NEW YORK STATE
DEPARTMENT OF PUBLIC SERVICE

CASE 17-G-0011 - In the Matter of a Review of Tariff Provisions Regarding Natural Gas Service to Electric Generators.

STAFF REVISED PROPOSAL ON ELECTRIC GENERATOR RATE DESIGN

(February 6, 2024)

NEW YORK STATE
DEPARTMENT OF PUBLIC SERVICE

CASE 17-G-0011 - In the Matter of a Review of Tariff Provisions Regarding Natural Gas Service to Electric Generators.

STAFF REVISED PROPOSAL ON ELECTRIC GENERATOR RATE DESIGN

On March 30, 2020, Department of Public Service Staff (Staff) filed the Staff Proposal on Electric Generator Rate Design (2020 Staff Proposal), regarding natural gas tariff provisions that should be applicable to interruptible electric generators, in the above-captioned case. That same day, the Secretary issued a Notice Soliciting Comments, setting a deadline of June 15, 2020, for interested entities to submit comments. By a subsequent notice, the Secretary indefinitely extended the comment period to allow Staff to address technical issues associated with the appendix to the 2020 Staff Proposal.[1]

On August 17, 2021, Staff filed a supplemental proposal (2021 Supplemental Proposal) to reflect updates and corrections to the appendix included in the 2020 Staff Proposal, as well as: a brief description of the associated changes, additional questions to be addressed in interested entities comments, identified load and pricing data for which local distribution companies (LDCs) should provide updates, and directions for using Staff's bill impact calculator.[2] The

---

[1] Case 17-G-0011, In the Matter of a Review of Tariff Provisions Regarding Natural Gas Service to Electric Generators, Notice Extending Comment Period (issued June 11, 2020).

[2] The 2021 Supplement Proposal also revised the Access Charge to include only costs related to gas control and dispatch as compared to the 2020 Staff Proposal which recommended including costs associated with metering, billing, collections, and other customer related costs.

Secretary issued a Notice Soliciting Comments on the 2021 Supplemental Proposal, setting a deadline of November 1, 2021, for interested entities to submit comments. Numerous parties filed comments responding to the 2020 Staff Proposal and 2021 Supplemental Proposal.

In recognition of the comments received, the passage of time, and subsequent analysis, Staff submits this Staff Revised Proposal. It presents Staff's current proposal regarding natural gas tariff provisions to interruptible electric generators. New and/or modified proposals contained in this Staff Revised Proposal include: (1) a minimum 5 megawatt (MW) nameplate rating threshold for applicability of gas tariff provisions for interruptible electric generators; (2) rate design modifications, including revised demand charge discounts; (3) development of a consistent cost allocator; (4) Access Charge discounts for generators with a nameplate rating of less than 50 MW; (5) the amount of gas to be included in the Access Charge; (6) implementation of a "transition charge" to mitigate impacts; (7) modification of the nomenclature of the tariff rate elements; and (8) requiring LDC filings proposing draft tariff revisions to implement the revised requirements consistently throughout the state. Finally, this Staff Revised Proposal also presents updated estimated tariff charges based on actual embedded system costs from calendar year 2022 for informational purposes.

Overview of the Staff Revised Proposal

First, the 2020 Staff Proposal solicited comments on the continuation of the 50 MW threshold above which standard gas transportation service applies. The Commission created this

threshold in 1999.[3] In this Staff Revised Proposal Staff recommends that the 50 MW nameplate generation capacity threshold be reduced to 5 MW.

Regarding the rate structure of standard gas transportation service, the 2020 Staff Proposal recommended that the Commission eliminate the current Value-Added Charge, the generic $0.10 contribution to embedded costs, the marginal cost, and the Annual Minimum Bill requirement. In their place, Staff recommended the Commission adopt a gas rate design structure consisting of a Monthly Demand Charge, a Volumetric Demand Charge, a Volumetric Operating and Maintenance (O&M) Charge, and an Access Charge.

