



**National Fuel**

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April 25, 2014

Honorable Kathleen H. Burgess  
Secretary  
New York State Department of Public Service  
Three Empire State Plaza, 19<sup>th</sup> Floor  
Albany, NY 12223

Re: Case 11-G-0580 – In the Matter of a Comprehensive Management Audit of National Fuel Gas Distribution Corporation’s New York Business

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Dear Secretary Burgess,

In response to the Commission’s Order, issued and effective August 21, 2013, directing the submission of an Implementation Plan and Implementation Plan Updates, attached please find a revised Implementation Plan Update for National Fuel Gas Distribution Corporation’s New York Division (“NFGDC-NYD” or “the Company”) for those recommendations that have changed from NFGDC-NYD’s January 17, 2014 Implementation Plan filing. Please note that the changes made from the January 17, 2014 Implementation Plan filing are denoted by an asterisk.

NFGDC-NYD has diligently worked in a collaborative manner with Staff in preparing this Implementation Plan Update. NFGDC-NYD wishes to thank Staff for their time and energies in working with the Company.

If you have any questions regarding NFGDC-NYD’s Implementation Plan Update, please contact me at your convenience at (716)-857-7816 or at [Boyr@Natfuel.com](mailto:Boyr@Natfuel.com).

Respectfully yours,

Raymond A. Boyr  
Assistant General Manger  
Purchasing & Accounts Payable

Attachment

**National Fuel Gas  
Distribution Corporation**

**Management Audit  
Implementation Plan Update**

**Case 11-G-0580**

**April 25, 2014**

**National Fuel Gas Distribution Corporation  
New York Division  
Implementation Plan - April 25, 2014 Update  
Comprehensive Management Audit  
Case No. 11-G-0580**

Chapter: Chapter III - Corporate Mission, Objectives, Goals and Planning

Audit Report Recommendation Number: III-1

Serial Recommendation Number: 1

Audit Report Recommendation Priority: High

<b>Audit Report Recommendation</b>
Enhance the strategic planning process.

Recommendation Status: Accept (In Progress)

Responsible Individual(s): Ray Boy and Evan Crahen

Officer In Charge: Anna Marie Cellino

<b>Schedule</b>	<b>Implementation Action Steps and Milestones</b>
5/13/2013	□ Begin the trial process of developing departmental mission statements and key metrics
6/29/2013	□ Completed the presentation of missions/metrics to senior management during annual O&M budget presentations
12/31/2014*	□ Clarify and formalize in a flowchart how metrics are used as part of the strategic planning process; review goals of June 2013 presentations during June 2014
3/31/2015*	□ Enhance the written strategic planning document, incorporating the process flowchart and the linking of cascading goals - assigned from senior management to individual departments, with results flowing back to senior management
On-Going	□ Monitor departmental metrics on an on-going basis

NFGDC Cost, Benefit and Risk Summary:

Category	Imp. Costs		Savings	
	One-Time	Recurring	One-Time	Recurring
Operations and Maintenance (O&M)	N/A	N/A	N/A	N/A
Capital	N/A	N/A	N/A	N/A
Gas Costs	N/A	N/A	N/A	N/A

**Risk:** The strategic planning process could have various interpretations across the organization.

**National Fuel Gas Distribution Corporation  
New York Division  
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Chapter: Chapter III - Corporate Mission, Objectives, Goals and Planning

Audit Report Recommendation Number: III-3

Serial Recommendation Number: 3

Audit Report Recommendation Priority: Medium

<b>Audit Report Recommendation</b>
Periodically rebid external audit services.

NFGDC Categorization: Accept With Modification (In Progress)\*

Responsible Individual(s): Karen Camiolo and Bill Erdman

Officer In Charge: David Bauer

<b>Schedule</b>	<b>Implementation Action Steps and Milestones</b>
4/1/2013	<ul style="list-style-type: none"> <li>□ Form a team of subject matter experts; the team will identify requirements of the external auditor and a list of potential candidates</li> </ul>
Note	<ul style="list-style-type: none"> <li>□ Continue to monitor the actions of the Public Company Accounting Oversight Board (PCAOB) on an on-going basis</li> </ul>
5/1/2014	<ul style="list-style-type: none"> <li>□ Begin to meet with representatives from external audit firms in order to differentiate offerings in service levels, depth and breadth of personnel, costs (hourly rates), relevant industry experience, geographic proximity, and determine the ability to meet the requirements identified above</li> </ul>
7/1/2015	<ul style="list-style-type: none"> <li>□ Finalize an analysis of qualitative and quantitative costs and benefits associated with preparing an RFP and transition costs that would be incurred should the company decide to switch firms - comparing this to base external auditor fees</li> </ul>
9/30/2015	<ul style="list-style-type: none"> <li>□ Formalize a recommended course of action with respect to re-bidding, based on the aforementioned analysis</li> </ul>
Note	<ul style="list-style-type: none"> <li>□ The decision of selecting an external audit firm resides with NFG's Board of Directors Audit Committee, and not NFGDC or NFG management</li> </ul>

NFGDC Cost, Benefit and Risk Summary:

Category	Imp. Costs		Savings	
	One-Time	Recurring	One-Time	Recurring
Operations and Maintenance (O&M)	N/A	N/A	N/A	N/A
Capital	N/A	N/A	N/A	N/A
Gas Costs	N/A	N/A	N/A	N/A

Risk: Reviewing the field of external auditor candidates, including the current external auditor, will help ensure continued objectivity and the adoption of best practices.

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Chapter: Chapter III - Corporate Mission, Objectives, Goals and Planning

Audit Report Recommendation Number: III-7

Serial Recommendation Number: 7

Audit Report Recommendation Priority: Medium

<b>Audit Report Recommendation</b>
Conduct a compensation study that includes the parameters outlined in NFGDC's last rate case (Case 07-G-0141).

NFGDC Categorization: Accept (In Progress)

Responsible Individual(s): Michael Reville and Sarah Mugel  
Officer In Charge: Paula Ciprich

Schedule	Implementation Action Steps and Milestones
5/8/2013	□ Retain compensation consultant to perform compensation study
12/31/2014	□ Perform and complete the compensation study
Note*	□ The selected compensation consultant (Hay) was retained by NFGDC's parent company, National Fuel Gas Company (NFG)*
Note*	□ The Compensation Committee of NFG is empowered to retain consultants to perform compensation studies; the Compensation Committee's governing procedures do not require competitive bidding to retain a compensation consultant*
Note*	□ The procedures used to select a compensation consultant are available under the "Corporate Governance" link on the "Investor Relations" page of NFG's corporate website*

NFGDC Cost, Benefit and Risk Summary:

Category	Imp. Costs		Savings	
	One-Time	Recurring	One-Time	Recurring
Operations and Maintenance (O&M)	\$100,000	N/A	N/A	N/A
Capital	N/A	N/A	N/A	N/A
Gas Costs	N/A	N/A	N/A	N/A

Risk: Performing a compensation study will validate compensation levels and plans.

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Chapter: Chapter III - Corporate Mission, Objectives, Goals and Planning

Audit Report Recommendation Number: III-8

Serial Recommendation Number: 8

Audit Report Recommendation Priority: Medium

**Audit Report Recommendation**

Track additional fields of data for new service installations to better distinguish the status of jobs that have not been completed and the workload that is currently in progress for the New Services group.

Recommendation Status: Accept (In Progress)\*

Responsible Individual(s): Craig Swiech

Officer In Charge: Jeff Hart

<b>Schedule</b>	<b>Implementation Action Steps and Milestones</b>
4/1/2014	□ Form a team of subject matter experts
9/30/2014	□ With particular respect to the audit recommendation, identify new data fields and program logic to track, in order to help clear stale and inactive customer applications
Note	□ The new data field identification process will include a review of NFGDC's July 3, 2013 response, as more fully described below
12/15/2014	□ Operations to work with Information Services to complete programming in the New Services application
5/1/2015	□ Issue report with new data fields and continue to monitor
Note	□ The scope of work for this audit recommendation is complementary to the gas expansion case (12-G-0297), in that this recommendation would provide the Operations New Services group with data fields that pertain to monitoring and assessing the customer application pipeline, which is a subset of the information identified in NFGDC's July 3, 2013 response

NFGDC Cost, Benefit and Risk Summary:

Category	Imp. Costs		Savings	
	One-Time	Recurring	One-Time	Recurring
Operations and Maintenance (O&M)	N/A	N/A	N/A	N/A
Capital	N/A	N/A	N/A	N/A
Gas Costs	N/A	N/A	N/A	N/A

Risk: Enhancing the new services reporting processes will provide a more accurate status of outstanding customer applications.



