

Case 16-G-0257 Supplemental Testimony of the Company Finance Panel

1 Q. Please state the names of the members of the Company Finance
2 Panel (“CFP”).

3 A. We are David P. Bauer, Timothy J. Silverstein, and Jodi J. Smith.

4 Q. Have you previously provided testimony in this proceeding?

5 A. Yes, Ms. Smith provided Direct Testimony and we all joined in
6 providing Rebuttal Testimony in this proceeding.

7 Q. What is the overall purpose of your Supplemental Testimony?

8 A. We will respond to the Supplemental Testimony of the Staff Finance
9 Panel (“Staff”) in regards to capital structure and ring-fencing.

10 **Capital Structure**

11 Q. Based on your review of the Staff Finance Panel’s (the “SFP”)
12 Supplemental Exhibit__(FP-24), do you believe the SFP has reached
13 the correct conclusion that “the capitalization of National Fuel Gas
14 Company is an important factor in Moody’s ratings analysis of the
15 Parent”?

16 A. No, the SFP appears to have inaccurately presented Moody’s
17 approach to evaluating leverage. Aside from referencing quotes from
18 the Moody’s report that are general to the E&P industry and in no way
19 specific to National Fuel, SFP’s supplemental testimony offers no

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1 support for its assertion that book capitalization is an important factor
2 in the ratings process. Throughout the report, it's clear that Moody's
3 uses cash flow based metrics to assess leverage, not book
4 capitalization. The principal metrics cited by Moody's are: "Total Debt
5 to EBITDA;" "Net Debt to EBITDA;" "EBITDA/Interest;" and
6 "Retained Cash Flow/Total Debt" - all of which are cash flow based
7 metrics. Nowhere in this report does Moody's reference book capital
8 structure as a way to assess leverage (in fact, there isn't a single
9 reference to the term "capitalization" anywhere in the report). Staff's
10 conclusion that book capitalization is an important factor in the ratings
11 process is simply inaccurate.

12 Q. Is the approach described in Exhibit__(FP-24) consistent with your
13 discussions with Moody's?

14 A. Yes. We meet with the rating agencies annually to review National
15 Fuel Gas Company's business plans and financial forecast. During
16 these meetings, leverage is a primary area of focus; however, book
17 capital structure has not been a focal point. In fact, during our
18 annual meeting with Moody's in early 2015 (which was just prior to
19 the start of the recent ceiling test impairments), we specifically

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1 asked whether the expected ceiling test impairment charges (and
2 their resultant impact on our book capitalization) would impact our
3 rating. In response, Moody's stated that book capital structure
4 carries little to no weight in their determination of our credit rating.
5 They indicated that expected cash flow and interest coverage
6 based metrics were the primary ones used in their analysis. We
7 received similar guidance from S&P and Fitch.

8 Q. Does this conclude your Supplemental Testimony?

9 A. Yes, at this time.