BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

National Fuel Gas Distribution Corp.

Case 16-G-0257

October 2016

Multiple Party IR Exhibit

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

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Case 16-G-0257
National Fuel Gas Rates

Staff of the Department of Public Service
Response to Formal Request for Information

Requesting Party: National Fuel Gas Distribution Corporation
Set No.: 2
Request No.: NFG-DPS-022
Responding Witness: Staff – Consumer Services Panel
Date of Response: September 8, 2016

Question:

Other than as pertains to National Fuel, provide copies of all Customer Service Performance Incentives or Service Quality Performance Mechanisms by whatever name ("Mechanism" or "Mechanisms") that have been established through or by Public Commission Order with electric utilities, gas utilities, combination utilities and municipalities. Complete responses will include each and every separately established Mechanism, not just the most recent Mechanism for each entity.

a. Identify which Mechanisms have been adopted though a Joint Proposal or agreement by the utility or municipality, and identify which have been imposed by the Commission in a litigated rate case.
b. Separately identify every instance in which Staff has recommended changes to established Mechanisms, specifically:
    i. Each instance in which Staff has recommended the reduction in the number of items measured via established Mechanisms, together with an explanation of such recommendations. In addition to specifically identifying the measures Staff recommended eliminating, provide Staff's analysis of the utility's performance with those measures vis-à-vis its performance with other measures that were recommended to be continued, including but not limited to providing the historically reported statistics related to the Mechanisms ;
    ii. Each instance in which Staff has recommended the increase in the number of items measured via established Mechanisms, together with an explanation of such recommendations. In addition to specifically identifying the measures Staff recommended adding, provide the basis and analysis for establishing thresholds for any newly recommended measures by Staff to a utilities' CSPI.
    iii. Each instance in which Staff has recommended an increase in negative revenue adjustments or penalties, including an explanation of such recommendations and the reasons for same;
    iv. Each instance in which Staff has recommended a decrease in negative revenue adjustments or penalties, including an explanation of such recommendations and reasons for same.
c. Separately identify every instance in which Staff has recommended changes to established Mechanisms despite the utility having avoided any negative revenue

adjustments, penalties or any decrease to earnings for failing to meet a performance target.

d. Separately identify every instance, including National Fuel, in which Mechanisms lapsed and resulted in the absence of any negative revenue adjustments or penalties.
e. For each instance identified in subpart d. immediately above, identify whether subsequent service quality decreased to levels that would have resulted in negative revenue adjustments or penalties had such Mechanisms not lapsed.

Response:

The information requested is unduly broad and not tailored to this particular proceeding. Furthermore, the information is readily available to the Company through the Document and Matter Management system on the Department's website [http://www.dps.ny.gov/]. The Company can perform legal research on the Commission's website or other third party research platform.

Case 16-G-0257
National Fuel Gas Rates

Staff of the Department of Public Service
Response to Formal Request for Information

Requesting Party: National Fuel Gas Distribution Corporation
Set No.: Set 2
Request No.: NFG-DPS-119
Responding Witness: Staff – Gas Safety Panel
Date of Response: September 8, 2016

Question:

At page 40, with respect to the regulatory compliance metric, the Panel states "Thus, for the purpose of this noncompliance measure, there is no difference between a violation and an occurrence. These words are and can be used interchangeably. Staff considers both terms as an instance of non-compliance with the Commission's pipeline safety regulations."

A. Is it Staff's position that each occurrence of a violation of a regulation should be treated as a separate violation, resulting in a separate individual penalty?

B. If a company procedure resulted, for example, in five separate regulator stations being out of compliance for inspection, for example, would that constitute one violation for the policy and five separate violations, one for each station?

C. If a company procedure was found to violate a regulation, would the failure to follow the regulation at each service center constitute a separate violation?

D. If a company incorrectly classified a leak based on the requirements of their procedure and the procedure requirement was the same as a code requirement, would Staff count two violations for one incorrectly classified leak?

E. If the incorrect classification above also resulted in an incorrect leak surveillance frequency according to both a company procedure and a regulatory code requirement, should Staff count four violations for one incorrectly classified leak?

F. If two surveillances were missed due to the incorrect leak classification above, before the company discovered the incorrect classification, would Staff count six violations for one incorrectly classified leak?

G. If when the company discovered the incorrect leak classification above and promptly repaired the leak, but the repair time exceeded the time allowed according to both a company procedure and regulatory code requirement for the correct classification, would Staff count eight violations for one incorrectly classified leak?

Staff of the Department of Public Service
Response to Formal Request for Information

H. Is this method consistent with the way that violations were accounted for in the safety metrics agreed to in the Join Proposals agreed to in the 2004 case and the 2013 case involving Distribution? If not, why not?

I. If there is no difference between a violation and an occurrence, as stated by the Panel, why does Staff use different terms?

J. Please provide any internal Department memorandum or correspondence discussing the difference between violations and occurrences.

Response:

A. Each occurrence of each violation of a regulation should be treated as a separate violation. However, during an enforcement process, Staff may take into consideration the duration of the violation and other circumstances surrounding each violation in noticing the amount of the proposed penalties.

B. In the example given above, multiple requirements were found in violation of regulatory requirements. Therefore, Staff will document, record, and report each occurrence of each violation found.

C. For clarity, Staff is interpreting a “service center” as an operational headquarter. Similar to the previous answers above, Staff will document, record, and report each occurrence of each violation found per each operational headquarter.

D. E. F. G. Similar to the previous answers above, Staff will document, record, and report each occurrence of each violation found of the procedures and regulations.

H. Staff has documented, recorded, and reported each occurrence of each violation of the procedures and regulations consistent with that of the most recent Distribution filings.

I. In previous years, Staff has documented, recorded, and reported non-compliances as single violations with multiple occurrences. This was consistent with that of the Pipeline and Hazardous Materials Safety Administration’s required way of reporting statistics. This way of reporting does not reflect Staff’s internal statistics of counting violations and occurrences as being synonymous.

J. There are no internal Department memorandums related to this matter.

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National Fuel Gas Rates

Staff of the Department of Public Service
Response to Formal Request for Information

Requesting Party: National Fuel Gas Distribution Corporation
Set No.: **S**et 2
Request No.: NFG-DPS-134
Responding Witness: Staff – Gas Safety Panel
Date of Response: September 8, 2016

Question:

In the 2015 Gas Safety report, Staff normalized non-compliances by the number of operating headquarters ("OHQ's") for each Company. The tables in Appendices G and H of the Report show that Companies have varying numbers of OHQ's that do not appear to be proportionate with the size or complexity of their systems. In the performance of Staff's record and field audits do the number of OHQ's determine the sample size of records reviewed and field inspections performed in Staff's audits? In other words, does each OHQ have the same number of records sampled, which would discriminate against companies with more OHQ's with regards to total non-compliances? If not, how does Staff determine the sample size for each company or OHQ?

Response:

It depends. Staff conducts record and field audits annually for each operating headquarter found within an LDC. The sampling of records is determined by the specific regulations to be audited in a given calendar year, the population size within each operating headquarter of the regulations to be audited. Sample sizes are selected so that the audit results have a 95% confidence level with a 15% confidence interval.

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Staff of the Department of Public Service
Response to Formal Request for Information

Requesting Party:	National Fuel Gas Distribution Corporation
Set No.:	2
Request No.:	DPS-156
Responding Witness:	Staff Policy Panel
Date of Response:	September 12, 2016

Question:

Does Staff agree that, all else being equal, increasing the demand for a product or service will increase its costs? If no, please explain why not.

Response:

The subject matter of the Company's question, relationship between demand and cost of a product, is beyond the scope of the Staff Policy Panel's testimony.

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National Fuel Gas Rates

Staff of the Department of Public Service
Response to Formal Request for Information

Requesting Party: National Fuel Gas Distribution Corporation
Set No.: Set 2
Request No.: 159
Responding Witness: Policy Panel
Date of Response: September 13, 2016

Question:
Has Staff reflected the increased reporting demands and system improvement demands in Staff's productivity adjustment? If yes, please identify how it has done so. If not, please explain why it is reasonable to ignore such impacts.

Response:
No, the purpose of a productivity adjustment is to account for unquantified benefits. The Commission has a long-standing policy of imputing a productivity adjustment, which is intended to capture unidentified and/or unquantifiable productivity gains, efficiencies and cost savings that could be realized in the rate year. The standard productivity adjustment is not intended to capture savings associated with a particular program.

Case 16-G-0257
National Fuel Gas Rates

Staff of the Department of Public Service
Response to Formal Request for Information

Requesting Party:	National Fuel Gas Distribution Corporation
Set No.:	2
Request No.:	168
Responding Witness:	Staff Policy Panel
Date of Response:	September 12, 2016

Question:
168.) At page 14 the Panel states: "We propose to impute an additional 1% productivity, thus bringing total productivity to 2% for the Rate Year. The additional1 productivity is intended to capture the unquantified cost savings associated with the new CIS system and the discontinuation of the old legacy system."

a. For each member of the panel please state what experience the panel member has with respect to designing, installing and/or implementing a computer system at an institution of any size.
b. For each member of the panel state the relevant educational experience with respect to the design, installation or implementation of a customer information system.
c. For each panel member, state the relevant experience the panelist has with respect to measuring productivity at industrial companies.
d. For each New York utility that has installed a new customer information system state:

i. whether Staff made a similar imputation of additional productivity
ii. whether the system was subjected to any cost disallowances
iii. whether the system was implemented on time
iv. whether the system was implemented within budget

Response:

a. Members of the Staff Policy Panel have not designed, installed and/or implemented a computer system at an institution of any size while employed at the Department of Public Service. Staff's experience is in reviewing and monitoring utility operations.
b. See response to a. above, and Staff's testimony for the relevant educational experience of Policy Panel members.
c. Staff does not measure productivity at industrial companies, other than regulated utilities. However, as it relates to this case please see the Cases in Staff's response to NFG-DPS-003.
d. The information requested improperly requires Staff to develop information and prepare a study for Distribution. Furthermore, the information is readily available to the Company through the Document and Matter Management system on the Department's website: http://www3.dps.ny.gov/W/PSCWeb.nsf/All/B428BB2B680CD9B485257687006F3890?OpenDocument.

Case 16-G-0257
National Fuel Gas Rates

Staff of the Department of Public Service
Response to Formal Request for Information

Requesting Party: National Fuel Gas Distribution Corporation
Set No.: 2
Request No.: 169
Responding Witness: Staff Policy Panel
Date of Response: September 13, 2016

Question:

169.) At page 16, the Panel states "The goals of increased efficiency, economic, and environmental sustainability are important for the natural gas industry." Has Staff attempted to measure, or hired a consultant to attempt to measure the relative efficiency of New York utilities? If so, please provide all documentation related to that effort.

Answer: Not to members of the Staff Policy Panels' knowledge.

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National Fuel Gas Rates

Staff of the Department of Public Service
Response to Formal Request for Information

Requesting Party: National Fuel Gas Distribution Corporation
Set No.: 4
Request No.: NFG-DPS 213
Responding Witness: Staff – Consumer Services Panel
Date of Response: September 13, 2016

Question:

Please refer to page 40 of the Panel's testimony in which you propose that the Company allocate a portion of outreach and education resources toward the provision of energy literacy education.

a. Please provide a summary of costs the Commission incurred to support Beam NY (also known as Unwaste NY), from 2007 to present.

b. Please provide any analyses or documentation measuring the effectiveness of Beam NY (also known as Unwaste NY).

c. Please provide a project justification for Beam NY (also known as Unwaste NY).

Response:

a. This discovery request improperly requires Staff to develop information and/or prepare a study for Distribution.

b. This discovery request improperly requires Staff to develop information and/or prepare a study for Distribution.

c. Information regarding the background and rationale for the Unwaste NY program is readily available on the website: http://www.unwasteny.org.

Case 16-G-0257
National Fuel Gas Rates

Staff of the Department of Public Service
Response to Formal Request for Information

Requesting Party:	National Fuel Gas Distribution Corporation
Set No.:	4
Request No.:	219
Responding Witness:	Staff Policy Panel
Date of Response:	September 12, 2016

Question:

Is the Gas Policy and Supply Panel aware of any training Distribution offers to contractors in a manner similar to the Company's own employees? If so, please describe the Company's practice in detail.

Response:

The Panel is aware that the Company offers local production owners certification training and testing for its employees through the Northeast Gas Association's certification programs and believes this training is also offered to Company contractors. We are not aware of any other training offered to Company contractors.

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National Fuel Gas Rates

Staff of the Department of Public Service
Response to Formal Request for Information

Requesting Party:	National Fuel Gas Distribution Corporation
Set No.:	5
Request No.:	NFG-DPS-227
Responding Witness:	Staff Consumer Services Panel
Date of Response:	September 16, 2016

Question:
For each utility for which Staff has recommended a Service Termination/Uncollectible Performance Mechanism, provide the corresponding information as is presented in Staff Exhibits CSP-5 and CSP-6 in the instant proceeding. Also include work papers and electronic spreadsheets containing historic utility statistics utilized by Staff or the Commission in recommending or establishing the Service Termination/Uncollectible Performance Mechanism for those utilities where same has been recommended or adopted.

Response:
This discovery request improperly requires Staff to prepare a study for Distribution. Please see Cases 14-E-0493, 14-G-0494, 15-E-0283, 15-G-0284, 15-E-0285, 15-G-0286 and 15-G-0382 for cases in which Staff recommended a Service Termination/Uncollectible Performance Mechanism.

Case 16-G-0257
National Fuel Gas Rates

Staff of the Department of Public Service
Response to Formal Request for Information

Requesting Party: National Fuel Gas Distribution Corporation
Set No.: 5
Request No.: NFG-DPS-228
Responding Witness: Staff Consumer Services Panel
Date of Response: September 16, 2016

Question:
Provide all parameters and terms surrounding all Service Termination/Uncollectible Performance Mechanisms adopted by the Commission.

Response:
This discovery request improperly requires Staff to prepare a study for Distribution. Please see cases 14-E-0493, 14-G-0494, 15-E-0283, 15-G-0284, 15-E-0285, 15-G-0286 and 15-G-0382.

Case 16-G-0257
National Fuel Gas Rates

Staff of the Department of Public Service
Response to Formal Request for Information

Requesting Party: National Fuel Gas Distribution Corporation
Set No.: 5
Request No.: NFG-DPS-241
Responding Witness: Staff Consumer Services Panel
Date of Response: September 16, 2016

Question:
Admit that a Service Termination/Uncollectible Performance Mechanism is not in place for every major gas, electric or combination company in New York.

Response:
Staff admits the truth of this statement of fact.

Case 16-G-0257
National Fuel Gas Rates

Staff of the Department of Public Service
Response to Formal Request for Information

Requesting Party: National Fuel Gas Distribution Corporation
Set No.: 5
Request No.: NFG-DPS-243
Responding Witness: Staff Consumer Services Panel
Date of Response: September 16, 2016

Question:
Explain how Staff and the Commission have historically treated uncollectibles that were determined to be imprudently incurred.

Response:
If Staff believed that uncollectible expense was incurred imprudently, the remedy would be to seek a disallowance. Technical Staff declines to explain how the Commission has historically treated uncollectibles, as that would require legal analysis.

Case 16-G-0257
National Fuel Gas Rates

Staff of the Department of Public Service
Response to Formal Request for Information

Requesting Party: National Fuel Gas Distribution Corporation
Set No.: 5
Request No.: NFG-DPS-244
Responding Witness: Staff Consumer Services Panel
Date of Response: September 16, 2016

Question:
Explain whether an Uncollectible Measure is a necessary measure to ensure “adequate service” or “quality customer service”, and if so why Staff has not publically recommended or the Commission publicly commenced a rulemaking in that regard.

Response:
Please see Staff Response to NFG-DPS-240.

Case 16-G-0257
National Fuel Gas Rates

Staff of the Department of Public Service
Response to Formal Request for Information

Requesting Party:	National Fuel Gas Distribution Corporation
Set No.:	5
Request No.:	NFG-DPS-245
Responding Witness:	Staff Consumer Services Panel
Date of Response:	September 16, 2016

Question:
Explain the reason why Staff is recommending the attachment of significant risk of $590,000 to this recommended measure, when Staff recommends nearly equal risk to the two items Staff identified as most reliable in measuring customer service quality -- Customer PSC Complaints ($600,000) and combined Residential and Non-Residential Satisfaction ($600,000). Why is a newly recommended measure given so much significance?

Response:
For each measure, Staff's recommendation for an amount at risk takes into consideration multiple factors, including, but not limited to: (a) the differential between the target for the measure and the utility's historical performance; (b) the amount needed to focus the attention of utility management on the measure; (c) the costs of achieving the desired result; and (d) the benefits to customers of achieving the desired result. In comparison to existing measures, all else being equal, a new measure may need a larger amount in order to focus the attention of utility management.

Case 16-G-0257
National Fuel Gas Rates

Staff of the Department of Public Service
Response to Formal Request for Information

Requesting Party:	National Fuel Gas Distribution Corporation
Set No.:	5
Request No.:	NFG-DPS-247
Responding Witness:	Staff Consumer Services Panel
Date of Response:	September 16, 2016

Question:
At lines 12-14 on p. 35 of Staff Consumer Services Panel's Prepared Testimony (Staff Testimony), Staff notes, "[i]n 2015, the Company achieved lower terminations level than two and three standard deviations from the normalized average." State whether this could reflect an improvement in customer service in the absence of a Service Termination Performance Mechanism.

Response:
Since all major New York State electric and gas utilities experienced significant reductions in terminations in 2015, Staff is inclined to believe such reductions were due to exogenous factors, most likely recent declines in commodity prices.

Case 16-G-0257
National Fuel Gas Rates

Staff of the Department of Public Service
Response to Formal Request for Information

Requesting Party: National Fuel Gas Distribution Corporation
Set No.: 5
Request No.: NFG-DPS-248
Responding Witness: Staff Consumer Services Panel
Date of Response: September 16, 2016

Question:
Explain Staff's recommendation of using four standard deviations that would in effect punish the Company for recent improvements in customer service through service disconnection reductions.

Response:
As the four standard deviation interval applies only to the positive award for reductions in terminations, it cannot serve as a punishment. The four standard deviation interval would deprive the Company of nothing it would otherwise receive, if the mechanism were not in effect. Rather, this interval is intended to ensure that the Company is not rewarded for a result that already occurred, in the absence of the incentive.

Case 16-G-0257
National Fuel Gas Rates

Staff of the Department of Public Service
Response to Formal Request for Information

Requesting Party: National Fuel Gas Distribution Corporation
Set No.: 5
Request No.: NFG-DPS-249
Responding Witness: Staff Consumer Services Panel
Date of Response: September 16, 2016

Question:
Identify every instance where Staff has recommended the implementation of Service Termination and Uncollectibile Performance Mechanism targets that were other than two standard deviations, explain the rationale for same, and indicate whether the Commission accepted those targets or altered them.

Response:
Cases 16-E-0060 and 16-G-0061.
The remainder of this discovery request improperly requires Staff to develop information for the Company.

Case 16-G-0257
National Fuel Gas Rates

Staff of the Department of Public Service
Response to Formal Request for Information

Requesting Party: National Fuel Gas Distribution Corporation
Set No.: 5
Request No.: NFG-DPS-251
Responding Witness: Staff Consumer Services Panel
Date of Response: September 16, 2016

Question:
Identify and explain the conditions surrounding the filing of quarterly and annual reports to the Commission for other utilities subject to Service Termination/Uncollectible Performance Mechanisms, including any delays in implementation or filing of same that were authorized by the Secretary or the Commission.

