STATE OF NEW YORK PUBLIC SERVICE COMMISSION

Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of KeySpan Gas East Corp. dba Brooklyn Union of L.I. for Gas Service.	Case 16-G-0058
Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of The Brooklyn Union Gas Company dba National Grid NY for Gas Service.	Case 16-G-0059

STATEMENT IN OPPOSITION OF POTOMAC ECONOMICS, LTD.

Pursuant to the Ruling on Schedule for Consideration of Joint Proposal on September 13, 2016, Potomac Economics respectfully submits its statement in opposition in the above-captioned proceedings. Potomac Economics respectfully requests that its statement be accepted into the record of this proceeding.

Potomac Economics currently serves as the Market Monitoring Unit ("MMU") for the New York Independent System Operator, Inc. ("NYISO"). The NYISO Market Services Tariff requires the MMU to help ensure that the NYISO's markets are created and operated in a "robust, competitive, efficient and non-discriminatory" manner.[1] As the MMU, we are also responsible for reporting on: "use of the New York State Transmission System as such system affects or may affect competitive conditions in or the economic efficiency of any of the New York Electric Markets, including but not limited to the nature, extent and causes of any congestion on such system and the costs of or charges for such congestion".[2] One element of the Joint Proposal

1 See NYISO's Market Administration and Control Area Services Tariff ("Market Services Tariff" or "MST") Attachment O §30.1.2.

2 See MST Attachment O §30.1.1.

would have broad implications for New York's electricity consumers in New York City and Long Island.

Potomac Economics is interested in ensuring the long-term efficiency of New York's electricity markets and Potomac Economics' interests cannot be adequately represented by any other party. These comments discuss how natural gas rates and terms affect the electricity market. We hope these comments will be helpful to the Commission as it develops its order on the Joint Proposal.

I. BACKGROUND AND INTRODUCTION

The Market Monitoring Unit protests specific elements of the Joint Proposal. Specifically, we recommend the Commission reject the following provision in Section 9.1: "The Companies will modify the balancing provisions of their power generation transportation service classifications to make clear that any (i) surcharges to the daily price applied to a sale of gas to a customer as a result of an under delivery of gas, or (ii) discounts applied to the price credited to a customer for a sale of gas to the Companies as a result of an over delivery of gas, will be considered penalties (as such term is used in the New York Independent System Operator tariff with respect to unauthorized use of gas)." We respectfully assert that this provision: (a) is unreasonable because it is inconsistent with the plain language and common usage of the term "unauthorized", (b) is for the expressed purpose of influencing wholesale electric rates which are the exclusive jurisdiction of the Federal Energy Regulatory Commission, (c) if complied with, it would have the effect of increasing rather than decreased the over- and under-delivery of gas, and (d) it will result in large increases in costs to electricity consumers in New York and increased emissions of CO_2. The remainder of this filing addresses each of these areas.

II. Section 9.1 is Unreasonable

The current KEDLI tariff uses the term "unauthorized use" for consumption that occurs after a customer has received notice from KEDLI that it must reduce or discontinue consumption. For example, SC-14 for Non-Core Transportation Service for Electric Generators states: "The Company reserves the right to impose a penalty charge for unauthorized overruns. When service hereunder is interrupted by the Company in accordance with the terms of the Customer's service agreement, *gas consumed subsequent to such interruption and without specific authorization* by the Company will be subject to an additional charge of $100.00 per dth." Like other parts of the KEDLI tariff, here the term "unauthorized use" refers to consumption that occurs after and that is in violation of an explicit instruction from KEDLI—in other words, consumption that is *unauthorized*. The current KEDLI tariff also imposes balancing charges on deviations (that are not unauthorized) so that generators will make efforts to avoid such deviations, but such deviations are not automatically considered "unauthorized".

Section 9.1 of the Joint Proposal requests to change the definition of "unauthorized use" in a manner that is contrary to the plain meaning and common usage of the term and that is inconsistent with its use in other parts of the KEDLI tariff, where it is always used to describe consumption that occurs after the gas customer has been instructed to stop or reduce consumption. Under the proposed definition, a generator could contact gas control and be allowed to consume above or below its scheduled delivery quantity with the expectation of scheduling post-cycle gas later in the gas day, but if the generator was subsequently unable to schedule post-cycle gas due to factors outside its control, the deviation would be deemed unauthorized use after the fact. Hence, there would be no way to know at the time of consumption that it would ultimately be deemed unauthorized use. It is unreasonable to consider such deviations to be unauthorized if the generator notified gas control of its intent and was allowed to do so.

