



National Fuel

comments

July 31, 2001

VIA HAND DELIVERY

Hon. Janet Hand Deixler
Secretary
Public Service Commission
Three Empire State Plaza
Albany, New York 12223-1350


Re: Case 00-M-0504 – Proceeding on Motion of the Commission Regarding Provider of Last Resort Responsibilities, the Role of Utilities in Competitive Energy Markets, and Fostering the Development of Retail Competitive Opportunities – Unbundling Track

Dear Secretary Deixler:

Enclosed please find an original and 5 copies of the Initial Brief/Comments of National Fuel Gas Distribution Corporation pursuant to the June 20 and July 2 Procedural Rulings issued by Administrative Law Judge Jeffrey Stockholm in the above-captioned proceeding.

Thank you for your attention to this matter.

Respectfully submitted,

Michael W. Reville
Michael W. Reville, Esq. 

cc: All Parties

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Case 00-M-0504 - Proceeding on Motion of the Commission
Regarding Provider of Last Resort
Responsibilities, the Role of Utilities in
Competitive Energy Markets, and Fostering
the Development of Retail Competitive
Opportunities - Unbundling Track

INITIAL BRIEF/COMMENTS OF
NATIONAL FUEL GAS DISTRIBUTION CORPORATION

INTRODUCTION

On March 29, 2001, an Order Directing Expedited
Consideration of Rate Unbundling ("Order") was issued in
the above-referenced phase ("Unbundling Track") of the
Provider of Last Resort ("POLR") proceeding.¹ The Order
directed the state's major gas and electric utilities to
"perform cost of service studies according to a schedule to
be subsequently promulgated." Following the issuance of
the Order, Administrative Law Judge Jeffrey Stockholm
("ALJ") convened a prehearing conference on April 23 at
which the parties agreed to address items in the Order on a
collaborative basis. Case 00-M-0504, Procedural Ruling,
issued May 2, 2001 ("May 2 Procedural Ruling"). The ALJ
observed that the parties identified five separate

¹ Case 00-M-0504 - Proceeding on Motion of the Commission Regarding
Provider of Last Resort Responsibilities, the Role of Utilities in
Competitive Energy Markets, and Fostering the Development of Retail
Competitive Opportunities.

categories "within which more detailed issues and questions should be developed." May 2 Procedural Ruling at 1. Those issues were the four numbered items set forth on page 2 of the Order and "the additional issue concerning the identification of functional areas that immediately follows that list." Id. at 1-2. The parties also agreed that should consensus not be achieved "regarding recommendations to the Commission," initial comments would be filed on July 17 and reply comments on July 30.

Early in the collaborative process the ALJ determined that "it appeared unlikely . . . that all of the issues in the five categories could be presented to the Commission in late August as anticipated in the Order. Case 00-M-0504, Procedural Ruling issued and effective June 20, 2001 ("June 20 Procedural Ruling"). In order to meet the Commission's August timetable, the ALJ adopted the parties' recommendation, and so directed the utilities, to limit their efforts to "issues one and five," identified above. Consistent with those instructions, the ALJ held that the written comments (or briefs) should be limited to those issues alone.² June 20 Procedural Ruling at 2.

² The ALJ also directed the parties to address the issue of the Commission setting deadlines for filing the embedded studies.

In response to an ex parte request of Staff counsel, the ALJ issued another ruling (the "July 2 Procedural Ruling") delaying the established briefing schedule by two weeks to allow more time for collaboration. As explained by the ALJ, the July 2 Procedural Ruling was justified on the basis of Staff's assertion that a "new proposal regarding the embedded cost studies" would "materially reduce the time and effort needed to complete the . . . studies and implement unbundled rates." Id. at 1.

With the additional time granted by the ALJ's July 2 Procedural Ruling, the parties continued collaborating but were unable to reach consensus "regarding recommendations to the Commission." As a result, the ALJ was contacted by Staff counsel and a utility representative and told that the parties had reached an impasse. The instant brief/comments, and presumably filings of other parties, follow.

COMMENTS

1. The Order Directs the Parties to Examine the Listed Policy Issues Prior to Performance of Cost Studies.

The Order states, in uncomplicated terms, that the Commission "envisioned a two-stage process." The first requires the parties to examine "a number of policy issues." Those issues, mentioned above, are:

- (1) the method for calculating unbundled costs;
- (2) methods for performing forward-looking incremental costs studies;
- (3) the rate treatment that should be accorded stranded costs or competitive losses;
- (4) the degree of statewide consistency in defining utility functions . . .

The Order also identified, without numbering, a fifth issue: identification of functional areas between monopoly utility functions and competitive functions. Order at 2-3.

The second stage of the unbundling process was the development of the studies themselves. As stated in the Order, "those cost studies and rates will have to be reviewed in the context of individual company cases." Order at 3. This second process, however, is to be informed by the findings of Commission, in response to the parties' comments, on the five issues defined above.