Response:
Reporting facilitates monitoring and tracking of the effect of the incentive mechanism. The Panel is not aware of any requests for delays in reporting by any utilities subject to such mechanisms.

Case 16-G-0257
National Fuel Gas Rates

Staff of the Department of Public Service
Response to Formal Request for Information

Requesting Party:	National Fuel Gas Distribution Corporation
Set No.:	8
Request No.:	NFG-DPS 254
Responding Witness:	Staff – Consumer Services Panel
Date of Response:	September 19, 2016

Question:

Has Staff ever analyzed the possibility of assigning low cost Niagara Power Project ("NPP") electricity allocated to in-state investor owned utilities to the low income customers of those utilities?

If yes, please provide the analysis and explain whether Staff had proposed such an allocation in the Energy Affordability Proceeding (Case 14-M-0565).

If no, would Staff agree that allocating low cost NPP electricity to low income customers would reduce the low income customer bills to a more affordable level?

Response:

Office of Consumer Services Staff has not recently analyzed the possibility of assigning low cost Niagara Power Project ("NPP") electricity allocated to in-state investor owned utilities to the low income customers of those utilities, and has not made such a proposal in the Energy Affordability Proceeding (Case 14-M-0565).

The Consumer Services Panel believes that allocating low cost NPP electricity to low income customers offers the possibility of reducing their bills, but cannot state with certainty the anticipated level of affordability that may result from such allocation.

Case 16-G-0257
National Fuel Gas Rates

Staff of the Department of Public Service
Response to Formal Request for Information

Requesting Party: National Fuel Gas Distribution Corporation
Set No.: 10
Request No.: NFG-DPS-259
Responding Witness: Staff - Consumer Services Panel
Date of Response: September 23, 2016

Question:
The first clause in the title of Public Service Law §65 is "Safe and adequate service" and subdivision 1 of that Section requires that gas corporations, electric corporations and municipalities provide such service that is "safe and adequate." Provide all guidance, direction, and instructions used by the Panel to interpret and apply the phrase "safe and adequate service."

Response:

Staff objects to the request as unduly broad. PSL §65 was enacted in 1910, and therefore carries with it more than a century's worth of guidance, direction and instructions. Ensuring "safe and adequate service" at "just and reasonable charges" as described in PSL §65 are furthermore among the central powers and duties of the Commission respecting its regulation of electric and gas corporations, and a full response to this information request is beyond the scope of this proceeding.

Case 16-G-0257
National Fuel Gas Rates

Staff of the Department of Public Service
Response to Formal Request for Information

Requesting Party: National Fuel Gas Distribution Corporation
Set No.: 10
Request No.: NFG-DPS-260
Responding Witness: Staff - Consumer Services Panel
Date of Response: September 23, 2016

Question:
Provide all guidance, direction, and instructions used by the Panel to interpret the meaning of the word “appointment” in regards to Performance Incentive Mechanisms.

Response:
Please refer to Cases 91-M-0500 and 15-M-0566 for guidance interpreting the meaning of the word “appointment” in regards to Performance Incentive Mechanisms.

Case 16-G-0257
National Fuel Gas Rates

Staff of the Department of Public Service
Response to Formal Request for Information

Requesting Party: National Fuel Gas Distribution Corporation
Set No.: 10
Request No.: NFG-DPS-261
Responding Witness: Staff - Consumer Services Panel
Date of Response: September 23, 2016

Question:
Commission regulation recognizes certain matters beyond the utility's control, even excusing utilities from the critical task of reconnecting service to a customer during such periods (see, e.g. 16 NYCRR Part 11.9). Provide any existing Commission documentation relied upon by the Panel related to any utility obligation to credit a customer for a missed appointment, as well as any documentation explaining when utilities are excused from providing such credit.

Response:
Please see Cases 06-M-0878, 12-G-0544, 15-E-0283, 15-G-0284, 15-E-0285, 15-G-0286, 12-E-0201, 12-G-0202, 14-E-0318, and 14-G-0319.

Case 16-G-0257
National Fuel Gas Rates

Staff of the Department of Public Service
Response to Formal Request for Information

Requesting Party:	National Fuel Gas Distribution Corporation
Set No.:	10
Request No.:	NFG-DPS-262
Responding Witness:	Staff – Consumer Services Panel
Date of Response:	September 23, 2016

Question:
At lines 21-23 on p. 37 of Staff Testimony, "the Panel recommends that the Company process credit/debit cards directly." Provide any information in the Panel's possession indicating which utilities process credit and debit card payments with their own employees, and those whose credit and debit card payments are processed by an external service provider.

Response:
Staff objects to the question as irrelevant and immaterial. As stated at lines 19-21 on page 37, "The Panel proposes that the Company socialize the costs of paying bills through third party payment processors." As further stated beginning on line 23 of page 37, in the same sentence as quoted in the above question, through line 1 of page 38, "so residential customers do not incur a fee every time they pay their bill with a credit/debit card." Only when taken out of context could the statement quoted in the above question be misconstrued as suggesting the Company must use its own employees to process credit and debit card payments.

Case 16-G-0257
National Fuel Gas Rates

Staff of the Department of Public Service
Response to Formal Request for Information

Requesting Party:	National Fuel Gas Distribution Corporation
Set No.:	10
Request No.:	NFG-DPS-267
Responding Witness:	Staff – Consumer Services Panel
Date of Response:	September 23, 2016

Question:
To the Panel's knowledge, has Staff quantified the additional costs to low income customers from the state's renewable energy portfolio standards? If yes, please provide the quantifications of the additional costs.

Response:
On April 8, 2016, Staff published a Clean Energy Standard Cost (CES) Cost Study in Case 15-E-0302. The CES represents the state's policy to generate 50% of electricity from renewable resources. "The Study estimates that, even in this period of lower electricity prices due to historically low natural gas prices, New York can meet its clean energy goals with less than a 1% impact on electricity bills (or less than $1 per month for the typical residential customer) in the near term and shows net positive benefit of $1.8 billion by 2023." (Cost Study, page 5).

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
NEW YORK DIVISION
RESPONSE TO UTILITY INTERVENTION UNIT
REQUEST FOR INFORMATION
CASE 16-G-0257

Question

National Fuel Gas's ECOS model initially filed in this case classified distribution mains as partly "demand-related" and partly "customer-related."

a) Please explain in detail what method the Company is using to identify "customer- related" and "demand related" costs (e.g., zero intercept, minimum system, etc.).

b) Please explain why the Company chose the method explained in (a).

Response

a) Please refer to the direct testimony, exhibits and workpapers ("Mains Customer/Demand" and "Mains 4" Allocation) of the Cost of Service and Rate Design Panel. It should be noted that the description of the mains study begins on page 29 of the direct testimony.

   National Fuel Gas Distribution Corporation ("Distribution" or the "Company") performed a regression analysis, which determined that 58.56% was customer related and 41.44% was demand related. The regression analysis produced the zero intercept point, based on the relationship between the radius of the pipe size squared and the average cost per foot.

   The Company utilized minimum size (2" cost/foot) to confirm the reasonability of the zero intercept method. Attachment A to this data request response provides a copy of the minimum size analysis.

b) National Fuel Gas Distribution Corporation chose this methodology to be consistent with the methodology utilized and accepted in the Company's last rate proceeding (07-G-0141).

	A	B	C	D
1	National Fuel Gas Distribution Corporation			
2	New York Division			
3	Mains 376 and 376.1			
4	as of December 31, 2015			
5	query: nfg_am_pltx42zz			
6				
7	Size	Footage	Sum Cost	Ave. Cost/Foot
8	0.999	3,212	1,459.10	0.45
9	1.000	23,392	59,781.30	2.56
10	1.125	26,693	253,958.92	9.51
11	1.250	707,663	10,197,871.21	14.41
12	1.500	10,560	11,292.40	1.07
13	1.625	400	2,459.09	6.15
14	1.999	263	10,821.59	41.15
15	2.000	19,243,579	221,451,095.59	11.51
16	2.500	11,401	5,901.39	0.52
17	3.000	10,395,087	130,809,235.48	12.58
18	3.250	468	125.52	0.27
19	3.500	2	1.52	0.76
20	4.000	10,780,201	123,656,880.65	11.47
21	4.250	2,265	2,308.98	1.02
22	4.875	1,169	617.27	0.53
23	5.000	38,238	22,285.57	0.58
24	5.250	0	-	0.00
25	5.500	645	1,003.29	1.56
26	5.625	60,339	48,717.65	0.81
27	6.000	5,068,618	81,505,680.33	16.08
28	6.250	27,296	35,491.36	1.30
29	6.625	68,813	133,060.75	1.93
30	7.000	5,856	11,890.29	2.03
31	7.625	8,628	2,664.32	0.31
32	8.000	2,532,935	62,155,624.60	24.54
33	8.250	146	2,169.30	14.86
34	9.625	140	181.35	1.30
35	10.000	156,807	4,991,932.11	31.83
36	12.000	648,099	25,083,143.43	38.70
37	14.000	1	436.37	436.37
38	16.000	290,597	24,671,909.25	84.90
39	20.000	240,411	22,358,387.23	93.00
40	24.000	25,748	4,237,609.46	164.58
41		50,379,672	711,725,996.67	14.13
42				
43	All Footage	50,379,672	(1)	
44	Minimum size = 2" cost/foot	11.51	(2)	
45	Cost of all footage @ 2"	$579,870,028.17	(3) = (1) x (2)	
46	Actual Cost	711,725,996.67	(4)	
47	Customer portion	81.47%	(5) = (3) / (4)	
48				

Witness: COSRD Panel

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
NEW YORK DIVISION
RESPONSE TO UTILITY INTERVENTION UNIT
REQUEST FOR INFORMATION
CASE 16-G-0257

Question

At page 21 of its Rebuttal Testimony, the Company's Cost of Service and Rate Design Panel refers to the Company's 1994 rate case (Case 94-G-0885). Please provide a copy of all initial testimony, rebuttal testimony, supporting exhibits, and all briefs the Company submitted in that case.

Response

Please refer to the response to data request UIU-VII-82. As stated in that data request response, the Consumer Protection Board ("CPB") was a party in the referenced case and was provided the requested information in that case. As such, the requested information should already be in the possession of the Utility Intervention Unit ("UIU").

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
NEW YORK DIVISION
RESPONSE TO INTERROGATORY/DOCUMENT REQUEST
CASE 16-G-0257

1. Reference Exhibit (KAF) sheet 2 of 2, lines 1 through 8. Provide the same information for the three fiscal years 9/30/2010, 9/30/2011 and 9/30/2012.

Response:

Please see page 3 for requested information.

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
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2. For question 1 above, provide a breakdown of all line items between residential, commercial and industrial customers. Provide the information in the same format as Exhibit (KAF) Sheet 2 of 2, including the net write-off calculations.

Response:

Please see page 3 for customer breakdown of net write-offs (gross write-offs less sales tax, recoveries, and other), revenues and uncollectible expense calculation.

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
NEW YORK DIVISION
RESPONSE TO INTERROGATORY/DOCUMENT REQUEST
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NATIONAL FUEL GAS DISTRIBUTION CORPORATION
NEW YORK DIVISION
UNCOLLECTIBLE EXPENSE
NET WRITE-OFF : TOTAL GROSS WRITE-OFFS LESS SALES TAX, RECOVERIES & OTHER
RETAIL & TRANSPORTATION REVENUE

Net Write-Off By Retail Revenue Type	FY 2010	FY 2011	FY 2012	FY 2013	FY2014	FY2015 (5)
Gross Write-Offs Less Sales Tax (GWO) (1)						
Residential	$22,113,038	$16,960,019	$16,907,610	$14,820,507	$14,122,947	$23,623,144
Commerical	$571,233	$373,027	$354,688	$259,156	$286,962	$680,356
Industrial	$2,315	$27,015	$0	$1,293	$4,152	$488
Public Authority	$0	$22	$608	$15	$258	$356
	$22,686,586	$17,360,083	$17,262,906	$15,080,971	$14,414,319	$24,304,344
Recoveries (2)						
Residential	Not Available	$8,043,520	$9,793,640	$9,255,721	$8,619,807	$8,959,965
Commerical	Not Available	$119,381	$85,069	$107,361	$95,088	$86,611
Industrial	Not Available	$1,532	$173	$0	$0	$1,889
Public Authority	Not Available	$59	$0	$602	$0	$256
	$9,261,407	$8,164,492	$9,878,882	$9,363,684	$8,714,895	$9,048,721
Other (Allocated) (3)						
Residential	Not Available	$380,172	$285,954	$196,409	$172,924	$463,059
Commerical	Not Available	$10,815	$10,838	$5,358	$6,029	$18,750
Industrial	Not Available	$1,087	-$7	$46	$130	-$44
Public Authority	Not Available	-$2	$24	-$21	$8	$3
	$467,198	$392,072	$296,809	$201,792	$179,091	$481,768
Net Write-Off						
Residential	Not Available	$8,536,327	$6,828,016	$5,368,377	$5,330,216	$14,200,120
Commerical	Not Available	$242,831	$258,781	$146,437	$185,845	$574,995
Industrial	Not Available	$24,396	-$166	$1,247	$4,022	-$1,357
Public Authority	Not Available	-$35	$584	-$566	$250	$97
	$12,957,981	$8,803,519	$7,087,215	$5,515,495	$5,520,333	$14,773,855

Revenue Breakdown - Prior Fiscal Year	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY2014
Retail Revenue						
Residential	$559,850,735	$400,484,725	$417,678,285	$341,626,887	$356,687,568	$419,476,352
Commerical	$64,326,467	$44,141,598	$44,267,341	$34,079,318	$37,633,337	$44,848,776
Industrial	$3,352,442	$3,124,117	$3,278,212	$3,043,843	$3,366,248	$1,183,813
Public Authority	$7,405,281	$5,079,242	$5,267,703	$4,021,130	$4,225,587	$5,255,063
Total Retail Revenue	$634,934,925	$452,829,682	$470,491,541	$382,771,178	$401,912,740	$470,764,004
Transportation Revenue (4)						
Residential	$39,880,149	$39,219,703	$39,365,406	$41,766,049	$43,901,646	$46,010,415
Commerical	$27,104,646	$26,354,601	$28,222,779	$27,363,883	$29,034,483	$31,781,615
Industrial	$13,053,784	$13,388,402	$14,018,727	$13,204,815	$13,496,516	$14,655,259
Public Authority	$10,752,337	$10,662,584	$11,271,674	$9,975,623	$10,667,705	$11,848,225
Total Transportation Revenue	$90,790,915	$89,625,290	$92,878,586	$92,310,370	$97,100,350	$104,295,513
Total Retail & Transp. Revenue						
Residential	$599,730,884	$439,704,428	$457,043,691	$383,392,936	$400,589,214	$465,486,767
Commerical	$91,431,113	$70,496,199	$72,490,120	$61,443,201	$66,667,820	$76,630,391
Industrial	$16,406,226	$16,512,519	$17,296,939	$16,248,658	$16,862,764	$15,839,072
Public Authority	$18,157,618	$15,741,826	$16,539,377	$13,996,753	$14,893,292	$17,103,288
Total Retail & Transp. Revenue	$725,725,840	$542,454,972	$563,370,127	$475,081,548	$499,013,090	$575,059,517

Uncollectible Expense Calculation		RATE YEAR 2018				
	Retail Revenue	Transp. Revenue	Total			
Residential	$371,889,846	$46,163,217	$418,053,063			
Non-Residential	$37,057,793	$68,740,874	$105,798,667			
Total Retail & Transportation Revenue	$408,947,639	$114,904,091	$523,851,730			
	FY 2010	FY 2011	FY 2012	FY 2013	FY2014	FY2015 (5)
Net Write-Off Factor	1.79%	1.62%	1.26%	1.16%	1.11%	2.57%
3 Year Fiscal Average			1.58%			1.67%
						RATE YEAR 2018
Times (X) Forecasted Retail & Transportation Revenues						$523,851,730
Uncollectible Expense						$8,748,000

(1) Source: KAIN0033, allocations were made to revenue class for the following items: management decisions-severe weather, shared meter (to exclude), POR write-offs (to exclude) and one-time bad debt transfer normalizing adjustment.
(2) Source: KAIN0711, allocations were made for the following items: sales tax and supplier balance returns (to exclude) to revenue class by weighting as a percent of total.
(3) Allocated to revenue class based upon weightings as a percent of total net write-offs (gross write-offs less sales tax less recoveries).
(4) Capacity and other adjustments were allocated to revenue class by weightings as a percent of total.
(5) Includes normalizing adjusting entry of $6,178,096 to reflect planned additional one-time write-off of previous years' bad debt transfer recoveries. This entry is expected to be booked in the May 2016 closing and is a result of enhanced functionality of the new customer billing system.

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
NEW YORK DIVISION
RESPONSE TO DEPARTMENT OF PUBLIC SERVICE
REQUEST FOR INFORMATION
CASE 16-G-0257

Question

Per the Company's (UFR-27) Attachment 5, the table shows Barcelona Project AWD for $410,000.

1.) Provide the amount and the cost element charged (Labor, Information Services, etc.) in the Company's filing where $410,000 amount is accounted for.

2.) Provide the total Barcelona Project Award for Calendar Year 2015 and any allocations to each affiliated companies. Provide the amounts allocated to each affiliated company and the method of allocation. Provide all studies, workpapers, calculations, descriptions and explanations.

3.) Are these Barcelona Project awards expected to be paid in the Rate Year? If yes, explain and describe the rational and reasoning. Provide the amount of the Barcelona Award in the Rate Year Expenses for New York Distribution.

Response

1) The $410,000 for Barcelona Project awards is charged to Labor. Please see Exhibit___(RMFA-2), Schedule 1, Page 1.

2) The total amount paid for Barcelona Project Awards for Calendar Year 2015 was $520,000. There was $410,000 of Barcelona Project awards attributable to Distribution NY and $110,000 attributable to Distribution PA. There were no amounts allocated to any other affiliated companies.
   The project awards were made to Barcelona employees for the following reasons:
   - The demand on Barcelona employees and their families was extraordinary.
     - Vacations were deferred for an extended period.
     - Team employees were required to, and did, work many weekends and extraordinarily long hours, including over holiday weekends, producing consecutive work periods extending, at times, over weeks.
     - It is a general practice to award additional compensation to salaried project team members on CIS or other major

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
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capital projects when the project employees are engaged in a similar effort over an extended period of time..

- o Project fatigue was a concern of management, but the project schedule prevented restoration of ordinary work hours, so management determined that the team members should be additionally compensated in recognition of their efforts.

3) An additional award was granted to Barcelona team members following successful achievement of the in-service date for the significant time and effort undertaken for implementation, and over the entirety of the project. Although there are no current plans for Barcelona Project Awards in the Rate Year, it is the company's occasional practice to award employees for their extraordinary efforts and significant workload on other projects, should the need arise.

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
NEW YORK DIVISION
RESPONSE TO INTERROGATORY/DOCUMENT REQUEST
CASE 16-G-0257

Re: Uncollectible Expense

This is a follow up to DPS-9 (RMD) and DPS-156 (RMD).

1) Provide a copy of the $6,178,096 normalization adjustment referred to in DPS-9 and DPS-156.

2) Indicate the date that the $6,178,096, accounting entry in DPS 9, question 7, was recorded on the Company's books.

3) Provide a screen shot of the Company's trial balance before and after the accounting entry.

