



national fuel

December 29, 2003

Hon. Jaclyn A. Brillling
Acting Secretary
Public Service Commission
Three Empire State Plaza
Albany, NY 12123-1350

Re: Case No. 02-M-0515 – Compliance Filing
Proceeding on Motion of Commission to Establish Gas
Transportation Rates for Distributed Generation Technologies

Dear Acting Secretary Brillling:

Enclosed for filing in the above-referenced proceeding are tariff amendments designed to implement the requirements of the Commission's *Order Providing For Distributed Generation Gas Service Classifications* issued on April 24, 2003 ("April 24th Order") and additional order in this proceeding issued and effective December 3, 2003 ("December 3rd Order"). The proposed tariff amendments are issued as of today for an effective date of January 1, 2004.

Leaf No. 298	Revision 1
Leaf No. 298.1	Revision 0
Leaf No. 298.2	Revision 0
Leaf No. 300	Revision 1
Leaf No. 301	Revision 1
Leaf No. 302	Revision 1

Background

The Commission's December 3rd Order required that the Company make the following changes to the DG tariff:

- (1) Include a minimum charge as part of the Company's rates for DG customers.
- (2) Establish seasonal rate differentials.
- (3) Provide equivalent treatment for DG and non-DG customers regarding metering, balancing, and curtailment.

- (4) Add a provision to the tariff that permits customers to remain to be served under the DG service classification if the customer's load factor drops below 50% and the customer provides mitigating circumstances.
- (5) Specify that the rates are rate ceilings which are fixed for at least three years.

As explained below and provided in the modified tariff sheets included in this filing, the Company has complied with these requirements.

Explanation

Pursuant to the Commission's April 24th Order and December 3rd Order, the DG rates provided under Service Classification ("SC") 23 were developed with the following features:

- (1) Embedded Cost Basis
The DG rates were calculated utilizing the embedded cost revenue requirements and associated annual throughput and coincident peak day volumes for the non-residential firm non-gas cost rates as established in Case 98-G-1291. The service classification revenue requirements in that case formed the basis for the Company's existing base sales and transportation rates included in the Company's current tariff.
- (2) Unbundled Rate
The DG rates included in SC 23 are provided on an unbundled basis. Separate Natural Gas Delivery and Natural Gas Supply charges are identified. Customers receiving service under SC 23 will be provided with the choice of receiving natural gas supply service from the Company or from an alternative Energy Service Company ("ESCO"). If a customer chooses an ESCO, the ESCO will be required to meet the qualifications and delivery requirements of the Company's current aggregation program as specified under the Company's SC 19.
- (3) Seasonal Rate
The Company's July 23rd filing did not include a seasonal rate differential. The December 3rd Order specified that seasonal rates must be established. The tariff sheets provided in this filing include seasonal rates pursuant to the December 3rd Order.
- (4) Minimum Charge
The Company's July 23rd filing did not include a minimum charge. The December 3rd Order required that minimum charges be established. The tariff sheets provided in this filing include minimum charges pursuant to the requirements of the December 3rd Order. The Company has utilized the current base rate minimum charges for the corresponding current sales and transportation rates.

(5) Three Part Demand/Commodity Rate

The Company included a demand commodity rate structure for customers with DG units greater than 5MW in its July 23rd filing. The Company did not include seasonal commodity rates in its July 23rd filing. The tariff rates provided in this filing include seasonal commodity rates in the three part demand/commodity rate structure. The demand unit rates do not have a seasonal component. However, under the Company's proposed rate structure, demand billing units are established based on peak consumption during the winter period (December, January, and February). Therefore, the total amount of demand charges incurred under the three part demand/commodity rate structure is effectively based on seasonal demand and provides an incentive for off-peak utilization of DG equipment.

(6) Volumetric Rate Design for Customers with DG Units Less than 5 MW

The Company designed rates for customers with installed DG units with a capacity of less than 5 MW using existing embedded costs at a 70% load factor. Separate rates were developed for customers with DG units of less than 1 MW and DG units of between 1 MW and 5 MW.

