I. INTRODUCTION AND PURPOSE

Q. PLEASE STATE YOUR NAME, AFFILIATION AND BUSINESS ADDRESS.

A. My name is John Reed. I am Chairman and Chief Executive Officer ("CEO") of Concentric Energy Advisors, Inc. ("Concentric") and CE Capital, Inc. ("CE Capital") located at 293 Boston Post Road West, Suite 500, Marlborough, Massachusetts 01752.

Q. DID YOU PROVIDE REBUTTAL TESTIMONY IN THIS PROCEEDING?

A. Yes, I did.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

A. The purpose of my supplemental testimony is to respond to the supplemental testimony of the Department of Public Service Staff Finance Panel ("Staff" or the "Staff Finance Panel") regarding the "ring-fencing" provisions Staff has recommended in this proceeding for National Fuel Gas Distribution Corporation ("Distribution" or "the Company"). I also offer my perspective on the Staff Finance Panel's misinterpretation of the importance of capital structure to the credit ratings agencies' analysis of debt issuing companies.

Q. THE STAFF FINANCE PANEL, AT PAGES 1 THROUGH 3, DISCUSSES THE "ADEQUACY" OF NFG'S CAPITAL STRUCTURE, AND OFFERS AN EXHIBIT PURPORTING TO SHOW THAT MOODY'S IS "MUCH

ATTUNED TO THE DEGREE OF LEVERAGE" A COMPANY HAS. WHAT IS YOUR RESPONSE?

A. Staff has misinterpreted Moody's analysis and incorrectly inferred that Moody's statements equate to reliance on book debt and equity ratios as important credit metrics. Importantly, in Exhibit__(FP-24) (*i.e.*, the Moody's report cited by the Staff Finance Panel in its supplemental testimony), Moody's defines leverage as the ratio of debt to EBITDA, not the ratio of debt to equity. Moody's also focuses on cash flow and its ability to cover debt service. Notably (and unsurprisingly), the Moody's report cited by Staff is completely devoid of any discussion of the debt-to-equity ratio. This distinction between "leverage" and book debt and equity ratios is quite important in NFG's recent circumstances. Impairment charges reduce a company's book equity ratio, but do not have any effect on "leverage" as Moody's uses that term, or cash flow. As such, the Staff Finance Panel's assertion that capital structure is an emphasized metric in the credit rating agencies' evaluations is misplaced.

Q. WHILE A COMPANY'S ACTUAL BOOK CAPITAL STRUCTURE IS NOT A POINT OF EMPHASIS IN CREDIT RATINGS EVALUATIONS, IS THE CAPITAL STRUCTURE AUTHORIZED IN RATE PROCEEDINGS IMPORTANT FROM AN INVESTOR'S PERSPECTIVE?

A. Yes, it is. In fact, the third exhibit provided by the Staff Finance Panel with its supplemental testimony (*i.e.*, Exhibit__(FP-26), the Regulatory Research Associates' ("RRA's") "State Regulatory Evaluations" report) supports that conclusion. Specifically, RRA states (at page 4, emphasis added):

> [I]n the context of a rate case, a utility may be authorized a relatively high ROE, but factors, *e.g.*, ***capital structure changes***, the age or 'staleness' of the test period, rate base and expense disallowances, the manner in which the commission chooses to calculate test year revenue, and other adjustments, may render it unlikely that the company will earn the authorized return on a financial basis. Hence, the overall decision may be negative from an investor viewpoint, even though the authorized ROE is equal to or above the average.

The investment community places heavy weight on a utility's regulatory environment and whether it is supportive of financial strength and the abrupt and unwarranted imposition of the Staff Finance Panel's proposed ring-fencing measures in the context of a rate case would be seen as an unsupportive regulatory initiative.

Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?

A. Yes.