national fuel

March 12, 2013

Hon. Jeffrey Cohen
Acting Secretary to the Commission
Public Service Commission
Three Empire State Plaza
Albany, New York 12223-1350

Re: Case 12-G-0297, Proceeding on Motion of the Commission To Examine Policies Regarding the Expansion of Natural Gas Service

Dear Judge Stein:

As requested in Case 12-G-0297, Order Instituting Proceeding and Establishing Further Procedures, issued on November 30, 2012 and further ruling on February 7, 2013 to extend the date of comments, attached are National Fuel Gas Distribution Corporation's comments and responses to the questions included in the November 30, 2012 Order.

Respectfully submitted,

Eric H. Meinl,
General Manager, Rates & Regulatory Affairs
National Fuel Gas Distribution Corporation

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

CASE 12-G-0297 - Proceeding on Motion of the Commission To Examine Policies Regarding the Expansion of Natural Gas Service.

INITIAL COMMENTS OF NATIONAL FUEL GAS DISTRIBUTION CORPORATION

I. Background

On November 3, 2012 the Public Service Commission ("Commission") issued an Order Instituting Proceeding and Establishing Further Procedures[1] ("Order") in the above referenced case. The Commission also issued a Notice of Technical Conference and Notice Soliciting Comments ("Notice") in this case on November 30, 2012. Included in the Order and Notice were a list of 21 issues which the Commission invited parties in this case to submit comments. National Fuel Gas Distribution Corporation ("Distribution" or "The Company") submits the following comments in response to the Order and Notice in this proceeding.

The Order also instituted a Technical Conference designed to provide an overview of existing natural gas systems, the manner in which the existing natural gas system expansion policies of the Commission and utilities are implemented, the role those policies play in maintaining, improving and expanding the natural gas system, and

[1] Case 12-G-0297, Proceeding on Motion of the Commission To Examine Policies Regarding the Expansion of Natural Gas Service, Order Instituting Proceeding and Establishing Further Procedures (issued November 30, 2012)

how such policies may be changed or modified to enhance the potential benefits from an expanded and more reliable natural gas system. Distribution fully participated in the Technical Conference held in Albany, New York on January 9, 2013 and the associated working group meeting held on January 30, 2013.

II. General Statement in Support

Distribution supports the Commission's efforts to examine the current policies regarding the expansion of natural gas service in New York. As recognized by the Commission in the Order, the Commission's Policy Statement[2] for natural gas expansion was issued over 20 years ago. Relatively recent developments in the natural gas exploration area have profoundly reshaped the supply and demand dynamics for energy in the United States, lowering the cost of natural gas and electricity and creating over a million new jobs[3]. In particular, the broad price differences between natural gas

[2] Case 89-G-078, Policy for Rate Treatment of Gas Service Expansion into New Franchise Areas, Statement of Policy Regarding Rate Treatment to be Afforded to the Expansion of Gas service Into new Franchise Areas (issued December 11, 1989).

[3] "The unconventional oil and gas revolution is having a bigger impact across the country, including in non-producing states, than is generally recognized," said Daniel Yergin, vice chairman of IHS and author of The Quest. "What we found is that the economic and financial links reach out across all the states in our highly-interconnected national economy."

The 32 states in the Lower 48 that lack major unconventional oil and gas activity will contribute nearly 500,000 jobs through businesses that sell goods and services critical to the lengthy supply chain that supports unconventional oil and gas development, the study finds. The Top 10 non-producing states in terms of jobs are New York, Illinois, Michigan, Florida, New Jersey, Minnesota, North Carolina, Georgia, Missouri and Wisconsin.

The 16 producing states will contribute nearly 1.3 jobs, the study finds. The Top 10 producing states—Texas, North Dakota, California, Colorado, Oklahoma, Pennsylvania, Utah, Louisiana, Ohio, and Arkansas—will contribute nearly 1.2 million jobs.

and No. 2 home heating oil recognized in the Order[4], provide a great opportunity to lower the costs of all to energy consumers in New York State. As recognized in the Order "there are many ways the use of natural gas as an alternative to other fossil fuels could provide benefits to New Yorkers."[5] Distribution is in full support of this comment.

