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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 The Brooklyn Union Gas Company d/b/a
KeySpan Energy Delivery New York for Gas Service,
Case 06-G-1185**

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"), The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York ("KEDNY" or "the Company") hereby submits the following:

(1) a Supplement – Supplement No. 44 – to its Schedule for Gas Service – P.S.C. No. 12 – Gas cancelling the amendments listed in Appendix I of the December 21 Order;

(2) the revised tariff leaves listed in Appendix A hereto issued by KEDNY to its Schedule for Gas Service, P.S.C. No. 12 – Gas to become effective on a temporary basis on and after January 1, 2008;

(3) a Statement of Weather Normalization Adjustment Factor – Statement 3 to be effective January 1, 2008;

(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; and

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

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

1. *Develop a volumetric delivery surcharge to increase revenues by \$5 million annually* – The revised leaves establish volumetric surcharges to be assessed to each firm service classification and are designed, in total, to enable KEDNY to recover an incremental \$5 million annually. The service charges applicable to each firm service classification are based on the percentage of its contribution to total firm delivery revenues.² The revenue collected from the surcharge will be placed in a deferral account

¹ See December 21 Order at 65-67.

² *Id.* at 67.

and collect interest at the rate equal to the allowance for funds used during construction.³
See Leaf 138.50.

2. *Shift recovery of certain costs from delivery rates to the gas adjustment clause (“GAC”) and/or transportation adjustment clause (“TAC”) and revise KEDNY’s Merchant Function Charge* – The revised leaves permit KEDNY 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 KEDNY 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 KEDNY 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 \$0.0168 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, 1BI, 2-1, 2-2, 3, 4A, 4B, 7, and the equivalent transportation classes. *See* Leaf 138.50.

³ *Id.*

⁴ The December 21 Order states (at 47) that the total Merchant Function Charges for KEDNY would range from \$0.567 in 2008 to \$0.540 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 the underlying Gas Rates Joint Proposal dated October 10, 2007. The Joint Proposal will hereinafter be referred to as “JP-4.” In addition, because of the pervasive nature of the changes to the GAC, the Company is submitting a completely new series of GAC tariff leaves. These leaves include language that permits the proper allocation of gas costs between KEDNY and KEDLI to reflect their combined portfolios.

⁵ *Id.* at 6-7.

⁶ *Id.*

⁷ *Id.* at 7-9.

4. *Implement certain revenue neutral rate design changes* – The revised leaves permit KEDNY to modify the rates charged to Service Classifications 1A, 2 and 3 to (i) increase the revenue responsibility of SC 1A by \$9 million annually, (ii) decrease the revenue responsibility of SC 2-1 and SC 2-2 by \$7.5 million each, a total annual decrease of \$15 million, and (iii) increase the annual revenue responsibility of SC 3 by \$6 million annually.⁸ The leaves further reflect increases in the minimum rate blocks for SC Nos. 1A, 1B, 1BI, 2-1, 2-2, 3, 4B and 7 and decreases in other blocks as set forth in Appendix C to JP-4.⁹

5. *Implement a revised low income program* – The revised leaves permit KEDNY to expand its low income program to a level that is projected not to exceed 60,000 customers and to revise the discounts afforded to low income heating and non-heating customers.¹⁰ See Leaves 147, 155.

6. *Establish a new criterion for differentiating SC 2-1 and SC 2-2 customers* – The revised leaves permit KEDNY to implement a new criterion for distinguishing commercial heating and non-heating customers under SC 2-1 and 2-2 beginning with bills rendered after March 1, 2008.¹¹ Customers will be deemed SC 2-2 customers if their January usage is at least two times greater than their July usage.¹² See Leaf 159.

7. *Establish a new lost and unaccounted for (“LAUF”) factor* – The revised leaves permit KEDNY to establish a new LAUF factor of 2.34%.¹³

⁸ *Id.* at 19-20, 26.

⁹ These rate block adjustments were approved in the December 21 Order at 22, 26.

¹⁰ *Id.* at 21, 26.

¹¹ *Id.* at 23-26, 27.

¹² *Id.* at 23.

¹³ *Id.* at 36-37.

