

September 2, 2019

Chairman Rhodes and Deputy Director McCarran,

To begin, thank you once again for agreeing to investigate the gas supply situation in New York City as well as the appropriateness of National Grid's unilateral actions in the wake of the rejection of the NESE pipeline. Given the financial and emotional damage currently being inflicted on small businesses and other ratepayers because of their de facto gas moratorium, and given the lack of evidence National Grid has put forth to justify it, we trust that the PSC will side with ratepayers and take action accordingly.

We are writing today with new evidence that we hope will be useful in the PSC investigation. It should provide further evidence that National Grid has either severely mismanaged or spectacularly misrepresented its gas supply, thereby forfeiting its right to manipulate customers in the manner it has over the past few months. This information supplements our previous findings—best represented in our [False Demand report](#), authored by Suzanne Mattei, a former regional director at the DEC, now with Lookout Hill Public Policy Associates—which alone provides sufficient evidence that National Grid has been misrepresenting the gas supply situation in New York for its corporate benefit.

1. National Grid originally contracted for only 350,000 dth/day of gas, agreeing to 400,000 dth/d only when there were no other takers.

In Transco's document notifying potential gas buyers of NESE's available gas, it stated that the "anchor shipper," National Grid, would agree to reduce its share of the pipeline's gas by 50,000 dth/d—to 350,000 dth/d—if there were other shippers, yet none emerged. National Grid proceeded to contract for 400,000 dth/d only because there weren't other takers. ([Source](#))

This proves that at least 15% of the gas that NESE would carry isn't needed—much less wanted—by National Grid. When we consider the additional fact that this pipeline has been proposed to satisfy demand on only the most energy-intensive days out of the year—a practice frowned upon and considered inefficient by industry and the *State Energy Plan* ([Source](#), pg.22)—it becomes clear that this pipeline would be an extreme exercise in wastefulness.

2. National Grid recently cancelled contracts with three pipelines that might have ameliorated its supposed gas shortage.

According to a 2012 ICF report on the gas market in NYC, much of National Grid-LI's gas has come from the Iroquois Gas Transmission system, which delivers directly to Northport on Long Island. As of 2012, the Iroquois system was also providing a substantial portion of New York City's peak day capacity. In other words, National Grid-LI was transferring capacity to National Grid-NY on the most energy-intensive days.

Until recently, the Iroquois system received gas from its intersection with a TransCanada pipeline in Waddington. Yet National Grid recently let its contract with TransCanada expire. In her April 2019

testimony given as part of National Grid's current rate case, Elizabeth Arangio, Director of Gas Supply Planning for National Grid-NY, noted:

As supplies from the Marcellus shale region became abundant and readily accessible, **[National Grid] did not renew expiring long-haul contracts with Union, TransCanada, and Empire pipelines that delivered more expensive supplies from Dawn, Canada.** (Arangio testimony, April 2019, pg.20)

The Iroquois Gas Transmission System does not connect with the existing Transco pipeline running from New Jersey to New York. In other words, it provided a [completely separate supply route](#) to areas currently affected by National Grid's moratorium. Therefore, by substituting Marcellus Shale supplies (coming through the existing Transco pipeline) for Canadian supplies (coming through the Iroquois pipeline), **National Grid increased demand on the existing Transco pipeline system and eliminated a peak-shaving measure that NYC previously had** ([Source](#), pg. 29-30). It also completely eliminated one of Long Island's chief sources of gas.

National Grid seems to have also intentionally reduced its capacity in other ways as well. Arangio testified that

While the current level of Transco long haul capacity is required to serve the Companies' peak day and peak season needs, it is not always the least cost option for supply. Recently, the Companies were able to reduce the path on Transco long-haul contracts to reduce fixed costs. Effective March 1, 2019, the Companies have agreed to turn back 40 percent (27,473 Dth/day) of their combined entitlements from Zone 1 (Sta 30). Transco will allow the remaining portion (41,210 Dth/day) to be turned back as early as October 2020. After the turnbacks, **the Companies will still be able to reliably fill 100 percent of the original contract volumes at downstream points.** The option to reduce capacity paths is not one typically offered by the pipelines, so, when the opportunities occur, the **Companies will seek to take full advantage of such de-contracting providing such options do not have an adverse effect on the reliability and economics of the portfolio.** (Arangio testimony, April 2019, emphasis ours)

It is difficult to see how these actions haven't had "an adverse effect on the reliability and economics of the portfolio," given the company's claims of a gas shortage.

