

STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION

At a session of the Public Service  
Commission held in the City of  
Albany on June 18, 2009

COMMISSIONERS PRESENT:

Garry A. Brown, Chairman  
Patricia L. Acampora  
Maureen F. Harris  
Robert E. Curry, Jr.  
James L. Larocca, recused

CASE 06-G-1185 - Proceeding On Motion of the Commission as to  
the Rates, Charges, Rules and Regulations of  
The Brooklyn Union Gas Company d/b/a KeySpan  
Energy Delivery New York For Gas Service.

CASE 06-G-1186 - Proceeding On Motion Of The Commission as to  
the Rates, Charges, Rules and Regulations of  
KeySpan Gas East Corp. d/b/a KeySpan Energy  
Delivery Long Island For Gas Service.

ORDER APPROVING TRANSPORTATION AND BALANCING COLLABORATIVE  
REPORT RECOMMENDATIONS WITH MODIFICATIONS

(Issued and Effective June 23, 2009)

BY THE COMMISSION:

INTRODUCTION AND SUMMARY

The Brooklyn Union Gas Company d/b/a National Grid NY  
(KEDNY) and the KeySpan Gas East Corp. d/b/a National Grid LI<sup>1</sup>  
(KEDLI) filed "Report of KEDNY and KEDLI Concerning  
Transportation and Balancing Collaborative" ("The Report") on  
September 30, 2008. This report contains recommendations

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<sup>1</sup> For this Order, "KEDNY" (KeySpan Energy Delivery New York) and  
"KEDLI" (KeySpan Energy Delivery Long Island) will be used so  
as to match the business name used in the rate plan and to  
avoid confusion with Niagara Mohawk Power Corporation, which  
also goes by the business name "National Grid" in New York.

addressing specific issues resulting from the collaborative process as ordered by the Commission in the above mentioned rate cases.<sup>2</sup> Transportation (or delivery) services are provided by KEDNY and KEDLI to customers who arrange for their own gas supply (i.e. "stand-alone" or "direct" customers) and for aggregated customers receiving commodity service from marketers. Balancing services are also provided to reconcile a customer's actual gas usage with the volumes that were delivered to the system for the customer. In the collaborative, the participants generally agreed to changes to KEDNY's and KEDLI's (the Companies) transportation services. The report recommendations include modifications to existing monthly balancing procedures and associated charges as well as a new daily balancing option. The modifications will make procedures consistent between both territories, will require market based prices for monthly and daily cash-out of imbalances and institute charges to interruptible and temperature controlled.

In this Order, we approve the recommendations, contained in the report, with modifications regarding reporting requirements and milestones for initiation of the new daily balancing system.

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<sup>2</sup> CASE 06-G-1185/1186, The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York, KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island, Order Adopting Gas Rate Plans for KeySpan Energy Delivery New York and KeySpan Energy Delivery Long Island (issued December 21, 2007).

BACKGROUND

KEDNY and KEDLI<sup>3</sup> submitted the results of the collaborative process in "The Report" as required by the Commission in its December 21, 2007 Order.

Seven collaborative sessions were conducted by the Companies in accordance with the December 21, 2007 Order. In the course of the collaborative process the parties examined the Companies' existing programs, the transportation and balancing criteria set forth by Staff and considered input from interested parties. "The Report", attached as Appendix A, was filed with the Secretary to the Commission on September 30, 2008.

The issues addressed by the collaborative included but were not limited to the following, which were laid out in the Commission Order instituting the collaborative process:

1. Analysis and determination of capacity and other gas costs associated with providing unbundled transportation and balancing services to core and non-core customers, especially where the non-core customers are receiving a core service. This includes service provided under individually negotiated contracts. The analysis will consider allocation of balancing and swing charges between sales and transportation customers in a non-discriminatory manner.
2. The appropriate SC-2 price cap for the Temperature-Controlled and Interruptible services.
3. Methodologies for proper allocation of the identified costs to those services on a monthly or daily basis where applicable.
4. Nomination procedures of transportation volumes consistent with FERC requirements on both a daily and intra-day basis.
5. Any changes or modifications to city gate and burner tip balancing rules.

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<sup>3</sup> KEDNY's service territory comprises the Boroughs of Brooklyn, Staten Island and a portion of the Borough of Queens. KEDLI's service territory comprises the Counties of Nassau and Suffolk.

6. Imbalance trading for monthly and daily balanced customers.
7. Monthly burner-tip imbalance cash-out procedures for both customers that are utilizing and those that are not utilizing a Company provided Daily Delivery Quantity (DDQ).
8. Cash-out charges with cash-out tiers that use market-based gas price index multipliers for each tier applicable to transportation imbalances.
9. Any necessary changes to the pricing applied to items such as gas captured by KEDNY or KEDLI from transportation customer supplies during periods of interruption and city gate delivery deficiencies.
10. Changes or modifications to rules during periods of System Alerts (SA) or Operational Flow Orders (OFO).
11. Changes or modifications to charges applied to transportation customers due to faulty data or equipment failures.

Pursuant to the State Administrative Procedure Act (SAPA), Notice of Proposed Rulemaking was published in the State Register on November 12, 2008. There was significant participation in this collaborative. The forty-two participants to this proceeding are listed in Appendix B.

Comments were received on December 12, 2008 from the Small Customer Marketer Coalition (SCMC), the Hess Corporation (Hess) and Staff. SCMC generally supports the report recommendations and requested that these recommendations be adopted. Hess also supports the recommendations and requests that the recommendations be approved as written. Staff's comments support the recommendations but requested modifications to procedural requirements and the schedule for implementation of the new daily balancing system.

