



national fuel

April 15, 2013

Honorable Jeffrey Cohen
Acting Secretary to the Commission
New York State Public Service Commission
Three Empire State Plaza
Albany, NY 12223

Re: Case 13-M-0047 – Proceeding on Motion of the Commission to Examine Utility
Shared Critical Equipment and Supplies

Dear Acting Secretary Cohen,

Pursuant to ordering clause #2 from the Commission's Order Instituting Proceeding and Directing Utility Filings, issued and effective February 13, 2013, attached please find National Fuel Gas Distribution Corporation's Summary of Inventory, Material Handling Procedures, and Response to Superstorm Sandy.

Any questions you may have regarding the attached can be directed to the undersigned at (716) 827-2249 or at siderakisg@natfuel.com.

Respectfully submitted,

George C. Siderakis
Manager of Logistics, Materials Management

Attachments

NEW YORK STATE
PUBLIC SERVICE COMMISSION

Case 13-M-0047 – Proceeding on Motion of the Commission to Examine Utility Shared Critical Equipment and Supplies

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
SUMMARY OF INVENTORY, MATERIAL HANDLING PROCEDURES,
AND RESPONSE TO SUPERSTORM SANDY

I. Procedural Background

On February 13, 2013, the Commission issued an Order in response to Superstorm Sandy (“Sandy”) and the Governor’s State of the State Address, to examine current mutual aid equipment and materials practices of all major utilities in New York State (“Sandy Order”).¹ Included in this Order was a requirement that the major electric and gas utilities make a filing on or before April 15, 2013, to report current equipment inventory and material handling procedures and to provide an inventory, by category, of equipment used or equipment shortages experienced during the recent storm. This filing is made in compliance with that requirement.

II. Impact on National Fuel Gas Distribution Corporation (“Distribution” or “Company”)

As outlined in the Sandy Order, several electric utilities, specifically, New York State Electric & Gas Corporation, Orange & Rockland Utilities, Con Edison of New York, Inc., and the Long Island Power Authority experienced a shortage of replacement equipment during and after the storm. In addition, two of the downstate gas utilities, specifically, KeySpan Gas East

¹ Case 13-M-0047 – Order Instituting Proceeding and Directing Utility Filings, issued and effective February 13, 2013.

Corporation d/b/a National Grid and The Brooklyn Union Gas Company d/b/a National Grid experienced a shortage of replacement equipment during and after the storm.

Sandy's strength and angle of approach combined to produce a record storm surge of water into New York City. The surge level at Battery Park topped 13.88 feet, surpassing the 10.02 feet record water level set by Hurricane Donna in 1960. Sandy was the deadliest and most destructive tropical cyclone of the 2012 Atlantic hurricane season, as well as the second costliest hurricane in United States history.²

Fortunately Distribution's service territory was not adversely impacted by Sandy. Customers located within the company's service territory were not adversely impacted by the storm, the company did not experience any storm related outages, and no material or inventory shortages were experienced.

Less than a week after Sandy decimated parts of Long Island, Staten Island, lower Manhattan, and coastal New Jersey, Distribution mobilized internal resources to assist natural gas utilities in both states, through a mutual aid effort. From early November through mid-December, more than 35 Distribution employees from New York and Pennsylvania traveled to some of the hardest hit locations to work with fellow downstate utilities on storm damage clean up, while reestablishing service to homes and businesses. Crews averaged 12 to 14 hour days and spent much of their days meticulously visiting hundreds of abandoned homes, one by one, to disassemble damaged meter sets and install new valves. These actions allowed hometown utilities to eventually test their main lines for any leaks before restoring service to customers.

² Superstorm Sandy statistics are as reported by The Weather Channel, CNN and the National Oceanic and Atmospheric Administration (NOAA).

III. Equipment Usage and Shortages

Distribution's gas material inventory was not used in response to Sandy, as the Company's customers and service territory were not adversely impacted. The Company provided mutual aid assistance in a timely manner in response to the Superstorm. Distribution employees working in the affected areas were adequately supplied with personal protective and safety equipment. Examples of this include coveralls, work boots, shoe covers, rain gear, gloves, jackets, batteries, matches, flashlights, headlamps, first aid kits, hard hats, safety glasses, safety vests, etc.

