



national fuel

June 28, 2011

Hon. Jaclyn A. Brillling
Secretary
Public Service Commission
Three Empire State Plaza
Albany, NY 12223-1350

Re: Case 02-G-0858 – National Fuel Gas Distribution Corporation
Proposed Tariff Amendments

Dear Secretary Brillling:

National Fuel Gas Distribution Corporation (“Distribution” or the “Company”) submits the following amendments to its tariff, P.S.C. No. 8 - GAS:

Leaf No. 3	Revision 23
Leaf No. 84	Revision 10
Leaf No. 148.6	Revision 10
Leaf No. 148.10	Revision 4

For the reasons that follow, Distribution respectfully requests that the above tariff revisions be approved, together with changes described below, for an effective date of November 1, 2011.

Introduction

This filing is submitted to the New York Public Service Commission (“NYPSC” or “Commission”) by the Company to foster the development of Natural Gas Vehicles (“NGVs”) in Western New York. The concepts used in the development of the Partnership for NGVs are similar to those in Distribution’s existing Partnership for Distributed Generation (“DG”) Pilot Program, which can be found at Leaf No. 148.6 of Distribution’s tariff. Summarized in brief, this filing requests Commission authorization to add NGV applications to the Company’s existing Partnership for DG Pilot Program and extend authorization for these programs to March 31, 2015.

Background

Promoting development of NGVs would benefit Distribution and its rate payers due to the high load factor and incremental volumes generated by NGV customers. This type of increased load helps Distribution spread out system fixed costs over larger throughput, and improves utilization of the system during the off-peak shoulder and summer months.

NGVs also benefit the commercial and industrial customers it serves by reducing their overall energy costs, while enhancing our environment and national energy security. NGVs would

Hon. Jaclyn A. Brillling
June 28, 2011
Page 2

promote the state's ongoing efforts to reduce the cost of doing business in New York, by making businesses more competitive, thereby helping the state to maintain and attract employers.

The 2009 New York State Energy plan recognized New York's leadership role in developing NGVs. "Building upon existing facilities and vehicles, the public sector fleets offer an opportunity to be 'testbeds' for alternative fuels and vehicle technologies. Due to the myriad operating conditions public fleets experience, alternative fuel technologies can be tested under a wide range of weather and other conditions. These fleets also provide markets for potential 'niche' fuels and technologies. This could include continuation and expansion of New York's leadership role in the use of CNG vehicles (both light duty and heavy duty), as well as expanding the use of biofuels and electric vehicle technologies."¹ New York can work with other states and with transportation and energy associations to influence vehicle manufacturers to produce alternative fuel vehicles of all types (light duty and heavy duty). Having a variety of vehicle types to meet their needs will allow public and private sector fleets to expand their use of these vehicles.

Program Need

The one-time, upfront costs to develop an NGV project can be substantial. If a customer chooses or needs to build their own re-fueling station, the cost can be anywhere from \$100,000 to \$1.5 million or more, depending on the type of station desired (fast fill or time fill) and the number of vehicles in the customer's fleet. Likewise, the incremental cost of purchasing new NGVs vs. gasoline or diesel vehicles can be anywhere from \$7,000 to \$22,000 per vehicle, depending on the type of vehicle. In addition to these one-time costs, the re-fueling station will involve some additional ongoing O&M costs as well, with respect to the necessary gas compressor and storage tanks. However, even with these large initial costs and added O&M costs, the prospect of investing in NGVs is still attractive because of the significant price gap between gasoline/diesel and natural gas. At current prices of around \$4.00 per gallon for gasoline, and \$1.50/gallon equivalent for natural gas, a customer could currently achieve approximately \$2.50 per gallon in savings by moving to NGVs. This ongoing annual O&M savings vs. the large upfront capital cost is what generates the project's simple payback for NGVs. Currently, the customer payback for NGVs in several target market segments are in the four to eight year range at best, which in many cases is just beyond the required range of the customer. A need exists for financial consideration for some of these customers in order to make project economics meet, or at least come closer to matching, customer expectations.

Through Distribution's involvement in the attempted development of NGV projects within its service territory, it has become clear that both customers and our NGV partners (such as NYSEERDA, Clean Communities of Western NY and Clean Energy) would prefer more direct Company involvement in developing NGV projects.

1. Customers prefer that Distribution become more involved in the development of NGV projects because they believe that a more direct participation by Distribution lends credibility to the claims of long term energy savings by NGV installations.

¹ State Energy Planning Board, 2009 State Energy Plan, Volume I, page 54.
<http://www.nysenergyplan.com/2009stateenergyplan.html>.