**National Fuel Gas Distribution Corporation  
New York Division  
Implementation Plan - April 25, 2014 Update  
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Chapter: Chapter IV - Affiliate Interests and Transactions

Audit Report Recommendation Number: IV-3

Serial Recommendation Number: 11

Audit Report Recommendation Priority: Medium

**Audit Report Recommendation**

Develop service level agreements for all major departments within the NFGDC and NFGSC organizations, which impact NFGDC, except those primarily performing policy, strategy, and/or governance functions, providing services for NFGDC and any affiliate business partners.

Recommendation Status: Accept With Modification (In Progress)

Alternative Justification:

A detailed alternative justification is provided, accompanying this recommendation's implementation plan. NFGDC intends to implement this recommendation as modified and described in the alternative justification provided.

Responsible Individual(s): Ray Boy and Evan Crahen  
Officer In Charge: Anna Marie Cellino

<b>Schedule</b>	<b>Implementation Action Steps and Milestones</b>
5/13/2013	☐ Drafted and issued memo on the O&M budget presentation process change
5/13/2013	☐ Begin the trial process of developing departmental mission statements and key metrics
6/29/2013	☐ Completed the presentation of missions/metrics to senior management during annual O&M budget presentations
6/30/2014	☐ Review goals of June 2013 presentations during June 2014
Note	☐ Outliers to expected performance metrics will be addressed by senior management on an on-going basis
12/31/2014*	☐ Perform an assessment of budgetary performance over time (actual and budget compared to inflation, over an intermediate term)*
9/30/2015*	☐ Perform a pilot external cost comparison for two NFGDC departments*

Schedule	Implementation Action Steps and Milestones
Note*	<ul style="list-style-type: none"> <li>□ NFGDC's external cost comparisons will include one or more of the following:               <ul style="list-style-type: none"> <li>(1) contact with other utilities, (2) vendors providing services of interest,</li> <li>(3) literature surveys, (4) industry associations, or other sources as deemed appropriate and available*</li> </ul> </li> </ul>

NFGDC Cost, Benefit and Risk Summary:

Category	Imp. Costs		Savings	
	One-Time	Recurring	One-Time	Recurring
Operations and Maintenance (O&M)	N/A	N/A	N/A	N/A
Capital	N/A	N/A	N/A	N/A
Gas Costs	N/A	N/A	N/A	N/A
Risk: Departments could fail to meet performance expectations sought by in-house customers.				

## ***NFGDC New York Management Audit – Recommendation #11 (IV-3) – Alternative Justification***

NFGDC has reviewed the sample service level agreements (“SLA’s”) between the Finance and Information Services functions, and the Niagara Mohawk Power Corporation, The Brooklyn Union Gas Company, and KeySpan Gas East Corporation (“GRID”) provided to the company by Staff. In turn, NFGDC performed a review comparing and contrasting: (1) the aforementioned sample SLA’s from GRID, (2) NFGDC’s implementation action steps and milestones – both complete and in progress, and (3) the Schumaker and Company audit report findings and recommendations.

This review has yielded numerous insights:

- GRID’s SLA is a non-legally binding document (Section 1.1); NFGDC’s alternative approach would also be non-legally binding.
- GRID’s SLA identifies its service provider and service recipient parties (Section 1.2); NFGDC identifies the Officer-In-Charge (equates to Functional Executive) and the Department Manager (equates to Functional SLA Manager) in its O&M budget presentation schedule and in the corresponding organizational charts also included in presentation packets. In addition, the NFGDC President (equates to Service Recipient and NY Jurisdictional President) would be the recipient of the services rendered on behalf of the New York Division.
- GRID’s SLA contains points of contact, listed by name (Section 1.3); names are listed on the O&M budget presentation schedule and in the corresponding organizational charts also included in presentation packets, at NFGDC. In addition, NFGDC’s points of contact are in-person at the O&M budget presentations.
- GRID’s SLA has an effective date (Section 1.4); NFGDC’s alternative process is defined and has effective dates corresponding to defined budget years.
- GRID’s SLA contains a process of updating a SLA (Section 1.5); the NFGDC President approves all budget presentations and amounts before they are made effective and the Officer-In-Charge of a department and the Department Manager are formally notified.
- GRID’s SLA states the Service Provider can operate on a 24/7 schedule during emergency events and other contingencies although it typically operates during normal business hours (Section 2.1); at NFGDC, this has been the Company’s expectation and it continues to be met.
- GRID’s SLA lists service descriptions provided by the service provider (Section 2.2); NFGDC maintains a description of services, by department, as a section contained in its Cost Assignment and Allocation Manual (“CAAM”).
- GRID’s SLA contains a statement regarding services provided from a service company (Section 2.3); within the NFG system, a service company structure does not exist and such a statement is not applicable.

- GRID's SLA contains a section on emergency services, with a 24/7 schedule (Section 2.4); as previously described above, at NFGDC, this has been the Company's expectation and it continues to be met.
- GRID's SLA includes function budgets for the services rendered (Section 3.1); a key element to NFGDC's alternative approach are departmental budgets, by budget item, with monthly variance reporting, further documented in O&M budget presentation packets.
- GRID's SLA includes allocation methodologies (Section 3.2); NFGDC maintains a detailed CAAM, which outlines NFGDC's allocation methodologies. In addition, as part of NFGDC's alternative approach, individual departments are responsible for preparing allocation exhibits as part of the O&M budget presentation packet, which specifically focus on timekeeping.
- GRID's SLA provides for key performance indicators, which are reported on an annual basis, either calendar or fiscal year (Section 4.0); NFGDC also has metrics by department, documented in the O&M budget presentation packet. NFGDC reviews these metrics annually during O&M budget presentations. In addition, NFGDC's departmental metrics measure performance, and depending on the metric, are tracked weekly, monthly and/or annually (more frequently than annually, although an annual review process exists).
- GRID's SLA provides a section outlining communication (Section 5.1); NFGDC's alternative approach ensures that the Officer-In-Charge of a department, the Department Manager, and the NFGDC President meet face to face, facilitating in-person communication during O&M budget presentation meetings.
- GRID's SLA provides for on-going improvement (Section 5.2); NFGDC's alternative approach also provides for on-going improvement with documented opportunities and strategic goals.
- GRID's SLA provides for periodic performance reviews against agreed upon expectations and performance against budgets (Section 6.1); NFGDC's alternative approach provides for a performance against budget review both monthly (written) and annually (in-person), as well as a review of agreed upon service level expectations from the previous year, and expectations for the upcoming year. In addition, NFGDC also has metrics by department, documented in the O&M budget presentation packet. NFGDC reviews these metrics annually during O&M budget presentations. In addition, NFGDC's departmental metrics measure performance and depending on the metric, are tracked weekly, monthly and/or annually (more frequently than annually, although an annual review process exists).
- GRID's SLA is reviewed and updated on an annual basis (Section 6.2); NFGDC's review and updating cycle is also on an annual basis, with meetings typically held in June over the course of several business days.

- Building on Section 6.2, GRID's SLA contains additional details on modifications and updates (Section 6.3); as mentioned previously, NFGDC's review and updating cycle is also on an annual basis, with meetings typically held in June over the course of several business days.
- GRID's SLA contains signatures of sponsorship (Section 7.0); although not considered by NFGDC until the sample SLA's were provided, incorporating signatures into NFGDC's approach could easily be accommodated. These signatures would represent a commitment to perform as discussed during the O&M budget presentation, and as documented in the O&M budget presentation packet.

Furthermore, as cited in the Schumaker and Company final audit report, and as discussed during CBA meetings with Schumaker and Company, the professional consultants themselves recognize NFGDC's alternative approach as a suitable substitute, meeting the intent of the recommendation.