Reply comments were received on December 29, 2008 from the Company. The Company urged that its proposed date for implementing the new daily balancing system not be modified until more project information is known and it indicated a willingness to justify the balancing provisions incorporated in

new or revised special contracts. No additional comments were received.

THE REPORT RECOMMENDATIONS

In the "The Report", the Companies proposed two balancing systems for their gas transportation customers: Monthly Balancing<sup>4</sup> and Daily Balancing<sup>5</sup>. "The Report" recommends two monthly balancing systems, one for firm core customers and one for non-core (interruptible and temperature controlled) customers. Monthly balancing would be mandatory for all firm core customers receiving a mandatory assignment of capacity. A similar monthly balancing option would become available to interruptible and temperature controlled customers that supply their own upstream capacity and do not select the daily balancing option. Currently, not all interruptible and temperature controlled customers pay balancing charges for these services. This would change under "The Report's" recommendations. These customers will need to select either

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<sup>4</sup> Balancing in general is making up the difference between what was delivered to the system for the customer and the volume that the customer actually used. Customers that have meters that are read on a monthly basis, utilize monthly balancing services. Monthly balanced accounts are told by the Company how much they must bring to the city gate, generally based on average usage for that particular month. Once the customer's meter is read, the difference between what was actually used and what was brought to the system for them is subject to the balancing charges.

<sup>5</sup> Daily balanced customers have meters that can be read on a remote basis so that the amount that is used can be compared to the amount that is brought to the system on a daily basis. These customers are usually large volume customers and it is generally up to the customer to decide how much to bring to the system to meet this daily need.

monthly balancing or a new daily balancing system and pay the charges appropriate for the level of service selected.

Daily balancing is not currently offered in the KEDNY territory. KEDLI's daily balancing system does not provide data required for daily changes to gas deliveries. The new daily balancing system will significantly modify the existing daily balancing system. This new system will provide transporters in both service territories with internet accessible intra day usage and nomination data, provide for the end-of-the-month trading of imbalances, and provide reduced balancing costs associated with a reduced balancing dead band.

The Companies have estimated the date for implementation of the new daily balancing system to be November 1, 2011. They report that they will notify the parties by June 1, 2011 if a revised schedule is warranted. Although the costs are not yet determined, the parties agreed that implementation costs associated with the new daily balancing program should receive deferral treatment for consideration of future recovery.

Appendix 2 of "The Report" summarizes the cost analysis performed by the Companies and presented to the collaborative participants. It also shows the current and proposed allocation of costs among the different balancing and capacity services including the allocation of capacity to provide swing services<sup>6</sup> to the different customer classes.

Balancing charges and swing charges will increase for many transportation customers. Although the parties acknowledge the efficacy of properly aligning rates with the best current cost estimates, due to the customer impact considerations, "The

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<sup>6</sup> Swing Services- Natural gas supplied as needed to shippers to meet peaking demand above a user's base load supply.

Report" strongly recommends that the new cost allocations be phased in gradually for all impacted rate classes. Two equal installments should be applied: the first upon initiation of the program changes and the second 12 months later.

#### DISCUSSION

Comments and reply comments received indicate consensus of the parties to the collaborative on most of "the Report's" recommendations. The following issues need further attention:

- A. *Nomination procedures of transportation volumes consistent with FERC requirements on both a daily and intra-day basis.*

Staff identifies that although discussed and generally agreed to during the collaborative, the report is silent on this issue. Staff views the FERC guidelines and requirements relating to interstate pipeline nominations as a basis for any balancing system. Shippers to any delivery point on the New York Facilities System<sup>7</sup> need to utilize these procedures to either meet their daily balancing requirements or to meet their obligations to the distribution company if monthly balanced.

We believe this information should be supplied in the Gas Transportation and Operations Procedures (GTOP) manual of both Companies so no question remains as to what nomination options are available to shippers to aid them in meeting nomination requirements of each transportation service class.

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<sup>7</sup> New York Facilities System refers to the jointly operated gas transmission facilities of Con Edison and both KeySpan Companies that provide the ability to move gas around and between the LDC territories.

The Company should include this information in an update of the procedures no later than 45 days after we approve the compliance tariffs resulting from this Order.

*B. Imbalance trading for monthly and daily balanced customers.*

"The Report" provisions in monthly balancing proposals for both Companies do not allow for monthly trading of city gate imbalances. Staff indicates that the removal of trading capability was not discussed and that they have concern about the removal of these trading provisions that currently exist in the KEDNY service territory.<sup>8</sup> Although transporters have not generally utilized monthly trading capability to reduce exposure to cash-outs in the past, this does not mean that these provisions would not be utilized and prove helpful in the future to ameliorate the increased charges.

Transporters should have the capability to trade with similar market participants to ensure that the system is operated efficiently. Reducing exposure to the month end cash-outs will enable participants to better manage their imbalances. The capability of information systems to provide these transactions is critical to daily balancing and helpful to monthly balancing. The Company is required to provide a timetable of the availability of this and the new daily balancing system to customers. In the interim, monthly imbalance trading should be available for customers of KEDNY and KEDLI.

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<sup>8</sup> THE BROOKLYN UNION GAS COMPANY, PSC NO: 12, GAS LEAF: 414, REVISION: 4, Effective 10/01/04; SERVICE CLASSIFICATION No. 19 Transportation Aggregation Service; Special Provision (g) (Duplicate language exists in the SC17 and SC18 Tariffs).

