NEW YORK STATE Public Service Commission

Regulatory Framework for Natural Gas Retail Access in New York

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New York Public Service Commission
Mission Statement

- To ensure safe, secure, and reliable access to energy, telecommunications, and water services for New York State's citizens and businesses
- To seek to maximize customer choice and value for these services by stimulating innovation, strategic infrastructure investment, and the use of resources in an efficient and environmentally responsible manner
- To judiciously ensure high-quality service and rates that are just and reasonable

New York Retail Access Program Overview

- Large Customer Transportation has been available since 1984
  - Driven by availability of in-state gas
- Small Customer Aggregated Transportation commenced in 1996 (aggregated pools of 5,000 Dt or more)
  - To allow for competition
- Available to all customers

Wholesale Access Developments – Regulated by the Federal Government

- Open Access
  - Historically, prior to 1985, customers bought gas supply and transportation services together as a bundled service from the interstate pipeline companies
  - Interstate pipeline companies now provide open access transportation and storage services only.
    - *Customers buy gas directly from producers or other energy service companies.*
    - *Pipeline companies maintain information systems available to customers for gas flows scheduling, release of capacity and informational postings*
- Affiliate Codes of Conduct
  - Pipeline companies and their affiliates are restricted from specific activities in order that a "level playing field " exist for all market participants
  - This also impacts distribution companies that are affiliates of interstate pipeline companies

New York PSC Vision and Policy Statement November 1998

- LDCs Should Exit Merchant Function Over Next 3 to 7 Years
- Issues Which Must Be Resolved to Achieve That Goal Include:
  - Reliability (Ensuring Future Capacity Availability to New York)
  - Development of Marketer Infrastructure
  - Provider of Last Resort – LDCs have the responsibility but can others step into that role?

Reliability

- Service Must be Maintained Especially Heating Load
- Commodity and Capacity Needed
- Who Will Hold Pipeline Capacity?
  - Utility
  - Marketer
  - Combination
  - Key Question: In event of marketer default, will title to capacity revert to LDCs?
    - *How will reliability be assured?*

Reliability (cont'd)

- How New York State Ensures Reliability:
  - PSC monitoring of utility portfolios
  - Required marketers to take capacity released from the LDCs
  - PSC Reliability Collaborative
    - *Monthly meetings (face-to-face)*
    - *Includes all stakeholders (utility, marketer, pipeline, regulator)*
    - *Cooperative process ensures coordination to meet New York's reliability needs*

Liquid Point Concept

- A point at which sufficient gas supplies would always be available, thus eliminating the need to hold upstream capacity beyond that point

Implementation

- August 2000, Commission decided that:
  - liquid trading points would be identified by LDCs, in consultation with Staff, marketers & pipelines
  - marketers must provide an affidavit (including contract #) to show compliance
  - LDCs should identify these points at least 60 days in advance of marketer compliance date
  - liquid points need to be reviewed over time
- The Natural Gas Reliability Advisory Group (NGRAG) identified inconsistencies in the liquid points identified by LDCs
- This led to discussions of:
  - What makes a point a liquid point?
  - How do you measure liquidity?

NYGAS Liquidity Study

- In the Fall of 2001 NYGAS initiated a study of Liquidity, building on the groundwork done by the NGRAG:
  - 12 Trading points in the Northeast were identified for evaluation. Henry Hub was used as a reference point. Data was collected and evaluated on volumes, prices, number of traders, number of interconnecting pipelines, storage, etc.
- The study provides:
  - A technical understanding and definition of a liquid trading point
  - Quantitative and qualitative assessments of the characteristics of liquid points
  - A methodology and metric that evaluates liquidity of trading points
- It concludes that 3 Northeast points are liquid:
  - Columbia, Appalachian Pool
  - Dominion, Southpoint
  - Dawn, Ontario
  - Other points were ranked as various levels of potentially liquid

Development of Marketer Infrastructure

- Unbundling
- Electronic Data Interchange (EDI)
- Uniform Business Practices (UBP)

Major Components of Natural Gas Tariffs – Unbundled to Allow Retail Competition

- Delivery Charge (Set by the Commission)
  - Reflects the costs of moving the gas from the citygate (interconnection with interstate pipeline company) to customer's meter
  - paid by all customers
- Gas Supply Charge
  - Adjusted monthly and reconciled annually
  - Reflects the costs of gas supplies (commodity and capacity) purchased on interstate pipelines or from local production
  - Commodity price is set by the marketplace; utilities use hedging instruments to moderate price volatility;
  - Capacity price is set by FERC
  - This charge is avoided by customers who migrate to retail provider

New York State Gas Industry
Major Customer Groups

- Sales Customers
  - Purchase both delivery and gas supply service from the local distribution company (LDC)
  - Generally residential and small commercial customers
- Transportation Customers
  - Purchase delivery service from the LDC
  - Purchase gas supply from a third party and have it delivered to the citygate for re-delivery by the LDC to the customer

