16-G-0257 - NATIONAL FUEL GAS DIST. CORP - 10-7-2016

STATE OF NEW YORK
DEPARTMENT OF PUBLIC SERVICE

16-G-0257 - PROCEEDING ON MOTION OF THE COMMISSION AS TO THE RATES, CHARGES, RULES AND REGULATIONS OF NATIONAL FUEL GAS DISTRIBUTION CORP FOR GAS SERVICE

EVIDENTIARY HEARING

Friday, October 7, 2016
Three Empire State Plaza
3rd Floor
Albany, New York 12223-1350

A.L.J. DAKIN LECAKES
Administrative Law Judge
Three Empire State Plaza
Albany, New York 12223-1350

16-G-0257 - NATIONAL FUEL GAS DIST. CORP - 10-7-2016

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16-G-0257 - NATIONAL FUEL GAS DIST. CORP - 10-7-2016

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I N D E X   O F   P R O C E E D I N G S

16-G-0257 - NATIONAL FUEL GAS DIST. CORP - 10-7-2016

A.L.J. LECAKES: Good morning, everyone. My name is Dakin Lecakes. I am the Administrative Law Judge with the New York State Public Service Commission. We are here for case 16-G-0257, proceeding on motion of the Commission as to the rates, charges, rules and regulations of National Fuel Gas Distribution Corp. for gas service. The notice of evidentiary hearing was issued by the secretary, September 21st, 2016. This is our third consecutive day of hearings.

According to the schedule that I have, we will be starting off with a company witness, Ms. Friedrich-Alf, and we will be ending today potentially with the Staff Consumer Services' panel, which will bring the end of the hearing. Before we close the hearing, we will be discussing a briefing schedule and we will also be moving the exhibits into evidence.

Yesterday, during the cross-examination of the staff policy panel, there was a discussion that was held regarding a comparison document of revenue requirement and whether that comparison document existed in the evidentiary record for comparison of the filing of NFG, the update correction filing of NFG, the staff and intervener filing, and then the rebuttal phase.

The company indicated that there was in the last rate case, the last litigator rate case, the 2007 G-0141 case, an appendix attached to one of their briefs. Yesterday, they told me they believed it was the reply brief but it appears from the document they handed me this morning that it was the initial brief. There is a revenue requirement reconciliation sheet on here. It just does -- it lays out the company's position and it does not layout staff's position, is that correct? All right, so -- but if I were to take staff's documents and staff's revenue requirements attached to their accounting panel exhibits, you believe, Mr. Meinl, that I could match the dollars up and the adjustments up, is that correct?

MR. MEINL: Yes, I do. In the last case, Your Honor, I believe staff presented their income statement at the time of the brief also, so you can have a comparison.

A.L.J. LECAKES: That's acceptable. Actually, again, we'll talk about the briefing schedule later but to the extent that you could match what you did in 2007 and attach it to the initial brief rather than the reply brief, that would be more beneficial for me. Thank you very much. Okay, company, could you call your next witness, please?

MR. NICKSON: The company calls --.

MR. FAVREAU: Do you want to do -- I'm sorry, do you want to do the exhibits?

A.L.J. LECAKES: Oh, yeah. Let's do that first. I'm sorry.

MR. NICKSON: Sure.

A.L.J. LECAKES: Yes, staff had approached me and had mentioned that they had a couple of exhibits that they wanted to get in. Mr. Favreau.

MR. FAVREAU: There's one, right, Your Honor. There's just one exhibit and it was an exhibit that was agreed to with the company and this is just a letter from NFG to the Department. We'll just ask that it be marked for identification.

A.L.J. LECAKES: Okay. Thank you.

MR. DELVECCHIO: I believe it's also filed in that.

MR. FAVREAU: It's also, yeah. That's correct.

MR. DELVECCHIO: Yeah, thanks.

A.L.J. LECAKES: So I've been handed by staff counsel a three-page document front and back. On the first two pages, the first page has a cover title page from case 16-G-0257 to show that it's the exhibit in this case. And the second page is dated August 26th, 2016 and it's a letter to Secretary Burgess and director to our staff from Raymond Boy, Assistant General Manager of NFG. My understanding is that the company is stipulating that this letter was prepared by Mr. Boy. Is that correct?

MR. DELVECCHIO: That's correct. Correct, Your Honor.

A.L.J. LECAKES: All right. We will mark this for identification as Exhibit 284. The company earlier approached me and discussed exhibits that they also wanted to get in that are IRs, given the fact that they -- IR responses, given the fact that they relate to the staff Consumer Services panel. I think we'll wait until just before the Consumer Services panel is called on to mark those. Are there any other exhibits that people wish to get in at this time? Okay, great. Mr. Nickson, go ahead.

MS. NICKSON: The company calls Ms. Ruth M. Friedrich-Alf.

A.L.J. LECAKES: Ms. Friedrich-Alf, could you identify yourself by name and business address, please?

MS. FRIEDRICH-ALF: My name is Ruth M. Friedrich-Alf. My business address is 6363 Main Street, Williamsville, New York.

A.L.J. LECAKES: And please stand and raise your right hand. Ms. Friedrich-Alf, do you swear that or affirm that the testimony you are about to give today is the whole truth?

MS. FRIEDRICH-ALF: I do.

RUTH M. FRIEDRICH-ALF; Sworn

A.L.J. LECAKES: Please be seated. Mr. Nickson, please proceed.

DIRECT EXAMINATION

BY MR. NICKSON:

Q. Good morning, Ms. Friedrich-Alf, do you have in front of you a document entitled direct testimony of Ruth M. Friedrich-Alf consisting of 13 pages of questions and answers?

A. I do.

Q. And was that document prepared by you or under your supervision?

A. It was.

Q. Do you have any changes or corrections to your testimony?

A. I do not.

Q. And if I were to ask you the same the questions today, would your answers be the same?

A. Yes.

MR. NICKSON: Your Honor, I ask that the direct testimony of Ms. Ruth M. Friedrich-Alf be incorporated into the record as if given orally today.

