



540 Broadway, P.O. Box 22222, Albany, New York 12201-2222 • (518) 426-4600

March 12, 2013

VIA ELECTRONIC FILING

Hon. Jeffrey C. Cohen
Acting Secretary
New York State Public Service Commission
Three Empire State Plaza
Albany, New York 12201-1350

Re: Case 12-G-0297 - Proceeding on Motion of the Commission To Examine Policies
Regarding the Expansion of Natural Gas Service

Dear Acting Secretary Cohen:

Multiple Intervenors, an unincorporated association of approximately 55 large commercial, institutional, and industrial energy consumers with manufacturing and other facilities located throughout New York State, hereby offers its comments in response to the “Notice Soliciting Comments” (“Notice”) issued by the New York State Public Service Commission (“Commission”) on November 30, 2012 in the above-referenced proceeding.

Background

The Commission instituted the above-referenced proceeding to examine whether it should take steps to foster expanded natural gas use within New York State. The Commission’s November 30, 2012 Order instituting this proceeding identified several potential benefits of expanded natural gas service, including lower potential energy supply prices, a potential reduction in overall emissions and enhanced gas system reliability.¹ In accordance with the Order, Department of Public Service Staff convened several meetings in this proceeding, including a technical conference on January 9, 2013 and three working groups on January 30, 2013, in order to provide interested stakeholders a general overview of existing Commission and

¹ Case 12-G-0297 - Proceeding on Motion of the Commission To Examine Policies Regarding the Expansion of Natural Gas Service, Order Instituting Proceeding and Establishing Further Procedures (issued November 30, 2012) (“Order”).

utility policies and practices, as well as to discuss the barriers to further natural gas system expansion.

Multiple Intervenors commends the Commission on its efforts to increase the opportunities available to New York State customers to utilize natural gas service. However, as discussed further below, the Commission must be mindful of the impacts that natural gas system expansion may have on existing customers. In particular, the Commission should ensure that any new policies or programs to encourage natural gas system expansion protect existing customers from subsidizing new service for the benefit of other customers and competitors. In addition, the Commission must also examine whether large-scale natural gas distribution system expansion will create or exacerbate capacity constraints along the interstate natural gas system.

Existing Customers Should Not be Expected to Fund Improvements to Benefit New Customers

While Multiple Intervenors agrees that expanded natural gas service may drive economic development in the State, the Commission must be mindful that expansions or upgrades to the State's natural gas distribution system could be costly. As a result, the Commission should ensure that any natural gas expansion does not result in increased natural gas transportation and/or delivery costs. It is imperative that the consideration of these matters include both a full and comprehensive assessment of the impact of increasing natural gas delivery costs and an approach that protects existing customers from subsidizing new service for the benefit of other customers and competitors.

As the Order recognizes, typical cost recovery is based on demand.² For new franchise expansions, the gas company may invest (and then recover from existing ratepayers) the costs of expanding the distribution system to a new franchise territory, so long as the expected increase in revenues from supplying natural gas to the new customers is sufficient to recover both the costs and the associated utility rate of return over a specified period.

For customers converting to natural gas, the Commission's regulations contain a revenue test to determine whether the customer or the gas company will bear the cost for new gas mains and service lines required to serve the new customer. The revenue test allows the gas company to install new gas mains at no cost to the customer if revenues from the new service exceed 40 percent of the cost of the main in each of two consecutive years. The equipment cost (i.e., new boiler and plumbing) is generally borne by the customer.

In order to avoid adverse rate impacts on existing customers, who have already funded the existing system requirements, any expansion should be borne by the customers receiving and directly benefitting from any such system expansion. While Multiple Intervenors does not oppose longer pay back periods for franchise expansions or new customer conversions, equipment discount programs, enhanced customer outreach, coordinating economic development resources, or other such methods to assist in the funding and development of gas system

² Order at 6-7.

expansions, existing customers should not be expected to fund improvements to benefit other customers and/or potential business competitors.

This is of particular concern because this proceeding appears to be focused on expanding natural gas service to residential service classifications. For example, the Order states that there are over 1.1 million households in New York that could potentially benefit from an expanded natural gas distribution system.³ New York's commercial and industrial customers already operate in one of the costliest business environments in the country, and these customers should not be asked to shoulder another increase in their cost of doing business, particularly if there is no corresponding benefit. As a result, the Commission's primary focus should be on policies that will not increase costs to existing customers.⁴

The Commission Must Examine Impacts of Expansion on Interstate Natural Gas Capacity

Any potential distribution system expansion must analyze and continue to evaluate the impact that increased natural gas usage will have on the availability and price of interstate natural gas capacity. There are existing capacity constraints on certain points along the interstate natural gas system in New York State. Expansion of the local distribution systems could exacerbate this problem. During the working groups held in this proceeding on January 30, 2013, these existing capacity constraints were raised as a potential barrier to natural gas system expansion. Accordingly, the Commission should fully examine existing interstate capacity constraints, the potential adverse impact of natural gas system expansion on interstate capacity, and work to develop solutions to alleviate such constraints.

A scarcity in capacity could result in both increased transportation costs, increased service interruptions and operational flow orders, as well as increases in electric costs as natural gas delivery rates rise. In implementing a large-scale natural gas expansion program, the Commission should therefore evaluate the potential for price increases and increased scarcity as a result of expansion.

³ Order at 1-2.

⁴ In fact, there may be existing programs that offer significant conversion incentives without unduly burdening existing ratepayers. For example, at the working groups held on January 30, 2013, a utility representative explained its discount program offering an approximately 15 percent discount on heating equipment purchased as part of a natural gas conversion. The utility indicated that it has agreements with certain equipment manufacturers allowing licensed contractors to purchase discounted heating equipment from the manufacturer. The contractors can pass these savings on to the converting customers.

March 12, 2013

Page 4

Conclusion

Multiple Intervenors appreciates the opportunity to comment in this proceeding. Multiple Intervenors agrees with the Commission that expanded use of natural gas in New York State has the potential to result in significant economic development and environmental benefits. However, the Commission should ensure that any new policies or programs to encourage natural gas system expansion protect existing customers from subsidizing new service for the benefit of other customers and competitors. In addition, the Commission must also examine whether large-scale natural gas distribution system expansion will create or exacerbate capacity constraints along the interstate natural gas system.

Please contact the undersigned if you have any questions.

Respectfully submitted,

MULTIPLE INTERVENORS

Adam T. Conway

Adam T. Conway

ATC/glm

cc: Party List (via e-mail)

S:\DATA\Client0 1000-7999\07222\CORRES\Cohen_3-12-13.docx.doc