The non-gas cost revenue requirements (exclusive of minimum charges) and associated imputed annual throughput and peak day consumption for the current volumetric non-residential sales and transportation categories were utilized in designing volumetric rates. For customers with DG units less than 1 MW of capacity, the load factor was based on peak daily consumption.

General SC 3, Transportation SC 13 TC-1.1 (less than 25,000 Mcf annual throughput), and Transportation SC 13 TC-2.0 (between 25,000 and 55,000 Mcf annual throughput) formed the basis of calculating the DG delivery rates. It is anticipated that customers with installed DG units of less than 1 MW will have an annual average throughput per customer of less than 55,000 Mcf.

For customers with DG units between 1 MW and 5 MW, the Transportation SC 13 TC-3.0 (between 55,000 and 150,000 Mcf annual throughput) formed the basis of calculating the DG delivery rates. It is anticipated that customers with installed DG units of between 1 MW and 5 MW will have an annual average throughput per customer of less than 150,000 Mcf. The Company discovered an error in its initial calculation of rates for customers with DG units between 1 MW and 5 MW. The peak consumption for large non-industrial customers with consumption of greater than 150,000 Mcf per year (TC 4.1 customers) was incorrectly included in this class in the Company's July 23rd filing. This filing reflects corrected peak day consumptions for the 1-5 MW and the greater than 5MW classes of customers.

The table below summarizes the calculation of the base delivery rates for customers with installed DG units of less than 1 MW.

(1)	Total Non-Gas Cost Revenue in SC 3, SC 13 TC 1.1 & TC 2 Usage Rates		\$45,365,000		Imputed in Case 98-G-1291 Based on Imputed volumes in Case 98-G-1291
(2)	Total Peak Day Volume for SC 3, TC 1.1, & TC 2	213.294 MMcf			
(3)	Multiplied by	365 Days			
(4)	Multiplied by Target Load Factor	<u>70 %</u>			
(5)	Implied Billing Units		<u>54,497</u>	MMcf	Line (2) x Line (3) x Line (4)
(6)	70% Load Factor Rate		<u>\$0.83243</u>	/Mcf	Line (1) divided by Line (5) divided by 1000
(7)	April – October Seasonal Discount Factor		<u>90</u>	%	
(8)	April – October Seasonal Base Rate		<u>\$0.74919</u>	/Mcf	Line (6) x Line (7)
(9)	Base Reserve Cost of Gas		<u>\$0.14180</u>	/Mcf	
(10)	Total Base 70% Load Factor Rate April – October		<u>\$0.89098</u>	/Mcf	Line (8) + Line (9)
(11)	Per Ccf Total Base 70% Load Factor Rate April - October in Tariff		<u><u>\$0.089098</u></u>	/Ccf	Line (10) divided by 10 Based on Imputed volumes in Case 98-G-1291
(12)	April – October Volume for SC 3, TC 1.1, & TC 2	9,502 MMcf			
(13)	April – October Unit Discount Amount	<u>\$0.08324</u>	/Mcf		Line (6) – Line (8)
(14)	April – October Discount Amount		<u>\$791,000</u>		Line (13) x Line (12) x 1000
(15)	November – March Volume for SC 3, TC 1.1, & TC 2		<u>17,388</u>	MMcf	Based on Imputed volumes in Case 98-G-1291
(16)	November – March Premium Factor		<u>\$0.0455</u>	/Mcf	Line (14) divided by Line (15) divided by 1000
(17)	Total Base 70% Load Factor Rate November – March		<u>\$1.01972</u>	/Mcf	Line (16) + Line (6) + Line (9)
(18)	Per Ccf Total Base 70% Load Factor Rate November – March in Tariff		<u><u>\$0.101972</u></u>	/Ccf	Line (17) divided by 10

The table below summarizes the calculation of the base delivery rates for customers with installed DG units of between 1 and 5 MW reflecting the corrected peak day consumption.

