

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of
National Fuel Gas Distribution Corp.

Case 16-G-0257

October 2016

Prepared Staff Exhibit of NFG
Letter in Case 11-G-0580

State of New York
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

National Fuel Distribution Corp.

Case 16-G-0257

Index of Exhibits

Item

National Fuel Mr. Boy 8/26/2016 Correspondence	3 pages
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National Fuel

August 26, 2016

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

Doris D. Stout
Director, Office of Accounting, Audits and Finance
New York State Department of Public Service
Three Empire State Plaza, 19th 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 and the Order issued and effective June 27, 2014 (“Order”); Notice of Material Change per Order.

Dear Secretary Burgess and Director Stout,

On August 17, 2016, Department of Public Service Staff (“Staff”) notified National Fuel Gas Distribution Corporation (“NFGDC-NYD” or “the Company”) that the Company’s written Implementation Plan Update for the recent Schumaker & Company Management Audit, filed on June 24, 2016, contained material changes. These changes pertain to a revision of the implementation schedules for the Company’s three Vision technology projects. At Staff’s request, NFGDC-NYD conducted a teleconference with Staff on August 23, 2016, to review the three Vision technology projects in detail.

To set the context, the foundation upon which the Vision technology projects will be built is NFGDC-NYD’s customer information system (“CIS”). This project is the most significant information technology modernization project in the Company’s history. The scope of changes being made is enormous and impacts almost every area of NFGDC-NYD’s business. The CIS project was initially targeted to go-live during July 2015. Due to the project’s magnitude, as well as the Company’s desire to achieve an effective and seamless implementation, the go-live date was revised to October 2015 and subsequently to May 2016. CIS did go-live on May 9, 2016. For a period of approximately 8 months following the go-live date, NFGDC-NYD will undergo a post-launch stabilization period for CIS. This includes additional employee training, the addition and testing of new system functionality, and the identification and prompt resolution of issues.

The three projects that comprise the Vision initiative are: (1) Timekeeping, (2) Pipeline Facilities Inspection (“PFI”), and (3) a Work Management System (“WMS”) evaluation. The Timekeeping project (“Project #1”) addresses Management Audit serial recommendation numbers 13, 14, 15 and 34. The PFI project (“Project #2”) addresses Management Audit serial

recommendation numbers 34, 35, 41 and 55. Finally, the WMS evaluation (“Project #3”) addresses Management Audit serial recommendation numbers 34, 46, 53, 56 and 58.

In the Company’s written Implementation Plan Update of February 26, 2016, the Timekeeping project had a targeted completion date of April 15, 2016. Due to Information Services Department resources (working on Timekeeping) being redirected to the CIS project, the Timekeeping project’s completion date was updated to August 8, 2016, the date reflected in the Company’s written Implementation Plan Update of June 24, 2016. The currently anticipated completion date for Timekeeping is now projected for October 10, 2016, due to Information Services Department resources continuing CIS post-stabilization work described above.

On December 23, 2014, the Company issued a Request for Proposal for the PFI project. On July 9, 2015, the vendor evaluation phase of this project was completed, noting that the vendor proposals were too expansive (in project scope) and expensive. Consequently, it was decided that in-house development, coupled with the proper connectors to the new CIS system, the PeopleSoft Enterprise Resource Planning (“ERP”) system, and the Geographic Information System (“GIS”), will enable NFGDC-NYD to leverage custom development to reduce complexity and overall project cost. This approach was documented in a memorandum to Staff on August 4, 2015, and was also submitted as a work paper for the PFI project’s serial Management Audit recommendation numbers noted above. Also of note, in July 2015, Information Services Department resources working on PFI were redirected to the CIS project. As a result, NFGDC-NYD’s written Implementation Plan Update of February 26, 2016, contained a “to be determined” completion date. The Company’s written Implementation Plan Update of June 24, 2016, removed the “to be determined” completion date and replaced it with projected milestone dates for the PFI project. Specifically, the first set of PFI applications are currently anticipated to be completed by February 28, 2017 and the last set of PFI applications are currently anticipated to be completed by December 31, 2018 (this date will be revised in NFGDC-NYD’s October 2016 written Implementation Plan Update), as the Company will utilize a phased implementation approach for this project. It should be noted that work on the PFI project will resume once the Timekeeping project is completed. In addition, the PFI project will be worked on in parallel with the on-going post-launch stabilization period for CIS.

In the Company’s written Implementation Plan Update of February 26, 2016, the WMS evaluation had a targeted commencement date of September 1, 2016, as well as a targeted completion date of February 28, 2017. A WMS evaluation would be dependent on the CIS for customer information, the Timekeeping system for internal resource commitments and availability, and the PFI system for field operations workload requirements. As a result, the timeline for this recommendation is dependent on the timelines of CIS, Timekeeping and PFI. Since the timelines for Timekeeping and PFI were updated in the Company’s written Implementation Plan Update of June 24, 2016, the timeline for this project was also updated accordingly. Specifically, the WMS evaluation’s targeted start date is now September 1, 2017, and the targeted completion date is August 31, 2019 (this date will be revised in NFGDC-NYD’s October 2016 written Implementation Plan Update). It should be noted that the WMS evaluation will be worked on in parallel with the PFI project.

Further adding to the challenge, complexity and timeline of the Vision technology projects is the fact that the Company will be performing a necessary upgrade of its PeopleSoft ERP system, from version 9.1 to 9.2. This upgrade is currently anticipated for implementation in February 2017. It is possible that the PeopleSoft upgrade may further impact the timing of the

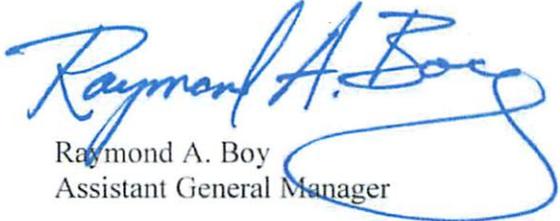
PFI and/or WMS projects in the future, although it is not anticipated at this time. Although the timelines of the Vision technology projects have been updated in NFGDC-NYD's written Implementation Plan Update of June 24, 2016, the project scopes remain intact. The Company remains committed to the development and modernization of technology solutions, while remaining focused on the fact that the organization can only tolerate so much simultaneous change without sustaining potentially serious, deleterious consequences.

The Information Services Department resources at NFGDC-NYD perform multiple roles throughout the lifecycle and duration of technology projects. It is noteworthy that the Company encourages its project team members to frequently take on multiple tasks in order to ensure the timely completion of projects (e.g., specify detailed project requirements, prepare scope of work documents for Requests for Proposals, develop code, test system functionality, perform on-going system maintenance, and work with process owners for future enhancements and capabilities). Validating the Company's approach of staffing technology projects is the fact that Schumaker & Company found NFGDC-NYD's state-of-the-art GIS to be sophisticated (the last major technology project completed before the commencement of the Management Audit).

The Company continues to meet with Audit Staff on an on-going basis to discuss the implementation status of all recommendations from the Schumaker & Company Management Audit.

Please allow this letter to serve as the Company's notice of a material change for the Vision technology projects pursuant to the requirements of the aforementioned Order. If you have any questions, please contact me at your convenience at (716)-857-7816 or at Boyr@Natfuel.com.

Respectfully yours,



Raymond A. Boyr
Assistant General Manager

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