8. *Implement an annual cap for Temperature Controlled ("TC") and Interruptible ("IT") customers* – The revised leaves implement the TC/IT annual price 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.¹⁴ 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 2-2 rate, including all gas charges and surcharges, to the TC and IT classes. KEDNY proposes not to include in this comparison fixed charges payable by TC/IT customers because it does not include such charges in its current calculations of the monthly cap. It was the intent of the parties to modify the cap to afford KEDNY more pricing flexibility, not less. This is the Commission's stated intent as well.¹⁵ 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, the Company would use the commercial heating subclass SC 2-2 as the basis of comparison, pending the Commission's clarification to this effect. This is illustrated on Appendix C. KEDNY 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 consume significantly more gas during the winter period. KEDNY will provide a report to the

¹⁴ *Id.* at 42-43.

¹⁵ *Id.* at 42.

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.

9. *Modify the GAC to flow through 100% of power generation margins and 85% of gas cost incentive amounts* – The revised GAC leaves permit KEDNY to flow through to firm sales customers 100% of power generation margins¹⁶ and 85% of margins from certain off-system sales and capacity release credits.¹⁷

10. *Revise its weather normalization clause (“WNC”)* – The revised leaves permit KEDNY to revise its WNC (i) to reflect a 2.2% deadband, (ii) to reflect the use of weather data for the 30 years ending June 30, 2006, and (iii) to provide for its operation during the period October 1 through May 31.¹⁸ *See* Leaves 80-83. As discussed *supra*, also enclosed is the Weather Normalization Adjustment Factor Statement No. 3 to be effective January 1, 2008.

11. *Implement a revised Billing and Payment Processing rate* – The revised leaves permit KEDNY to implement the revised Billing and Payment Processing rate of \$0.76 per bill as approved in the December 21 Order.¹⁹ *See* Leaf 138.49.

12. *Implement Distributed Generation rates* – The revised leaves reflect the continuation of KEDNY’s current Distributed Generation rates under SC 21. The current rates were established in accordance with the guidelines provided by the Commission in

¹⁶ *Id.* at 43-44.

¹⁷ *Id.* at 46-47.

¹⁸ *Id.* at 44-48.

¹⁹ *Id.* at 47-49.

Case 02-M-0515,²⁰ and there are currently no customers taking service under this Service Classification. Moreover, KEDNY's base delivery rates are not being increased to provide additional revenues. While the December 21 Order reflects an expectation on the part of Staff that distributed generation rates will be changed in a similar manner to commercial base delivery rates (which are decreasing),²¹ the absence of customers in SC 21 precludes KEDNY from concluding that SC 21 rates are presently too high or too low on an embedded cost basis. Accordingly, KEDNY proposes that those rates remain unchanged.

13. *Modify KEDNY's Area Development/Business Incentives Rate ("ADR/BIR") Service Classifications* – The revised leaves permit KEDNY to modify its ADR/BIR service classifications to provide that if a customers had promised to increase its usage to meet eligibility requirements, and the increased usage was not achieved because of the installation of energy efficient equipment, eligibility for the incentive would not be lost.²² See Leaf 107.

Other Matters

The December 21 Order authorizes KEDNY to implement monthly billing effective July 1, 2008. In order to avoid confusion, KEDNY has not included tariff leaves necessary to implement monthly billing with this filing. KEDNY proposes to file such leaves in a later filing to be made no later than 30 days prior to July 1, 2008. KEDNY notes that the implementation of monthly billing will affect a number of rate

²⁰ 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).

²¹ December 21 Order at 53.

²² December 21 Order at 56.

components, including the Merchant Function Charge.²³ KEDNY will employ the methodology set forth in Appendix A to JP-4 to recalculate that charge when monthly billing is implemented.

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

KEDNY 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, KEDNY 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 KEDNY's service territory.

²³ See JP-4 at Appendix G, footnote 2.