(1)	Total Non-Gas Cost Revenue in SC 13 TC 3 Usage Rates		\$3,277,000		Imputed in Case 98-G-1291 Based on Imputed volumes in Case 98-G-1291
(2)	Total Peak Day Volume TC 3	30.620 MMcf			
(3)	Multiplied by	365 Days			
(4)	Multiplied by Target Load Factor	<u>70 %</u>			
(5)	Implied Billing Units		<u>7,824</u> MMcf		Line (2) x Line (3) x Line (4)
(6)	70% Load Factor Rate		\$0.41887 /Mcf		Line (1) divided by Line (5) divided by 1000
(7)	April – October Seasonal Discount Factor		<u>90 %</u>		
(8)	April – October Seasonal Base Rate		\$0.37698 /Mcf		Line (6) x Line (7)
(9)	Base Reserve Cost of Gas		<u>\$0.14180 /Mcf</u>		
(10)	Total Base 70% Load Factor Rate April – October		\$0.51878 /Mcf		Line (8) + Line (9)
(11)	Per Ccf Total Base 70% Load Factor Rate April - October in Tariff		<u>\$0.051878 /Ccf</u>		Line (10) divided by 10
(12)	April – October Volume for TC 3	2,555 MMcf			Based on Imputed volumes in Case 98-G-1291
(13)	April – October Unit Discount Amount	<u>\$0.04189 /Mcf</u>			Line (6) – Line (8)
(14)	April – October Discount Amount		\$107,000		Line (13) x Line (12) x 1000
(15)	November – March Volume for TC 3		<u>2,863</u> MMcf		Based on Imputed volumes in Case 98-G-1291
(16)	November – March Premium Factor		\$0.03737 /Mcf		Line(14) divided by Line(15) divided by 1000
(17)	Total Base 70% Load Factor Rate November – March		\$0.59804 /Mcf		Line (16) + Line (6) + Line (9)
(18)	Per Ccf Total Base 70% Load Factor Rate November – March in Tariff		<u>\$0.059804 /Ccf</u>		Line (17) divided by 10

Included in base delivery rates is a charge of \$0.014180 per Ccf for Reserve Capacity Costs. This relates to the peaking capacity maintained by the Company in order to provide delivery for customer requirements on peak day that exceeds the maximum daily delivery quantity which the Company may require an ESCO to supply. This charge is currently included in all of the Company's firm delivery rates for sales and aggregation services.

For DG customers less than 5 MW that choose the Company to provide natural gas supply service, the natural gas supply service rates were also calculated on the basis of a 70% load factor. Such natural gas supply rates will be calculated monthly and included in the Company's monthly Gas Supply Charge Statement. Included in this filing is the initial Gas Supply Charge Statement for January 2004.

(7) Three Part Demand/Commodity Rate Design

Rates for customers with installed DG facilities between 5 MW and 50 MW were designed utilizing a demand/commodity rate structure. For customers with DG units between 5 MW and 50 MW, the Transportation SC 13 TC-4.0 and TC-4.1 (annual throughput for industrial and non-industrial customers, respectively, consuming greater than 150,000 Mcf annually) formed the basis for calculating the DG delivery rates. It is anticipated that customers with installed DG units of between 5 MW and 50 MW will have an annual average throughput per customer of greater than 150,000 Mcf. As mentioned previously the Company has corrected the peak day consumption utilized in the July 23rd rate calculation for this customer class. The table below summarizes the calculation of the base delivery rates for customers with installed DG units between 5 MW and 50 MW.