A.L.J. LECAKES: And that is granted and at this point in the transcript, the company's direct testimony file and folder contains the file, Friedrich-Alf direct testimony, and that should be inserted. Go ahead, Mr. Nickson.

Direct Testimony of Ruth M. Friedrich-Alf

Q. Please state your name and business address.

A. My name is Ruth M. Friedrich-Alf. My business address is 6363 Main Street, Williamsville, New York 14221-5887.

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

A. I am employed by National Fuel Gas Distribution Corporation ("Distribution" or "Company") as a Senior Manager in the Rates and Regulatory Affairs Department.

Q. Please describe your educational background.

A. In 1982, I graduated from the State University of New York at Buffalo with a Bachelor of Science degree in Industrial Engineering. In May of 1987, I received a Master's degree in Business Administration from Canisius College in Buffalo.

Q. Please describe your experience at Distribution.

A. In January 1985, I began my career at Distribution in the Industrial Engineering Department as an Analyst. In April 1991, I transferred to Distribution's Valuation Department, now Rates and Regulatory Affairs.

Q. Have you previously testified before the New York State Public Service Commission ("Commission")?

Direct Testimony of Ruth M. Friedrich-Alf

A. Yes. I testified before this Commission on behalf of Distribution regarding cost of service adjustments in Cases 91-G-0846, 93-G-0756, and 94-G-0885 and regarding the embedded cost of service study in Cases 04-G-1047 and 07-G-0141. I also testified in the statewide POLR Unbundling Track (Case 00-M-0504).

Q. Have you testified before any other regulatory agency?

A. Yes, I have testified before the Pennsylvania Public Utility Commission in a number of base rate proceedings, unbundling proceeding and in several purchase gas cost proceedings.

Q. What is the subject of your testimony in this proceeding?

A. I am providing testimony regarding Distribution's overall revenue requirement calculation (Exhibit ___ (RMFA-1)), several O&M adjustments (Exhibit ___ (RMFA-2) Schedules 1 – 7) and the Inflation calculation (Exhibit ___ (RMFA-3) Schedule 1).

Q. What is shown on Exhibit ___ (RMFA-1)?

A. Exhibit ___ (RMFA-1) consists of two sheets. Sheet 1 provides the total revenue requirement deficiency of $41,697,000 based upon a rate of return of 10.20% on equity and an overall rate of return of 7.81% on a total projected rate base of $718,137,000. The computation of the 10.20% return on equity and the 7.81% overall rate of return are shown on Exhibit ___ (AEB-1) as provided by Ms. A. Buckley. The recommendation regarding the specific return on equity value chosen from the range of return on equity values recommended by Ms. Buckley are provided in the testimony of Mr. Meinl. Sheet 2 provides the calculation of the revenue requirement that appears on Sheet 1.

Q. What is shown on Exhibit ___ (RMFA-2) Schedule 1?

A. Exhibit ___ (RMFA-2) Schedule 1 provides a summary of Operating and Maintenance Expense by cost element. Forecasts of Labor, Employee Benefits and Uncollectibles will be addressed by Mssrs. Barber and Weidner and Ms. Frank, respectively. The remainder will be discussed below.

Q. What is your forecast for Area Development?

A. Under the Joint Proposal adopted by the Commission in Case 13-G-0136, the Area Development program was funded at a level of $1,250,000.[1] For Rate Year Two, $1,000,000 was funded in revenue

[1] Case 13-G-0136 Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of National Fuel Gas Distribution Corporation for Gas Service – Order Adopting Terms of Joint Proposal and Establishing Rate Plan (May 8, 2014).

requirement and $250,000 of the program was funded using the 85/15 sharing mechanism for off-system sales and capacity release. The Company is proposing to continue this level of commitment and has included $1,250,000 in its revenue requirement. The Company's proposal replaces the funding from off-system sales and capacity release with all funding in revenue requirement.

Q. Please describe your forecast for Meter Maintenance Fees.

A. Meter Maintenance Fees are fees charged to local gas producers to recover the Company's costs of maintaining meters, appurtenance facilities and administrative costs associated with the measurement of gas production into Distribution's system. As per the testimony of the Gas Supply Administration Panel, I have recognized the removal of Meter Maintenance Fees and have set the cost element to $0.

Q. Please describe your forecast for PSC Audits and Assessments.

A. Both these items are required by the Public Service Law and are extremely variable and completely out of Distribution's control. Pursuant to Section 66(19) of the Public Service Law, which requires audits of the major electric and gas utilities at least once every five years and gives the Commission authority to select a consulting firm and direct the utility to pay the costs of the audit, Distribution will be audited and incur consultant fees in the Rate Year. Since audit fees can vary widely, I have used $837,979, which represents the "not to exceed" potential cost of the comprehensive management audit of Distribution by Schumaker & Company as directed by the Commission on May 17, 2012.[2]

The PSC Assessment is the amount the Commission bills to Distribution for Distribution's portion of Commission operating expense. The Commission determines the amount to be billed to the utilities and sends an invoice to each utility at the beginning of January. The amount is revised in August for updated revenue information. The amount is finalized in October after the fiscal year. Distribution included $2,370,000 in revenue requirement for PSC Assessments for Rate Year 2 in Case 13-G-0136, and proposes to continue this level in the Rate Year.

Q. What are you recommending for PSC Audits and Assessments?

A. I recommend that Distribution be neither rewarded nor punished as to any difference between the amounts that are included in base rates

[2] Case 11-G-0580 Decision May 17, 2012.

and actual amounts. I recommend that the PSC Audits and Assessment cost element in the amount of $3,208,000 be fully reconcilable and any difference be collected or refunded through a tariff surcharge/refund included in the Delivery Adjustment Clause ("DAC"). This is included in the Tariff Reorganization.