In addition, we must note the connection of off-system sales to the practice of inefficiently hoarding supplies, as outlined here:

Consistent with its NGPA authority, the F.E.R.C. has liberally endorsed off-system sales from the interstate market into the intrastate market. [...] As a result [...] of these two policies, the interstate market has had a dual advantage. By allowing surpluses to be sold into the intrastate market, the F.E.R.C. is provided a virtually penalty-free environment for interstate pipelines to hoard supplies. Interstates have bought available supplies at almost any price, paying no penalties for such inefficient buying behavior because short-term surpluses may be sold in the off-system intrastate market when their markets collapse." ([Source](#), pg. 46-7)

Relatedly, through off-system sales,

pipelines may sell cheap gas to non-core customers but continue to charge high rates to captive customers. In that scenario, a pipeline takes advantage of its monopoly power over its captive customers to enhance its competitive position in the non-monopolized market. ([Source](#), pg.89)

In sum, many signs point to National Grid wanting the NESE pipeline for reasons having little to do with satisfying local demand. We look to you, the PSC, to determine this.

3. National Grid sold \$284 million worth of gas to third parties while keeping 15% for its bottom line.

National Grid has not only cancelled contracts for additional gas supply; it has been selling what gas it does have to third-party buyers. In her testimony from April 2019, Arangio states that, from April 2014–January 2019

the revenues [National Grid] received from off-system sales transactions, WSS transactions and AMAs totaled \$284.2 million, of which \$241.7 million (85 percent) was credited to customers and **the remaining \$42.5 million (15 percent) was retained by the Companies**. (Arangio testimony, April 2019, emphasis ours)

FERC has defined off-system sales as the sale of gas

that is **excess to the pipeline's current demand**, that is of a short-term, interruptible nature, and that is made to a customer outside or away from the pipeline's traditional or historic market area. ([Source](#), pg. 86)

Precisely in order to address customer concerns that off-system sales might dilute supplies best saved for their future use, FERC established rules

requir[ing] that off-system sales only be made when a pipeline has reserves that are surplus to its long-term needs and only when needed to avoid take-or-pay liability. ([Source](#), pg.87)

It would appear, then, that National Grid likely either “has reserves that are surplus to its long-term needs,” thus keeping it from being able to justify its current moratorium, or has severely mismanaged its supply in order to profit in the short term.

It is unclear whether National Grid makes off-system sales using gas from its LNG storage facilities. In any case, Arangio notes that National Grid’s ability, in 2022, to shut down its LNG storage facility in Holtsville for repair is entirely contingent on the NESE pipeline being approved. Yet she also notes that “LNG provides the Companies with on-system services that cannot be easily duplicated with other assets,” i.e. pipelines (Arangio testimony).

How, then, could NESE be made to duplicate those services? More importantly, why would such a massive pipeline be required to replace a source of gas that makes up only a fraction of National Grid’s peak day delivery? If it is to maintain system pressure, as Arangio suggests (Arangio testimony, pg.10), then this is hardly the same as a gas shortage. It is a problem of pressure, and could surely be solved through more practical means than the construction of an entirely new, ecosystem-destroying \$1 billion

pipeline. How, for example, might those formerly contracted Canadian pipelines be recruited to solve this problem? All of these questions must be answered by the PSC.

4. National Grid has claimed that its de facto gas moratorium is necessary because the NESE pipeline was rejected. Yet construction on the pipeline wouldn't be completed for at least another year.

The PSC must determine how National Grid can justify refusing gas service to thousands of businesses over gas that it wouldn't be able to access for well over a year. The company is on record in multiple places saying that it expects gas shortages beginning in the Winter of 2020. In its 2019 application for a rate hike, for example, they state:

If the [NESE] project does not become available by the 2020/21 winter season, the companies will not be able to prudently satisfy new or additional service requests without jeopardizing the companies' ability to provide safe, reliable service to its existing firm customers. In that case, National Grid will have no choice but to impose a moratorium on new and additional gas service in affected areas to maintain system reliability. ([Source](#))

Yet just a few months later, we read in the media that

The infrastructure serving the region with gas supply has reached full capacity and is unable to meet growing demand. To add additional service without NESE would pose a risk to the operational integrity of our system and jeopardize reliability of service for the existing 1.8 million customers. ([Source](#))

We question whether either statement is actually true. Yet we're also left to ask: what changed in the mere weeks separating these statements? How is it that National Grid could suddenly need its moratorium to begin well over a year earlier than anticipated? The answer, of course, is that when a monopoly utility is insufficiently regulated, it can say and do whatever it wants. Yet ratepayers and small businesses deserve better—especially those currently hemorrhaging money because they're paying rent on businesses that they can no longer open.

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Many thanks in advance, Commissioner Rhodes, for your attention to these matters. We trust that your commission will explore each and every one of these issues with the rigor that this situation demands and deserves. We look forward to the results, and we also look forward to working with you to build energy systems that skirt these issues entirely by avoiding gas and pipelines altogether. The renewable future is here. We only need to implement it.

Regards,

The Stop the Williams Pipeline Coalition

The Stop the Williams Pipeline coalition is organized by 350Brooklyn, 350.org, Food and Water Watch, New York Communities for Change, Rockaway Beach Civic Association, Sane Energy Project, and Surfrider NYC Chapter

