**PROPOSED CLARIFICATION/CHANGE TO**
**2009 ANNUAL PLAN for the RETAIL GAS and ELECTRIC QUADRANTS**
**Submitted by M. Novak/National Fuel Gas Distribution Corporation**

A question has been raised as to whether the Retail Gas Quadrant (RGQ) should vote upon the Model Business Practices (MBPs) that are likely to result from Retail AP Item 6e. While current work-in-progress (shown on pages 228-262 of the Assembled NAESB Board Meeting Materials for the March 26, 2009 Meeting) proposes commodity neutral MBPs, a cursory review of this work shows that the underlying product is designed for the electric market.

Within the current gas market, there is no product or market mechanism that corresponds to Demand Response. One might speculate as to what might evolve over the next decade but today there is no rationale for the RGQ to adopt Measurement & Verification MBPs for demand response programs. The gas and electric markets are very different on this topic. An excerpt from a New York Working Group Report identifying such differences is included at the end of this posting for reference.

A vote by the RGQ on these MBPs would at best be speculative and more likely, misleading from both market and regulatory perspectives. As such, we propose that a footnote be added to the Retail AP Item 6e specifying that MBP Development is currently applicable to Retail Electric Quadrant only.

It is recognized that some combination utilities package gas Energy Efficiency programs along with electric Demand Side Management offerings to customers. As such, the notion of commodity neutral MBPs is less troubling – the key is that their adoption would be in the REQ.

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**NORTH AMERICAN ENERGY STANDARDS BOARD**
**2009 ANNUAL PLAN for the RETAIL GAS and ELECTRIC QUADRANTS**
**Adopted by the NAESB Retail Executive Committees on February 4, 2009**

| Item Number & Description[i] | Completion[ii] | Assignment |
|---|---|---|
| 6. Review and develop needed model business practices for a standardized method for quantifying benefits, savings, cost avoidance and/or the reduction in energy demand and usage derived from the implementation of demand side management and energy efficiency programs. This effort will include demand side response, energy efficiency programs and metering, including the 'curtailment service provider' program.<br><br>Status: Underway | | Joint WEQ/REQ DSM Subcommittee |
| a. Develop matrix and business practice standards for measurement and verification for demand response products and services in ISO/RTO footprint areas.<br><br>Status: Completed (examples still to be provided) | 4nd Q, 2009 | WEQ Section of the Joint WEQ/REQ DSM Subcommittee |
| b. Develop more detailed technical standards for the measurement and verification of demand response products and services in ISO-RTO footprint areas.<br>Status: Not Started (Scope to be initiated in 2nd Q, 2009, after which a completion date will be set) | Phase 2 | WEQ Section of the Joint WEQ/REQ DSM Subcommittee |
| c. Develop preamble for business practice standards for measurement and verification for demand response and energy efficiency programs.<br><br>Status: Underway | 3rd Q, 2009 | Joint WEQ/REQ DSM Subcommittee |
| d. Develop glossary for business practice standards.<br><br>Status: Underway | 3rd Q, 2009 | Joint WEQ/REQ DSM Subcommittee |
| e. Support retail[1] development of matrix and model business practice standards for measurement and verification for demand response programs.<br><br>Status: Underway | 2nd Q, 2009 | Retail Section of the Joint WEQ/REQ DSM Subcommittee |
| f. Develop business practice standards to measure and verify energy reductions that are made to comply with a Renewable Portfolio Standard that included energy efficiency or a stand-alone Energy Efficiency Portfolio Standard.<br>Status: Not Started (Scope to be initiated in 2nd Q, 2009, after which a completion date will be set) | Phase 2 | WEQ Section of the Joint WEQ/REQ DSM Subcommittee |
| g. Develop business practice standards to factor Demand Control and Energy Efficiency programs into reliability / supply decisions at the wholesale level for generation and transmission planning and operations.<br>Status: Not Started (Scope to be initiated in 2nd Q, 2009, after which a completion date will be set) | Phase 2 | WEQ Section of the Joint WEQ/REQ DSM Subcommittee |
| h. Develop business practice standards to support cap and trade programs for green house gas.<br>Status: Not Started (Scope to be initiated in 2nd Q, 2009 at the earliest. Upon conclusion of the scoping statement it will be determined whether NAESB standards development is appropriate) | Phase 2 | Joint WEQ/REQ DSM Subcommittee |

[1] MBP Development is currently applicable to Retail Electric Quadrant only

# Report on Natural Gas Efficiency Goals

WORKING GROUP V

CASE 07-M-0548 – Proceeding on Motion of the Commission Regarding an Energy Efficiency Portfolio Standard

October 17, 2008

**Co-Conveners:**
John D'Aloia – NYS Department of Public Service
Frank Murray – NRDC/Pace Center for Energy and Climate Change

supplier. The prices of all supply contracts are generally indexed to a reference price that changes monthly. Additionally, energy marketers and, in some cases, large transportation customers, also contract for capacity, as needed.

The LDCs also hedge their supply purchases both physically and financially. Typically, New York's LDCs hedge around two-thirds of their commodity purchase on an annual basis. A physical hedge is best represented by the natural gas storage facilities located both in the Northeast market area, including locations in New York State, and in the gas production areas. LDCs inject gas all summer into storage fields at what have traditionally been lower off-season prices, and then draw the gas out during winter to meet peak heating loads. A financial hedge is a contract between an LDC and a financial institution for the right to purchase gas in the future at a certain purchase price.