IV. Summary of Material Handling Procedures

a. Managing Inventory

The process of managing inventory includes all business activities required to plan, move and manage the flow of goods from receipt to shipment. At Distribution, the inventory management function is supported by PeopleSoft and Matrix information systems. Matrix is utilized at the main warehouse (Mineral Springs location) to enable use of bar code and radio frequency technology, when performing day to day functions. Managing inventory requires that the Company strike a balance between maximizing material availability and minimizing its investment in material. To accomplish this goal, Distribution utilizes PeopleSoft to calculate economic reorder points and quantities for most of the items stocked in the main warehouse. The balances in the computer system need to be accurate to ensure material is ordered when required. To verify the accuracy of the Company's inventory records, periodic physical counts are performed. During these counts, material is checked to make sure it is usable and that it is stored in a secure and appropriate environment. The material in stock is also periodically

reviewed for obsolescence. Physical inventory values are accurately reflected on the books of the Company.

b. Reordering

PeopleSoft calculates the economic reorder points and quantities for most of the items stocked in the main warehouse, and every evening will automatically create a requisition for those items that have an available balance equal to or below the economic reorder point. The system processes the requisitions and turns them into purchase orders. Each morning, a warehouse supervisor will review the purchase orders for reasonableness, and to determine whether the items should be ordered. Once the warehouse supervisor has reviewed the purchase orders and has made appropriate revisions, they will change the status of the purchase orders to “ready to dispatch.” This approves the purchase order and sends it to the Purchasing Department for fulfillment and execution. Distribution’s buyers in the Purchasing Department will review the items that were marked “ready for dispatch” in conjunction with the purchase orders and call the Materials Management Department with follow up questions. Buyers will then release purchase orders to the appropriate vendor(s).

c. Reordering

Material that is charged directly from inventory to an end use account is referred to as an “issue” transaction. Issues from inventory are processed at each location and are normally manually submitted by the person that is requesting the material. At the Company’s remote inventory locations (“stockrooms”) “express issues” are processed to charge material from inventory to an end use account. Material is physically picked, an express issue processed, and a packing slip is generated. This transaction automatically generates proper accounting by crediting the inventory account (154000) and debiting the end use account. At the main

warehouse, “material stock request” transactions are used to charge material from inventory to an end use account. Once the material stock request has been entered into the system, a pick list is generated. The pick list is entered into the bar code system by a warehouse employee. The bar code system will direct workers through the picking process for an order. Each item is displayed in a picking sequence. As the warehouse employee picks material, bar codes are scanned for each item and bin location to determine that the correct item is being picked. Quantities of items being picked are entered. Upon completion of picking all of the items on a pick list, data is transferred from the bar code system into PeopleSoft. Warehouse employees will bring an order up in PeopleSoft for review, and upon saving the transaction in PeopleSoft, the system will automatically update and generate a packing slip.

d. Put Away Transactions

At all inventory locations, except for the main warehouse, there is only one storage area when material is physically received at a location. When processing a purchase order receipt or transfer, the system will automatically place material into the default, single storage area for the appropriate location. The default, single storage area for each location is referred to as the “warehouse/stockroom number,” except for the main warehouse. The default storage area at the main warehouse is referred to as the “dock.” The main warehouse has numerous locations and each location is uniquely identified, as tracking the exact location of inventory in the warehouse is critical. A “put away” document is created for each item when it is received at the main warehouse. The put away document allows material to be moved from the dock to a picking storage area. Items cannot be picked until they have been put away into a picking storage area. Items cannot be picked directly off of the dock. When items are picked up from the dock, and

are put away into a picking storage area, items are scanned, and the system is updated to reflect the appropriate picking storage area where the item resides in inventory.

e. Inventory Counts and Reconciliations

1. Main Warehouse Location

Cycle counts are typically performed approximately three times a week and three different categories of items exist:

- “A” items are the high dollar, high volume items
- “B” items are medium dollar, medium volume items
- “C” items are low dollar, low volume items

A maximum of fifteen items per category are counted per day, and all items are counted every two years. Each morning, count events are automatically produced on the system. If a count is not performed on the day which the count event is produced (e.g. vacation coverage, numerous receipts or issues, etc.), the same count event will sit in a queue, until it is performed. When a count is ready to be performed, count sheets are prepared and printed. After PeopleSoft generates the count sheets, they are downloaded into Matrix. Counters will use the inventory picking units (“pickers”) to perform counts. The monitor on the pickers instructs counters where to go (physical inventory location) and what to count (specific item). The bin location, item number, and count completed are scanned into Matrix. The Materials Management Department Supervisor runs reconciliation reports on an on-going basis, as counts are updated.

Reconciliation reports are reviewed by the warehouse supervisor, and any count discrepancies with a monetary value over \$100 are re-counted and verified. Counts are corrected, in the event that a discrepancy needs to be resolved and reconciliation reports are reprocessed. After all items have been reviewed and have been followed up on in the event of a discrepancy, a process is run

to update balances in PeopleSoft with the approved counts. If a discrepancy (over \$100) cannot be immediately resolved, the computer balance on-hand is entered into the system as the count and the Supervisor will investigate the discrepancy further, until a resolution is made. This is completed so that count events can continue to automatically generate. Once the Supervisor completes an investigation, the Supervisor will process any necessary transactions in order to correct PeopleSoft balances and counts, ensuring that the Company's information is accurate.

2. All Locations Except the Main Warehouse

At all remote inventory locations (e.g., stockrooms), a bi-annual wall-to-wall physical inventory count is performed. After inventory counts are completed, results are generated and are submitted to management at each location for sign off and approval. Any variance under \$100 is automatically booked, and variances over \$100 are explained and verified before the Company's inventory records are updated.

