Q. Please state the members of this Gas Supply Administration Panel ("Panel").

A. We are Christopher A. Cej, Kenneth B. McAvoy and Robert M. Michalski.

Q. Mr. Cej, please state your business address.

A. My business address is 6363 Main Street, Williamsville, New York, 14221.

Q. By whom are you employed and in what capacity?

A. I am employed by National Fuel Gas Distribution Corporation ("Distribution" or "Company") as Assistant General Manager within the Gas Supply Administration ("GSA") Department.

Q. Mr. McAvoy, please state your business address.

A. My business address is 6363 Main Street, Williamsville, New York, 14221.

Q. By whom are you employed and in what capacity?

A. I am employed by Distribution as Assistant General Manager within the GSA Department.

Q. Mr. Michalski, please state your business address.

A. My business address is 6363 Main Street, Williamsville, New York, 14221.

Q. By whom are you employed and in what capacity?

A. I am employed by Distribution as Assistant General Manager within the GSA Department.

Q. Has the Panel testified previously in this case?

A. Yes, we provided Direct Testimony and Exhibits regarding Distribution's gas purchasing practices, as required by Public Service Law §66-e (2) and Part 61.3 (d)(6) of the Commission's rules and regulations as well as how the

GSA Department complies with the rules that govern transactions between Distribution and its marketing affiliate.

Q. What is the purpose of your Rebuttal Testimony?

A. The purpose of the Panel's rebuttal testimony is to respond to the testimonies of Staff Gas Policy and Supply Panel ("Staff") and EnergyMark, LLC ("EnergyMark"). The Panel's rebuttal testimony will address Staff's testimony first; and EnergyMark's testimony second.

Q. What portion of Staff's testimony does the Panel wish to respond to?

A. This Panel will address the Local Production Issues presented in Staff's testimony. The Company remains steadfast in its proposal to waive all monthly meter charges imposed on local producers for the continued operation and maintenance of those interconnection facilities producing a minimum of 1 MCF/day.

Q. What does Staff propose and does the Panel agree with such proposal?

A. Staff proposes that the Company continue to maintain all meter interconnection points, even those that receive less than 1 MCF/day. The Panel does not accept Staff's position and disagrees with Staff's assertion that the proposed minimum delivery requirement would eliminate local production access of low flow wells from the distribution system. The Company believes this requirement will not result in large scale well abandonments but will lead to a more efficient and safe operation of the local production infrastructure though the consolidation of low volume production wells behind the Company's existing or new interconnection facilities. The consolidation will enhance operating conditions through improved gas quality and gas treatment economics. Additionally, proper odorization is more readily achieved at higher delivery volumes.

Q. Are there other reasons why the 1 MCF/day delivery minimum is appropriate?

A. Yes. While the Company may have a certain level of obligation under Public Service Law §§66-d and f to either provide transportation on the Company's system or purchase a producer's indigenous gas, the Company has been advised by counsel that there are caveats to that obligation. For example, the producer's gas must meet certain gas quality standards. To the extent that it fails to meet those criteria, the Company is not obligated to purchase or transport such gas. Moreover, Public Service Law §66-f(2) offers the condition that "no gas corporation shall be required to purchase [indigenous] natural gas where it can demonstrate such purchase would have an adverse impact upon its ratepayers, which cannot be reasonably mitigated." Clearly the Company's obligations in this regard are not without limitations.

Q. Does the Company's believe that maintaining low volume interconnection points have an adverse impact upon the ratepayer?

A. Yes. The cost to maintain existing local production interconnection facilities where the producer's volumes have continually declined over the years to nearly zero in some instances is now a burden with adverse impact on the ratepayers.

Q. How does the Company propose to mitigate this adverse impact on its ratepayers?

A. The Company believes its original proposal fairly mitigates the adverse impact while maintaining efficient and safe access to the Company's system. The Company will waive the monthly meter charge to all local producers who continue to deliver a minimum of 1 MCF/day through the interconnections. Effectively, the cost to local producers will be reduced to the extent the producer delivers a reasonable quantity of indigenous gas to the system.

Q. Does the Company have other concerns regarding Staff's Local Production issue?

A. Yes, the Company is concerned with Staff's proposal that suggests and promotes the Company's involvement with odorization of the producer's facilities upstream of their interconnection with the Company's facilities and the collecting and accounting of deferred funds for purposes of facilitating the installation of odorization equipment on such producer owned upstream facilities.

Q. Please explain further.

A. On page 27, line 22, Staff states, "We recommend that all lines connected to the distribution system be in compliance with the rules and regulations regarding odorization." Further in the testimony, Staff opines that the Company can accomplish this by not waiving the meter charge if the gathering system or individual line from the well does not meet this requirement and that those meter charges collected by the Company be used to make those facilities compliant.