**2. Some Distinctions between the Natural Gas and Electric Power Industries**

**a. Wholesale Markets**

The wholesale markets for electricity and natural gas are very different. For electricity, there is a statewide wholesale market for both capacity and energy that the New York State Independent System Operator (NYISO) administers. A material reduction in electricity consumption within the State, even within geographic market zones, can impact wholesale electricity prices in New York, particularly during peak demand periods.

By contrast, there is no state administered wholesale market for natural gas. The wholesale gas market has a much wider geographic base that can be characterized as a regional or national market. This difference in market structure may raise issues about the extent to which gas efficiency programs impact wholesale gas prices and the benefits of such programs to non-participants. The vast majority of natural gas costs to the customer are derived from the commodity charge, which is passed through to the customer. The transmission and distribution charges that are recovered as a portion of the total costs are much smaller for gas than for electricity. This would tend to make rate impacts lower for gas efficiency programs than for electric efficiency programs, and, one could argue, that non-participants would be burdened less for gas programs as a result.

**b. Interruptible Customers**

Interruptible natural gas customers play a crucial role in maintaining the reliability of New York's natural gas distribution system. Many have dual fuel capability and

thus provide important load balancing functions by using capacity that is under-utilized by firm customers at warmer-than-peak-day temperatures. They provide significant margin contributions, thereby lowering rates to all firm customers, yet, because they can be interrupted, they allow the company to achieve these margins without increasing the size of its distribution system and upstream pipeline contracts which are designed to meet peak day conditions. An interruptible customer basically pays a lower rate for the delivery of gas in exchange for its willingness to be interrupted during periods of peak demand. Interruptible gas customers represent a significant portion of total natural gas consumption. The LDCs estimate that approximately 18% of their 2009 throughput will be delivered to interruptible customers. To date, gas utility efficiency programs have limited program eligibility and funding to firm customers.

**c. Storage**

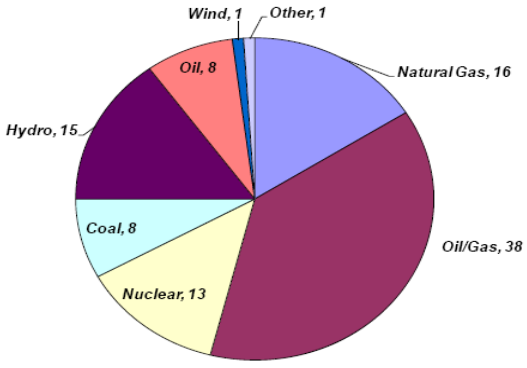
Natural gas can be stored, whereas electricity cannot. This might make programs that reduce peak usage more valuable for electricity than for natural gas.

**d. Electric Generation**

A larger and larger amount of New York's electricity is generated using natural gas. Indeed, primarily for environmental reasons, New York State has encouraged the increased use of natural gas for electric generation. The generation mix in New York State for 2008 is shown in the following chart:

CHART 1

**NEW YORK ISO SYSTEM, 2008,**
Percentage of Generating Capacity Mix




*Source: New York ISO, "Power Trends 2008"*

ICF, the NYSERDA contractor that produces the natural gas load forecast in the State Energy Plan, predicts that by 2030, 33% of all kWhs will be generated using natural gas, up from 29% in 2007.

Most electric generators are classified as "interruptible" natural gas customers. During the winter, when capacity is constrained due to weather and higher priority demand uses (e.g. heating), electric generators are often forced to rely more on the spot market and its commodity prices to obtain a fuel supply. In New York City during the winter, the spot market for natural gas delivered on the Transcontinental Gas Pipeline (Transco) can produce daily natural gas prices that are many times higher than in the production area (Henry Hub prices). Electric power generators that have dual fuel capability will switch to oil during these times. Other generators simply shut down since electric loads are much lower in the winter than during the summer in New York City.

e**. Geographic Scope**

Electricity is available to essentially all New York State consumers and businesses through the electric grid. However, significant parts of New York are not currently served by natural gas.

f**. Data Collection/Planning**

There is no ISO or central statewide agency for natural gas like there is for electricity. There is no comparable process to the New York ISO's comprehensive reliability planning process in which stakeholders and market participants are extensively involved in developing a long term plan and needs assessment for future electricity generating capacity and transmission. To the extent that central data collection and long term statewide planning does occur on natural gas issues, it appears to be done through the State Energy Plan process, not through an ISO-type organization. Indeed, the LDCs project "long-term" supply demand for only 3-5 years. Moreover, WGV learned that forecast data by gas customer class is not easily obtainable from the LDCs, in part because there is no uniformity of customer classification among the LDCs.

**g. Program Experience**

On the electric side, NYSERDA has been administering energy efficiency programs statewide for over ten years. The program experience targeting natural gas efficiency is more limited. The LDCs only recently began offering gas efficiency programs in New York in

the last couple of years, but NYSERDA's programs, although focused on electricity in general, utilize a whole building approach and have resulted in some natural gas savings. Most of the LDC programs have focused on residential customers and, in some instances, smaller commercial customers. This experience can be built upon and may, in fact, understate the natural gas efficiency potential as natural gas efficiency has not been the primary goal of these programs. Natural gas efficiency programs have been implemented by LDCs in other jurisdictions, including in New England by one of New York's LDCs. Hopefully, these programs can provide a great deal of knowledge and experience that New York can draw upon to develop more extensive and scaled up natural gas efficiency programs. At the present time, there is very limited experience in New York with respect to the design and implementation of gas efficiency programs tailored for large C/I customers.