Distribution's response to the 21 questions included in the Order and Notice are listed below. Distribution has incorporated the specific comments and suggestions it offered at the technical conferences in its responses to the 21 questions.

III. Responses to Questions

Barriers to Expansion of Natural Gas Facilities

1. Please explain your understanding (and for utilities, your implementation) of Commission regulations and the Natural Gas Expansion Policy including your views on whether they encourage or deter expansion of the natural gas delivery system in New York State. Do you feel that the Commission regulations and Policy should be modified and if so, how?

Response:

On a national level, total unconventional oil and gas production in the Lower 48 will contribute $63 billion in federal, state and local tax receipts in 2012. Total government revenues will grow to nearly $113 billion by 2020. Nearly $238 billion will be contributed in value added to the U.S. economy in 2012. This contribution to U.S. gross domestic product (GDP) will rise to more than $416 billion by 2020.

"Looking ahead, the potential is there for the unconventional oil and gas revolution to have an even broader impact on the U.S. economy," said John Larson, vice president, IHS public consulting. "By lowering the cost of key industrial inputs—such as natural gas—this unconventional revolution could help lay the foundation for a renaissance in U.S. manufacturing and increased competiveness in the global economy."

http://press.ihs.com/press-release/energy-power/new-state-state-study-measures-economic-benefits-unconventional-oil-and-g

[4] Case 12-G-0297 at P. 3.

[5] Case 12-G-0297 at P. 2.

Current Commission regulations and policies have over the years been implemented to allow for the expansion of natural gas systems only in circumstances where such expansions will not cause existing customers to subsidize the expansion of the system to new customers. The existing regulations in utility tariffs prescribe specific rules to implement this general no subsidy policy. The current rules operate such that each individual expansion of the distribution system mainline must stand on its own as to whether the no subsidy policy is met.

This has led to an administratively cumbersome procedure for assessing new mainline expansions. Further, the regulations result in a less than customer friendly process for administering new service applications.

The Commission regulations should be modified to permit a more streamlined and customer friendly means of providing quotes for potential expansions of the natural gas distribution system. Utilities should be permitted to assess the potential for customer conversions in the area and provide a firm, long term, quote for mainline expansion based on the total cost of the expansion and a reasonable estimate of the expected number of customers attaching to the system over a reasonable time period. Utilities should also be permitted to either extend the duration of customer surcharges or develop an incremental rate adder for mainline extension projects where existing rates will not fully compensate for the cost of the mainline expansion.

Determination of whether existing customers are subsidizing new customers should not be made on an individual project by project basis. Instead

all mainline expansion projects over a designated time (for example over a five-year period) should be reviewed and determined whether the total incremental cost of all projects over this time are greater, equal to, or less than the total incremental revenues generated from all expansion projects. Adjustments to the cost and revenue estimation procedures could be made after the five year review process if it is determined that the current methods significantly under or over recover total costs.

2. Regarding the Commission's regulations of the natural gas delivery system and the system itself, do you believe that the interests of utility shareholders, ratepayers, and the State as a whole are aligned? Please explain.

Response:

The Company would agree that the original intentions of the Commission's regulations of the expansion the natural gas delivery system is to align the interest of utility shareholders, ratepayers, and the state as a whole.

However, circumstances have evolved over the past 20 years since those regulations were first established such that the current regulations may be acting as an impediment to the economic expansions of natural gas systems within the state.

Specifically, the current price differentials between natural gas and alternative sources of fuel for heating (i.e. propane in fuel oil) are so wide that existing regulations designed to protect current customers from subsidizing expansion customers may be acting unintentionally as an impediment to otherwise economic expansion.

In particular, current surcharge regulations due to the complex nature of the initial calculations and refund obligations are less than a customer friendly means of expanding the system. The Company believes it would be useful to either simplify the current surcharge procedures or implement a higher pricing structure for expansion projects requiring a greater revenue stream to support the greater than average costs of such expansions.

3. Are there provisions of current policies or regulations that appropriately incentivize the expansion of the natural gas delivery system in New York State? Are these sufficient? If not, please suggest alternatives.

Response:

While the intention of the current surcharge regulations is designed to incentivize expansion of the natural gas delivery system, the Company believes that under the current circumstances the current provisions may not be operating in a manner as originally intended. In particular, the requirement that each expansion projects strictly stand on its own based on surcharge calculations and adjustments leads to an administratively burdensome process for the utility and a confusing application process for the customer. The Company believes that the current policy can be adjusted to provide a more customer friendly business model.

