

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of
National Fuel Gas Distribution Corp.
Case 16-G-0257
September 2016

Prepared Supplemental Testimony
of:

Staff Finance Panel

Michael J. Augstell
Principal Utility Financial
Analyst
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Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

1 Q. Please state your names and business address.

2 A. Michael Augstell and Vincent Califano. We are
3 employed by the New York State Department of
4 Public Service (Department). Our business
5 address is Three Empire State Plaza, Albany, New
6 York 12223.

7 Q. Did you also submit Direct Testimony in this
8 proceeding?

9 A. Yes, we submitted Direct Testimony on behalf of
10 the Department of Public Service in Case 16-G-
11 0257.

12 Q. What is the purpose of your Sur-Rebuttal
13 testimony in this proceeding?

14 A. The purpose of our Sur-Rebuttal testimony is to
15 respond to some areas of the Rebuttal Testimony
16 of Ann E. Bulkley and the Rebuttal Testimony of
17 the Company Finance Panel. Our analysis is
18 supported by Exhibit__(FP-24) through
19 Exhibit__(FP-26).

20 **CAPITAL STRUCTURE**

21 Q. With respect to the ratings agencies views on
22 the relative adequacy of the capital structure
23 of National Fuel Gas Company, the Rebuttal
24 Testimony of the Company Finance Panel states,

1 "No, in our experience, neither S&P nor Moody's
2 uses current or expected capital structure as a
3 significant factor in their evaluations of the
4 Parent's credit rating." Do you agree with this
5 assessment?

6 A. No. It is apparent that the ratings agencies
7 are much attuned to the degree of leverage and
8 its implications for the exploration and
9 production (E&P) industry. As illustrated in
10 Moody's recent report, Exhibit___(FP-24),
11 "Independent Exploration and Production-North
12 America, No Relief in Sight for Stretched
13 Balance Sheets in 2016," August 23, 2016, there
14 is specific discussion on leverage in the E&P
15 sector. On page 2 of the report it is stated,
16 "Leverage for North American E&P sector remains
17 elevated, despite a modest improvement in oil
18 and natural gas prices, and will not improve
19 before the end of 2016. E&P companies began the
20 current downturn in mid/late 2014 with much
21 higher debt levels and leverage, with today's
22 low commodity prices making development
23 unsustainable for many companies." On page 1 of
24 the report it is also stated, "Companies have

1 addressed their balance sheets by issuing
2 equity, selling assets, cutting dividends,
3 repaying debt, or some combination of these
4 actions." In short, the capitalization of
5 National Fuel Gas Company is an important factor
6 in Moody's ratings analysis of the Parent.

7 **RING-FENCING**

8 Q. On page 20 of Company Rebuttal witness Reed's
9 testimony he states, "Staff has not identified
10 any problem where the ratepayer has been harmed
11 due to NFG's financial policies, nor is there a
12 hypothetical future problem that may not be
13 addressed with the ratemaking tools already
14 available to the Commission." Do you agree with
15 this statement?

16 A. No. While at this time it does not appear that
17 Distribution has been harmed by NFG's financial
18 policies, neither Company witness Reed, nor
19 anyone else, can predict with certainty where
20 oil and natural gas prices will be a year or two
21 from now. Accordingly, the Company cannot
22 provide assurances that any of the ratings
23 agencies could downgrade the Parent's credit
24 rating into a non-investment grade rating,

1 thereby threatening the Company's access to
2 access to reasonably priced capital. Isolating
3 Distribution with the ring-fencing mechanisms
4 recommended in the Staff Finance Panel would
5 help to protect the utility from these risks.

6 Q. Company witness Reed states on page 17 that, "In
7 my more than 40 years in the industry, I have
8 never seen ring-fencing like this imposed in a
9 rate case." Do you agree with this statement?

10 A. We cannot confirm such a broad statement which
11 opines as to witness Reed's knowledge; however,
12 in New York State every holding company is a
13 utility holding company with a S&P business risk
14 profile of either "Excellent" or "Strong",
15 except for National Fuel Gas Company, which is
16 not a utility holding company and only has a
17 business risk profile of "Satisfactory". And
18 while imposing ring-fencing via a litigated rate
19 case may not be common, there are multiple
20 instances of such concerns being addressed in
21 joint proposals in New York. The corresponding
22 Moody's and S&P ratings with the risk profiles
23 for the NYS utilities and the respective parents
24 are shown on Exhibit___(FP-25).

1 **REGULATORY RANKINGS**

2 Q. Do Company witness Bulkley's regulatory
3 estimates fall in line with the Commission's
4 actual regulatory rankings?

5 A. No, Company witness Bulkley's rebuttal testimony
6 on page 70 suggested the Commission's regulatory
7 ranking is below average when in fact her
8 reports and Exhibits__(AEB-10 and AEB-11)
9 confirm the Commission's regulatory ranking is
10 between "Average" to "Above Average".

11 In Ms. Bulkley's Exhibit__(AEB-10), she
12 references a RRA report, dated March 10, 2016,
13 which ranks NYS Public Commission as "Average"
14 thus, refuting her rebuttal claim that New York
15 regulatory environment is below average.

16 Additionally, Ms. Bulkley's regulatory
17 review of Utility Regulatory Assessments for
18 U.S. Investor-Owned Utilities (Commissions) by
19 S&P Ratings Services' dated January of 2014, as
20 seen in her Exhibit__(AEB-11), ranks the NYS
21 Public Service Commission in the second highest
22 (2 of 5) ranking category of Strong/Adequate.

23 Q. What does Regulatory Research Associates (RRA)
24 say about the New York State regulatory

1 environment?

2 A. In RRA's "State Regulatory Evaluations",
3 Exhibit___(FP-26), January 22, 2016, it ranks
4 New York's regulatory climate as 'Average'
5 (A/2). RRA has three rating categories; 'Above
6 Average' (AA), 'Average' (A) and 'Below Average'
7 (BA) and three relative positions '1' indicates
8 a stronger, more constructive rating, '2' is a
9 mid-range rating; and '3' is a weaker, less
10 constructive rating. The 'A2' rating indicates
11 that New York's ranking fails in the middle of
12 the rankings, thus, its rank is 'Average'.

13 Q. Does this conclude your rebuttal testimony at
14 this time?

15 A. Yes, it does.

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