



Mark S. Lynch  
President and CEO

January 23, 2017

(via email and hard copy)

The Honorable Audrey Zibelman  
Chair, NYS Public Service Commission  
3 Empire State Plaza  
Albany, NY 12223-1350

Dear Chair Zibelman:

After meeting with you regarding the proposed Lansing/Freeville Reinforcement Gas Pipeline Project and possible alternatives, a summary of our discussions and New York State Electric & Gas Corporation's ("NYSEG" or the "Company") intentions at this juncture seems appropriate. To that end, this letter serves to provide this information.

### **Background**

To begin, NYSEG is appreciative of your efforts and those of the Department of Public Service ("DPS") Staff to work with the Company and representatives of the Tompkins County Energy and Economic Development Task Force ("TCEED") to discuss these important matters and for arranging the meetings on this issue. Additionally, I would like to affirm that NYSEG is familiar with and understands Tompkins County's energy and environmental goals to reduce emissions 80% by 2050.

As expressed during our meetings, NYSEG is committed to serving its customers, and is obligated to provide safe and reliable service to its existing natural gas customers. We take this responsibility very seriously. Approximately 19,000 industrial, commercial, residential, public authority and college facilities are connected to the Company's natural gas system in Tompkins County. Throughout the years, the community's natural gas demands have increased, resulting in low pressure situations on a significant portion of the system, with some areas being severely constrained and currently under a moratorium which precludes the addition of any new gas customers. This moratorium has prevented a number of potential gas customers from being added to the system. Currently, there is a backlog of requests for gas service that cannot be addressed by the Company because the low pressure situation creates reliability risks for NYSEG's existing gas customers.

The Lansing/Freeville Reinforcement Gas Pipeline Project (“Project”) was initially contemplated several years ago by NYSEG, and was specifically proposed in the Company’s most recent rate case. The Project is designed to address three key issues:

Issue #1: The need to reinforce the current gas system to remedy significant pressure inadequacies in the Lansing area to continue to provide safe and reliable service to existing customers;

Issue #2: The need for additional distribution capacity to accommodate the incremental load of prospective customers who have already requested natural gas service (and who are “on hold” due to inability to serve); and

Issue #3: Given the growth and economic development prospects for this region, include additional distribution capacity which would allow for future growth beyond what has already been requested by potential gas customers.

In an effort to meet Tompkins County’s emission reduction goals, TCEED has expressed a strong interest in alternatives to the pipeline reinforcement project. In consultation with you as NYS Public Service Commission (“PSC”) Chair and DPS Staff, the Company noted in the meeting identified below that it had generally explored and evaluated several alternatives, none of which would resolve all three of the issues noted above in an economic manner. The Company remains interested in viable alternatives that facilitate safe and reliable service, particularly if they are more economical for our customers than the Project.

### **Previous Discussions**

At a meeting on November 9, 2016, the Company reviewed a list of potential alternative options with you, DPS Staff and several TCEED task force members. Alternatives included compressed natural gas (“CNG”) stations, a liquefied natural gas (“LNG”) station, electric compressors (possibly supported with solar facilities), non-pipe renewable heat sources, building code changes, interruptible gas service rates, demand response and high demand-based gas service rates, energy efficiency programs, and fuel conversions. As noted previously, the Company’s review of these alternatives concluded that individually they could not resolve Issues #1, #2 and #3 above in an economic manner when compared to the Project.

Follow-ups to this November 9 meeting included:

- agreement to further discuss compressor alternatives (through a meeting with NYSEG, TCEED and Cornell University) as a way to possibly address Issue #1
  - Meeting held on November 30, 2016

- exploration of possible gas-specific demonstration projects and/or activities to be incorporated in the Energy Smart Community project, with the understanding that this would necessitate Commission approval and a method for cost recovery
  - On-going internal discussions
- NYSEG to determine the size of pipeline needed to only address the low-pressure situation (Issue #1)
  - This was completed and a pipeline of nearly the same size would be required, with little change in the overall costs to install
- NYSEG to research the estimated costs for conversion of a gas-heated home to an all-electric home
  - This research resulted in estimates ranging from approximately \$10,000 per home to \$25,000 per home depending on the type of alternate heating technology used
- continuation of NYSEG's work on future filings associated with the gas pipeline reinforcement project with no submittals at this time
  - Ongoing
- agreement that the PSC Chair, Staff, Company and TCEED will meet again to review a path forward.