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 service)

Appendix A

THE BROOKLYN UNION GAS COMPANY
d/b/a KEYSpan ENERGY DELIVERY NEW YORK
PSC No. 12-GAS

Twelfth Revised Leaf No. 5
Sixth Revised Leaf No. 7
Third Revised Leaf No. 66
Ninth Revised Leaf No. 67
Ninth Revised Leaf No. 68
Eighth Revised Leaf No. 69
Fifth Revised Leaf No. 70
Seventh Revised Leaf No. 71
Eighth Revised Leaf No. 72
Tenth Revised Leaf No. 73
Seventh Revised Leaf No. 73.1
Sixth Revised Leaf No. 74
Fifth Revised Leaf No. 75
Seventh Revised Leaf No. 76
Third Revised Leaf No. 77
Seventh Revised Leaf No. 78
Sixth Revised Leaf No. 79
First Revised Leaf No. 79.1
First Revised Leaf No. 79.2
Original Leaf No. 79.3
Original Leaf No. 79.4
Original Leaf No. 79.5
Original Leaf No. 79.6
Original Leaf No. 79.7
Original Leaf No. 79.8
Original Leaf No. 79.9
Original Leaf No. 79.10
Original Leaf No. 79.11
Original Leaf No. 79.12
Eighteenth Revised Leaf No. 80
Nineteenth Revised Leaf No. 81
Eleventh Revised Leaf No. 82
Twentieth Revised Leaf No. 83
Fourth Revised Leaf No. 107
Seventh Revised Leaf No. 138.49
First Revised Leaf No. 138.50
Eighth Revised Leaf No. 140
Eighth Revised Leaf No. 144
Third Revised Leaf No. 147
Third Revised Leaf No. 148
Eighth Revised Leaf No. 152
Eighth Revised Leaf No. 153
Third Revised Leaf No. 155
Third Revised Leaf No. 156

Eighth Revised Leaf No. 159
Eighth Revised Leaf No. 160
Eighth Revised Leaf No. 163
Eighth Revised Leaf No. 164
Eleventh Revised Leaf No. 167
Ninth Revised Leaf No. 168
Eighth Revised Leaf No. 171
Eighth Revised Leaf No. 172
Fourth Revised Leaf No. 175
Third Revised Leaf No. 175.1
Sixth Revised Leaf No. 197
Sixth Revised Leaf No. 198
Sixth Revised Leaf No. 207
Sixth Revised Leaf No. 208
Sixth Revised Leaf No. 217
Sixth Revised Leaf No. 218
Sixth Revised Leaf No. 219
Sixth Revised Leaf No. 220
Third Revised Leaf No. 229
Twelfth Revised Leaf No. 334
First Revised Leaf No. 334.1
Tenth Revised Leaf No. 339
Tenth Revised Leaf No. 340
Sixteenth Revised Leaf No. 341
Original Leaf No. 341.1
Thirteenth Revised Leaf No. 342
Original Leaf No. 342.1
Twelfth Revised Leaf No. 343
Second Revised Leaf No. 343.1
Second Revised Leaf No. 343.2
Second Revised Leaf No. 343.3
Second Revised Leaf No. 343.4
Sixth Revised Leaf No. 346
Seventh Revised Leaf No. 347
Fourth Revised Leaf No. 350
Third Revised Leaf No. 373
Third Revised Leaf No. 374
Third Revised Leaf No. 375
Thirteenth Revised Leaf No. 403
Sixth Revised Leaf No. 406
Second Revised Leaf No. 406.1
Second Revised Leaf No. 406.2
Second Revised Leaf No. 406.3
Second Revised Leaf No. 406.4