III. The Proposed Definition Is Designed to Influence Wholesale Electric Rates

Section 9.1 of the Joint Proposal apparently proposes to define consumption as unauthorized for the specific purpose of setting the terms of sale for wholesale electricity. It states: "[balancing charges] will be considered penalties (as such term is used in the New York Independent System Operator tariff with respect to unauthorized use of gas)." This provision does not appear to affect the treatment of the generator under the KEDLI tariff, but the provision would affect its treatment under Section 23.3.1.4.6.2.1 of the NYISO Market Services Tariff, which states: "the ISO shall not permit charges for unauthorized natural gas use to be included as a component in the development of a Generator's reference levels and Market Parties shall not be eligible to recover costs associated with unauthorized natural gas use." Thus, the sole effect of this provision would be to influence electric rates that are outside the Commission's jurisdiction.

The NYISO Tariff provision above was recently added to clarify that if the consumption of gas would be considered "unauthorized use", then the generator should either switch to an alternate fuel or not offer electricity at all in order to avoid jeopardizing gas system reliability. However, Section 9.1 of the Joint Proposal seems to acknowledge that the generator would be authorized to continue consuming natural gas, but that its electricity offer would exclude any resulting balancing charges. Ultimately, if Section 9.1 of the Joint Proposal is adopted, it will make the NYISO tariff unjust and unreasonable.

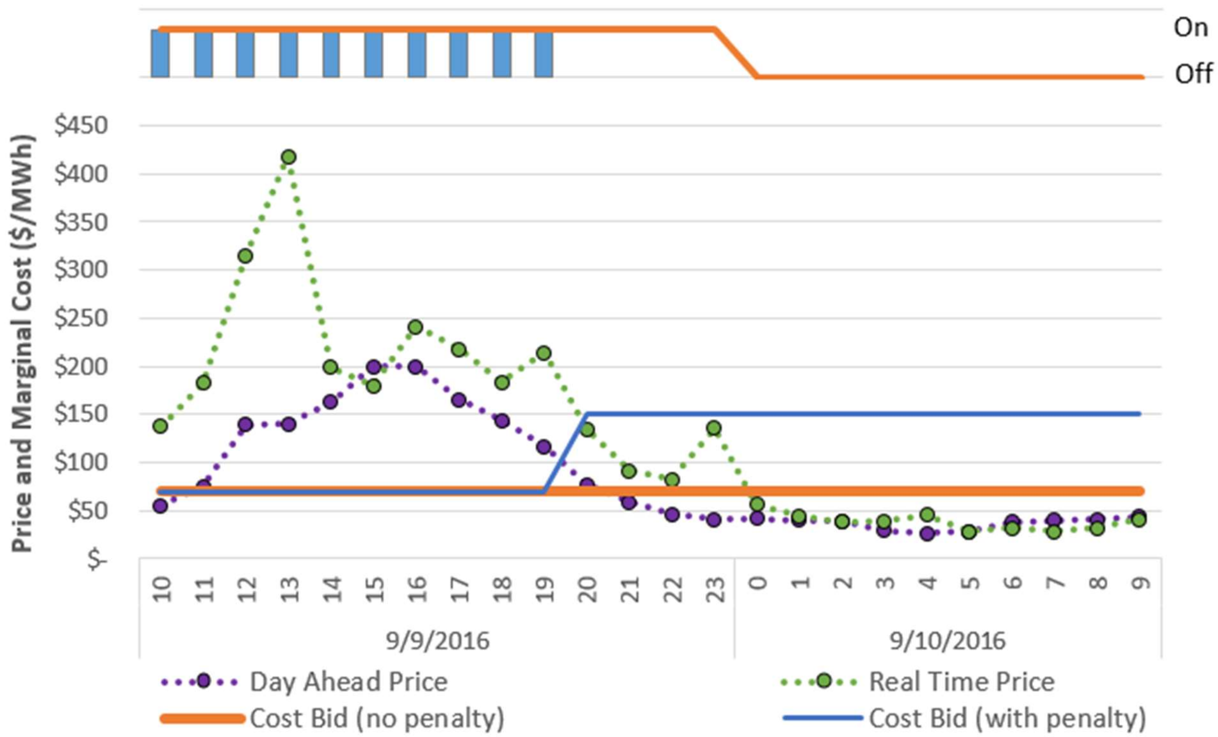
IV. The Proposed Provision Will Tend to Increase Deviations from the Delivered Quantity