### **Future Activities and Timeline**

Based on the November 9 meeting and subsequent Company discussions with DPS Staff, NYSEG has developed a timeline of planned activities. Activities are identified in two tracks:

#### **Track 1: System Reliability (Issue #1)**

##### ***January***

- In an effort to address the reliability/pressure issue, NYSEG will further develop details of a potential compressor-based solution for the safety and reliability of existing natural gas customers, including feasibility, timing, cost, location, size, property acquisition and risks. It should be noted that compressors would be a new application in attempting to address a low pressure situation and that the Company does not have specific prior experience with this application.
  - Study to be completed by the end of January, 2017

##### ***February***

- Review results of compressor-based study with PSC Chair, DPS Staff and the Company.

- Meeting scheduled for February 2
- NYSEG plans to file the compressor-based solution (as a Reforming the Energy Vision [“REV”] demonstration project) with the PSC after review.

***February/March***

- At the February 2 meeting, NYSEG will seek agreement from the PSC that the compressor-based solution could be considered a REV demonstration project. Assuming agreement, NYSEG would submit a filing to the PSC seeking expedited regulatory acceptance to proceed with a demonstration project for the compressor-based solution. If the PSC grants approval for NYSEG to proceed with the demonstration project, the Company will agree to refrain from pursuing eminent domain for the Lansing/Freeville Reinforcement Gas Pipeline Project as well as keep the natural gas moratorium in place until the results of a “non-pipe alternative” (“NPA”) Request For Proposal (“RFP”) are received and evaluated as discussed below.

***Ongoing Activities***

- Pending the results of the detailed study, and other variables and timeframes yet to be determined, a compressor solution in-service date associated with the demonstration project may be possible by late 2018.
- NYSEG recommends that Tompkins County review current building codes and pursue updates that would increase energy efficiency and the use of technologies to reduce greenhouse gas emissions. NYSEG is willing to assist in this endeavor.
  - Specific timeframe and process to be determined by Tompkins County

**Track 2: Addressing Requested Service/Growth in Addition to Reliability (Issues #1, #2 and #3)**

***February – Mid-year 2017***

- Pending approval of the PSC to proceed with the demonstration project outlined above, and in an effort to address the issues of accommodating current and future natural gas service requests, NYSEG, in coordination with and with assistance from DPS Staff, will develop and issue a NPA RFP that will solicit possible market-based, innovative solutions to address the demand for gas in the region. In addition to addressing Issue #1 (reliability), this RFP approach is intended to provide a longer-term view that would consider options to defer, decrease or offset the need for gas infrastructure investment while still meeting the demand noted for Issues #2 and #3. It should be noted that new approaches or alternatives, and financing such initiatives, would require review and

approval by the Commission. NYSEG understands that the PSC will allow for cost recovery associated with investments and payments made under a NPA in a manner consistent with the methods approved by the PSC for REV Electric Non-Wires Alternatives as part of the Companies' most recent rate cases. The proposed schedule with estimated dates is as follows:

- Draft RFP to DPS Staff by end of February
  - DPS Staff review by March 15
  - Issue RFP by April 3
  - Responses due by May 19
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- It is recommended that following the completion of NYSEG's draft NPA RFP package and prior to issuance, the PSC Chair, DPS Staff, Company, and TCEED meet with other interested parties such as the Town of Lansing, Town of Dryden and local developers to discuss the non-pipe alternative RFP, the RFP process, the status of the pipeline and the continuing moratorium of gas expansion in Lansing.
    - End of February, beginning of March

**Ongoing**

- While the compressor demonstration project and the RFP process are being worked on, NYSEG will refrain from exercising eminent domain or making SEQRA or other filings associated with the pipeline project. The Company would keep the natural gas moratorium in place.
  - This time frame may be for an extended period, pending responses to the RFP and the ultimate solution to Issues #1, #2 and #3

NYSEG is committed to the activities and timeframes outlined above, and looks forward to our continuing discussions.

Please let me know of questions or concerns that you, DPS Staff, or representatives of TCEED may have.

Sincerely,



cc: Ed Marx, Katherine Borgella, Martha Robertson, representing Tompkins County Energy and Economic Development Task Force (TCEED)