Q. What is your concern regarding this proposal?

A. First, the Company agrees that local producers should operate their gathering facilities that extend from the local producer's wellhead to the interconnection point with the Company's facilities, in a safe manner. In fact, the Company ensures that its gathering and distribution systems, downstream of the interconnection with local production, are properly odorized. Similar to ensuring other gas quality parameters, such as moisture content, the Company believes local producers bear the responsibility to properly odorize their gas in accordance with Part 255 of the Code. The Company, however, does not own the upstream production facilities and gathering lines, and does not necessarily know the location of the producer's wells, nor does the Company have the landowner's or the producer's authorization to enter their property to inspect such facilities; therefore it is wholly inappropriate to suggest that odorization of gas within a producer's facilities is, in any way, a responsibility of the Company. The Company is simply not responsible for third-party facilities upstream of the Company interconnection as the Company does not own or operate or exercise any control over those facilities.

Q. Does the Company accept Staff's recommendation that it file a survey of the gathering lines for all 971 meter connections?

A. No, the Company does not find Staff's recommendation warranted. Such a survey would include, among other items, the status or verification of each producer's compliance with the rules and regulations regarding odorization of gas. Such compliance could potentially apply to the producer's entire gathering system leading back to multiple wells and not just at the interconnect point. The Company has no legal right to enter landowner's property to perform such verification. Such verification of producers' facilities is properly the domain of the New York Department of Public Service. For these reasons and the reasons stated above, the Company disagrees with Staff's recommendation.

Q. Does that conclude your rebuttal to the testimony prepared by Staff Gas Policy & Supply Panel?

A. Yes, at this time.

Q. Does the Panel wish to provide rebuttal to EnergyMark's testimony?

A. Yes, the Panel would like to respond to the three main issues discussed in EnergyMark's testimony?

Q. What is the first issue presented by EnergyMark that the Panel would like to discuss?

A. EnergyMark claims the credits associated with offsystem sales and capacity release credits provide the Company's Sales Service customers a price advantage over marketers' customers.

Q. Does the Company agree with that statement?

A. No. The credits offset the costs associated with the Company's responsibility to balance daily system deliveries. Marketers, such as EnergyMark, are not required to deliver their gas to the Company citygate stations that physically serve their customers. From the marketer's perspective, the Company operates its system as one contiguous system rather than a zonal system. The marketer may deliver their daily delivery quantities to any Company delivery point during normal operating conditions. However, such deliveries place the system out of balance with portions of the system receiving too much gas and other parts receiving too little gas relative to each region's market requirements. Each day, the Company forecasts system requirements along with marketer delivery trends to determine where these imbalances exist. The Company utilizes its sales customers' pipeline and storage assets to balance deliveries across the entire system each day. As one would expect, marketer delivery trends strongly correlate to market prices; low price regions receive too much gas and high price regions receive too little gas. The recent trend is that marketers are delivering their customers' gas supplies to southernmost low cost citygate receipt points, such as Rose Lake or Leidy but not delivering gas supplies to northernmost higher priced citygate points, such as Niagara. As a result of these trends, the Company has to address the resulting imbalances by utilizing assets reserved for its sales customers to deliver adequate supplies to the expensive portions of the system. This has the effect of inflating the Sales Customers' weighted average commodity and capacity costs. Under the circumstances, it is entirely equitable that sales customers receive any compensating benefits. Furthermore, EnergyMark commented elsewhere in its testimony that the marketer's residential and non-residential customer throughput has grown to approximately half of the total throughput on the system. These significant volumes delivered by marketers have resulted in a greater balancing obligation borne by the sales customers and may warrant procedural changes that fairly shift some balancing obligations to marketers. To conclude on this point, the Company believes the credit is fair and just compensation to the sales customers for providing system balancing service to the marketer's customers.

Q. What is the second issue presented by EnergyMark that the Panel would like to discuss?

A. The Panel would like to respond to EnergyMark's comments related to the Company's mandatory upstream transportation capacity ("MUTC") associated with the Company's Transportation Program. EnergyMark claims the MUTC longhaul capacity allocated to marketers is not competitive with market area receipt point pricing.

Q. What is the Panel's response to their assessment of the capacity allocation?

A. EnergyMark's assessment is inaccurate. Currently, 100% of the capacity allocated to MUTC marketers provides access to abundant, low cost supplies of market area shale production including Marcellus Shale production at liquid trading points. The Company allocates to those marketers a Tennessee Gas Pipeline ("TGP") firm capacity path through the market area shale producing regions of Ohio and Pennsylvania with firm delivery rights at the TGP/NFG Supply Rose Lake interconnection. This firm capacity path provides direct access to the TGP Zone 4 200 line and TGP Zone 4 313 pools. The combined daily trading activities at those two pools averages approximately 0.8 bcf and over 150 trades per day. Recent monthly and daily index prices at these points suggest some of the lowest priced gas in the country is trading at these pools.

