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Approved as Recommended
and so Ordered
By the Commission

DEBRA RENNER
Acting Secretary

Issued & Effective March 17, 1999

STATE OF NEW YORK
DEPARTMENT OF PUBLIC SERVICE

March 4, 1999

TO: THE COMMISSION

FROM: OFFICE OF GAS AND WATER - GAS RATES

SUBJECT: 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.

SUMMARY

RECOMMENDATION: Gas utilities should be directed to provide gas transportation for electric generation as a tariffed service designed as described herein.

INTRODUCTION

Gas used by combination gas-electric utilities for generating electricity has traditionally been priced so as to share the savings (compared to using more expensive oil) between the gas and electric operations of combined utilities. More recently, these prices have been based on bypass considerations. As electric generation has become increasingly competitive, other generators have begun competing with utilities. The competitors seek transportation of gas at a tariffed price without the contribution to system costs inherent in the share the savings approach. Utilities, on the other hand, seek to maximize the revenue from such service to the benefit of firm gas customers.

This memorandum proposes that the service be tariffed to provide for a basic gas-for-electric-generation-service tariff (providing the certainty the competitors seek) but that the price include a value component that could provide some benefit to the gas utilities and their ratepayers. The recommended approach

recognizes that in order for competition to flourish, gas -- when used as a factor of production for electric generation -- must be priced reasonably and that existing gas sales customers could face harsh rate impacts if the transportation rate reflected no contributions for system costs likely to be caused by such large users of gas.

PROCEDURAL HISTORY

This proceeding was instituted on January 30, 1998 for the purpose of developing a policy regarding the rates, terms, and conditions for gas transportation for electric generation by local distribution utilities (LDCs). Staff held a technical conference on February 16, 1998, and parties submitted comments on April 6, 1998. On September 24, 1998, the Commission issued its Notice Soliciting Comments (Notice) on a proposed resolution by staff to which nineteen parties filed responses.

Consolidated Edison Company of New York, Inc. (Con Edison), in its response dated October 26, 1998, requested clarification and an expedited order on certain issues to remove uncertainties as to staff's proposed gas transportation rates to the generating plants slated for impending sale. Following a Notice and comment period of a proposed staff resolution to this narrow matter, the Commission issued an interim order in this case on January 13, 1999, applicable to all New York State utilities, that would continue existing bypass-derived interdepartmental prices for gas transportation by LDCs to electric plants to be divested for the period of the relevant electric rate settlements.

This memorandum reports staff's resolution of the generic issues in this case and directs compliance filings by all LDCs.

Brief Summary of Staff Resolution

Staff proposes that each gas LDC file a tariff for gas transportation for electric generation. The tariff should include the following major features: (1) generator's capacity

must be at least 50 MegaWatts; (2) service can be interrupted for a maximum of 30 days (720 hours) annually; (3) customer pays new, or additional, connection costs; (4) rates should recover marginal costs, a contribution to common costs, and reflect variations in value; (5) rate design is a commodity rate with a minimum annual bill; (6) negotiated contracts are permitted to reflect bypass and operational aspects; and (7) utilities will not negotiate rates or related matters with affiliates.

We have modified our proposal from the Notice in the following areas: (1) revised the rate design; (2) made the value component symmetrical and (3) eliminated the sharing of negotiated discounts. There are also some minor revisions, such as not mandating a minimum negotiated rate.

Brief Summary of Comments

Commentors on the proposed generic resolution that was Noticed September 24, 1998 include utilities, government agencies, marketers, and independent power producers. Briefly, they continue to reflect the tension between the claim for a need to eliminate barriers to entry and opportunities for monopoly abuses (i.e., resolved by tariffs and terms for any, and all, services) against LDCs desires to base the price of transportation on the value the buyers place on it (i.e., negotiated prices and terms). In response to the staff proposal for a standard tariff for basic service, which is intended to balance these competing positions, there is some vocal opposition but most parties generally support the concept, albeit with various disagreements as to some of the specific terms. Also, there are some misinterpretations of staff's proposal and requests for clarification.

As to the mechanics of staff's proposal, the primary specific areas identified for resolution are: the appropriate methodology for determining marginal costs; the impact of staff's proposal on low load factor generators; staff's proposed unidirectional value adder charge; the 80/20 sharing of negotiated rate discounts; the 1% factor to cover gas losses; the

prohibition against negotiated contracts with affiliates; and the non-confidentiality of negotiated contracts. In addition there are many minor areas of concern.

Staff Resolution

Based on the comments from the parties, we have incorporated several revisions and clarifications to staff's original proposal, as shown in chart form on Appendix 1, Summary of Staff Resolution. Appendix 2, Discussion of Comments, provides a more detailed discussion of the issues raised by commentors and revisions to the original proposal. Appendix 3, Summary of Individual Comments, summarizes responses by the parties.