Q. What is your forecast for Rate Case Expense?

A. Based on discussions with company consultants, I have forecasted Rate Case Expense to be $185,000. This amount includes incremental costs to the Company specific to filing a base rate case for outside Depreciation and Rate of Return consultants and an estimate of Outside Counsel expenses above the client retainer.

Q. Did you base this forecast on previous case expenditures?

A. No. Expenditures from previous rate cases have no impact on the projected costs incurred in this proceeding. Expenditures can vary significantly based on a variety of items such as settlement and whether a consultant's area is contested or generally accepted.

Q. Please explain the Rate Year request for Research and Development ("RD&D") expenses shown on Exhibit ___ (RMFA-2) Schedule 2.

A. RD&D is accounted for using deferral treatment which matches the amount expended with the amount collected from ratepayers. As shown on Exhibit ___ (RMFA-2) Schedule 2 Sheet 3, I have started with a deferral balance at December 31, 2015 of ($1,153,000). To this I have added the amortizations allowed per Case 13-G-0136 of $494,000 annually and forecasted expenditures through the beginning of the Rate Year. My forecasted expenditures are based on the budgeted amounts included in the Three Year Research Development and Demonstration Plan for October 2015 – September 2018 which was filed with the Commission on March 31, 2016. I am proposing an annual amortization of $700,000 which will bring the deferral balance to $463,000 at March 31, 2018.

Q. Please explain the Rate Year request for Site Remediation ("SIR") expenses shown on Exhibit ___ (RMFA-2) Schedule 3.

A. SIR is accounted for using deferral treatment which matches the amount expended with the amount collected from ratepayers. As shown on Exhibit ___ (RMFA-2) Schedule 3 Sheet 3, I have started with a deferral balance at December 31, 2015 of $14,424,000. To this I have added the amortizations allowed per Case 13-G-0136 of $2,000,000 annually and forecasted expenditures through the beginning of the Rate Year. My forecasted expenditures are based on the assumptions and estimates that were the foundation of the information contained in the Annual Report Concerning the Status of Investigation and Remediation Costs, Schedules and Regulatory Compliance which was filed with the Commission on March 31, 2016. I am proposing an annual amortization of $5,000,000 which will bring the deferral balance to $11,685,000 at March 31, 2018.

Q. Please describe the Settlement Deferral Cost Element found in Exhibit ___ (RMFA-2) Schedule 4.

A. For the twelve months ended December 31, 2015, there is $347,000 in expense to recognize the deferral of Common Cost per Case 13-G-0136. In addition, there are several other deferral balances on the books of Distribution that are residual from past proceedings. I am proposing to account for these deferral residuals and remove them from the books. As shown on Exhibit ___ (RMFA-2) Schedule 4 Sheet 3, as of December 31, 2015 there is $58,017.83 for Case 08-M-1312[3] Account 182313, ($347,375) for Case 13-G-0136[4] Account

[3] Case 08-M-1312 – Proceeding on Motion of the Commission to Consider the Financial Impacts on New York State's Energy utilities of Changes in Uncollectible Expense and Arrearages in the Current Economic Environment.

182491 and ($779.45) for Case 09-M-0435[5] Account 242147. The balance of these deferrals at December 31, 2015 is ($290,137). Two accounts from Case 13-G-0136 also had entries in February 2016 and will have entries per the Joint Proposal in February 2017. In total, at April 30, 2017 there will be ($1,002,282) of prior deferrals to dispose of.

Q. What are you proposing?

A. I am proposing to apply the balance of these accounts to the SIR deferral balance at the start of the Rate Year.

Q. Please describe the Barcelona Post Install Expenses.

A. Barcelona is the Company's new CIS system that will go live in May 2016. As provided in the testimony of Mr. Boyle, the Company will incur $3,036,000 of additional expense in the Rate Year, which I have included in the revenue requirement.

Q. Please describe the NRG Amortization cost element.

A. As of December 31, 2015, Distribution incurred $3,624,363.60 of expenses directly related to the project of repowering the Dunkirk

[4] Case 13-G-0136 Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of National Fuel Gas Distribution Corporation for Gas Service.
[5] Case 09-M-0435 Proceeding on Motion of Commission Regarding the Development of Utility Austerity Programs.

Power Plant to natural gas. Distribution spent these dollars at the request of the Commission. As of the filing of this testimony, the project has not moved forward and is currently involved in a law suit. Distribution is proposing to recognize $1,320,988 of pipeline purchases in Rate Base Materials and Supplies and the remaining $2,303,375 to be amortized over 10 years. I have included an annual amortization of $230,337 in expense. Mr. Koch has included the balance of $2,303,375 in Rate Base.

Q. Please describe your adjustment to Revenue Income.

A. Revenue Income is a reduction to expense which accounts for the reconnection due to non-payment fee (Reconnection Fee) charged to customers when reconnected. Per the Customer Service Panel, it is proposed that certain Reconnection Fees for low income customers be waived in the Rate Year. I have accounted for the lower amount of Reconnection Fees in the Rate Year which results in an increase to revenue requirement of $471,000.

Q. Please describe Exhibit ___ (RMFA-2) Schedule 5.

A. Exhibit ___ (RMFA-2) Exhibit 5 is a summary of the Clearing accounts that have been forecasted.

Direct Testimony of Ruth M. Friedrich-Alf

Q. Please describe what a Clearing Account is and why it is handled in a specific manner.

A. A Clearing Account is an account that accumulates costs and then allocates the total costs to other accounts. For example, Customer Billing accumulates the costs incurred to bill New York and Pennsylvania customers. The costs are accumulated in Account 184240 and then are cleared from the Clearing Account into both New York and Pennsylvania O&M. The costs go into (debit) the account as a specific budget item such as Postage and are cleared out of the account (credit) using one product such as Product 2932 Info Services – Customer Billing Expense Allocation.