*C. Timetable for changes or modifications to city gate and burner tip balancing rules.*

Staff generally supports maintenance of existing daily balancing systems and the ability of existing daily balanced customers to switch back to monthly balancing during the interim period until a new daily balancing system can be implemented in both territories. However, they do not find the Companies' projected implementation date for the new system to be appropriate. Staff indicates that the new system should be brought on line as soon as possible. To this end they recommend that the Commission require the Companies to submit a report within 45 days of our Order including a detailed implementation schedule and description of implementation costs. Staff also states that the startup date should coincide with the completion of the M2M/FSM project<sup>9</sup> in both New York and Long Island (November 2010). This project targets Temperature Control customers who could become candidates for daily balancing if they move from sales to transportation. Staff indicates that this move to daily balancing requires a system that allows the customer's energy manager to provide daily services currently provided by the Company.

In reply, the Companies state that although they may be able to complete the system modifications necessary before November 1, 2011, they are concerned that until the detailed requirements and design for the project are completed, they cannot determine a realistic startup date with any degree of

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<sup>9</sup> M2M/FSM Project is a metering upgrade project designed for the capture of real time hourly data from 3,700 KEDNY and 550 KEDLI TC customers.

certainty. In their response to Staff's data request, the Companies explained that completion of the M2M/FSM project by itself would not permit the Companies to implement the Daily Balancing Program contemplated by "The Report." There are systems changes (software and hardware) required in addition to the metering that will be necessary to support the new Daily Balancing Program as well.

While the Companies are willing to provide a follow-up report within 45 days of our Order in this matter, they state that the scope and precision of the report proposed by Staff may be overly ambitious. Thus, while the Companies are willing to accept Staff's recommendation to provide a report within 45 days of our Order relative to "The Report", they assert that the report can only reflect the best information the Companies have at that time with regard to project scope, alternatives, schedule and budget. The Companies are willing to provide further quarterly reports if so requested and have agreed to provide a detailed schedule and budgets for the project at the completion of the detailed requirements and design phase.

Based on the Companies' experience with projects of this type they assert that it would be wholly arbitrary for them to assign a completion date without sufficient information. They indicate they will exercise due diligence to complete the project on a schedule that will ensure successful operation upon completion and the lowest reasonable costs to customers. Given the absence of complaints by other parties to the collaborative with respect to the proposed schedule, the Companies request that the Commission refrain from modifying their proposed completion date until the detailed requirements and design phase of the project is completed.

No other parties to the collaborative expressed a concern with the date proposed by the Companies.

The Company should provide a report within 45 days of this Order as discussed above and it should provide further quarterly reports until project completion, including schedules and budgets at the completion of the detailed requirements and design phase. We will refrain from modifying the Companies' proposed completion date, however, the detailed requirements and design phase of the project must be completed expeditiously to ensure that the project is completed on schedule. The Companies must ensure successful operation of the new systems upon completion and at the lowest reasonable costs to customers for system implementation by November 1, 2011.

Implementation costs associated with the new daily balancing program should receive deferral treatment for future consideration of recovery. These costs, including the needed investments in required infrastructure and systems plus the appropriate carrying charges, should be part of a separate petition that can be fully audited by Staff before submittal for our consideration. The Companies may petition for deferral treatment of these costs when the actual project costs are known.

Staff determined that until such time as the new daily balancing program can be implemented, existing procedures as modified with "The Report's" recommendations are adequate to handle cash-outs provided the cash-outs utilize a market based price and the Daily Delivery Quantity (DDQ) reflects the proper allocation of "Lost and Unaccounted For" (LAUF) factors. Two percentages of balancing levels are also indicated for daily customers, 2% or 5%. Although 2% is the current level, Staff reported that marketers asserted during the collaborative process that they wanted to move to a 5% level because 2% was too stringent. "The Report" clearly sets forth in Appendix 2 the increased cost necessary to provide the additional level of

flexibility. Staff states that for reliability purposes, the lower figure is more desirable, although, on a statewide basis, 5% is a common and more practical daily balancing level.

The over-riding concern is that, regardless of the level of service, transportation customers need to pay a fair and equitable rate. The 5% level should be implemented as long as service at that level is priced appropriately to the level of assets required for its support; it can be instituted prior to implementation of the new daily balancing system.

*D. An analysis and determination of capacity and other gas costs associated with providing unbundled transportation and balancing services to core and non-core customers, especially where the non-core customers are receiving a core service. This includes service provided under individually negotiated contracts. The analysis will consider allocation of balancing and swing charges between sales and transportation customers in a non-discriminatory manner.*

Although not specifically addressed in "The Report", Staff states that the tariffs covering service classes that include the terms of individually negotiated contracts should also be changed so that upon renewal, these balancing charges are systematically applied to those contracts. The Companies should be required to demonstrate that these new contracts return the proper costs of balancing and swing services to the core customers that will otherwise pay for the capacity used to serve interruptible and temperature controlled customers.

The Companies contend that while issues related to the balancing of individual special contracts were included in the list of subjects to be discussed in the collaborative, the

issues associated were not discussed. Moreover, they assert that the circumstances giving rise to special contracts are often unique and are therefore best resolved on a case-by-case basis when such contracts are filed with the Commission. Thus, rather than mandating specific results with respect to balancing charges in future contracts, the Companies believe that it is more appropriate for us to consider all issues associated with any new contracts at such time as they are filed with the Commission.

We will not mandate specific results for these contracts. However, the Companies must include the concepts of balancing and swing services as issues to these contracts where they have not been addressed previously.

*E. Charges applied to transportation customers due to faulty data or equipment failures.*

"The Report" is silent on this topic but Staff indicates that the item was discussed and believes the existing KEDLI SC-7 tariff language specifically covers the issues.