Staff concludes that requiring a menu of tariffs for each utility that would cover any "sizes or shapes" of generator requirements, as urged by some proponents, is unworkable. Likewise, the current process which requires that generators negotiate individual contracts for transportation with LDCs may not be adequate to allow for the unimpeded access to gas transportation service needed for an increase in the competitive market forces. Staff recommends that its concept of a standard service tariff, for basic access to the local LDC's transportation system, by large electric generators be approved. Thus, all such transporters could avail themselves of a basic tariff, known in advance, that would offer the same terms for all entrants. Beyond that, generators would be free to negotiate terms and prices that would differ to reflect bypass opportunities as well as operational flexibilities. Such terms and prices, however, would be filed with the Commission as tariff addenda for availability to similarly situated generators.

We envision a uniform general tariff structure statewide but one which would reflect utility-specific costs and operational differences. The basic tariff would have open access provisions limited to (a) basic gas transportation service for electric generation interruptible up to 30 days per year and exclusive of balancing service, and (b) a few options such as

limited daily balancing service, level of interruptibility, or length of term.

Rates for basic service would have the following components:

1. A contribution to overall system costs. This rate should be \$.10/dt on a commodity basis.
2. An amount to cover marginal system costs. The amount should be determined by each utility, and should reflect the unitized long run incremental costs of building transmission and high capacity distribution plant. This rate should be on a commodity basis.
3. A real-time value component. Initially set at zero, this rate would reflect increases, or decreases, in the wholesale market price of electricity relative to the changes in the cost of gas for generation. The value component would be triggered by an increase/decrease in the spread between the cost of gas and electricity.
4. A minimum annual bill. This should be based on items 1-3 above, and reflect no less than 50% of the generator's maximum annual quantity. For low load factor generators, the resultant rate should be no greater than the otherwise applicable interruptible transportation tariff.

In designing the rates, each LDC should implement the following principles:

1. The rates should not be an impediment to the development of generation in the utilities' service territory.
2. The rates should be set at a level that would minimize incentives to negotiate, bypass, or locate elsewhere.
3. It is expected that the total rate will be significantly lower than the rates for other large volume services, considering the economies of scale.

Other relevant provisions of the service should include:

- The proposed tariff would apply to dual-fuel electric generators having capacity of at least 50 MegaWatts.
- The proposal would apply only to new arrangements; existing contracts would not be changed.
- Other boiler-fuel requirements, e.g., ignition gas and space heating requirements whether or not separately metered, will be separately priced at tariff rates applicable for those types of service.
- Other rate structures, such as demand/commodity can be negotiated.
- The initial term of service should be five years (negotiable).
- Service lines, main extensions, measuring and regulating equipment, and system reinforcements, would be paid by the customer.
- The customer would have to provide 1% of gas consumption to cover losses, or the system wide loss factor, if less than 1%.
- The level of interruptibility can be higher than 30 days where an LDC's system cannot reliably provide 335 days of firm transportation service.
- LDCs can reflect other unique constraints (e.g. the LDC may need to specify intra-day delivery parameters in order to meet the hourly balancing provisions of its pipeline contracts).
- Appropriate mechanisms that would share with customers the cost of any rate discounts as well as any premiums realized for value added services will be addressed in each LDC's next rate plan.
- Negotiated contracts with affiliates are prohibited.

It is recommended that:

1. The utilities be directed to file tariff revisions within 60 days from the date of this order, to become effective on a temporary basis on not less than one day's notice, incorporating changes discussed herein;
2. The requirements of Section 66(12)(b) of the Public Service Law as to newspaper publication of the changes proposed by the revisions directed in Clause 1 above be waived; and
3. The revisions directed in Clause 1 above shall not become effective on a permanent basis until approved by the Commission.

Respectfully submitted,

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	Conclusions
A Introduction/General Comments	
B Policy	
1 How should the existing policy be modified or clarified for application to gas transportation for electric generators?	Gas transportation services for electric generation should be subject to the new policy.
2 Is value of service pricing appropriate?	Tariff rates for a basic level of service are appropriate with a predefined price adjustment tied to the wholesale price of electricity vs gas as a measure of value.
3 Should the same policy apply to all generators?	Yes, except as discussed in #5 below and for existing non-utility generators whose existing contracts will be phased out upon expiration.
4 With respect to gas services for generation, what are the impacts on core electric and core gas customers? How should they be balanced? Does Public Service Law S. 66-d limit the options (e.g. what is "undue burden")?	Policy should minimize impacts and balance interests. Tariff rates which collect contributions for gas system costs will benefit gas ratepayers while ensuring fair treatment of electric generators which will help competition and benefit electric ratepayers.
5 Should existing transfer prices for LDC services to the electric department of combination utilities be portable when plants are auctioned, e.g., should they go to the new owner of the generator?	No. There should be no portability except that gas transportation rates for plants to be divested that are currently based on the bypass policy should continue to apply for the duration of the relevant electric rate plans (See Order issued January 13, 1999).
6 What criteria should be considered in determining whether generators are "similarly situated?"	Not defined as yet. Tariffs for a basic level of service will be available to all generators with the same terms and conditions. Negotiated rates for bypass or operational reasons are permitted. These are to be filed with the Commission and available to similarly situated customers.
7 Should lost revenues from gas load displaced by energy from electric generators be factored into the development of the LDC rates for the generator? If so, how?	Not for basic tariff service. However, this may be a factor in negotiated rate service.