Response:

As previously stated, the normalizing adjustment that was utilized represents a one- time adjustment of projected write-off amounts of the current active and final bill balance of previous bad debt transfers recoveries required by the implementation of the new SAP billing system, net of other recoverable taxes. The actual one-time adjustment may involve multiple accounting entries. These entries are expected to be booked in the month of July 2016 and will be available once the month July of 2016 is closed. I would expect this to occur after mid August. At that time, I will forward you a copy of the actual entries and the date that they were booked as requested.

Witnesses: Crahen

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
NEW YORK DIVISION
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Question

Referring to page 16 of Mr. Crahen's testimony, "Beginning with the implementation phase of the audit and extending beyond… Distribution will continue to refine implementation costs of recommendations" in the Data Audit, Case 13-M-0314:

Please clarify whether any implementation costs resulting from the recommendations made by Overland Consulting in the Data Audit are reflected in Distribution's filing. Are there any costs included? If so, identify in what cost element these costs are reflected in the filing, and submit an itemized list of these costs.

Response

There were no costs included in National Fuel Gas Distribution Corporation's rate filing pertaining to the implementation of recommendations made in Case 13-M-0314.

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
NEW YORK DIVISION
RESPONSE TO DEPARTMENT OF PUBLIC SERVICE
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CASE 16-G-0257

Question

1. Does National Fuel Gas Company have plans for any equity issuance(s) during the rate year ending March 31, 2018? If so, how much?

Response

1. No, National Fuel Gas Company does not have any plans for any equity issuances during the rate year ending March 31, 2018.

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
NEW YORK DIVISION
RESPONSE TO DEPARTMENT OF PUBLIC SERVICE
REQUEST FOR INFORMATION
CASE 16-G-0257

Question:

1) Provide a copy of the Company's functional obsolescence filing for the 2017 Tax Roll / Assessment Year.

2) When available, provide a copy of the ORPTS award letter for the functional obsolescence filing for the 2017 Tax Roll / Assessment Year.

Response:

1) See attached.

2) The Company will provide a copy of the ORPTS award letter for the functional obsolescence filing for the 2017 Tax Roll / Assessment Year when available.

National Fuel Gas Distribution Corporation
Application for an Adjustment for Functional Obsolescence

I. Introduction

National Fuel Gas Distribution Corporation ("National Fuel" or "the company") is applying for an adjustment to its Reproduction Cost New Less Physical Depreciation ("RCNLD") value indicator for the 2017 assessment year. National Fuel has excess capacity and costs in its gas distribution system and an impaired ability to earn a return on its distribution property because of the decline of the economy in Western New York. Without an adjustment for functional obsolescence, the RCNLD assessment would substantially overstate the value of National Fuel's taxable property.

National Fuel is requesting an adjustment of 26% for functional obsolescence for excess capacity and costs in its distribution mains. A taxpayer is entitled to an allowance for functional obsolescence upon a showing that such obsolescence exists within the property. 20 CRR-NY § 8197-2.8. Functional obsolescence exists when the system capability or efficiency is impaired due to the failure of the property to meet needs, or where there is excess operating capacity or efficiency. *See 20 CRR-NY § 8197-2.8.* The adjustment for functional obsolescence was determined by re-sizing mains in the company's distribution system.

II. Context of Functional and Economic Obsolescence

The causes of functional obsolescence in National Fuel's gas distribution assets lie in the unique attributes of the company's service territory. The industrial base of western New York imploded in the 1970s and 1980s. Customer loads migrated and changed within the service territory. The gas supply changed from local production wells, manufactured gas and Appalachian production to cross country pipelines from the southwest United States and western Canada. National Fuel's distribution system has evolved over time, though always with the goal of meeting the present and future needs of its service territory. But because of the intervening factor of the shifting gas supply, most of the infrastructure built to bring gas to market from local production wells and manufactured gas plants is obsolete, and a significant portion of the existing system's mains can be downsized and still meet the existing customer loads. The loss of the industrial base means that large diameter pipelines installed in many parts of the service territory to accommodate industrial loads are no longer required to serve the customers in those areas.

National Fuel serves a 4,900 square mile franchise area which includes the cities of Buffalo and Niagara Falls, among others located in Erie and Niagara Counties. The region of New York in which National Fuel operates is frequently referred to as the "Rust Belt," because what was once a thriving industrial area with large steel companies, among other manufacturers, is now characterized by the absence of those employers. The economy of western New York, and especially the Buffalo and Niagara Falls metropolitan areas, suffered a level of devastation that is unique in the history of the United States. In the late 1970s and early 1980s, the industrial base was decimated, as manufacturers went out of business, cut back operations, or moved to different parts of the country. Bethlehem Steel, Republic Steel, Westinghouse Electric Company, Union Carbide Corporation, Trico Products, Occidental Chemical Corporation, and Harrison Radiator Company are among the once-household names that went out of business or left the area during that period. (A more complete listing is available in Appendix 1.) The lost jobs numbered in the tens of thousands.

Any loss of a large industrial facility ripples through a region's economy. For example, in the mid-1980s, approximately 22,000 manufacturing jobs were lost at Bethlehem Steel, which impacted other industries that were dependent upon production at Bethlehem Steel, such as Hanna Furnace Corporation, Shenango Ingot Molds, and Donner-Hanna Coke Corporation. This ripple effect repeated multiple times as other large industrial employers such as Republic Steel also closed during the same time period. Appendix 2 has aerial photos that illustrate the physical magnitude of the loss of these facilities. The photos show Bethlehem Steel and Republic Steel facilities in 1951, and in the present, where there is nothing left of the facilities but bare ground.

Manufacturing employment has plummeted from the levels seen in the 1970s. In 1970, there were nearly 180,000 manufacturing jobs in the Buffalo-Cheektowaga, New York combined statistical area ("B-C CSA"). In 2014, there were less than 59,000, a staggering loss of close to 121,000 jobs, nearly 36,000 of which have been lost since 2000.[1] Not surprisingly, population and personal income in the B-C CSA have also fallen or failed to keep pace with the state as a whole. In 1970, the population of the B-C CSA was just under 1.45 million. By 2014, the population was just over 1.2 million, a decrease of over 15%. In contrast, the population of New York state grew by over 8% during the same period.[2] Per capita personal income for the B-C CSA lagged per capita income for New York state during the entire period of 1970-2014. However, the gap in per capita income widened over time. In 1970, per capita income for New York state was approximately 19% higher than per capita income for the B-C CSA. By 2014, per capita income for New York state was nearly 29% higher than per capita income for the B-C CSA.[3]

[1] Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce, Series CA25/CA25N.

[2] Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce, Series SA2 and CA2.

[3] Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce, Series SA3 and CA3.

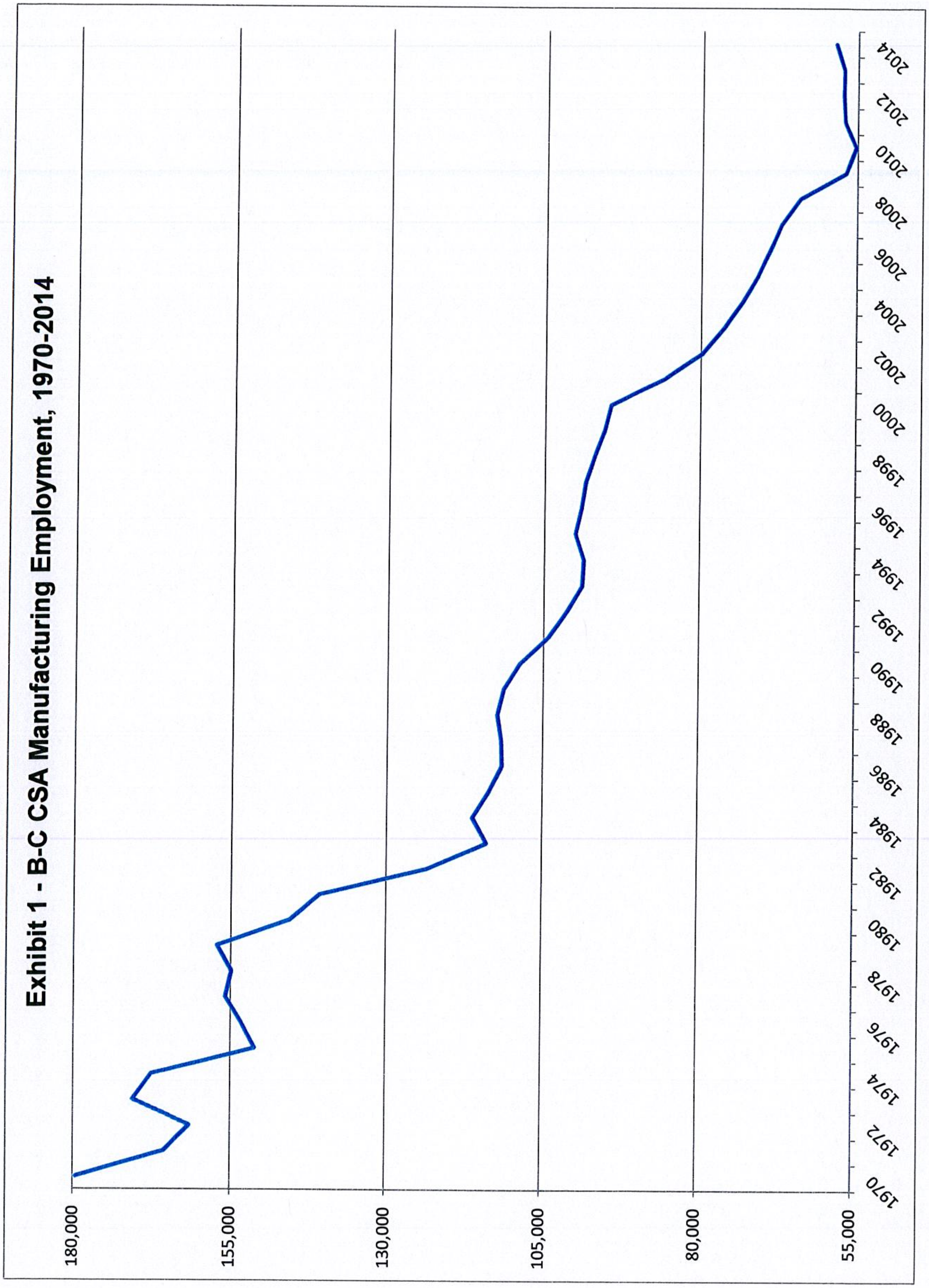


Exhibit 1 - B-C CSA Manufacturing Employment, 1970-2014
180,000
155,000
130,000
105,000
80,000
55,000
1970
1972
1974
1976
1978
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
2010
2012
2014

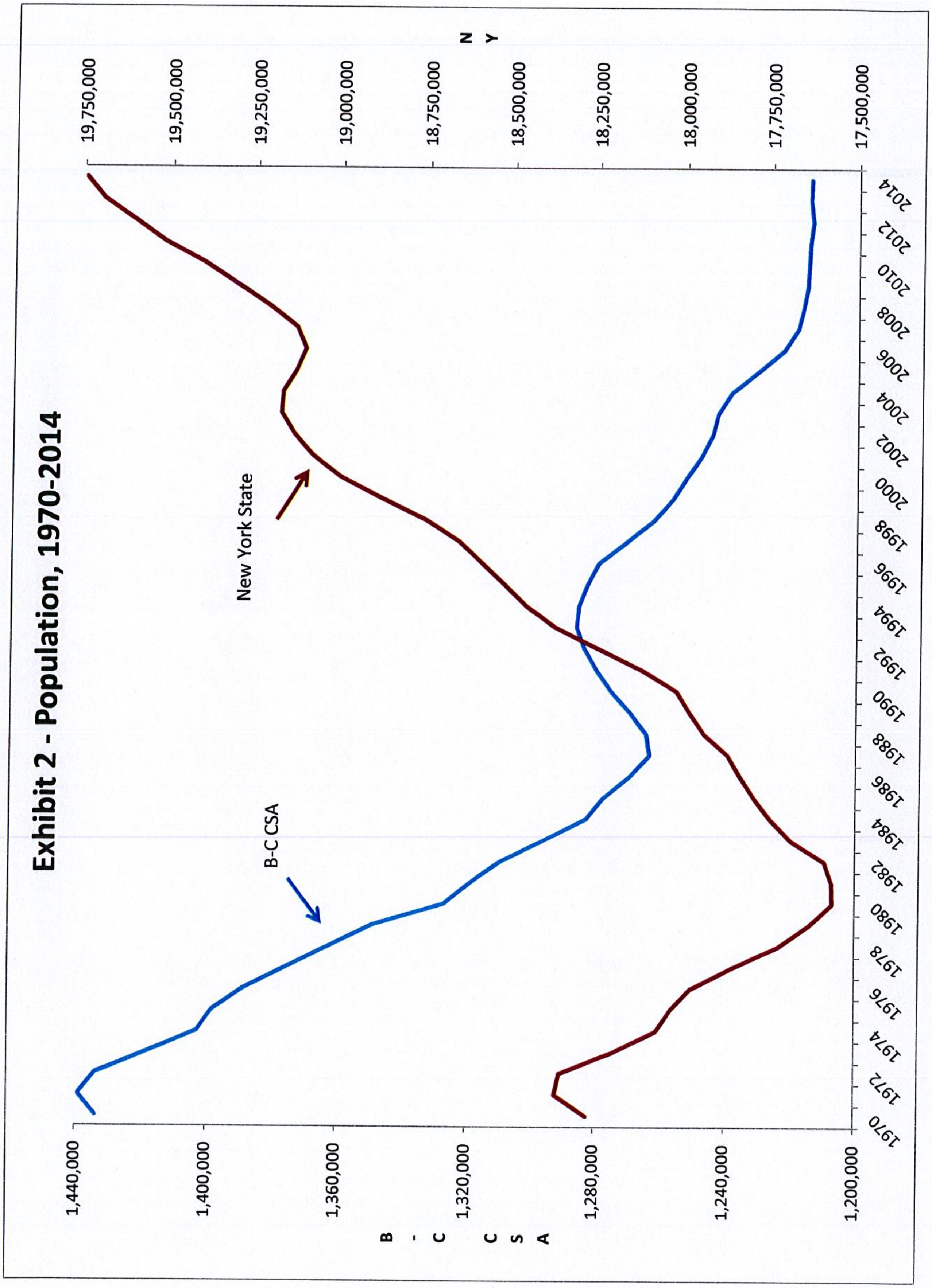


Exhibit 2 - Population, 1970-2014
New York State
B-C CSA
B-C CSA
1,440,000
1,400,000
1,360,000
1,320,000
1,280,000
1,240,000
1,200,000
NY
19,750,000
19,500,000
19,250,000
19,000,000
18,750,000
18,500,000
18,250,000
18,000,000
17,750,000
17,500,000
1970
1972
1974
1976
1978
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
2010
2012
2014

The steep decline in Exhibit 1 is a powerful illustration of what happened to western New York's economy over the past thirty or so years. Manufacturing jobs were more than halved, and those lost jobs caused hardship for tens of thousands of families. Even today, the economic conditions of western New York diverge from those of the state as a whole. The gap between per capita personal income for the B-C CSA and New York state has widened. And, as Exhibit 2 shows, while New York State has experienced steep and steady gains in population, the B-C CSA has been losing population ratably at almost the same pace.

National Fuel's role as a public utility means that the business shortfalls of other companies will negatively affect its own revenue and profit levels. It is a reality of the business world that a company's growth and capacity utilization will not always meet expectations. Although there are a number of sources of revenue loss, National Fuel's potential for revenue growth is comparatively more limited. The residential market is 85% saturated, and load requirements have decreased over time from conservation and increasing energy efficiency of appliances that use natural gas.

National Fuel conducted a residential market study in 2004, to gauge its residential market share and the potential for increasing its market share. Among households in National Fuel's service territory, 85% use natural gas in their homes, an impressive statistic considering alternative fuel supplies such as oil, propane, electric, coal, and wood. However, of the 15% of households not using natural gas, only 30% were near existing natural gas facilities. Even for those households which are located near natural gas facilities, monetary contributions required to make the facilities available deter potential customers from switching to natural gas. In an area of declining population like western New York, the opportunities for expansion are extremely limited, and in fact, the company has had a net loss in residential accounts between 2001 and 2015.

In addition to the loss of residential customers, National Fuel has forecasted declining usage by existing residential customers in the future, due to energy efficiency and conservation. Customers will use less gas over time for equivalent functions and temperature comfort levels because of changes in construction standards and increased efficiency in natural gas furnaces and other gas appliances. High efficiency furnaces can convert 95% of the heating value of natural gas into space heat, as compared to 80% for a standard furnace. The Company's residential customers are converting to more energy efficient space heating equipment. In fact, the Company has implemented, with Public Service Commission approval, a "conservation incentive program" which provides various financial incentives (rebates) to customers for installing energy efficient appliances. As 97% of the residential customers use natural gas as their primary source of heat, and given that the average furnace has a service life of 17 years, approximately 28,000 furnaces are replaced annually. The modest cost difference between 95% efficient furnaces and 80% efficient furnaces is recovered relatively quickly, this incentivizing the purchase of high efficiency furnaces.

III. Functional Obsolescence

A. Excess capacity

National Fuel has functional obsolescence in its gas mains by virtue of excess capacity. National Fuel's gas utility plant includes mains of a diameter which exceeds that necessary for the company's gas distribution requirements. National Fuel could distribute the same volume of gas using mains of a smaller diameter. The excess capacity in the gas mains constitutes obsolescence, as property with lower capacity could accomplish the same distribution level.

Because of the loss of industry and population in its service territory, as well as due to the increased efficiency of furnaces and appliances, National Fuel has been experiencing declines in throughput. Exhibit 3 shows normalized (adjusted for variations in weather) natural gas consumption (MCF) for residential, commercial, and industrial users for calendar years 1974 through 2015. The volumetric variance by user category between 1974 and 2015, as well as the variance expressed as a percentage, is shown at the bottom of the schedule. The industrial category, (Column 3, "Industrial") shows a decline of over 54% of natural gas consumption between 1974 and 2015. The natural gas consumption losses result primarily from industrial customers either closing or significantly reducing production at their facilities, as was discussed in Section II. For example, Bethlehem Steel had a plant in Lackawanna, which once consumed approximately 10 million Mcf per year. Bethlehem Steel and the plant are no longer in existence.