The 2020 Staff Proposal recommended splitting the revenue requirement associated with the LDC's transmission system equally to develop the Monthly Demand and the Volumetric Demand Charges.[4] Additionally, the 2020 Staff Proposal recommended reducing a generator's Monthly Demand Charge based on the generator's specific load factor. This Staff Revised Proposal continues to recommend using the revenue requirement associated with the LDC's transmission system to develop theoretical Volumetric and Monthly Demand charges. However, instead of reducing those charges based on a generator's load factor, this Staff Revised Proposal recommends discounting the

---

[3] Case 98-G-0122, Proceeding on Motion of the Commission to Review the Bypass Policy Relating to the Pricing of Gas Transportation for Electric Generation, Untitled Order (issued March 17, 1999).

[4] Staff removed the revenue requirement associated with account 851 – Transmission Control and Dispatch from Consolidated Edison Company of New York Inc.'s (Con Edison) transmission revenue requirement since Staff proposes control room costs be recovered through an access charge. The other utilities include control and dispatch costs in account 871 - Distribution Control and Dispatch and therefore no adjustments for those utilities were needed.

theoretical Volumetric and Monthly Demand charges by four percent to reflect the quality of service provided for all interruptible electric generators.

With regard to the O&M Volumetric rate, the 2020 Staff Proposal recommended setting it based on the expenses associated with the transmission assets, specifically Federal Energy Regulatory Commission (FERC) Accounts 850-867. The 2021 Supplemental Proposal recommended an Access Charge that would be set based on the operating expenses associated with gas control. This Staff Revised Proposal continues to recommend these two rate design elements without further modification.

In this Staff Revised Proposal the basic methodology used to design the Demand Charge, the Volumetric O&M Charge, and the Access Charge remain consistent with the substance of the 2020 Staff Proposal and 2021 Supplement Proposal. However, the 2020 Staff Proposal lacked specificity on how to develop gas cost allocators for determining interruptible electric generator revenue requirements. As described in more detail below, this Staff Revised Proposal recommends developing cost allocators using ten years of historical data. Company specific examples of Staff's proposed rate design and resultant rates are shown in the Appendix. The estimates provided in the Appendix are for illustrative purposes only due to Staff's necessary reliance on allocators that the LDCs developed inconsistently.

In addition to the recommended rate design changes, the 2020 Staff Proposal recommended additional tariff requirements. Specifically the 2020 Staff Proposal recommended: (1) continuing the +/-2% balancing tolerance requirement, (2) continuing the current practice of including cost recovery applicable to lost and unaccounted for gas in rates charged to generators, (3) pricing ignition gas consistent with other gas for electric generation volumetric charges, if practicable, and

(4) requiring an LDC to justify any negotiated service rates with a generator by providing an analysis demonstrating the likelihood of the bypass scenario or by demonstrating that the generator provides special benefits. In addition to maintaining the +/- 2% tolerance band, the 2020 Staff Proposal recommended standardizing balancing charges, which would be developed using each LDC's unique mix of assets needed to balance any mismatch between the generator's usage and the amount delivered to the LDC's city gates. If there are situations in which a negotiated contract is warranted, the 2020 Staff Proposal recommended that the volumetric rate components, which include the volumetric demand, the volumetric O&M, and the balancing charges, be ineligible for rate discounts (i.e., the contract would specify those charges remain equal to those contained in the approved tariffs). This Staff Revised Proposal maintains these recommendations.

Finally, this Staff Revised Proposal recommends implementing a "transition charge" that would be applicable to certain generators, as necessary, to mitigate the impact of the revenue loss for the LDCs and their firm customers.

Applicability – 5 MW Nameplate

The 2020 Staff Proposal solicited comments on the nameplate generation capacity threshold for applicability of the standard gas transportation service to interruptible generators. The New York Power Authority (NYPA) and National Grid support lowering the threshold to 5 MW, while other LDCs and parties support the continuation of the 50 MW threshold.

This Staff Revised Proposal recommends reducing the nameplate generation capacity threshold to 5 MW. Considering the rate elements included in this Staff Revised Proposal, as detailed below, Staff finds it is necessary to reduce the 50 MW

threshold. Some LDCs provide service to generators with nameplate capacities between 5 MW and 50 MW under a different service class from those with nameplate capacities of 50 MW or greater. The generators with a nameplate rating of 5 MW are subject to the same rate elements currently applicable to generators with a nameplate capacity of 50 MW or greater. As Staff proposes to modify these rate elements for the larger generators, it is reasonable to apply the new rate elements to all generators with a nameplate capacity of at least 5 MW.

