

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held in the City of
Albany on July 24, 2014

COMMISSIONERS PRESENT:

Audrey Zibelman, Chair
Patricia L. Acampora
Garry A. Brown
Gregg C. Sayre
Diane X. Burman

CASE 12-G-0202 – Proceeding on Motion of the Commission as to the Rates,
Charges, Rules and Regulations of Niagara Mohawk Power
Corporation d/b/a National Grid for Gas Service.

ORDER APPROVING GAS GROWTH COLLABORATIVE REPORT
RECOMMENDATIONS

(Issued and Effective July 28, 2014)

BY THE COMMISSION:

SUMMARY

On February 6, 2014, Niagara Mohawk Power Corporation d/b/a National Grid (National Grid or the Company) filed the National Grid Gas Growth Collaborative Report (the Report) with the Secretary to the Commission, summarizing the results and recommendations from the collaboration between Department of Public Service Staff (Staff), National Grid, the regional interstate pipelines and various New York State agencies to consider options to promote the availability and use of natural gas. Notably, the Report proposes a Gas Growth Pilot that will use analytics and customer modeling to identify areas of National Grid's service territory that will support system expansion without the need for customer contributions.

In this Order, we adopt the recommendations contained in the Report, as submitted by National Grid on February 6, 2014.

BACKGROUND

In our March 15, 2013, Order Adopting the Joint Proposal regarding gas rates,¹ National Grid was directed to institute a Gas Expansion Collaborative (the Collaborative) to explore approaches that could increase the availability of gas service, as well as opportunities to expand the Company's current franchise area, and to then make recommendations for implementation of such approaches and/or opportunities to the Commission. In addition, the Collaborative was directed to specifically address the following goals:

1. To analyze pipeline capacity constraints with future design day requirements and determine appropriate actions to acquire additional pipeline capacity or revise the use of current pipeline capacity to optimize system and customer benefits;
2. To discuss and review the possibility of the Company offering a compressed natural gas (CNG) vehicle program that balances costs and benefits between customers and the Company; and
3. To discuss and review the possibility of the Company offering a liquefied natural gas (LNG) vehicle program that balances costs and benefits between customers and the Company.

Beginning April 8, 2013, National Grid, Staff, various New York State agencies/entities, and a number of regional interstate pipelines (the Parties) participated in a series of collaborative meetings. During the collaborative meetings the Parties discussed the Company's current and planned expansion activities, an ongoing gas growth study that the Company plans to use to identify underserved areas of its service

¹ Case 12-G-0202 – Niagara Mohawk Power Corporation d/b/a National Grid - Gas Rates, Order Approving Electric and Gas Rate Plans in Accord with Joint Proposal (issued March 15, 2013)(JP Order).

territory, and its experience during a recent expansion in the Village of Greenwich.² The Parties explored a number of potential growth projects including the current proposal for a gas growth pilot.³

PUBLIC NOTICE AND COMMENTS

Pursuant to the State Administrative Procedure Act (SAPA) §202(1), a Notice of Proposed Rulemaking was published in the State Register on March 5, 2014 (NY DOS SAPA No. 09-14-00005-P). The deadline for filing SAPA comments was April 19, 2014. No comments were received.

THE REPORT

The Report provides an overview of the issues discussed in the Collaborative, taking into consideration the comments provided by the Parties during the meetings. While the Report focuses on the Company's proposed Gas Growth Pilot, it also discusses the status of its oil-to-gas conversion program,⁴ solutions to current pipeline capacity constraints, and CNG/LNG vehicle programs.

² Case 12-G-0371, Petition of Niagara Mohawk Power Corporation d/b/a National Grid for Approval under Section 68 of the Public Service Law for the Exercise of a Gas Franchise in the Village of Greenwich, Washington County, Order Granting a Certificate of Public Convenience and Necessity and Authorizing of a Franchise (issued October 18, 2012).

³ The Commission notes that the collaborative also involves a discussion of projects that are not the subject of this order. The Commission encourages the parties and Department Staff to work together towards further developments.

⁴ As a separate matter, the JP Order directed the Company to work in consultation with Staff to implement an oil-to-gas conversion program, with no further Commission action required. An oil-to-gas conversion program was initiated within the required timeline and Staff continues work with National Grid to fully implement this program. Therefore, it will not be discussed further in this Order.

