

National Grid  
300 Erie Boulevard West  
Syracuse, New York 13202  
January 3, 2006

Honorable Jaclyn A. Brilling, Secretary  
State of New York  
Public Service Commission  
Office of the Secretary, 19th Floor  
Three Empire State Plaza  
Albany, NY 12223-1350

**Re: Proposed Tariff Revisions Relating to Gas Curtailment Procedures, and Request for  
Emergency Adoption**

Dear Secretary Brilling:

The enclosed tariff leaves, issued by Niagara Mohawk Power Corporation, d/b/a National Grid (hereinafter "the Company") are transmitted for filing in accordance with the requirements of the Public Service Commission of the State of New York ("Commission").

First Revised Leaf No.	31
First Revised Leaf No.	37
Original Leaf No.	37.1
First Revised Leaf No.	38
First Revised Leaf No.	137
First Revised Leaf No.	138
First Revised Leaf No.	148
First Revised Leaf No.	162
First Revised Leaf No.	168
Second Revised Leaf No.	178
First Revised Leaf No.	221

To PSC No. 219 Gas

Effective: March 16, 2006

The tariff revisions filed herein propose changes to Rule 3 of the Company's PSC No. 219 Gas Tariff. Rule 3 sets forth the Company's rules regarding Priority of Service in the event the Company is required to implement Short Term or Long Term Curtailment under Rules 3.6 and 3.7 of its PSC No. 219 Gas Tariff. The proposed revisions have been filed with an effective date of March 16, 2006, however, the Company is requesting an emergency SAPA in order to allow an effective date of February 3, 2006 as further detailed in the "Request For Emergency Adoption" section of this filing letter. The revisions also include changes to Rule 3.2.3 which sets forth the Company's obligations regarding customers purchasing non-Company gas supplies. The proposed changes would assure that the curtailment priority for core customers does not depend on whether the customer is a supply customer or a delivery-only customer. The tariff revisions establish provisions for the continued delivery of, and compensation for, non-core customer gas supply to the city-gate in order to provide gas supply for core customers in the event of a curtailment.

Finally, the Company's filing includes a proposed revision to the rate applicable to unauthorized overrun usage during periods of curtailment. The current \$25 per Dth rate was established by the Commission in its April 25, 1997 Order when gas in the production area was priced slightly over \$2 per Dth. With current commodity prices in the production area over the past fall ranging from \$10 to \$15 the Company is concerned the rate for unauthorized over runs may be inadequate to discourage violations, and therefore protect the integrity of its distribution system.

### **Background – Short Term Curtailment**

The Commission's existing rules regarding Short Term Curtailment were issued in its "Order Adopting Short-Term Curtailment Procedures," issued and effective December 3, 1996 in Case 93-G-0932 ("December 3 Order"). That order required that in the event of short-term interruption or force-majeure curtailment situations, the needs of core customers would be met first, regardless of whether the customers were sales or transportation customers. The order also established, that in the event it was necessary to divert gas from non-core customers to core customers, the proper measure of compensation to non-core customers was the replacement cost of fuel. By Order dated March 24, 1997 Order in Case 93-G-0932, the Commission's approved the Company's filing to implement the requirements of the December 3 Order, subject to requiring a further revision to include a definition of replacement cost of fuel for curtailed customers whose gas is diverted to supply core customers. The Company filed further revisions on May 5, 1997 which became effective on one day's notice on May 6, 1997.

### **Background – Long Term Curtailment**

By order issued and effective April 25, 1997 in Case 93-G-0932 ("April 25 Order"), the Commission approved the recommendation of Department of Public Service Staff ("Staff") on Long Term Curtailment Plans. Although, the Commission had maintained an order of priority for determining which customers receive gas in the event of a shortage since the 1970s, that priority order implicitly assumed all customers were sales customers. The revised long term curtailment priority order approved by the Commission was intended to recognize the state of transition of the natural gas market in New York State at that time. The Company complied with the Commission's long term curtailment plan order with a tariff filing submitted May 23, 1997, which was made effective May 24, 1997. The Commission's Long Term Curtailment Order recognized three different types of customers:

- a) Customers purchasing supply from the Utilities.
- b) Customers purchasing Non-Utility Supply other than Residential and Human Needs Customers.
- c) Residential and Human Needs Customers Purchasing Non-Utility Supply.

#### **Customers Purchasing Supply from the Utilities**

The April 25 Order established that customers purchasing gas supply from utilities would continue to be treated under the previous priority policy, and would generally follow the earlier established priorities. These procedures/priorities for curtailment of customers purchasing supply from the utilities is now set forth in the Company's PSC No. 219 Gas Tariff under Rule 3.7 – Long Term Curtailment.

#### **Residential and Human Needs Customers Purchasing Non-Utility Supply**

The Commission held that residential customers, curtailed by Marketers, continue to retain the right to return to the LDC as the supplier of last resort, under the provisions of the Home Energy Fair Practices Act (HEFPA). The Commission further indicated that the same protections should be afforded to Human Needs Customers (residential customers, hospitals, nursing homes, prisons, and residential hotels). The Commission's order required that these critical care customers receive the same curtailment priority as residential sales customers. In order to compensate the utilities for providing that level of service, the companies were allowed to require that such transportation customers take a standby supply service from the utility. These rules remain unchanged in the Company's tariff and are set forth in Rule 3.2.2.

