

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held in the City of
New York on December 13, 2000

COMMISSIONERS PRESENT:

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

CASE 00-G-0996 - In the Matter of Criteria for Interruptible Gas
Service.

Complaint by Nassau-Suffolk Hospital Council,
Inc. Regarding Interruptions of Gas Service by
KeySpan Energy Delivery Long Island.

ORDER ESTABLISHING INTERRUPTIBLE SERVICE GUIDELINES
FOR KEYSpan ENERGY DELIVERY LONG ISLAND

(Issued and Effective January 31, 2001)

BY THE COMMISSION:

INTRODUCTION

On August 24, 2000, we required all jurisdictional utilities to revise their tariffs and procedures in order to ensure that interruptible customers were prepared for the potential for future interruptions of gas service.¹ We also directed KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island (KeySpan-LI or the company) to respond to comments raised by the Nassau-Suffolk Hospital Council, Inc.

¹ Case 00-G-0996, In the Matter of Criteria for Interruptible Gas Service, Order Directing Utilities to File Revised Interruptible Gas Service Tariffs (issued August 24, 2000). Hereinafter "Interruptible Gas Service Order."

(the Hospitals). The Hospitals' supplemented their complaint in a letter dated August 23, 2000.

By this order we find that KeySpan-LI should modify its procedures for interrupting interruptible customers.

BACKGROUND

The Hospitals' complaint alleges that KeySpan-LI interrupted gas service on several days during the winter of 1999-2000 when gas capacity and supply were available in sufficient quantities to serve firm and interruptible customers. The Hospitals complain that KeySpan-LI has consistently interrupted service for economic reasons when the citygate price of gas exceeds the interruptible rate. The Hospitals also allege that during the periods of the interruptions of gas service, KeySpan-LI used the capacity and gas that could have been made available for interruptible customers to make more profitable sales off-system.

KeySpan-LI Response

KeySpan-LI responded, by letter dated September 22, 2000, to the Hospitals' complaint. KeySpan-LI states that the interruptions during the 1999-2000 winter were made for system reliability reasons and that during the periods of interruptions there were occasional off-system sales. KeySpan-LI asserts that it is company policy that when interruptions are necessary to meet firm obligations, all of its fully interruptible customers (sales and transportation) are interrupted. The company states that it would be discriminatory to continue serving some interruptible customers when others have their service interrupted.

KeySpan-LI further states that the relatively low rate for fully interruptible service reflects the priority given to

this service, and that if fully interruptible service is to be raised to a higher priority of service, then a higher rate should be charged to reflect its higher value in the marketplace. The company believes that if the rate were not raised in accordance with the increased priority of service, then it would violate the Public Service Law since it would grant a certain group of customers an undue or unreasonable preference or advantage.

KeySpan-LI also believes that if it cannot interrupt fully interruptible customers for economic reasons, which it believes it has the right to do under its tariff,² then it probably cannot comply with the Public Service Law regarding the least cost gas purchasing practices. KeySpan-LI believes that if gas is sold to interruptible customers when it is uneconomic to do so, then firm customers will be faced with higher costs.

Finally, KeySpan-LI states that the interruptions provide benefits to its customers overall, and that if the Hospitals upgraded their service to Temperature Controlled service, then only temperature would be used as the criterion for interruptions.

Further Responses

By letter dated October 24, 2000, the Hospitals filed a reply to KeySpan-LI's response, and by letter dated November 6, 2000, KeySpan-LI filed a surreply to the Hospitals' reply. These responses provided additional information related

² KeySpan-LI states that its interruptible tariff provides that it is allowed to interrupt "whenever and to what extent that it may be advisable in the company's judgement." See, PSC No. 1, Schedule for Gas Service (Gas Leaves 129 & 149).

to historical interruptions but did not raise new technical or policy issues.

DISCUSSION

The Hospitals' complaint and KeySpan-LI's response alert us to the need to clarify our policy on interruptions of service to interruptible customers. Historically LDCs sought to maximize revenues from sales to interruptible classes by setting the interruptible rates slightly below the price of the competing fuels and interrupting service as seldom as possible. As a result, interruptible customers on KeySpan-LI's system receive service at a rate that is below the price of other fuels, and firm customers benefit through lower bills since KeySpan-LI passes through all interruptible profits to its firm customers.