<p>C Tariff vs. Negotiations</p> <p>1 Are individually negotiated contracts compatible with a competitive non-utility generation market?</p>	<p>Yes. Individually negotiated contracts are permitted for certain services which differ from the basic level of service provided by the tariff rate. Potential bypass is a legitimate reason for a negotiated contract. There should be no negotiated contracts with affiliates.</p>
<p>2 Should utilities be expected to maximize revenues from negotiated contracts, or should rates be cost based?</p>	<p>Rates based on marginal costs plus a contribution to common costs and a value component should be put in place. Utilities are expected to maximize revenues from negotiated contracts.</p>
<p>3. Should standard tariffs be developed for electric generation?</p>	<p>Yes. For basic transportation service.</p>
<p>4. Can a system using both tariffs and negotiated contracts be pursued?</p>	<p>Yes. See Staff position for C1.</p>
<p>5 Are tariffed rates necessary to ensure open access?</p>	<p>Yes. A tariffed service for basic open access is appropriate</p>
<p>D Pricing/Technical</p> <p>1 Should rate schedules specifically provide for:</p> <p>a) interruptibility,</p> <p>b) peaking,</p> <p>c) balancing,</p> <p>d) pressure,</p> <p>e) location?</p>	<p>a) Yes. Basic limited interruption.</p> <p>b) No. Negotiable</p> <p>c) Limited daily tolerance. Additional balancing may be available from the utility at market based rates.</p> <p>d) No. Compression is up to the customer.</p> <p>e) Only in the respect that new generators will be expected to pay hookup costs.</p>
<p>2 Should an LDC be required to accept peaking service?</p>	<p>No, this is a competitive service which gas utilities should be allowed to procure through the same process which they use for gas, transportation, storage, etc.</p>
<p>3 How should peaking service be handled if LDC is out of merchant function?</p>	<p>To be purchased in a competitive marketplace.</p>
<p>4 How should balancing service be provided if LDC is out of merchant function?</p>	<p>To be purchased in a competitive marketplace.</p>

<p>Basic Service</p> <p>30 day Interruptible</p> <p>Ignition Gas</p>	<p>For 30 day/year interruption, rate is the 10 cent contribution to common costs plus the marginal costs. Marginal system costs should reflect the long term incremental cost of adding transmission and high capacity distribution plants. Maximum annual interruption is 720 hours.</p> <p>At firm tariff rates. Include value adder as described below.</p>
<p>Rate Design</p>	<p>Commodity charge to recover the contribution to common cost, marginal cost, and value component. Minimum annual bill based on 50% of generator's maximum annual quantity. For low load factor generators, peakers, the resultant rate should not exceed applicable interruptible tariff.</p>
<p>Initial Hook-Up Costs</p>	<p>Customer pays for service, measuring and regulating, and system reinforcements necessary to initiate service.</p>
<p>Value Component</p>	<p>Designed to measure the change in the differential between the cost of gas fired generation at an assumed heat rate and the wholesale market price of electricity.</p> <p>(See Appendix 1, page 4, for description)</p>
<p>Balancing</p>	<p>Basic service includes no balancing.</p> <p>Tariff may contain a minimal daily balancing option, plus or minus 2%.</p> <p>Utility may need to limit daily imbalances depending on its pipeline contracts and storage assets available.</p>
<p>Term of Service</p>	<p>Five years, during which the rate will not change (except the value component which is dependent on market prices). Longer terms will command a rate premium.</p>
<p>Losses</p>	<p>Customer to provide 1% of consumption to cover losses, unless system average is lower.</p>
<p>Eligibility</p>	<p>To generators > 50 MW</p>
<p>Negotiated Rates</p>	<p>Generators that want services other than the basic tariff offerings can negotiate with the LDC</p> <p>.</p> <p>Threat of bypass justifies negotiated rates.</p> <p>Negotiated rates and terms are public and available to similarly situated customers. No negotiated contracted with affiliates. Incentive or sharing mechanism will be determined on a case-by-case basis.</p>

Value Component

Based On:
Spark Spread

Definition of Spark Spread:

The spark spread is a measure of the competitive relationship between natural gas and electric power. The spark spread compares the busbar (output of generator) of gas-fired generation, at an assumed heat rate (measure of generator efficiency), with the current market price for electricity. This comparison helps measure the value of generation versus other potential markets. Appendix 2, page 3, discusses the methodology for determining wholesale electric prices.

Rate Component:

Value component based on 5% of the Change in the Spark Spread

Example of Value Adder:

Initial Gas Cost \$ per dt	Resulting Fuel Cost of Generation per MWh	Wholesale Electric Prices per MWh	Spark Spread (SS) per MWh	SS Less the Initial or Baseline Amount per MWh	Percent of SS For Value Adder	Value Component \$ per dt
\$2.00	\$20.00	\$25.00	\$5.00	\$-5.00	5%	\$-0.025
\$2.00	\$20.00	\$30.00	\$10.00	\$0.00	5%	\$0.000
\$2.00	\$20.00	\$35.00	\$15.00	\$5.00	5%	\$0.025
\$2.00	\$20.00	\$40.00	\$20.00	\$10.00	5%	\$0.050

As illustrated, if the market price of gas is \$2.00/dt and a power plant has a 10,000 Btu/kWh heat rate, the output value of that gas is \$20.00/MWh (i.e., the cost of gas per unit of output is \$20.00/MWh). If initially the wholesale market price of electricity is \$30.00/MW, the initial, or baseline, spark spread, is \$10.00/MWh. If, over time the price of gas were to remain constant and the wholesale price of electricity were to increase to \$40.00/MWh, the spark spread would increase by \$10.00/MWh, to \$20.00/MWh, or \$10.00/MWh above the initial or baseline level. This means that the value of gas used for electric generation has increased by \$2.00/dt relative to the market price of electricity. The value adder illustrated above is 5% of this change of \$0.05/dt.

