for TC and IT customers and must be separately charged to recover the costs.

Q. Does this conclude your testimony?

A. Yes, it does.

Rebuttal Testimony of the Rate Design Panel

Index of Exhibits

Exhibit ___ (RDP-1R) UIU Response to IR BULI-1 RDP-1 UIU-001

Rebuttal Testimony of the Rate Design Panel

Exhibit __ (RDP-1R)

UIU Response to IR BULI-1 RDP-1 UIU-001

Date of Request: May 24, 2016 — KEDNY/KEDLI Request No. BULI-1 RDP-1
Due Date: June 3, 2016 — Req. No. UIU-001

KEYSPAN GAS EAST CORPORATION d/b/a NATIONAL GRID
THE BROOKLYN UNION GAS COMPANY d/b/a NATIONAL GRID NY

Case 16-G-0058 KeySpan Gas East Corporation d/b/a National Grid
Case 16-G-0059 The Brooklyn Union Gas Company d/b/a National Grid NY

Request for Information

FROM: KEDNY/KEDLI, Rate Design Panel

TO: UIU Rate Panel

SUBJECT: Customer Charge Computation

Request:
The UIU Rate Panel's testimony (p. 57) asserts "Schedule 5 of Exhibit___ (URP-1) compares KEDLI's customer charges to its customer costs, based on the Company's ECOS study, excluding distribution mains and services." The testimony also cites Schedule 5 (the exhibit is actually labeled Exhibit 4) of Exhibit___ (URP-2) for KEDNY.

1. Why did the UIU Rates Panel exclude services (and related costs) from the calculation of customer charge costs?

2. Is it the position of the UIU Rates Panel that services (and related costs) should be excluded from the calculation of customer charge costs?

3. If the answer to the preceding question is "yes," please cite utilities in New York State or other jurisdictions where the calculation of customer charge costs excludes services (and related costs).

4. Please present the computation of the customer costs shown on Schedule 5 of Exhibit___ (URP-1) and Schedule 5 of Exhibit___ (URP-2).

5. The UIU Rate Panel asserts that the cost of services reflects the cost of connecting the customer, plus the maximum demand volume of gas delivered. However, the panel believes the cost should be recovered in a volumetric rate. Please explain how either of the cost causation factors that the panel acknowledged is related to annual volumes.

Response:

1. Services must be sized for Design Day needs. The cost of a service will vary depending upon the anticipated maximum demand for gas at any given location. The cost of a service line is not necessarily identical for all customers within any given class. A 1:1 relationship does not exist between the number of services and the number of customers, particularly in urban areas. In urban areas the same service is often used to deliver gas to more than one customer. Since multiple customers can share the same service, there is no compelling reason to include services in the analysis of "customer costs" or to recover the cost of service lines on an equal per-customer basis. To the contrary, it is reasonable to attribute more of the cost of service lines to larger customers than to smaller customers within the same class.

2. Yes. This treats small and large customers more fairly and it sends better prices signals to customers to encourage them to use energy more efficiently.

3. We are not aware of the extent to which utilities in New York or other jurisdictions calculate customer charge costs by including or excluding services (and related costs). Furthermore, the same jurisdiction or utility may handle service costs one way for class allocation purposes and another way for rate design purposes. Costs may not be recovered on a per-customer basis to the same extent they are allocated on that basis. This is similar to the recommendations of the UIU Gas Rate Panel in this proceeding, where our recommended cost recovery doesn't necessarily follow our cost allocation across classes. The potential for differences can be gleaned from the May 28, 2015 report by the American Gas Association, which includes service lines in its list of "fixed" costs, but goes on to discuss the fact that utilities often recover only "a portion of these costs through a fixed charge on the customer's bill. This is most often called the "customer charge," but it is also called minimum bill..." The report goes on to note that cost recovery policies vary widely across utilities and jurisdictions, and concludes that, on average "The customer charge... typically recovers only 46 percent of a utility's actual fixed costs...." While some utilities would prefer to increase that percentage, we believe it is preferable to hold down the percentage of fixed cost recovery through fixed customer charges because this treats small and large customers more fairly and it sends better prices signals to customers to encourage them to use energy more efficiently.

4. Please see attached files:
KEDLI 100% DD Demand - Customer Charge Analysis.pdf
KEDNY 100% DD Demand - Customer Charge Analysis.pdf

5. In a two-part rate design, customers are not charged on the basis maximum demand or peak rate of usage. Instead, the volumetric rate element is used to recover costs that vary with peak demand. Among other reasons why this is a logical, average daily demand (and annual energy usage) are correlated with peak demand.

Name of Respondent: Date of Reply:

Ben Johnson, Ph.D June 2, 2016

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