This tariff provides adequate protection for both the Companies and the customers alike. Since the language does not exist in all applicable tariffs, KEDNY and KEDLI should to add similar language to any other appropriate tariffs in their service territories, especially those allowing daily balancing services.

CONCLUSION

We approve, with the modifications discussed in this Order, "The Report" recommendations to modify and update the rules, regulations and charges for transportation and balancing in the KEDNY and KEDLI territories. Specific attention is given to the timetable for the implementation of a real-time daily balancing system. The Companies are directed to identify and initiate as soon as possible information systems work necessary to complete this implementation by November 1, 2011.

The Commission orders:

1. The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York and the KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery - LI are directed to file tariff revisions in accordance with the Report and discussion contained in this order. The revisions shall be allowed to become effective on a temporary basis, on one day's notice, on August 1, 2009. The tariff amendments will not become effective on a permanent basis until approved by the Commission;

2. The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York and the KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery - LI are directed to file an initial status report within 45 days of this Order regarding the information systems project to implement a new daily balancing system as discussed in this Order. They shall also provide further quarterly reports until project completion, including schedules and budgets at the completion of the detailed requirements and design phase;

3. The Secretary, in her sole discretion, may modify the time frames set forth in this Order for good cause shown.

4. This proceeding is continued.

By the Commission,

(SIGNED)

JACLYN A. BRILLING  
Secretary

**REPORT OF KEDNY AND KEDLI CONCERNING TRANSPORTATION AND  
BALANCING COLLABORATIVE  
9/30/2008**

**INTRODUCTION**

By order dated December 21, 2007 in Cases 06-G-1185 and 06-G-1186 (“December 21 Order”),<sup>1</sup> the Commission directed The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York (“KEDNY”) and KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island (“KEDLI” and, collectively, “Companies”) to conduct a collaborative process with Department of Public Service Staff (“Staff”) and interested parties to examine KEDNY’s and KEDLI’s unbundled services, including firm and non-firm transportation services to ensure consistency though not identity with the other’s. To be included in the collaborative group’s examination process were the general topics and related issues listed in the “Gas Rates Joint Proposal” dated October 10, 2007 (“JP-4”). The collaborative was to commence on or before March 1, 2008. Recommendations flowing from the collaborative were to be filed on or before July 1, 2008, later extended to September 30, 2008.

The issues to be addressed pursuant to the December 21 Order included, but were not limited to, the following:

- An analysis and determination of capacity and other gas costs associated with providing unbundled transportation and balancing services to core and non-core customers, especially where non-core customers are receiving a core service. This includes service provided under individually negotiated contracts. The analysis will consider the allocation of balancing and swing charges between sales and transportation customers in a non-discriminatory manner
- The appropriate SC-2 price cap for Temperature-Controlled (“TC”) and Interruptible Transportation (“IT”) services<sup>2</sup>.

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<sup>1</sup> *The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York and KeySpan Gas East Corporation d/b/a/ KeySpan Energy Delivery Long Island, Cases 06-G-1185 and 06-G-1186, “Order Adopting Gas Rate Plans for KeySpan Energy Delivery New York and KeySpan Energy Delivery Long Island” (Dec. 21, 2007).*

<sup>2</sup> The appropriate SC-2 price cap was resolved pursuant to the Commission’s Order issued and effective May 23, 2008 in this proceeding. In its Order issued August 20, 2008 in this proceeding, the Commission approved tariff revisions submitted on May 30, 2008 to the TC

- Methodologies for proper allocation of the identified costs to these services on a monthly and daily basis where applicable.
- Nomination procedures of transportation volumes consistent with FERC requirements on both a daily and intra-day basis.
- Any changes or modifications to city gate and burner tip balancing rules.
- Imbalance trading for monthly and daily balanced customers.
- Monthly burner-tip imbalance cash-out procedures for both customers utilizing and those not utilizing a company provided Daily Delivery Quantity (“DDQ”).
- Cash-out charges with cash-out tiers that use market based gas price index multipliers for each tier applicable to transportation imbalances.
- Review and propose any necessary changes to the pricing applied to items such as gas captured by KEDNY from transportation customer supplies during times of interruption and city gate delivery deficiencies.
- Changes or modifications to rules during periods of System Alerts (“SA”) or Operational Flow Orders (“OFO”).
- Additional changes or modifications to charges applied to transportation customers due to faulty data or equipment failures.

If agreement were not reached by July 1, 2008, later extended to September 30, 2008, any dispute would be referred to the Commission for resolution. The transportation and balancing collaborative would consider the cost of its initiatives and recommend an appropriate means of cost recovery for any initiative recommended to the Commission.

### **BACKGROUND**

In accordance with the December 21 Order, KEDNY and KEDLI held 7 collaborative sessions to discuss the issues set forth in the Order. These sessions were attended by various parties representing primarily the Companies, Staff and Energy Service

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and Interruptible Services tariff by KEDNY and KEDLI, in compliance with the Commission's Order issued May 23, 2008. The tariff revisions implemented an annual price cap for TC and Interruptible customers, to be determined by calculating revenues that would be derived by assessing the SC-2 rates for these customers for a one year period. The tariff revisions became effective on a permanent basis on August 22, 2008. Thus, the SC-2 price cap issue has not been addressed in this collaborative.

Companies/Marketers (“ESCOs” or “Marketers”). The parties examined the existing KEDNY and KEDLI programs, the Staff’s Transportation and Balancing “criteria” and input from various parties.