Q. Do all marketers participating in the Company’s transportation program receive MUTC?

A. Most marketers receive monthly MUTC assignment. Some marketers continue to demonstrate their own capacity also known as Grandfathered Upstream Transportation Capacity (“GUTC”) instead of requesting MUTC capacity assignment from the Company.

Q. Are there any provisions in the program that prevents marketers from electing and receiving MUTC capacity from the Company?

A. No. The Company’s program provides marketers with the flexibility to replace their GUTC capacity with the Company allocation of MUTC capacity.

Q. Does the Panel wish to respond to EnergyMark’s comment regarding the acquisition of the Empire capacity?

A. The Company has acquired Empire capacity to aid in serving customers and filling storage, located on the north side of the system. The Company reserves pipeline and storage capacity on several pipelines, along with the responsibility to serve those specific system daily delivery requirements.

Limiting the MUTC allocation to TGP capacity at the overall Weighted Average Cost of Capacity ("WACOC") rate alleviates marketers from managing small allocations of capacity from each pipeline and storage and the burden of meeting regional daily delivery quantities required to balance the system.

Q. Would the WACOC release rate paid by marketers decrease if the Company allocated only the short-haul TGP zone 4 path instead of TGP long-haul paths?

A. No. The WACOC release rate is determined by the Company's entire capacity portfolio and not the MUTC allocation of long-haul and short-haul capacity. Long-haul pipeline capacity paths provide marketers with a capacity release revenue opportunity to offset a portion of their customer's WACOC expense. Marketers are able to release the unused segments, such as the Zone 0 to Zone 4 segment, of the TGP MUTC capacity to the secondary capacity markets.

Q. What is the third issue presented by EnergyMark that the Panel would like to discuss?

A. The panel would like to address EnergyMark's assertion that ratepayers would benefit if the Company offered volumetric capacity releases.

Q. How does the Company generate value for its ratepayers through asset optimization?

A. As explained in the GSA panel testimony, the Company generates significant ratepayer value through its participation in the seasonal, monthly and daily capacity release markets. The Company is very diligent when participating in the highly regulated capacity release market and follows specific capacity bidding procedures for all releases. For seasonal and monthly releases, the Company solicits bids from parties for specified segmented and non-segmented capacity paths by issuing Request For Proposals to market participants for the selection as a prearranged bidder on the Company's capacity. The Company posts all such capacity on the appropriate pipeline electronic bulletin board ("EBB") open for bidding by all interested bidders. For shorter term releases, including single day releases, to interested parties the Company also posts those releases prearranged and biddable on the pipeline's EBB. The Company will agree to release capacity to a party for the next day if there is adequate time for the Company to post the capacity offer on the pipeline EBB for the prearranged bidder, and allow for a bidding period for all interested parties. The capacity is ultimately awarded to the highest bidder.

Q. Are all of the Company's seasonal, monthly and daily releases structured as demand rate releases?

A. Yes.

Q. How does a volumetric rate release differ from a demand rate release?

A. Demand rate releases require the buyer to pay an agreed upon rate for the capacity regardless of whether the capacity is used. With a volumetric release the buyer obtains the capacity but is only required to pay the seller when the capacity is used.

Q. Wouldn't a volumetric rate release provide the Company with an opportunity to generate incremental revenue when capacity might otherwise remain idle?

A. No, it is more likely that offering volumetric rate releases would reduce revenues by cannibalizing the Company's current demand rate releases. The Company generates significant value in the seasonal, monthly and daily release markets, given the option, existing release customers would likely opt for volumetric agreements, paying for the capacity only when and if the capacity is needed. The Company would lose the premium currently being paid by its current customers for surety of supply. Also, buyers of volumetric rate capacity will only use, or re-release, the capacity when it is worth more than the volumetric release rate. On those days, the buyer would be effectively paying the Company less than market value. If necessary, capacity can be obtained at market rates in the daily release market.

Q. Are there other issues presented by EnergyMark in this proceeding that the Company wishes to address?

A. Yes, the Company would like to address EnergyMark's response to an interrogatory statement from Department of Public Service staff member Mr. Riebel to EnergyMark.

Q. What was the interrogatory statement posed by Mr. Riebel to EnergyMark?

A. Mr. Riebel sought proof or evidence from EnergyMark to support their suggestion that the Company exercises market power over gas transactions in the region.

Q. What is the Company's opinion of EnergyMark's response to Mr. Riebel's interrogatory statement?

A. EnergyMark's response, as shown in Exhibit___(GSA-14), fails to demonstrate evidence or proof for such an allegation. The Company's responsibility to its customers is to provide highly reliable service at the best cost. The acquisition of upstream capacity through open seasons, the purchase of supplies at market prices and the optimization of unutilized capacity are consistent with those responsibilities. Additionally, these actions are in compliance with the Company's tariff and Gas Transportation Operating Procedures, as approved by the Public Service Commission.

Q. Does that conclude your rebuttal to the testimony prepared by Staff Gas Policy & Supply Panel and EnergyMark?

A. Yes, at this time.