BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF NEW YORK

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Case 07-G-0141 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of National Fuel Gas Distribution Corporation for Gas Service :

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NATIONAL FUEL GAS DISTRIBUTION CORPORATION
PROPOSAL REGARDING CERTAIN SAVINGS ARISING FROM COMPANY INITIATED AUSTERITY AND
OTHER PRODUCTIVITY IMPROVEMENT PROGRAMS

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INTRODUCTION

National Fuel Gas Distribution Corporation ("National Fuel" or the "Company") has not had a rate increase in more than five years. Consumers can benefit when utilities avoid rate cases. National Fuel's customers enjoy delivery rates that are among the lowest, if not the lowest, in the state. This rate stability, coupled with low natural gas commodity prices, has worked to offset inflation and tax increases, helping homes and businesses to keep more of their incomes for other purposes. The Company has maintained rate stability by aggressive cost containment and productivity efforts, even while investment in pipeline safety and system modernization has continued apace.

National Fuel's cost reduction efforts have proved so successful that the Company hereby is proposing to share resulting savings with its customers by implementing an earnings sharing and stabilization mechanism and by accelerating its infrastructure modernization program. National Fuel also proposes that revenues might be used to fund increased assistance to low income customers and for other purposes, described *infra*, and which the Public Service Commission ("Commission") deems appropriate. Increased capital spending for infrastructure replacement that the Company proposes to undertake will not only produce a more reliable and storm-hardened gas delivery system, but it will provide much needed jobs to the Western New York area, helping to increase employment and economic activity generally.

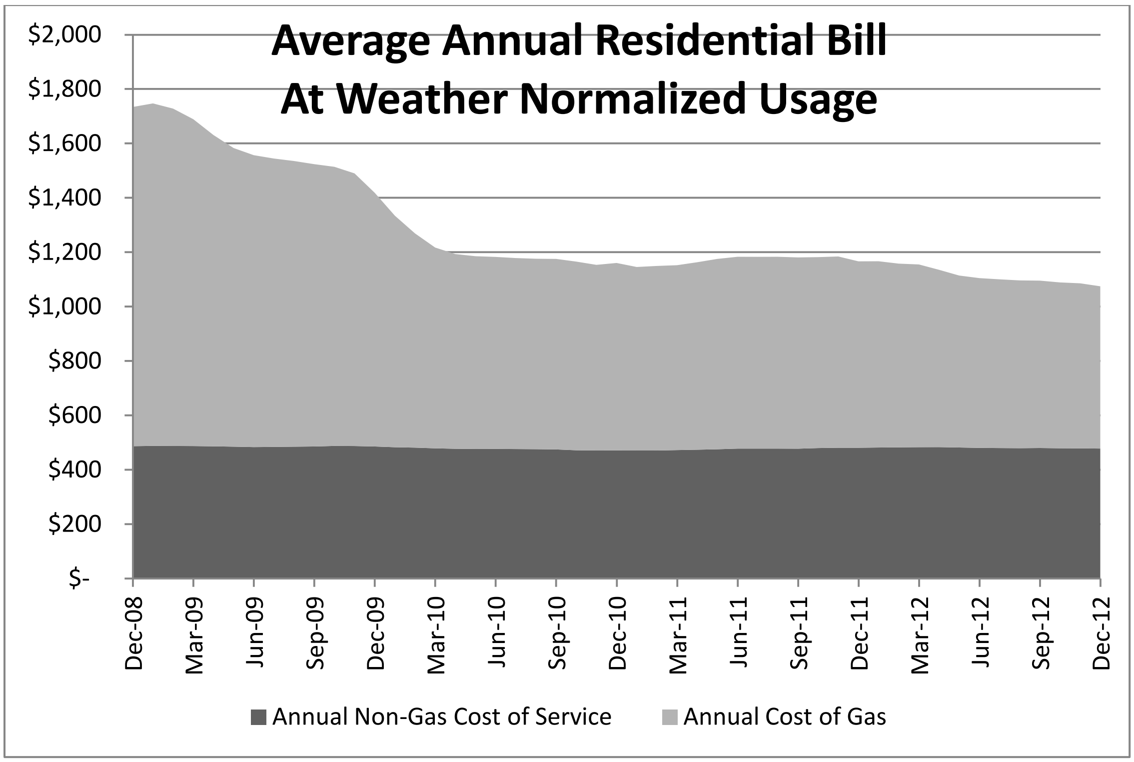
Should the Company's proposal be acceptable, the Company envisions that it could commence as early as June 1, 2013.

