

BEFORE THE

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

National Grid PLC and KeySpan Corporation - Proposed Merger

Case 06-M-0878

The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery
New York - Gas Rates

Case 06-G-1185

KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery
Long Island - Gas Rates

Case 06-G-1186

January 2007

Prepared Testimony of:

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1 Q. Please state your full name and business
2 address.

3 A. My name is John P. Sano. My work address is 3
4 Empire State Plaza; Albany, New York 12223-1350.

5 Q. By whom are you employed and in what capacity?

6 A. I am employed by the Department of Public
7 Service of the State of New York. I am a
8 Utility Engineer 3 on the Staff of the Office of
9 Gas & Water in the Policy Section.

10 Q. What is your educational background and
11 professional experience?

12 A. I completed my Bachelor of Science degree in
13 Chemical Engineering at Clarkson University in
14 1974. I also completed my Masters in Business
15 Administration at the State University of New
16 York at Albany in 1983. Prior to my employment
17 with the Commission in 1990, I held several
18 engineering and management positions with the
19 Union Carbide Corporation at its Bound Brook,
20 New Jersey Phenolics Plastics Division from 1974
21 through 1976 and with the General Electric
22 Corporation at its Silicone Products Division in
23 Waterford, New York from 1976 through 1990. My
24 responsibilities included new process

1 development, process engineering, production
2 engineering, production management, customer
3 technical support, project management and
4 maintenance management. During my tenure at
5 General Electric, I was a Bronze Medallion Award
6 recipient. This award acknowledges individual
7 contribution as an author of company patents and
8 trade secrets. Since joining the Department of
9 Public Service in 1990, I have held various
10 engineering positions in the former Gas Division
11 and the former Energy & Water Division.

12 I am currently assigned to the Gas Policy
13 Section of the Office of Gas & Water where my
14 responsibilities include analysis of natural gas
15 utility policy matters, including capacity asset
16 management, gas purchasing practices, and gas
17 system reliability, as well as analysis of
18 issues related to the restructuring of the
19 natural gas industry in New York.

20 I have testified in various proceedings
21 before this Commission. These proceedings
22 include rate proceedings involving Consolidated
23 Edison of New York, Rochester Gas and Electric,

1 National Fuel Gas Distribution and Corning
2 Natural Gas.

3 Q. What is the purpose of your testimony?

4 A. I will address the following items related to
5 issues in the rate case filing for both Keyspan
6 Energy Delivery New York (KEDNY) and Keyspan
7 Energy Delivery Long Island (KEDLI):

8 - Off-System Sales and Capacity Release
9 Sharing Mechanism

10 - Temperature Controlled/Interruptible
11 Customer Class Modifications

12 - Transportation and Balancing Procedures,
13 Costs and Charges

14 - Thermal Billing Projects.

15 Q. Does your testimony include any exhibits?

16 A. Yes. My testimony includes the following
17 exhibits:

18 Exhibit __ (JPS-1) "Interrogatory DPS-257",

19 Exhibit __ (JPS-2) "Interrogatory SCMC-RESA-4
20 Amended",

21 Exhibit __ (JPS-3) "Interrogatory DPS-263",

22 Exhibit __ (JPS-4) "Keyspan Stand Alone, 2007/08
23 Design Annual Load Duration Curve",

1 Exhibit __ (JPS-5) "Staff Demand Charges for TC
2 Allocation",
3 Sharing Mechanism - Off-System Sales and Capacity
4 Releases

5 Q. Do either KEDNY or KEDLI retain for shareholders
6 any revenue received from engaging in capacity
7 releases or off-system sales?

8 A. Yes. Both companies retain 20% of the revenue
9 from most of their capacity releases and
10 packaged sales revenue.

11 Q. Under what authority do the companies possess
12 the right to share in these revenues?

13 A. KEDNY was first given approval for the 20%
14 retention level in Case 95-G-0761, Opinion 96-26
15 issued on September 25, 1996 and a subsequent
16 order issued on August 27, 1998. The KEDNY
17 sharing level was also continued when KEDLI
18 received approval for this sharing level by the
19 orders in Case 97-M-0567 issued on February 5,
20 1998 (Exhibit __ (JPS-1)).

21 Q. Are any of the capacity release and off-system
22 sales transactions excluded from this sharing or
23 incentive mechanism?

1 A. Yes. All transactions included in the
2 companies' Commission-approved retail access
3 capacity release programs to in-territory
4 marketers are excluded from this sharing of
5 revenues.

6 Q. Did the authority to retain this revenue provide
7 for the continuation of revenue sharing at the
8 20% level beyond the term of the agreements?

9 A. No, Staff is unaware of any provisions that may
10 exist for continuation of the 20% mechanism.

11 Q. Do any Commission Orders or Policy Statements
12 exist that provide guidance on an appropriate
13 level of revenue sharing for capacity release or
14 off-system sales transactions?

