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# Case Study - New Distribution System

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## Outline

- Chautauqua Utilities, Inc. Filing
- Description of the Proposed Project
- NY State Public Service Commission Regulations
- NY State Public Service Commission Filing Requirements
- Staff's Concerns and Recommendations to the Commission



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## Chautauqua Utilities, Inc. Filing

- Chautauqua Utilities, Inc. (CUI) filed for a Certificate of Public Convenience and Necessity on April 21, 2004 to construct a natural gas distribution system in the Town of North Harmony, Chautauqua County, New York
- CUI also filed for a request to borrow \$1.7 million to construct and operate the system



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## Description of the Proposed Project

- 20 miles of plastic distribution pipeline located in the public rights-of-way along the western shore of Lake Chautauqua
- The project would serve residential customers (both year round and seasonal residents), with the potential for commercial/hotel development



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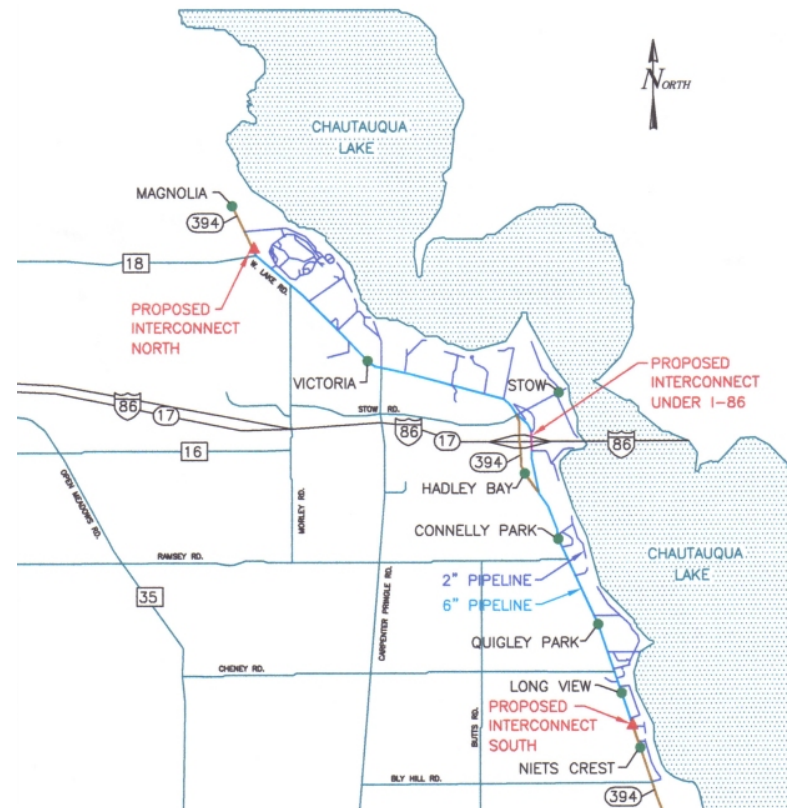


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## Description of the Proposed Project



Project Location





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## NYS Public Service Commission Regulations

- New York State Public Service Law Sections 68 and 69 govern this filing
- The local municipality must give the utility permission to operate a franchise
- Utility must demonstrate that no other utility wishes to expand into the area



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## NYS PSC Filing Requirements

- Environmental compliance (e.g. wetlands, areas of historic significance)
- Forecast of customer penetration and estimated sales
- Construction forecasts
- Financing of the project
- Economically feasible
- Gas procurement
- Delivery rates
- Development of a Tariff
- Safety standards





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## Staff's Concerns and Recommendations

- Based on the review of CUI's petition, as well as numerous questions, field visits, and calculations, Staff recommended approval of the petition to the Commission subject to conditions which will protect customers
  - Concern: The projected customer savings were over-estimated by CUI
    - Recommendation: CUI should be required to show potential fuel savings and conversion costs before connecting to the distribution system
  - Concern: CUI filed to finance the project with 95% debt and 5% equity. Staff believed that the common equity structure placed excessive risk on the customers
    - Recommendation: Staff recommended that the project have 40% equity with borrowing restrictions at 60% of net plant





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## Staff's Concerns and Recommendations

- Concerns:
  - Based on the survey results, Staff believed CUI's customer attachment forecast was too aggressive
  - Based on a comparison of actual construction costs in the state, Staff believed that the construction cost forecast was too low
  - Based on Staff's assumptions (customer attachments, customer usage, projected revenues, and construction costs) in its five year economic analysis, the project did not result in a reasonable rate of return. This could result in the need for a large rate increase in year five
  - Recommendations:
    - Require CUI to have 300 applications of service before commencing construction
    - Set rates assuming 518 customers (break-even point) for reasonable rate of return
    - Freeze rates for five years
    - If CUI files for rates after five years, rates will be set assuming 518 customers