NATIONAL FUEL HAS CUT COSTS WHILE PROVIDING EXCELLENT SERVICE, SAFE OPERATIONS AND SAFEGUARDING THE ENVIRONMENT

National Fuel's last general rate increase - a very modest increase of only $1.8 million - was in Case 07-G-0141 which was decided in late December 2007, more than five years ago.

This record stands in marked contrast to other gas and electric companies in this state; some of which have filed for – and/or received – several rate increases in the same period during which rates were held steady by the Company. This means that, in real terms adjusted for inflation, the delivery portion of National Fuel's bills (not counting state-mandated tax increases) has actually fallen since that last rate increase over five years ago.

The following graph demonstrates the benefits to residential consumers over this period:[1]

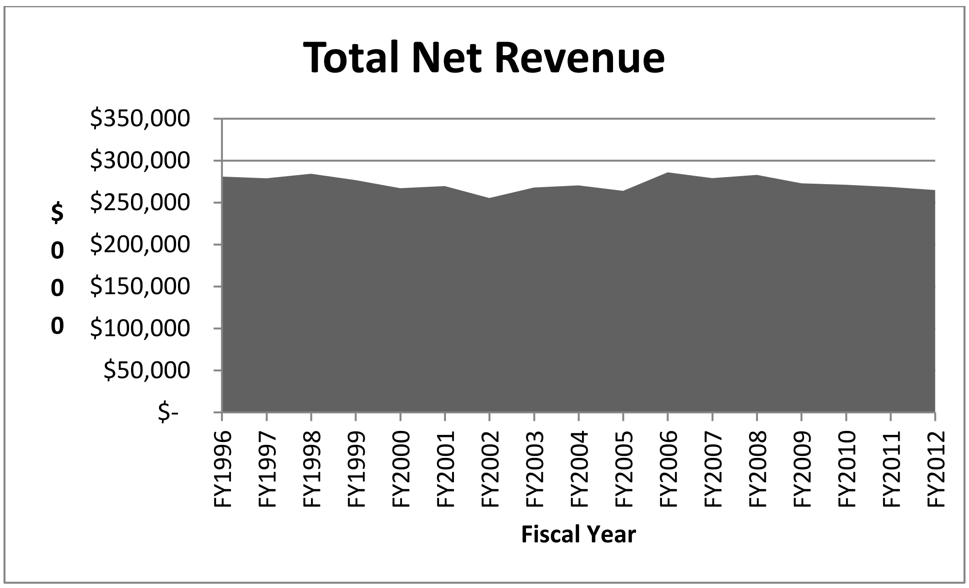


Moreover, it should be recognized that unlike its downstate counterparts, National Fuel cannot avoid rate increases by increasing sales. The Company has little opportunity for sales or customer growth. Consequently, its only realistic means of avoiding a rate case is by increasing productivity and by cutting expenses. This is because National Fuel's Western New York service territory is fully mature, with no growth and, in populated areas, almost 100% saturation

[1] The graph represents bills for the average residential customer receiving gas supply from the Company. It does not reflect data over the same period for customers who purchased their gas supply service from an unregulated Energy Service Company.

of the space heating market. As a result, the Company is simply unable to increase its revenue by growing its customer base through conversion of oil or propane customers to natural gas service. Therefore, the Company's accomplishment in avoiding filing for a rate increase for more than six years has been due to the efforts of its management and employees who have labored to control operating costs and work more efficiently.