Exhibit __ (RMFA-2) Schedule 5 Sheet 3 provides a summary of the six Clearing Accounts that were forecasted and a separate line item for Other Clearing Accounts that are either no longer in use but had a miscellaneous charge or are used to such a minor degree that a specific work paper was not necessary. The forecasts for individual Clearing Accounts have been provided in the work papers. Labor has been forecasted by Mr. Barber and benefits are forecasted using the current Benefit Loading Factors. Inflation has been applied to the remaining costs of each Clearing Account.

Q. What is your forecast for Clearing Accounts cost element?

A. I have included a total of $14,626,000 in revenue requirement.

Q. Please describe Exhibit ___ (RMFA-2) Schedule 6.

A. Exhibit ___ (RMFA-2) Schedule 6 outlines the expense for EBD HERR as provided for in the Consumer Service Panel. The historic amount of $412,000 was inflated plus an additional amount of $8,840 for the rate transition credit for a total request of $438,000.

Q. Please describe Exhibit ___ (RMFA-2) Schedule 7.

A. Exhibit ___ (RMFA-2) Schedule 7 is the Inflation Elements summary. Included in this are LICAAP, Contractors, Dues, Environmental, Equipment Rental, Injuries & Damages, Material, Office Employee Expense, Other Expense, Other Insurance, Postage, Promotional Expense, Rents, Transportation Expense, UNICAP and Utilities expenses. I have applied the Inflation Factor to each of these expenses.

Q. Please describe the calculation of the Inflation Factor provided in Exhibit ___ (RMFA-3) Schedule 1.

A. The Inflation Factor represents the forecasted change in Gross

Domestic Product ("GDP") chained Price Index as reported by the January 2016 and October 2015 Blue Chip Economic Indicators. Exhibit ___ (RMFA-3) Schedule 1 provides a result of 4.27% which is utilized in the determination of many Rate Year O&M expenses.

Q. Does this conclude your testimony?

A. Yes, at this time.

BY MR. NICKSON: (Cont'g.)

Q. Ms. Friedrich-Alf, do you also have in front of you a document entitled the Rebuttal Testimony of Ruth M. Friedrich-Alf consisting of 28 pages of questions and answers?

A. I do.

Q. And was that document prepared by you and/or under your supervision?

A. It was.

Q. And do you have any corrections to the testimony?

A. I do not.

Q. And if I were to ask you the same questions today, would your answers be the same?

A. Yes.

MR. NICKSON: Your Honor, I ask that the Rebuttal testimony of Ms. Friedrich-Alf be incorporated into the record as if -- as if given orally today.

A.L.J. LECAKES: And that's granted as well. And that is on the same company supplied CD in the folder company rebuttal testimony and it is a file titled Friedrich-Alf Rebuttal Testimony, and that should be inserted here on the transcript. Thank you. Go ahead.

Q. Please state your name and business address.

A. My name is Ruth M. Friedrich-Alf. My business address is 6363 Main Street, Williamsville, New York 14221-5887.

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

A. I am employed by National Fuel Gas Distribution Corporation ("Distribution" or the "Company") as a Senior Manager in the Rates and Regulatory Affairs Department.

Q. Have you testified previously in this case?

A. Yes. I provided Direct Testimony, Exhibits and workpapers regarding the Company's overall revenue requirement and items included in Cost of Service.

Q. What is the purpose of your Rebuttal Testimony?

A. I will be rebutting specific adjustments made to items there were included in the Inflation Pool, Mr. Haslinger's Billing, Information Services and Productivity adjustments and the Staff Accounting Panel's adjustments to PSC Audit & Assessments, Rate Case Expense, Site Remediation and Inflation. I will also address the RDD adjustment by the Gas Policy and Supply Panel and the Earnings Sharing Mechanism ("ESM") proposed by the Staff Policy Panel.

Inflation Pool

Q. What cost elements did the Company include in the Inflation Pool?

A. As provided on page 12 lines 10 through 16 and Exhibit ___(RMFA-2) Schedule 7, the Inflation Pool consists of LICAAP, Contractors, Dues, Environmental, Equipment Rental, Injuries & Damages, Material, Office Employee Expense, Other Expense, Other Insurance, Postage, Promotional Expense, Rents, Transportation Expense, UNICAP and Utilities expenses.

Q. What adjustments has Staff made to this pool of cost elements?

A. Staff has made two downward-only adjustments. Specifically, Mr. Haslinger has downward-adjusted Contractors and the Staff Accounting Panel has downward-adjusted Materials.

Q. Please discuss the justification Staff provided for these downward-only adjustments.

A. On Page 32 of Mr. Haslinger's testimony he "normalized out" one specific payment before applying inflation "since this amount is not expected to occur in the rate year". On page 26 of the Staff Accounting Panel testimony the Panel chooses a three-year historical average adjusted by inflation. Specifically they state "[r]ather than normalizing out the month of September 2015 to determine a reasonable twelve month rate year materials allowance, Staff recommends the more conservative approach of using a multi-year average. While this method still has somewhat of a normalizing effect, it more reasonably considers that there will be, and allows for, the occurrence of year-to-year changes."

Q. Did Staff make any upward-adjustments to any costs included in the Inflation Pool?

A. No.

Q. Is this selective use of adjustments to cost elements included in the Inflation pool by Staff consistent with previous Commission Orders?

A. No. As provided in Exhibit ___ (RMFA-4), the Commission's Opinion 95-16 Opinion and Order Determining Revenue Requirement and Rate Design in Case 94-G-0885 Issued and Effective September 15, 1995 ("Order No. 95-16") on pg. 21 states with respect to Legal Service Expense (a Contractor cost element):

"The Judge agreed with staff that NFG had failed to show why the inflation pool approach should not apply here; and he commented that as new litigation burdens come into the picture, old one drop out, and that the company has not shown that something fundamental had changed about its overall litigation picture".

The inflation pool concept discussion continues on page 22 of that Order providing:

"The company's exception is denied. This expense is included in the general inflation pool, and properly so. While it is recognized that some costs in the pool will rise faster than inflation, this should be offset by other items for which the contrary is true. To make specific adjustments of the kind NFG seeks would defeat the concept of the inflation pool."