Discussion of Comments

Comments were received from nineteen parties addressing many issues. These are reported, by commentor and by issue, in Appendix 3, Summary of Individual Comments. Commentors included utilities, government agencies, marketers, and independent power producers. The comments reflect the viewpoints of the many diverse interests of the commenting parties. Our proposal, as revised, attempts to balance the concerns of the various parties with achieving tariffs for each LDC that properly price gas transportation for electric generation. Our discussion here is limited to the major issues.

Overview - Positions of Parties

This proceeding was instituted primarily because of the concern that the current system of individually negotiated contracts between LDCs and generators may not be compatible with the development of a competitive, non-utility, electric generation industry. Generally, most parties agree that this concern can best be addressed through cost based tariffs with uniform rates and terms, coupled with the ability to negotiate different rates and terms, although, several parties strongly oppose changing the current system of individually negotiated contracts.

The comments reflect strong differences between upstate and downstate. Upstate, where bypass is a more likely option, LDCs and IPPs prefer individually negotiated contracts. Downstate, where bypass is a less likely option, there is support for uniform cost based tariffs.

The comments also reflect philosophical differences in the basis for the rates. The LDCs believe that value should be given the most weight, whereas the IPPs believe the rates should be strictly cost based.

Rate Design

Several parties comment that the staff proposal for the \$.10/dt contribution to common costs and one-half of the marginal cost to be recovered through a demand rate will cause excessive prices for low load factor generators, resulting in either bypass or the need to negotiate lower rates. Our proposal for a significant

portion of the costs to be recovered through a demand rate was intended to provide a minimum revenue contribution to the gas system based on the maximum system capacity that the generator required. The capacity allocated to generators has a cost and cannot be used to serve other potential loads. Therefore, the demand rate was intended to ensure that the gas LDCs were reimbursed for the allocated capacity regardless of the generators actual throughput.

The parties' concern is valid. For example, a \$.15/dt demand rate effectively equates to a \$.60/dt commodity rate for a 25% load factor generator and conceivably in excess of \$1.00/dt for peaking generators. In an effort to make the proposed tariff more suitable for a wider range of load factors, we revise our proposal so that both the common cost component and the marginal cost component are commodity based. However, it is important that the rate structure recognize, to some extent, that these facilities will tie up system resources. As these facilities would not otherwise contribute to supporting back-bone facilities that they will occupy, we propose that the tariff also include a minimum annual bill.

The minimum annual bill should be set so that a significant portion of the revenues can be recovered if the generator's annual throughput falls to low levels. This should be based on not less than 50% of the generator's maximum annual quantity using the rate elements for this tariff discussed herein. For peaking units, the resultant rate should not exceed the otherwise applicable interruptible transportation tariff.

Marginal Cost Component

The comments reveal varying interpretations of staff's proposal for the marginal cost component. Several parties request that we define the costs that the marginal cost rate component should recover. Also, several parties claim that the marginal cost of adding interruptible generation is near zero.

The claim that generators will be interruptible, thereby imposing minimal incremental capacity costs on the system has an initial intuitive appeal, but this is not accurate as

there are many factors that argue against reaching that conclusion. The interruptibility, at 30 days per year, reflects a level of service for such large users of gas for which the normal LDC systems were not designed, nor is it a service that has been provided in such a large scale, thus presenting volumetric, as well as capacity costs. As such, there is no operating experience and it is reasonable to anticipate long term costs consequences to the system as now designed. Thus, this type of service is not fully interruptible, it is close to being firm, and denotes increased utilization of the system in a larger scale than in the past. It is probable that such a guarantee of limited interruptibility by these larger system flows will cause system costs to be incurred. Also, as the LDC's firm load grows over time, any capacity dedicated to guarantee the limited 30-day interruptibility will erode over time. We conclude that the marginal cost component should reflect the long run incremental cost of constructing transmission and high capacity distribution plant.

Value Component

Many comments were received regarding the staff's proposed value adder. The comments included: it is unnecessary; should be negotiable; should be symmetrical; could harm the LDC; could harm the generator; and the mechanism needs to be properly defined so that it will operate as intended. Arguments for symmetrical operation have merit, and therefore the only change we propose is to allow the mechanism to operate symmetrically.

Appendix 1, page 4 shows how we envision the value component to operate. Since circumstances may vary across the state, we are not proposing to mandate the exact methodology, but instead we expect the LDCs to include in their tariffs a value component that meets the parameters shown in the Appendix and is appropriate for conditions in their service territories.