Gas Growth Pilot

In the Report, the Company proposes a Gas Growth Pilot whereby National Grid will utilize gas growth models and analytical tools (density and propensity modeling) to identify potential locations for growth projects. Once National Grid identifies these potential growth areas, the Company will look to secure commitments from a threshold level of customers to justify the capital investment in the infrastructure necessary to serve the area. If the Company is able to secure commitments from enough customers to cover at least 60 percent of the main extension through entitlements,⁵ the Company will proceed with the project without charging contributions in aid of construction (CIACs) to those customers who have so committed. Thereafter, the Company, to maximize conversion rates, will continue to market gas service seeking additional customers in the area with the goal of achieving full entitlement coverage.

National Grid is proposing that the Gas Growth Pilot be deployed on a limited basis in areas of its service territory that are specifically identified as having satisfied the program criteria. The Parties also have committed to consider an extension/expansion of the Gas Growth Pilot based on the pilot program's first year results. In addition, National Grid proposes that the Parties meet within six months following the launch of the Gas Growth Pilot to conduct a more detailed review of the overall program. In that follow up meeting, the Parties will consider any necessary or desirable adjustments or redirection, as well as opportunities for program expansion. Finally, the Company states that if its Gas Growth Pilot program proves successful, the model could be applied in other regions of New York, including National Grid's Long Island service territory where customer demographics appear to be favorable for expansion.

In the Report, the Company estimates that during its first year the Gas Growth Pilot will cost \$1.25 Million, of which \$770,000 will be allocated to mains, \$380,000 to services, and \$100,000 to marketing. National Grid states that it will attempt

⁵ 16 NYCRR §230.2 states that new customers attaching to an existing natural gas main are entitled to 100 feet of main at no charge. Residential heating customers are also entitled to up to 100 feet of service line at no charge.

to fund the capital component of the Gas Growth Pilot out of its existing capital budget and the marketing component of the Pilot from its existing marketing budget.

Pipeline Capacity Constraints

As required by the JP Order, the Collaborative reviewed the internal and external pipelines constraints, focusing on National Grid's eastern gate station (the East Gate) with Dominion Transmission, Inc. (DTI). The East Gate feeds the Company's distribution system from Amsterdam to Albany. The area served by the East Gate is seeing significant load growth due to new construction and conversions; however, the constraint limits future development in the region.

The Parties requested that the participating interstate pipeline companies present proposals to the collaborative that would address the East Gate constraint. DTI, Millennium Pipeline Company and Tennessee Gas Pipeline Company each made presentations discussing how their proposed projects would increase available pipeline capacity to the East Gate. In addition, the three participating interstate pipelines publicly issued Open Season announcements in which they formally proposed their individual projects to the broader market.

Upon review of the proposed projects, National Grid signed a precedent agreement with DTI to bring incremental capacity to the constrained Albany area (New Market Project). The anticipated in-service date for the New Market Project is currently November 2016. The New Market Project is expected to add 112,000 dekatherms per day (dth/day) of incremental capacity to DTI's pipeline system and approximately 30,000 dth/day of this capacity will be available to the East Gate, allowing for further gas expansion in the Greater Albany area.

CNG/LNG Vehicle Programs

CNG and LNG vehicle programs also were discussed early in the collaborative process. National Grid provided an overview of the CNG fueling stations, both public and private, that already exist in its service territory. However, the Growth

Collaborative Reports notes that because the Company and other Collaborative Parties are actively participating in the Generic Growth Proceeding,⁶ the Parties determined that CNG and LNG vehicle programs would be better addressed in the generic, statewide proceeding.⁷

DISCUSSION

There were no comments filed in opposition to the Report. The recommendations contained in the Report are adopted, for the reasons discussed below.

Gas Growth Pilot

We adopt the proposed Gas Growth Pilot because it will aid in customer conversions to natural gas while testing the Company's load and customer modeling, as well as its proposed approach to customer entitlements. First, the proposed Gas Growth Pilot will test the Company's density and propensity modeling. Such modeling generates maps of potential gas load in relationship to the Company's existing facilities, to assist the Company in determining potential areas for economic expansion by showing areas where the anticipated additional load is of sufficient size to justify expansion. We are interested in the results of the Company's customer density and propensity modeling as such could have potential implications for National Grid's other New York service territories.⁸

⁶ See generally, Case 12-G-0297, Proceeding on Motion of the Commission to Examine Policies Regarding the Expansion of Natural Gas Service (Generic Growth Proceeding).

⁷ As part of the Generic Growth Proceeding, on May 22, 2013, a LNG/CNG/Natural Gas Vehicle (NGV) Technical Conference was held to explore NGV opportunities in New York State.