4. Identify current barriers inhibiting conversion to natural gas usage from other heating fuels - other than the cost of replacing heating equipment. Please explain how the barrier inhibits conversion and provide suggestions for

reducing or eliminating the barrier – including the cost of replacing heating equipment.

Response:

In addition to the cost of replacing heating equipment, barriers inhibiting conversion to natural gas usage from other heating fuels include the cost of any natural gas infrastructure required, such as mainline extensions and service lines to the home, complexity of existing application process due to existing regulations, resistance to change (always used oil/propane, fear of natural gas, etc.), a lack of knowledge/understanding regarding potentially beneficial paybacks, and perceived lower cost alternatives (e.g. inexpensive municipal electricity.) There are also operational challenges associated with certain areas due to difficult soil conditions/terrain (i.e. rock, hills, creeks, wetlands, etc). Timeliness of mainline expansion projects – particularly large scale projects – relative to the immediate household need (eg., the household may need to replace a non-natural gas heater ASAP and coordinating a mainline extension project can take years).

Approaches to address behavior barriers include direct mail informational pieces, traditional informational advertising, web-based information campaigns, participation in community events and home shows, and other similar broad reaching outreach and education activities.

Equipment cost barriers can be addressed with programs offering financial incentives such as rebates for the installation of high efficiency natural gas equipment and low interest or no interest equipment financing programs, along

with education on lifetime equipment operating cost advantages and favorable paybacks on the initial investment.

Infrastructure barriers can be addressed through simplification of existing surcharge mechanisms, extended recovery periods, and zone-based rates for newly expanded franchise areas. Also, area development grants and Load-Justified Investment (LJI) for qualified, Non-Residential Applicants could be considered to reduce barriers to system expansion.

One method the Company has used to successfully mitigate the complexity of the existing main line extension application process is its developer agreement program. Developer agreements are between the Company and the developer of a subdivision where the developer provides the Company with collateral in return for the Company pre-piping a housing subdivision before homes are built. The developer's collateral is returned as households within the subdivision become customers of National Fuel. Developer agreements effectively have the developer assume the risk for failure to attach a sufficient number of customers to make the project economic. In return, the developer is able to market its subdivision as having ready access to natural gas for home heating.

5. Please identify the outreach and education efforts currently employed by the utility for the purposes of gauging interest in natural gas service and/or soliciting new customers in areas where interest in the possibility of obtaining service has been expressed. Are the efforts sufficient? How can they be improved? Would expanded or improved outreach and education programs increase conversion to

natural gas by customers who reside within the 100 feet zone of existing utility infrastructure (and, accordingly would not pay for the extension)? How can the utility identify, communicate and engage with such customers? When an individual customer requests service, please describe the utility's efforts to communicate with or solicit other customers in the neighborhood/area.

Response:

The Company's Residential Conversion Initiative is an on-going effort to encourage users of fuel oil, propane or electricity to switch to natural gas. There are three groups within this initiative. First are the Company's existing customers who are using natural gas for non-heating purposes but are using another source of energy (primarily oil or electricity) for space heating. Second are households within the Company's service territory who are on or near a gas mainline but are not connected to our system. Third are households on the fringes of the Company's service territory to whom natural gas service has not yet been extended. The Company's Energy Services Department is working in conjunction with other departments as appropriate to address each of these residential conversion opportunities. Customers in the first group have been contacted and those confirmed as non-heating have been sent informational packets. With regard to the second group, the Company has piloted an approach whereby un-served households are identified as "skips" by Company meter readers. A door hanger is left at the address and the Energy Services Department follows up with an informational packet.

The extension of natural gas service to the third group identified above is generally customer initiated. Potential customers interested in receiving gas service from the Company often start the process by calling the Company or by completing an application for service. The New Services representative then determines whether or not a project is feasible. If so, letters that explain the process, including a rate comparison chart and an application, are sent to the potential customer group. Information is exchanged and questions are answered using various means including in-person meetings, telephone, e-mail, and traditional mail.