As explained above, the ALJ limited the parties' efforts, and matters for briefing, to issues (1) and (5) above. That is, (1) the method for calculating unbundled

costs; and (5) identification of functional areas to which utility costs should be assigned.³

The Order clearly provides that the five issues "of statewide import" will be addressed before individual utility cost studies "will have to be performed." At a minimum, issues (1) and (5) must be addressed and resolved prior to utilities commencing work on their individual cost studies. Consistent with the ALJ's June 20 Procedural Ruling, Distribution believes that issues (2) through (4) can be addressed by the parties after the utilities have performed their studies, but prior to implementation of unbundled rates based on those studies.

To foster a timely resolution of the issues and work toward meeting the Commission's timetable, Distribution and other utilities (the "Utilities")⁴ have developed the following "Guiding Principles" designed to address issue (1) - the method for calculating unbundled costs and the attached Appendix A, which addresses issue (5) - the identification of functional areas. Distribution believes that adoption of the Guiding Principles is necessary for

³ Although these comments are limited to issues 1) and (5), as described above, the Company reserves the right to brief on other issues, including issues (2) through (4), in reply comments, to the extent necessary as determined by the initial comments/briefs filed by other parties.

⁴ Consolidated Edison of New York, Inc., KeySpan Energy Delivery Companies, New York State Electric and Gas Corporation, Niagara Mohawk Power Corporation and Rochester Gas and Electric Corporation.

the commencement of "bottom-up" cost of service studies envisioned by the Commission.

The Utilities agree that the methods for calculating unbundled costs should be established as follows:

**Guiding Principles
Embedded Cost of Service Studies**

The utilities will perform embedded cost of service studies pursuant to the Commission's March 29, 2001 order in the captioned case as soon as is practicable after the Commission issues its policy guidance concerning the preparation of such studies. The utilities propose that the guiding principles enunciated below should be adopted as such policy guidance.

1. Each utility will perform the cost of service study functionalizing costs from the utility's books and records kept in accordance with the uniform system of accounts to the functions contained in Appendix A.
2. The cost of service studies will be conducted assuming that the revenues for the test period are based on currently effective rates. A revenue requirement for each function will be developed by holding the rate of return constant for each function within a given service class.
3. Except as explicitly provided for in these guiding principles, each utility will have discretion to perform the study using its own approach and will explain and support its assumptions and methods with appropriate documentation. Thereafter, other parties will have the right to propose alternative assumptions and methods.
4. The cost of service studies shall be prepared using a recent historic period, or a forecast test period, or a combination of those two methods. The underlying data may be normalized or adjusted to reflect major changes as appropriate.

5. No change to existing service classes will be made for purposes of this study.

Appendix A to the Guiding Principles (attached) sets forth the "buckets" into which the various functional costs will be placed. Distribution, a gas-only utility, has no opinion on (and does not oppose) the electric "buckets," but urges the Commission to adopt the list of "Gas Functions." The Company believes that the Gas Functions list is reasonable because it is consistent with the Commission's requirement that the "proceeding should pursue such a bottom-up unbundling method, assigning all embedded costs to identified functional areas" Order, pg. 5. The Gas Functions list includes a cross-reference to the most likely Uniform System of Accounts included in each functional area. The Gas Functions list also includes the types of costs (capital, operation and maintenance, system reliability, etc.) likely to be included in each functional area. Included in the Gas Function list is the traditional utility cost of service functions of storage, transmission, and distribution as well as the potentially competitive functions of natural gas supply, billing and payment processing, and energy services. The list also identifies "clearing accounts." The clearing accounts are designed to accommodate the review of particular cost elements that are

likely to be found across a number of competitive and non-competitive functions. The clearing accounts will permit an expedited review of such cross-function cost centers and will assist all interested parties in the utility-specific proceedings to expedite their review of cost filings. The Gas Functions list also helps to achieve the Commission's goal of "statewide consistency in calculating utility functional costs and unbundled rates" (Order, pg. 6).

2. The Guiding Principles and Appendix A adequately address Issues (1) and (5) and, if adopted, would set the parties on the path toward bottom-up unbundling as required by the Order.

It is important to note that the Order directs the utilities to develop comprehensive cost of service studies for the purpose of achieving bottom-up unbundling. Order at 5. The Utilities' proposal would allow the utilities to commence studies that would achieve that objective. This is the proceeding that is intended to finish the task started in the Billing and Metering proceedings.⁵ In both of those cases, the Commission adopted a "top-down" approach for development of back-out credits. Recognizing that the top-down approach was appropriate for discrete

⁵ Case 99-M-0631, Customer Billing Arrangements, Order Denying Petitions for Rehearing (issued September 1, 2000); Case 94-E-0952, Competitive Opportunities Regarding Electric Service, Order Providing for Competitive Metering (issued June 16, 1999).

service functions only, the Order states that the Billing and Metering cases should "illuminate but not define the inquiry here." The very purpose of the instant proceeding is to pursue bottom-up unbundling, which requires "comprehensive up-to-date embedded cost of service studies." The Utilities' proposal gives full effect to the Commission's intent, as expressed in the Order, while acknowledging the constraints identified by the ALJ in the June 20 Procedural Ruling. It should therefore be adopted so that the utilities can commence their studies on a timely basis.