New York State Gas Industry
Types of Gas Service

- Firm
  - Customers full requirements provided at all times
  - Residential, Commercial and Industrial
- Interruptible
  - Discounted rates where service can be halted based on the need of the utility to use the supply or capacity for firm customers needs
- Temperature Controlled
  - Gas supply is automatically interrupted based on ambient temperatures generally 15°F or 20°F

What is Being Unbundled in the Natural Gas Business

- Services Competitively Available Now
  - Commodity
  - Capacity
  - Balancing
  - Billing
- Potential Competitive Services
  - Metering
  - Information Services
  - Anything other than the physical distribution plant

Why Unbundle?

- Enable marketers and utilities to charge for services each provides
- Identify components and costs in rates
- Allow competition to determine prices

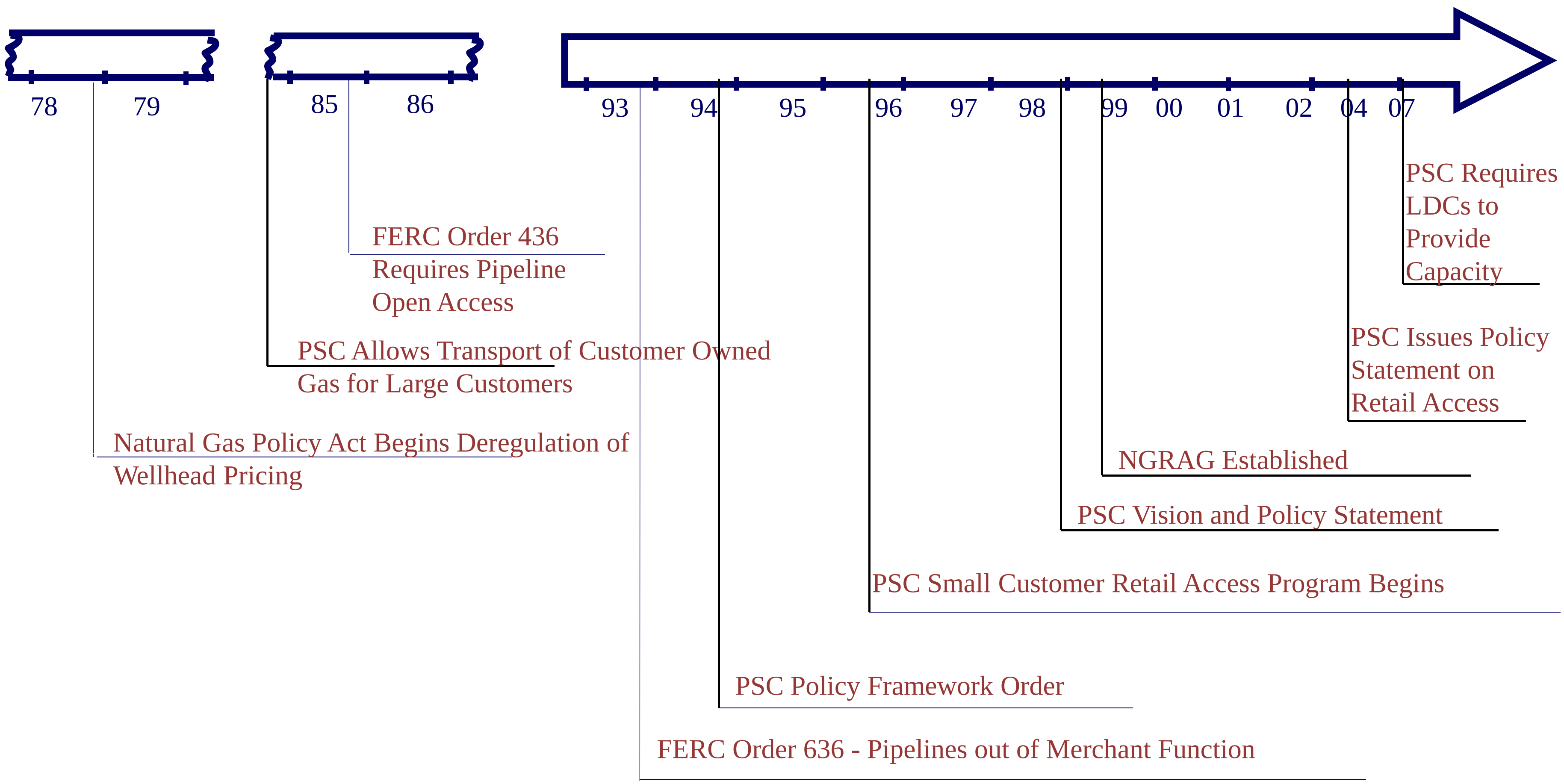
Electronic Data Interchange (EDI

- Need utility-marketer system compatibility
- Standards have been developed
- Implementation is proceeding