The graph below provides the net revenue from operations that the Company has generated from the services it has provided to its customers. Over the last 17 years there has been no growth (indeed there has been a slight decrease) in net revenues.



The Company's achievement in holding steady on rates is all the more notable when considered in light of the 2007-2008 financial crisis and the associated recession which lasted even longer. As a result of those events, National Fuel was already embarked on a significant cost containment effort when, on May 15, 2009, the Commission issued a Notice in Case 09-M-0435 (the "Austerity Proceeding") directing utilities to file a report that "should detail the actions taken by the utility since September 2008 . . . to respond to the need for austerity and to advise the Commission of the utility's plans for austerity in the future," among other things. On June

12, 2009, National Fuel submitted the requested report offering a "one-time" bill credit for the winter period under which the Company would allocate $5.2 million among all customers on their January 2010 bill, with the remaining savings, in the amount of $1,000,000 credited to customer bills through the existing Conservation Incentive Plan rate mechanism. In addition to the one time offer to reduce customers' bills, National Fuel redoubled its productivity and cost savings effort directed toward the goal of reducing the overall cost of the business while maintaining customer service and safety standards at the same, or better levels. National Fuel was the only utility in the state that offered real savings, in the form of a substantial bill credit, for the benefit of its customers. Indeed, other utilities responded to the financial crisis with requests for rate increases which, while justified (owing to tax increases and other cost pressures), raised customer bills. Except for tax increases, National Fuel's base rate delivery charges have not increased since January 1, 2008.

At this time, the Company is pleased to report to the Commission that its productivity and cost containment efforts have driven the cost of operating the Company's business in New York to a level below what it was when rates were last set for the Company in late 2007. National Fuel is proposing to use some of those savings for two purposes: to stabilize rates into the future and avoid a near-term rate increase, and to fund the customer benefit program described below.

The Company's efforts to control its costs bore fruit in several significant areas.

- **Labor**: Total labor costs are approximately $7,500,000 lower than what they would have been if National Fuel had maintained employee count at the imputed level and the wage structure in place at the end of its last rate case. Since then the Company has managed both "head count" and wage rates. Significantly, National Fuel's overall complement is down 4% from 2008 levels.

- **Health Insurance**: Similar to the savings achieved in the labor component, National Fuel has reduced its overall health care costs by approximately $2,800,000 below what they would have been had the employee complement and benefit structure remained unchanged. Standing alone, this is a notable achievement in a country where health care costs rise relentlessly.

- **Property Taxes**: Even though other taxes have increased, the Company has worked hard to reduce its property taxes by approximately $3,000,000 from the level of property tax expense that was imputed in its last rate case. National Fuel accomplished this through negotiations with taxing authorities to more accurately reflect the replacement value of plant in service used to establish property assessments for taxing purposes.

- **Income Taxes**: National Fuel Gas Company has pursued a "repair and maintenance adjustment" with the IRS to lower its overall income tax bill. The benefits of that effort are reflected in the deferred income tax balance included in National Fuel's rate base, which lowers the rate base and increases the Company's earned rate of return thereby forestalling the need for base rate increases. This action has reduced the Company's overall revenue requirement by $6,500,000.

- **Equity Ratio**: National Fuel continues to maintain a strong balance sheet. The Company's overall equity ratio at over 55% is well above the 44% equity ratio imputed to National Fuel in its last rate case. Applying the methodologies used by Staff to justify their recommended equity ratio in the last base rate case, recognizing the Commission's expressed preference for using the capital structure of the utility's parent corporation, and recognizing the equity ratio recommended by Staff in recent regulatory proceedings[2], the use of a 55% equity ratio would be reasonable. For purposes of this proposal Distribution is willing to concede to a lower equity ratio of 50%.