Suitable wholesale electric prices that reflect regions of New York State are not published currently. However, such data should be available shortly as we expect that the Independent System Operator (ISO) will soon publish Location Based Marginal

Prices (LBMP). These prices will be by region, and, as a minimum, the value component should be calculated separately for four regions: New York City, Long Island, Eastern New York, and Western New York. The value component should be real time and be calculated at least daily. The base year should be the first full year of operation for the ISO.

For the cost of gas, we will not specify the gas cost to be used in the index. Each LDC is capable of determining an average daily market price for city gate deliveries in its service territory.

80%/20% Sharing of Negotiated Rate Discounts

Many concerns were raised regarding staff's proposal to share the costs of negotiated rate discounts or premiums 80%/20% between the ratepayers and utility. Our intention was to provide an incentive for LDCs to minimize the level of rate discounts by requiring the LDCs to absorb 20% of any discount. The major criticisms regarding the proposal is that it will be a disincentive for LDCs to negotiate (thereby encouraging bypass), and it will interfere with existing rate plans.

The treatment of generation revenue margins in current rate plans vary from full flow through of all revenue margins, to sharing of revenue margins, to retaining all revenue margins. LDCs that retain or share revenue margins have a strong incentive to minimize negotiated rate discounts. LDCs that flow through all margins from generation also have an incentive, although weaker, to maximize generation revenues. As more revenue is flowed through to customers, it reduces core rates resulting in gas being more competitive with oil, and thus higher load growth.

In addition, utilities observed that a negotiated rate above or below the tariff rate may simply reflect differing levels of service quality which have differing cost consequences. For example, the tariff may reflect costs associated with providing 335 days per year of firm service while the negotiated service may be for more or less firm service. Therefore the negotiated

rate may be reflective of the cost differences in providing different levels of firm service, and not a discount or premium from the tariff rate.

We have eliminated any rate discount sharing from our proposal. This issue is an important component of existing rate plans and can be better addressed in the context of each LDC's next rate plan discussions.

While we propose to eliminate the rate discount sharing proposal, each contract should be filed with the Commission along with a full justification for the negotiated rates and terms. We believe that this, coupled with existing incentives will serve as adequate safeguards on the reasonableness of negotiated contracts.

Negotiated Contracts with Affiliates

Comments opposing and agreeing with staff's recommendation prohibiting negotiated contracts with affiliates were received. Concerns that there will always be an economic incentive for an LDC to favor an affiliate have merit. Some parties have commented that such negotiation may foster efficiency (by encouraging construction of new generation), but the possibility of that benefit seems outweighed by the harm to competition. The Commission is committed to competition where feasible and allowing affiliate negotiations, we believe, would hinder that goal. Utilities should file tariffs that provide that neither the rate nor any related matters (including, but not limited to, rate structure modifications and levels of interruption) will be the subject of negotiation with any affiliated entity.

Confidentiality of Negotiated Contracts

Comments on the confidentiality of contracts issue were both pro and con. The comments did not shine any new light on this topic, therefore we see no reason to alter our original proposal. The rates, terms, and conditions of negotiated contracts should be made public via tariff addenda. Otherwise, parties attempting to negotiate contracts can never be sure that they are offered similar rates, terms, and conditions as other similarly situated customers.

1% Gas Loss Factor

Comments on our proposal that the basic service include 1% deliveries to cover gas losses received varied comments including: should be zero, should be higher than 1%; will impair the competitiveness of the generator; and should be negotiable. We do not propose to change the 1% requirement for the basic service. The 1% figure is a reasonable, reflection of system and metering concerns, and, in fact, has been incorporated in existing negotiated contracts. If, however, an LDC has system wide losses lower than 1%, the lower figure should be used.

Summary of Individual Comments

APPENDIX 3

Issue	The Brooklyn Union Companies	Central Hudson	Cogen Technologies, Inc.
General View on Proposed Policy	Current pricing policies (Bypass) are fair and equitable and should remain in effect. Standardized tariffs step away from market efficiencies and will result in incorrect pricing.	Staff's proposal should be rejected. Staff's proposal will result in bypass of Central Hudson's generating stations.	Proposal represents a good compromise in that it ensures generators contribute to system costs and generator rates would allow for the recovery for marginal costs. However, Staff's proposal should be rejected. Supports fully negotiated rates.
Basic Service 30 day Interruptible Ignition Gas	30 days interruptability with no balancing is reasonable. 10-cent contribution is inadequate. Actual marginal cost for each utility should be used even if not in the 7 - 15 cent range.	Needs to be more flexible in dealing with competitive markets. The proposal does not specify the nature of the demand charge of the demand billing parameter. 30 days interruptability is inappropriate. Should be tied to daily contract quantity and to which city gate delivery is made. Need to adopt curtailment plans.	The proposed rate structure should not apply to generators with greater than 30 days of interruption. Service beyond the 30 day interruptible should be negotiable (i.e. seasonal). \$0.10/dt is too high for low load factor customers.
Rate Design	Staff's position is unclear in its definition of marginal system costs. Since most non-fuel costs of providing transportation service are fixed, the rate should be predominantly a demand rate. Most non-fuel costs are fixed and should be recovered through a demand rate.		Applying this two-part rate to less than 365 day low load factor facilities will prevent these types of units from being built. Peaking generation should be treated differently.
Initial Hook-Up Costs	Costs incurred to initiate service should include system upgrades that may be needed, to ensure that existing core customers are not jeopardized.		
Value-Adder	5% is not sufficient. Also, since heat rate will understate the spread there must be a mechanism to verify heat rates while preserving confidentiality.	Value adder is improperly designed in that it must reflect real-time conditions.	If adopted it should be symmetrical. A retroactive calculation will not allow generators to make informed business decisions.
Balancing	Should not be made mandatory. Can be provided by the market. 2% may be burdensome.	Two concerns: 1) magnitude of transported gas 2) what upstream resources are available	
Term of Service	The standard term and premium adder for longer terms are appropriate.		
Losses	Appropriate.	Will have effect of competitive economics. 1% is too high.	
Eligibility	Appropriate.		
Negotiated Rates	Margins for sharing should be net of costs. Automatic sharing provides disincentive to utilities. LDCs may have a previously existing specified discounted rate treatment, which is contradicted by this proposal. Should not be limited to non-affiliates. Negotiated contracts strike a fair balance between co-generators and core customers.	Disallowing affiliated generator from negotiations creates a tilted playing field and dampens competition. Sharing should be net of costs.	
Miscellaneous	Penalty rates as an alternative to disconnecting. Generators that displace gas load should be negotiated.	Pre-existing Roseton contract shouldn't be altered. Generating facilities cannot be tied to a fixed level (30 days) of interruption.	