Uniform Business Practices

- Need for uniform retail access business practices
  - Uniform billing practices
  - Marketer creditworthiness requirements
  - Customer switching procedures
  - Discontinuing of service
  - Dispute resolution process

Gas Industry Competition Timeline



Customer Migration Summary – April 2010

Total Customers Served		Customers Eligible
Residential	709,659	4,317,021
Non-Residential	114,018	393,472
Large Customer	4,802	9,048
Customer Type	**Percent Migrated**	**Annual Load Migrated**
Residential	22.6%	12.1%
Non-Residential	49.4%	18.3%
Large Customer	91.8%	8.8%
Total Load Migrated		39.2%
Total Annual Load		758,484 MMcf

Balancing

- Core service that reconciles a customer’s actual gas usage with the volumes that were delivered to the system for the customer
- Balancing is provided to both core and non-core transportation customers
- Types of Balancing:
  - Monthly Balancing – reconciles monthly gas deliveries to the citygate with actual monthly meter readings at the burner tip
  - Daily Balancing - reconciles volumes each day. Customers receive intra-day meter readings and adjust deliveries accordingly

Balancing (con't)

- Balancing Assets
  - May include the use of storage capacity, storage transportation, winter peaking supplies and possibly peak shaving assets
- Imbalances and Imbalance Trading
  - Customers and marketers are allowed to trade imbalances monthly to avoid cash-out costs

Balancing (con't)

- Cash-outs (monthly or daily)
  - Imbalance volumes are valued at specific market price and either paid to or credited to the customer/marketer
  - Balancing service is provided within a specified tolerance (ex. ± 10%) Within the service tolerance, no price adjustments are made
- Cash-out Tiers
  - When imbalance volumes are outside the service tolerance, increasing adjustments to the market price are made in steps or tiers the further out of balance the deliveries are

Gas Transportation and Operation Procedures (GTOPS)

- Each LDC must establish protocols for day-to-day and critical period operating procedures, the rights and responsibilities of Marketers and Direct Customers, and the exchange of information among the LDCs, marketers, direct customers and pipelines to assure day-to-day gas system reliability.
- GTOPS do not replace Commission approved tariffs but augment them with appropriate details.

Gas Transportation and Operation Procedures (GTOPS)

- The Procedures and Manuals may be modified periodically as needed:
  - the GTOPS Manual must be on file with the Commission and must be provided to all marketers and direct customers
  - the LDC must provide the Commission and all marketers and direct customers with notice of proposed changes to its GTOPS, 30 days prior to its effective date
  - while the GTOPS Manual may include factors that affect the amount of the customer's bill, such as rates, balance tolerances and charges, these must continue to be stated in the company's tariff

Any Questions?

Answers to NERC Questions

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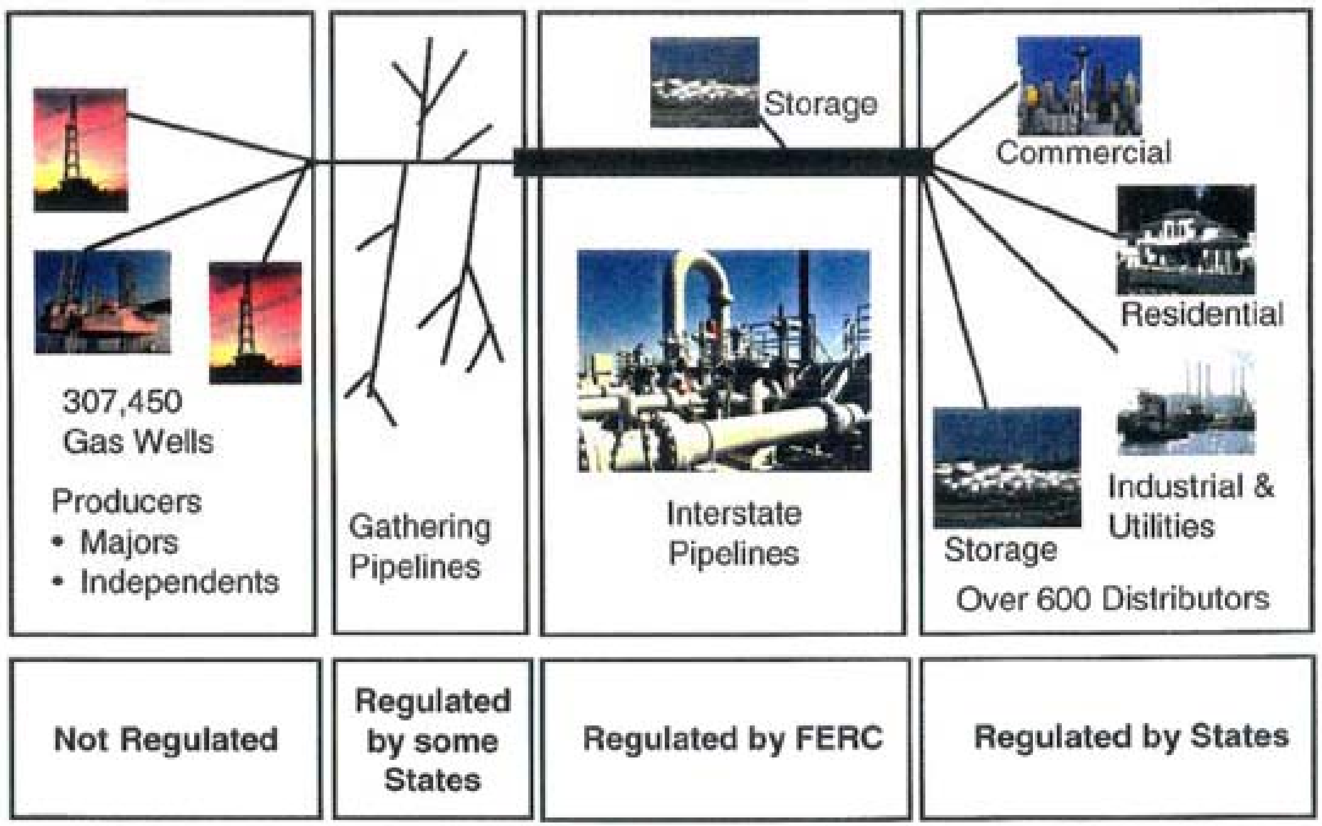
Market Structure