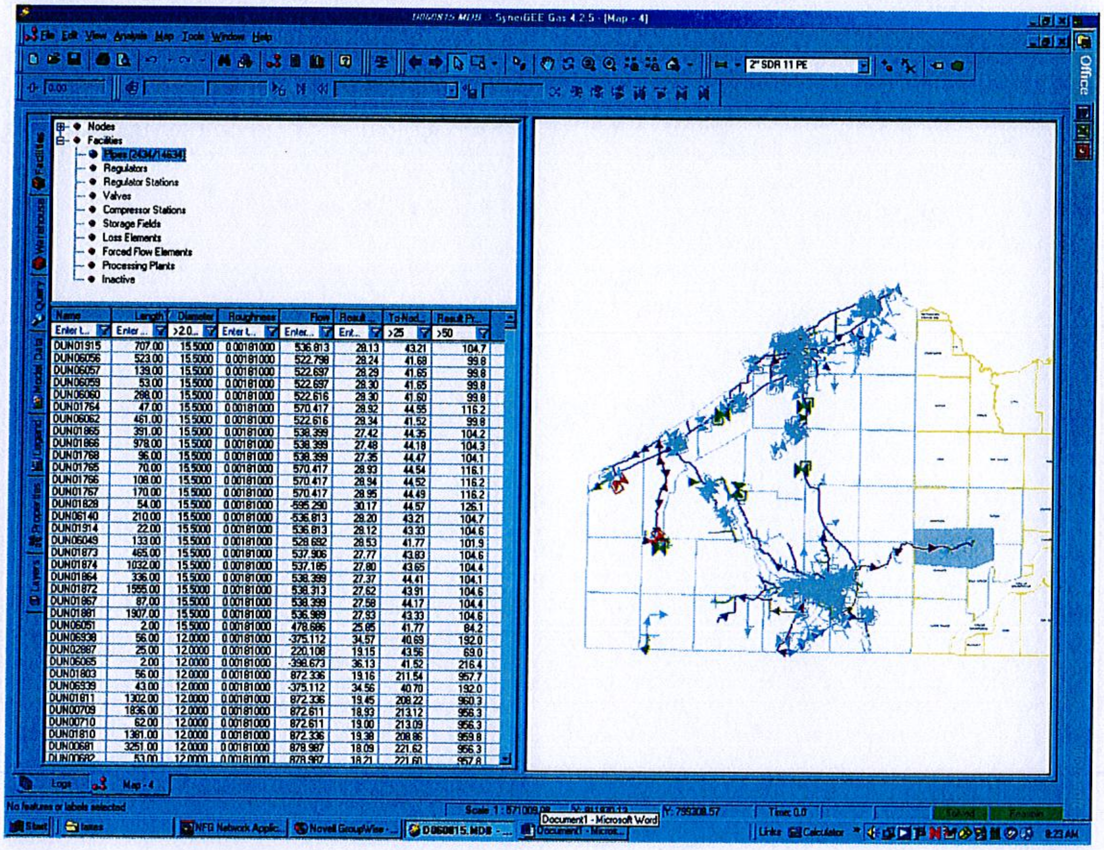
In examining the justification for an adjustment for functional obsolescence due to excess capacity, certain presumptions apply. The design of National Fuel's gas distribution system, including any subsequent changes and additions, is presumed to be reasonable and prudent at the time the system or additions were placed into service. However, the current and projected future usage within National Fuel's system so consistently falls short of the system capacity so as to substantiate ongoing functional obsolescence.

The key cause of excess capacity in National Fuel's gas distribution system is the decline of the western New York economy, both in terms of that region's industrial base and locally produced natural gas. However, the sources of natural gas which National Fuel distributes to its customers have also shifted significantly since the inception of the company's distribution plant.

Before 1950, National Fuel distributed gas from local manufactured gas plants and gas wells, as well as from production fields in the Appalachian region. Accordingly, the early design of the system was predicated upon local supplies of gas. After 1950, natural gas became available through pipelines from Texas and Oklahoma production fields, and subsequently from production fields in western Canada. The Republic Steel photos in Appendix 2 show an example of this shift, as the manufactured gas plant marked on the 1951 photo is no longer in existence. The shift in gas supply required major changes to transmission and distribution infrastructure. Among other changes, the gas transmission mains from the pre-1950 local supply system could be converted to smaller distribution lines.

B. Measurement of Obsolescence from Excess Capacity

To quantify this excess capacity, National Fuel modeled the volume of its gas distribution system and examined the flow in each pipe. National Fuel used GL Noble Denton's SynerGEE (Stoner) software to perform the modeling, which is the same software that is used for the company's distribution system design and planning. SynerGEE is an industry standard software for natural gas utilities. A screenshot from the SynerGEE program is shown below:



The company loaded its entire transmission and distribution network into the SynerGEE software, updated the customer loads and built a new peak day model (temperature of nine degrees below zero). The company modeled the flow required on a peak day, plus 5% for growth. The mains were then re-sized, given the modeled peak volume, including 5% for growth.

In the modeling, National Fuel observed the following parameters: 1) the model assumed the existing design and layout of the system; 2) the model re-sized the system using the same materials, but changed the diameter of the pipes; and 3) the model considered the entire medium-pressure and low-pressure systems. The inventory used in the model included the length and location for each pipe. The model only re-sized pipes with diameters greater than two inches.

The amount of the adjustment for functional obsolescence was determined by comparing the total Reproduction Cost New (RCN) for the system after re-sizing to the total RCN for the system before re-sizing. An average RCN per foot for each pipe diameter size was estimated by National Fuel's engineering department. The difference between the total RCN for the existing pipes and re-sized pipes was divided by the total RCN for the existing pipes to arrive at a percentage adjustment.

The following is a listing of the exhibits used to calculate the functional obsolescence adjustments.

Exhibit 4 - Existing Footages by Pipe Size.
Exhibit 5 - Replacement Footages by Pipe Size.
Exhibit 6 - Obsolescence Adjustment by Pipe Size.

A summary of the functional obsolescence calculation is provided in Exhibit 6. A 26% obsolescence percentage was established in the entire network. Therefore, the total functional obsolescence adjustment to be applied to all main accounts is 26%.

III. Conclusion

Because of the excess capacity and costs in the gas distribution system an unadjusted RCNLD would significantly overstate the value of the plant. National Fuel respectfully asks that ORPTS grant its requested adjustment for functional obsolescence of 26%.

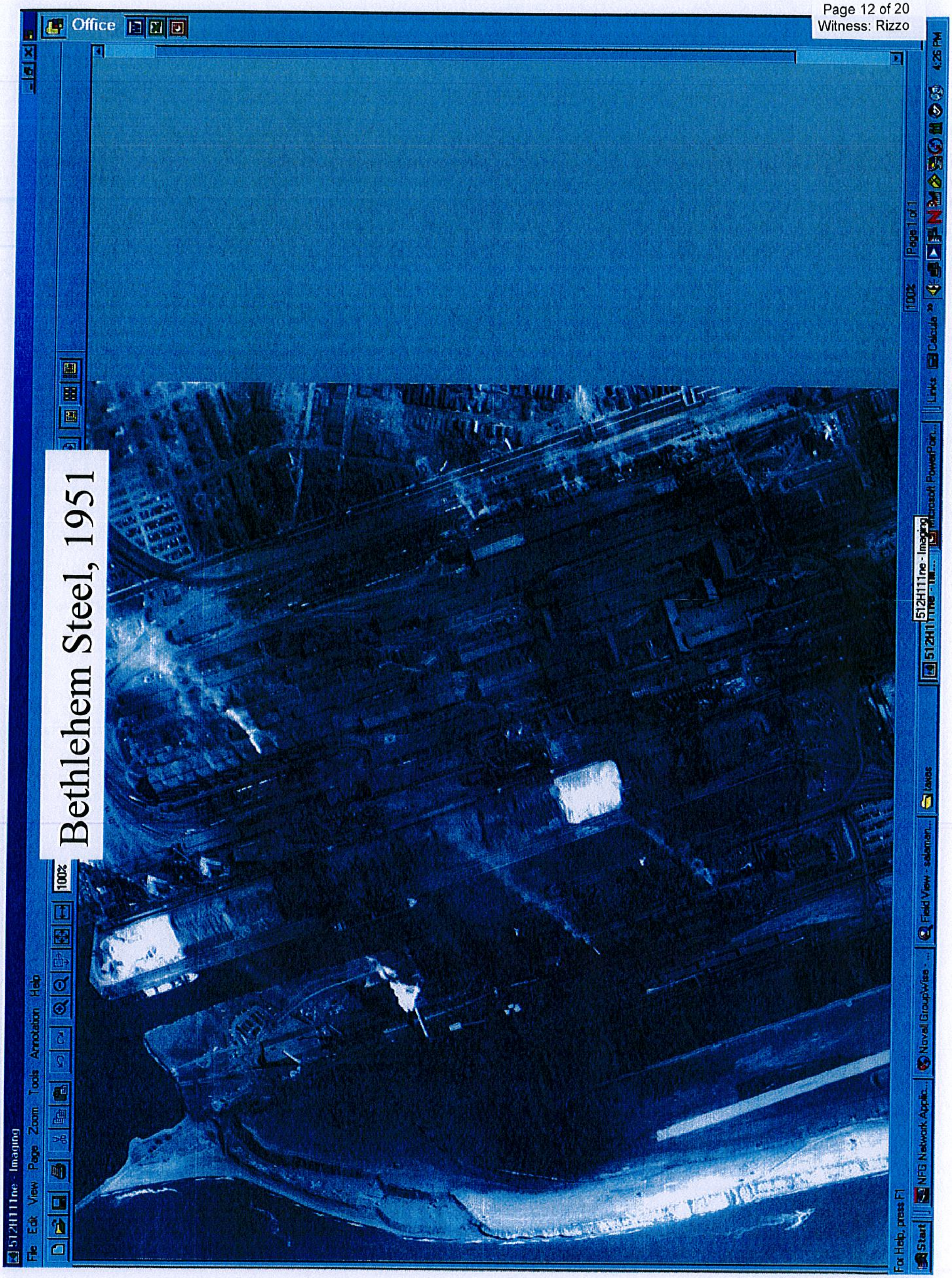
Appendix 1: Plant Cutbacks / Closings

Manufacturing / processing	Manufacturing / processing (continued)
American Axle	Occidental Chemical Corporation
American Sales (Ahold)	Petri Baking Products
American Sterilizer Co.	Pfieffer Foods
Buffalo Courier Express	Pratt and Lambert
Buffalo Malting Company	Pratt and Letchworth
Bush Industries	Quad/Graphics, Inc.
Carriage House	The Stroh Brewery Company
Chemours	Trico Products
Continental Automotive Systems	Tyson Foods
Contract Pharmaceuticals Limited	Union Carbide Corporation
Curtiss Wright (Buffalo Airport Center)	Western Electric
Daltile Company	Westinghouse Electric
Dresser Industries	Westwood/Squib Pharmaceuticals, Inc.
Freezer Queen	Worthington Division Compressors
Georgia Pacific Corporation	
Great Lakes Color Printing Corp.	
Great Lakes MDF	Steel / iron / other metalwork
H C Brill Company	
Harrison Radiator Company	Arcelor Mittal
Henkel Corporation	Atlas Steel Casting
Kittinger Furniture	Bethlehem Steel
Kraft Foods	Buffalo Forge Co.
Mentholatum Company	Dahlstrom Manufacturing
Muller Quaker Dairy	Donna-Hanna Coke Corporation
National Grinding	Gibraltar Industries
New Buffalo Shirt Factory	Hanna Furnace Corporation
Niagara Ceramics	Republic Steel
NRG Energy Huntley Station	Roblin Steel Company
	Shenango Ingot Molds
	U.S. Steel Supply
	Vesuvius Corporation

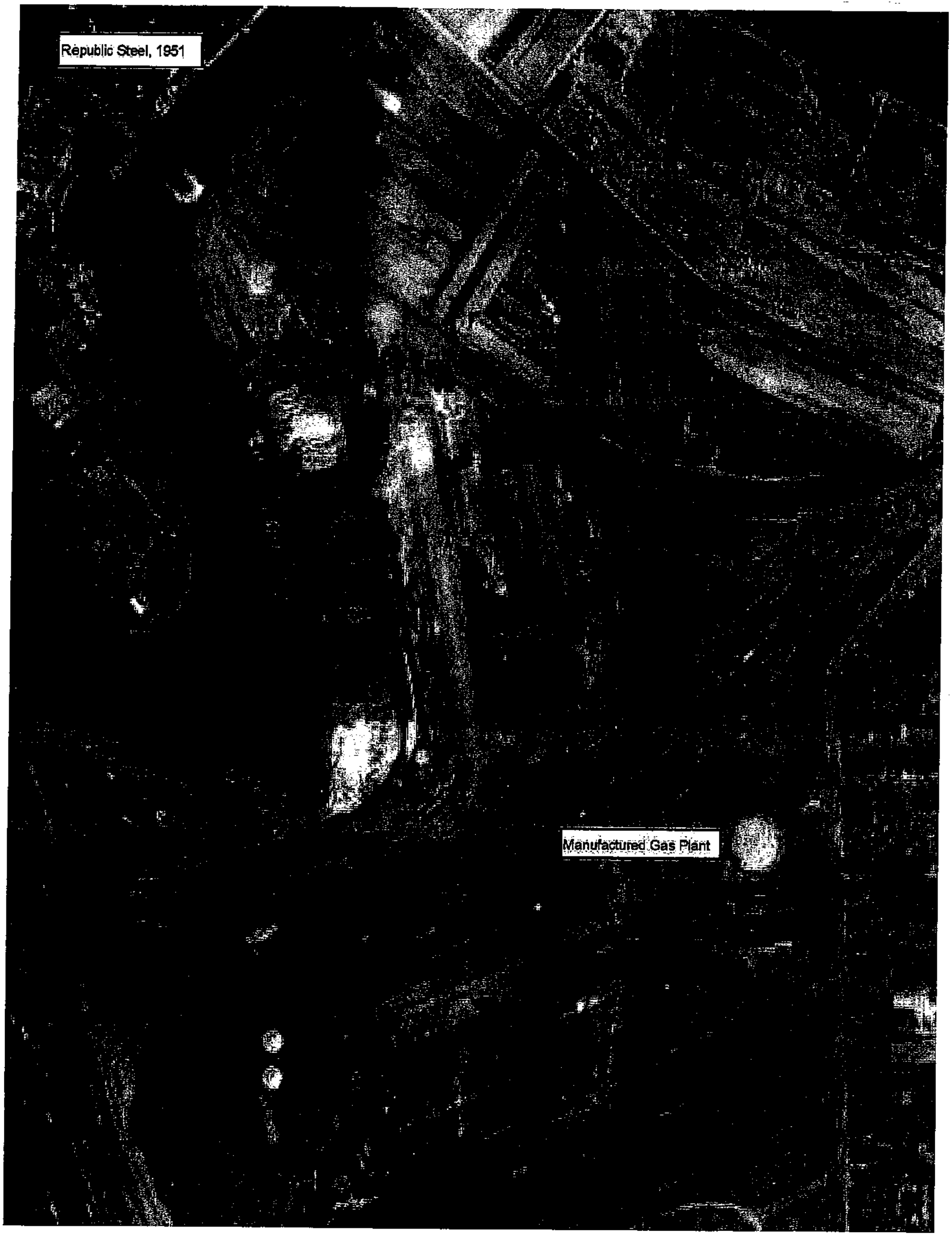
Appendix 2:
Aerial Photographs

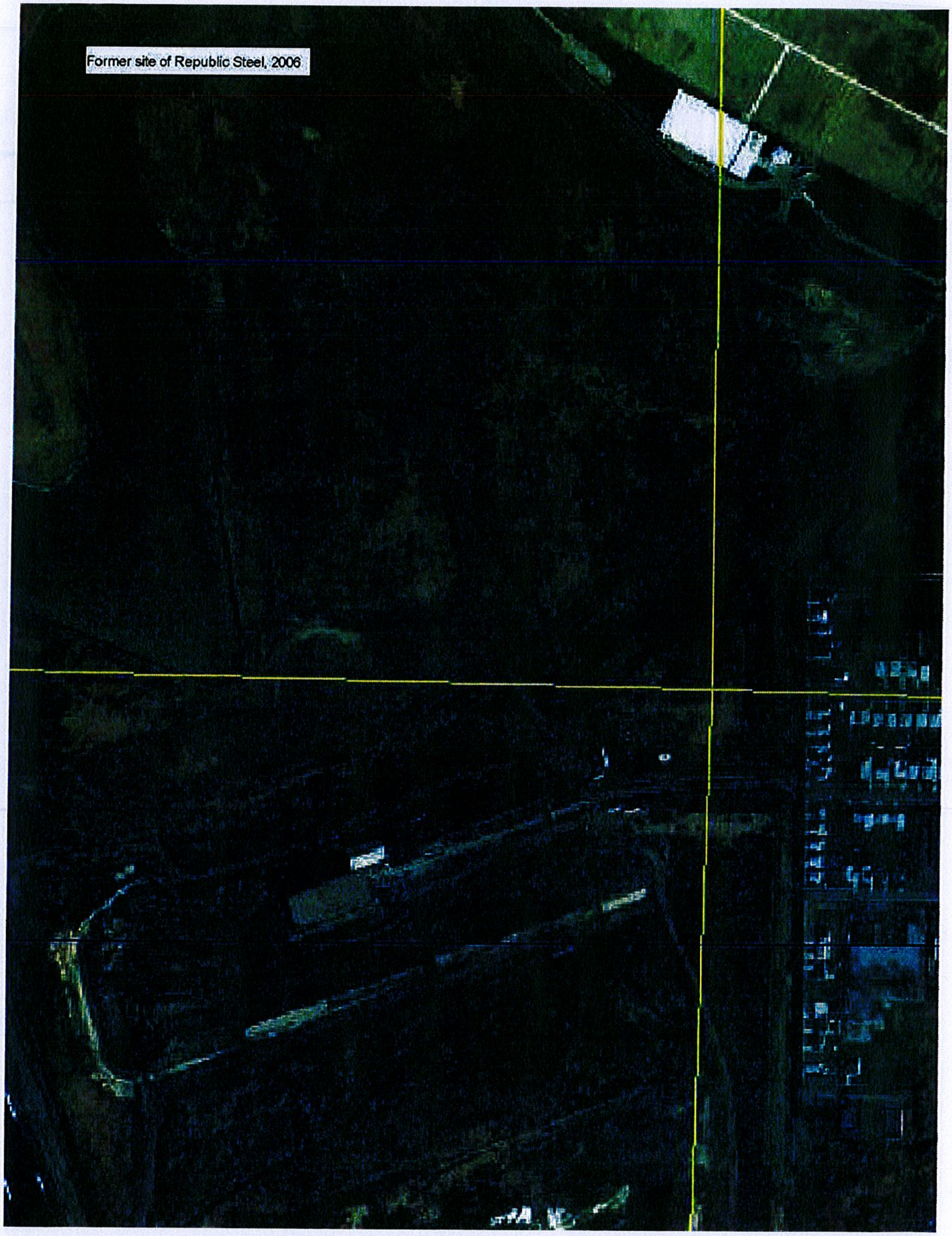
1. Site of Bethlehem Steel, 1951
2. Former site of Bethlehem Steel, 2006
3. Site of Republic Steel, 1951
4. Former site of Republic Steel, 2006

DPS-224
Page 12 of 20
Witness: Rizzo




Former Site of Bethlehem Steel
Traffic
Map
Satellite
Hybrid
©2007 Google - Imagery ©2007 New York GIS, DigitalGlobe, Map data ©2007 NAVTEQ™ - Terms of Use
1000 ft
200 m
32
Blasdell
Internet
Links
Calculator
Google ...
Novell Gro...
Mail From: ...
Query Vie...
8:39 AM


Republic Steel, 1951
Manufactured Gas Plant


Former site of Republic Steel, 2006

Appendix 3:
Distribution Pipe Costs
12/31/2015

Pipe Size	Steel Pipe	Plastic Pipe
1"	$13	$8
2"	$22	$16
3"	$35	$25
4"	$47	$33
6"	$68	$50
8"	$92	$68
10"	$119	$87
12"	$141	$106
16"	$182	
20"	$242	
24"	$323	

Exhibit 3

National Fuel Gas Distribution Corporation
New York Division
Throughput Volumes (MCF)
Calendar Years 1974 - 2015