Furthermore, the Company has also pursued opportunities to increase its revenue in the one area it has an opportunity to do so -- its off-system sales and capacity releases. Under the program approved by the Commission in previous rate cases, customers receive $0.85 out of every dollar that National Fuel makes from off-system sales and capacity releases through a credit that directly reduces their gas commodity costs. This winter alone, customers' gas costs were reduced by $15 million due to the Company's aggressive pursuit of these opportunities on

[2] In the recent Niagara Mohawk rate case (Case 12-G-0202) Staff witness Kwaku Duah described National Grid, the British headquartered parent corporation of Niagara Mohawk, as having a US GAAP equity ratio of 44.06%. Staff witness Duah further recommended an equity ratio for Niagara Mohawk of 48%. While Distribution believes that it would not be unreasonable to establish an equity ratio equal to the equity ratio of Distribution's Buffalo, New York headquartered parent of 55%, Distribution is willing to utilize a lower equity ratio of 50%.

behalf of its ratepayers. This was more than an 80% increase over the previous year's off-system sales and capacity release result. Opportunities for off-system sales and capacity release are highly volatile and dependent on market conditions. The current year will likely be significantly lower than last.

Moreover, unlike many companies in the American economy that have randomly cut service, employees and costs in order to boost profits, while service and plant suffers, National Fuel continues to provide delivery charges that are among the lowest in the state while:

- Having had no customer complaints for 16 consecutive months, only one during the past 19 months and a total of only five complaints over the past 37 months;
- Managing a mature and successful environmental site remediation ("SIR") program that is among state's least costly to ratepayers;
- Maintaining an ongoing and consistently funded pipeline safety and modernization program;
- Maintaining customer service performance metrics that are among the best in the state and,
- Meeting or exceeding all performance targets under customer service and safety "incentive" programs imposed by the Commission.

The fact that National Fuel has had no customer complaints to the Commission for the past 16 months speaks for itself and requires no further elucidation. It is an important achievement that reflects both the Company's commitment and the Commission's expectations for excellent customer service.

The record in the Commission's SIR investigation case, Case 11-G-0034, also speaks volumes about the Company's ability to manage its investigation and remediation program for former manufactured gas and other environmental clean-up sites in a cost effective and responsible manner.

The Company has long placed a priority on its effort to replace bare steel and cast iron pipe in its system. Although these were "state of the art" materials when they were installed, today they are being replaced with more modern material. The Company has, on average, replaced more than 80 miles of these mains and thousands of service lines annually.

National Fuel focuses significant efforts on achieving the rigorous customer service performance standards imposed on it by the Commission. Those efforts – which are costly - have produced excellent results, including, for calendar 2012, residential customer satisfaction levels in excess of 94%. Moreover, National Fuel's call centers generate performance statistics that are meeting or exceeding the Commission's stringent requirements in all categories of customer service. This is all the more remarkable an achievement given that customer calls are always answered not by a voice-response unit (i.e., the "voice mail" systems that bedevil consumers), but by a highly trained representative based in, and who lives in, the same communities served by National Fuel.

Finally, in Case 07-G-0141, National Fuel was subjected to a safety performance mechanism that would penalize the Company if pipeline safety metrics fell below certain defined goals. Programs such as this are costly to administer and maintain, but by addressing safety in the manner that they do, the incentives serve the Commission's policy agenda. In the six-plus years since that program went into effect, National Fuel has never once been penalized.

Clearly, then, the Company's cost cutting and productivity efforts have not come at the expense of customer service or safety. The Company has aggressively and successfully pursued its productivity and cost cutting goals while maintaining and, in fact, improving its role as an excellent provider of utility service, at a reasonable price, while at the same time being a good steward of the environment.

THE PROPOSAL

Because National Fuel's productivity improvement and cost cutting efforts have yielded successful results, the Company has determined to offer an earnings sharing and stabilization mechanism ("ESSM"). In addition to the ESSM, National Fuel is committed to increasing the Company's investment in the replacement of aging and leak prone cast-iron, bare steel and early vintage plastic mains and service lines. Further, the Company proposes to invest in storm hardening measures in designated flood-prone areas of its service territory.