The Natural Gas Industry



Federal Energy Regulatory Commission

- The FERC is a five-member Federal Commission, an independent body within the Department of Energy
- Each member is nominated by the President and confirmed by the U.S. Senate
- The FERC sets the rates, terms and conditions for operation of transportation and storage of natural gas in interstate commerce

New York's Responsibility

- The New York PSC is charged with ensuring safe and reliable service at just and reasonable rates
- We do this through orders, investigations, rate cases, siting proceedings, tariff filings, safety monitoring, consumer advocacy, certification of Energy Service Companies, etc.

Compliance with Commission Orders

- The Commission regularly issues Orders covering a wide variety of issues:
  - Rate cases
  - Financings
  - Tariff Modifications
  - Expense Deferrals
  - Transfers of Property
  - Mergers and Acquisitions
  - Construction of Transmission Lines
  - Other

Filing Requirements

- New York Commission has established in its rules and regulations explicit filing requirements for many types of requests from utilities for Commission action
- Filing requirements establish criteria which can be used to monitor utility actions
- Differences between actual results and initial criteria establish the basis for additional Commission review

LDC Responsibilities

- LDCs need to have a gas supply portfolio that includes:
  - A gas supply acquisition strategy to ensure reliability and include a mix of purchase options to provide price stability
  - Upstream pipeline capacity and storage assets to ensure sufficient delivery capacity to meet the peak day needs of customers
  - Swing services from pipelines with storage facilities to balance, or LNG/LPG (liquefied petroleum gas or propane) facilities

Gas Safety

- The US Department of Transportation regulates safety and operations of pipelines transporting fuels through the Pipeline and Hazardous Materials Safety Administration (PHMSA)
- The New York PSC regulates intrastate pipelines as an agent of the Federal Department of Transportation, Pipeline and Hazardous Materials Safety Administration, and has also inspected interstate pipeline facilities as an agent of the DOT since 1994
- New York safety regulations must meet or exceed the Federal pipeline safety regulations, and program performance is annually evaluated by PHMSA

Natural Gas Safety Performance Measures

- Measures adopted for all LDCs to ensure safety in a changing environment
  - Address risks
  - Measure performance
  - Motivate LDCs to maintain and improve performance
- Specific measures:
  - Damage prevention
  - Leak management
  - Emergency response times
  - Infrastructure enhancement (replacement of leak-prone pipe)
- Potential negative revenue adjustments associated with not meeting established target

Gas Supply Service Standards

- Two aspects to gas supply service standards
  - Gas Quality
  - Customer Service Quality

Gas Quality

- Regulations lie in Part 229 of the Commission’s rules
- Cover things like therm content, allowable concentrations of various impurities, and testing/record keeping requirements

Customer Service Quality

- Two groups of measures:
  - Performance indicators, which include standardized measures of customer service performance
  - Customer Service Performance Incentives, which contain negative revenue adjustments for unsatisfactory customer service performance
  - These cover items like how quickly customer phone calls are answered and whether appointments with customers are kept