(1)	Total Non-Gas Cost Revenue in SC 13 TC 4 and TC 4.1 Usage Rates	\$4,069,000		Imputed in Case 98-G-1291 Based on Imputed volumes in Case 98-G-1291
(2)	Total Peak Day TC 4 and 4.1	46.884	MMcft	
(3)	Demand Cost per Maximum Daily Demand	\$0.542429	/Ccf MDDQ	Line (1) x 75% ÷ (12 x Line (2) x 10,000)
(4)	Total Commodity Billing Units	13,650	MMcft	
(5)	Commodity Non-Gas Cost	\$0.07452	/Mcf	Line (1) x 25% ÷ (Line (4) x 1000)
(6)	Base Reserve Cost of Gas	\$0.14180	/Mcf	
(7)	April – October Seasonal Discount Factor	90	%	
(8)	April – October Seasonal Base Rate	\$0.06707	/Mcf	Line (5) x Line (7)

(9)	Base Reserve Cost of Gas		\$0.14180 /Mcf	
(10)	Total Base Commodity Rate April – October		\$0.20887 /Mcf	Line (8) + Line (9)
(11)	Per Ccf Total Base Commodity Rate April - October in Tariff		<u>\$0.020887 /Ccf</u>	Line (10) divided by 10
(12)	April – October Volume for TC 4.0 and 4.1	7,319 MMcf		Based on Imputed volumes in Case 98-G-1291
(13)	April – October Unit Discount Amount	<u>\$0.00745 /Mcf</u>		Line (5) – Line (8)
(14)	April – October Discount Amount		\$54,527	Line (13) x Line (12) x 1000
(15)	November – March Volume for TC 4.0 and 4.1		<u>6,331 MMcf</u>	Based on Imputed volumes in Case 98-G-1291
(16)	November – March Premium Factor		\$0.00862 /Mcf	Line(14) divided by Line(15) divided by 1000
(17)	Total Base Commodity Rate November – March		\$0.22494 /Mcf	Line (16) + Line (5) + Line (9)
(18)	Per Ccf Total Base Commodity Rate in Tariff		<u>\$0.022494 /Ccf</u>	Line (17) divided by 10

As can be seen from the table, the Company is proposing to recover 25% of non-gas costs from the commodity charge and 75% from the demand charge.

Demand/Commodity natural gas supply rates for DG customers with installed DG units between 5 MW and 50 MW were also developed for customers that choose to utilize the Company's natural gas supply service. Such natural gas supply rates will be calculated monthly and included in the Company's monthly Gas Supply Charge Statement. Included in this filing is the initial Gas Supply Charge Statement for January 2004.

Customers with installed DG equipment below 5 MW may elect to receive service under a three part demand/commodity rate if the customer installs meters capable of daily measurement. Listed below is the demand commodity rate structure for customers with DG equipment below 5MW. In the December 3rd Order the Commission provided that the Company should file a three part demand commodity rate for small consumption levels when such a rate is requested by the customer. The Company has included such an option for smaller customers as well as a proposed three part rate design in the tariffs included in this filing.

Derivation of demand commodity rates for customers with installed DG equipment
below 1 MW.

(1)	Total Non-Gas Cost Revenue in SC 3, SC 13 TC 1.1 & TC 2 Usage Rates		\$45,365,000		Imputed in Case 98-G-1291
(2)	Total Peak Day Volume for SC 3, TC 1.1, & TC 2		<u>213.294</u>	MMcf	Based on Imputed volumes in Case 98-G-1291
(3)	Demand Cost per Maximum Daily Demand		<u>\$1.329291</u>	/Ccf	Line (1) x 75% ÷ (12 x Line MDDQ (2) x 10,000)
(4)	Total Commodity Billing Units at 70% Load Factor		54,497	MMcf	Line (2) x 365 x 70%
(5)	Commodity Non-Gas Cost		\$0.20811	/Mcf	Line (1) x 25% ÷ (Line (4) x 1000)
(6)	Base Reserve Cost of Gas		\$0.14180	/Mcf	
(7)	April – October Seasonal Discount Factor		90	%	
(8)	April – October Seasonal Base Rate		\$0.18730	/Mcf	Line (5) x Line (7)
(9)	Base Reserve Cost of Gas		<u>\$0.14180</u>	/Mcf	
(10)	Total Base Commodity Rate April – October		\$0.32909	/Mcf	Line (8) + Line (9)
(11)	Per Ccf Total Base Commodity Rate April - October in Tariff		<u>\$0.032909</u>	/Ccf	Line (10) divided by 10
(12)	April – October Volume for SC 3, TC 1.1, & TC 2	9,502	MMcf		Based on Imputed volumes in Case 98-G-1291
(13)	April – October Unit Discount Amount	<u>\$0.02081</u>	/Mcf		Line (5) – Line (8)
(14)	April – October Discount Amount		\$197,737		Line (13) x Line (12) x 1000
(15)	November – March Volume for SC 3, TC 1.1, & TC 2		<u>17,388</u>	MMcf	Based on Imputed volumes in Case 98-G-1291
(16)	November – March Premium Factor		\$0.01137	/Mcf	Line(14) divided by Line(15) divided by 1000