A. Earnings Sharing and Stabilization Mechanism

Starting on June 1, 2013, the Company proposes to implement an ESSM. Under this mechanism, National Fuel would set aside 50% of cumulative earnings above 9.96% on equity in an accounting reserve (the "Reserve"). Earnings would be calculated using a 50% equity ratio as follows:

Year 1 (June 1, 2013 -- May 30, 2014) 9.96%

Year 2 (June 1, 2014 -- May 30, 2015) 9.96%

Year 3 (June 1, 2015 – May 30, 2016) 9.96%

Subsequent Years (unless superseded by rate filing) 9.96%

The ESSM would be determined on a cumulative basis over Years 1 through 3. Earnings for each year would be measured individually. Any excess or deficiency in the Year 1 would be carried forward in its entirety to the Year 2. Excess or deficiency in Year 2 would be carried over to Year 3. Earnings in Year 3 would be measured, and a 50/50 sharing of earnings between shareholders and ratepayers would occur only if National Fuel exceeds its threshold rate of return on equity in Year 3 (which includes any cumulative excess or deficiency carried over from Years 1 and 2). The customer share of earnings will be credited to the Reserve for disposition as described below.

National Fuel proposes to calculate its earnings in a manner similar to how earnings were calculated under the terms of the Company's 2004 rate plan.[3] The calculation would include, among other things, the following: (1) common equity portion of capital structure of 50%; (2) capital structure components will include Common Equity (but Common Equity would exclude items of Other Comprehensive Income or Loss[4]), Long Term Debt (including current portion), Short Term Debt (notes payable) and Amounts Payable to Customers (customer deposits), (3) the Earnings Base/Capitalization ("EB/Cap") adjustment would be an addition of $13 million to rate base, [5] (4) expenses associated with Stock Appreciation Rights and restricted stock dividends would be excluded. Earnings calculated for sharing purposes will exclude positive or negative incentive revenues. The Earnings Sharing report for the 12 months ended May will be provided September 30.

The provision for the sharing of earnings above 9.96% return on equity ("ROE") would continue beyond April 30, 2016 until changed or otherwise addressed in a subsequent proceeding. If the Company files for new rates at any time, the ESSM would expire upon the implementation of those new rates and the proceeds would be calculated according to the formula presented above, but on a truncated basis.

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[3] Case 04-G-1047, *National Fuel Gas Distribution Corporation*, Order Establishing Rates and Terms of Two-Year Rate Plan (issued July 22, 2005) at 13.

[4] The term "Other Comprehensive Income" ("OCI") refers to revenues, expenses, gains, and losses that under generally accepted accounting principles are included in comprehensive income but excluded from net income. OCI has been excluded from Distribution's common equity calculation in prior rate plans.

[5] $13 million is equal to the average EB/Cap amount over the last two fiscal years.

1. ***Explanation of ESSM Sharing Level***

In Opinion No. 94-22, the Commission recognized the fundamental precept that "[r]egulatory lag is the most traditional of ratemaking incentives." Case 93-G-0941, *The Brooklyn Union Gas Company*, 34 NY PSC 1363, 1994 N.Y. PUC LEXIS 61 (October 18, 1994). This observation is consistent with the Commission's finding, one year earlier in Opinion No. 93-2, that regulatory lag is only a powerful incentive if the utility is permitted to keep the fruits of its productivity efforts. Case 89-E-176, *Proceeding on Motion of the Commission to Examine Ratemaking Practices and Incentive Mechanisms Promoting Least Cost Planning and Demand Side Management by Electric Utilities,* 33 NYPSC 19, 1993 N.Y. PUC LEXIS 2 (February 2, 1993).

Here, of course, National Fuel has foregone seeking rate relief for over six years, relying instead on its own efforts to contain costs and earn a reasonable return, rather than asking its ratepayers to foot the bill. Under the circumstances, it is more than fair for the Company to retain some level of the benefits of its efforts – in essence the fruits of the regulatory lag which is "the most traditional of ratemaking incentives" that ensued from the Company's forbearance from seeking rate relief. This is why all earnings sharing mechanisms adopted by the Commission afford the utility an opportunity to earn a target rate of return that is higher than the level approved in the utility's rate case. The utility only earns this "incentive" payment so long as it does a good job of reducing its operating costs or otherwise improves efficiencies.