⁸ National Grid's other New York jurisdictional affiliates, The Brooklyn Union Gas Company d/b/a National Grid NY and KeySpan Gas East Corporation d/b/a National Grid, are located in Brooklyn/Queens, NY and Long Island, NY, respectively.

Second, we see the proposed Gas Growth Pilot as an effective means of testing the Company's "no customer contribution" concept. Based on the Company's proposal, it will initiate an expansion project with no customer CIAC if there are enough customer commitments to cover at least 60 percent of the project through the customer entitlements. Typically, if customer entitlements do not cover 100 percent of the initial project costs, the customers are charged a CIAC to fully fund the project or the project does not get built. According to National Grid, its on-main saturation is 94%.⁹ The pilot assumes that, over time, newly installed mains will achieve the system wide average and, therefore, expansion into locations with sufficient load density will likely become economic. We are interested to see the achieved level of saturation over time in the pilot areas.

Finally, we adopt the Report's recommendations to conduct, within six months following the launch of the Gas Growth Pilot, a more detailed review of the overall program for adjustments, expansion or redirection. A progress report, including any recommendations that come out of this review, should be submitted to the Secretary to the Commission for further consideration. In addition, we are interested to see the results of National Grid's Gas Growth Pilot, with specific attention paid to the results of the density and propensity modeling, as well as continued customer growth rates and patterns associated with this expansion. Therefore, the Company should continue to file progress reports on this matter with the Secretary to the Commission on a semi-annual basis.

Pipeline Capacity Constraints

Considering that each of the pipelines that participated in the Gas Growth Collaborative provided a possible solution to the pipeline constraints limiting growth in National Grid's upstate service territory and that the Company has committed to one of these projects, it appears that the Gas Growth Collaborative was an effective means of

⁹ This means that, on average, 94% of potential customers within 100 feet of a National Grid distribution main are served by the Company.

soliciting pipeline proposals. Thus, we see no need for any Commission action on the issue at this time.

CNG/LNG Vehicle Program

Since the New York State National Grid Companies¹⁰ already own and/or serve approximately 55 public and private CNG fueling stations in the state, we do not see a need to further incent the Company to enhance its CNG program at this time. While the Company has offered service to CNG fueling stations for some time, there are currently no New York State approved regulations for LNG fueling service stations.¹¹ Any CNG or LNG vehicle initiatives developed in the Generic Expansion Collaborative should be adopted by National Grid and if none come out of this proceeding, CNG and/or LNG vehicle initiatives should be revisited in the next National Grid rate case filing.

CONCLUSION

In accordance with our JP Order, the Company convened a collaborative and worked with the Parties to develop initiatives to promote the expansion of natural gas service. As a result of the collaborative, the Company has committed to the implementation of the Gas Growth Pilot promoting gas growth in its Niagara Mohawk service territory by connecting new customers without contribution. We adopt the recommendations in the Report as to the Company's implementation of its proposed Gas Growth Pilot in conformance with the criteria discussed herein. Additionally, National Grid apparently has addressed its upstream pipeline capacity limitations adequately by

¹⁰ The combined New York State National Grid Companies includes Niagara Mohawk Power Company, The Brooklyn Union Gas Company and KeySpan Gas East Corporation.

¹¹ The previous statewide LNG Moratorium expired on April 15, 2013, although the New York City moratorium was extended another two years. The New York State Department of Environmental Conservation is proposing to adopt 6 NYCRR Part 570 to implement a permitting program for siting and construction of LNG facilities in New York State, although no siting regulations currently exist, and therefore no LNG facilities can be sited in at this time.

signing a precedent agreement for incremental DTI capacity to the constrained Albany area. Thus, no further action regarding the constraint is necessary at this time.

The Commission orders:

1. Niagara Mohawk Power Corporation d/b/a National Grid is allowed to implement its Gas Growth Pilot in conformance with the discussion in this Order.
2. Niagara Mohawk Power Corporation d/b/a National Grid will convene a meeting of the Collaborative Parties within six months following the launch of the Gas Growth Pilot to conduct a more detailed review of the overall program to consider any opportunities for expansion or redirection.
3. Niagara Mohawk Power Corporation d/b/a National Grid will file progress reports to the Secretary to Commission, starting six months from initiation of the Gas Growth Pilot and continuing semi-annually, providing the status of the Gas Growth Pilot as discussed herein.
4. The Secretary in her sole discretion may extend the deadlines of this order. Any request for an extension must be in writing, must include a justification for the extension, and must be filed at least one (1) day prior to the affected deadline.
5. This proceeding is continued.

By the Commission:

KATHLEEN H. BURGESS
Secretary