When a homeowner calls to request gas in their area (main line extension project - MLEP), the Company will send them a letter, applications and bar chart (comparing fuels costs). That homeowner would then act as a group leader and talk to neighbors and solicit interest in obtaining natural gas. The group leader would then return the applications from the interested neighbors.

The Company also sends out letters to area neighbors that describe the project and potential costs and fuel savings rather than simply relying on group leaders.

When an Applicant contacts the New Service department to discuss either their invoice or the process of getting gas into their area, the Company will offer to send them a letter with a list for names and addresses and additional applications. The Applicant would work as the group leader and give the applications to their neighbors. The Company has also sent letters to the neighbors identified by the Applicant and solicit a response.

Some Applicants coordinate group meetings and the New Service Rep attends to discuss the process and costs associated with the project.

6. Please identify the typical flow of communication and information between the utility and a customer requesting service that would require extension of a gas main sufficient to require a surcharge. Please provide any examples of written communication.

Response:

Main Line Extension Project - MLEP

- Applicant may apply for gas service via hard copy application, over phone with the Company's phone center or the Company website.
- After a field investigation, a proposal is mailed to Applicant detailing the amount of main/service required along with the surcharge and discounted prepayment options (residential only) or prepayment for non-residential applicants.
- Applicant mails response form back with payment (or selects Surcharge Option)
- Surcharge Agreement and Right-of-Way agreements are sent to the Applicant.
- NOTE: Process can become very cumbersome with large number of potential customers. A significant amount of back-and-forth communication is necessary with all parties and is further complicated as number of applicants change requiring recalculations of project costs and associated surcharges.

- Customers are asked to provide email addresses, so that we can group email people on these projects, making the communication exchange easier.

Existing Main Line – Application Requires Service Line Only

- Customer files application for service through above mentioned methods
- Service investigator visits the property
- Customer is invoiced (if applicable)
- Payment is received and service is installed within 10 days

7. What issues should be given consideration prior to expansion of the natural gas delivery system? Should such considerations include protections for a group or groups of customers? If so, what should be and what types of protections should be considered?

Response:

The Company generally supports the goal of current regulations that existing customer should not be required to subsidize new customers. The primary issue for consideration prior to any expansion of the natural gas delivery system is whether or not a particular expansion project can be accomplished without burdening existing customers. As explained previously however the current regulations through their overall complexity may be hindering the expansion of otherwise economic system expansions.

8. Are there existing utility specific pilot programs focused on new approaches to line extensions

or new franchise expansions of the natural gas delivery system? If so, please describe the pilot program. If not, could such a pilot program be beneficial and, how would it be designed?

Response:

The Company does not have any existing pilot programs focused on new approaches to line extensions or new franchise expansions of the natural gas delivery system. Provided that any necessary waivers of or changes to existing regulations could be obtained, pilot programs should be able to be designed. The Company believes it would be useful to explore a pilot program that either simplifies the current surcharge procedures or implements a higher pricing structure for expansion projects requiring a greater revenue stream to support the greater than average costs of such expansions. The pilot could be designed to permit a more streamlined and customer friendly means of providing quotes for potential expansions of the natural gas distribution system. Utilities would be permitted to assess the potential for customer conversions in the area and provide a firm quote for mainline expansion based on the total cost of the expansion and a reasonable estimate of the expected number of customers attaching to the system over a reasonable time period. Utilities would also be permitted to either extend the duration of customer surcharges or develop an incremental rate adder for mainline extension projects where existing rates will not fully compensate for the cost of the mainline expansion. Determination of whether existing customers are subsidizing new customers would not be made on an individual project by project basis. Instead all mainline expansion projects

over a designated time (for example over a five-year pilot period) would be reviewed and determined whether the total incremental cost of all projects over this time are equal to or less than the total incremental revenue revenues generated from all expansion projects.

Rate and Ratepayer Considerations

9. The Commission's regulations (§230.2[f]) provide that "each corporation may, in its tariff schedules, extend such obligation [to provide certain main and service line extensions without cost to the customer], to the extent the provision of additional facilities without charge is cost-justified." Identify whether the utility ever provides residential customers with more than 100 feet of gas main or service line without surcharge. Please explain why and under what circumstances or, if never, why not. Is the utility aware of any geographic areas in its service territory where potential cost justified extensions of greater than 100 feet are currently un-served? If not, has the utility ever attempted to ascertain or develop such information? What should be the appropriate length of main and/or service provided without surcharge? Please explain.