The Order continues this same theory in regards to the Gas Planning Expense cost element. Specifically, on page 25 the Order states:

"The recommended decision agreed with staff that this item is properly included in the general inflation pool, and hence accepted staff's adjustment reducing the company's claim from $1,023,000 to $896,000."

The Order concludes:

"Staff, in response, says it has gone along with the general procedure of adding an inflation allowance to the historical expenditure level; but the reasonableness of this process breaks down when what is intended as an expeditious means to a fair projection becomes a perpetual upward cost trend, which occurs if the company succeeds in winning separate allowances for both past non-recurring expenditures increased for inflation and new prospective expenditures identified to specific functions. Staff says it prefers to stay with the simpler "macro" forecasting approach.

Once more, the inflation pool approach recognizes that some items will escalate faster than inflation, while others more slowly, but the assumption is that the overall increase will approximate the inflation rate; and this concept is seriously undermined if the company can take out of the pool any item where it has some basis for projecting an increase greater than inflation. NFG's exception is denied."

Mr. Haslinger and the Staff Accounting Panel have performed specific adjustments to items normally included in the Inflation pool in complete contradiction to the clear guidelines established in Order No. 95-16. Both Staff adjustments should be denied and the Contractor and Material cost elements should remain unadjusted in the inflation pool.

Q. Was the Barcelona Cost element included in the Inflation pool?

A. No, the Barcelona cost element was stand-alone and does not conform with the Inflation pool approach since these costs represent a “fundamental change” and are clearly identifiable. They were appropriately included in their own separate cost element.

Billing

Q. Mr. Haslinger has reduced the Billing cost element to reflect a postage reduction effective April 10, 2016. Do you agree with this reduction?

A. No. As provided in Exhibit ___ (RMFA-5) the most recent postage rate decrease prior to the April 10, 2016 decrease was July 1, 1919 almost 97 years ago. In between 1919 and 2016 there were 24 rate increases averaging 14.87%. The most recent increases of January 22, 2012, January 27, 2013, and January 26, 2014 averaged 3.67%. In the US Postal Services’ opinion (Exhibit ___ (RMFA-5) Page 3) the “mandatory action will worsen the Postal Service’s financial condition by reducing revenue and increasing its net losses by approximately $2 billion per year.” In addition, “Postal Service prices for Mailing

Services are capped by law at the rate of inflation”. Based on this knowledge, one can expect a rate increase capped at the rate of inflation in the very near future. The Company’s proposal of including Postage in the inflation pool is not only reasonable, but conservative. The use of inflation by the Company provided a conservative approach compared to the 1932 – 2014 average and is reasonable compared to the 2012 – 2014 average. Based on the foregoing reasons, as well as the reasons set forth in Order No. 95-16 discussed above, Mr. Haslinger’s postage Billing adjustment should be rejected.

Information Services

Q. Please describe Mr. Haslinger’s adjustment to Information Services.

A. Mr. Haslinger has reduced the Information Services cost element for a single payment that is projected to be smaller in the rate year than it was in the historic test year.

Q. Did Mr. Haslinger adjust upward any costs in the rate year that were determined to be higher than the historic year?

A. No.

Q. Please summarize your recommendation regarding Mr. Haslinger’s downward only adjustment to Information Services.

A. As stated above in Order No. 95-16, the concept of the inflation pool is seriously undermined if individual costs are selectively removed from the pool. Mr. Haslinger's adjustment is in clear violation of Order No. 95-16. Again, the Company consistently applied the inflation pool concept within the Information Services clearing account. Mr. Haslinger's adjustment should thus be rejected.

Materials

Q. The Staff Accounting Panel testified that "[t]here is a direct correlation between LPP replacement and the number of overall leaks." Did Staff provide the statistical analysis supporting the direct correlation?

A. No they did not.

Q. What did Staff Accounting Panel rely on?

A. The Staff Accounting Panel stated a belief that "the decreasing backlog of total leaks and the accelerated replacement of leak prone pipe will decrease the amount of leak repair tools and materials needed to perform the actual repairs in a year."

Q. Please continue.

A. Referencing the Staff Gas Policy and Supply Panel's recommendation on page 14 – 15 that "the Company needs to be more aggressive when it comes to expanding its reach through line extensions and possible new franchises", the Staff Gas Rates Panel included additional growth in the revenue forecast. The Staff Accounting Panel, however, did not account for this when they adjusted downward the material needed for leak repair. Even though this expansion of service would be accomplished with new pipe, leaks could still occur. In addition, the requirement by the Staff Policy Panel to reduce the backlog of total leaks to 1,600, which will also require leak repair material, was also ignored by the Staff Accounting Panel's adjustment. It is because of these reasons, plus the overarching Inflation pool theory discussed above, that the Material adjustment should be rejected.

PSC Audits and Assessments

General Assessment

Q. The Staff Accounting Panel recommends inflating the August 10, 2016 revised Assessment without reconciliation. Do you agree with this recommendation?

A. Not entirely. I can agree with the use of the August 10, 2016 modified assessment of $1,409,190 as the starting point, however I disagree with Staff's proposal to increase it only by inflation to determine a rate year amount. I also disagree with Staff's rejection of the reconciliation.

Q. What do you propose to use instead of inflation?

A. I propose the use of the average of the actual increases incurred from assessment year 4/01 – 3/02 through assessment year 4/08 – 3/09 which is 7.70%. The calculation is provided on Exhibit ___ (RMFA-6).

Q. Why have you chosen the time period assessment year 4/01 – 3/02 through assessment year 4/08 – 3/09?

A. This is the time period immediately before the implementation of the Temporary State Energy and Utility Service Conservation Assessment ("TSA") and is the equivalent amount of time the TSA has been in effect which is eight assessment periods. The use of the time periods prior to the institution of the TSA would be more representative of what the assessment will be once the TSA ends. It is apparent that the time periods immediately prior to the TSA had some very significant increases which were not present in the period after the institution of the TSA.