Presumably, Section 9.1 of the Joint Proposal is designed to bolster gas system reliability by ensuring electric generators do not make unauthorized withdrawals. However, if generators do not incorporate balancing penalties and other financial charges into their offers, it will actually increase deviations. This is because the NYISO responds to variations in electricity demand by dispatching-up or down the generators in order of their costs. Hence, generators ordinarily reduce the likelihood of being dispatched-up by raising their offer price and reduce their likelihood of being dispatched-down by lowering their offer price.

For example, in a market with five generators offering additional output at $20, $24, $28, $32, and $36 per MWh, if demand increases requiring three of five generators to increase output, the ISO will accept the offers of the $20, $24, and $28 per MWh generators. However, if the $20 per MWh generator faces large penalties for burning additional fuel, it could raise its offer to $40 per MWh to avoid being dispatched up. In this case, the ISO would simply take the offers of the $24, $28, and $32 per MWh generators. If the $20 per MWh unit is unable to incorporate these costs into its offer, it will be dispatched up inefficiently and deviate from its delivered quantity.

The following figure illustrates how volatility in the wholesale electricity market affects the consumption of a gas-fired generator and how the generator can limit these effects by adjusting its offer price. The figure shows an example for the September 9, 2016 gas day for a hypothetical generator in Long Island with a $60/MWh cost based on the day-ahead commodity price for natural gas. Based on the prices shown in the NYISO's day-ahead market, the generator would have been scheduled for ten hours, and the generator might deliver sufficient gas to operate for ten hours. In each hour, the figure shows the average real-time wholesale electricity price and whether the generator would be scheduled by the NYISO (and consume gas) under two scenarios:

- Assuming the generator offers $60/MWh in the real-time market
- Assuming the generator raises its offers in the real-time market.



The figure shows that if the generator continues to offer consistent with the day-ahead commodity price of gas, it will continue to burn gas in hours 21, 22, and 23. The other scenario illustrates how the generator could avoid over-burning by raising its offer to $150 per MWh. This figure illustrates why it is important for generators facing a possible over-burn situation must be able to raise their offer prices accordingly. However, the purpose of the proposed provision in Section 9.1 of the Joint Proposal seems to be to prevent generators from doing the very thing that would let them limit consumption.

V. The Proposed Provision Would Lead to Large Increases in Costs to Consumers

Section 9.1 of the Joint Proposal seems to be intended to prevent balancing charges that are assessed to an electric generator for over and under deliveries from affecting electricity consumers. However, we anticipate the provision would have significant impacts on wholesale prices and that these impacts should be considered by the Commission.

The proposed provision suggests that a generator would deviate from its delivery quantity but still offer into the NYISO wholesale electric market at an offer price that excludes balancing charges. However, the NYISO tariff could allow such a unit to simply not submit an offer or offer based on a much more expensive alternate fuel. If the available supply of gas-fired generation is reduced by generators switching to more expensive fuels or not offering, it will lead to large increases in wholesale market prices, which will lead to higher costs for consumers. We have not had time to prepare estimates since the Joint Proposal was issued, but we believe they would be very significant.

VI. CONCLUSIONS

We respectfully oppose the provision proposed in Section 9.1 that would create a new definition for "unauthorized use" that is not consistent with the plain language and common usage of the term. We believe it will have very significant impacts on wholesale electric rates and ultimately consumers and increase CO_2 emissions. Moreover, it will tend to increase rather than decrease the phenomenon of consumption not matching the deliveries of the generator.

Respectfully submitted,

/s/ David B. Patton

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