Response:

The Company does not provide load justified extensions beyond the surcharge rules for Residential customers. However, the Surcharge formula may determine that an applicant's cost is below $0.00 for mainline projects over 100' if their adjusted gross revenue is high enough due to greater than average consumption. For example, they could get 150' at no charge.

The Company will also group applicants for particular main line extensions such that the Company will provide 100' at no charge for each new customer.

For example, a 2–family home applying for 2 meters will get 200’ of main and up to 200’ of service at no charge.

The Company is not aware of potentially cost justified extensions greater than 100 feet are currently unserved in its service territory.

10. Does the utility provide programs that could assist low income customers or those on a fixed income to overcome the barriers to conversion to natural gas?

Response:

The Company has numerous programs for low income customers to provide rate, billing, or energy efficiency assistance. There are no programs however, that would provide low income households that are not attached to the system any more or less assistance than it would apply to any other home or business applying for new service.

11. Are there potential funding mechanisms for expansion of the natural gas delivery system other than through utility rates or direct customer payments (surcharges, CIACs or other)?

Response:

Over the past several years, the Company has provided funding for natural gas infrastructure (main, service, metering) to some non-residential customers that were either expanding or locating in its service territory. This particular funding was provided from the Company’s Area Development Program.

12. Are existing natural gas efficiency programs adequate and optimal to serve the expansion of customers within 100 feet of existing utility infrastructure? If not, what changes, including possibly the level of funding, could be made to improve the existing efficiency programs? Would efficiency programs targeted to conversion customers result in increased energy savings, and if so, how?

Response:

Customers that convert their heating systems from an alternate fuel to natural gas system are eligible to receive appliance rebates under the Company's existing natural gas efficiency program. Existing funding levels for residential appliance rebates have been, and are expected to remain, adequate to support appliance conversions.

13. Do Revenue Decoupling Mechanisms (RDMs) impact expansion of the natural gas delivery system?

Response:

Revenue decoupling mechanisms do not impact the expansion of natural gas delivery systems.

Economic Development

14. Does the utility have any information or estimates concerning the existence of commercial or industrial customers who may add and/or retain jobs if they could switch their process or heating fuel to natural gas? If so, how many jobs might be added or retained?

Response:

The Company is not aware of the existence of potential commercial or industrial customers who may add and/or retain jobs if they could switch their process or heating fuel to natural gas.

15. Are there specific industries in the State that would benefit from an expanded natural gas delivery system? Please describe.

Response:

Any energy-intensive industry, or industry that uses natural gas as process feedstock, would benefit from expansion of natural gas infrastructure. Coal-powered facilities, including power plants, not already located within economic range of LDC facilities would also benefit, as would the downstream users of electric or co-generation power produced by such facilities. Shovel-ready industrial sites that are piped for natural gas (and all utilities) would enhance the state's ability to compete with other states to attract new employers. In short, low gas costs can be an inducement for economic development, and can offset other costs of doing business in New York that tend to run higher than in other states.

One specific industry in the Company's service territory that might benefit from an expanded natural gas delivery system is the asphalt industry. Many asphalt plants are located in relatively remote locations due to a need to be in closer proximity to the road construction jobs they serve. Some of these plants use oil or propane because they are too far from the Company's lines, making conversion to natural gas more difficult. In general, however, most of National Fuel's industrial segment presently has adequate access to natural gas service.

Public/Private Partnerships

16. Are there potential partnerships between various entities involved in the energy and heating markets in New York State that could facilitate expansion of the natural gas delivery system? If so, please provide examples and whether your organization would be willing to take part in such a partnership. Who would be best suited for encouraging and developing such partnerships? What role should the public sector play?

Response:

As included in response to Question 4, the Company does have a developer agreement program that it believes effectively facilitates the expansion of the natural gas delivery system.

The Company is not aware of any existing partnerships between utilities and public entities involved in the energy and heating markets in New York State that could facilitate expansion of the natural gas delivery system. Such partnerships may be able to be developed and the Company would be interested in exploring the development of such partnerships. Indeed, the Company is aware of such a partnership arrangement between a municipality and utility in Alaska.[6] As summarized on the municipality's website, the program is designed similar to the Company's developer agreement where the municipality effectively steps in to the developer role.