With respect to external cost comparisons specifically, NFGDC notes that the final Schumaker & Company audit report does not recommend that external cost comparisons be developed. Specifically, "external cost comparisons," or similar language, is not included in the text associated with Finding IV-3 or Recommendation IV-3.

NFGDC also notes page 15 of the August 21, 2013 Commission Order Directing the Submission of an Implementation Plan, in that, "In the past, we recognized the need for flexibility in how the utility implemented the audit recommendation, and we wish to retain that flexibility. Our decision to provide NFGDC with flexibility is guided by previous experience with the Management and Operations Audit program and by the dynamics of how organizations can achieve successful and sustainable changes that yield performance improvements." NFGDC believes its proposed actions are an acceptable alternative, well within a reasonably flexible approach and process.

It is NFGDC's observation that in practice, the idea of a SLA for GRID, or Iberdrola USA, is not directly transferrable to the NFG system. It is true that NFG is a holding company system, but any similarity ends there. There is no analysis whatsoever identifying the consequences of SLA's for NFG. NFGDC sees no gain for ratepayers or Western New Yorkers, and none has been demonstrated. Instead, NFGDC believes that an increase in administrative costs is completely assured, with no evidence that efficiencies might result without risking greater, indirect costs. As a result, NFGDC is proposing what it considers to be a viable alternative as described herein.

In summary, NFGDC finds no benefit in developing and maintaining several SLA documents, which would re-format existing information, creating a bureaucracy unto itself. The information that would be contained in SLA documents is already available, useful in format, and commonly understood across the organization. The above comparison of approaches shows that NFGDC's actions meet the intent and thrust of the audit recommendation and the sample SLA's provided.

**National Fuel Gas Distribution Corporation  
New York Division  
Implementation Plan - April 25, 2014 Update  
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Case No. 11-G-0580**

Chapter: Chapter IV - Affiliate Interests and Transactions

Audit Report Recommendation Number: IV-10

Serial Recommendation Number: 18

Audit Report Recommendation Priority: Medium

<b>Audit Report Recommendation</b>
Have executive time charged a combination of direct charges and allocation factors rather than being left up to individual judgment.

NFGDC Categorization: Accept (In Progress)\*

Responsible Individual(s): Bill Erdman and Tom Herkey

Officer In Charge: Karen Camiolo

<b>Schedule</b>	<b>Implementation Action Steps and Milestones</b>
2/1/2014	□ Form a team of subject matter experts
7/15/2014	□ Complete the development of a uniform record keeping process to collect actual executive time to be booked quarterly by business unit*
Note	□ The mechanics of the record keeping process and booking process both need to be further developed by subject matter experts
Note*	□ NFGDC notes that the Schumaker & Company recommendation and final audit report does not state a specific time period with which executive time needs to be booked*
8/15/2014	□ Draft and issue a time reporting procedural memo to executive officers - memo to address changes in methodology and the timing of conversion to the new process
10/1/2014	□ Begin utilizing new procedure to track time

NFGDC Cost, Benefit and Risk Summary:

Category	Imp. Costs		Savings	
	One-Time	Recurring	One-Time	Recurring
Operations and Maintenance (O&M)	N/A	N/A	N/A	N/A
Capital	N/A	N/A	N/A	N/A
Gas Costs	N/A	N/A	N/A	N/A
Risk: Executive time would continue to be reported in the current manner.				

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Chapter: Chapter IV - Affiliate Interests and Transactions

Audit Report Recommendation Number: IV-11

Serial Recommendation Number: 19

Audit Report Recommendation Priority: Medium

<b>Audit Report Recommendation</b>
Continue to actively monitor credit rating agency pronouncements and analytical reports for any early signs of a potential credit downgrade.

NFGDC Categorization: Accept (Completed)

Responsible Individual(s): Patty Galbo

Officer In Charge: Dave Bauer

<b>Schedule</b>	<b>Implementation Action Steps and Milestones</b>
Note	□ NFGDC will continue the company's existing practice of meeting regularly with credit rating agencies (Moody's, Standard and Poor's and Fitch)
11/19/2013*	□ NFG's Principal Financial Officer views maintaining the company's investment grade rating a high priority - as recently communicated during NFG's analyst day presentation
Note	□ Continue to monitor agency views on industry issues and ratings of peers on an ad hoc basis
Note	□ Should a credit downgrade of NFG occur, that significantly impacts NFG's ability or cost to raise necessary short or long-term financing for NFGDC, then NFGDC will consider economically possible, alternative debt funding arrangements



NFGDC Cost, Benefit and Risk Summary:

Category	Imp. Costs		Savings	
	One-Time	Recurring	One-Time	Recurring
Operations and Maintenance (O&M)	N/A	N/A	N/A	N/A
Capital	N/A	N/A	N/A	N/A
Gas Costs	N/A	N/A	N/A	N/A

Risk: Without meeting with credit rating agencies and monitoring reports, it is possible that a rating agency develops and issues an uninformed report on NFG.

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Chapter: Chapter IV - Affiliate Interests and Transactions

Audit Report Recommendation Number: IV-12

Serial Recommendation Number: 20

Audit Report Recommendation Priority: Medium

**Audit Report Recommendation**

Establish an independent cost assignment/allocation review function to periodically ensure that costs are being correctly and fairly allocated, and ensure that Audit Services regularly examines the cost assignment and allocation functions.

Recommendation Status: Accept (In Progress)

Responsible Individual(s): Bill Erdman and Elena Mendel

Officer In Charge: Karen Camiolo

Schedule	Implementation Action Steps and Milestones
1/1/2014	□ Verify that cost assignment and allocation continues to be included in Audit Services' risk universe for potential audits to conduct
7/1/2014*	□ Identify an independent NFGDC accountant to review cost assignment/allocation work product
3/31/2015*	□ Complete a review to ensure computational accuracy - continue annually thereafter

NFGDC Cost, Benefit and Risk Summary:

Category	Imp. Costs		Savings	
	One-Time	Recurring	One-Time	Recurring
Operations and Maintenance (O&M)	N/A	N/A	N/A	N/A
Capital	N/A	N/A	N/A	N/A
Gas Costs	N/A	N/A	N/A	N/A

Risk: Having an independent reviewer of cost assignment/allocation calculations will help ensure computational accuracy.

**National Fuel Gas Distribution Corporation  
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Chapter: Chapter IV - Affiliate Interests and Transactions

Audit Report Recommendation Number: IV-18

Serial Recommendation Number: 26

Audit Report Recommendation Priority: Medium

<b>Audit Report Recommendation</b>
Develop a formal dividend policy designed to optimize the use of available funds for NFGDC-NY and NFG while maintaining an appropriate debt/equity structure.

NFGDC Categorization: Accept With Modification (In Progress)

Alternative Justification:

Any dividend policy that may be adopted would consider NFGDC's level of net income for a particular year (or years), as well as the composition of NFGDC's capital structure relative to both its peers and to the capital structure reflected in its most recent rate decision. For example, to the extent that NFGDC's equity ratio is greater than the equity ratio allowed in NFGDC's most recent rate case, the Company believes that it is reasonable (if not the Commission's very intent) to dividend in excess of net income in order to adjust its equity ratio to be in-line with the allowed equity component. Were that not the case, the Commission would set rates based on NFGDC's actual equity component. For a company like National Fuel Gas ("NFG"), a tenable dividend policy would not specify a fixed "percentage of ultimate NFG dividends that should be funded by NFGDC through its dividend payments to NFG." To do so would incorrectly assume that NFG's Board sets its annual dividend and then allocates it to the system companies in a way that each "pays its fair share." In reality, when setting its annual dividend, NFG's Board considers the earnings, cash flows, and capital needs of the consolidated company as a whole. Further, NFG's Board doesn't rely solely on the current year's earnings when making that determination. Rather, it considers both the recent and expected near-term trends in financial performance across the system. As with any diversified company, the earnings of the individual operating subsidiaries may vary from year to year. For example, in one year, NFGDC's financial results may be superior to National Fuel Gas Supply Corporation's results, and in another year the opposite may be the case. However, in spite of this variability at the subsidiary level, the trend in overall earnings at the consolidated level (which is the basis for NFG's dividend) may be consistent from year to year. Therefore, any policy that attempts to standardize each subsidiary's contribution to the consolidated dividend (e.g., "Distribution shall pay no more than X% of NFGC's dividend") is both unworkable and unreasonable. NFGDC's dividends are reasonable to its own earnings and capital structure. The criterion for evaluating a dividend policy is not the "best interest of the ratepayer," but rather if the dividend policy is reasonable. Schumaker & Company themselves noted "we found no evidence that indicates NFGDC's financial strength, service/reliability, and/or safety has been affected" by the Company's dividend policy (page 10 of the final audit report). Given Schumaker's findings, there is no evidence that the Company's dividend practices are unreasonable or contrary to ratepayer interests.\*