15 A. Yes. This issue was discussed and a general
16 85%/15% customer/company sharing mechanism was
17 established in Commission Opinion 94-26, Case
18 93-G-0392 (p.27).

19 Q. What is your recommendation on this topic for
20 KEDNY and KEDLI?

21 A. I recommend that for both KEDNY and KEDLI the
22 revenue sharing mechanisms for capacity
23 releases, off-system or packaged sales and any
24 streaming transactions be limited to the 85%/15%

1 level established by the Commission in Case 93-
2 G-0392 and that any transactions currently
3 excluded from revenue sharing continue to be
4 excluded. The existing sharing mechanism
5 resulted from a negotiated settlement in
6 previous proceedings and no apparent reason
7 exists for further deviation from Commission
8 policy.

9 Temperature Controlled (TC)/Interruptible Customer
10 Class Modifications

11 Q. Does the company propose to make any
12 modifications to the Temperature Controlled and
13 Interruptible Sales customer classes?

14 A. Yes. Company witness Lukas, in both his KEDNY
15 and KEDLI testimony, proposes conversion of all
16 non-electric generating interruptible customers
17 to an appropriate TC Class. Mr. Lukas states
18 that the need for this switch is related to
19 recent operating experience.

20 Q. Do you agree with Mr. Lukas' observations?

21 A. Recent experience shows that interruptible
22 customers remain on the system longer. (Exhibit
23 __ (JPS-2)) Staff also realizes that both dual-
24 fuel classes are designed to improve operational

1 efficiency by increasing system utilization at
2 times of lower demand. TC customers switch to
3 an alternate fuel at a specified temperature
4 (currently 15 degrees F). Interruptible
5 customers are switched when conditions warrant
6 that the use of alternate fuel occur to ensure
7 operational reliability of the gas distribution
8 system.

9 Q. Does the existing situation in which non-
10 electric generating interruptible customers
11 remain on gas service after the TC service class
12 switches to alternate fuel sources create any
13 problems?

14 A. Yes, this results in the lower priced
15 interruptible class receiving a higher quality
16 of service than the higher priced TC class.

17 Q. Does Mr. Lukas' proposal to incorporate
18 interruptible customers into the TC service
19 class create any problems?

20 A. Yes, both companies operate in a growing market
21 where pipeline capacity is very difficult to
22 augment. Switching interruptible customers to
23 the TC class increases the demand requirement
24 for capacity. This worsens a situation where

1 the company is already forced to purchase city
2 gate bundled sales of commodity and capacity as
3 an alternative to incremental pipeline capacity
4 because proposed pipeline projects have been
5 delayed. Reducing the demand for capacity
6 assets would be more beneficial because it would
7 provide some relief for the already constrained
8 capacity market supplying the New York City
9 area.

10 Q. What is the basis for this conclusion?

11 A. Except for balancing services, capacity assets
12 are not retained to serve the interruptible
13 class, but, additional capacity assets are
14 retained to serve the TC classes (Exhibit __
15 (JPS-3)). Increasing the TC class demand, by
16 including the interruptible class, will increase
17 this asset requirement. The companies have
18 acquired short term "bridge capacity contracts"
19 to meet their current total system demand for
20 capacity. These contracts include both limited
21 amounts of interstate pipeline capacity and city
22 gate bundled supply contracts. Alternatives to
23 these types of contracts will not be available
24 until the Millennium (November 2008), Islander

1 East, or suitable replacement projects are
2 brought on line to serve the combined Keyspan
3 service territory. Thus, the company's proposal
4 will worsen an already tight capacity situation
5 and could potentially increase costs to all
6 classes sharing these contracts. The increased
7 costs would be a direct result of the higher
8 costs of incremental capacity raising the
9 weighted cost of capacity for all customers.

10 Q. How should the company address the existing
11 concerns between these two customer classes?

12 A. The existing TC and Interruptible classes should
13 remain separated. The interruption policy for
14 the TC classes should be modified so that the
15 specified temperature for ceasing gas use is the
16 expected point at which the TC classes can be
17 interrupted, not the mandatory point.

18 Interruptible customers should switch to
19 alternate fuel before the TC classes. Thus, TC
20 classes should not be interrupted unless the
21 interruptible customers have already switched to
22 an alternate fuel or the interruptions occur
23 simultaneously. Interruptible customers still
24 risk possible interruptions prior to TC

1 customers reaching the specified switching
2 temperature. This approach will result in the
3 TC customers not automatically switching to
4 alternate fuels based on temperature, but it
5 will ensure that the TC quality of service will
6 be no worse than that of interruptible
7 customers.

