

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held in the City of
Albany on April 17, 2002

COMMISSIONERS PRESENT:

Maureen O. Helmer, Chairman
Thomas J. Dunleavy
James D. Bennett
Leonard A. Weiss
Neal N. Galvin

CASE 02-M-0515 - Proceeding on Motion of the Commission to
Establish Gas Transportation Rates for
Distributed Generation Technologies

ORDER INSTITUTING PROCEEDING

(Issued and Effective May 14, 2002)

BY THE COMMISSION:

INTRODUCTION

This order institutes a proceeding to consider gas transportation rates for Distributed Generation (DG)¹ technologies. We believe that the attached list of principles and questions will help start the process of removing impediments to a DG marketplace, and of crafting tariffs appropriate for gas delivery to DG applications.

BACKGROUND

On October 26, 2001, we directed electric utilities to consider DG as an alternative to traditional electric

¹ Distributed Generation represents generating units designed to provide electricity to a single customer or specific customers within a defined geographical location.

distribution system improvement projects². Further, the 2002 Draft State Energy Plan (Draft Energy Plan) highlights the use and benefits of DG. The Energy Plan notes, for example, that "the State should encourage the development and use of distributed generation and combined heat and power (CHP) technologies at customer sites, with the goal of becoming a national leader in the deployment of distributed generation technology." (Draft Energy Plan, 1-33) The Draft Energy Plan recommends that the State should "...facilitate the interconnection of DG and CHP resources into the electricity system and increase the use of DG and CHP resources in the State". (Draft Energy Plan, 1-33)

Currently, it is estimated that there are at least 130 customers with gas-fired small generators (less than 2 MW) in New York State. Of the New York State utilities, only The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York (KeySpanNY), Keyspan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island (KeySpanLI) and National Fuel Gas Distribution Corporation (NFG) have gas transportation tariffs designed specifically for small generator applications (gas transportation tariffs for electric generation over 50 MW generators are already in place).

TARIFF REVIEW

The charges imposed upon a typical DG user for transportation of gas vary significantly throughout New York

² Case 00-E-0005 - Proceeding on Motion of the Commission to Examine Costs, Benefits, and Rates Regarding Distributed Generation, Opinion and Order Approving Pilot Program for use of Distributed Generation in the Utility Distribution System Planning Process (Issued and Effective October 26, 2001).

State. This is primarily due to the fact that with the exception of commercial DG applications in NFG, KeySpanNY and KeySpanLI, the design of the gas utility tariffs, which has evolved over decades, did not consider DG use. Rather, current tariffs are designed, essentially, to recover costs for space heating and other processing applications. DG usage may be off-peak, a characteristic different than the use for which the existing tariffs were designed. Additionally, DG is expected to operate at a higher load factor than that of other gas users. Furthermore, there are some significant differences across LDCs in the level of customer charges and the extent to which the tailblock rates reflect non-volumetric charges.

Also, non-rate terms and conditions lodged in individual utility tariff leaves vary slightly, and differ for residential and non-residential customers. These non-rate terms may result in potential problems for natural gas customers who install DG equipment.

Residential Customers

Residential customers who install DG equipment could have problems in several areas. First, one LDC has the discretion to impose a penalty if a residential or small commercial customer uses more than 1,200 Mcf per year. Since it is impossible to predict what size equipment a small customer may choose to install, they could possibly incur this penalty. Another LDC limits the natural gas appliances that can be installed by new occupants of single or multi-unit residential buildings, where usage is registered on only one meter, only to those appliances that were used by the previous customer. Also, there are provisions in some LDC tariffs that deal with

emergency electricity generation that could preclude DG applications.

Non-residential Customers

Commercial customers who install DG equipment may no longer be eligible for deferred payment agreements because of the additional natural gas usage. New customers requesting natural gas service in excess of approximately 50,000 Dekatherms per year (e.g. a large reciprocating engine at an industrial location) require approval by both the utility and the PSC, according to one LDC tariff. This may be viewed as an obstacle by customers considering the installation of DG equipment. Another LDC tariff requires DG units having input ratings of greater than 25 Dekatherms per hour (e.g. a large reciprocating engine at an industrial location) be dual-fueled or receive approval from the PSC, which again could be an obstacle to DG. It is possible that propane could be considered an alternate fuel to natural gas for DG applications, but at least one utility tariff has restrictions on the consideration of propane as an alternate fuel. And lastly, the application of curtailment procedures to DG customers is unclear.

CONCLUSION

Utility tariffs include divergent rates, terms, and conditions applicable to DG applications. The rates, in general, are not designed to apply to DG use. There is a lack of uniformity in the customer-related or demand costs included in volumetric rates, including the tail block. It is expected that the tail blocks would include the majority of gas used by DG applications. Therefore, the application of existing tariff rates, terms, and conditions to DG customers may render DG use uneconomic and impede DG market development. However, the

necessary load data/characteristics to design rates for this emerging use of natural gas are lacking. We therefore direct that a proceeding be instituted to consider the issues relating to gas transportation rates for distributed generation and to develop pilot projects for the gathering of data relevant to the formation of appropriate gas transportation tariffs for DG applications. Such pilot projects should have a defined duration, focus on types of applications and uses, contain minimum and maximum participation levels, and have measurable goals and objectives.

The Commission orders:

1. A proceeding is established to consider the issues of gas transportation rates for distributed generation and to establish pilot programs.

2. This proceeding is continued.

By the Commission,

(SIGNED)

JANET HAND DEIXLER
Secretary

DISTRIBUTED GENERATION GAS TARIFFS
PRINCIPLES AND QUESTIONSPrinciples

1. Initial Distributed Generation (DG) rates should be set for a period of time to give certainty to customers, the utility, and the marketplace.
2. Customer participation in any new or revised tariffs for DG applications should be capped to protect against unforeseen system and cost consequences.
3. Customers installing DG should pay for system reinforcement costs needed as a result of specific DG installations.
4. DG tariffs should be available on a non-discriminatory basis whether the customer procures gas from the utility or a marketer.
5. DG gas delivery rates and services should be limited to DG units smaller than 50 MW. (Note - the Commission has already established gas transportation rates for units equal to or larger than 50 MW)
6. Separate tariffs should be developed for customers seeking to use DG technologies above certain usage amounts (e.g. small commercial vs large commercial). For large users, DG use should be separately metered from all other gas use at the customer's premises.
7. Customer costs, such as billing and metering, should be recovered by a separate customer charge.

Questions

1. How many tariff categories should be developed? Should firm, interruptible, peak, and/or off-peak DG rates be developed? Should separate service classifications vary by size and/or load factor of DG application?
2. What pricing methodology should be used for DG rates for the initial phase (incremental, embedded, negotiated)? If incremental, should a contribution to system costs be made?
3. If the existing tariffs for small customers are utilized for DG applications, should a sub-class be developed to reflect DG specific load characteristics and cost causation?
4. Should DG rates be frozen, and, if so, for what length of time?
5. Should customer participation in DG applications be capped, and, if so, at what level?
6. Should certain DG uses be permitted without separate metering, and, if so, what types of uses are those and/or what levels of use warrant separate metering?