Responsible Individual(s):

Patty Galbo

Officer In Charge:

Dave Bauer

Schedule	Implementation Action Steps and Milestones
4/1/2013	□ Assign a subject matter expert to begin drafting a formal dividend policy
12/1/2013	□ Begin review of draft dividend policy, incorporating internal stakeholder feedback
9/30/2014*	□ Finalize formal dividend policy

NFGDC Cost, Benefit and Risk Summary:

Category	Imp. Costs		Savings	
	One-Time	Recurring	One-Time	Recurring
Operations and Maintenance (O&M)	N/A	N/A	N/A	N/A
Capital	N/A	N/A	N/A	N/A
Gas Costs	N/A	N/A	N/A	N/A
Risk: A formal dividend policy would clarify and document NFG's approach to determining dividend levels.				

**National Fuel Gas Distribution Corporation  
New York Division  
Implementation Plan - April 25, 2014 Update  
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Chapter: Chapter V - Capital and O&M Budgeting

Audit Report Recommendation Number: V-1

Serial Recommendation Number: 28

Audit Report Recommendation Priority: Low

<b>Audit Report Recommendation</b>
Develop and maintain a budget and forecast manual to govern the O&M budgeting, capital budgeting, and financial forecasting processes.

Recommendation Status: Accept (In Progress)\*

Responsible Individual(s): Patty Galbo, Dick Klein and Kevin House\*

Officer In Charge: Karen Camiolo

Schedule	Implementation Action Steps and Milestones
2/1/2014	□ Begin drawing together detailed existing process documentation into a comprehensive electronic manual
12/31/2014*	□ Distribute manuals to employees/departments that utilize the information*
12/31/2014*	□ Identify internal subject matter experts for questions that need further clarification internally
Note	□ Periodic updates to be performed on an as-needed basis

NFGDC Cost, Benefit and Risk Summary:

Category	Imp. Costs		Savings	
	One-Time	Recurring	One-Time	Recurring
Operations and Maintenance (O&M)	N/A	N/A	N/A	N/A
Capital	N/A	N/A	N/A	N/A
Gas Costs	N/A	N/A	N/A	N/A

Risk: Without having a comprehensive electronic manual, process documentation would not be centrally kept within the organization.

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Chapter: Chapter V - Capital and O&M Budgeting

Audit Report Recommendation Number: V-2

Serial Recommendation Number: 29

Audit Report Recommendation Priority: Low

**Audit Report Recommendation**

Establish dollar and percentage variance thresholds as guidance to the budget-to-actual variance analysis process.

Recommendation Status: Accept (Completed)

Responsible Individual(s): Patty Galbo

Officer In Charge: Richard Klein

Schedule	Implementation Action Steps and Milestones
10/1/2013	□ Begin the determination historical dollar and percentage variances, using information from fiscal years 2013 and 2014*
11/15/2013	□ From the historical variances, establish variance reporting tolerance limits
1/13/2014	□ Determination to be made on global or departmental tolerance limits, with a potential start date of 1/1/2014
1/13/2014	□ New procedure implemented and communicated to all department heads

NFGDC Cost, Benefit and Risk Summary:

Category	Imp. Costs		Savings	
	One-Time	Recurring	One-Time	Recurring
Operations and Maintenance (O&M)	N/A	N/A	N/A	N/A
Capital	N/A	N/A	N/A	N/A
Gas Costs	N/A	N/A	N/A	N/A

**Risk:** Departmental managers could possibly overlook a variance deemed to be significant.

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Chapter: Chapter V - Capital and O&M Budgeting

Audit Report Recommendation Number: V-3

Serial Recommendation Number: 30

Audit Report Recommendation Priority: Medium

**Audit Report Recommendation**

Develop a detailed list of proposed capital projects, to the fullest extent possible, for the upcoming fiscal year prior to the approval of the capital budget.

NFGDC Categorization: Accept (In Progress)\*

Responsible Individual(s): Kevin House

Officer In Charge: Ann Wegrzyn

<b>Schedule</b>	<b>Implementation Action Steps and Milestones</b>
3/1/2014	□ After notification from the Finance Department, the Engineering Services Department sends an e-mail notification and capital forecast template to capital spending coordinators, department managers and executives
5/31/2014	□ Completed capital templates are provided to the Engineering Services Department identifying listings of known, proposed capital projects - information is summarized by Engineering Services and provided back to Finance for forecasting purposes
7/1/2014	□ Engineering Services begins the communication process with individual departments to determine which requested items will be incorporated into the capital budget
8/1/2014	□ Capital budget items are decided upon and the capital budget is updated based on departmental feedback for an executive officer review
8/31/2014	□ An executive officer review is held, including a capital budget presentation
9/30/2014	□ Executive officer feedback is incorporated into the capital budget and is then forwarded for final review and approval



Schedule	Implementation Action Steps and Milestones
Note	<p>□ Capital projects or expenditures planned for execution to be identified and summarized in the support work papers for the capital budget, to the fullest extent possible, prior to the approval of the capital budget - this information will be incorporated into finalized departmental capital templates</p>

NFGDC Cost, Benefit and Risk Summary:

Category	Imp. Costs		Savings	
	One-Time	Recurring	One-Time	Recurring
Operations and Maintenance (O&M)	N/A	N/A	N/A	N/A
Capital	N/A	N/A	N/A	N/A
Gas Costs	N/A	N/A	N/A	N/A
<p>Risk: Without a detailed list of proposed capital projects, it is possible that capital expenditures could be approved for non-priority work.</p>				

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Chapter: Chapter VI - System Planning

Audit Report Recommendation Number: VI-4

Serial Recommendation Number: 38

Audit Report Recommendation Priority: Medium

**Audit Report Recommendation**

Develop and maintain a five-year reliability plan with associated estimates, driven by NFGDC strategic goals that are aligned with the NFG corporate goals, for: the elimination of metallic mains and services; the replacement of aged distribution system equipment; and the reduction of leaks and operational risks.

NFGDC Categorization: Accept (Anticipated Start 3/1/2014)

Responsible Individual(s): Kevin House

Officer In Charge: Ann Wegrzyn

Schedule	Implementation Action Steps and Milestones
Note	□ A reliability planning process currently exists at NFGDC - the planning process is not currently formally documented
Note	□ The existing reliability planning process will continue to support NFG's strategic planning goal of safety
9/1/2014*	□ Begin the process of formalizing the existing reliability planning process, into a plan document
6/30/2015*	□ Complete an analysis of key components that will be incorporated into the reliability plan document (i.e. results on the elimination of metallic mains and services, the replacement of aged distribution system equipment, and the reduction of leaks and operational risks, etc.)
12/31/2015*	□ Complete the process of formalizing the existing reliability planning process, into a plan document
Note	□ In creating a plan document for five years, the first year will include more detailed, accurate information when compared to the subsequent years (2 through 5)
Note	□ Maintain/update the plan document on an annual or more frequent, as needed basis

NFGDC Cost, Benefit and Risk Summary:

Category	Imp. Costs		Savings	
	One-Time	Recurring	One-Time	Recurring
Operations and Maintenance (O&M)	N/A	N/A	N/A	N/A
Capital	N/A	N/A	N/A	N/A
Gas Costs	N/A	N/A	N/A	N/A

Risk: The reliability planning process could have various interpretations across the organization without a formal plan.

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Chapter: Chapter VI - System Planning

Audit Report Recommendation Number: VI-6

Serial Recommendation Number: 40

Audit Report Recommendation Priority: Medium

<b>Audit Report Recommendation</b>
Integrate the GIS land base and facility images into the ADS.