### **COLLABORATIVE RESULTS**

The Company is proposing two balancing programs for its gas transportation customers: Monthly Balancing and Daily Balancing. Monthly balancing would be mandatory for all firm core transportation customers, as listed in Appendix 1. These customers would also receive a mandatory assignment of pipeline capacity in accordance with the Orders in Case 07-G-0299. IT transportation customers and TC transportation customers, which do not receive a mandatory assignment of capacity, would have the option to select either Monthly or a new Daily Balancing program. The rules for Monthly and Daily Balancing would be essentially the same for both KEDNY and KEDLI; any differences would arise primarily as the result of differences in the operating characteristics and costs between the two systems.

#### **Monthly Balancing (Firm Core Transportation)**

In Monthly Balancing, the Company will specify a city gate DDQ to the Marketer for the Marketer’s pool of customers for the coming month consistent with the Company’s existing practice as set forth in its Gas Transportation Operations (“GTOP”) Manual, as it may be revised from time to time. The Marketer will then be required to deliver to the city gate volumes equal to the DDQ within a tolerance of +/- 2%. On any day that a Marketer delivers to the city gate less than 98% of the specified DDQ, the volumes less than 98% of the DDQ will be cashed out at that day’s Transco Zone 6 NY mid-point price plus a penalty of \$10 per Dekatherm (“DT”) on normal days and a penalty of \$25 per DT when an OFO has been issued. Over deliveries may be accepted or rejected at the Company’s discretion. If accepted, over deliveries will be cashed out at that day’s Transco Zone 6 NY mid-point price. The Company may change the DDQ prior to the first of the month to meet significant variances in load due to abnormal weather conditions. Marketers may request DDQ changes prior to the first of the month or intra-month. The Company may accept, reject or modify the requested DDQ change, as necessary to maintain system reliability.

The difference or imbalance between the aggregate metered usage of the Marketer's customers, "grossed-up" for Lost and Unaccounted For volumes, and the Marketer's actual, aggregate city gate deliveries will be calculated monthly. Such imbalances will be cashed-out at the First of the Month Transco Zone 6 NY mid-point price for the month of delivery. There will be no imbalance trading between Marketers for Monthly Imbalances. Firm Customers/Marketers will meet the difference between their DDQ and their daily/seasonal load through the Swing Service and will incur a Swing Charge. All Firm Core Monthly Balancing customers will be allocated the necessary assets (and associated costs) to cover their daily imbalances. The allocated costs are provided in Appendix 2. Although the parties acknowledge the efficacy of properly aligning rates with the best current cost estimates, due to the customer impact considerations and the need to maintain rate stability and avoid rate shocks, it is strongly recommended that the implementation of the new cost estimates (represented by the difference between the current amount included in rates and the new cost estimate (as set forth in Appendix 2) be phased in via two equal installments; one upon initiation of the program changes, and the second 12 months later.

**Monthly Balancing (Monthly Balanced IT and TC Transportation)**

In Monthly Balancing, the Company will specify a city gate DDQ to the Marketer for the coming month. The Marketer will then be required to deliver to the city gate volumes equal to the DDQ within a tolerance of +/- 2%. Any day a Marketer delivers to the city gate less than 98% of the specified DDQ, the volumes less than 98% of the DDQ will be cashed out at that day's Transco Zone 6 NY mid-point price plus a penalty of \$10 per DT on normal days and a penalty of \$25 per DT when an OFO has been issued. Over deliveries may be accepted or rejected at Company's discretion. If accepted, over deliveries will be cashed out at that day's Transco Zone 6 NY mid-point price. The Company may change the DDQ prior to the first of the month to meet significant variances in load due to abnormal weather conditions. Marketers may request DDQ changes prior to the first of the month or intra-month. The Company may accept, reject or modify the requested DDQ change, as necessary to maintain system reliability.

The difference or imbalance between the aggregate metered usage of the Marketer's customers, "grossed-up" for Lost and Unaccounted For volumes, and the Marketer's actual, aggregate city

gate deliveries will be calculated monthly. Such imbalances will be cashed-out at the First of the Month Transco Zone 6 NY mid-point price for the month of delivery. There will be no imbalance trading between Marketers for Monthly Imbalances. Monthly Balanced IT and TC Customers or their Marketers will meet the difference between their DDQ and their daily/seasonal load through the Swing Service and will incur a separate Swing Charge. All IT and TC Monthly Balancing customers will be allocated the necessary assets (and associated costs) to cover their daily imbalances. The allocated costs are provided in Appendix 2.

**Existing Daily Balancing (Daily Balanced IT and TC Customers)**

The Company is proposing to create a “new” Daily Balancing program that will modify significantly the existing program. Under the existing program, the customer’s consumption is not reported until after completion of the gas day, which does not allow the Marketer the opportunity to make intra-day changes to deliveries to minimize imbalances. The Marketer can only use the prior day’s consumption information to infer the need to make adjustments to the current day’s consumption. The new Daily Balancing program will provide the Marketer meter readings during the current gas day to allow intra-day adjustments. Implementation of the new program will depend on the completion of the necessary metering and information hardware and software systems. Until the new Daily Balancing program is available, existing IT and TC customers may elect to switch to Monthly Balancing or remain in the existing daily balancing program. During the interim period, the existing KEDLI Daily Balancing Program, which has a one day lag for consumption data, will remain in effect subject to a “no harm, no foul” rule. Under this rule, the Daily Imbalance Tolerance (“DIT”) will remain at +/- 10% and cash-out penalties will only be charged if the aggregate daily deliveries by the Marketers to the city gate, compared to aggregate daily consumption of Marketer’s Customers (customer meter reading “grossed-up” for Lost and Unaccounted For volumes to the city gate), exceeds the 10% tolerance. If aggregate, daily deliveries by all Marketers are within the DIT, no daily imbalance cash-out penalties will be charged (no harm, no foul). If aggregate, daily Marketer deliveries are outside the tolerance, Marketers contributing to the imbalance will be cashed-out for that day at the daily cash-out price, including penalties multiplied by the quantity by which the affected Marketer is outside the DIT. Marketers whose imbalance goes in the opposite direction of the aggregate Marketer imbalance will be charged a daily cash-out, but without penalties.