Issue	Consolidated Edison Company of NY	CPB	Empire State Development
General View on Proposed Policy	Supports the concept structure, but not the specific terms.	In general agrees with Staff.	Suggests a cost-based tariff structure, which allows for negotiations (to prevent uneconomic bypass).
Basic Service 30 day Interruptible Ignition Gas	Con Edison supports the availability of standard service and the general structure of Staff's proposal. Should be established for individual systems. Standard service terms should not be automatically applicable to divested facilities where bypass has been previously approved. Ignition gas (firm requirements) should be at standard service rate (could be non-competitive). Charging firm rates will encourage bypass. Separate metering may add substantial costs.	Separate metering should be required. Without a separate meter this could be a contentious issue.	Staff's computation of common and marginal system costs need to be verifiable.
Rate Design	Presetting a minimum contribution for marginal costs may not produce a competitive service and may or may not reflect actual marginal costs. If marginal costs exceed contribution component LDC's could have uneconomic service. Uneconomic bypass will be encouraged.		
Initial Hook-Up Costs			
Value-Adder	Value adder is not necessary, but Consolidated Edison does not oppose it.	Requests clarification on spark spread. Supports concept in general. For the spark spread CPB states localized costs should be used.	Not justified and will needlessly add to the cost of generation in NY. Will cause fuel switching and uneconomic bypass. Needs more analysis.
Balancing	Should be considered on a utility by utility basis.		
Term of Service	Term should be negotiated, but binding. Some customers may need a shorter term.	Marginal system costs should not be fixed for the term. Ratepayers should not be responsible for risk with respect to changing marginal costs.	
Losses	Each system should be considered independently. Actual losses will be negligible.	Should be system loss factor.	
Eligibility	Should not be eligible to generators outside NY.		
Negotiated Rates	Negotiations with affiliates as well as non-affiliates must be allowed to meet the needs of generators that require transportation service, which differ from the Standard Service. LDC's should not be required to absorb 20% of the discount (economically irrational and creates a disincentive). This is unreasonable, discriminatory, and contrary to the public interest. The discount may reflect a lower level of service.	The guidelines should be established to ensure premiums are fair and reasonable. Negotiated rates could fall below marginal cost. Minimum negotiated rates should be marginal cost plus a contribution to system costs, not \$0.10/Dt. Should be subject to 85/15 sharing not 80/20.	
Miscellaneous	Trade secret status should be considered in a case-by-case basis. Policy should not automatically apply to divested facilities.		

Issue	Enron	Indeck	IPP NY
General View on Proposed Policy	Generally supports Staff's proposal. In a restructured environment the LDC will assume less risk and the generator will assume more risk. The rates should reflect this risk shift, which means a cost based transportation rate should be applied.	Staff's proposal is fundamentally flawed. Adopts IPPNY's comments.	Does not support Staff's proposal. Urges the Commission to reject Staff's proposal. Cost based tariffs and individually negotiated contracts should be utilized. Staff's proposal will encourage uneconomic bypass.
Basic Service 30 day Interruptible Ignition Gas	Tariff should be completely cost based. Negotiations should be allowed for: bypass opportunities, alternate fuel opportunities, availability of peaking gas, term, and payment schedule, pipeline delivery preferences. LDCs do not take the risk and the tariff should reflect that.	Will grant an economic windfall to LDC's, these rates will allow utilities to recover costs previously recovered.	The 10-cent floor contribution has no legitimate cost-basis. It is a pure subsidy to the LDC, shareholders, and other customers.
Rate Design	Tariff should be completely cost based.	SFV is not economically viable for merchant power plants due to high fixed demand charges.	The rate design is defective. It imposes a monthly demand charge on generators which have no firm power purchase agreements with the LDC.
Initial Hook-Up Costs			
Value-Adder	Tariff should be completely cost based.		Provides the utility with a free ride. The LDC has done absolutely nothing to deserve the revenue. An assumed heat rate should not be used.
Balancing			
Term of Service			
Losses			Line loss should be a mutual, voluntary agreement. Should be based upon actual generator loss factor.
Eligibility			
Negotiated Rates	Negotiations will allow parties to value a wide variety of items. Negotiated items should include bypass opportunities, alternate fuels, peaking gas, pipeline deliverability preferences, term commitment, and payment terms.		Negotiated rates should not have a \$0.10/dt minimum.
Miscellaneous			