NFGDC Categorization: Accept (In Progress)\*

Responsible Individual(s): Craig Swiech and Patrick Boyle

Officer In Charge: Jeff Hart

<b>Schedule</b>	<b>Implementation Action Steps and Milestones</b>
3/1/2014	□ Begin to develop requirements for utilizing the GIS Tom Tom land base data in the new automated dispatch system (ADS)
Note	□ The GIS Tom Tom land base will be used by Operations dispatchers to place orders with trucks in the event of an emergency
Note	□ The GIS Tom Tom land base will also be used in ADS overnight processing, in order to assign customer orders to Operations servicemen
Note	□ Operations servicemen will also be able to access the GIS on the job for facility information, via the GIS Viewer (ArcFM Viewer)
9/30/2014	□ Complete requirements for utilizing the GIS Tom Tom land base in the ADS
12/31/2015	□ Complete integration of the GIS Tom Tom land base data into the ADS

NFGDC Cost, Benefit and Risk Summary:

Category	Imp. Costs		Savings	
	One-Time	Recurring	One-Time	Recurring
Operations and Maintenance (O&M)	N/A	N/A	N/A	N/A
Capital	N/A	N/A	N/A	N/A
Gas Costs	N/A	N/A	N/A	N/A

**Risk:** Maintaining two separate land bases could lead to possible data and field inconsistencies.

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Chapter: Chapter VII - Program and Project Planning and Management

Audit Report Recommendation Number: VII-1

Serial Recommendation Number: 42

Audit Report Recommendation Priority: Medium

<b>Audit Report Recommendation</b>
Develop comprehensive standardized summary and detailed reports for submittal to senior management on a monthly basis.

Recommendation Status: Accept (In Progress)

Responsible Individual(s): Ray Boy and Evan Crahen

Officer In Charge: Anna Marie Cellino

Schedule	Implementation Action Steps and Milestones
6/29/2013	□ Begin the process of identifying existing key metrics and/or cost drivers across the organization, through the annual O&M budgeting process
6/30/2014	□ Complete a validation of existing key metrics and/or cost drivers during the next annual O&M budgeting process
9/30/2014*	□ Determine an appropriate reporting period for each of the identified existing key metrics and/or cost drivers (e.g., monthly, quarterly, etc.)
12/31/2014*	□ Develop the format for reporting (potentially including rolling graphics, trending, variance analysis, etc.)
10/1/2015*	□ Issue the first dashboard report to senior management

NFGDC Cost, Benefit and Risk Summary:

Category	Imp. Costs		Savings	
	One-Time	Recurring	One-Time	Recurring
Operations and Maintenance (O&M)	N/A	N/A	N/A	N/A
Capital	N/A	N/A	N/A	N/A
Gas Costs	N/A	N/A	N/A	N/A

Risk: Without standardized summary reporting, each NFGDC department would track metrics individually, in a format that would not be uniform across departments.

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Chapter: Chapter VII - Program and Project Planning and Management

Audit Report Recommendation Number: VII-2

Serial Recommendation Number: 43

Audit Report Recommendation Priority: High

<b>Audit Report Recommendation</b>
Develop a written project management methodology for the application on all project work, consistent with Project Management Institute principles.

NFGDC Categorization: Accept With Modification (In Progress)\*

Alternative Justification:

While NFGDC recognizes that there may be some value in enhancing project management training, NFGDC does not find value or efficiencies in pursuing full-blown Project Management Institute (PMI) coursework and certifications. Instead, NFGDC envisions training its supervisory employees in core project management competencies and principles, directly focused on natural gas industry content and company-specific requirements, as more fully outlined in the implementation action steps and milestones. NFGDC is confident that the Company, in conjunction with a local institute of higher education, will be able to distill and customize PMI coursework and principles into a relevant, more readily comprehensible program, minimizing time away from the jobsite. Pursuing PMI certifications for all employees who are responsible for project delivery would be overly burdensome for the following reasons: (1) Before a candidate can be PMI certified, the candidate must complete a minimum of three or five years (depending on education level) of unique non-overlapping professional project management experience, with a minimum number of hours spent leading and directing projects. In addition, a candidate must have completed 35 contact hours of formal project management education; (2) Formally applying for a PMI certification requires the completion of a complex and time consuming application and data verification process, in which a candidate would need to outline each project they worked on, and provide supporting documentation and references; (3) The cost of the examination in order to obtain a PMI certification is up to \$555, depending on the type of exam administered. Re-examination fees also cost an additional \$375, where needed; (4) Since a rigorous four hour, 200 question exam needs to be passed in order to obtain a certification, candidates need to spend time preparing for an exam (could take up to a year according to the PMI PMP Handbook); (5) If an exam is passed and a certification is received, candidates need to keep their certification(s) current by paying additional re-certification fees (up to \$150), continuing additional re-certification paperwork (including project tracking), and continuing to complete 60 professional development units of coursework over the course of a three year window - the three year window of coursework continually renews in order to keep re-certifications current; (6) All of the aforementioned tasks would essentially remove employees from their day-to-day jobs and would deleteriously impact on-the-job performance. In summary, there is no supporting evidence that a cookie-cutter approach, as offered by PMI, would yield better results than a custom-built program created and executed by NFGDC.

Responsible Individual(s):

Ray Boy and Evan Crahen

Officer In Charge:

Jay Lesch

Schedule	Implementation Action Steps and Milestones
4/1/2014	□ Establish contact with local institutions regarding project management course offerings - this will be for project management classes, not PMP certifications
5/1/2014	□ Review course offerings and request course modifications/customizations, as deemed appropriate
6/1/2014	□ Form a cross-functional team of SME's to attend initial training classes and understand key management concepts pertaining to project management - team will include representation from the construction group in Operations, among others
12/31/2014	□ Complete project management training to become familiar with PMI principles
4/30/2015	□ Selected SME's to develop NFGDC's written project management methodology, including parameters for project applicability
6/30/2015	□ Post methodology to company intranet and advise departments of update
Note	□ Topics include how to develop project plans, keep on schedule, manage budgets, and evaluate a project's progress from concept to completion

NFGDC Cost, Benefit and Risk Summary:

Category	Imp. Costs		Savings	
	One-Time	Recurring	One-Time	Recurring
Operations and Maintenance (O&M)	N/A	N/A	N/A	N/A
Capital	N/A	N/A	N/A	N/A
Gas Costs	N/A	N/A	N/A	N/A
Risk: Varying project management methodologies may be employed across the organization without formal documentation.				



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Chapter: Chapter VII - Program and Project Planning and Management

Audit Report Recommendation Number: VII-3

Serial Recommendation Number: 44

Audit Report Recommendation Priority: Medium

**Audit Report Recommendation**

Expand NFGDC's commitment to project management by incorporating employees who are responsible for project delivery into a PMP certification program; closely monitor implementation of this program, whereby all appropriate staff are effectively trained in project management principles, to ensure timely progress is made.

NFGDC Categorization: Accept With Modification (In Progress)\*

Alternative Justification:

While NFGDC recognizes that there may be some value in enhancing project management training, NFGDC does not find value or efficiencies in pursuing full-blown Project Management Institute (PMI) coursework and certifications. Instead, NFGDC envisions training its supervisory employees in core project management competencies and principles, directly focused on natural gas industry content and company-specific requirements, as more fully outlined in the implementation action steps and milestones. NFGDC is confident that the Company, in conjunction with a local institute of higher education, will be able to distill and customize PMI coursework and principles into a relevant, more readily comprehensible program, minimizing time away from the jobsite. Pursuing PMI certifications for all employees who are responsible for project delivery would be overly burdensome for the following reasons: (1) Before a candidate can be PMI certified, the candidate must complete a minimum of three or five years (depending on education level) of unique non-overlapping professional project management experience, with a minimum number of hours spent leading and directing projects. In addition, a candidate must have completed 35 contact hours of formal project management education; (2) Formally applying for a PMI certification requires the completion of a complex and time consuming application and data verification process, in which a candidate would need to outline each project they worked on, and provide supporting documentation and references; (3) The cost of the examination in order to obtain a PMI certification is up to \$555, depending on the type of exam administered. Re-examination fees also cost an additional \$375, where needed; (4) Since a rigorous four hour, 200 question exam needs to be passed in order to obtain a certification, candidates need to spend time preparing for an exam (could take up to a year according to the PMI PMP Handbook); (5) If an exam is passed and a certification is received, candidates need to keep their certification(s) current by paying additional re-certification fees (up to \$150), continuing additional re-certification paperwork (including project tracking), and continuing to complete 60 professional development units of coursework over the course of a three year window - the three year window of coursework continually renews in order to keep re-certifications current; (6) All of the aforementioned tasks would essentially remove employees from their day-to-day jobs and would deleteriously impact on-the-job performance. In summary, there is no supporting evidence that a cookie-cutter approach, as offered by PMI, would yield better results than a custom-built program created and executed by NFGDC.

