Filed Session of September 16, 2010
S.P.O. 10-G-0278SP
S.P.O. 10-G-0279SP
Approved as Recommended
and so Ordered
By the Commission

Jaclyn A. Brilling
Digitally Signed by Secretary
New York Public Service Commission

JACLYN A. BRILLING
Secretary

Issued and Effective September 16, 2010

STATE OF NEW YORK
DEPARTMENT OF PUBLIC SERVICE

August 26, 2010

TO: THE COMMISSION

FROM: OFFICE OF ELECTRIC, GAS AND WATER - GAS RATES & TARIFFS

SUBJECT: CASES 10-G-0278 and 10-G-0279 – Filings by KeySpan Gas East Corporation, d/b/a National Grid, and Brooklyn Union Gas Company, d/b/a National Grid to update the definition of Weighted Average Cost of Capacity; add corresponding language to the Mandatory Capacity Program and eliminate the Capacity Release Surcharge Adjustment.

SUMMARY OF RECOMMENDATION: Staff recommends that the tariff filings be allowed to become effective.

SUMMARY

On June 10, 2010, Keyspan Gas East Corporation d/b/a National Grid and Brooklyn Union Gas Company d/b/a National Grid (the Companies) filed tariff revisions to modify their retail access tariffs by adding a provision to charge Energy Services Companies (ESCOs) a price for released capacity equal to the Companies' weighted

average cost of capacity (WACOC). Currently, the Companies release pipeline capacity to ESCOs at the maximum rates for each pipeline and then reconcile the difference between these charges and its actual WACOC. Due to recent changes in federal pipeline regulations, the Companies propose to modify their retail access tariffs to enable the ESCOs to take release of capacity at the same WACOC as the Companies' sales customers.

BACKGROUND

Capacity release is necessary for retail access programs to ensure that upstream pipeline capacity procured by local distribution companies' (LDCs') is available to the ESCOs participating in that LDC's retail market. In order to ensure equality in capacity costs, it is the Commission's policy to require that an LDC charge ESCOs a cost for released capacity based on the LDC's WACOC for its system.[1] Prior to the Federal Energy Regulatory Commission's (FERC) issuance of Order No. 712 – *Promotion of a More Efficient Capacity Release Market* (Order 712) on June 19, 2008, LDCs participating in state mandated retail access programs were unable to release pipeline capacity above maximum rates set forth in the pipeline's FERC approved tariff and therefore the LDCs were unable to directly release capacity at their WACOC. As a result, the LDCs were forced to use other means to charge an equivalent WACOC in order to comply with both FERC and Commission policy. The two most common means have been: (1) releasing "slices" of the LDC's capacity at maximum rates that, in combination, roughly equal the LDC's WACOC; and (2) releasing capacity at maximum rates then applying a credit or surcharge to bills rendered to retail customers for the difference between the ESCO's cost of released capacity and the LDC's WACOC.[2]

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[1] See Case 93-G-0932, et al., Order Concerning Compliance Filings, p. 9. "We therefore concur with the Coalition that released capacity should generally be priced at the LDC's weighted average cost of capacity."

[2] Prior to the passage of Order 712, the surcharge/credit could not be applied to the ESCO, but instead was applied directly to the customer's bill and added another layer of complexity to the billing process.

Currently, the Companies are using the second approach to price the capacity released for their retail access program.

Due to the size of their retail access programs and the needs of the customers still served by the Companies, they have designed a program using three tiers:

- Tier 1 - Capacity Release, the only portion of the program being addressed here, is the portion of the program where capacity is released directly to the ESCOs. The Companies select the individual pipelines and the percentage of the capacity that they release on each of these pipelines based on the operational and reliability needs of the customers that they directly serve.
- Tier 2 - Bundled Winter Sales Service, bundles additional capacity with commodity.
- Tier 3 - Virtual Storage Service is available to supplement the Capacity Release and the Bundled Winter Sales Service during peak demand days.

DISCUSSION

By their filings, the Companies propose to revise their tariffs to enable the WACOC to be charged directly to the ESCOs and therefore eliminate the need for the customer-billed credit or surcharge "true-up" mechanism that was previously used by the Companies. The proposed method is superior to the historic methods used to achieve an equivalent WACOC because it simplifies the billing process and will ensure that capacity releases are priced properly. Further, the proposed tariff revisions appear to be consistent with FERC Order 712.

NOTICE AND COMMENTS

Notices of Proposed Rulemaking were published in the State Register on June 30, 2010, pursuant to the State Administrative Procedure Act. The comment period expired August 14, 2010 and no comments have been received on the proposed change.

RECOMMENDATION

It is recommended that the amendments listed in the Appendix be allowed to become effective and special permission be granted waiving the requirement of Section 66(12)(b) of the Public Service Law as to newspaper publication of the changes proposed by the amendments filed on August 27, 2010.

Respectfully submitted,

MICHAEL W. COLBY
Utility Engineer 3

VICKI M. MASSARONI
Utility Analyst 3

Reviewed by:

JANE CICERANI
Assistant Counsel
Office of General Counsel

Approved by:

THOMAS COONAN
Chief, Gas Rates and Tariffs
Office of Electric, Gas and Water

CYNTHIA MCCARRAN
Chief, Gas Policy and Supply
Office of Electric, Gas and Water

MICHAEL J. SCOTT
Deputy Director, Gas, Water, Safety and Security
Office of Electric, Gas and Water

CASES 10-G-0278 and 10-G-0279 APPENDIX

SUBJECT: Filings by:

KEYSPAN GAS EAST CORPORATION
d/b/a NATIONAL GRID

Amendments to Schedule P.S.C No. 1 – Gas

First Revised Leaf No. 17.1
Fourth Revised Leaf No. 159.2
Sixth Revised Leaves Nos. 12, 71
Eighth Revised Leaf No. 5
Ninth Revised Leaf No. 74.1
Twelfth Revised Leaf No. 139

Received: June 8, 2010 Effective: October 1, 2010

Fifteenth Revised Leaf No. 139

Received: August 27, 2010 Effective: October 1, 2010

THE BROOKLYN UNION COMPANY
d/b/a NATIONAL GRID

Amendments to Schedule P.S.C No. 12 – Gas

Fourth Revised Leaf No. 341.1
Fifth Revised Leaves Nos. 66, 401, 406.4
Twelfth Revised Leaf No. 73
Sixteenth Revised Leaf No. 342

Received: June 8, 2010 Effective: October 1, 2010

Seventh Revised Leaf No. 341.1

Received: August 27, 2010 Effective: October 1, 2010

SPECIAL PERMISSION APPLICATION: 10-G-0278SP
10-G-0279SP

S.A.P.A. 10-G-0278SP1 – State Register – June 30, 2010
S.A.P.A. 10-G-0279SP1 – State Register – June 30, 2010

NEWSPAPER PUBLICATION: June 8 Filings: July 23, 30, August 6, 13, 2010
August 27 Filings: Waived