[6] *Alaskan city gives Enstar go-ahead for $17M gas distribution project*; SNL Financial; Tuesday, February 19, 2013.

Why doesn't Enstar pay for the distribution system instead of the City forming a Special Assessment District?
The cost of building a distribution system is always borne by the consumer. In some cases the utility builds that cost into their rate structure through a tariff (for example, Southern Peninsula users will be paying for 25% of the trunk line with a $1 per MCF tariff). In other cases neighborhoods get together and form a USAD (similar to a Special Assessment District) within the Borough to pay for a distribution system in their subdivision. Homeowners can also work directly with Enstar. The City Council voted to act as one big subdivision that is going to pay Enstar up front for constructing the distribution system.[7]

Under the Enstar/City of Homer agreement, Enstar refunds to the City of Homer the amount of the free main allowance provided in its tariff for customers that connect to its system.

17. Are there programs currently administered by utilities or federal, state or local agencies that assist customers with heating fuel conversions? Are there roles that other agencies, such as the New York State Energy Research and Development Authority (NYSERDA), should play in expansion of the natural gas delivery system? Should the Energy Efficiency Portfolio Standard (EEPS) programs be expanded or modified to encourage conversions to natural gas before end-of-life replacements?

Response:

Other than the New York Clean Heat program, the Company is not aware of federal, state or local agencies that assist customers with heating fuel conversions. The Company does believe there are roles that other agencies, such as NYSERDA, could play in expansion of the natural gas delivery system.

[7] http://www.cityofhomer-ak.gov/naturalgas/forming-homer-special-assessment-district

It is interesting to note that there are a number of programs that recognize the benefits of and provide support for the conversion of vehicles to natural gas. The Company believes that it would be useful to explore how SBC charges could be used to support conversions to natural gas from other fuel sources for before end-of-life replacements. Particularly conversions of inefficient and less environmentally friendly heating oil, propane, and electric heating systems to natural gas.

18. Are there opportunities to coordinate natural gas delivery system expansion projects with other available resources, such as economic development, energy efficiency, or environmental protection? Please provide specific examples, if possible.

Response:

Over the past several years, the Company has provided funding for natural gas infrastructure (main, service, metering) to some non-residential customers that were either expanding or locating in its service territory. This particular funding was provided from the Company's Area Development Program.

Environmental Impact

19. Are there changes that could be made to the environmental impact review process involved in granting or expanding gas franchise areas that could improve or streamline the process?

Response:

The Company does not have any recent experience in the gas franchise expansion area. In general, we believe that the environmental impact review process should be consistent with similar system expansion projects within an existing utility franchise area.

20. Please identify, if any, areas of the State where provision of natural gas delivery service is unrealistic because of environmental constraints, construction permitting requirements or other factors and explain why service to such areas is believed to be unrealistic. Are there any areas of the State that require special consideration regarding expansion of the natural gas system?

Response:

The Company can provide gas to most areas in its service territory. However, the cost to overcome some conditions in specific areas can make the project too expensive to economically provide service for applicants in these areas.

Examples: Railroad crossings (both construction and permitting)

River / Creek crossings

Rock / Shale

Narrow roads and hills

Townships not permitting NFG to trench in Public Right-of-Way– (road / ditches)

Planning

21. Please explain your utility's natural gas delivery system expansion planning process including any large-scale and or long-term plans that are in place or are being considered.

Response:

System expansion projects are generally initiated based on customer inquiries for new service or increased load within our existing service area. The Company does not currently have any large-scale or long-term plans for system expansion under consideration. The Company would be willing to work with the communities interested in expanding natural gas service in or near its service territory and incorporate them into its long term system planning process. The Company believes that the current cumbersome application process prompted by existing system expansion rules is not supportive of long term system expansion planning. The Company believes that the modifications it has suggested in response to previous questions which would support a streamlined and more customer friendly expansion policy would go a long way to providing a stable platform for long term system planning.

Respectfully submitted,

Eric H. Meinl,
General Manager, Rates & Regulatory Affairs
National Fuel Gas Distribution Corporation

Dated: March 12, 2013