The lower rate of return on equity that is approved in rate cases is the barebones "price of admission" to gain approval for a rate increase for the obvious reason that on balance, the regulator would prefer that a utility manage its costs to avoid a rate increase. A more efficient utility can, and should, earn a higher amount. As a consequence, if a utility whose rates were established to reflect a 9.6% return on equity earns, after sharing, 10.5% following its successful cost-cutting efforts, the higher return is reasonable because it was contemplated by the Commission when rates were approved, and it is a necessary complement of actions taken by the utility to prevent or minimize additional rate increases that would otherwise be necessary in the absence of the incentive.

With regard to the instant filing, National Fuel has proposed to set the ESSM sharing threshold at 9.96%. Thus, beginning June 1, 2013, fifty percent of earnings above 9.96% will be credited to the Reserve to stabilize earnings and fund customer benefit programs identified herein and as determined by the Commission. Customers benefit directly from the ESSM in two ways: first, the cap on earnings diverts revenues from National Fuel's shareholders to the Reserve, where those funds will be held for the benefit of customers or to prevent a future rate increase. And second, the ESSM retains the incentive, described above, that motivates utilities to maintain efficiencies and cut costs.

Rate setting is not a mechanical exercise that occurs in a vacuum. It is a quasi-legislative function that reflects the regulator's policy objectives. If the regulator is of a mind to treat a utility that avoids rate increases no differently than the utilities that seek *and receive* multiple, successive rate increases, then the incentive to avoid rate increases, and deliver excellent customer service while trying, is turned on its head. In real effect, it would be punitive, and would discourage investment and the same focus on achieving efficiencies and high-quality service than might otherwise obtain.

The Company has long understood that the Commission establishes rates, and the resulting rate of return, for the purpose of encouraging further cost-control efforts across all operations. A utility's cost-control efforts help customers in two ways: by preventing or delaying future rate increases, and by funding customer benefits. That is what the Company is describing, and proposing, in this filing. It should be remembered that an earnings-sharing mechanism *amplifies* the utility's incentive to manage costs because savings generated by efficiencies – the point of regulatory lag - are not kept by the utility but are returned, in part, to customers. The Company's record of reducing its operating costs – by cutting expenses, fighting tax increases, producing new efficiencies – demonstrates that National Fuel is adept at managing its costs in order to maintain earnings without compromising service.

B. Customer Benefit Proposals

1. Area Development Program Funding

The Company proposes that, among the things for which the customers' share of the earnings sharing proceeds, if any, might be used, an enhancement to the Company's Area Development Program ("ADP") would be appropriate. The ADP is "designed to enhance the economic condition in National Fuel's service territory by providing targeted economic development grants directly to businesses or recipients through community-based organizations or local development authorities."[6] First approved by the Commission in 2007, the ADP is currently funded through 2014. The program has funded dozens of successful economic development programs, from straightforward gas infrastructure offsets for industrial or commercial projects, to tuition-free green jobs training to meet the needs of local housing and small business retrofit contractors. National Fuel proposes to fund the ADP through the ESSM in order to extend the ADP from 2014 through 2016.

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[6] Case 04-G-1047, *National Fuel Gas Distribution Corporation*, Order Approving Extension of Area Development Program (issued April 20, 2012) at 4.

a. *ADP Line Extension Assistance*

Even though there is little growth opportunity in National Fuel's urbanized areas, which are almost fully served, there is increasing demand for natural gas service in remote parts of the service territory distant, in many cases, from the Company's existing facilities. Too distant, in fact, to justify economic expansion under the Commission's existing regulations. The Company proposes to utilize ADP funds raised as described above to reduce customer surcharges preventing service to remote areas, thereby promoting system expansion and natural gas as a substitute for oil, propane, or other, costlier (and in some cases polluting) heating fuels. The benefits of this proposal are two-fold: it would enable applicants to experience significantly lower energy bills (and resulting higher property values); and it would advance the state's interest in promoting natural gas over other, more carbon-heavy heating fuels such as oil.