Year	Residential	Commercial	Industrial	Total	Industrial less Cogen	Cogeneration	Total less Cogen
1974	77,564,275	25,268,424	40,077,951	142,910,650	40,077,951		142,910,650
1979	70,343,180	22,656,388	34,285,874	127,285,442	34,285,874		127,285,442
1984	59,982,718	21,300,545	19,120,769	100,404,032	19,120,769		100,404,032
1989	61,057,934	23,087,695	19,750,168	103,895,797	19,750,168		103,895,797
1994	61,568,983	24,436,224	33,075,808	119,081,015	20,834,391	12,241,417	106,839,598
1995	58,997,386	24,513,646	32,193,214	115,704,246	21,409,373	10,783,841	104,920,405
1996	62,223,473	25,849,975	32,543,494	120,616,942	22,947,336	9,596,158	111,020,784
1997	61,141,161	26,449,352	29,837,793	117,428,306	22,675,761	7,162,032	110,266,274
1998	58,318,714	25,413,924	27,309,677	111,042,315	19,065,255	8,244,422	102,797,893
1999	57,699,259	25,588,050	28,776,415	112,063,724	22,288,919	6,487,496	105,576,228
2000	58,512,301	26,462,095	27,280,218	112,254,614	22,492,535	4,787,683	107,466,931
2001	57,134,340	25,301,198	25,002,253	107,437,791	20,646,334	4,355,919	103,081,872
2002	55,861,124	25,201,880	24,700,879	105,763,883	20,650,190	4,050,689	101,713,194
2003	56,233,937	25,035,287	22,149,859	103,419,083	18,469,909	3,679,950	99,739,133
2004	54,630,444	24,881,065	20,115,668	99,627,177	17,388,416	2,727,252	96,899,925
2005	52,099,003	25,001,116	18,403,861	95,503,980	16,529,168	1,874,693	93,629,287
2006	51,082,997	24,662,394	17,074,232	92,819,623	15,878,090	1,196,142	91,623,481
2007	51,775,814	25,110,492	17,119,367	94,005,673	16,116,227	1,003,140	93,002,533
2008	51,256,266	24,979,454	16,354,374	92,590,094	15,548,199	806,175	91,783,919
2009	49,636,243	23,828,623	14,011,105	87,475,971	13,354,562	656,543	86,819,428
2010	48,397,901	23,342,464	14,596,490	86,336,855	13,720,006	876,484	85,460,371
2011	50,234,107	24,326,718	15,198,051	89,758,876	14,237,394	960,657	88,798,219
2012	49,708,820	24,298,250	15,633,097	89,640,167	14,066,806	1,566,291	88,073,876
2013	51,157,053	24,797,590	15,806,892	91,761,535	14,549,123	1,257,769	90,503,766
2014	52,213,025	25,319,461	18,371,292	95,903,778	16,910,187	1,461,105	94,442,673
2015	51,218,565	24,936,973	18,223,367	94,378,905	16,345,384	1,877,983	92,500,922
1974 v. 2015	*(26,345,710)*	*(331,451)*	*(21,854,584)*	*(48,531,745)*	*(23,732,567)*		*(50,409,728)*
1974 v. 2015 (%)	*-34.0%*	*-1.3%*	*-54.5%*	*-34.0%*	*-59.2%*		*-35.3%*

Exhibit 4
Existing Pipe Footages
National Fuel Gas Distribution Corporation

Material Type	1" Pipe	2" Pipe	3" Pipe	4" Pipe	6" Pipe	8" Pipe	10" Pipe	12" Pipe	16" Pipe	20" Pipe	24" Pipe	Total
Plastic (P1)	515,570	10,230,414	4,662,314	2,234,381	1,185,885	539,538	66,518	42,922	-	-	-	19,477,542
Plastic (P2)	187,881	3,991,498	1,482,008	1,043,099	421,228	195,461	7,316	6,820	-	-	-	7,335,311
Subtotal	703,451	14,221,912	6,144,322	3,277,480	1,607,113	734,999	73,834	49,742	-	-	-	26,812,853
Steel (S1)	35,801	2,297,327	2,635,549	5,541,418	2,674,766	1,515,936	83,143	740,682	270,528	203,810	28,622	16,027,582
Steel (S2)	16,889	1,572,844	1,720,739	2,089,741	1,255,100	775,967	66,973	94,966	18,198	29,320	-	7,640,737
Subtotal	52,690	3,870,171	4,356,288	7,631,159	3,929,866	2,291,903	150,116	835,648	288,726	233,130	28,622	23,668,319
Total System Footages	**756,141**	**18,092,083**	**10,500,610**	**10,908,639**	**5,536,979**	**3,026,902**	**223,950**	**885,390**	**288,726**	**233,130**	**28,622**	**50,481,172**

Note: (P1), (P2), (S1) and (S2) are references to worksheets in the Excel detail file for existing pipe.

Exhibit 5
Replacement Pipe Footages
National Fuel Gas Distribution Corporation

Material Type	1" Pipe	2" Pipe	3" Pipe	4" Pipe	6" Pipe	8" Pipe	10" Pipe	12" Pipe	16" Pipe	20" Pipe	24" Pipe	Total
Plastic (P1)	515,570	15,423,731	2,208,603	421,159	585,620	156,010	117,199	49,650	-	-	-	19,477,542
Plastic (P2)	187,881	5,916,770	724,213	157,397	280,852	48,752	12,237	7,209	-	-	-	7,335,311
Subtotal	703,451	21,340,501	2,932,816	578,556	866,472	204,762	129,436	56,859	-	-	-	26,812,853
Steel (S1)	35,801	7,890,489	3,731,966	1,100,738	1,502,667	982,295	346,092	329,228	104,319	3,987	-	16,027,582
Steel (S2)	16,889	4,343,073	1,443,025	605,918	770,206	319,423	101,694	38,510	1,999	-	-	7,640,737
Subtotal	52,690	12,233,562	5,174,991	1,706,656	2,272,873	1,301,718	447,786	367,738	106,318	3,987	-	23,668,319
Total System Footages	**756,141**	**33,574,063**	**8,107,807**	**2,285,212**	**3,139,345**	**1,506,480**	**577,222**	**424,597**	**106,318**	**3,987**	**-**	**50,481,172**

Note: (P1), (P2), (S1) and (S2) are references to worksheets in the Excel detail file for replacement pipe.

Exhibit 6
Obsolescence Adjustment by Pipe Type and Size
National Fuel Gas Distribution Corporation

Material	Size	Footage	Replacement Footage	Price (Appendix 3)	RCN	Modified RCN	Difference	%
Plastic	1"	703,451	703,451	$8	5,627,608	5,627,608	-	0%
Plastic	2"	14,221,912	21,340,501	$16	227,550,592	341,448,016	-113,897,424	-50%
Plastic	3"	6,144,322	2,932,816	$25	153,608,050	73,320,400	80,287,650	52%
Plastic	4"	3,277,480	578,556	$33	108,156,840	19,092,348	89,064,492	82%
Plastic	6"	1,607,113	866,472	$50	80,355,650	43,323,600	37,032,050	46%
Plastic	8"	734,999	204,762	$68	49,979,932	13,923,816	36,056,116	72%
Plastic	10"	73,834	129,436	$87	6,423,558	11,260,932	-4,837,374	-75%
Plastic	12"	49,742	56,859	$106	5,272,652	6,027,054	-754,402	-14%
Subtotal		26,812,853	26,812,853		$636,974,882	$514,023,774	$122,951,108	19.30%
Steel	1"	52,690	52,690	$13	684,970	684,970	-	0%
Steel	2"	3,870,171	12,233,562	$22	85,143,762	269,138,364	-183,994,602	-216%
Steel	3"	4,356,288	5,174,991	$35	152,470,080	181,124,685	-28,654,605	-19%
Steel	4"	7,631,159	1,706,656	$47	358,664,473	80,212,832	278,451,641	78%
Steel	6"	3,929,866	2,272,873	$68	267,230,888	154,555,364	112,675,524	42%
Steel	8"	2,291,903	1,301,718	$92	210,855,076	119,758,056	91,097,020	43%
Steel	10"	150,116	447,786	$119	17,863,804	53,286,534	-35,422,730	-198%
Steel	12"	835,648	367,738	$141	117,826,368	51,851,058	65,975,310	56%
Steel	16"	288,726	106,318	$182	52,548,132	19,349,876	33,198,256	63%
Steel	20"	233,130	3,987	$242	56,417,460	964,854	55,452,606	98%
Steel	24"	28,622	-	$323	9,244,906	0	9,244,906	100%
Subtotal		23,668,319	23,668,319		$1,328,949,919	$930,926,593	$398,023,326	29.95%
Total Transmission and Distribution Network					**$1,965,924,801**	**$1,444,950,367**	**$520,974,434**	**26.50%**
					Requested Functional Obsolescence Adjustment			**26%**

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
NEW YORK DIVISION
RESPONSE TO DEPARTMENT OF PUBLIC SERVICE
REQUEST FOR INFORMATION
CASE 16-G-0257

Question

1. Provide Exhibit_(CFP-5) Sheet 1 in Excel format with the relevant notes (CFP-2, Sheet 3 did not have notes).

2. On page 19 of the Company Finance Panel Rebuttal Testimony it is stated "It must be noted that the common equity ratio used to determine rates frequently differs from that of the actual capital structure of the entity or its parent." Is it true that on Exhibit_(CFP-1), each parent company either had ring-fencing measures in place or the parent's common equity ratio was above 48% at the time of the Order? If not, explain.

3. Is National Fuel Gas Company going to restate the common equity balance for the quarter ended June 30, 2016 to reflect current oil and gas prices? If so, what will the equity balance be?

4. Page 26, lines 8 through 10, the Company Finance Panel asks "Staff raises the specter of a Parent bankruptcy throughout their testimony, implying that the Parent is financially weak and is in threat of bankruptcy. Do you agree?" Identify where in the testimony the Staff Finance Panel states the Parent is in threat of bankruptcy.

5. Page 5, lines 9 through 11, the Company Finance Panel states "…how little rating agencies and other major stakeholders rely on capital structure in the evaluation of a company's overall risk and financial stability."

   a) Do Moody's and S&P use capital structure as a factor in their evaluations of a regulated utility?
   b) Explain the statement on page 14, lines 17 through 19, "No, in our experience, neither S&P nor Moody's uses current or expected capital structure as a significant factor in their evaluations of the Parent's credit rating."

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Response

1. Please refer to Company responses to interrogatory DPS-222 for Exhibit-(CFP-5) which includes a correction on the footnote to refer to Exhibit_(CFP-5), Sheet 3 for notes.

2. The Company Finance Panel's rebuttal testimony states, "the common equity ratio used to determine rates frequently differs from that of the actual capital structure of the entity or its parent." Based on fact that the Company Finance Panel is not stating that each company's common equity ratio differs from its authorized amount, this discovery request improperly requires the Company to develop information and/or prepare a study for Staff.

   With that being said, the Company Finance Panel has reviewed select capital structure data available from Bloomberg Finance LP for several parent companies that operate natural gas and/or electric utilities in the State of New York. A summary of that data is included below:

NYS Utility Company	Parent Company	Case Number	Date Approved	Equity Ratio Authorized	Parent Equity Ratio	Parent Equity Ratio Date
Orange & Rockland Utilities Inc.	Consolidated Edison Inc.	14-G-0494	Oct-2015	48.0%	49.3%	9/30/15
Central Hudson Gas & Electric Corp.	Fortis Inc.	14-G-0319	June-2015	48.0%	44.0%	3/31/15
National Fuel Gas Distribution Corp.	National Fuel Gas Company	13-G-0136	May-2014	48.0%	58.2%	3/31/14

Note: All equity ratios calculated for the parent were based on the available data for the quarter that ended immediately preceding the approval date of each specific case.

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While the Company cannot fully answer this question in its entirety because this discovery request improperly requires the Company to develop information and/or prepare a study for Staff, the Company can address this question related to the three companies included in the table. It is true that the parent common equity ratio differed from the 48.0% authorized in their most recent rate proceedings. It is also true that these common equity layers can be either above or below the authorized 48.0%.

3. No, National Fuel Gas Company will not restate its common equity balance for the quarter ended June 30, 2016 to reflect current oil and gas prices due to U.S. Securities and Exchange Commission ("SEC") rules prohibiting that.

   Specifically, the rebuttal testimony states:

   > "Q. If there is a ceiling test "cushion", can the value of the Parent's assets be written up to reflect current pricing?
   >
   > A. No, the ceiling test required by the SEC is a one-way street"

   For further information, the Company Finance Panel's rebuttal testimony summarizes the SEC rules on oil and gas accounting and includes Exhibit_(CFP-3) and Exhibit_(CFP-4) that provide additional detail on these rules.

4. Within Staff's discussion of ring-fencing mechanisms, and in conjunction with their inclusion of how credit rating agencies view those types of mechanisms in evaluating a company's credit rating, they make two statements that refer to the phrase "bankruptcy".

   On pages 37 and 38 of Staff's testimony, they state the following:

   > "The holder of the golden share would be independent of the Holding Company and its affiliates, and would prevent a bankruptcy

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> of the parent, or any of its affiliates, from triggering a voluntary bankruptcy of Distribution."

Additionally, on pages 38 and 39 of their testimony, Staff states the following:

> Moody's December 23, 2013 "Rating Methodology for Electric and Gas Utilities," contained in Exhibit___(FP-6), states that, "The greatest separateness occurs where strong regulatory insulation is supplemented by effective ring-fencing provisions that fully separate management and operations of the OpCo (operating subsidiary) from the rest of the family and limit the parent's ability to cause the OpCo to commence bankruptcy proceedings as well as limiting dividends and cash transfers."

With these comments, Staff raised the mere "specter" of bankruptcy in order to support the claim that a golden share was necessary. A specter is defined as a ghost or something that haunts or perturbs the mind (a phantasm).Staff could not actually refer to a threat of bankruptcy because there isn't any. Consequently, there isn't any need for a golden share.

5.

a) As the Company Finance Panel states in its rebuttal testimony on pages 14 through 19, Moody's includes book capital structure in their financial analysis, but applies a small 7.5% weighting to it in their overall calculation of a company's credit rating. Also, S&P's analysis for a regulated utility does not focus on capital structure. From a financial standpoint, S&P utilizes its Corporate Methodology (Exhibit__(CFP-7) which focuses cash flow metrics to assess the financial condition of a company.

   It is possible, that in the assessment of a company's regulatory framework, its authorized capital structure used to determine the overall rate of return may be evaluated. However, a company's actual reported capital structure has little impact to Moody's overall analysis and, based on S&P's methodology, no impact in its analysis.

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b) Page 18 of the Company Finance Panel's rebuttal testimony states, "there is limited emphasis placed on a company's capital structure in the ratings process. In fact, in their most recent credit opinions on NFG, neither firm has included a discussion of either ceiling test impairments or the Parent's capital structure. The only mention of the Parent's capital structure is by Moody's when it states the details of a covenant contained in the Parent's committed credit facility. See Staff Exhibit_(FP-8) and Exhibit_(FP-10) for Moody's and S&P's most recent credit opinions, respectively."

Additionally, we meet with the rating agencies annually, at a minimum, to review the Company's business plans and financial forecast. During these meetings, capital structure has not been a focus of our discussions or their overall analysis. In fact, the Company has explicitly asked in early 2015, prior to the start of the recent ceiling test impairments, whether or not this would impact our rating on a standalone basis. All three agencies advised the Company that capital structure carries little to no weight in their determination of our credit rating. They indicated that cash flow and interest coverage metrics carry far greater weight.

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
NEW YORK DIVISION
RESPONSE TO DEPARTMENT OF PUBLIC SERVICE
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Question

Capital Budgeting and Piping Retirement

1) Referencing page 50 of House's rebuttal testimony, is it the Company's common practice to add extra money to certain budget items like leak prone pipe removal to make up for shortfalls in other budget items?

2) Identify the reasons for plastic, steel and iron piping retirements over the past three years? Specify the percentage of the total piping in each subaccount of account 376 that was retired in each manner identified.

Response

1) No. The Company prepares its capital budget as outlined in its response to UFR-84. For each budget area the Company forecasts spending levels that it will need to accomplish its goals and complete known and anticipated work, based on historical spending and anticipated price changes. To the extent that the anticipated work changes during the year, the Company may make adjustments in spending levels among the various budget areas.

2) See attached.

Retirements by Material Type and Reason

Appropriation Description	Material	2013 Footage	2013 %	2014	2014	2015	2015
Active Corrosion	15001 - Mains Stl Bare Unprot	1,384	43.0%	1,906	55.3%	5,251	93.1%
	15002 - Mains Pipe Plastic	880	27.3%	1,112	32.3%	64	1.1%
	15003 - Mains Pipe Cast Iron		0.0%	430	12.5%		0.0%
	15007 - Mains Stl Coated Prot	955	29.7%		0.0%	326	5.8%
Active Corrosion Total		3,219		3,448		5,641	
Cast Iron Replacement	15001 - Mains Stl Bare Unprot	1,925	4.0%	2,836	5.7%	7,026	13.6%
	15002 - Mains Pipe Plastic	1,114	2.3%	1,237	2.5%	1,066	2.1%
	15003 - Mains Pipe Cast Iron	43,698	91.7%	42,132	84.6%	39,988	77.4%
	15004 - Mains Pipe Wrgt Iron	138	0.3%	157	0.3%	2,716	5.3%
	15005 - Mains Pipe Epy-Fbr-Gl	10	0.0%		0.0%		0.0%
	15007 - Mains Stl Coated Prot	772	1.6%	3,438	6.9%	848	1.6%
Cast Iron Replacement Total		47,657		49,800		51,644	
Customer Interruptions - Water	15001 - Mains Stl Bare Unprot	25,760	82.2%	64,678	79.8%	68,075	75.3%
	15002 - Mains Pipe Plastic	3,351	10.7%	6,228	7.7%	7,840	8.7%
	15003 - Mains Pipe Cast Iron	1,890	6.0%	5,166	6.4%	650	0.7%
	15004 - Mains Pipe Wrgt Iron	39	0.1%	114	0.1%		0.0%
	15007 - Mains Stl Coated Prot	316	1.0%	4,814	5.9%	13,888	15.4%
	15008 - Mains Stl Coated Unpro		0.0%	73	0.1%		0.0%
Customer Interruptions - Water Total		31,356		81,073		90,453	
New Mains - Cust Extensions	15001 - Mains Stl Bare Unprot				0.0%	305	12.2%
	15002 - Mains Pipe Plastic			281	98.9%	1,702	68.3%
	15003 - Mains Pipe Cast Iron				0.0%	363	14.6%
	15007 - Mains Stl Coated Prot			3	1.1%	121	4.9%
New Mains - Cust Extensions Total				284		2,491	
Plastic Failure Replacement	15001 - Mains Stl Bare Unprot	1,310	14.3%		0.0%		0.0%
	15002 - Mains Pipe Plastic	7,742	84.6%	4,194	96.7%	3,733	100.0%
	15007 - Mains Stl Coated Prot	94	1.0%	145	3.3%		0.0%
Plastic Failure Replacement Total		9,146		4,339		3,733	
System Improvement	15001 - Mains Stl Bare Unprot	10,633	54.5%	7,849	72.0%	2,970	46.4%
	15002 - Mains Pipe Plastic	2,515	12.9%	880	8.1%	366	5.7%
	15003 - Mains Pipe Cast Iron	75	0.4%		0.0%	1,546	24.1%
	15004 - Mains Pipe Wrgt Iron	2,159	11.1%	615	5.6%	892	13.9%
	15007 - Mains Stl Coated Prot	4,144	21.2%	1,564	14.3%	629	9.8%
System Improvement Total		19,526		10,908		6,403	
Public Improvement	15001 - Mains Stl Bare Unprot	30,650	60.7%	17,649	63.5%	18,812	52.5%
	15002 - Mains Pipe Plastic	13,509	26.8%	4,915	17.7%	10,309	28.8%
	15003 - Mains Pipe Cast Iron		0.0%	88	0.3%		0.0%
	15004 - Mains Pipe Wrgt Iron		0.0%		0.0%	2,966	8.3%
	15005 - Mains Pipe Epy-Fbr-Gl	1,081	2.1%		0.0%		0.0%
	15007 - Mains Stl Coated Prot	5,213	10.3%	5,126	18.5%	3,688	10.3%
	15008 - Mains Stl Coated Unpro		0.0%		0.0%	42	0.1%
Public Improvement Total		50,453		27,778		35,817	
Replacements	15001 - Mains Stl Bare Unprot	179,571	83.2%	184,567	86.0%	187,104	84.1%
	15002 - Mains Pipe Plastic	8,864	4.1%	7,065	3.3%	16,824	7.6%
	15003 - Mains Pipe Cast Iron	4,628	2.1%	5,864	2.7%	3,158	1.4%
	15004 - Mains Pipe Wrgt Iron	14,599	6.8%	5,987	2.8%	9,731	4.4%
	15005 - Mains Pipe Epy-Fbr-Gl		0.0%	168	0.1%		0.0%