KeySpan-LI has maintained a policy of interrupting interruptible customers for economic as well as operational reasons. This policy has been in place since 1987, when the Brooklyn Union Gas Company (now KeySpan) absorbed, at our direction, \$236,000 to compensate ratepayers for its failure to interrupt for economic reasons when the company was unable to purchase spot gas and sold other, more expensive gas at the interruptible selling price.³

KeySpan-LI also has had an "all or nothing" interruption policy for both sales and interruptible customers. That is, if it has insufficient gas to serve all of its interruptible sales customers, it interrupts all of them, rather

³ Case 28947, et al., The Brooklyn Union Gas Company-Rate Mitigation Proceeding and SNG Savings-Show Cause Proceeding, Opinion and Order Approving Rate Mitigation Agreement, Opinion No. 87-27(issued December 16, 1987).

than implement some type of partial interruption. The company also applies this policy to interruptible transportation customers whose gas has arrived at the company's citygate.

The impact of the "all or nothing" policy is exacerbated by the fact that KeySpan-LI passes through 100 percent of interruptible profits to firm customers, but only passes through 80 percent of profits from off-system sales to firm customers. Thus, the company is better off selling gas off-system than selling gas to its on-system interruptible customers.⁴

As we stated in the Order Resolving Petitions on Rehearing, "interruptible customers should not have service interrupted so that the utility may make off-system sales. First, because the system was built to serve on-system customers, they should have priority over off-system customers. Further, because of the longer period of time it takes to recall off-system volumes to serve system needs, serving on-system interruptible customers before off-system loads provides for greater system reliability."⁵ For these reasons the "all or nothing policy" of KeySpan-LI should be revised in favor of the above-described program.

The current practices of KeySpan-LI concerning its interruptible customers do not comply with our Order Resolving

⁴ No evidence has been found that KeySpan-LI has actually violated its own policies to benefit shareholders and off-system customers at the expense of on-system interruptible customers.

⁵ Case 99-G-0996, In the Matter of Criteria for Interruptible Gas Service, Order Resolving petitions for Rehearing (forth coming)(stating that interruptions should only be done for distribution reliability concerns or if sales to interruptible customers would impose cost burdens on firm customers).

Petitions for Rehearing.⁶ KeySpan-LI shall adhere to the following principles:

1. Interruptible service should be priced and provided such that customers are interrupted by the utility only for reasons consistent with this order. To avoid pricing interruptible sales service such that it would impose costs on firm customers, the company should use tools readily available, including but not limited to, making intra-month interruptible rate changes and hedging prices.

2. For both interruptible sales and transportation service, the company should interrupt only the amount of load needed to insure system reliability. To the extent that the company implements a partial interruption, it should interrupt first according to operational constraints on the system and then on a pro-rata, rotational, or some other equitable basis. If interruptible transportation customers' supplies arrive at the citygate, service to the customers should be interrupted only for distribution reliability reasons.

Due to the urgency and importance of this issue, action is being taken on an emergency basis pursuant to Section 202(6) of the State Administrative Procedure Act (SAPA). Immediate adoption of the principles is required to preserve the general welfare. Interruptible service is crucial to the utility's ability to manage its system in a safe and reliable manner. The principles adopted herein are critical to the continued economic well being of on-system interruptible customers, particularly during the heating season. Compliance

⁶ Case 99-G-0996, In the Matter of Criteria for Interruptible Gas Service, Order Resolving petitions for Rehearing (forth coming). Concerns regarding other utilities' practices for interrupting interruptible customers have not been raised to date.

with the advance notice and comment procedures of SAPA would postpone adoption of the principles herein, until well into the winter, a period of time for which KeySpan-LI could have several interruptions on an "all or nothing" basis, and would therefore be contrary to the public interest. Therefore, we find that it is necessary for the preservation of the general welfare that the principles on interruptions for KeySpan-LI be adopted on an emergency basis.

The Commission orders:

1. KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island is directed to comply with the foregoing guidelines within 15 days of this order.

2. This action is adopted on an emergency basis under Section 202(6) of the State Administrative Procedure Act.

3. This proceeding is continued.

By the Commission,

(SIGNED)

JANET HAND DEIXLER
Secretary