Hon. Jaclyn A. Brillling
June 28, 2011
Page 3

2. Our NGV partners prefer that Distribution become involved because they recognize the customers' increased comfort with installing NGV refueling facilities and/or purchasing NGVs if Distribution is involved in the process.
3. Distribution, for its part, recognizes that NGV is at a critical crossroads in the practical development of projects within its service territory. There is a large market potential, and a number of opportunities for new NGV applications in our New York service territory, given that the required customer payback can be achieved. These applications, when successfully installed, will provide evidence to other customers of the viability of NGV applications within the Distribution service territory. In order to take advantage of the current opportunity to encourage NGVs within its service territory, Distribution has designed its Partnership for NGVs program.

Program Overview

Partnership for NGVs is a pilot program developed by Distribution, with input provided by customers, our NGV partners and Staff, to encourage the installation of NGV facilities/vehicles in Distribution's service territory.

The program has been developed at the request of customers and our NGV partners that are actively involved in the installation and operation of NGV facilities/vehicles for customers. Customers and our NGV partners have requested that the Company become directly involved in improving the marketability of NGVs. Distribution's Partnership for NGVs program is designed to accommodate their request.

The objectives of the Partnership for NGVs program include the following:

1. Improve project economics to meet the customer's payback requirements.
2. Develop flexible rates designed to meet project requirements.
3. Provide one-time facilities cost buydown.
4. Develop a set of measurable deliverables to evaluate the effectiveness of the pilot program and report back to the Commission.
5. Costs to be borne entirely by each project.

Program Design

Simply stated, Distribution's Partnership for NGVs program is designed to improve the customer's NGVs project economics by reducing the payback requirements of the customer through a one-time cost buydown of the NGV Refueling Station facility installation and/or purchase of NGVs. The cost of the one-time facility cost buydown would be recovered from the customer through the future incremental transportation or sales service charges paid to Distribution by the customer. This method assures that buydown costs will be borne by the NGV customers on a project-by-project basis.

Hon. Jaclyn A. Brillling
June 28, 2011
Page 4

Through the Company's experience with customers evaluating NGV projects, it has become apparent that customers predominantly evaluate the economics of NGV projects through a payback analysis. Distribution can affect the payback of certain projects in a cost-effective manner to both the customer and Distribution through a one-time facility/vehicle cost buydown. The cost of the one-time buydown would be recovered through the future transportation charges paid to Distribution by the customer. The Partnership for NGVs program would permit the Company to enter into negotiated agreements with customers where a one-time NGV cost buydown would be provided in return for a long term transportation service contract at rates sufficient to recover the costs of the one-time buydown over the term of the transportation service contract. We expect the buydown would typically be recovered over a period of up to six years, depending on the economics of the project.

Distribution proposes to implement this program on a pilot basis with an initial program term of approximately three-and-a-half years. The Company also proposes an average annual facility buydown cap of \$1 million per year over that period, (total buydown costs for the term would be approximately \$3.5 million) with an estimated average buydown per customer anticipated in the range of \$10,000 to \$200,000.

Program Regulatory Requirements

For the Partnership for NGVs program to work as planned, the Company requests that the Commission approve the following, such that incremental transportation revenues related to the Partnership for NGV projects would be excluded from the 90/10 transportation rate and revenue decoupling sharing provisions currently in place in Distribution's tariff, since the revenues would be applied towards recovering the one-time facility cost buydown.

Program Deliverables

The proposed pilot program will utilize a facility/vehicle cost buydown to reduce start-up costs for NGVs. As part of this pilot program, Distribution proposes that it will generate for each of the projects successfully installed as a part of this program:

1. Document/Verify Project Economics.
Distribution will collect data on refueling facility/vehicle costs, O&M costs and displaced gasoline/diesel fuel costs to calculate the actual customer payback achieved. These actual costs will be compared to the estimated pro-forma costs and the results will be used to further refine our analysis on future projects.
2. Evaluate Performance/Impact of NGV project on the environment.
Distribution will analyze the impact of the NGV project on reducing harmful emissions to the atmosphere.

Hon. Jaclyn A. Brillling
June 28, 2011
Page 5

3. Demonstrate the Reliability of NGVs.
Distribution will monitor the performance of the NGV project to develop a profile of the operational aspects of NGV refueling stations and vehicles, as well as frequency of planned vs. unplanned in operation. This will be used to develop a better understanding of NGV refueling stations and vehicle reliability, and proof statements for future customers questioning NGV reliability.
4. Develop NGV “best practice” procedures.
Distribution will monitor the startup of the NGV refueling station and/or new vehicles to document the process and establish the “best practice” procedures. The results will be shared with customers and our NGV partners to improve the startup procedures for future installations.
5. Introduction of NGVs to other interested parties.
Through Distribution’s projects, the Company will introduce the NGV concept and associated technologies to design engineers, mechanical/electrical contractors, service companies, legislators, governmental agencies, etc. Educating these other parties on the features and benefits of NGVs will further encourage the advancement of NGVs in western New York.
6. Measure Customer Acceptance and Awareness.
Distribution will survey key personnel from each customer to determine customer satisfaction with the NGV project and identify any area of concern or weaknesses in the project startup (design/installation/operation) process. This will be used to “fine tune” future projects, as well as increase the awareness of these issues to prospective customers.
7. Collection of Operating/Load Data.
Distribution will collect monthly data on project operating information such as number of vehicles fueled, miles vehicles driven, natural gas used, gasoline/diesel displaced, cost of natural gas and gasoline/diesel, etc.