The daily cash-out price will be changed from the current ICOG/WACOG based price to Transco Zone 6 NY mid-point pricing with appropriate incentives proportional to the percentage imbalance,

**New Daily Balancing Program (Daily Balanced IT and TC)**

To participate in the New Daily Balancing program a premise (meter) must have Automatic Remote Meter (“ARM”) equipment.<sup>3</sup> Customers choosing the New Daily Balancing Program will be required to pay for the ARM and its installation along with a dedicated communication link that will allow the Company to access the customer’s meter reading periodically throughout the day. Because Daily Balancing will require fewer Company contracted assets than Monthly Balancing, the balancing costs allocated to a Daily Balancing customer will be lower than for Monthly Balancing. The customers and Marketers may then evaluate the economic trade-off between the lower allocated balancing costs and the cost of the ARM and phone line. When a customer switches to Daily Balancing, the Company may redeploy or de-contract the assets previously relied upon when that customer was in Monthly Balancing. As a result, the customer and the customer’s marketer will be informed and agree that if Daily Balancing Service is chosen, Customer requests to return to Monthly Balancing or Sales Service can only be granted on a best efforts basis. If a customer is allowed to return to Monthly Balancing or Sales Service, additional assets may be contracted by the Company and therefore such a returning customer must remain in Monthly Balancing or Sales Service for at least 12 months.

As described above, the New Daily Balancing program will provide the Marketer meter readings during the current gas day to allow intra-day flow adjustments following the NAESB Gas Day Nomination Schedule. In addition to the installation of ARMs and communication links at the customer premise, the Company will need to install the systems necessary to collect and aggregate readings collected from the customer ARMs and provide this information electronically to the appropriate Marketers. Incremental costs for implementation of Daily Balancing and an appropriate recovery mechanism for those costs have yet to be determined.

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<sup>3</sup> ARMs allow the Company and other parties to obtain readings without being physically read by a meter reader.

The collaborative group agrees that the Company will be allowed to defer for future recovery in its next base rate proceeding the full revenue requirement associated with the justifiable infrastructure and IT system investments necessary to implement the New Daily Balancing program. These costs will be reviewed by the Commission in the Company's next base rate case and full recovery will be permitted for all justifiable expenditures.

Once the necessary equipment is installed and operational, the New Daily Balancing program may be implemented. Under the program, instead of being provided a DDQ by the Company, the Marketer would determine daily the quantities to be delivered to meet customer load. Through the customer installed ARM and Company's installed systems, the Company would provide meter readings to the Marketer three times during the Gas Day, thus allowing the Marketer to make intra-day nominations to adjust deliveries to match ongoing consumption. To maintain the reliability and operation of the Company's delivery network, DIT will be established based on the assets and associated costs allocated to the Daily Balancing customers. The collaborative group has initially established a DIT of +/- 5% for TC and IT customers as the basis for the cost allocations included in Appendix 2.

Aggregate daily deliveries by the Marketers to the city gate will be compared to aggregate daily consumption of Marketer's Customers (customer meter reading "grossed-up" for Lost and Unaccounted For volumes to the city gate). If aggregate, daily deliveries by all Marketers are within the DIT, no daily imbalance cash-out will be required (no harm, no foul). If aggregate, daily Marketer deliveries are outside the tolerance, Marketers contributing to the imbalance will be cashed-out for that day at the daily cash-out price multiplied by a factor that increases (or decreases) depending upon the percentage by which the affected Marketer is outside of the DIT. Marketers whose imbalances are in the opposite direction of the aggregate Marketer imbalance will be viewed as aiding the system by helping to offset the overall Marketer imbalance and therefore will not be charged a daily cash-out.

If Daily Cash-outs are charged, Daily Cash-out prices will be based on the average daily market price of the pipelines on which the Marketers nominated gas, weighted by the aggregate Marketer volumes nominated on those pipelines on the day the Daily Cash-out was charged. The

Company will not, within operational limits set forth in the GTOP Manual, direct the Marketers as to which pipeline(s) they must use to deliver gas to the Company's city gate. An example of how a Daily Cash-out price would be developed is provided in Appendix 3. The Daily Cash-out price will be multiplied by a factor that increases (decreases) depending upon the percentage by which the affected Marketer is outside of the DIT. The proposed pricing tiers are provided in Appendix 4. For Daily Cash-outs, the volume will be the difference between the actual deliveries and the actual consumption, including the 5% tolerance. For Monthly Cash-outs, the volume will be the difference between actual deliveries and actual consumption with no tolerance applied

At the end of each month, the actual deliveries by the Marketers to the city gate will be compared to actual consumption (customer meter reading "grossed-up" for Lost and Unaccounted For volumes to the city gate). Information on these Monthly Imbalances will be made available to other Marketers so that the Marketers may through a trading process combine all or some of their imbalance with offsetting volumes of other Marketers to reduce their imbalances in a manner consistent with the Company's GTOP Manual. After trading, the remaining Marketer Imbalances will be cashed out at the straight average of the Daily Cash-out prices with the application of the pricing tiers provided in Appendix 4. The hardware, software and information systems necessary to perform the daily and monthly imbalance calculations, to determine the daily and monthly imbalance prices for the new Monthly Balancing program and for communication of data between the parties will be part of the overall incremental system costs to be deferred for future recovery. This project is projected to be completed no later than November 1, 2011.