	15006 - Mains Stl Bare Prot	1,083	0.5%	3,241	1.5%		0.0%
	15007 - Mains Stl Coated Prot	6,276	2.9%	7,624	3.6%	5,575	2.5%
	15008 - Mains Stl Coated Unpro	696	0.3%		0.0%	43	0.0%
	Replacements Total	**215,717**		**214,516**		**222,435**	
Systematic Replacement	15001 - Mains Stl Bare Unprot	43,410	80.3%	126,642	85.7%	113,218	82.2%
	15002 - Mains Pipe Plastic	3,111	5.8%	8,401	5.7%	6,053	4.4%
	15003 - Mains Pipe Cast Iron	3,321	6.1%	3,524	2.4%	6,550	4.8%
	15004 - Mains Pipe Wrgt Iron	4,082	7.6%	6,134	4.1%	7,774	5.6%
	15007 - Mains Stl Coated Prot	112	0.2%	2,924	2.0%	4,182	3.0%
	15008 - Mains Stl Coated Unpro		0.0%	197	0.1%		0.0%
	Systematic Replacement Total	**54,036**		**147,822**		**137,777**	
Town / Village / Boro Reimb	15002 - Mains Pipe Plastic	194	100.0%				
	Town / Village / Boro Reimb Total	**194**					
County Reimbursement	15007 - Mains Stl Coated Prot					101	
	County Reimbursement Total					**101**	
State Reimbursement	15002 - Mains Pipe Plastic	678	100.0%				
	15007 - Mains Stl Coated Prot			1,251	100.0%		
	State Reimbursement Total	**678**		**1,251**			
Other Reimbursement	15001 - Mains Stl Bare Unprot	724	24.5%	2,719	59.2%		0.0%
	15002 - Mains Pipe Plastic	1,208	40.8%	1,180	25.7%	1,465	83.1%
	15007 - Mains Stl Coated Prot	1,029	34.8%	697	15.2%	298	16.9%
	Other Reimbursement Total	**2,961**		**4,596**		**1,763**	
Retire without Replace - Oth	15001 - Mains Stl Bare Unprot	46,993	76.0%	14,317	61.3%	23,388	56.9%
	15002 - Mains Pipe Plastic	7,152	11.6%	4,782	20.5%	7,048	17.2%
	15003 - Mains Pipe Cast Iron	2,283	3.7%	748	3.2%	2,692	6.6%
	15004 - Mains Pipe Wrgt Iron	240	0.4%	399	1.7%	3,060	7.5%
	15007 - Mains Stl Coated Prot	5,009	8.1%	3,096	13.3%	4,851	11.8%
	15008 - Mains Stl Coated Unpro	142	0.2%		0.0%	30	0.1%
	Retire without Replace - Oth Total	**61,819**		**23,342**		**41,069**	
Grand Total		496,762		569,157		599,327	

Witness: Koch

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
NEW YORK DIVISION
RESPONSE TO DEPARTMENT OF PUBLIC SERVICE
REQUEST FOR INFORMATION
CASE 16-G-0257

Question

On page 10 of Koch's rebuttal, the Company states that the total estimated cost of the Barcelona project will be $60,000,000. Please explain the discrepancy between the $60,000,000 given in rebuttal and the $59,311,000 estimate in IRs DPS-65 and DPS-87.

Response

The estimate of $59,311,000 given in IRs DPS-65 and DPS-87 were based on estimated project costs as of April 2016.

As responded to in DPS-158, after the system was implemented on May 9, 2016 the company lowered its projected actual total capital costs from $65 million to $60 million. New York Distribution's 71% share of project costs results in $42.6 million. Of the $42.6 million, $38.2 million was put in service as of May, 2016 with the remaining $4.4 million estimated to be put in service at March 31, 2017.

Case 16-G-0257
National Fuel Gas Rates

Staff of the Department of Public Service
Interrogatory/Document Request

Request No.:	DPS-228 (SMA)
Requested By:	Scott McAdoo
Date of Request:	September 22, 2016
Reply Due Date:	September 27, 2016
Witness:	John J Spanos
Subject:	Depreciation Reserve, Average Service Life and Net Plant Model

1. Has Gannett Fleming conducted depreciation studies for other New York utilities in the last five years? If so, identify each case.

2. If Gannett Fleming has conducted depreciation studies for other New York utilities, has it recommended that the depreciation expense accrual be specifically tied out in that company's net plant model used to set delivery rates?

3. On page 20, starting on line 11 of Spanos' rebuttal, the Company states that early vintage plastic piping are leak prone. Does the Company agree that the plastic mains account should be divided into two subaccounts to reflect the retirement of the early vintage plastic piping?

Response:

1) Yes. The table below identifies recent depreciation studies performed by Gannett Fleming for other New York utilities.

Company	Depreciation Studies
Consolidated Edison of NY	13-E-0030, 13-G-0031, 13-S-0032, 15-E-0050, 16-E-0060, 16-G-0061
New York State Electric & Gas / Rochester Gas and Electric	15-E-0283, 15-E-0285, 15-G-0284, 15-G-0286
Orange and Rockland	14-E-0493, 14-G-0494
SUEZ New York	16-W-0130
Central Hudson Electric and Gas	14-E-318, 14-G-0319

2) Generally speaking, Gannett Fleming does not recommend Company practices for setting delivery rates of New York Utilities as compared to depreciation expense. In many cases, the Depreciation Study is conducted at a different date so the depreciation rates are applied to the test year balance.

3) First, on page 20, line 11 of Spanos Rebuttal, it is not stated that early vintage plastic piping are leak prone. The testimony starting on Line 11 through 13, discusses replacement of plastic pipe for a variety of reasons.

Second, the Company does not agree that plastic mains should be divided into two subaccounts to reflect the retirement of early vintage plastic piping. Plastic pipe is a homogeneous asset class and all forces of retirement should be considered, without isolating one factor of retirement. Proper life estimation considers historical analyses as well as informed judgment. In the case of plastic pipe, a full life cycle has not occurred as yet except for the early generation plastic. There is no known information that is available to determine all of the potential forces of retirement during the full life cycle. Life estimation does not only include physical life characteristics. All knowledgeable sources at this time anticipate average lives for plastic to range from 50 – 70 years.

Respondent Name (witness or panel): ____________________________

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
NEW YORK DIVISION
RESPONSE TO DEPARTMENT OF PUBLIC SERVICE
REQUEST FOR INFORMATION
CASE 16-G-0257

Question
On page 9 of Company witness Rizzo's rebuttal testimony, he claims that the Staff Accounting Panel's proposed adjustments to depreciation and uncollectible expense were not properly reflected in the current and deferred tax calculation included in Staff Exhibit (SAP-1), Schedule 3 of 10.

Identify the specific corrections needed to Schedule 3 (Federal and State Income Tax) along with an explanation for each proposed change.

Response

As stated in my rebuttal testimony on page 9, Staff Accounting Panel's proposed adjustments were not properly reflected in the current and deferred tax calculation included in Staff Exhibit_(SAP-1), Schedule 3 of 10. Specifically, Staff's proposed adjustments for depreciation expense and uncollectibles expense should be included in this calculation as these adjustments impact the calculation of federal and state taxable income.

Page 2 of this response correctly incorporates the proposed Staff adjustments for depreciation expense and uncollectibles expense. The actual tax depreciation expense has been calculated based on the Staff adjustment to reduce depreciable plant of ($3.629) million per Exhibit_(SGRP-7), Page 1. This calculation has been included on page 3 of this response. The proposed federal and state taxable income has been recalculated and is properly reflected as $11.4 million and $1.7 million, respectively.

In addition, it was noted during this calculation that the operating income adjustments for Book Depreciation and Permanent Book Depreciation-FT were not properly labeled on Staff's original Exhibit_(SAP-1), Schedule 3 of 10. The descriptions were reversed and the improper label would cause the deferred tax impact of the depreciation adjustment to be incorrect. These adjustment descriptions have been assigned properly and the deferred taxes accounted for correctly in the calculation on page 2 of this response.

National Fuel Gas Distribution Corporation
PSC Case No. 16-G-0257
For the Rate Year Ending March, 31 2018
Federal and State Income Tax
(000's)

Exhibit __ (SAP-1)
Schedule 3 of 10

	Per Company Original Filing	Staff Adjustments	As Adjusted by Staff	Adj #	Revenue Requirement	As Adjusted by Staff After Increase	DPS-234 Adjustments: Staff Adjustments Not Reflected	DPS-234 Adjustments: NFG Adj #	DPS-234 Adjustments: As Adjusted by NFG to include all Staff Adjustments
Operating Income Before Income Taxes	$ 39,442	$ 24,118	$ 63,561		$ 1,743	$ 65,304	$ -		$ 65,304
Operating Income Adjustments:									
Interest Expense	(20,898)	(1,832)	(22,730)		-	(22,730)	-		$ (22,730)
Cost of Retiring Property	(3,339)	-	(3,339)		-	(3,339)	-		$ (3,339)
Permanent Book Depreciation - FT	4,800	-	4,800		-	4,800	-		$ 4,800
Book Depreciation	46,319	-	46,319		-	46,319	(5,218)	(A)	$ 41,101
Income Tax Depreciation	(60,360)	-	(60,360)		-	(60,360)	1,512	(B)	$ (58,848)
Meal/Entertainment/Dues	86	-	86		-	86	-		$ 86
Contributions in Aid of Construction	3,652	-	3,652		-	3,652	-		$ 3,652
Bad Debts - Net	183	-	183		-	183	(1,829)	(C)	$ (1,646)
Capitalized Overheads	2,075	-	2,075		-	2,075	-		$ 2,075
Repairs & Maintenance	(18,903)	-	(18,903)		-	(18,903)	-		$ (18,903)
Total Operating Income Adjustments	(46,385)	(1,832)	(48,217)		-	(48,217)	(5,535)		(53,752)
Taxable Income	$ (6,943)	$ 22,286	$ 15,344		$ 1,743	$ 17,087	**$ (5,535)**		**$ 11,552**
adjust Federal Permanent Depreciation	(4,800)	-	(4,800)		-	(4,800)	-		(4,800)
adjust: Federal Temporary Depreciation	60,360	-	60,360		-	60,360	(1,512)		58,848
adjust: NYS Depreciation	(65,088)	-	(65,088)		-	(65,088)	1,210	(D)	(63,878)
Total State Taxable Income	$ (16,471)	$ 22,286	$ 5,816		$ 1,743	$ 7,559	**$ (5,837)**		**$ 1,722**
State Income Tax @ 6.5%	$ (1,071)	$ 1,449	$ 378	9	$ 113	$ 491	$ (379)		$ 112
Income subject to Federal Income Tax	(5,872)	20,838	14,966		1,630	16,595	**(5,156)**		**11,440**
Federal Income Tax @ 35%	$ (2,055)	$ 7,293	$ 5,238	8	$ 570	$ 5,808	$ (1,804)		$ 4,004
Deferred Taxes									
DSIT Capitalized Overheads (UNICAP)	$ (135)	$ -	$ (135)		$ -	$ (135)	$ -		$ (135)
DSIT Contributions in Aid of Construction (CIAC)	(237)	-	(237)		-	(237)	-		(237)
DSIT Bad Debts	(12)	-	(12)		-	(12)	119		107
DSIT Accelerated Depreciation	1,220	-	1,220		-	1,220	261		1,480
DSIT Repair & Maintenance	1,229	-	1,229		-	1,229	-		1,229
DSIT - Excess DSIT Amortized over a 3 year period	-	(234)	(234)	10	-	(234)	-		(234)
Subtotal State Deferred Income Taxes	$ 2,065	$ (234)	$ 1,831		$ -	$ 1,831	$ 379		$ 2,210
DFIT Capitalized Overheads (UNICAP)	$ (679)	$ -	$ (679)		$ -	$ (679)	$ -		$ (679)
DFIT Contributions in Aid of Construction (CIAC)	(1,195)	-	(1,195)		-	(1,195)	-		(1,195)
DFIT Bad Debts	(60)	-	(60)		-	(60)	599		539
DFIT Accelerated Depreciation	4,487	-	4,487		-	4,487	1,206		5,693
DFIT Repair & Maintenance	6,186	-	6,186		-	6,186	-		6,186
Subtotal Federal Deferred Income Taxes	$ 8,739	$ -	$ 8,739		$ -	$ 8,739	$ 1,804		$ 10,544
Total Income Taxes	**$ 7,678**	**$ 8,508**	**$ 16,186**		**$ 684**	**$ 16,869**	**$ -**		**$ 16,869**

(A) - Per Staff Adjustment No. 6, Exhibit_(SAP-1), Schedule 6, Page 3
(B) - Per DPS-234, Page 3
(C) - Per Staff Adjustment No. 5f, Exhibit_(SAP-1), Schedule 6, Page 1
(D) - Per DPS-234, Page 3

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
NEW YORK DIVISION
DEPRECIATION EXPENSE CALCULATION PER STAFF PLANT ADJUSTMENT
($000s)

	Rate Year 3/31/2018	Fiscal 2017	Fiscal 2018
Staff Adjustment: Per Exhibit_(SGRP-7), Page 1		(3,629)	
Bonus depr		1,815	
SL 3 yr		605	605
Total Federal Depreciation		2,419	605
Months		6	6
Rate year - TME March 31, 2018	1,512	**1,210**	**302**
NYS Depreciation			
NYS SL 3yr		1,210	1,210
Months		6	6
Rate year - TME March 31, 2018	1,210	**605**	**605**