Responsible Individual(s):

Amy Shiley, Craig Swiech and Jeff Hart

Officer In Charge:

Sarah Mugel and Jay Lesch

Schedule	Implementation Action Steps and Milestones
4/1/2014	□ Establish contact with local institutions regarding project management course offerings - this will be for project management classes, not PMP certifications
5/1/2014	□ Review course offerings and request course modifications/customizations, as deemed appropriate
6/1/2014	□ Form a cross-functional team of SME's to attend initial training classes and understand key management concepts pertaining to project management - team will include representation from the construction group in Operations, among others
12/31/2014	□ Complete project management training to become familiar with PMI principles
2/28/2015	□ After attending training, seek trainee feedback and assess program value

NFGDC Cost, Benefit and Risk Summary:

Category	Imp. Costs		Savings	
	One-Time	Recurring	One-Time	Recurring
Operations and Maintenance (O&M)	\$33,600	N/A	N/A	N/A
Capital	N/A	N/A	N/A	N/A
Gas Costs	N/A	N/A	N/A	N/A

Risk: Employee training would not incorporate state-of-the-art project management principles.

Note: The \$33,600 cited for one-time O&M implementation costs is based on a preliminary quote received from a local institute of higher education (Erie Community College) for a training class of 12 employees. NFGDC estimated 21 training classes would be completed over the course of a five year window, once a program is developed. These one-time O&M implementation costs do not represent the costs associated with obtaining and maintaining PMI certifications. This documentation was provided in the response to data request PPP-661.

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Chapter: Chapter VII - Program and Project Planning and Management

Audit Report Recommendation Number: VII-4

Serial Recommendation Number: 45

Audit Report Recommendation Priority: Medium

<b>Audit Report Recommendation</b>
Develop, document, and apply standardized project management lifecycle methodologies to all gas asset project types (e.g., new services, main replacement, engineering oriented, service center originated, etc.).

Recommendation Status: Accept (Anticipated Start 1/1/2015)\*

<u>Responsible Individual(s):</u>	Ray Boy and Evan Crahen
<u>Officer In Charge:</u>	Jay Lesch

<b>Schedule</b>	<b>Implementation Action Steps and Milestones</b>
1/1/2015*	□ Begin the process of identifying examples of project types (e.g., new subdivisions, pipe replacements, system improvements, etc.) requiring different lifecycle methodologies
4/1/2015*	□ Identify the resources (e.g., consultant, in-house, RFI/RFP) needed to develop narrative and flowchart descriptions for each lifecycle methodology and begin the process
12/31/2015*	□ Complete the development of narrative and flowchart descriptions for each lifecycle methodology
Note	□ Scope to include: rationale for doing a project, scoping and PREP assessment, bid preparation, expenditure requests, completion reports, GIS mapping, and asset booking
Note	□ Methodology to relate scope to project initiation, planning, execution and closure

NFGDC Cost, Benefit and Risk Summary:

Category	Imp. Costs		Savings	
	One-Time	Recurring	One-Time	Recurring
Operations and Maintenance (O&M)	\$43,750	N/A	N/A	N/A
Capital	N/A	N/A	N/A	N/A
Gas Costs	N/A	N/A	N/A	N/A

Risk: Lifecycle methodologies could have various interpretations and could be applied in a non-uniform manner across the organization.

Note: The \$43,750 cited for one-time O&M implementation costs is based on a preliminary consultant quote, if the company decides to complete this recommendation with an outside, third party consultant. \$35,000 of the estimate represents hiring a third party consultant for 15 to 20 working days, at the consultant's hourly rate, in order to complete the documentation work needed for this recommendation. The remaining \$8,750 represents the necessary travel expenses associated with bringing the consultant to NFGDC's Williamsville headquarters from out of town, to work on-site.

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Chapter: Chapter VII - Program and Project Planning and Management

Audit Report Recommendation Number: VII-6

Serial Recommendation Number: 47

Audit Report Recommendation Priority: High

<b>Audit Report Recommendation</b>
As part of the strategic planning process, ensure that NFGDC programs link to strategic goals.

Recommendation Status: Accept (Anticipated Start 10/1/2014)\*

Responsible Individual(s): Ray Boy and Evan Crahen

Officer In Charge: Anna Marie Cellino

<b>Schedule</b>	<b>Implementation Action Steps and Milestones</b>
10/1/2014*	□ Begin the development of a listing of current NFGDC programs by department
3/31/2015*	□ Review and document each of the programs for its support of one or more strategic goals
Note	□ Address programs that require linkage to a strategic goal; assess for value

NFGDC Cost, Benefit and Risk Summary:

Category	Imp. Costs		Savings	
	One-Time	Recurring	One-Time	Recurring
Operations and Maintenance (O&M)	N/A	N/A	N/A	N/A
Capital	N/A	N/A	N/A	N/A
Gas Costs	N/A	N/A	N/A	N/A

**Risk:** Completing a review will help ensure that all NFGDC programs link to strategic goals.

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Chapter: Chapter VIII - Work Management

Audit Report Recommendation Number: VIII-3

Serial Recommendation Number: 51

Audit Report Recommendation Priority: Low

<b>Audit Report Recommendation</b>
Evaluate using the PeopleSoft HR module to track all employee training records.

NFGDC Categorization: Accept (In Progress)\*

Responsible Individual(s): Amy Shiley, Tom Komosinski, Lee Hartz and Jeff Hart

Officer In Charge: Sarah Mugel

<b>Schedule</b>	<b>Implementation Action Steps and Milestones</b>
3/1/2014	<input type="checkbox"/> Begin assessing PeopleSoft HR capabilities and the feasibility of tracking training records and operations qualifications
Note	<input type="checkbox"/> Operations qualifications are currently tracked and entered by union personnel
Note	<input type="checkbox"/> PeopleSoft HR data is tracked and entered by non-union personnel
Note	<input type="checkbox"/> NFGDC needs to assess resource requirements for tracking and entering data on a going-forward basis without compromising sensitive employee information
12/31/2014	<input type="checkbox"/> If feasible, submit a Request for Information Services form for technical support
Note	<input type="checkbox"/> Technical support to include an evaluation of PeopleSoft functionality to determine if training records could be made accessible to Operations personnel, and that existing system reports for qualifications and training be replicated, without jeopardizing confidential employee information
Note	<input type="checkbox"/> Technical support will also consider the use of automated data feeds as a possible solution
5/1/2015	<input type="checkbox"/> Build and deploy new functionalities identified by users

NFGDC Cost, Benefit and Risk Summary:

Category	Imp. Costs		Savings	
	One-Time	Recurring	One-Time	Recurring
Operations and Maintenance (O&M)	N/A	N/A	N/A	N/A
Capital	N/A	N/A	N/A	N/A
Gas Costs	N/A	N/A	N/A	N/A

Risk: Employee training records would be kept in the PeopleSoft HR system and operations qualifications would be kept in Greenlight.



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Chapter: Chapter VIII - Work Management

Audit Report Recommendation Number: VIII-6

Serial Recommendation Number: 54

Audit Report Recommendation Priority: Medium

**Audit Report Recommendation**

Evaluate the creation of a designer/planner position in the service centers.