Rate Design - Demand Charge Discounts

The 2020 Staff Proposal recommended developing a demand charge based on the embedded gas transmission system costs. The embedded gas transmission system costs allocated to generators would be split equally into: (1) a Monthly Demand Charge based on the generator's Maximum Daily Quantity, and (2) a Volumetric Demand Charge based on the actual Dekatherms (Dth) usage. The Monthly Demand Charge would be adjusted to reflect a certain level of discount based on a generator's load factor relative to the average load factor of all 42 generators served by National Grid and Con Edison as a proxy for the state-wide average load factor.[5] The amount of discount would be inversely proportional to the generator's load factor, i.e., the discount would increase up to 100 percent as the load factor approaches zero.

In their comments filed on November 1, 2021, Con Edison and Orange and Rockland Utilities state that the Staff

[5] National Grid includes Niagara Mohawk Power Corporation d/b/a National Grid, The Brooklyn Union Gas Company d/b/a National Grid (KEDNY), and KeySpan Gas East Corporation d/b/a National Grid. The analysis relied on the load factor of the 42 generators served by National Grid and Con Edison for simplicity purposes only.

Proposal appears to be unnecessarily prescriptive and overly complicated. In its comments, National Grid propose to base the discounts on the average load factor from only generators within each LDC's service territory. NYPA states that electric generators are interruptible customers, and therefore, should not be charged embedded costs for a system that is not designed with the primary objective to serve them. Independent Power Producers of New York, Inc. (IPPNY), as well as Sithe/ Independence Powers Partners and Vistra Corp. also oppose Staff's proposed demand charges. IPPNY states that LDCs do not plan and build their gas systems on the assumption that an interruptible generator is taking gas delivery service and that no evidence has ever been presented that demonstrates that generators' use of interruptible delivery service imposes embedded costs on any LDC.

After considering the commenters' positions, Staff agrees with some of the concerns raised and identifies potential issues with the original proposal that warrant a modification to the demand charge discounts. Staff agrees that the discount calculation proposed in the 2020 Staff Proposal is unnecessarily complex and difficult to implement. The proposed discounts would be administratively difficult to implement as they would require the utilities to compile data for all generators statewide to set the level of discounts during rate proceedings. Moreover, due to the timing of when a utility files its rate case and the test period of the data that would be used to develop standard rates for generators, the level of discounts would be inconsistent amongst the utilities. While National Grid's proposal to calculate the discount with only data from generators served by the respective LDC addresses some concerns, it still would be too difficult to implement. The limited number of data points available using only generators in an

LDC's service territory makes the calculation of the average and standard deviation, as required to calculate the proposed demand charge discount, undesirable since many LDCs serve only a few generators. Additionally, under the 2020 Staff Proposal, many interruptible generators would receive no discounts on their Monthly Demand Charges due to their load factor. While the generators have rarely been interrupted historically, they are subject to be interrupted up to 30 days per calendar year.

At the same time, Staff disagrees with other commenters' assertions that the generators should not be assessed a demand charge. Staff agrees that the transmission system is not designed to accommodate the interruptible load. However, it would be unreasonable not to require these interruptible customers to contribute to such transmission costs; such an approach undervalues their use of LDCs' gas systems. Therefore, Staff continues to recommend that generators provide a contribution to the embedded cost of the transmission system. Staff notes that its proposal would require interruptible electric generators to provide contributions to gas transmission accounts only. Interruptible electric generators would not be required to contribute to common plant or overheads. Thus, the Staff proposed revenue allocation provides an inherent discount from firm rates.

In addition, this Staff Revised Proposal recommends modifying the previously proposed discount to the Monthly Demand Charges from a load factor-based discount to a discount applicable to all interruptible generators. Specifically, Staff now recommends applying a four percent discount in developing the Volumetric Demand and Monthly Demand Charges. While the generators may be interrupted up to 30 days, which equates to approximately eight percent of the days in a year, utilities rarely interrupt service to the gas generators. As stated in

the 2020 Staff Proposal, "while generators are technically interruptible customers, in practice, utilities virtually never interrupt generators, although this is somewhat dependent on the location of the generator."[6] In the 10-year period analyzed in the 2020 Staff Proposal the longest duration of interruptions an LDC required of an individual generator without a peaking arrangement aggregated to less than 0.08 percent of the hours in the period.[7] Therefore, Staff recommends a four percent discount to the demand charges as it correlates with the quality of service provided to the generators and strikes a fair balance between the maximum potential service interruptions and the probability of actual interruptions based on the last ten years of actual experience.