(17)	Total Base Commodity Rate November – March	\$0.36128	/Mcf	Line(16) + Line(5) + Line(9)
(18)	Per Ccf Total Base Commodity Rate in Tariff	<u>\$0.036128</u>	/Ccf	Line (17) divided by 10

Derivation of demand commodity rates for customers with installed DG equipment between 1-5 MW is provided below.

(1)	Total Non-Gas Cost Revenue in SC 13 TC TC 3 Usage Rates	\$3,277,000		Imputed in Case 98-G-1291 Based on Imputed volumes in Case 98-G-1291
(2)	Total Peak Day Volume TC 3	<u>30.620</u>	MMcf	
(3)	Demand Cost per Maximum Daily Demand	<u>\$0.668876</u>	/Ccf MDDQ	Line (1) x 75% ÷ (12 x Line (2) x 10,000)
(4)	Total Commodity Billing Units @ 70% Load Factor	7,824	MMcf	Line (2) x 365 x 70%
(5)	Commodity Non-Gas Cost	\$0.10472	/Mcf	Line (1) x 25% ÷ (Line (4) x 1000)
(6)	Base Reserve Cost of Gas	\$0.14180	/Mcf	
(7)	April – October Seasonal Discount Factor	90	%	
(8)	April – October Seasonal Base Rate	\$0.09424	/Mcf	Line (5) x Line (7)
(9)	Base Reserve Cost of Gas	<u>\$0.14180</u>	/Mcf	
(10)	Total Base Commodity Rate April – October	\$0.23604	/Mcf	Line (8) + Line (9)
(11)	Per Ccf Total Base Commodity Rate April - October in Tariff	<u>\$0.023604</u>	/Ccf	Line (10) divided by 10 Based on Imputed volumes in Case 98-G-1291
(12)	April – October Volume for TC 3	2,555	MMcf	
(13)	April – October Unit Discount Amount	<u>\$0.01048</u>	/Mcf	Line (5) – Line (8)
(14)	April – October Discount Amount	\$26,776		Line (13) x Line (12) x 1000

(15)	November – March Volume for TC 3	<u>2,863</u>	MMcf	Based on Imputed volumes in Case 98-G-1291
(16)	November – March Premium Factor	\$0.00935	/Mcf	Line(14) divided by Line(15) divided by 1000
(17)	Total Base Commodity Rate November – March	\$0.25586	/Mcf	Line (16) + Line (5) + Line (9)
(18)	Per Ccf Total Base Commodity Rate in Tariff	<u><u>\$0.025586</u></u>	/Ccf	Line (17) divided by 10

(8) Minimum Load Factor Requirement

In order to maintain qualifications for the DG service rate schedule, customers must maintain an annual load factor of at least 50%. Such load factor requirement shall be determined by dividing average annual consumption by the peak daily consumption of the customer during the winter months. If actual daily winter meter readings are unavailable, the daily winter requirement will be estimated by the Company utilizing operating information provided by the customer. The December 3rd Order required that the tariff specify that if a customer can provide mitigating circumstances as to why their load factor has dropped below 50%, the customer may remain in the DG service classification. The updated tariff included in this filing provides the required exception.

Company Contacts

For questions relating to this filing, please contact the undersigned or Eric Meinel at (716) 857-7000.

Respectfully Submitted,

Michael W. Reville