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Association of
Regulatory
Utility
Commissioners

Regulations Governing New Distribution Systems

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June 2007



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Scenarios

- Existing utility wants to extend its gas distribution system into neighboring town, city, or village
- New company wants to provide gas distribution services
- Impacts on home owners and businesses that want to attach to gas distribution plant in existing franchises



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Existing Utility Wishes to Extend its Gas Distribution System

- Utility must demonstrate that no other utility wishes to expand into area
- The local community (village, town, city) must give the utility a franchise to operate
- Utility provides a forecast of customer penetration and estimated sales into the new area
- Utility needs to demonstrate that project is cost-beneficial; no subsidies from other customers
- Utility conducts an environmental review and follows regulations in this area (e.g. wetlands, areas of historic significance)- compliance with environmental laws



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Existing Utility Wishes to Extend its Gas Distribution System

- Expansion must be cost beneficial
- Within five years, the revenues received from the customers in the franchise area must be greater than the costs to serve those customers and provide a rate of return equal to or greater than allowed return
- Rate structure in place for utility is used for new customers
- Must demonstrate that it has adequate supply to provide service to customers in new franchise
- Distribution plant must be constructed with safety considerations
- If franchise is not cost-beneficial after five years, company can absorb income shortfall or surcharge new customers in the franchise area



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Example – Village Provides Gas Franchise to Utility

- Utility needs to forecast the number and types of customers it expects to attach to distribution system over the next five years and estimated sales
- Needs to demonstrate the costs to build the distribution system (mains, services, meters, other incremental costs)
- If it forecasts that after five years it can produce \$100,000 revenues and incur \$80,000 of costs, and the rate of return produced by the new construction is greater than the rate of return authorized, the proposal by the utility is adopted



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New Utility Wants to Provide Distribution System

- Many of the same issues as with existing utilities – five year rule is a guideline only
- Because the new utility has no existing rates, the initial rate structure to introduce into the new service territory can be controversial
- Can use rates from neighboring utilities as an initial basis for developing their own
- Must be financially sound



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Issues With New Franchise Petitions

- Quality of the customer forecast – surveys, customer commitment letters, business development and financing
- Cost of alternative fuels (e.g. oil vs. natural gas) – will it be worthwhile for customer to switch (e.g. new boiler)
- Usage per customer
- For new utility – basis for costs to serve customers
- Construction cost forecast
- Timing of construction
- Uncertainties re. environmental reviews – e.g. cost implications of alternative routes



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Homeowner or Business Wants to be Connected to Existing Distribution Network in an Existing Franchise

- Utility is obligated under law to connect all customers requesting gas service within franchise area subject to conditions
- Utility must provide, without charge to residential customer, up to 100 feet of main and 100 feet of service; up to 100 feet of main & service combined for businesses
- If more than this is needed to connect customer, utility does a revenue test
- If revenues from customer over five years exceeds additional costs due to adding customer, customer can be connected to the network at no additional charge



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Homeowner or Business Wants to be Connected to Existing Distribution Network in an Existing Franchise (continued)

- If revenues do not exceed the costs to extend service to the customer, even after five years, company will connect the customer for a fee or the utility waives the additional charge
- If more customers are added to the extended main, the incremental revenues from the additional customers are considered and the original customer may get a refund