3. Inventory Reconciliations

A reconciliation of the inventory detail to the Company's general ledger is performed on a monthly basis by a warehouse supervisor. The reconciliation is provided to the Accounting Department for review and required adjusting journal entries are booked by the Accounting Department.

f. Receiving and Inventories

The process of receiving materials consists of two different tasks:

- Receiving material from outside, non-NFG vendors
- Receiving material from another NFG inventory location

Material ordered from an outside vendor is completed by a system generated requisition, using economic reorder points and quantities, or through a requisition that is entered into the system,

based on a business need. Requisitions for outside vendors create purchase orders, which are reviewed and dispatched to vendors by buyers in the Purchasing Department. When material is delivered to the Company, the appropriate location enters a receipt into the system. Ordering material from the main warehouse can be completed automatically by the system, using economic reorder points and quantities, or through a material stock request, that is entered into the system, based on a business need. Requests for material from the main warehouse are filled based on an established delivery schedule. On the business day before a location's scheduled material delivery, pick lists are created at the main warehouse, material is picked and packaged, and packing slips are generated. Materials and packing slips are delivered to the appropriate locations on their scheduled material delivery date. Locations that are receiving material check it in and use packing slips to enter an inventory receipt into the system.

g. Requisitioning Materials and Supplies

Material can be ordered to replenish an inventory location (stockroom) or can be charged directly to an end use account. When replenishing an inventory location, material can be automatically requested by the system, using economic reorder points and quantities, or through a material stock request, that is entered into the system. Inventory replenishment requests for material from the main warehouse are filled based on an established delivery schedule. On the business day before a location's scheduled material delivery, pick lists are created at the main warehouse, material is picked and packaged, and packing slips are generated. When material is ordered and the material will be charged to an end use account (e.g., installing material on a job), an issue document is completed. At the main warehouse, issue documents are entered into the system, pick lists are generated, material is picked and packaged, and packing slips are generated. Material is either given directly to the employee making the request or material is left

on the dock for a pickup. At all other inventory locations, excluding the main warehouse, stock keepers complete manual issue documents and enter express issue transactions into the system.

h. Expediting Material Ordered

If material ordered from a vendor is past due, items automatically show up on a PeopleSoft generated report. These reports are reviewed in the Purchasing Department by the appropriate buyer and vendors are contacted for resolution.

i. Costing Inventory

The Company's system uses "average unit prices" to value inventory and all transactions. Average unit prices are automatically updated each time a receipt processed for a location. If a receipt of material from an outside vendor is completed, the price on the purchase order is used. If a receipt of material from another inventory location is completed, the shipping location's average unit price is used. If there is a difference in price when an invoice is processed through PeopleSoft, buyers in the Purchasing Department review the price mismatches and either adjust purchase order prices or request corrected invoices, based on the appropriate corrective action needed. If a price is changed on a purchase order, the system automatically generates a unit price adjustment. When material is charged out of inventory, the system uses the item's average unit price to value the transaction and adds overhead and sales tax where appropriate.

j. Valuing Inventory

The Company's PeopleSoft system uses perpetual average unit prices, for all inventory items, by inventory business unit. Any time an inventory receipt transaction is completed in the system, whether the item is coming from an internal (inventory transfer or return) or external (purchase order) source, a new average unit price is calculated. The system will add the value of the new inventory to the existing inventory value, and then will divide by the total quantity, in

order to arrive at the new price per unit for an item. This item's price per unit is the value at which inventory is relieved until another receipt transaction is processed. No price override functionality exists, which would allow prices to be modified in any way for a transaction. On a monthly basis, a Materials Management Department supervisor will run a unit price change report, and will review the report for accuracy.

k. Change of Overhead Rates

Typically at the end of the year, a Materials Management Department supervisor will prepare an overhead rate analysis. If overhead accounts are over or under budget, a recommendation will be made to change the overhead rate. The full analysis and overhead rate recommendations are provided to the officer in charge of the department for review and approval.

l. Maintaining Inventory Management Master Files

New items are added to the system based on business needs. This is formally completed when a written request for a new item is provided to either the Purchasing Department or the Materials Management Department. Only Purchasing Department buyers and Materials Management supervisors are authorized to make item modifications (e.g., add new items, change item descriptions, vendor management, etc.). Changes are "effective dated" by the system so that audit trails are produced on historical changes that are completed by the Company.

V. Current Equipment Inventory

Appendix A to this filing provides an April 1, 2013 snapshot of the Company's gas material inventory. This snapshot outlines which items are part of Distribution's emergency inventory levels and the snapshot is categorized as follows:

- Steel Pipe

- Steel Fittings
- Plastic Pipe
- Plastic Fittings
- Service Regulators
- Service Fittings
- Locks
- Gas Meters

It is important to note that Distribution's gas material was not used in response to Superstorm Sandy.