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December 28, 2007

***Via – Electronic Mail And
Federal Express***

Honorable Jaclyn A. Brillling
Secretary
Public Service Commission
of the State of New York
Three Empire Plaza
Albany, New York 12223

**RE: Proceeding on Motion of the Commission as to the Rates, Charges,
Rules and Regulations of KeySpan Gas East Corporation d/b/a
KeySpan Energy Delivery Long Island for Gas Service,
Case 06-G-1186**

Dear Secretary Brillling:

In accordance with the Public Service Commission's "Order Adopting Gas Rate Plans For KeySpan Energy Delivery New York And KeySpan Energy Delivery Long Island," issued and effective December 21, 2007 in the above proceeding (hereinafter "December 21 Order"), KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island ("KEDLI" or "the Company") hereby submits the following:

(1) a Supplement – Supplement No. 33 – to its Schedule for Gas Service – P.S.C. No. 1 – Gas cancelling the amendments listed in Appendix II of the December 21 Order;

(2) the revised tariff leaves listed in Appendix A hereto issued by KEDLI to its Schedule for Gas Service, P.S.C. No. 1 – Gas to become effective on a temporary basis on and after January 1, 2008;

(3) a Statement of Weather Normalization Adjustment – Statement No. 11;

(4) an Appendix B which sets forth the proposed Delivery Surcharges applicable to each Firm Service Classification as required by the December 21 Order¹ and the workpapers supporting the calculations of such surcharges. Appendix B contains information concerning the surcharges that will be in effect in 2009 through 2012; and

(5) an Appendix C which illustrates KEDLI's proposal to implement an annual cap on Temperature Controlled and Interruptible usage rates.

The Supplement, revised tariff leaves, and the Statements are being submitted electronically and are not included with the paper copy of this letter. The revised tariff leaves set forth in Appendix A are necessary to permit KEDLI to comply with the December 21 Order. Specifically, the revised tariff leaves enable KEDLI to implement the following requirements of the Order:

1. *Modify Base Delivery Rates in a manner to increase base delivery rate revenues by \$60 million annually* – The revised leaves include the base delivery rates to be assessed to each firm service classification and are designed, in total, to enable KEDLI to recover an incremental \$60 million annually.² These incremental revenues have been allocated among KEDLI's various service classifications in accordance with the

¹ See December 21 Order at 65-67.

² *Id.* at 64-67.

applicable provisions of the “Gas Rates Joint Proposal” dated October 10, 2007 (hereinafter “JP-4”) as approved by the Commission in its December 21 Order.³

2. *Shift recovery of certain costs from delivery rates to the Gas Adjustment Clause (“GAC”) and/or Transportation Adjustment Clause (“TAC”) and revise KEDLI’s Merchant Function Charge* – The revised leaves permit KEDLI to recover the return on gas purchase-related working capital, uncollectibles associated with gas costs, gas procurement expenses, commodity-related sales promotion expense and commodity-related collection expense through the GAC (as the Merchant Function Charge)⁴ in accordance with the December 21 Order.⁵ The revised leaves also permit KEDLI to recover the return on gas in storage through the GAC and the TAC.⁶ These costs will no longer be considered to be recovered through base delivery rates.

3. *Establish a System Benefits Charge (“SBC”) to recover deferred energy efficiency costs and lost revenues* – The revised leaves permit KEDLI to establish the SBC effective January 1, 2008 to recover, subject to reconciliation, both deferred and prospective energy efficiency costs.⁷ The initial SBC rate is \$0.0124 per therm. The SBC charge may be adjusted July 1, 2008 to permit the recovery of interim lost revenues. The SBC will be a volumetric charge applicable to SCs 1AR, 1BR, 1A, 1B, 2A, 2B, 3, 15, 16, and the equivalent transportation classes. *See* Leaf 119.50.

³ *Id.* at 20-21, 26.

⁴ The December 21 Order states (at 47) that the total Merchant Function Charges for KEDLI would range from \$0.377 in 2008 to \$0.352 in 2012. It should be noted that these charges are illustrative and subject to change and reconciliation as provided in the December 21 Order and JP-4. In addition, because of the pervasive nature of the changes to the GAC, the Company is submitting a completely new set of GAC tariff leaves. These leaves include language that permits the proper allocation of costs between the combined KEDNY and KEDLI portfolios.