Account Number	Description	Current as of 12/31/15				NFG Proposed						STAFF Proposed						
	Total Depreciable Gas Plant	BALANCE	ASL	Curve	Book Res	Estimated BALANCE	ASL	Curve	ACCRUAL RATE	ACCRUAL	Theo Res	Estimated BALANCE	ASL	Curve	NS	ACCRUAL RATE	ACCRUAL	Theo Res
	Depreciable Plant		Yr		$	for March 31, 2018	Yr		%	$	$	for March 31, 2018	Yr		%	%	$	$
303.00	Miscellaneous Intangible Plant	11,619,429	10	SQ	10,289,353	11,619,429	10	SQ	5.20	603,692	8,720,250	11,619,429	10	SQ	0	5.20	604,210	8,720,250
303.10	Miscellaneous Intangible Plant - Enterprise Software	--	--	--	--	47,180,000	10	SQ	10.00	4,718,000	7,491,300	43,550,769	10	SQ	0	10.00	4,355,077	7,491,300
	Total Depreciable Plant	**11,619,429**	**10**		**10,289,353**	**58,799,429**	**10**		**9.05**	**5,321,692**	**16,211,550**	**55,170,198**	**10**			**8.99**	**4,959,287**	**16,211,550**
	Production Plant																	
325.40	Rights of Way	334,326	55	H3.75	260,492	334,326	60	S4	1.67	5,583	217,209	334,326	60	S4	0	1.67	5,572	217,209
327.00	Compressor Station Structures	289,143	40	SQ	23,782	289,143	35	R5	3.15	9,096	61,340	289,143	35	R5	-10	3.15	9,108	61,340
328.00	Measuring and Regulating Station Structures	14,037	45	H3.25	15,925	14,037	50	R4	2.07	291	11,123	14,037	50	R4	-5	2.07	291	11,123
332.00	Field Lines	8,699,180	50	H2.75	10,125,886	8,711,337	58	R3	1.89	164,819	5,630,033	8,711,337	58	R3	-10	1.89	164,644	5,630,033
333.00	Compressor Station Equipment	1,126,792	25	H2.25	257,918	1,126,792	25	S2.5	4.20	47,325	472,038	1,126,792	25	S2.5	-5	4.20	47,325	472,038
334.00	Measuring and Regulating Station Equipment	4,823,053	30	H1.50	1,967,565	4,935,512	32	R0.5	3.59	177,086	1,947,768	4,935,512	32	R0.5	-15	3.59	177,370	1,947,768
	Total Production Plant	**15,286,532**	**41**		**12,651,568**	**15,411,147**	**43**		**2.62**	**404,200**	**8,339,511**	**15,411,147**	**43**			**2.62**	**404,310**	**8,339,511**
	Transmission Plant																	
365.20	Rights of Way	250,782	75	H3.50	152,677	250,782	80	R4	1.25	3,132	138,216	250,782	80	R4	0	1.25	3,135	138,216
366.20	Structures and Improvements	268,657	55	H2.00	193,571	268,657	60	R1.5	1.92	5,160	129,395	268,657	60	R1.5	-15	1.92	5,149	129,395
367.10	Mains - Excluding Cathodic Protection	11,894,813	60	H2.25	5,497,739	18,244,181	65	R2	1.85	337,152	4,636,593	18,244,181	70	R2	-20	1.71	311,975	4,636,593
367.20	Mains - Cathodic Protection	2,437,822	24	H2.25	1,089,401	4,154,597	25	S0.5	4.00	166,121	1,073,066	4,154,597	25	S0.5	0	4.00	166,184	1,073,066
369.00	Measuring and Regulating Station Equipment	2,112,831	35	H1.50	935,944	2,323,257	40	R1.5	2.87	66,794	919,287	2,323,257	40	R1.5	-15	2.87	66,677	919,287
	Total Transmission Plant	**16,964,906**	**50**		**7,869,332**	**25,241,475**	**54**		**2.29**	**578,359**	**6,896,557**	**25,241,475**	**55**			**2.19**	**553,120**	**6,896,557**
	Distribution Plant																	
374.20	Rights of Way	12,495,125	75	H3.50	3,141,770	13,259,366	80	R4	1.25	165,742	3,075,423	13,259,366	80	R4	0	1.25	165,742	3,075,423
375.00	Structures and Improvements	1,438,214	65	H2.50	684,542	1,494,640	70	R2.5	1.64	24,579	777,517	1,494,640	75	R2.5	-15	1.53	22,868	777,517
	Mains																	
376.10	Cast Iron	961,585	73	H2.25	1,144,997	667,376	73	S1	2.16	14,393	883,432	667,376	73	S1	-55	2.16	14,415	883,432
376.20	Steel and other 1939 and before	4,067,757	73	H2.25	4,826,079	3,818,651	73	S1	2.17	82,917	5,062,899	3,818,651	73	S1	-55	2.17	82,865	5,062,899
376.20	Steel and other 1940 and after	162,578,713	53	H2.00	101,620,924	161,340,335	58	R1.5	2.67	4,301,333	115,740,699	161,340,335	58	R1.5	-55	2.67	4,311,681	115,740,699
376.30	Cathodic Protection	2,114,764	24	H2.25	914,251	2,305,422	25	S0.5	4.00	92,217	1,022,832	2,305,422	25	S0.5	0	4.00	92,217	1,022,832
376.40	Plastic	560,328,887	70	H3.00	224,233,121	614,762,064	60	R3	2.59	15,913,116	268,012,431	614,762,064	80	R3	-55	1.94	11,926,384	268,012,431
	Total 376.00	730,051,705			332,739,372	782,893,849				20,403,976	390,722,293	782,893,849					16,427,562	390,722,293
377.00	Compressor Station Equipment	1,375,412	30	H2.50	1,055,007	1,375,412	35	S2.5	2.86	39,337	911,065	1,375,412	35	S2.5	0	2.86	39,297	911,065
378.00	Measuring and Regulating Station Equipment	14,989,457	35	H1.00	7,514,358	15,629,681	45	O1	2.66	415,935	4,747,742	15,629,681	45	O1	-20	2.66	415,750	4,747,742
380.00	Services	433,915,870	52	H1.25	127,240,926	466,851,960	55	R0.5	2.46	11,465,639	125,698,539	466,851,960	55	R0.5	-35	2.46	11,484,558	125,698,539
381.00	Meters	20,133,453	36	H3.00	5,422,150	23,234,481	36	S1.5	2.78	645,919	6,717,516	23,234,481	36	S1.5	0	2.78	645,402	6,717,516
382.00	Meter Installations	6,252,880	52	H1.25	2,100,146	6,252,880	55	R0.5	1.82	113,802	1,776,959	6,252,880	55	R0.5	0	1.82	113,689	1,776,959
384.00	House Regulator Installations	2,415,011	52	H1.25	981,159	2,415,011	55	R0.5	1.82	43,953	623,054	2,415,011	55	R0.5	0	1.82	43,909	623,054
385.00	Industrial Measuring and Regulating Station Equipment	20,560,990	45	H1.50	8,364,025	21,686,501	55	R1.5	2.18	473,633	7,133,885	21,686,501	55	R1.5	-20	2.18	473,160	7,133,885
387.00	Other Equipment	12,062	35	H3.50	(347)	12,062	38	R4	2.63	317	11,226	12,062	38	R4	0	2.63	317	11,226
	Total Distribution Plant	**1,243,640,181**	**51**		**489,243,108**	**1,335,105,843**	**54**		**2.53**	**33,792,832**	**542,195,219**	**1,335,105,843**	**56**			**2.23**	**29,832,254**	**541,417,702**
	General Plant																	
389.20	Rights of Way	284	75	SQ	263	284	60	R4	1.67	5	163	284	60	R4	0	1.67	5	163
390.10	Structures and Improvements - Large Structures	22,171,269	55	H1.50	2,293,881	23,634,958	65	R0.5	4.17	985,031	13,545,131	23,634,958	65	R0.5	-10	4.17	985,578	13,545,131
390.20	Structures and Improvements - Small Structures	2,093,731	20	H1.75	191,955	2,195,115	30	L0.5	3.66	80,407	932,660	2,195,115	30	L0.5	-10	3.66	80,341	932,660
390.30	Structures and Improvements - CACs Structures	574,954			369,746	593,402	55	R2	2.82	16,756	446,187	593,402	55	R2	-10	2.82	16,734	446,187
391.10	Office Furniture and Equipment - Furniture	918,420	25	SQ	541,720	547,420	25	SQ	4.00	21,897	303,783	547,420	25	SQ	0	4.00	21,897	303,783
391.20	Office Furniture and Equipment - Equipment	869,790	15	SQ	250,592	985,134	15	SQ	6.67	65,708	472,728	985,134	15	SQ	0	6.67	65,708	472,728
391.30	Office Furniture and Equipment - Computers	7,536,277	5	SQ	2,187,074	7,483,102	5	SQ	20.00	1,496,620	4,012,619	7,483,102	5	SQ	0	20.00	1,496,620	4,012,619
392.10	Transportation Equipment - Other	139,212			78,250	139,212	5	SQ	7.76	10,800	109,041	139,212	5	SQ	10	7.76	10,803	109,041
392.20	Transportation Equipment - Under 1 Ton	9,256,581			5,092,990	12,072,780	5	SQ	13.59	1,640,541	6,454,479	12,072,780	5	SQ	10	13.59	1,640,691	6,454,479
392.30	Transportation Equipment - Over 1 Ton	3,933,918			2,304,756	3,933,918	7	SQ	7.86	309,235	3,053,152	3,933,918	7	SQ	10	7.86	309,206	3,053,152
394.10	Tools and Work Equipment	5,282,005	25	SQ	1,319,317	5,038,192	25	SQ	4.00	201,528	2,092,721	5,038,192	25	SQ	0	4.00	201,528	2,092,721
394.20	Shop Equipment	447,660	25	SQ	169,736	418,810	25	SQ	4.00	16,752	262,530	418,810	25	SQ	0	4.00	16,752	262,530
394.30	Garage Equipment	6,275,773	25	SQ	1,597,105	6,130,793	25	SQ	4.00	245,232	2,814,473	6,130,793	25	SQ	0	4.00	245,232	2,814,473
396.00	Power Operated Equipment	7,623,137	15	SQ	2,630,946	10,402,705	10	SQ	7.49	778,771	2,700,439	10,402,705	10	SQ	20	7.49	779,163	2,700,439
397.00	Communication Equipment	2,625,855	10	SQ	482,133	3,527,366	10	SQ	10.00	352,737	1,344,753	3,527,366	10	SQ	0	10.00	352,737	1,344,753
	Total General Plant	**69,748,864**	**27**		**19,510,464**	**77,103,191**	**24**		**8.07**	**6,222,020**	**38,544,859**	**77,103,191**	**24**			**8.07**	**6,222,995**	**38,544,859**
	Excluded Intangible Plant and Nondepreciable Plant from Calculations	**1,801,279**			**286,855**	**1,801,279**					**286,855**	**1,801,279**						**286,855**
	Total Depreciable Gas Plant	**1,359,061,192**	**36**		**539,850,680**	**1,513,462,366**	**37**		**3.06**	**46,319,103**	**612,474,551**	**1,509,833,135**	**38**			**2.78**	**41,971,966**	**611,697,034**

	($000's)
STAFF PROPOSED DEPRECIABLE GAS PLANT	1,509,833
NFG DEPRECIABLE GAS PLANT	1,513,462
STAFF PLANT ADJ	(3,629)

DPS-234
Page 4 of 4
Witness: Rizzo

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
NEW YORK DIVISION
RESPONSE TO DEPARTMENT OF PUBLIC SERVICE
REQUEST FOR INFORMATION
CASE 16-G-0257

Question

Re: Rebuttal Testimony of Pension and OPEB Expense

1.) Please provide a copy of the revised actuary FAS 87 (Pension) and FAS 106 (OPEB) projections referred to in rebuttal testimony of Company witness Weidner. Include all supporting documentation and correspondence (e-mails, letters, memo, etc.).

2.) Provide all notes, e-mails, letters, etc. that support the “consultation with the Company’s actuary” referred to in rebuttal testimony of Company witness Weidner.

Response

1.) Please see attached. Please note that the initial update included the old return on Pension and OPEB asset assumptions of 7.25% and 6.75%, respectively. Subsequent to the initial update, as a result of our preparation for the fiscal year-end audit, we reviewed the actuarial assumptions (including asset return). In the course of this review (and consultation with our actuary), it was determined that the likelihood that our independent financial auditing firm (PwC) would accept these returns for the 9/30/2016 audit was remote. As such, it was determined that for purposes of both the 9/30/2016 fiscal year-end audit and the rate proceedings, the return assumptions on Pension and OPEB assets would be revised to 7.00% and 6.50%, respectively.

2.) Please see response to #1 that is attached.

National Fuel Gas Company
Estimated Pension and OPEB Expense

Plan	Estimated Expense for Fiscal Year Ending				
	2017	2018	2019	2020	2021
Retirement Plan					
NY	24,157,729	25,378,461	27,838,942	20,985,534	13,634,153
All other entities	12,144,808	8,878,917	6,694,095	5,284,469	2,522,950
ERP (Excluding Rabbi Trust Assets)					
NY	1,261,790	1,179,559	1,161,868	730,093	437,283
All other entities	3,521,624	2,761,186	2,457,535	2,189,039	2,088,446
ERP (Including Rabbi Trust Assets)					
NY	529,805	487,521	435,465	(26,144)	(285,641)
All other entities	2,623,736	1,814,473	1,511,844	1,302,127	1,241,823
Tophat					
NY	431,269	441,673	457,816	403,661	378,578
All other entities	1,522,059	1,461,247	1,392,090	1,306,670	1,216,239
OPEB					
NY	5,982,509	7,445,134	3,882,293	(5,697,235)	(5,437,030)
PA	(654,992)	(1,241,105)	(1,760,873)	(2,225,919)	(2,645,892)
Supply	1,829,254	1,152,393	582,709	103,861	(297,579)

Assumptions:
- Discount rate: Qualified and Tophat Plans 3.50%, ERP 2.50%, OPEB 3.75%; based on 8/1/2016 Above Mean Mercer Yield Curve
- 7.00% asset return for Retirement Plan & ERP, 6.50% asset return for OPEB
- Reflects market value of assets as of 6/30/2016
- No contributions are assumed for pension and OPEB
- For the ERP w/ assets, assumes annual contributions to trust of $1,000,000 for NY and $1,486,479 for PA/Supply. In addition, benefit payments expected to be made by the Company (outside the trust) are included in expected contributions.
- Other assumptions as described in the respective 9/30/2015 disclosure reports

Michael Weidner

From: Andrew Fretthold (US - Assurance) <andrew.p.fretthold@pwc.com>
Sent: Monday, August 29, 2016 1:28 PM
To: Michael Weidner
Cc: Richard Karpie
Subject: Assumptions

***** THIS IS AN EXTERNAL EMAIL, DO NOT OPEN LINKS OR ATTACHMENTS UNLESS YOU TRUST THE SENDER *****

Mike -

Our specialists are OK with the updated rate of return assumptions for
the retirement plan and the OPEB plan.

Thanks,

Andy

Michael Weidner

From: Weber, Todd <Todd.Weber@mercer.com>
Sent: Thursday, August 25, 2016 10:27 AM
To: Michael Weidner
Cc: Taddeo, Emily
Subject: RE: Alpha Support - 2016.xlsx
Attachments: Summary of Expense Projections - Aug 2016 Update - Revised EROR.PDF

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Hi Mike. Attached is the exhibit reflecting the updated ERORs of 7.00% and 6.50%. Please let us know if you have any questions.

Thanks,
Todd

Todd Weber, EA, MAAA, Principal

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P: +1 585 389 8730
M: +1 585 205 5699
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www.mercer.com | Mercer (US) Inc.
Linked In | Facebook | Twitter

Assistant: Sharon Wolf | +1 585 389 8873 | sharon.wolf@mercer.com

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-----Original Message-----
From: Michael Weidner [mailto:WeidnerM@natfuel.com]
Sent: Wednesday, August 24, 2016 2:34 PM
To: Weber, Todd
Subject: RE: Alpha Support - 2016.xlsx

Yes please update the whole exhibit (for all of the years)

-----Original Message-----
From: Weber, Todd [mailto:Todd.Weber@mercer.com]
Sent: Wednesday, August 24, 2016 2:08 PM
To: Michael Weidner
Cc: Taddeo, Emily
Subject: RE: Alpha Support - 2016.xlsx

***** THIS IS AN EXTERNAL EMAIL, DO NOT OPEN LINKS OR ATTACHMENTS UNLESS YOU TRUST THE SENDER *****

Hi Mike. Below is the impact on the fiscal 2017 & 2018 expense for NYD if you change the EROR assumption:

NY Distribution Projected Expense

2017

2018

EROR

Old

New

Difference

Old

New

Difference

Qualified Plan

$23.0M

$24.2M

$1.2M

$24.1M

$25.4M

$1.3M

ERP (including assets)

$494,000

$530,000

$36,000

$451,000

$488,000

$37,000

OPEB

$5.3M

$6.0M

$0.7M

$6.7M

$7.4M

$0.7M

Please let me know if you'd like us to updated the exhibit for the other years.

Thanks,

Todd

Todd Weber, EA, MAAA, Principal

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-----Original Message-----
From: Michael Weidner [mailto:WeidnerM@natfuel.com]
Sent: Tuesday, August 23, 2016 3:20 PM
To: Weber, Todd
Cc: Taddeo, Emily
Subject: RE: Alpha Support - 2016.xlsx

Ballpark estimate is fine.

-----Original Message-----

From: Weber, Todd [mailto:Todd.Weber@mercer.com <mailto:Todd.Weber@mercer.com>]

Sent: Tuesday, August 23, 2016 3:19 PM

To: Michael Weidner

Cc: Taddeo, Emily

Subject: RE: Alpha Support - 2016.xlsx

***** THIS IS AN EXTERNAL EMAIL, DO NOT OPEN LINKS OR ATTACHMENTS UNLESS YOU TRUST THE SENDER *****

No problem. I just wanted to make sure I got it right. We'll get back to you soon on the impact for just 2017 and 2018. It shouldn't take long to estimate. Thanks

Todd Weber, EA, MAAA, Principal

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Assistant: Sharon Wolf | +1 585 389 8873 | sharon.wolf@mercer.com <mailto:sharon.wolf@mercer.com>

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-----Original Message-----

From: Michael Weidner [mailto:WeidnerM@natfuel.com <mailto:WeidnerM@natfuel.com>]

Sent: Tuesday, August 23, 2016 3:17 PM

To: Weber, Todd

Cc: Taddeo, Emily

Subject: RE: Alpha Support - 2016.xlsx

Sorry - you are right - I want to know the impact of EROA of 7.00% Pension and 6.50% OPEBs on the exhibit used for our rate case in NY Distribution. For further clarification, the whole exhibit would need to be redone (not just 2017-2018). I only mentioned 2017 and 2018 because I just wanted to get a sense of the magnitude of the impact related to a 25 basis point reduction in asset return, but, as I stated, the whole exhibit would be redone. For the ERP - I believe we have always used the retirement plan rate of return as an approximation -so I would switch that to 7.00% as well (for the ERP including rabbi trust assets scenario).

-----Original Message-----

From: Weber, Todd [mailto:Todd.Weber@mercer.com <mailto:Todd.Weber@mercer.com>]

Sent: Tuesday, August 23, 2016 3:12 PM

To: Michael Weidner

Cc: Taddeo, Emily

Subject: RE: Alpha Support - 2016.xlsx

***** THIS IS AN EXTERNAL EMAIL, DO NOT OPEN LINKS OR ATTACHMENTS UNLESS YOU TRUST THE SENDER *****

Hi Mike. Just to clarify, you'd like to know the impact on NYD of changing the EROR to 7.00% for the pension plan and 6.50% for the OPEB for 2017 and 2018? I only ask because your email below mentioned 6.75% for OPEB in the first sentence.

My e-mail sent on 8/23/16 @ 3:03 PM had a typo. It should have said 6.50%.

Thanks,

Todd

Todd Weber, EA, MAAA, Principal

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todd.weber@mercer.com <mailto:todd.weber@mercer.com>

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Assistant: Sharon Wolf | +1 585 389 8873 | sharon.wolf@mercer.com <mailto:sharon.wolf@mercer.com>

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-----Original Message-----

From: Michael Weidner [mailto:WeidnerM@natfuel.com <mailto:WeidnerM@natfuel.com>]

Sent: Tuesday, August 23, 2016 3:03 PM

To: Weber, Todd

Cc: Taddeo, Emily

Subject: RE: Alpha Support - 2016.xlsx

Typo - should have said 6.50%

Todd and Emily - How much extra expense (for NYD) do you think we would pick up (for FY 2017 and FY 2018 if we used 7.00% retirement plan and 6.75% OPEBs)? Do you think it would be an additional couple of million dollars for NYD? If so, then I would like to the numbers (in the NY Distribution Pension and OPEB exhibit) re-run but with the 7.00% Pension and 6.50% OPEBs

-----Original Message-----

From: Weber, Todd [mailto:Todd.Weber@mercer.com <mailto:Todd.Weber@mercer.com>]

Sent: Tuesday, August 16, 2016 10:20 AM

To: Michael Weidner

Cc: Taddeo, Emily

Subject: FW: Alpha Support - 2016.xlsx

***** THIS IS AN EXTERNAL EMAIL, DO NOT OPEN LINKS OR ATTACHMENTS UNLESS YOU TRUST THE SENDER *****

Hi Mike. I hope you're doing well. Emily's on vacation, so I wanted to get back to you regarding the rate of return assumptions. The analysis you provided continues to support the alpha assumptions we use in our Portfolio Return Calculator. Attached is the PRC output. The results support the returns mentioned in your email below - 7.00% for the pension plan and 6.50% for the OPEB.

On another note, we have completed the updated expense projections based on last year's asset return assumptions of 7.25%/6.75%. Before we send them along, would you like us to update the projections to reflect return assumptions of 7.00%/6.50%?

Please let me know if you have any questions.

Thanks,

Todd

Todd Weber, EA, MAAA, Principal

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Assistant: Sharon Wolf | +1 585 389 8873 | sharon.wolf@mercer.com <mailto:sharon.wolf@mercer.com>

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-----Original Message-----

From: Michael Weidner [mailto:WeidnerM@natfuel.com <mailto:WeidnerM@natfuel.com> <mailto:WeidnerM@natfuel.com%20%3cmailto:WeidnerM@natfuel.com%3e%20>]

Sent: Friday, August 05, 2016 9:23 AM

To: Taddeo, Emily

Subject: Alpha Support - 2016.xlsx

Emily -

Here is the alpha support - please note that the calculations on the 1st two tabs shows Wtd Avg Alpha for Retirement Plan and OPEBs. The support (is on the following tabs - screen shots from pdf documents).

With the Retirement Plan - I think 50 basis points of alpha is justified - given that my calculations show 84 basis points of alpha. I want to see if a 7.00% assumed rate of return is reasonable.

For the OPEBs - I come up with about 35 basis points of alpha - a little short of the 50 basis points used last year. Could you run the VEBAs with 50 basis points and 35 basis points of alpha - to see if it impacts the conclusion (i.e. that a 6.50% assumed rate of return is reasonable)?

Thank you for your help.

Mike Weidner

Accounting and Financial Reporting

National Fuel Gas Company

Phone (716) -857- 7632

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Michael Weidner

From:	Weber, Todd <Todd.Weber@mercer.com>
Sent:	Tuesday, August 16, 2016 3:07 PM
To:	Michael Weidner
Cc:	Taddeo, Emily
Subject:	Updated Expense Projections
Attachments:	Summary of Expense Projections - Aug 2016 Update.pdf

***** THIS IS AN EXTERNAL EMAIL, DO NOT OPEN LINKS OR ATTACHMENTS UNLESS YOU TRUST THE SENDER *****

Hi Mike. Attached are the updated expense projections reflecting recent asset values and discount rates. As expected, the projected expense is generally higher due to the drop in discount rates. The exception is the projected amounts for NY under the ERP w/o assets scenario. Under that scenario, the reduction in the interest cost due to the drop in rates is more than offsetting the increase in the 10-year loss amortization in the short-term, resulting in a lower expense when compared to our last set of projections.

Please note that I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this email (including any attachments). I am not aware of any direct or material indirect financial interest or relationship, including investments or other services that could create a conflict of interest, that would impair the objectivity of this work.