2. Increased Investment in Infrastructure

National Fuel is proposing to invest more of its own capital in the New York distribution system in two ways: By accelerating its pipeline modernization program and by hardening its system in flood-prone areas. In addition, the Company is in the early stages of an ambitious program to replace its decades-old Customer Information System.

a. *Accelerate Pipeline Modernization*

The Company plans to accelerate the replacement of bare steel, cast iron and early-vintage plastic mains and services. This investment will not only preserve the long-term safety and operational efficiency of the Company's system but the additional investment will also help bring well-paying jobs to the region. If approved, the Company's program would be similar to previous initiatives that the New Jersey Board of Public Utilities ("BPU") approved for New

Jersey natural gas companies where it asked "New Jersey's gas and electric utilities to assist in promoting a broad economic recovery in the State by increasing planned investments in necessary and beneficial utility infrastructure…." *See* Docket No. EO09010049, et. al, *In The Matter Of Proceeding for Infrastructure Investment And A Cost Recovery Mechanism For All Gas & Electric Utilities,* February 2, 2009, 2009 N.J. PUC LEXIS 30. Therefore, as the New Jersey BPU has recognized, increased spending on infrastructure not only improves utility delivery systems, it also provides serious economic development benefits.

There is, however, one critical difference between the New Jersey program and this Proposal. The New Jersey program allowed New Jersey gas companies to replace infrastructure, such as unprotected steel and cast-iron mains, and related services and meters on an accelerated basis and then recover such costs on an expedited basis through a special ratemaking mechanism.[7] Here, National Fuel is not requesting special rate or accounting treatment for its increased spending.[8] Nevertheless, the program that National Fuel proposes herein, will not only result in a more modern and more efficient gas system but it will also bring additional construction and related jobs to the Buffalo/Niagara region where they are vitally needed.

b. *Storm Hardening*

The Company is also proposing to focus additional investment on storm hardening upgrades in flood-prone areas of its service territory. National Fuel is aware of, and supports the Commission's efforts to promote investment in storm-hardening infrastructure and process

[7] ***See**, e.g.*, BPU Docket Nos. GR07110889 and GR10100793, *New Jersey Natural Gas Company*, March 30, 2011, 2011 N.J. PUC LEXIS 51. *See also* Docket No. GO12030255, *New Jersey Natural Gas Company*, October 23, 2012, 2012 N.J. PUC LEXIS 296 (New Jersey recently approved a continuation of New Jersey Natural Gas Company's accelerated replacement of its unprotected steel infrastructure).

[8] That is to say, National Fuel is not requesting an incremental rate or charge to fund its investment. Instead, the Company's investment would be recorded to rate base in the ordinary course and reflected in future rates and ESSM calculations, as the case may be. All other things being equal, the effect of increasing rate base with new investment would be to reduce the Company's earned rate of return on equity during the period that the additional investment is recognized.

improvements for utilities affected by Hurricane Sandy and prior storms that wreaked significant, and historic, levels of damage in downstate and eastern New York State.[9] Even though National Fuel's buried pipeline system is generally protected from storm damage, the Company and its customers have, on occasion, experienced isolated outages resulting from localized flooding. As an enhancement, the Company is proposing to focus additional investment toward the installation of excess flow valves for facilities in flood-prone areas. "Excess flow" valves shut gas off automatically where, for example, a distribution line is separated from a building when the foundation is compromised due to heavy flooding, thereby preventing a fire hazard caused by the otherwise leaking gas line.

c. *Information Systems*

The Company has commenced a process to replace its increasingly obsolete Customer Information System ("CIS") by 2017. This is a significant capital project designed to improve the consumer experience and National Fuel's customer data processing, reporting and forecasting capabilities, among other important utility functions. By their nature, CIS projects are resource-intensive, not only with respect to the obvious financial requirement, but also in terms of personnel requirements. Under the provisions of the instant proposal and based on current expectations, the Company intends to proceed with it CIS project through completion as planned.