Appendix B

KEDNY Delivery Rate Surcharge Years 2008 to 2012

YR1 Firm Service Class Percentage Contribution to Firm Delivery Revenue		KEDNY Delivery Rate Surcharge \$				
		2008	2009	2010	2011	2012
SC 1A	20.29%	\$1,014,341	\$2,028,681	\$3,043,022	\$4,057,363	\$5,071,703
SC 1B	57.96%	\$2,898,154	\$5,796,308	\$8,694,462	\$11,592,616	\$14,490,770
SC 2-1	6.38%	\$318,852	\$637,703	\$956,555	\$1,275,406	\$1,594,258
SC 2-2	6.08%	\$304,025	\$608,050	\$912,074	\$1,216,099	\$1,520,124
SC 3	7.55%	\$377,467	\$754,933	\$1,132,400	\$1,509,866	\$1,887,333
SC 4A	0.97%	\$48,290	\$96,579	\$144,869	\$193,158	\$241,448
SC 4B	0.19%	\$9,499	\$18,997	\$28,496	\$37,995	\$47,494
SC 7	0.01%	\$458	\$916	\$1,374	\$1,832	\$2,290
SC 14 NGV	0.58%	\$28,916	\$57,832	\$86,749	\$115,665	\$144,581
Total	100.00%	\$5,000,000	\$10,000,000	\$15,000,000	\$20,000,000	\$25,000,000

KEDNY Calendar Year Firm Sales and Transportation Volumes (therms)						
	2008	2009	2010	2011	2012	
SC 1A	66,581,775	65,235,600	64,257,177	63,315,277	62,675,046	
SC 1B	692,448,521	691,105,021	695,477,200	699,571,016	709,389,206	
SC 2-1	123,326,202	127,946,476	133,064,751	138,207,915	143,942,941	
SC 2-2	102,341,645	103,695,642	106,794,445	109,609,857	114,146,321	
SC 3	167,218,438	169,821,271	173,310,689	176,867,917	181,281,163	
SC 4A	36,711,582	38,227,083	39,878,012	41,536,199	43,353,764	
SC 4B	3,556,806	3,838,941	4,133,230	4,428,170	4,739,582	
SC 7	230,936	230,305	230,305	230,305	230,936	
SC 14 NGV	6,574,859	6,581,778	6,606,460	6,631,141	6,673,585	
Total	1,198,990,764	1,206,682,118	1,223,752,268	1,240,397,798	1,266,432,544	

KEDNY Delivery Rate Surcharge Unitized \$/therm					
	2008	2009	2010	2011	2012
SC 1A	\$0.0152	\$0.0311	\$0.0474	\$0.0641	\$0.0809
SC 1B	\$0.0042	\$0.0084	\$0.0125	\$0.0166	\$0.0204
SC 2-1	\$0.0026	\$0.0050	\$0.0072	\$0.0092	\$0.0111
SC 2-2	\$0.0030	\$0.0059	\$0.0085	\$0.0111	\$0.0133
SC 3	\$0.0023	\$0.0044	\$0.0065	\$0.0085	\$0.0104
SC 4A	\$0.0013	\$0.0025	\$0.0036	\$0.0047	\$0.0056
SC 4B	\$0.0027	\$0.0049	\$0.0069	\$0.0086	\$0.0100
SC 7	\$0.0020	\$0.0040	\$0.0060	\$0.0080	\$0.0099
SC 14 NGV	\$0.0044	\$0.0088	\$0.0131	\$0.0174	\$0.0217
Total	\$0.0042	\$0.0083	\$0.0123	\$0.0161	\$0.0197

**KEDNY Development of Rate Year 1 \$5 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 \$5 Million Surcharge	Calendar Year Basis Firm Service Class Rate Year 1 Annual Billed Volumes (therms) 1/	Rate Year 1 Firm Service Class Delivery Rate Surcharge (\$ per therm)
SC 1A	\$118,945	-\$750	\$118,195	20.29%	\$1,014,341	66,581,775	\$0.0152
SC 1B	\$344,307	-\$6,602	\$337,705	57.96%	\$2,898,154	692,448,521	\$0.0042
SC 2-1	\$37,154	\$0	\$37,154	6.38%	\$318,852	123,326,202	\$0.0026
SC 2-2	\$35,426	\$0	\$35,426	6.08%	\$304,025	102,341,645	\$0.0030
SC 3	\$43,984	\$0	\$43,984	7.55%	\$377,467	167,218,438	\$0.0023
SC 4A	\$5,627	\$0	\$5,627	0.97%	\$48,290	36,711,582	\$0.0013
SC 4B	\$1,107	\$0	\$1,107	0.19%	\$9,499	3,556,806	\$0.0027
SC 7	\$53	\$0	\$53	0.01%	\$458	230,936	\$0.0020
SC 14 NGV	\$3,369	\$0	\$3,369	0.58%	\$28,916	6,574,859	\$0.0044
Total	\$589,972	-\$7,352	\$582,620	100.00%	\$5,000,000	1,198,990,764	\$0.0042

1/ These are KEDNY Firm sales and transportation volumes.