8 Temperature Controlled (TC) Classes - Demand Charge

9 Q. Do the companies currently charge the TC
10 customers for the capacity assets held for their
11 service?

12 A. Yes, TC customers currently pay a \$0.10 per
13 dekatherm demand charge to cover the cost of
14 these assets.

15 Q. Do the companies propose changing this demand
16 charge?

17 A. Yes. Mr. Lukas, in both his KEDNY and KEDLI
18 testimony, proposes to increase this demand
19 charge to \$0.35 per dekatherm.

20 Q. Is this demand charge increase appropriate?

21 A. While a demand charge increase is appropriate,
22 the increase proposed by the companies appears
23 to be understated.

1 Q. Why do these proposals to increase the TC demand
2 charges appear understated?

3 A. One factor effecting the calculation is that at
4 the time the companies developed the proposal to
5 increase this demand charge to \$0.35 per
6 dekatherm; it was not known that the New York
7 City Housing Authority would be switching from
8 TC Sales to Firm Transportation. This change in
9 service requirements alters the allocation study
10 used to develop the \$0.35 per dekatherm
11 proposal.

12 Q. What else would impact this demand charge?

13 A. Exhibit __ (JPS-4) "Keyspan Stand Alone, 2007/08
14 Design Annual Load Duration Curve" is a company
15 chart indicating the capacity assets used to
16 provide service to firm demand customers,
17 including TC sales service, for the 2007/08
18 winter season. This exhibit shows that
19 incremental capacity is necessary to meet firm
20 and TC demand during the rate year. Company
21 Exhibit __ (MRN-4) is a projection of annualized
22 marginal gas capacity costs for the 2007/08
23 winter period starting November 1, 2007 and
24 ending March 31, 2008. This study incorporates

1 the fixed costs of new capacity and bundled city
2 gate supplies that the companies would acquire
3 in time for the 2007/08 winter season to
4 reliably meet projected design demand. Exhibit
5 __ (JPS-3) includes the companies' analysis of
6 the demand charge and capacity allocations to
7 the TC service classes. Work papers supporting
8 this analysis do not indicate the company
9 included the capacity changes planned for the
10 rate year in its calculation. Not including
11 those higher cost capacity components served to
12 artificially depress the costs assigned to the
13 TC class.

14 Q. What demand charge do you recommend?

15 A. Exhibit __ (JPS-5) is a Staff revision of
16 information provided by the companies in
17 interrogatory DPS-263. This revision includes
18 the impact of the removal of the NYCHA and the
19 interruptible volumes from the TC class as well
20 as modifications to the annual demand charges as
21 indicated in Exhibit ____ (MRN-4). This analysis
22 indicates that a TC demand charge of \$0.59 per
23 dekatherm would be appropriate.

1 Q. How will your recommendations regarding the TC
2 and Interruptible Customer Classes impact
3 revenue requirement?

4 A. Any impact on revenue requirement is addressed
5 in Staff's "Revenue Requirement Panel"
6 testimony.

7 Transportation and Balancing Procedures, Costs and
8 Charges

9 Q. Generally describe the KEDNY and the KEDLI
10 transportation and balancing rules and
11 procedures?

12 A. The companies currently provide a variety of
13 unbundled services on their systems. These
14 offerings include transportation and balancing
15 services to both firm and interruptible
16 customers. The rules and regulations regarding
17 these issues began with the Commission's gas
18 unbundling efforts in the 1990's and evolved
19 over several years. Like the predecessor
20 companies themselves, Brooklyn Union Gas (now
21 KEDNY) and Long Island Lighting Co. (now KEDLI),
22 these services developed independently from each
23 other as part of two separate LDCs. This

1 development occurred as the result of different
2 cases, initiatives and market needs.

3 Q. What is the current status of the KEDNY and the
4 KEDLI transportation and balancing rules and
5 procedures?

6 A. Due to the developmental history and changing
7 market landscape, these rules and procedures
8 need to be reviewed and updated to ensure
9 consistency between these two companies and to
10 ensure consistency with the best practices that
11 are utilized statewide by other companies. For
12 example, KEDNY has 30 different transportation
13 subgroups and KEDLI has 27 different
14 transportation subgroups.

15 Q. What are some of the issues with these
16 procedures that need to be reviewed?

17 A. Procedures in similar subgroups are inconsistent
18 between territories and some processes are
19 offered in one territory but not in another.
20 While the downstate market is different from the
21 upstate market, similarities still exist so that
22 lessons learned by upstate distribution
23 companies may be helpful to the companies and
24 customers alike. In fact, Con Edison, a

1 downstate company, has incorporated these
2 practices into its transportation and operating
3 procedures. In addition, balancing charges for
4 all transportation customers were last analyzed
5 prior to 1999 and may not be properly allocated
6 among the appropriate service classes.

