

July 26, 2002

Louise E. Rickard
Acting Executive Secretary
Department of Public Utility Control
10 Franklin Square
New Britain, CT 06051

RE: Docket No. 02-04-23; Task Force Investigation of all Proposals for Gas or Electric
Transmission Projects

Dear Ms. Rickard:

In response to Joel Rinebold's letter dated June 14, 2002 Connecticut Natural Gas Corporation ("CNG") and The Southern Connecticut Gas Company ("SCG") (collectively the "Companies") hereby submit their joint position paper on the following subjects:

- Gas Franchise Areas
- Transmission Subsidies
- Natural Gas Demand Side Management
- Conservation and Load Management Programs

Gas Franchise Areas

The Local Distribution Company ("LDC") infrastructure to support economic and energy growth including distributed generation would be enhanced if all Connecticut LDCs had the ability to serve non-franchised territories on equal terms. Currently, Yankee Gas Services has an unintended advantage via its charter granting it the ability to serve non-franchised territories without petitioning the Legislature for franchise authority. This anomaly inhibits a competitive marketplace and the pursuit of growth opportunities for two out of the State's three LDCs, even if the LDC could most economically serve customers. Leveling the playing field would foster economic growth which the towns and State all agree is a key government initiative, but more importantly, customers would benefit from the increased competition in the expansion of gas service throughout the State.

Electric Transmission Subsidies

CNG and SCG encourage the building of necessary infrastructure to support the reliability and growth potential of both the electric and natural gas industries. In addition, construction methods should adhere to the prevailing environmental and safety standards to protect customers and employees. While CNG and SCG support necessary transmission construction, they oppose any subsidies to support the construction of transmission facilities.

The State, the ISO and the FERC should continue to support pricing policies which adhere to the “cost causation” and “participant funding” principles. Cost causation is a principle that allows the FERC, ISO/RTO or another organization to determine the allocation of costs of new facilities to those who benefit. Participant funding is a subset of cost causation which allows the market to decide who benefits. Participant funding, which is preferable, would allow market participants to voluntarily choose to fund new facilities. If market participants don’t commit to fund a project, the project is not pursued because the market decided the project was not worthwhile – let the market decide what projects get built.

Take Connecticut for example. The current mechanism in ISO-NE to fund transmission projects is through socialization. Socialization would send inappropriate price signals to other customers in New England if the Connecticut transmission upgrade costs were socialized beyond Connecticut. Conversely, it would be unfair to Connecticut customers to pay for upgrades in other parts of the New England system that offer them no benefits.

Furthermore, strict adherence to a policy of cost causation and participant funding would: a) allocate costs of the transmission upgrade to the residents of Southwest Connecticut or b) encourage the beneficiaries of the project, Southwest Connecticut market participants, to fund a project to lower their energy costs and increase reliability.

Formation of a Natural Gas Demand Side Management (DSM) Incentive Program

Over the years, the SCG and CNG have focused efforts on DSM of natural gas resources. They have promoted conservation programs focusing on low income home conservation improvements and residential energy audits through customer communications, marketing practices, community events, trade shows and through participation in home improvement center events.

Although this practice has assisted in managing natural gas demand, DSM efforts would be significantly more effective if rebate incentives were available to customers who choose environmentally-friendly, high-efficiency natural gas equipment. An incentive program could

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be modeled after electric industry DSM incentive programs and be designed similarly for natural gas DSM programs. The basic premise is that incentives would encourage consumer to select more costly high-efficiency equipment compared to inefficient models and help to reduce natural gas usage.

The Companies strongly favor such a program as it benefits all of their customers, not just those receiving rebates. The program does this by reducing the Companies' strategic mix of peaking resources, transmission assets and commodity requirements resulting in overall cost reductions for its customers.

Need for changing existing Electric Conservation and Load Management (C&LM) Programs

As presently administered, electric conservation and load management programs and incentives unfairly focus attention and funds on only reducing electric demand through the use of electric based solutions. This means that any non-electric technology that utilizes a fossil fuel in a highly efficient manner is not currently considered a viable option under the conservation programs. This practice has ultimately exacerbated the constrained electric situation in Southwest Connecticut.

For example, on an annual basis millions of dollars of C&LM funds are used to subsidize the capital purchase of higher efficiency rated electric motor driven air conditioning systems. Natural gas fueled cooling equipment or highly efficient cogeneration equipment that does not qualify for the C&LM funds is not afforded a comparable subsidization. Less overall efficient HVAC designs are favored over more efficient fossil fueled Combined Heat and Power ("CHP") designs that are ultimately better for the environment. The C&LM program has indirectly favored electric-dependent energy solutions while stunting the naturally competing fossil based alternatives. The cumulative effect has resulted in a more critical summer peak demand period. The task force should recommend the adoption of overall fuel utilization efficiency as a determining parameter for subsidization. This would be fairer and better for the environment.

Respectfully,

Connecticut Natural Gas Corporation
The Southern Connecticut Gas Company

cc: Joel M. Rinebold
Office of Consumer Counsel

**Connecticut Department of Public Utility Control
Docket Filing Sheet**

Date: July 26, 2002

Filer Information:

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Filing Firm's Name Connecticut Natural Gas Corporation

Company Name (if different than filing firm) _____

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If yes, is a Motion for Protective Order included? Yes No

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Type of Document Being Filed:

(Please choose only one—submit different types of filings separately.)

Brief

Reply Brief

Compliance Filing:

Indicate Order #(s) or Describe Filing

Correspondence

Brief Description: Pursuant to Joel M. Rinebold's letter dated June 14, 2002

Exceptions and/or Request for Oral Arguments
(including letters in lieu of exceptions)

Motion Brief Description

Interrogatories Issued :

1) Entity the interrogatories are directed to:

2) Interrogatory numbers (e.g., 1 - 20)

3) Date Due:

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Pre-Filed Testimony Witness Name
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