Cost Allocator Development

To determine the transmission costs to be allocated to electric generators some utilities developed an allocator using thirty peak days experienced over the prior calendar year, while others used thirty peak days experienced over the prior five calendar years. Given the variable nature of interruptible electric generator loads, this Staff Revised Proposal recommends developing the allocator using historical data from the prior ten years. Staff proposes using ten years of data to develop the interruptible electric generator allocator to decrease variability in the costs allocated to interruptible electric

[6] 2020 Staff Proposal, p. 18.

[7] Staff did not include generators with which LDCs have peaking contracts because those generators have agreed to not use gas under specified conditions and instead let the LDC use their pipeline capacity to serve firm customers, thereby providing a benefit to all customers in terms of increased reliability of the distribution system. As a result, generators with which LDCs have peaking contracts are not subject to interruption on the same terms as other generators.

generators. Specifically, Staff recommends calculating the interruptible electric generator allocator for gas transmission costs by: (1) dividing the sum of interruptible generator deliveries by the sum of system deliveries on the highest 30 days of deliveries for each of the past ten calendar years to develop ten annual percentage factors; and (2) averaging the ten annual percentage factors.

Further, Staff recommends using only peak day data from interruptible electric generators on the system at the time the allocator is developed. If there was an interruptible electric generator that discontinued or reduced service, by decreasing nameplate rating, at any time between the beginning of the ten-year period and when the allocator is determined, peak day data for that generator would be excluded from the numerator and denominator for each of the ten years analyzed, unless such generator converted to firm service. In that situation, peak day data for that generator would be excluded from the numerator only. Conversely, if there was an interruptible electric generator that initiated service or increased service (due to increased nameplate rating), Staff recommends adding an estimate of peak day data for that generator to the numerator and denominator for each of the ten years analyzed. However, if such generator converted from firm service the peak day data for that generator would be added to the numerator only.

Access Charge - Discounts

As noted above, Staff recommends that interruptible electric generators be subject to an Access Charge to recover gas control costs. Such costs are independent of whether customers consume gas. The 2021 Supplemental Proposal presented an Access Charge developed by allocating gas control costs to

interruptible electric generators based on one year's worth of deliveries. The allocated gas control costs were then divided by the number of interruptible electric generators. As with transmission costs, Staff is concerned with the volatility of interruptible electric generator deliveries. Therefore, in this Staff Revised Proposal, Staff recommends developing the allocator for gas control costs using ten years of data. The allocator would be developed using a method analogous to that described above for transmission costs, except that it would use annual deliveries instead of peak day deliveries.

Additionally, Staff is concerned with the bill impact associated with the Access Charge for smaller generators.[8] Therefore, this Staff Revised Proposal recommends a discounted Access Charge for interruptible electric generators with a nameplate rating of less than 50 MW. The discount level would be specific to the generator and would be calculated by subtracting the nameplate rating of the generator in MW divided by 50 MW from one.[9]

Access Charge – Volume of Gas

The 2020 Staff Proposal contemplated Access Charge would include gas used for generator ignition and limited space heating, together called base gas, depending on the size of the

[8] For example, Staff estimates that the Access Charge for a generator in KEDNY's service territory would be approximately $4,300 per month. This represents approximately 75 percent of the estimated delivery bill for a hypothetical small generator, and a delivery bill increase of over 100 percent from current rates.

[9] For example, an interruptible electric generator with a nameplate rating of 10 MW would receive an 80 percent discount, shown formulaically as 1-(10 MW/50 MW).

generator.[10] However, due to the LDCs lack of ability to track and obtain such data, the 2021 Supplemental Proposal requested that commenters address the appropriate volume of gas to be included in the Access Charge.