7 Q. What approach do you recommend?

8 A. All interested parties need to be involved in
9 any changes to these services. A collaborative
10 of these parties is needed to determine the
11 details and specifics required to initiate
12 required changes. At a minimum, this group
13 should include Staff, company representatives
14 and participating marketers/transporters. The
15 group should be required to report to the
16 Commission on its findings, including procedural
17 changes and tariff changes where warranted, no
18 later than six (6) months after a Commission
19 order in this proceeding.

20 Q. What changes should be implemented?

21 A. The following changes need to be implemented:

- 22 • Identify capacity and other gas costs
23 associated with providing unbundled
24 transportation and balancing services to

- 1 core and non-core customers, especially
2 where non-core customers are receiving a
3 core service.
- 4 • Develop methodologies for proper allocation
5 of the identified costs to these services
6 on a monthly and daily basis where
7 applicable.
 - 8 • Establish consistent Nomination procedures.
 - 9 • Establish consistent city gate balancing
10 rules.
 - 11 • Establish consistent burner tip balancing
12 rules.
 - 13 • Establish imbalance trading for monthly and
14 daily balanced customers.
 - 15 • Determine if a monthly burner-tip imbalance
16 cash-out is appropriate for customers
17 utilizing a company provided Daily Delivery
18 Quantity (DDQ).
 - 19 • Establish consistent cash-out charges with
20 cash-out tiers that use market based gas
21 price index multipliers for each tier
22 consistent with best practices.

- 1 • Identify necessary changes to rules during
- 2 periods of System Alerts (SA) or
- 3 Operational Flow Orders (OFO).
- 4 • Establish consistent charges due to faulty
- 5 data or equipment failures.

6 Thermal Billing Projects

7 Q. Did the companies' request funds to support

8 changes in their thermal billing methodology?

9 A. Yes. Company Witness Haran states in his KEDNY

10 Rate Case pre-filed testimony (p. 10, 15 - 20)

11 that the Company plans to revise its thermal

12 billing because deliveries of supplies from new

13 supply sources will create greater variations in

14 the heat content of gas delivered to customers

15 in New York City. KEDNY also plans to place in

16 service a revised thermal billing methodology

17 supported by the installation of caloric

18 metering devices. This project is estimated to

19 cost \$2,100,000 and be completed in 2008.

20 In his KEDLI Rate Case pre-filed testimony (p.

21 11, 8 - 18), witness Haran states that the

22 company also plans to revise its thermal billing

23 and to install additional equipment for reasons

24 similar to the reasons stated for the KEDNY

1 project. This project is estimated to cost
2 \$1,050,000 and be completed in 2007.

3 Q. Do you support the need for these projects?

4 A. No, there is not a need for these projects at
5 this time. This is especially true of the need
6 for additional calorific metering devices.

7 For KEDLI, over several years there could
8 be additional supply from an increase in
9 capacity at the Transco Pipeline interface at
10 Long Beach, a potential new receipt point with
11 the proposed Islander East Pipeline, and the
12 possible addition of LNG supply through the
13 Iroquois Pipeline receipt point. However, it is
14 unlikely that the Islander East project and an
15 addition of LNG supply to the Iroquois will
16 occur during the rate year. Moreover, existing
17 measurement devices should be capable of
18 handling changes, if any, at the Long Beach
19 interface with Transco.

20 For KEDNY, the Con Edison tunnel project,
21 which will increase gas flow from Manhattan,
22 results in an increased volumetric flow only.
23 Again, existing measurement devices should be
24 capable of handling changes, if any.

1 Q. Do you recommend any changes to the companies'
2 proposals for thermal billing projects?

3 A. Yes, for the reasons previously noted, these
4 projects should not be funded. The revenue
5 requirement and rate base adjustments related to
6 these projects are addressed in Staff's "Rate
7 Base Panel" testimony. It also appears that in
8 the January 2007 filing update provided by the
9 companies, Witness Haran removed these projects
10 from the capital budget. At this time, Staff
11 has not yet completed our review of this update.

12 Q. Are there any other issues with the thermal
13 billing process?

14 A. Yes. Most electric generators in both
15 territories have caloric metering devices on
16 site and are billed according to these readings.
17 This arrangement was recently addressed in the
18 Commission's Order Relating to Competitive Gas
19 and Electric Metering Services issued on August
20 1, 2006 (Case 02-M-0514). This Order does not
21 mandate nor does it prohibit such arrangements.
22 However, the situation itself raises questions
23 regarding fairness and allocation of costs when

1 use of these devices is cost prohibitive to most
2 other customers.

3 Q. Do you recommend any changes to this billing
4 method?

5 A. No, not at this time. However, I do recommend
6 that the companies be required to provide a
7 study or analysis showing the system benefit or
8 impact of billing these specific customers by
9 individual caloric metering devices while most
10 customers are billed by thermal zone readings.

11 Q. Does this conclude your testimony?

12 A. Yes, at this time.