Dated: July 31, 2001

Respectfully submitted,

NATIONAL FUEL GAS DISTRIBUTION
CORPORATION

By Michael W. Reville (SM)
Michael W. Reville
Deputy General Counsel

Electric Functions

Note: Activities and Uniform System of Account numbers listed in conjunction with each function are being provided for illustrative purposes only.

1)Supply¹ – 500-557, 310-346

Procurement³ – including risk management
Purchased power (energy and capacity) including associated
ancillary services and additional NYISO charges
Production – Capital, Operation and Maintenance

2)Supply – Non-by-passable¹ - 500-557, 310-346

e.g., NUG Contracts, other items which may be utility specific

3)Delivery^{1,4}

Transmission – 350-359, 560-567.1, 568-574

Capital
Operation
Maintenance

Distribution – 360-373, 580-598, 901, 903, 905, 906-917

Capital
Operation
Maintenance
System reliability²
Retail Access including ESCO Care
Revenue protection/theft
Metering – CTs (Current Transformer), PTs (Potential
Transformer), part of meter shop
Customer information systems – IR direct costs
Energy Services – utility, including non-current DSM

4)Meter Service Providers¹ – 580, 586, 590, 597

Metering services, consisting of installation, maintenance, testing,
and removal

5)Meter Data Service Providers¹ – 901, 902, 903, 905

Meter reading, meter data translation, and customer association,
validation, editing and estimation

6)Meter Ownership¹ – 370

Physical Meters

7)Billing and Payment Processing¹ – 901, 903, 905

Printing and mailing bills
Receiving and recording payments

8)Energy Services¹ – competitive - 906-917

CLEARING ACCOUNTS

Uncollectibles – 904

Uncollectibles – supply

Uncollectibles – non-supply

Customer Care¹ – 901, 903, 905

(e.g., call centers, service centers, complaint handling, emergency call handling, customer accounting, non-routine field activities, customer education and outreach, credit and collections³, including special needs programs)

Customer Care – utility full service and T&D related

Customer Care – utility retail access, including ESCO care

Customer Care – Metering and Billing & Payment Processing.

Footnote (1): Where costs in A&G and general / common / intangible plant can be specifically identified and assigned to the activities, they will be so assigned.

Footnote (2): May include amounts from other accounts. Example: Electric, PSC 903 – storm watch.

Footnote (3): Will be separately identified.

Footnote (4): Since the purview of this proceeding does not include the redesign of transmission or distribution rates the combining of Transmission and Distribution functional buckets into a single “Delivery” functional bucket would not result in the loss of needed information but would eliminate the concerns raised by parties regarding whether the breakpoint between transmission and distribution should be the historic rate case breakpoint, the breakpoint filed in Case 97-E-0251, or some different number.

Gas Functions

Note: Activities and Uniform System of Account numbers listed in conjunction with each function are being provided for illustrative purposes only.

1) Supply^{1,3} – 325.1- 347, 700-812, 813

Procurement⁴– including risk management
Purchased gas (commodity and capacity)
Production – Capital, Operation and Maintenance

2) Storage^{1,3} – 164.1, 350.1 – 364.8, 808.1 – 812, 814 – 847.8

Capital
Return on Gas Storage Inventory – including risk mgt.
Operation
Maintenance

3)Transmission¹ – 365.1 – 371, 850-860, 861 - 867

Capital
Operation
Maintenance

4)Distribution¹ – 374-387, 870- 881, 885- 894, and 164.1 350.1 – 364.8, 808.1 – 812, 814 – 847.8, 901, 903, 905, 906-917

Capital
Operation
Maintenance
System Reliability²
Retail Access including ESCO Care
Revenue protection/theft
Customer information systems – IR direct costs
Meter ownership and Meter O&M
Energy Services – utility

5) Billing and Payment Processing¹ – 901, 903, 905

Printing and mailing bills
Receiving and recording payments

6)Energy Services¹ – competitive – 907-916

CLEARING ACCOUNTS

Uncollectibles – 904

Uncollectibles – supply

Uncollectibles – non-supply

Customer Care¹ – 901, 903, 905

(e.g., call centers, service centers, complaint handling, emergency call handling, customer accounting, non-routine field activities, customer education and outreach, credit and collections⁴, including special needs programs)

Customer Care – utility full service and T&D related

Customer Care – utility retail access, including ESCO care

Customer Care – Metering and Billing & Payment Processing.

Footnote (1): Where costs in A&G and general / common / intangible plant can be specifically identified and assigned to the activities, they will be so assigned.

Footnote (2): May include amounts from other accounts. Example: Gas - Supply, Storage LNG/Propane.

Footnote (3): Since each LDC is unique regarding storage and balancing, the balancing component may be included in supply or storage.

Footnote (4): Will be separately identified.