Distribution will share the results of these deliverables with the NYPSC during the term of the pilot program.

Request for Extension of Partnership for DG

On March 20, 2003 the Commission approved, with modification, the Company’s “Partnership for Distributed Generation” pilot program in Case 02-G-0858.² Under that Order the Commission required a three-year term for the pilot. Under the current tariff leaf, Distribution’s pilot program is

² Case 02-G-0858, Tariff Filing by National Fuel Gas Distribution Corporation to establish a “Partnership for Distributed Generation” pilot program, Order Approving Distributed Generation Pilot Program with Modifications (issued and effective March 20, 2003).

Hon. Jaclyn A. Brillling
June 28, 2011
Page 6

scheduled to end March 31, 2012. With this filing the Company requests that the pilot program be extended for an additional three years for an end date of March 31, 2015.

All other requirements of the program would continue, including reporting requirements and the cap on total facility cost buydowns for the program of \$3 million.

As explained in the March 20, 2003 Order “The Company believes that its endorsement and involvement with the DG process, combined with a shorter payback period, will attract customers to the pilot program.”³ The DG pilot has delivered the information expected in the March 20, 2003 Order, including:

- Documentation on project economics.
- Demonstration of DG system reliability.
- Introduction to local trades regarding design engineering and construction of DG facilities.
- An increased understanding of best practices, customer acceptance and awareness, and electronic interface issues.

To date the Company has six customers participating in the program. The total amount of facility cost buydowns provided to these five projects is \$653,000. This is well within the \$3 million limitation established in the program.

In its March 20, 2003 Order the Commission approved the program with modifications because it anticipates “benefits to the state-wide energy program from DG applications.”⁴ The Company believes that ending its program on March 31, 2012 would stall the development of DG applications in its service territory.

Further, given that the actual amount of DG facility buydown costs has been well below the \$3 million limitation in the tariff, the Company does not see any reason to end the program at this time. Indeed, the Company believes that there is sufficient funding available at this time to accommodate the addition of the proposed Partnership for NGVs.

Finally, as of September 2007, National Grid has implemented mandatory hourly electric commodity pricing for all their commercial and industrial customers in the Company’s service territory with peak demands greater than 100 KW. This has significantly altered how the Company markets DG technology to its customers in several ways.

³ Id. at pg. 2.

⁴ Id. at pg. 6.

Hon. Jaclyn A. Brillling

June 28, 2011

Page 7

First, it has drastically increased the complexity of the technical and economic analysis of various DG operating scenarios that the Company must perform to assist its customers in evaluating this technology. Second, it has fundamentally changed how future DG installations will likely operate. Due to this new pricing structure, most future DG applications will move away from grid isolated or base loaded, grid parallel design, and towards a grid parallel, daily economic dispatch operation based on pricing signals from the electric and gas commodity markets. Given the continuing evolution of the DG market place, the Company believes that the continuation of its Partnership for DG program will provide valuable information on the potential for DG development over the next three years.

For the reasons stated above, as well as the reasons articulated in the Commission's March 20, 2003 Order, the Company's Partnership for DG program should be continued for an additional three years.

Conclusion

If adopted as proposed, the Partnership for NGVs and existing Partnership for DG would serve the public interest at multiple levels. By promoting installation of NGVs and DG, it would help to reduce business costs on participating western New York firms. It would also enhance the environment and energy security of New York State by reducing harmful emissions to our atmosphere, and reducing our reliability on foreign oil supplies. In addition, decreasing the downward trend in aggregate consumption on Distribution's system would benefit all rate payers by helping to spread out our fixed costs over a larger usage base. For all these reasons, Distribution respectfully requests that the Commission approve the proposed Partnership for NGVs, extend the existing Partnership for DG and approve the enclosed tariff amendments as filed.

Newspaper Publication

The Company will publish notice of the proposed tariff revisions in accordance with Public Service Law §66(12) and applicable regulations.

Company Contacts

For questions relating to this filing, please contact the undersigned at (716) 857-7735 or Eric Meinel at (716) 857-7805.

Respectfully submitted,



Daniel J. Ligman