## **CONCLUSION**

The parties were able to reach consensus on the structure and operating parameters of the balancing programs described above. The incremental costs for implementation of these changes have not yet been determined, but the parties agree that the Company should be allowed to defer for future recovery the full revenue requirement (including return on and return of capital) associated with all investments in the required systems and infrastructure,

as discussed above. An implementation schedule has also not yet been developed pending approval of this report by the Commission. However, the systems required to implement the new Daily Balancing Program are projected to be completed no later than April 1, 2010 to coincide with the Companies' M2M program for TC customers. If the November 1, 2011 timeframe will not be met, the Company will notify the parties in writing of any revised schedule no later than June 1, 2011.

APPENDIX 1

**FIRM CORE SERVICE CLASSIFICATIONS**

**The Brooklyn Union Gas Company d/b/a National Grid NY**

SC 1 - Residential  
SC 2 - Commercial  
SC 3 - Multi-Family  
SC 4A - High Load Factor  
SC 4B - Year Round Air Conditioning  
SC 7 - Seasonal  
SC 21 - Baseload Distributed Generation

**KeySpan Gas East Corporation d/b/a National Grid**

127 - Residential General  
137 - Residential Water Heating  
147 - Residential Space Heating  
158 - Multiple Dwelling Heating  
159 - Multiple Dwelling Non-Heating  
167 - Commercial Water Heating  
177 - Commercial Space Heating  
257 - Commercial General Non-Heating  
267 - Distributed Generation (High Load Factor)  
277 - Year Round Space Conditioning  
347 - Baseload Distributed Generation  
357 - Baseload Distributed Generation  
367 - Baseload Distributed Generation

**APPENDIX 2**  
**Illustrative Example**  
**Estimated 2008/09 KEDNY and KEDLI Capacity Costs**

**1. Current & Proposed Swing Charges (\$/dt)**

Transportation Service	KEDNY		KEDLI	
	Present	Proposed	Present	Proposed
<b>A. Firm Core Transportation - Monthly Balanced</b>				
System Average	\$0.40	\$0.93	\$0.32	\$0.64
Load Factor Differentiated		\$0.99 - \$0.83		\$0.73 - \$0.52
<b>B. Non Core IT &amp; TC Transportation</b>				
Monthly Balanced	\$0.00	\$0.13 - \$0.53 <sup>/1</sup>	\$0.00	\$0.13 - \$0.53 <sup>/1</sup>
Daily Balanced +/- 5%	\$0.00	\$0.05 - \$0.21 <sup>/1</sup>	\$0.00	\$0.05 - \$0.21 <sup>/1</sup>
Daily Balanced +/- 2%	\$0.00	\$0.02 - \$0.08 <sup>/1</sup>	\$0.00	\$0.02 - \$0.08 <sup>/1</sup>

**2. Current & Proposed Capacity Cost Allocation to Firm Core Sales & Transportation Customers (\$/dt)**

	KEDNY				KEDLI			
	Present		Proposed		Present		Proposed	
	Sales	Transport	Sales	Transport	Sales	Transport	Sales	Transport
<b>A. Capacity Costs</b>								
Tier 1 - Pipeline Capacity Release		\$0.46		\$0.46		\$0.45		\$0.45
Tier 2 - Bundled Winter Sales		\$0.09		\$0.09		\$0.10		\$0.10
Tier 3 - Virtual Storage Service		<u>\$0.12</u>		<u>\$0.12</u>		<u>\$0.16</u>		<u>\$0.16</u>
Total Tiers		\$0.68		\$0.68		\$0.72		\$0.72
Swing Charge		<u>\$0.40</u>		<u>\$0.93</u>		<u>\$0.32</u>		<u>\$0.64</u>
<b>Total Cost of Capacity<sup>/2</sup></b>	<b>\$2.56</b>	<b>\$1.07</b>	<b>\$2.56</b>	<b>\$1.61</b>	<b>\$2.05</b>	<b>\$1.03</b>	<b>\$2.05</b>	<b>\$1.36</b>
<b>B. Capacity Cost Credits</b>								
Natural Choice Credits	(\$0.36)	\$0.00	(\$0.63)	\$0.00	(\$0.23)	\$0.00	(\$0.37)	\$0.00
TC Sales Credits	(\$0.12)	\$0.00	(\$0.09)	(\$0.09)	(\$0.03)	\$0.00	(\$0.02)	(\$0.02)
Non Core Transportation / Swing Credits	(\$0.10)	\$0.00	(\$0.08)	(\$0.08)	(\$0.10)	\$0.00	(\$0.08)	(\$0.08)
<b>Total Credits</b>	<b>(\$0.59)</b>	<b>\$0.00</b>	<b>(\$0.80)</b>	<b>(\$0.17)</b>	<b>(\$0.36)</b>	<b>\$0.00</b>	<b>(\$0.47)</b>	<b>(\$0.10)</b>
<b>Net Cost of Capacity</b>	<b>\$1.97</b>	<b>\$1.07</b>	<b>\$1.76</b>	<b>\$1.44</b>	<b>\$1.69</b>	<b>\$1.03</b>	<b>\$1.58</b>	<b>\$1.26</b>