Issue	MI	National Fuel Gas Corporation	New York City
General View on Proposed Policy	The cost based policies established in Opinion 95-26 should remain in effect. Staff's proposed policy will result in higher electric rates.	Existing bypass policy should remain in effect. Upstate and downstate need to be considered separately. Upstate generators are not captive customers.	Supports Staff's proposal for a tariff based system, since tariffs create certainty. Disagrees with the pricing proposed by Staff. A tariff should result in a competitive market and reduce electricity prices.
Basic Service 30 day Interruptible Ignition Gas	This pricing structure is at odds with 93-G-0932. Interruptible service was deemed non-core and should be priced at value of service to be capped at firm service prices. There is not evidence that the 10-cent contribution plus marginal costs would equal the embedded cost.	Not opposed to basic level of service so long as days of interruption and criteria for interruption can be negotiated. Flexibility is necessary. The 10-cent charge would increase threat of bypass if not flexible. Staff provides no rationale for the 10-cent contribution. Reasonable contribution should be required instead of \$0.10/dt.	The rate is excessively high. Since NYC generators are expected to hook up directly to the NY Facilities System the customer will pay for system requirements to serve. They will connect directly to high-pressure system, the marginal cost should be minimal (especially due to interruptability).
Rate Design	\$0.10/dt plus marginal system costs could be higher than firm rates.	The company does not object to this rate structure, however varying rate structures should be allowed to create a competitive advantage due to pricing flexibility on behalf of the LDC not allowed through pipeline tariff rates. Company agrees customer imposing the cost should recover all marginal costs.	
Initial Hook-Up Costs		Company does not oppose this requirement. Flexibility in recovery should be allowed.	
Value-Adder	Inflationary pressure will result from this real time adder. It will increase the wholesale price of electricity.	This concept has merit. However, if mandatory it may produce a non-competitive rate. Should be negotiable.	Not justified based on a cost basis. The spark-spread adder could cost NY city customer the most harm. It would exacerbate electricity price spike that would occur in transmission constrained areas. There is no policy rationale for this adder. The adder needs clarification and more detail.
Balancing			
Term of Service			The term proposed by staff with adders for longer terms will cause higher rates for electric generators since the length of service obligations is 15-20 years.
Losses		As default this is okay, but lower losses should be allowed through negotiations.	
Eligibility			
Negotiated Rates		Sharing of discounts is unclear since no base level is mentioned. Also, counterproductive given the competitive circumstances faced by utilities.	
Miscellaneous		Rigid and needlessly complex pricing techniques should be avoided.	

Issue	New York State Electric & Gas Corporation	Niagara Mohawk Power Corporation	Orange & Rockland
General View on Proposed Policy	Individually negotiated contracts should be utilized. Character of service should be negotiable. Staff's proposal will result in lost economic benefits. The Commission should not adopt Staff's proposal.	Value of service pricing that recovers marginal cost is necessary to avoid uneconomic bypass. Service should be priced above marginal cost but below embedded cost. Staff's proposed tariffs will cause an under-recovery situation and will deny maximization of revenues resulting in higher costs to core customers.	Staff's proposal will encourage bypass. Opposes Staff's proposal.
Basic Service 30 day Interruptible Ignition Gas	Character of service negotiated on an individual basis. Days of interruption will be a function of generator needs as well as utility circumstances. The 10-cent contribution will present barrier to prospective generators. Contribution level should be unspecified. Marginal costs should be included in pricing, but non-similarly situated customers will have different marginal costs.	Marginal costs are not clearly defined. NiMo asks for guidance. 30-day interruptability can be provided if NiMo can recover all cost for needed upgrades and upstream pipelines have the capability to provide the service.	The 10 cents plus marginal cost plus the value adder will cause a rate that is approximately 30 cents/dt. This is too high. Current transfer price is 5 cents/Dt. Abandonment of bypass rationale is distressing. System is incapable of the 30 day interruptability.
Rate Design	Rate design should be considered on an individual basis.		
Initial Hook-Up Costs		Pricing for hook-up costs should be flexible to allow creating an economically dispatchable electric rate.	If allowed should be symmetrical.
Value-Adder	Should be allowed but not mandatory. Will dampen enthusiasm for new generators to locate in NY. Competitive generators will be reluctant to accept this component.	Due to different heat rates, spark spread must be calculated on a case-by-case basis. Wholesale electric price determined on a plant basis. Baseline spark spread must be set.	
Balancing		Should be provided by upstream pipelines. If the LDC provides balancing 2% daily tolerance must be enforced.	
Term of Service	Should be considered on a case-by-case basis. May lead to higher prices for shorter term or vice-versa.	Requests additional flexibility to accommodate future changes in the industry.	
Losses		Accommodate actual losses given utility's physical condition. Use system average of individual loss factor.	Too high for this type of service.
Eligibility			
Negotiated Rates	Disallowing affiliates negotiated rates is discriminatory. Negotiated contracts should not be public, creates a competitive disadvantage. A level sharing mechanism should be determined in the context of individual utility proceedings should be considered. Negotiated terms beyond five years should not be mandated at a higher rate.	Parameters for negotiations must be established. Negotiated rates could result in higher customer benefits than Staff's proposed value adder. No changes to current policy allowing revenue sharing of gas transportation revenue should be made. The \$0.10/dt contribution limits the LDC. Confidentiality of negotiated contracts is essential due to increasing competition in the generation market.	Providing a 20% penalty will not encourage LDCs to negotiate a rate. Core customer will lose the 80% of any revenue that would have been achieved.
Miscellaneous		NiMo currently has 80/20 sharing above and below a target level, customers should not lose the benefits of that sharing due to a change in Commission policy. Existing contracts must remain unchanged.	LDCs will not get a premium for generation assets due to the timing of this proceeding.