Q. Is the TSA scheduled to end?

A. Yes, it is scheduled to expire during the rate year.

Q. What is your rate year calculation for the general assessment?

A. Using the August 10, 2016 payment of $1,409,190 increased by the previously experienced 7.7% increase results in $1,517,661.

Q. The Staff Accounting Panel does not believe full reconciliation of the PSC General Assessment is appropriate nor is it necessary. Do you agree?

A. No. The Staff Accounting Panel offers no specific reasons for their position that it should not be reconcilable. They only offer a statement "With the TSA set to expire during the rate year, recovery of the General assessment will revert back to how it was treated historically – through base rates as a non-reconciling item". The Company proposed a symmetrical mechanism exactly similar to what was allowed when the TSA went into effect. Since the Company has no control over the amount of the assessment, the Company should not be harmed if the assessment increases above what is set in rates and the ratepayer should not be harmed if the assessment decreases below what is set in rates. A full reconciliation should be allowed, as it was when the TSA was instituted.

ERDA Assessment

Q. Do you have and other comments regarding the PSC Assessment?

A. Yes, the Staff Gas Policy and Supply Panel on page 40 believes that the NYSERDA expenses should not be reflected in the RDD budget but elsewhere on Distribution's ledger, as described in the Staff Accounting Panel testimony. As provided in the Energy Services Panel Rebuttal Testimony, NYSERDA (or ERDA) is correctly reflected in the RDD budget. The Staff Accounting Panel included ERDA in the PSC Assessment cost element and increased it for inflation. If it is determined in the final Order in this proceeding that the NYSERDA (or ERDA) payments should not be reflected as RD&D and reflected in the PSC Audit and Assessment cost element, the August 2016 ERDA assessment value of $1,000,042 should be increased by 7.7% as described above to provide a rate year amount for ERDA Assessment of $1,077,019. The sum of the General Assessment and the ERDA assessment for the rate year is $2,594,680. I will discuss later the impact of the Staff Accounting

Panel's adjustment to the RDD cost element.

In addition, if the rate year amount is set at a different amount than the $2,370,000 the Company used in the final reconciliation TSA filing, the Company should be allowed to file a revised TSA filing that utilizes the amount allowed for in this docket.

Management Audits

Q. The Staff Accounting Panel, based on the testimony of Staff witness. Lavery, has eliminated the entire request for relief for mandatory PSC management audits. Do you agree?

A. No. Mr. Lavery states on page 4 of his testimony that the Schumaker Audit was issued by the Commission on August 13, 2013. He then further states on page 10 that "The Department's Management Audit Unit ***does not anticipate*** (emphasis added) that a management audit will be conducted of Distribution during the rate year…". Mr. Lavery did not testify definitively that ***there will not*** be a management audit during the rate year. Mr. Lavery's testimony, therefore, does not change the Company's expectation that there will be a management audit during the rate year pursuant to Public Service Law Section 66 (19), which directs the Commission to conduct a management and operations audit of gas corporations at least once every five years . As I testified on pages 5 and 6 of my Direct Testimony, "I recommend that Distribution be neither rewarded nor punished as to any difference between the amounts that are included in base rates and actual amounts. I recommend that the PSC Audits and Assessment cost element in the amount of $3,208,000 be reconcilable and any amount difference be collected or refunded through a tariff surcharge/refund included in the Delivery Adjustment Clause ("DAC")."

My recommendation to allow the PSC Audits and Assessment cost element to be fully reconcilable via a rate through the DAC is reinforced by Mr. Lavery's inability to specify exactly when the next audit should occur.

Q. Did Mr. Lavery or the Staff Accounting Panel address the estimated cost of the management audit presented by the Company in Direct Testimony?

A. No, neither Mr. Lavery nor the Staff Accounting Panel found fault with the Company's forecasted audit amount of $837,979.

Q. Is your requested amount of $837,979 still a reasonable estimate?

A. I have provided in Exhibit ___ (RMFA-6) Mr. Lavery's response to NFG-DPS-164 which provided a "Not to Exceed Contract Cost" summary of audits performed since 2006. Using this information I have calculated a simple average (Exhibit___(RMFA-6)) for Operational Audits which is $1,541,562 and Management Audits which is $1,133,950. I also calculated a simple average excluding 11-G-0580 which was National Fuel's audit. In addition, I calculated a simple average of those audits there were after 11-G-0580. All of the averages significantly exceed my initial request of $837,979.

Q. What is your recommendation regarding Audits?

A. I recommend that the Audit portion of cost element PSC Audits and Assessment be set at $1,147,721. This is based on the average after 11-G-0580 of the costs to exceed for management audits and the high likelihood that a management audit will occur in the rate year.

Q. What is your total PSC Audits and Assessment cost element recommendation?

A. I recommend that the Commission adopt the Company's PSC Audit and Assessment cost element of $3,742,401 and that it be fully reconcilable via a rate through the DAC.

Rate Case Expense

Q. Staff Accounting Panel adjusts the cost element Rate Case Expense downward to reflect an amortization over three years. Do you agree?

A. No. Staff's argument for a three year amortization has not been justified. The monies spent and allowed to be collected from ratepayers for this docket will be expended in a twelve month period. Amortizing these over three years based on Staff's argument that "the Commission typically allows recovery of rate case expense over a multi-year period" does not justify Staff's method or adjustment.

Q. Is there any regulation stating that the Company cannot file a rate case immediately after new rates are effective?

A. No. Thus, Staff's amortization should be rejected and the Rate Case cost element of $185,000 should be allowed.

Site Remediation

Q. Please summarize the SIR deferral balance at the start of the rate year.

A. The Staff Site Investigation and Remediation Panel agreed with the Company's recommendation to reflect residual deferral credits to the SIR balance at the start of the rate year. I have reflected this in my rebuttal Exhibit ___ (RMFA-7) at March 2017 which reduces my deferral balance at March 2017 to $14,829,407.