Con Edison does not propose an amount, but recommends it be tiered based on the size of the generators. Avangrid states that the amount of gas should consider the size of the generator and should be commensurate with other Service Classifications.[11] National Grid proposes a tiered amount, ranging from 10 Dth to 250 Dth based on the customer size. National Grid proposes to increase the Staff Access Charge by the value of the tiered number of therms priced at the Volumetric Delivery rate. Central Hudson Gas and Electric Corp. proposes to include 1,000 Centum Cubic Feet (ccf) as this is consistent with its Service Class. No. 11 serving large customers.

Staff does not find any of the specific proposals to be persuasive. Moreover, the bill impact associated with base gas to be included in the Access Charge would be immaterial and the tiered structure as proposed by the parties appears to be unnecessary. For these reasons, Staff recommends the Access Charge include a nominal amount of 10 Dth, or approximately 100 ccf of gas.

Transition Charge - Impacts to Revenues

The 2021 Supplemental Proposal noted that the changes in the rates would materially reduce non-firm revenues at the National Grid LDCs and would put upward pressure on the gas

[10] Customers would not be assessed any volumetric delivery charges on therms used below the specified amount.

[11] Avangrid includes New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation.

delivery bills paid by other customers. The 2021 Supplemental Proposal solicited comments and proposals to address that concern. National Grid states that one method would be extending the recovery period of any variance in the actual and the imputed revenues. National Grid opines that phasing in the rates over a longer period would be complicated due to the significant modification being proposed to the components of the electric generator rates. Avangrid states a phase-in methodology could be used in mitigating the bill impacts.

After further consideration Staff recommends implementing a "Transition Charge" to recover a portion of the revenue loss from all interruptible generators if a phase-in is warranted. This is a simple method to phase in the rates while spreading the impact to all customers. The amount to be recovered would depend on the phase-in period. For example, to mitigate a revenue loss of $10 million with a phase in period of five years, the "Transition Charge" would recover $8 million from the generators the first year. The surcharge would be reduced by $2 million in each of the following years until the surcharge sunsets. Staff also seeks comments or proposals for a mechanism, if and where one is needed, to mitigate the rate shock for the generators due to the implementation of the new rate structure.

Nomenclature of Rate Elements

This Revised Staff Proposal recommends streamlining the nomenclature of the interruptible electric generation rate components. Staff proposes that the Volumetric Demand Charge and Volumetric O&M Charge, discussed in the 2020 Staff Proposal and 2021 Supplemental Proposal and above, be combined and titled Volumetric Charge. With that modification the rate elements for interruptible electric generators would comprise the following:

1. An Access Charge - which would be designed to recover gas control and dispatch costs, and base gas;
2. A Demand Charge - which would be designed to recover 1/2 of the transmission system rate base related costs; and,
3. A Volumetric Charge - which would be designed to recover 1/2 of the transmission system rate base related costs and transmission system operating costs.

Implementation

Staff recommends revised natural gas rates and tariff provisions for interruptible electric generators be implemented consistently throughout the state. To ensure rates are developed consistently and implemented on the same time schedule across the state, Staff recommends that, when it acts on this Staff Revised Proposal, the Commission direct natural gas utilities to file draft tariff revisions, within a specified number of days, to implement modifications. The Commission would then have the opportunity to consider the draft tariff revisions and any remaining open issues, inclusive of potential impacts to generators' and other gas ratepayers' bills, and direct the natural gas utilities to implement new rates on the same date statewide.

Updated Rates

The 2021 Supplemental Proposal used actual historical data that are now outdated and therefore can no longer be relied upon to evaluate the proposed rate design and resulting bill impacts. As such, Staff has updated the various proposed charges to reflect the actual costs from calendar year 2022 and the components as described above. The Appendix to this Staff Revised Proposal provides a comparison of the rates as now proposed and discussed herein, and the rates proposed at the time of the 2021 Supplemental Proposal. Due to a lack of data, Staff estimated the rates included in the Appendix using allocators that were developed in a manner inconsistent with the method recommended herein. Therefore, the rates in the Appendix are provided for illustrative purposes only. The Appendix demonstrates the high variability in transmission costs to be allocated to electric generators if allocators are developed using limited data.

Conclusion

This Staff Revised Proposal provides all of Staff's current recommendations regarding changes to rates and tariff provisions for gas service to electric generators. Staff seeks comments and/or alternative proposals regarding the issues raised in this Staff Revised Proposal.