Issue	Rochester Gas & Electric	SEF	Sithe Energies, Inc.
General View on Proposed Policy	Vigorously opposes Staff's proposal. The electric generation market is complex and can not be governed by a Commission mandated rate structure. Generation service should use negotiations based on market conditions.	Agrees with Staff's proposal. The proposal will promote competition in the electric generation market, and encourage more efficient use of gas distribution facilities. Negotiated contracts are a barrier to competition.	Transportation rate should be completely cost based. Staff's proposal sanctions excess prices.
Basic Service 30 day Interruptible Ignition Gas	Still supports individual market driven negotiations. Generators have a variety of different requirements, which made them not necessarily similarly situated. Therefore a one-size fits all tariff is inappropriate. Feels that current tariffs may be suitable for generators, if not negotiations will work. Interruptability is system-specific and should be addressed separately. 10-cent contribution has no merit. Separate treatment of boiler fuel precludes flexibility.	Tariffs prescribing a basic transportation service are critical to develop a competitive generation industry. Definition of marginal cost needs to be well defined. Requests clarity. Interruptability level is acceptable, but there should be numerical values for additional interruption days. Discounts/premiums for differing levels of interruption should be allowed.	Future prices should be reduced to allow utilities to recover O&M and a reasonable R.O.R May find the fixed monthly demand is too high to continue operation. Could cause a permanent shutdown. Could cause unnecessary cross subsidies. Will discourage new generation in NY.
Rate Design	Recovery of marginal costs determined by the company should be left to negotiations. Limits the development of a creative commercial relationship.	The two-part rate creates a proper balance between gas and electric customers.	
Initial Hook-Up Costs	Agrees that they should be recovered from the generator, but could be done through negotiations.		
Value-Adder	Value based adder should not be mandatory. Inappropriate value of service adder, since price certainty may be required. The value should be determined between the LDC and the generator.		
Balancing	Providing balancing service is contradictory to LDCs exiting the merchant function. Also, balancing is customer specific and should be considered in considered in negotiations.		
Term of Service	There is no need to impose a standard term. Term should be completely negotiable.	SEF proposes a five percent increase in contribution to common costs for each additional five years.	
Losses	Specific to individual generators. Should be negotiable.		
Eligibility	Since the company doesn't support a generic tariff they have no comment on size limitation.		
Negotiated Rates	Negotiations for all levels of service, including basic service, is not inconsistent with the development of a robust non-utility generation market. Negotiations with affiliates should be allowed. Does not oppose sharing of premiums/costs, but LDCs should be free to propose individual packages. 80/20 sharing should not be mandated.		
Miscellaneous	Disagrees with Staff's exclusion of lost revenues. Contract disclosure is counterproductive.	Complete contract forms should be included in tariff that requires no negotiations.	

Issue	Statoil Energy Inc.
General View on Proposed Policy	Staff's proposal will make NY uncompetitive with other states, but support the concept of tariffs for basic service with negotiations under specific conditions. Rates should be cost based.
Basic Service 30 day Interruptible Ignition Gas	Staff's proposal will drive projects out of NY and projects developed in NY will bypass the LDC. All utility transportation service should be at cost-based rates only. Parties should be able to negotiate under specific circumstances. The level of contribution to common costs is incompatible with the concept of interruptible service.
Rate Design	
Initial Hook-Up Costs	
Value-Adder	Non-regulated market participants make commercial decisions on the spark spread, and bear the inherent risk of those decisions. This mechanism should not be used to set regulated cost of service rates. Should not be unilateral. 5% is arbitrary.
Balancing	Balancing entails more than making use of upstream assets. Balancing can be an anti-competitive tool. LDC balancing rules can be onerous. Market-based balancing rates are a desired outcome.
Term of Service	The proposed five-year term lowers the value of service. Much longer terms are needed for planning purposes.
Losses	
Eligibility	
Negotiated Rates	LDC's should not be allowed to negotiate with affiliates.
Miscellaneous	