⁵ *Id.* at 6-7.

⁶ *Id.*

⁷ December 21 Order at 7-9.

4. *Implement a new low income program* – The revised leaves permit KEDLI to implement a low income program to a number of customers that is projected not to exceed 30,000.⁸ See Leaves 67, 120, 122.2-122.3;

5. *Establish a new criterion for differentiating SC 2-A and SC 2-B customers* – The revised leaves permit KEDLI to implement a new criterion for distinguishing commercial heating and non-heating customers under SC 2-A and 2-B beginning with bills rendered after March 1, 2008.⁹ Customers will be deemed SC 2-B customers if their January usage is at least two times greater than their July usage.¹⁰

6. *Establish a new lost and unaccounted for (“LAUF”) factor* – The revised leaves permit KEDLI to establish a new LAUF factor of 2.73%.¹¹

7. *Implement an annual cap for Temperature Controlled (“TC”) and Interruptible (“IT”) customers* – The revised leaves implement the TC/IT rate cap approved by the Commission in the December 21 Order and this letter complies with the Commission’s directive to propose implementation procedures for the cap.¹² The Company proposes an annual TC/IT cap that tracks the operation of the current monthly cap. To that end, for years commencing January 1, 2008, the Company will compare the TC and IT revenues derived from the assessment of monthly variable usage rates (as is the case under the current cap) to the total annual revenues that would be derived from assessing the SC 2-B rate, including all gas charges and surcharges, to the TC and IT customers. KEDLI proposes not to include in this comparison fixed charges payable by TC and IT customers because it does not include such charges in its current calculations

⁸ *Id.* at 21, 26.

⁹ *Id.* at 23-26, 27.

¹⁰ *Id.* at 23.

¹¹ *Id.* at 36-37.

¹² *Id.* a 42-43.

of the monthly cap. It was the intent of the parties to modify the cap to afford KEDLI more pricing flexibility, not less. This is the Commission's stated intent as well.¹³ The comparison will be performed once a year for each year ending December 31. The Company proposes that if there is an excess balance, it will be credited to a deferral account with interest at the AFUDC rate until the Commission determines how the credit balance should be used for the benefit of TC/IT customers. To apply the cap, KEDLI would utilize the commercial heating subclass SC 2-B rate as the basis of the comparison, pending the Commission's clarification to this effect. This is illustrated on Appendix C. The Company believes this clarification would be appropriate because it is its understanding that the vast majority of its TC/IT customers utilize gas for heating and, accordingly, consume significantly more gas during the winter period.

KEDLI will provide a report to the Director of the Office of Electricity, Gas and Water no later than 60 days after December 31 of each year setting forth the calculations necessary to apply the annual cap. KEDNY submits that this proposal presents a fair and reasonable way to implement a proper annual cap.

8. *Modify the GAC to flow through 100% of power generation margins and 85% of gas cost incentive amounts* – The revised leaves permit KEDLI to flow through to firm sales customers through the GAC 100% of power generation margins¹⁴ and 85% of margins from certain off-system sales and capacity release credits.¹⁵

9. *Revise its weather normalization clause ("WNC")* – The revised leaves permit KEDLI to revise its WNC (i) to define a heating degree day as the average of the highest and lowest temperature subtracting from 65 degrees Fahrenheit, and (ii) to reflect

¹³ *Id.* at 42.

¹⁴ *Id.* at 43-44.

¹⁵ *Id.* at 46-47.

the use of weather data for the 30 years ending June 30, 2006.¹⁶ *See* Leaves 78-79. As discussed *supra*, also enclosed is the Weather Normalization Adjustment Factor Statement to be effective January 1, 2008.

10. *Implement a revised Billing and Payment Processing rate* – The revised leaves permit KEDLI to implement the revised Billing and Payment Processing rate of \$0.65 per bill as approved in the December 21 Order.¹⁷ *See* Leaf 119.49.

11. *Implement Distributed Generation rates* – The revised leaves reflect an increase in KEDLI's current Distributed Generation rates under SC 17. The proposed rates reflect the guidelines provided by the Commission in Case 02-M-0515.¹⁸ As KEDLI's base delivery rates are being increased by 15.65%, KEDLI proposes to increase its Distributed Generation Rate by the same percentage. KEDLI currently provides service under this service classification to only two customers and accordingly has no basis to propose any other increase for this service classification. *See* Leaf No. 215.