3. *Low Income Customer Assistance*

National Fuel offers an array of low income assistance programs, from the comprehensive bill relief available under the Low Income Customer Affordability Assistance Program ("LICAAP"), to the modest, yet broadly available Low Income Residential Assistance

[9] National Fuel's customers suffered no outages resulting from the effects of Hurricane Sandy or previous, recent major weather events that struck the eastern part of the state. The most recent extreme weather event affecting utility service in western New York was the so-called "October Surprise" snowstorm in 2006. That storm caused widespread electric outages affecting hundreds of thousands of electric utility customers, in many cases for days. National Fuel's gas service, however, remained fully operational and was undiminished by the storm.

service to the Low Income Usage Reduction Program, which funds energy efficiency retrofits for qualified low-income customers. Yet thousands of western New York customers also rely on grants issued under the federal Home Energy Assistance Program ("HEAP") in order to help defray home heating costs during the colder months. HEAP funds, as the Commission knows well, are perennially targeted for reductions in the federal budget, and this past year was no exception. Current projections are that for next winter, federal HEAP benefits might be reduced yet again, and further, automatic reductions will be implemented under the so-called federal budget "sequester." With gas costs projected to be higher than the current winter period, the inevitable result will be that more customers will struggle to pay their heating bills or face shut off. To address this concern, the Company proposes to fund a program to apply a credit on qualified customer bills, in an amount to be determined, using unspent LICAAP revenues that are currently set aside in a deferral account. In effect, the Company's plan is to "backfill" the shortfall that may result from cuts in HEAP benefits. Even though the LICAAP deferral is funding LICAAP discounts, the Company believes that there are sufficient funds available to simultaneously meet reasonable expectations for LICAAP demand and to fund a HEAP shortfall credit in some, as-yet-undetermined amount.

C. *Staff Whitepaper on Lost and Accounted For Gas*

The Company is willing to implement the incentive mechanism included in Staff Whitepaper on Lost and Accounted For Gas provided that a reasonable and consistent application of the mechanism can be developed for the Company's system.

D. *Management Audit*

National Fuel is currently undergoing a comprehensive management audit by a third-party auditor under the supervision of Commission Staff. National Fuel has worked collaboratively with Staff and the auditors and the Company's continued cooperation remains a top priority of management. The audit is proceeding reasonably within schedule and the Company anticipates that its implementation plan, when developed and submitted as directed by the Commission, will reflect the parties' mutual understanding of recommendations in all substantive areas, and the Company's continuing commitment to full compliance.

CONCLUSION

In this Proposal, the Company has explained the many ways that it has reduced costs and extracted additional efficiencies from its system. As a result of those savings and efficiencies, National Fuel is offering to share those benefits with its customers. The Earnings Sharing and Stabilization Mechanism proposed herein can begin as early as June 1, 2013. Beginning on that date, the Company would begin to set aside savings, through the ESSM to fund the ADP. National Fuel would agree to start funding the credits for its HEAP-eligible customer program at a later date, following further development and with the commencement of HEAP grants in November 2013. Finally, the Company would begin to increase spending on its infrastructure replacement and storm-hardening programs on June 1, 2013, as well, or as early as practicable given the planning and engineering work attendant to that increased spending.

National Fuel looks forward to discussions with the Commission, its Staff and other interested parties with a view toward implementation of this Proposal as soon as possible. Toward that end, the Company will send notice to Staff and the parties to Case 07-G-0141, scheduling a meeting to be held in Albany during the second week of April 2013 for the purpose of answering questions about the instant proposal and hold further, exploratory discussions, if there is an interest, to achieve implementation by June 1, 2013.

Respectfully submitted,

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