Q. What does the Staff Site Investigation and Remediation Panel recommend as a rate allowance for the SIR cost element?

A. The Staff Site Investigation and Remediation Panel adjusted the rate allowance downward from $5,000,000 to $3,820,000. The Staff Site Investigation and Remediation Panel testified that “Our proposal is supported by the calculations properly accounting for amortizations of the deferral balance and collection of costs to be incurred during the rate year.” The Staff Site Investigation and Remediation Panel used an amortization period of five years.

Q. Please explain the effect of the Staff Site Investigation and Remediation Panel’s properly accounted for calculations?

A. The Staff Site Investigation and Remediation Panel’s adjustments result in an increase of $1,180,004 in the deferral balance at March 2018 and an increase of $1,797,867 in the deferral balance at December 2018.

Q. Has the Staff Site Investigation and Remediation Panel adjusted the Company’s forecasted 2018 or 2019 expenditures?

A. No. As stated on page 15 of the Staff Site Investigation and Remediation Panel testimony, "we have reviewed the testimony and workpapers applicable to the SIR programs and costs of Distribution. Based on our experience in examining cost associated with similar SIR activities, we conclude that the projected costs are reasonable and generally consistent with the anticipated scopes of work for each site."

Q. Is Distribution forecasting an increase in their spending in calendar years 2018 and 2019?

A. Yes.

Q. Has the Staff Site Investigation and Remediation Panel provided any justification for using a five year amortization period?

A. No.

Q. What does this increase in costs and the Staff Site Investigation and Remediation Panel's recommended decrease in rate relief do to the deferral balance?

A. It causes the deferral balance to increase. This is in direct conflict to the Company's understanding that the Commission prefers not to have "deferral hockey sticks" that result in rate increases down the road.

Q. What is your recommendation?

A. As stated in my response to DPS-40, The Company is proposing a rate allowance for SIR of $5,000,000 which is an incremental $3,000,000 over the current SIR rate allowance of $2,000,000 in order to balance the need for rate relief and the impact on customers both now and in the future. The objective is to reduce the deferral balance of monies owed by the ratepayer to the Company in order to reduce the likelihood of rate hikes resulting from excessive deferrals. I, therefore,recommend the Commission adopt a rate allowance of $5,000,000 for annual SIR expense.

Meter Maintenance

Q. Has the Company adjusted the amount of expense for Meter Maintenance fees?

A. Yes. As responded to in DPS-31 follow-up, the amount of Meter Maintenance to be recognized in the Income Statement for ratemaking purposes should be ($8,000). The Company will reflect this in its final revenue requirement.

RDD

Q. The Staff Gas Policy and Supply Panel on page 40 states that the Company is not accounting for NYSERDA correctly and that it should be removed from the RDD budget and accounted for elsewhere. Where did the Staff Accounting Panel account for this cost?

A. The Staff Accounting Panel removed $902,000 from O&M under the Research and Development cost element and included $902,000 in O&M under the PSC Audits and Assessment cost element.

Q. Do you agree with Staff's proposal?

A. No. This proposed treatment is incorrect.

Q. Please describe why the Staff Accounting Panel reflected this proposal incorrectly.

A. The Staff Accounting Panel's adjustment of $902,000 of O&M has reduced the rate allowance for research and development from a request of $700,000 to ($202,000), meaning that the Company not only does not collect anything in rates for research and development but actually is passing back monies.

Q. Did the Staff Accounting Panel or the Staff Gas Policy and Supply Panel propose eliminating the Company's research and demonstration function?

A. No.

Q. Please describe the effect of the ($202,000) rate allowance and the removal of NYSERDA in RDD as proposed by the Staff Accounting Panel.

A. Referencing Exhibit ___ (RMFA-8), I have removed the NYSERDA portion of the Company's projection after April 1, 2017 when new rates would be in effect. I have also replaced the Company's proposed $700,000 in research and development allowed in rates with Staff Accounting Panel's proposal of ($202,000). The two changes increase the deferral balance at the end of the rate year to $463,111 and by December 2018 the deferral balance would be at $907,281. Again, this in direct conflict with the Commission's desire to avoid "deferral hockey sticks."

Q. The Staff Gas Policy and Supply Panel states that it is their understanding that NYSERDA does not perform any natural gas R&D. Please comment.

A. This is being addressed by the Energy Service Panel. I would request, however, that when new rates take effect, the Commission provide the Company a waiver for the required NYSERDA payment. If, in fact, NYSERDA is not performing any gas R&D and because Distribution is a gas only utility, there would be no reason for Distribution's rate payers to be supporting an entity from which they receive no benefits. Because these payments are a requirement, the Commission should provide the Company with the appropriate waiver from this requirement.

Inflation Rate

Q. The Staff Accounting Panel has provided an update to the Company's filed for inflation percentage. Have you updated the calculation?

A. Yes. As shown in Exhibit ___ (RMFA-9), using the August 10, 2016 Blue Chip Economic Indicators GDP Chained Price Index the inflation rate for the rate year is 3.90%. This would decrease the Staff Accounting Panel inflation adjustment to ($121,000).

Q. What are you recommending?

A. I am recommending that the final revenue requirement calculation to determine rates use the most current inflation factor as calculated by the Company.

Productivity

Q. Mr. Haslinger has applied a 1% general productivity adjustment. Did he provide any justification for doing so?

A. Mr. Haslinger's justification for a 1% adjustment was a reference to the GCP's testimony at page 15 regarding productivity gains of management employees. He then relies on the argument that the Commission has a long-standing policy of imputing a productivity adjustment. He did not provide any definitive measures or studies of productivity on which he relied.

Q. When computing his productivity adjustment, did Mr. Haslinger take into account the increase demands upon Company employees and resources due to all of Staff requested initiatives and reporting requirements set forth in Staff's Direct Testimony in this case?