12. *Institute a Service Guarantee* – In the September 17, 2007 Order in Case 06-M-0878,¹⁹ the Commission approved a "Joint Proposal For Gas Safety, Reliability and Customer Service Performance Requirements" dated August 17, 2007 that required KEDLI (at page 19) to include a service guarantee in its tariff in its compliance filing in this proceeding. Accordingly, such a provision – identical to that appearing in The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York's tariff – is included in KEDLI's filing. *See* Leaf 50.1.

¹⁶ *Id.* at 44-48.

¹⁷ *Id.* at 47-49.

¹⁸ Case 02-M-0515, *Proceeding on Motion of the Commission to Establish Gas Transportation Rates For Distributed Generation Technologies* (Issued and Effective April 24, 2003).

¹⁹ Case 06-M-0878 – *Joint Petition of National Grid plc and KeySpan Corporation for Approval of Stock Acquisition and Other Regulatory Authorizations*, "Order Authorizing Acquisition Subject To Condition And Making Some Revenue Requirement Determination For KeySpan Energy Delivery New York and KeySpan Energy Delivery Long Island (Issued and Effective September 17, 2007).

Other Matters

The Commission's December 21 Order requires the parties to engage in further procedures concerning matters, such as the purchase of receivables from energy services companies ("ESCO") and an attempt to reach consensus on the establishment of an ESCO referral program, that may require further tariff changes. To the extent such changes are necessary, KEDLI proposes to make them at a later time on not less than thirty days notice.

KEDLI requests that the Commission approve this compliance filing as soon as possible. To the extent that any waivers of the Commission's regulations are necessary to allow such approval, KEDLI requests that they be granted. In accordance with the December 21 Order, copies of this filing and all attachments are being served electronically on all active parties to this proceeding. In addition, notice of the changes proposed by these amendments will be published once a week for four successive weeks in newspapers having general circulation in KEDLI's service territory.

Please contact the undersigned if you have questions or require further information.

Respectfully submitted,

Catherine L. Nesser

Enclosures

cc: Hon. Gerald L. Lynch
Active Parties
(By electronic mail)

Appendix A

KEYSPAN GAS EAST CORPORATION
d/b/a KEYSPAN ENERGY DELIVERY LONG ISLAND
PSC No. 1-GAS

Third Revised Leaf No. 3
Sixth Revised Leaf No. 5
Fifth Revised Leaf No. 6
First Revised Leaf No. 50.1
Second Revised Leaf No. 67
Fifth Revised Leaf No. 69
Original Leaf No. 69.1
Fourth Revised Leaf No. 70
Fifth Revised Leaf No. 71
Eleventh Revised Leaf No. 72
First Revised Leaf No. 72.1
Original Leaf No. 72.2
Original Leaf No. 72.3
Third Revised Leaf No. 73
First Revised Leaf No. 73.1
First Revised Leaf No. 73.2
Original Leaf No. 73.3
Fifth Revised Leaf No. 74
Eighth Revised Leaf No. 74.1
Third Revised Leaf No. 75
Third Revised Leaf No. 76
Second Revised Leaf No. 77
Third Revised Leaf No. 78
First Revised Leaf No. 79

Fourth Revised Leaf No. 119.49
First Revised Leaf No. 119.50
Third Revised Leaf No. 120
Third Revised Leaf No. 121
Third Revised Leaf No. 122
Original Leaf No. 122.2
Original Leaf No. 122.3
First Revised Leaf No. 123
Second Revised Leaf No. 124
Second Revised Leaf No. 125
Second Revised Leaf No. 127
Second Revised Leaf No. 128
Fifth Revised Leaf No. 129.1
Ninth Revised Leaf No. 137
Original Leaf No. 137.1
Tenth Revised Leaf No. 138
Seventh Revised Leaf No. 159
Fourth Revised Leaf No. 170
Seventh Revised Leaf No. 177
Seventh Revised Leaf No. 182
Second Revised Leaf No. 213
Fourth Revised Leaf No. 215
Fifth Revised Leaf No. 216