Appendix C

Illustrative TC/IT Annual Price Cap Calculation Example

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

	<u>Volumes (therms)</u>	<u>TC/IT Customers</u>	<u>First 3 therms @ 15.29</u>	<u>Next 87 therms @ .5341</u>	<u>Next 2,910 therms @ .2960</u>	<u>Over 3,000 therms @ .2460</u>	<u>Total Distribution Revenue</u>
Jan-08	39,266,266	4,159	\$63,591	\$193,255	\$3,582,396	\$6,590,159	\$10,429,402
Feb-08	33,827,466	4,159	\$63,591	\$193,255	\$3,582,396	\$5,252,215	\$9,091,457
Mar-08	29,867,665	4,159	\$63,591	\$193,255	\$3,582,396	\$4,278,104	\$8,117,346
Apr-08	20,432,707	4,159	\$63,591	\$193,255	\$3,582,396	\$1,957,104	\$5,796,346
May-08	13,620,709	4,159	\$63,591	\$193,255	\$3,582,396	\$281,353	\$4,120,595
Jun-08	9,687,359	4,159	\$63,591	\$193,255	\$2,756,662	\$0	\$3,013,509
Jul-08	10,010,271	4,159	\$63,591	\$193,255	\$2,852,244	\$0	\$3,109,090
Aug-08	10,010,271	4,159	\$63,591	\$193,255	\$2,852,244	\$0	\$3,109,090
Sep-08	9,687,359	4,159	\$63,591	\$193,255	\$2,756,662	\$0	\$3,013,509
Oct-08	17,145,180	4,159	\$63,591	\$193,255	\$3,582,396	\$1,148,372	\$4,987,615
Nov-08	24,530,258	4,159	\$63,591	\$193,255	\$3,582,396	\$2,965,101	\$6,804,344
Dec-08	34,910,820	4,159	\$63,591	\$193,255	\$3,582,396	\$5,518,720	\$9,357,962
Total	252,996,330	4,159	\$763,093	\$2,319,060	\$39,876,983	\$27,991,128	\$70,950,264

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

Annual Distribution Revenue using the SC 2-2 Rates	\$70,950,264
Annual SC 2-2 GAC Costs (Assuming \$0.9833 per therm GAC costs)	\$248,771,291
Annual SC 2-2 SBC Surcharge (Using the KEDNY SBC charge of \$.0168 per therm)	\$4,250,338
Annual SC 2-2 2008 Delivery Rate Surcharge (Using the KEDNY SC 2-2 Surcharge of \$.0030 per therm)	\$758,989
Total Annual Equivalent Revenue assuming service provided under the KEDNY SC 2-2 Rates	\$324,730,883 (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	39,266,266	\$48,297,507	\$48,297,507
Feb-08	33,827,466	\$41,607,783	\$41,607,783
Mar-08	29,867,665	\$36,737,228	\$36,737,228
Apr-08	20,432,707	\$25,132,230	\$25,132,230
May-08	13,620,709	\$16,753,473	\$16,753,473
Jun-08	9,687,359	\$11,915,451	\$11,915,451
Jul-08	10,010,271	\$12,312,633	\$12,312,633
Aug-08	10,010,271	\$12,312,633	\$12,312,633
Sep-08	9,687,359	\$11,915,451	\$11,915,451
Oct-08	17,145,180	\$21,088,571	\$21,088,571
Nov-08	24,530,258	\$30,172,217	\$30,172,217
Dec-08	34,910,820	\$42,940,308	\$42,940,308
Total	252,996,330	\$311,185,486	\$311,185,486 (Total 2)

Reconciliation Over/Under (Total 2) - (Total 1)	-\$13,545,397
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Note: The Delivery Rate Surcharge effective 1/1/08 for KEDNY will be included in the KEDNY GAC/TAC until a separate line item is provided.