### Customers purchasing Non-Utility Supply other than Residential and Human Needs Customers

The Commission's April 25 Order indicated that curtailment priorities of marketer or customer-owned gas should be decided among the parties involved, i.e., the marketer and the customer. The Commission indicated that neither the Commission nor the LDC should be making decisions with respect to redirection of gas among suppliers or to establish curtailment priorities for gas the LDC does not own. However, the supplier was required to advise the LDC, as the distributor of the gas, what actions to take with respect to curtailment. Further, the April 25 Order indicated that the LDC must maintain the right to terminate service to a customer whose supplier is not nominating and delivering supplies on the customer's behalf. The April 25 Order also required the non-utility suppliers to provide the utility a plan for curtailment for its customers. To the extent that a marketer's customers were to take volumes in excess of nominated and delivered volumes, balancing and penalty charges would be applicable.

### **Description of Tariff Modifications**

The Company's proposed tariff modifications to the Long Term Curtailment provisions under Rule 3.7 are designed to meet the Commission's objective of protecting core customers regardless of whether the customers are purchasing their commodity from the Company or from a Marketer. The proposed changes would not distinguish core customer curtailment priority based on whether the customer is a supply customer or a delivery-only customer. In addition, the changes establish provisions for the continued delivery of, and compensation for, non-core customer gas supply to the city-gate in order to provide gas supply for core customers in the event of a curtailment.

The supply/demand balance has tightened as a result of market forces fueled by a hot summer elevating natural gas demand for the purpose of power generation, a record hurricane season resulting in sustained operational disruptions in the Gulf of Mexico, and a mild start to the winter heating season evolving to include bitter cold in key temperature sensitive demand regions. These forces require the Company to be prepared to ration available supplies among its core customers. The Company's objective remains to protect core customers as re-iterated in the Commission's December 3 Order.

Long Term Curtailment remains a supply driven curtailment, as envisioned by the Commission, while Short Term Curtailment involves critical days caused by level of load and weather. As the result of the supply disruptions in the Gulf of Mexico, the Company has more closely examined the effects of implementing Long Term Curtailment. With the success of the Commission's policies to promote Retail Access, it has become apparent that the Commission's directive that the LDC should not be making decisions with respect to redirection of gas among suppliers or be involved in establishing priorities for gas the LDC does not own may have unintended consequences that could not have been foreseen when its rules for Long Term Curtailment were originally established. In fact it is conceivable that under the present design non-core customers of marketers who are delivering gas may continue to burn gas even when the Company's and other Marketer's ability to supply gas to core customers is impaired. The Company's tariff revisions, filed herein, provide for the Company to be able to divert gas supplies to the benefit of core customers, regardless of supplier, in order to protect the needs of all core customers; and are intended to maximize the amount of available gas delivered to the city-gate in the event of a curtailment.

The existing regulations result in many curtailment plans (one for each marketer), which prioritize customers differently than is called for under the tariff for LDC-supplied customers. The Marketer curtailment plans are not necessarily established by type of customer or with system operational impacts in mind. These plans may simply be prioritized based on the contract economics to the Marketer rather than the type of load. Many times, human needs customers may be listed as a lower priority than the same customer would be if purchasing supply from the utility. The reality of protecting the health and welfare of all of our core customers, regardless of supplier, requires that Long Term Curtailment provisions, set forth in Rule 3.7, be modified to allow for the diversion of gas to protect core customers, with compensation provided at the replacement cost of fuel consistent with existing rules governing short term curtailment. Accordingly, the Company requests approval of the changes proposed herein to its Long Term Curtailment tariff provisions.

**Request for Emergency Adoption**

Pursuant to S.A.P.A. § 202(6), the Company respectfully requests the approval of the changes proposed herein on an emergency basis to become effective February 3, 2006. As noted above, recent market events affecting natural gas have significantly increased the potential that gas supply curtailments could occur during the 2005-06 heating season. This potential is significantly greater during the current heating season than it has been in recent memory. In order to preserve the public health, safety and general welfare of the Company's residential and human needs customers in the event of a curtailment event this heating season, the proposed tariff amendments are needed in place as soon as possible. These amendments address weaknesses in the currently effective curtailment provisions which could not have been foreseen at the time those provisions were initially adopted. The Commission is authorized to approve these proposed amendments pursuant to its general authority under P.S.L. § 65. Absent emergency adoption of these amendments under S.A.P.A. § 202(6), the proposed tariff revisions would not become effective in time to provide much, if any, benefit to residential and human needs customers this heating season.

The public and interested parties should be given less than the 45-day period for notice and comment under SAPA § 202 (1) because interested parties, including ESCO's large volume customers (represented by Multiple Intervenors), utilities and Staff were advised of the Company's concern beginning in November 2005. The matter has been discussed at length at two consecutive meetings of the Gas Reliability Collaborative. The Company has provided an electronic copy of the filing to Marketers currently participating in the Company's SupplierSelect Program. Further, the Company intends to hold a conference call, in the near future, with affected ESCO's to further discuss the contents of the proposed tariff revisions. Industry interests have been sufficiently notified of the issues involved in the Company's proposal to form an informed opinion and respond, if desired, within a significantly shortened comment period. It is for this reason that the Company recommends and requests that in lieu of the SAPA 45-day comment period, the Commission grant this request for emergency adoption and provide interested parties with a ten-day period to submit comments.

Newspaper publication of the proposed tariff changes will be made in accordance with 16 NYCRR 720-8.1 on January 18 and 25, and February 1 and 8, 2006.

Questions regarding this filing should be addressed to Marcia Collier on 315-428-5692 or James Dillon on 315-428-5875. Please advise the undersigned of any action taken in regards to this filing.

Sincerely,

Marcia G. Collier  
Manager, Gas Pricing

MGC/tlf (S:Tariffs/219Tariff/Docfiles/Letters/lett121)

Enclosures

cc: Lyle Van Vranken  
Dan Wheeler