Please let me know if you have any questions.

Thanks,
Todd

Todd Weber, EA, MAAA, Principal

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todd.weber@mercer.com
www.mercer.com | Mercer (US) Inc.
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Assistant: Sharon Wolf | +1 585 389 8873 | sharon.wolf@mercer.com

-----Original Message-----
From: Michael Weidner [mailto:WeidnerM@natfuel.com]
Sent: Tuesday, August 16, 2016 11:04 AM
To: Weber, Todd
Subject: RE: Alpha Support - 2016.xlsx

Let's just use the old asset return assumptions for now. We can always add another schedule with the new asset return assumptions later.

-----Original Message-----
From: Weber, Todd [mailto:Todd.Weber@mercer.com]
Sent: Tuesday, August 16, 2016 10:57 AM
To: Michael Weidner
Cc: Taddeo, Emily
Subject: RE: Alpha Support - 2016.xlsx

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It's something we can do today or tomorrow. The cost would be $500-$1,000. Please let me know if you'd like us to proceed with those updates. Thanks

Todd Weber, EA, MAAA, Principal

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Note: Initially, the projections did not use updated Pension + OPEB asset return assumptions. This was done because we thought we could justify Pension + OPEB returns of 7.25% and 6.75% for the 9/30/16 financial statement audit (with PwC). In subsequent conversations with Mercer, it became apparent that the likelihood of successfully defending these assumptions was remote.

As a result, for purposes of both the 9/30/16 year-end audit and the rate case proceeding, we reduced the Pension return assumption to 7.00% and the OPEB return assumption to 6.50%.

In an e-mail from PwC (8/29/2016), acceptance of these assumptions was noted.

-----Original Message-----
From: Michael Weidner [mailto:WeidnerM@natfuel.com]
Sent: Tuesday, August 16, 2016 10:25 AM
To: Weber, Todd
Cc: Taddeo, Emily
Subject: RE: Alpha Support - 2016.xlsx

My initial thought has been to use the old numbers. That being said, how difficult and how much extra cost to have two sets of projections (one with updated asset return assumptions and the other with the 9/30/15 assumptions)?

-----Original Message-----
From: Weber, Todd [mailto:Todd.Weber@mercer.com]
Sent: Tuesday, August 16, 2016 10:20 AM
To: Michael Weidner
Cc: Taddeo, Emily
Subject: FW: Alpha Support - 2016.xlsx

***** THIS IS AN EXTERNAL EMAIL, DO NOT OPEN LINKS OR ATTACHMENTS UNLESS YOU TRUST THE SENDER *****

Hi Mike. I hope you're doing well. Emily's on vacation, so I wanted to get back to you regarding the rate of return assumptions. The analysis you provided continues to support the alpha assumptions we use in our Portfolio Return Calculator. Attached is the PRC output. The results support the returns mentioned in your email below - 7.00% for the pension plan and 6.50% for the OPEB.

On another note, we have completed the updated expense projections based on last year's asset return assumptions of 7.25%/6.75%. Before we send them along, would you like us to update the projections to reflect return assumptions of 7.00%/6.50%?

Please let me know if you have any questions.

Thanks,

Todd

Todd Weber, EA, MAAA, Principal

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-----Original Message-----

From: Michael Weidner [mailto:WeidnerM@natfuel.com <mailto:WeidnerM@natfuel.com>]

Sent: Friday, August 05, 2016 9:23 AM

To: Taddeo, Emily

Subject: Alpha Support - 2016.xlsx

Emily -

Here is the alpha support - please note that the calculations on the 1st two tabs shows Wtd Avg Alpha for Retirement Plan and OPEBs. The support (is on the following tabs - screen shots from pdf documents).

With the Retirement Plan - I think 50 basis points of alpha is justified - given that my calculations show 84 basis points of alpha. I want to see if a 7.00% assumed rate of return is reasonable.

For the OPEBs - I come up with about 35 basis points of alpha - a little short of the 50 basis points used last year. Could you run the VEBAs with 50 basis points and 35 basis points of alpha - to see if it impacts the conclusion (i.e. that a 6.50% assumed rate of return is reasonable)?

Thank you for your help.

Mike Weidner

Accounting and Financial Reporting

National Fuel Gas Company

Phone (716) -857- 7632

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Note: This was attached to the e-mail sent from Mercer on 8/16/2016 @ 10:20 AM.

Mercer Standard Percentile Approach

Range of Net Portfolio Returns

Annual Returns are Net of Expenses

Project File:	U:\RET\CONS\RCH\NFGROC\...\PRC 6-30-2016.mpc
Name of Client:	National Fuel Gas Company - Retirement Plan
Source of Return Data:	Mercer Investment Consulting
Date of Return Data:	July 2016
Annual Expense:	-0.50% ← The benefits of an actively managed portfolio (at least a significant portion of that portfolio) leads to negative expense, since the returns of an actively managed portfolio exceed index returns, the annual expense is negative (i.e. the excess returns offset admin. expense).
Analyst:	0

Projection Horizon (years)

Percentiles	20	30
5%	2.22%	2.96%
10%	3.11%	3.68%
15%	3.71%	4.17%
20%	4.18%	4.56%
25%	4.59%	4.90%
30%	4.96%	5.20%
35%	5.30%	5.47%
40%	5.62%	5.74%
45%	5.94%	5.99%
50%	6.24%	6.24%
55%	6.55%	6.49%
60%	6.86%	6.75%
65%	7.19%	7.01%
70%	7.53%	7.29%
75%	7.89%	7.59%
80%	8.30%	7.92%
85%	8.78%	8.31%
90%	9.38%	8.80%
95%	10.27%	9.53%

Note: Per discussion with Mercer, the fact that a 7.25% return falls outside of the 65th percentile, would mean Mercer would qualify their valuation. This would make it extremely difficult to successfully defend the assumption to PwC. As such, we reduced the assumption to 7.00%.

Note: This was attached to the e-mail from Mercer sent on 8/16/2016 @ 10:20 AM.

Mercer Standard Percentile Approach

Range of Net Portfolio Returns

Annual Returns are Net of Expenses

Project File:	U:\RET\CONS\RCH\...\PRC for VEBA and 401H.mpc
Name of Client:	National Fuel Gas Company - VEBA 401H
Source of Return Data:	Mercer Investment Consulting
Date of Return Data:	July 2016
Annual Expense:	-0.25% ← Since a much smaller portion of OPEB assets are actively managed, the benefits (i.e. the negative expense due to an actively managed portfolio achieving returns that exceed index returns) are smaller than in the Retirement plan
Analyst:	0

Projection Horizon (years)

Percentiles	20	30
5%	2.14%	2.81%
10%	2.95%	3.48%
15%	3.50%	3.92%
20%	3.94%	4.28%
25%	4.31%	4.59%
30%	4.64%	4.86%
35%	4.96%	5.11%
40%	5.25%	5.35%
45%	5.54%	5.59%
50%	5.82%	5.82%
55%	6.10%	6.05%
60%	6.38%	6.28%
65%	6.68%	6.52%
70%	6.99%	6.77%
75%	7.32%	7.05%
80%	7.70%	7.35%
85%	8.13%	7.71%
90%	8.68%	8.16%
95%	9.49%	8.82%

Note: Per discussion with Mercer, the fact that a 6.75% return falls outside the 65th percentile, would mean Mercer would qualify their valuation. This would make it extremely difficult to successfully defend the assumption to PwC. As such, we reduced the assumption to 6.50%.

CONFIDENTIAL

SUBJECT TO PROTECTIVE ORDER IN NY PSC CASE 16-G-0257

This information is CONFIDENTIAL and cannot be printed, emailed, distributed or otherwise divulged with persons who have not engaged in a Confidentiality Agreement with National Fuel Gas Distribution Corporation.

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
NEW YORK DIVISION
RESPONSE TO DEPARTMENT OF PUBLIC SERVICE
REQUEST FOR INFORMATION
CASE 16-G-0257

<u>Question</u>

1. While referring to the implementation costs or savings (resulting from the implementation of operational audit recommendations in Case 13-M-0314), page 12 of Mr. Crahen's rebuttal testimony states, "[t]he direct testimony of Mr. Lavery, at 11 and 12, confirms there are no recommendations with implementation costs or benefits that will be implemented during the rate year." Please provide an accurate citation of where Mr. Lavery makes this statement in his testimony.

2. While referring to the implementation costs or savings resulting from the implementation of operational audit recommendations in Case 13-M-0449, page 20 of Mr. Crahen's rebuttal testimony states, "Distribution agrees with Liberty and Staff that there are no savings to be achieved from this audit." Please provide a citation for this declaration.

<u>Response</u>

Please refer to the direct testimony of Mr. Lavery.

1. No recommendations with implementation costs or benefits were identified by Mr. Lavery, in his direct testimony pertaining to Case 13-M-0314.

2. No recommendations with implementation costs or benefits were identified by Liberty Consulting.

   In addition, no recommendations with implementation costs or benefits were identified by Mr. Lavery, in his direct testimony pertaining to Case 13-M-0449.

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
NEW YORK DIVISION
RESPONSE TO DEPARTMENT OF PUBLIC SERVICE
REQUEST FOR INFORMATION
CASE 16-G-0257

Question:

Provide a detailed breakdown of audit expenses that Distribution paid, from FY2005 through FY2015, related to operational, or comprehensive management and operations audits of Distribution as authorized by the New York State Commission. Please indicate the case number (i.e., in case 13-G-0009, 13-M-0314, 13-M-0449, etc.), audit title, audit type (management or operational), the month/year the expense was paid, and Distribution's portion of the actual audit expense (i.e., for the multi-utility audits).

Response:

Distribution has paid three outside consultants for audits authorized by the New York State Public Service Commission: OCI Resources, Inc. (Focused Operations Audit Case 13-M-0314), Schumaker & Company Inc. (Comprehensive Management Audit Case 11-G-0580) and The Liberty Consulting Group Inc (Focused Operations Audit Case 13-M-0449). As of September 26, 2016, there are still outstanding invoices for the Liberty Consulting Group Inc. as per the contract.

The amounts paid by month through September 26, 2016 by consultant are provided on pages 2 and 3.

Please note that Distribution did not have any payments from October 1, 2004 (the beginning of fiscal 2005) until the first payment of June 2012 due to no audits being conducted by outside contractors as authorized by the New York State Public Service Commission.

Per the April 1, 2012 Status Report on Management Audits (Cases 08-M-0152, 08-E-0827, 09-M-0764, 10-M-0551 and Case 11-G-0580) Management Audits pursuant to Section 66 (19) of the Public Service Law were reinvigorated in 2008. Therefore it is presumed that going forward the Commission will vigorously pursue management audits.

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
NEW YORK DIVISION
RESPONSE TO DEPARTMENT OF PUBLIC SERVICE
REQUEST FOR INFORMATION
CASE 16-G-0257

Name	Amount	Date
	$6,456.91	Apr-14 Total
	$5,561.86	Jun-14 Total
	$9,830.59	Jul-14 Total
	$2,071.31	Aug-14 Total
	$9,977.30	Sep-14 Total
	$217.95	Oct-14 Total
	$1,623.64	Nov-14 Total
	$574.74	Dec-14 Total
	$4,268.65	May-15 Total
	$4,268.65	Oct-15 Total
	$134.99	Dec-15 Total
OCI RESOURCES, INC Total	$44,986.59	
	$4,500.60	Jun-12 Total
	$81,942.88	Jul-12 Total
	$75,329.76	Aug-12 Total
	$9,318.63	Sep-12 Total
	$149,772.69	Oct-12 Total
	$79,939.11	Nov-12 Total
	$64,924.59	Dec-12 Total
	$62,183.60	Jan-13 Total
	$31,016.06	Feb-13 Total
	$19,603.55	Mar-13 Total
	$16,645.65	Apr-13 Total
	$15,597.78	May-13 Total
	$22,877.90	Jun-13 Total
	$77,721.08	Jul-13 Total
	$2,577.28	Aug-13 Total
	$72,432.00	Sep-13 Total
SCHUMAKER & COMPANY INC Total	$786,383.16	

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
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	$3,986.38	Nov-14 Total
	$5,980.39	Dec-14 Total
	$664.45	Jan-15 Total
	$3,774.98	Feb-15 Total
	$5,533.28	Mar-15 Total
	$5,359.52	May-15 Total
	$4,248.30	Jul-15 Total
	$3,861.29	Aug-15 Total
	$7,698.72	Sep-15 Total
	$151.82	Oct-15 Total
	$1,801.44	Jan-16 Total
	$545.70	Feb-16 Total
	$4,841.42	Mar-16 Total
THE LIBERTY CONSULTING GROUP, INC Total	$48,447.69	

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
NEW YORK DIVISION
RESPONSE TO DEPARTMENT OF PUBLIC SERVICE
REQUEST FOR INFORMATION
CASE 16-G-0257

Question

1.Explain how the Company develops its depreciation expense filed on its monthly financial reports.

2. Explain how the Company develops its depreciation expense filed on its PSC annual report.

3. Does the Company agree that the purpose of the net plant model is to mimic its accounting practices in order to estimate future plant in service balances and depreciation expense? If not, explain why not.

4. Explain how the annual capital budgets were allocated to the months in the net plant model.

5. Kevin House's rebuttal testimony (page 3) states that a net plant target does not consider the lag time in converting capital spending to plant in service. Did you consider such factors when you developed the monthly allocation factors to distribute the annual capital budgets in the Company's plant in service model? If so, explain how.

Response

1. The depreciation expense filed on the Company's monthly and annual reports are per book numbers automatically calculated by PeopleSoft Asset Management (AM) Module using current Commission approved depreciation rates. Please refer to attachments A,B, and C for more detailed information maintained by the Company's Engineering Department on this process as it pertains to New York Distribution.

2. See response to #1.

3. The purpose of the net plant model is to calculate a theoretic plant balance for ratemaking purposes. Many factors and inputs contribute to estimating a future plant in service balance and depreciation expense.

As part of developing ratemaking balances, the Company retains an outside consultant ("Gannet Fleming") to perform an in-depth depreciation study on the Company's behalf. As part of the depreciation study, Gannet Fleming developed depreciation rates, depreciation expense, and reserve for depreciation after examining the Company's assets and using expert industry knowledge. To calculate a ratemaking Average Net Plant requires monthly balances (1/2 month 1 to 1/2 month 13). The Company's Net Plant model develops these monthly balances.

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
NEW YORK DIVISION
RESPONSE TO DEPARTMENT OF PUBLIC SERVICE
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However, due to model and methods of calculation differences, adjustments may be necessary in the Company's model to match to Gannet Fleming's rate year ending balances in which the Company utilizes as its Rate Year ending balances.

4. The annual capital budgets are allocated to the months in the net plant model based on a monthly allocation percentage. The monthly allocation percentage is developed using a 5 year average of the monthly capital spending.

5. When developing monthly allocation factors to distribute the annual capital budget in the Company's plant in service model, lag time in converting capital spending to plant in service is an intangible element that cannot be accurately forecasted. Therefore as a high level forecasting tool, the Company believes that developing monthly allocation factors based on historical capital spending is an appropriate approach.

V. AM Module - Depreciation Process

There are two ways in which the AM module depreciates assets. Most assets are depreciated as part of a group depreciation. Group depreciation categorizes all assets that will be depreciated at the same rate (percentage). Some assets, such as tools and vehicles are depreciated using the unit depreciation method. A schedule is set up with the period the asset will be depreciated over. On a daily basis, management runs the depreciation process through the AM module. Depreciation is calculated systematically using the prior month end balance and the depreciation rate in the system, which updates the GL through the feed from AM module to the GL. Currently, our depreciation rates are obtained from the Gannet Flemming consultants. Per discussion with management, depreciation rates in New York rarely change.

Perform the following to determine the depreciation rate used to depreciate a specific asset class:

Go - Manage Assets
Use Asset Basic Information - Capitalize Projects
Enter the Asset Identification Number
The profile ID will state the group the asset belongs to for depreciation.
Then, go to Use - Asset Book Definition - General 2 to determine the rate for that group of depreciation.

To determine which general ledger account the depreciation expense and the asset was recorded in, use the Accounting Entry Template.

Key Controls

- Depreciation is calculated systematically using the prior month end balance and the depreciation rate in the system.
- Management is responsible for running the depreciation process.
- Amounts are transferred into AM as soon as the in-service date is entered allowing depreciation to begin on a timely basis. If the in-service date is entered retroactively, the system generates a prior period adjustment for depreciation on prior months.
- The appropriate general ledger entries are generated for depreciation expense.
- Depreciation rates are periodically reviewed with NFG's consultants.
- Retirements are processed in a similar manner to projects.

PeopleSoft AM Module – Depreciation Calculation Process

Depreciation as used in accounting, is a method of distributing fixed capital costs over a period of time by allocating annual amounts to expense. Each annual amount of such depreciation expense is part of that year's total cost of providing utility service. Normally the period of time over which the fixed capital cost is allocated to the cost of service is equal to the item's service life. The most prevalent method of allocation is to distribute an equal amount of cost to each year of service life.

Group depreciation, which is utilized for our regulated entities, calculate depreciation using a flat rate %. Flat rate is a form of the equal distribution method described above. In NY Distribution, these rates are changed when there is a rate case or settlement and they are approved by the Commission. The rates we are given and that we use to update the appropriate group assets are annual rates. Depreciation is calculated on a monthly basis by taking the annual rate and dividing it equally over the twelve months.

For additions and adjustments entered to member assets, depreciation will begin following month or the month after the asset went in-service. The same following month convention is used for retirements. For transfers or recategorizations, depreciation is updated using an actual month convention, or the same month the transactions were entered into peoplesoft.

The in-service date for additions and adjustments is obtained from the project which the asset was installed on. On larger projects there can be a delay between when the project is in-service and when the assets are added to plant. These delays can be, but are not limited to, completion report processing, mapping, and obtaining information required for unitization. If this delay exceeds the following month convention, a PDP (Prior Depreciation Period) row is booked to the depreciation table to reflect the missed months of depreciation. The total PDP is a retroactive entry for the depreciation that should have been booked in prior months, but was not due to the delay in unitization. This total is calculated in the same way as monthly depreciation processing.

PeopleSoft AM Module – Depreciation Process

There are two ways in which the AM module depreciates assets. Most assets are depreciated as part of group depreciation. Group depreciation categorizes all assets that will be depreciated at the same rate (percentage). Some assets, such as vehicles and Power Operated Equipment are depreciated using the unit depreciation method. A schedule is set up with the period the asset will be depreciated over. Some of these assets include an estimated salvage value. On a daily basis, the depreciation process is run. Monthly, asset depreciation is closed, accounting entries are generated and posted to the General Ledger.

Group depreciation is used in our regulated entities. Utilities have many different types of plant, which are classified into terms of property units, such as compressors, pipelines, and gas wells. These in turn may be classified in terms of smaller items of property which may exceed millions of assets, acquired over the life of the utility. It would be nearly impossible to maintain separate depreciation records for each property unit. Therefore, the Uniform Systems of Accounts have been developed which allow grouping of various kinds of units having similar characteristics or functions. These groupings are referred to as mass property accounts. PeopleSoft's Asset Management module will automatically depreciate the asset group. Each night group consolidation and depreciation is run, whereby standard programmed algorithms perform the calculation using the following month convention.

The depreciation rates utilized in NY Distribution include a portion for our expected cost of removal that will be incurred when the asset is retired. In essence our rates reflect the cost recovery for the asset installed and our future removal costs.

In NY Distribution, these rates are changed when there is a rate case or settlement and they are approved by the Commission.