Appendix B

KEDLI Delivery Rate Surcharge Years 2009 to 2012

YR1 Firm Service Class Percentage Contribution to Firm Delivery Revenue		KEDLI Delivery Rate Surcharge \$				
		2008	2009	2010	2011	2012
SC 1A	7.70%		\$770,254	\$1,540,507	\$2,310,761	\$3,081,015
SC 1B	59.50%		\$5,950,089	\$11,900,178	\$17,850,266	\$23,800,355
SC 2A	4.30%		\$429,585	\$859,170	\$1,288,755	\$1,718,340
SC 2B	24.82%		\$2,482,241	\$4,964,481	\$7,446,722	\$9,928,963
SC 3	2.32%		\$231,688	\$463,376	\$695,064	\$926,752
SC 15	0.51%		\$51,023	\$102,046	\$153,069	\$204,092
SC 16	0.05%		\$5,480	\$10,959	\$16,439	\$21,919
SC 17	0.00%		\$419	\$837	\$1,256	\$1,674
SC 9/10 NGV	0.79%		\$79,223	\$158,446	\$237,668	\$316,891
Total	100.00%		\$10,000,000	\$20,000,000	\$30,000,000	\$40,000,000

KEDLI Calendar Year Firm Sales and Transportation Volumes (therms)					
	2008	2009	2010	2011	2012
SC 1A		26,443,536	26,273,124	26,117,733	26,072,159
SC 1B		444,758,180	446,630,891	448,464,542	455,400,470
SC 2A		40,130,030	39,528,079	38,935,158	38,554,896
SC 2B		247,548,909	260,427,317	272,858,520	287,243,301
SC 3		40,539,583	42,103,964	43,672,808	45,462,350
SC 15		16,589,377	16,589,377	16,589,377	16,634,827
SC 16		951,939	1,033,576	1,115,213	1,198,825
SC 17		118,830	118,830	118,830	119,150
SC 9/10 NGV		7,054,633	7,054,633	7,054,633	7,073,961
Total		824,135,017	839,759,790	854,926,814	877,759,940

KEDLI Delivery Rate Surcharge Unitized \$/therm					
	2008	2009	2010	2011	2012
SC 1A		\$0.0291	\$0.0586	\$0.0885	\$0.1182
SC 1B		\$0.0134	\$0.0266	\$0.0398	\$0.0523
SC 2A		\$0.0107	\$0.0217	\$0.0331	\$0.0446
SC 2B		\$0.0100	\$0.0191	\$0.0273	\$0.0346
SC 3		\$0.0057	\$0.0110	\$0.0159	\$0.0204
SC 15		\$0.0031	\$0.0062	\$0.0092	\$0.0123
SC 16		\$0.0058	\$0.0106	\$0.0147	\$0.0183
SC 17		\$0.0035	\$0.0070	\$0.0106	\$0.0141
SC 9/10 NGV		\$0.0112	\$0.0225	\$0.0337	\$0.0448
Total		\$0.0121	\$0.0238	\$0.0351	\$0.0456

**KEDLI Development of Rate Year 2 \$10 Million Delivery Rate Surcharge
Based on Firm Service Class Contribution to Total Firm Delivery Revenues
Incorporating Proposed Rate Year 1 Adjustments**

	Rate Year 1 Total Proposed Firm Billed Delivery Revenues (\$000)	Total Rate Year 1 Low Income Discounts (\$000)	Rate Year 1 Total Proposed Firm Billed Delivery Revenues Net Of Low Income (\$000)	Firm Service Class Percentage Contribution to Firm Delivery Revenue	Firm Service Class Allocation of \$10 Million Surcharge	Calendar Year Basis Firm Service Class Rate Year 2 Annual Billed Volumes (therms) 1/	Rate Year 2 Firm Service Class Delivery Rate Surcharge (\$ per therm)
SC 1A	\$34,659	-\$270	\$34,389	7.70%	\$770,254	26,443,536	\$0.0291
SC 1B	\$270,187	-\$4,539	\$265,648	59.50%	\$5,950,089	444,758,180	\$0.0134
SC 2A	\$19,179	\$0	\$19,179	4.30%	\$429,585	40,130,030	\$0.0107
SC 2B	\$110,822	\$0	\$110,822	24.82%	\$2,482,241	247,548,909	\$0.0100
SC 3	\$10,344	\$0	\$10,344	2.32%	\$231,688	40,539,583	\$0.0057
SC 15	\$2,278	\$0	\$2,278	0.51%	\$51,023	16,589,377	\$0.0031
SC 16	\$245	\$0	\$245	0.05%	\$5,480	951,939	\$0.0058
SC 17	\$19	\$0	\$19	0.00%	\$419	118,830	\$0.0035
SC 9/10 NGV	\$3,537	\$0	\$3,537	0.79%	\$79,223	7,054,633	\$0.0112
Total	\$451,269	-\$4,809	\$446,460	100.00%	\$10,000,000	824,135,017	\$0.0121

1/ These are KEDLI Firm sales and transportation volumes.