Recommendation Status: Accept (In Progress)\*

Responsible Individual(s): Craig Swiech and Jeff Hart

Officer In Charge: Jay Lesch

Schedule	Implementation Action Steps and Milestones
3/15/2014	□ Begin defining the respective roles of a designer/planner vs. a crew supervisor
5/15/2014	□ Identify how job information and knowledge would transfer from the designer/planner to the crew supervisor
7/1/2014	□ Initiate a pilot assessment of having a designer/planner position in a service center
12/31/2014	□ Evaluate qualitative and quantifiable benefits from the pilot
2/28/2015	□ Formally document findings and conclusions from the pilot - make final recommendations

NFGDC Cost, Benefit and Risk Summary:

Category	Imp. Costs		Savings	
	One-Time	Recurring	One-Time	Recurring
Operations and Maintenance (O&M)	N/A	N/A	N/A	N/A
Capital	N/A	N/A	N/A	N/A
Gas Costs	N/A	N/A	N/A	N/A

Risk: NFGDC could become more inefficient with an unsuccessful knowledge transfer between designer/planner and crew supervisor roles.

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Chapter: Chapter VIII - Work Management

Audit Report Recommendation Number: VIII-9

Serial Recommendation Number: 57

Audit Report Recommendation Priority: Low

<b>Audit Report Recommendation</b>
Continue and expand, whenever possible, the use of mini-excavators.

Recommendation Status: Accept (In Progress)\*

Responsible Individual(s): Tom Komosinski

Officer In Charge: Jeff Hart

<b>Schedule</b>	<b>Implementation Action Steps and Milestones</b>
3/15/2014	□ Begin conducting a vehicle replacement tour, which includes mini-excavators
4/30/2014	□ Complete vehicle replacement tour
6/30/2014	□ Prepare vehicle replacement list and budget requirements
Note	□ Continue to monitor the operational fleet requirements of mini-excavators
Note	□ Continue to make adjustments (increases or decreases) to fleet size as deemed appropriate, based on the type of work being performed
Note	□ Current operating locations are well saturated with mini-excavators

NFGDC Cost, Benefit and Risk Summary:

Category	Imp. Costs		Savings	
	One-Time	Recurring	One-Time	Recurring
Operations and Maintenance (O&M)	N/A	N/A	N/A	N/A
Capital	N/A	N/A	N/A	N/A
Gas Costs	N/A	N/A	N/A	N/A

**Risk:** Having an inappropriate fleet complement of mini excavators and traditional backhoes.

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Chapter: Chapter VIII - Work Management

Audit Report Recommendation Number: VIII-11

Serial Recommendation Number: 59

Audit Report Recommendation Priority: Medium

<b>Audit Report Recommendation</b>
Develop standardized procedures to measure the accuracy of cost estimates and target in-service dates.

NFGDC Categorization: Accept With Modification (Anticipated Start 7/1/2014)\*

Alternative Justification:

Manually tracking the accuracy of cost estimates and target in-service dates for all capital expenses would not be practical or cost effective. Using a \$100,000 threshold and applying a pareto principle approach, 65% of all capital dollars spent would be incorporated into the newly written procedures outlined in the implementation action steps and milestones outlined below. By applying such a threshold, a manageable number of jobs will be able to be reviewed on a going-forward basis.
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<u>Responsible Individual(s):</u>	Kevin House
<u>Officer In Charge:</u>	Ann Wegrzyn

<b>Schedule</b>	<b>Implementation Action Steps and Milestones</b>
7/1/2014*	<input type="checkbox"/> Begin the process of formalizing written procedures for measuring the accuracy of cost estimates and target in-service dates, for projects with a significant dollar magnitude or scope (e.g. greater than \$100,000)
3/31/2015*	<input type="checkbox"/> Finalize and implement written procedures
Note	<input type="checkbox"/> Track the accuracy of cost estimates and target in-service dates for identified projects on an on-going basis

NFGDC Cost, Benefit and Risk Summary:

Category	Imp. Costs		Savings	
	One-Time	Recurring	One-Time	Recurring
Operations and Maintenance (O&M)	N/A	N/A	N/A	N/A
Capital	N/A	N/A	N/A	N/A
Gas Costs	N/A	N/A	N/A	N/A

Risk: Inaccurate cost estimates and project schedules may impact NFGDC's ability to meet Reliability Plan goals.

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Chapter: Chapter IX - Load Forecasting

Audit Report Recommendation Number: IX-1

Serial Recommendation Number: 60

Audit Report Recommendation Priority: Medium

**Audit Report Recommendation**

Enhance the short-term, intermediate, and long-term forecasting for natural gas to include assessments of load changes as determined by studies generated by NFGDC's Engineering Services Department.

Recommendation Status: Accept (Anticipated Start 5/1/2014)

Responsible Individual(s): Jon Gruchala, Kevin House and Eric Meinl

Officer In Charge: Michael Reville\*

<b>Schedule</b>	<b>Implementation Action Steps and Milestones</b>
5/1/2014	□ Begin the development of a joint procedural memo to all affected parties outlining the proposed process change
Note	□ Procedural memo to include a process description and a determination of project significance for all projects uniformly (including gas expansion)
Note	□ Future gas expansion projects, based on the definition of significance, with the potential to significantly impact aggregated forecasted demand, would be integrated into this process in the same manner as all project types - these types of future gas expansion projects of significance could be identified by the Engineering Services or Energy Services Departments, as the procedural process is developed
Note	□ Procedural memo to outline the relative responsibilities of the Engineering Services, Energy Services, Rates and Regulatory Affairs, and Gas Supply Administration Departments, and how the process will be integrated amongst the four departments
7/31/2014	□ New procedure implemented
8/1/2014	□ Energy Services/Engineering to begin formally identifying and assessing significant upcoming projects impacting demand

Schedule	Implementation Action Steps and Milestones
10/1/2014	□ Energy Services/Engineering to begin formally communicating identified projects to Rates and Regulatory Affairs
3/31/2015	□ Rates and Regulatory Affairs to assess information for materiality, and if justified, incorporate information into annual load forecast accordingly

NFGDC Cost, Benefit and Risk Summary:

Category	Imp. Costs		Savings	
	One-Time	Recurring	One-Time	Recurring
Operations and Maintenance (O&M)	N/A	N/A	N/A	N/A
Capital	N/A	N/A	N/A	N/A
Gas Costs	N/A	N/A	N/A	N/A
Risk: NFGDC could miss the identification of significant projects impacting demand.				

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Chapter: Chapter IX - Load Forecasting

Audit Report Recommendation Number: IX-2

Serial Recommendation Number: 61

Audit Report Recommendation Priority: Medium

<b>Audit Report Recommendation</b>
Update the General Procedures Manual and any other relevant procedure to incorporate the participation of the Engineering Services Department's data in the load forecasting process.

Recommendation Status: Accept (Anticipated Start 5/1/2014)

Responsible Individual(s): Jon Gruchala, Kevin House and Eric Meinl

Officer In Charge: Michael Reville\*

<b>Schedule</b>	<b>Implementation Action Steps and Milestones</b>
5/1/2014	□ Begin the development of a joint procedural memo to all affected parties outlining the proposed process change
Note	□ Procedural memo to include a process description and a determination of project significance for all projects uniformly (including gas expansion)
Note	□ Future gas expansion projects, based on the definition of significance, with the potential to significantly impact aggregated forecasted demand, would be integrated into this process in the same manner as all project types - these types of future gas expansion projects of significance could be identified by the Engineering Services or Energy Services Departments, as the procedural process is developed
Note	□ Procedural memo to outline the relative responsibilities of the Engineering Services, Energy Services, Rates and Regulatory Affairs, and Gas Supply Administration Departments, and how the process will be integrated amongst the four departments
7/31/2014	□ New procedure implemented

NFGDC Cost, Benefit and Risk Summary:

Category	Imp. Costs		Savings	
	One-Time	Recurring	One-Time	Recurring
Operations and Maintenance (O&M)	N/A	N/A	N/A	N/A
Capital	N/A	N/A	N/A	N/A
Gas Costs	N/A	N/A	N/A	N/A

Risk: Procedure could be inconsistently implemented across NFGDC departments.



