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THE BROOKLYN UNION GAS COMPANY
One MetroTech Center
Brooklyn, NY 11201

January 31, 2000

Ms. Debra Renner
Acting Secretary
Public Service Commission
Three Empire State Plaza
Albany, NY 12223

Dear Acting Secretary Renner:

Attached for filing electronically with the Commission are the following tariff leaves, issued by The Brooklyn Union Gas Company ("Brooklyn Union", "the Company"), to become effective on May 1, 2000:

Second Revised Leaf No. 197
Second Revised Leaf No. 198
Second Revised Leaf No. 207
Second Revised Leaf No. 208
Second Revised Leaf No. 217
Second Revised Leaf No. 218
Second Revised Leaf No. 219
Second Revised Leaf No. 220

to schedule for Gas Service, P.S.C. No. 12 - GAS

The purpose of this filing is to eliminate the ceiling currently in effect for the Company's Temperature Controlled Service Classifications (Service Classification Nos. 6C - Temperature Controlled Service, Commercial/Industrial, 6G - Temperature Controlled Service, Governmental, and 6M - Temperature Controlled Service, Multi-Family). The elimination of such cap is warranted by both the nature of temperature controlled (TC) service as well as the adverse impact it has on the Company's ability to financially manage temperature controlled margins.

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Background

Under TC service, the Company provides firm service to large volume, dual-fuel customers down to a predetermined temperature. When temperatures fall to this level, TC customers must switch to their alternate fuel supply (TC customers must maintain at least ten (10) days of alternate fuel supply on site). Brooklyn Union provides this service by utilizing capacity that becomes available at warmer temperatures due to decreased demand of core customers. The provision of TC service results in a synergy which enables the Company to maximize revenues derived from the system to the benefit other firm ratepayers. Generally, the Company is able to manage the oil/gas price risk to a large extent by utilizing future contracts. However, as explained below, the firm rate price cap interferes with our ability to hedge. Currently, under the Company's most recent rate agreement, $47 million of margin revenue has been imputed for this service resulting in a lowering of rates to core customers. The Company is at risk to collect these revenues which vary due to both oil/gas relationships and weather.

Discussion

Brooklyn Union determines the variable sales prices to be charged under its temperature controlled service classifications on a monthly basis. The current ceiling is set at "...no higher than the lesser of (1) 115% of the No. 2 oil gas equivalent price, inclusive of any petroleum related taxes applicable to commercial customers or industrial use, or (2) the tailblock rate of Service Classification No. 2 (General Service - Non-Residential) - Rate Schedule 1 (Non-Heating) inclusive of the applicable Monthly Cost of Gas less $0.01/therm,...). While the need to establish a ceiling for firm natural gas rate classifications and/or for natural gas customers without alternative choices is apparent, there is no need to have a ceiling in a dual-fuel market. Should the Company set the variable rate at a price which is perceived too high, customers would switch for that month from using natural gas to using fuel oil. The very fact that they are dual-fuel customers affords them this opportunity. The alternatives available to temperature controlled customers negates the need for a variable rate ceiling.

Furthermore, there is no need for a monthly cap on TC sales rates simply as an assurance that such rates would never exceed otherwise applicable firm rates for equity reasons. The imposition of a monthly sales cap ignores the fact that for much of the year the average TC sales rate is significantly below the otherwise applicable firm rates. A month in which the cap on the TC sales rate becomes effective is the exception, not the rule. Such a cap is unreasonable especially when (1) the TC sales rate relative to oil prices, without regard to the cap rule, would not move the annual average TC sales rate above the otherwise applicable firm sales rates, and (2) TC customers, unlike firm customers, **have alternatives from which to choose -** they can discontinue gas service if they feel the selling price is excessive.

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The Company also seeks to eliminate this ceiling in order to put in place financial hedging instruments which will protect the margins from this customer class. The financial hedging instruments which can be used to protect company margins are dependent upon the Company's ability to price the temperature controlled market at prevailing oil equivalent prices. Specifically, the Company can lock in margin revenues by buying gas contracts ("long" gas) and selling oil contracts ("short" oil). Under normal conditions, the prevailing oil price is very rarely greater than the ceiling discussed above. However, under extreme conditions (such as the Gulf War) the price of natural gas could remain at normal levels, but the price of oil could "skyrocket". The ceiling under this scenario would prevent the Company from pricing at prevailing oil equivalent prices and result in actual and unlimited financial losses to the Company due to its "short" position in oil.

In summary, the ceiling on the temperature controlled service rates must be eliminated. First, such a cap is not needed in a competitive market. Second, and even more importantly, the consequence of keeping the cap would be to seriously diminish imputed revenues attributed to this class when setting future rates.

If you have any questions about this filing, please contact Nancy Cianflone at (718) 403-2505.

Respectfully submitted,

THE BROOKLYN UNION GAS COMPANY

By: ________________________________

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