Appendix C

Illustrative TC/IT Annual Price Cap Calculation Example

Calculation of Annual Equivalent Distribution Revenue using the SC 2B rates

	<u>Volumes (therms)</u>	<u>TC/IT Customers</u>	<u>First 3 therms @ 12.87</u>	<u>Next 87 therms @ 1.1140</u>	<u>Next 2,910 therms @ .4000</u>	<u>Over 3,000 therms @ .3000</u>	<u>Total Distribution Revenue</u>
Jan-08	12,590,022	760	\$9,781	\$73,658	\$884,640	\$3,093,006	\$4,061,085
Feb-08	10,846,168	760	\$9,781	\$73,658	\$884,640	\$2,569,850	\$3,537,929
Mar-08	9,576,529	760	\$9,781	\$73,658	\$884,640	\$2,188,959	\$3,157,038
Apr-08	6,551,380	760	\$9,781	\$73,658	\$884,640	\$1,281,414	\$2,249,493
May-08	4,367,235	760	\$9,781	\$73,658	\$884,640	\$626,171	\$1,594,249
Jun-08	3,106,077	760	\$9,781	\$73,658	\$884,640	\$247,823	\$1,215,902
Jul-08	3,209,613	760	\$9,781	\$73,658	\$884,640	\$278,884	\$1,246,963
Aug-08	3,209,613	760	\$9,781	\$73,658	\$884,640	\$278,884	\$1,246,963
Sep-08	3,106,077	760	\$9,781	\$73,658	\$884,640	\$247,823	\$1,215,902
Oct-08	5,497,293	760	\$9,781	\$73,658	\$884,640	\$965,188	\$1,933,267
Nov-08	7,865,186	760	\$9,781	\$73,658	\$884,640	\$1,675,556	\$2,643,635
Dec-08	11,193,526	760	\$9,781	\$73,658	\$884,640	\$2,674,058	\$3,642,137
Total	81,118,720	760	\$117,374	\$883,892	\$10,615,680	\$16,127,616	\$27,744,563

Calculation of Annual Equivalent Revenue, including all surcharges, assuming service provided under SC 2E

Annual Distribution Revenue using the SC 2B Rates	\$27,744,563
Annual SC 2B GAC Costs (Assuming \$0.9833 per therm GAC costs)	\$79,764,037
Annual SC 2B SBC Surcharge (Using the KEDLI SBC charge of \$.0124 per therm)	\$1,005,872

Total Annual Equivalent Revenue assuming service provided under the KEDLI SC 2B Rates **\$108,514,472 (Total 1)**

Annual Revenue Resulting From TC/IT Variable Monthly Rates

	<u>Volumes (therms)</u>	<u>Monthly Revenue At \$1.23 therm</u>	<u>Annual Variable Revenue</u>
Jan-08	12,590,022	\$15,485,726	\$15,485,726
Feb-08	10,846,168	\$13,340,787	\$13,340,787
Mar-08	9,576,529	\$11,779,131	\$11,779,131
Apr-08	6,551,380	\$8,058,197	\$8,058,197
May-08	4,367,235	\$5,371,699	\$5,371,699
Jun-08	3,106,077	\$3,820,475	\$3,820,475
Jul-08	3,209,613	\$3,947,824	\$3,947,824
Aug-08	3,209,613	\$3,947,824	\$3,947,824
Sep-08	3,106,077	\$3,820,475	\$3,820,475
Oct-08	5,497,293	\$6,761,671	\$6,761,671
Nov-08	7,865,186	\$9,674,179	\$9,674,179
Dec-08	11,193,526	\$13,768,037	\$13,768,037
Total	81,118,720	\$99,776,026	\$99,776,026 (Total 2)

Reconciliation Over/Under (Total 2) - (Total 1) -\$8,738,446

Note: The Delivery Rate Surcharge for KEDLI will not be effective until 1/1/09. It will then be included in this calculation.