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Chapter: Chapter IX - Load Forecasting

Audit Report Recommendation Number: IX-3

Serial Recommendation Number: 62

Audit Report Recommendation Priority: Medium

**Audit Report Recommendation**

Perform a study to determine if the short-term and long-term forecast generated by the GSA Department could be improved by using a five-month prompt winter forecast that is calculated based on real-time measurement using throughput data; the volumetric data should be based on the strategy used in the current Nostradamus Model.

NFGDC Categorization: Accept (In Progress)\*

Responsible Individual(s): Lisa Petko

Officer In Charge: Bruce Heine and John Polka

<b>Schedule</b>	<b>Implementation Action Steps and Milestones</b>
2/1/2014	□ Begin to perform an internal study to determine if forecasting could be improved with real-time five-month prompt winter data
6/1/2014	□ Based on the internal study results, determine if it is operationally beneficial to retain an outside consultant to re-program the Nostradamus Model in order to provide five-month prompt winter data on an on-going basis
Note	□ The criteria for hiring a contractor will be whether the normalized model's weather forecast (10-day forward basis) comes within a plus or minus 5% range of actuals
11/1/2014	□ Complete Nostradamus programming if operationally beneficial, or document alternative courses of action
Note	□ The cited implementation costs represent an estimate of costs the company would incur to complete Nostradamus programming by an external consultant

NFGDC Cost, Benefit and Risk Summary:

Category	Imp. Costs		Savings	
	One-Time	Recurring	One-Time	Recurring
Operations and Maintenance (O&M)	\$16,000	N/A	N/A	N/A
Capital	N/A	N/A	N/A	N/A
Gas Costs	N/A	N/A	N/A	N/A

Risk: Not pursuing real-time five-month prompt winter data could present a missed opportunity to improve forecasting.

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Chapter: Chapter X - Supply Procurement

Audit Report Recommendation Number: X-3

Serial Recommendation Number: 65

Audit Report Recommendation Priority: High

**Audit Report Recommendation**

Establish upper credit limits for natural gas suppliers, similar to those established for off-system sales customers.

NFGDC Categorization: Accept (In Progress)\*

Responsible Individual(s): Ken McAvoy, Chris Cej, Lisa Petko and Kathy Frank

Officer In Charge: Bruce Heine and John Polka

<b>Schedule</b>	<b>Implementation Action Steps and Milestones</b>
2/1/2014	□ Gas Supply Administration Department to identify key active suppliers and request upper credit limits
Note	□ Analysis to focus on high dollar magnitude and credit ratings of suppliers
9/30/2014	□ Credit Department to evaluate and approve Gas Supply Administration Department upper credit limit requests
12/31/2014	□ Gas Supply Administration and Credit Departments to verify that upper credit limits on gas purchases are implemented and followed
Note	□ Should any dispute between the Gas Supply Administration and Credit Departments arise, a Gas Supply Administration Department Executive (Assistant Vice President or Vice President), will make the final decision on an appropriate upper credit limit

NFGDC Cost, Benefit and Risk Summary:

Category	Imp. Costs		Savings	
	One-Time	Recurring	One-Time	Recurring
Operations and Maintenance (O&M)	N/A	N/A	N/A	N/A
Capital	N/A	N/A	N/A	N/A
Gas Costs	N/A	N/A	N/A	N/A

Risk: Without implementing this recommendation upper credit limits would not be assigned to key active suppliers.

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Chapter: Chapter X - Supply Procurement

Audit Report Recommendation Number: X-5

Serial Recommendation Number: 67

Audit Report Recommendation Priority: Medium

**Audit Report Recommendation**

Determine the practicality and feasibility of converting, where logical, the approximate 50 suppliers with agreements now in place to current NAESB agreements.

NFGDC Categorization: Accept (In Progress)\*

Responsible Individual(s): Ken McAvoy, Chris Cej and Randy Rucinski

Officer In Charge: Bruce Heine and John Polka

Schedule	Implementation Action Steps and Milestones
4/1/2014	□ Review the population of suppliers under current NAESB agreements vs. master contracts
5/1/2014	□ Determine which master contracts could feasibly be converted to NAESB agreements
7/1/2014	□ Document where changes are recommended
Note	□ Enter into agreement negotiations with suppliers on an on-going basis
Note	□ Favorable terms in legacy agreements would be maintained either by not converting the legacy agreement, or through successful negotiation efforts

NFGDC Cost, Benefit and Risk Summary:

Category	Imp. Costs		Savings	
	One-Time	Recurring	One-Time	Recurring
Operations and Maintenance (O&M)	N/A	N/A	N/A	N/A
Capital	N/A	N/A	N/A	N/A
Gas Costs	N/A	N/A	N/A	N/A

**Risk:** By entering into negotiations in order to convert agreements, suppliers may refuse to negotiate or may demand more favorable terms on their behalf.

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Chapter: Chapter X - Supply Procurement

Audit Report Recommendation Number: X-13

Serial Recommendation Number: 75

Audit Report Recommendation Priority: Medium

**Audit Report Recommendation**

Investigate the use of financial hedging, with emphasis on options, to reduce the volatility in prices following the Allegro system implementation.

NFGDC Categorization: Accept (In Progress)\*

Responsible Individual(s): Ken McAvoy

Officer In Charge: Bruce Heine and John Polka

Schedule	Implementation Action Steps and Milestones
2/1/2014	□ Begin to assess and study implementation costs and net benefits of both physical and financial hedging (i.e. caps, collars, and no-cost collars)
7/1/2014	□ Complete a natural gas price sensitivity analysis, establishing the range of potential outcomes
Note	□ Review analysis results with DPS Staff during an upcoming winter planning or mid-winter meetings
On-Going	□ On an on-going annual basis, continue the process of reviewing NFGDC's gas cost management plan, as well as any potential changes to the plan, with DPS Staff

NFGDC Cost, Benefit and Risk Summary:

Category	Imp. Costs		Savings	
	One-Time	Recurring	One-Time	Recurring
Operations and Maintenance (O&M)	N/A	N/A	N/A	N/A
Capital	N/A	N/A	N/A	N/A
Gas Costs	N/A	N/A	N/A	N/A

Risk: Without investigating and exploring hedging, NFGDC would continue its existing physical hedging program.

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Chapter: Chapter XI - Corporate Performance and Results Management

Audit Report Recommendation Number: XI-1

Serial Recommendation Number: 76

Audit Report Recommendation Priority: High

<b>Audit Report Recommendation</b>
Develop an integrated and comprehensive performance management process as part of the strategic planning process.

Recommendation Status: Accept (In Progress)

Responsible Individual(s): Ray Boy and Evan Crahen

Officer In Charge: Anna Marie Cellino

<b>Schedule</b>	<b>Implementation Action Steps and Milestones</b>
5/13/2013	□ Drafted and issued memo on the O&M budget presentation process change
5/13/2013	□ Begin the trial process of developing departmental mission statements and key metrics
6/29/2013	□ Discussed missions/metrics with senior management during O&M budget presentations
Note	□ No pre-determined time allotment is set for the discussion of budgetary or non-budgetary metrics - each department manager is responsible for addressing both budgetary and non-budgetary metrics in a complete and comprehensive manner - each department manager is responsible for responding to questions as they arise during presentations
12/31/2014*	□ Clarify and formalize in a flowchart how metrics are used as part of the strategic planning process; review goals of June 2013 presentations during June 2014
3/31/2015*	□ Enhance the written strategic planning document, incorporating the process flowchart and the linking of cascading goals - assigned from senior management to individual departments, with results flowing back to senior management

Schedule	Implementation Action Steps and Milestones
Note	□ Enhancements to the written strategic planning document will include an explanation of how metrics (both budgetary and non-budgetary) fit into the strategic planning (performance management) process
Note	□ Continue to monitor departmental metrics on an on-going basis
Note	□ Refer to recommendations III-1 (#1) and IV-3 (#11) for other related strategic planning recommendations

NFGDC Cost, Benefit and Risk Summary:

Category	Imp. Costs		Savings	
	One-Time	Recurring	One-Time	Recurring
Operations and Maintenance (O&M)	N/A	N/A	N/A	N/A
Capital	N/A	N/A	N/A	N/A
Gas Costs	N/A	N/A	N/A	N/A
Risk: Departments could fail to meet performance expectations sought by in-house customers.				