**Notes**

/1 Load factor differentiated charges

/2 Sales customers are provided a bundled service

APPENDIX 3

Daily Balancing Cashout Example

Pipeline	06/01/2008	06/02/2008	06/03/2008	06/04/2008	06/05/2008	06/06/2008	06/07/2008
Transco Z6 NY	Volume: 75.00%	Volume: 80.00%	Volume: 90.00%	Volume: 100.00%	Volume: 90.00%	Volume: 80.00%	Volume: 90.00%
Telco M3	Price: \$12,040	Price: \$12,725	Price: \$12,725	Price: \$13,230	Price: \$13,165	Price: \$13,465	Price: \$14,235
Iroquois Z2	Price: \$12,050	Price: \$12,050	Price: \$12,815	Price: \$13,235	Price: \$13,145	Price: \$13,480	Price: \$14,040
Daily Cashout Price	Price: \$12,100	Price: \$12,730	Price: \$13,275	Price: \$13,230	Price: \$12,960	Price: \$13,400	Price: \$14,110
	Price: \$12,050	Price: \$12,730	Price: \$13,230	Price: \$13,230	Price: \$13,163	Price: \$13,452	Price: \$14,219
Transco Z6 NY	Volume: 75.00%	Volume: 80.00%	Volume: 90.00%	Volume: 100.00%	Volume: 90.00%	Volume: 80.00%	Volume: 90.00%
Telco M3	Price: \$14,235	Price: \$14,880	Price: \$14,045	Price: \$13,520	Price: \$13,395	Price: \$13,320	Price: \$13,320
Iroquois Z2	Price: \$14,040	Price: \$14,410	Price: \$13,745	Price: \$13,430	Price: \$13,370	Price: \$13,265	Price: \$13,265
Daily Cashout Price	Price: \$14,110	Price: \$14,755	Price: \$13,840	Price: \$13,515	Price: \$13,180	Price: \$13,160	Price: \$13,160
	Price: \$14,197	Price: \$14,821	Price: \$14,020	Price: \$13,520	Price: \$13,393	Price: \$13,288	Price: \$13,309
Pipeline	06/17/2008	06/18/2008	06/19/2008	06/20/2008	06/21/2008	06/22/2008	06/23/2008
Transco Z6 NY	Volume: 75.00%	Volume: 80.00%	Volume: 90.00%	Volume: 100.00%	Volume: 90.00%	Volume: 80.00%	Volume: 90.00%
Telco M3	Price: \$13,620	Price: \$13,705	Price: \$13,630	Price: \$13,780	Price: \$13,485	Price: \$13,485	Price: \$13,485
Iroquois Z2	Price: \$13,520	Price: \$13,665	Price: \$13,605	Price: \$13,775	Price: \$13,430	Price: \$13,430	Price: \$13,430
Daily Cashout Price	Price: \$13,550	Price: \$13,560	Price: \$13,480	Price: \$13,660	Price: \$13,400	Price: \$13,400	Price: \$13,400
	Price: \$13,600	Price: \$13,687	Price: \$13,621	Price: \$13,780	Price: \$13,480	Price: \$13,468	Price: \$13,478
Pipeline	06/25/2008	06/26/2008	06/27/2008	06/28/2008	06/29/2008	06/30/2008	
Transco Z6 NY	Volume: 75.00%	Volume: 80.00%	Volume: 90.00%	Volume: 100.00%	Volume: 90.00%	Volume: 80.00%	
Telco M3	Price: \$13,910	Price: \$13,975	Price: \$14,210	Price: \$14,075	Price: \$14,075	Price: \$14,075	
Iroquois Z2	Price: \$13,805	Price: \$13,855	Price: \$13,885	Price: \$14,035	Price: \$14,035	Price: \$14,035	
Daily Cashout Price	Price: \$13,820	Price: \$13,835	Price: \$14,065	Price: \$13,800	Price: \$13,800	Price: \$13,800	
	Price: \$13,896	Price: \$13,949	Price: \$14,187	Price: \$14,075	Price: \$14,071	Price: \$14,020	
Monthly Cashout Price							\$13,603

APPENDIX 4

Daily Balancing Cash-out Tiers

Cash-out Tiers for Under Deliveries

<b>Percentage of City Gate Use</b>	<b>Charge per Therm</b>
0-5%	Daily Cash-out Price
>5% to 10%	105% times the Daily Cash-out Price
>10% to 15%	110% times the Daily Cash-out Price
>15% to 20%	120% times the Daily Cash-out Price
>20%	150% times the Daily Cash-out Price

Cash-out Tiers for Over Deliveries

<b>Percentage of City Gate Use</b>	<b>Charge per Therm</b>
0-5%	Daily Cash-out Price
>5% to 10%	95% times the Daily Cash-out
>10% to 15%	90% times the Daily Cash
>15% to 20%	80% times the Daily Cash
>20%	50% times the Daily Cash

Appendix B  
Collaborative Participants

KeySpan Energy Delivery New York.  
KeySpan Energy Delivery Long Island.  
New York State Department of Public Service  
Amerada Hess Corporation  
Ameristar Energy  
Angus Energy  
Approved Energy  
Big Apple Energy  
Bluco Energy  
Brown's Fuel Service  
Chief Energy  
Colonial Energy  
Columbia Utilities  
Connect Energy Supply  
Direct Energy  
Econergy  
Energy Services Group  
FFC Energy  
GASMARK-UGI Energy Services  
Gateway Energy Services  
Great Eastern Gas  
Great Eastern Energy  
Hudson Energy Services  
IGS Energy  
IDT Energy  
Intelligent Energy  
Macquarie Group  
Major Energy services  
Metromedia Energy  
MX Energy  
NATGASCO/Mitchell Supreme  
Platinum Plus energy Resources  
Plymouth Rock Energy  
SJ Fuel CO.  
Small Customer Marketer coalition  
Spark Energy  
Stuyvesant Energy  
Titan Natural Gas  
Universal Energy  
US Energy Savings  
US Gas & Electric  
Woodruff Energy