A. No. Several areas of Staff testimony requested enhanced reporting requirements such as the DG/NGV initiative, gas safety infrastructure, damage prevention, performance measures, leak management and CSPI service terminations to name a few. Other Staff panels proposed initiatives for leak prone pipe acceleration and leak repair. These recommended actions by Staff all require additional resources but Mr. Haslinger provided no such expense increases, only an arbitrary reduction.

Q. Did Staff provide any insight on how these enhanced reporting requirements were to be funded?

A. Staff's response to NFG-DPS-158 (Exhibit ___(RMFA-11) opines that "A utility whose rates include labor as a cost component should be able to accommodate a reasonable level of increasing reporting requirements without ***increasing*** its costs" (emphasis added). Staff is arbitrarily ***decreasing*** the utility costs.

Q. The Staff Gas Safety Panel on page 18 recommended that "Distribution increase onsite inspections". Were additional revenues provided for this increase in inspection costs?

A. No. Per Staff response to NFG-DPS-109 provided as Exhibit ___(RMFA-12) "no additional funding was provided for onsite inspections".

Q. Did Staff provide an explanation of why Staff proposed no additional revenues for increased onsite inspections?

A. Yes. Also included in Staff's response to NFG-DPS-109 was Staff's rational "This increase in inspections should have been anticipated by

Distribution and should have been accounted for within its filing."

Q. Does Staff's response indicate that Distribution should have also anticipated a funding reduction for additional inspections by an arbitrary 1% or that increased inspections can be accomplished by a ***decrease*** in funding?

A. No they do not.

Q. Page 28 of the Staff Gas Safety Panel recommends that the backlog of total leaks be reduced to 1,600 by the Rate Year end. Did Staff provide any funding for this recommendation?

A. No. Exhibit ___ (RMFA-13) provides Staff's response to NFG-DPS-170 that "no additional funding was provided" for the proposed reduction in leak backlog. Additionally in response to NFG-DPS-157 Staff "believes there is adequate funding to reduce leaks", Staff did not provide an explanation of how the additional leak repairs were to be accomplished with funding reduced by an arbitrary 1%.

Q. How did Mr. Haslinger compute the standard 1%?

A. As stated on page 17 of his testimony "based on the Staff adjusted amounts of Labor, Benefits and Payroll Taxes".

Q. Did you verify his calculation?

A. Yes, using response to NFG-DPS-001 Mr. Haslinger provided his electronic work paper. I have incorporated this into Exhibit ___ (RMFA-10), correcting it for amounts represented on Exhibit ___(SAP-1) and removing benefits associated with Pensions and OPEBs per the Recommended Decision of Case 07-G-0141. In addition, Mr. Haslinger stated that his adjustment was based on productivity of management employees. Since management employees represent only approximately 35% of the labor expense, I have reduced Mr. Haslinger's adjustment to reflect only those labor and appropriate benefits costs applicable to management employees.

Q. Are you advocating a ($208,000) productivity adjustment?

A. No. As stated above and in the testimonies of Mr. Boyle and Mr. Crahen, no productivity adjustment is appropriate. However, if the Commission were to decide otherwise, the appropriate calculation that I have provided should be used and not Mr. Haslinger's.

Earnings Sharing Mechanism

Q. The Staff Policy Panel is recommending an Earnings Sharing Mechanism ("ESM"). Please describe Staff's proposal.

A. The Staff Policy Panel's recommendation is (in relationship to the

Staff proposed ROE of 8.6%) a mechanism that permits the Company to retain:

100%of earnings up to and including 9.1%;

50% of earnings from 9.1% up to and including 9.6%;

25% of earnings from 9.6% up to and including 10.1%; and

10% of earnings over 10.1%.

Q. Has the Company had an ESM previously?

A. Yes, the Company has participated in several ESMs. Most recently and currently still in effect in Case 13-G-0136 but also associated with Cases 04-G-1047, 00-G-1495 and 00-G-1858.

Q. Did the Company have an ESM in Case 07-G-0141?

A. No.

Q. Why not?

A. Case 07-G-0141 was a fully litigated proceeding.

Q. Why did the Company accept an ESM for Cases 00-G-1858, 00-G-1495, 04-G-1047 and 13-G-0136?

A. The ESM was part of an overall, multi-year settlement and such provisions are common in those settlements.

Q. What is the Staff Policy's Panel justification for an ESM?

A. The Staff Policy Panel claims that an ESM is appropriate because there will be future benefits associated with the Barcelona project. Staff has already reduced incremental Barcelona costs and testified that an additional 1% productivity is appropriate due to Barcelona and apparently wants to extract even more dollars through an ESM.

Q. Is the ESM a two-way mechanism?

A. No it is not. It is a one-way street that provides protection for ratepayers if the Company exceeds its allowed rate of return on equity but fails to provide any protection to the Company and its shareholders if earnings fall short of the authorized rate of return on equity.

Q. Is an ESM appropriate in this case?

A. No. An ESM is not appropriate in this proceeding because, among other things, it is a one-year, litigated rate case and not a multi-year rate settlement. I am also advised by counsel that there is no legal basis for imposing an ESM.

Q. Does this conclude your Rebuttal Testimony?

A. Yes, at this time.

BY Mr. NICKSON: (Cont'g.)

Q. And Ms. Friedrich-Alf, are you also sponsoring 3 exhibits to your direct testimony which were identified as RMFA-1 through RMFA-3, as well as 2 work papers that support those exhibits?

A. Yes.

Q. And in addition to the exhibits to your direct testimony, are you also sponsoring 10 exhibits to your rebuttal testimony, which were identified as RMFA-4 through RMFA-13?

A. Yes.

Q. And were documents prepared by you or under your supervision?

A. Yes.

Q. Do you have any corrections to those documents?

A. No.

MR. NICKSON: Your Honor, I would ask that those documents be marked to identification?

A.L.J. LECAKES: Absolutely. So we'll start with RMFA-1 and that will be Exhibit 285. RMFA-2, Exhibit 286; RMFA-3, Exhibit 287; the RMFA-1 work-paper will be 288. The RMFA-2 schedules 1-5 work-papers will be 289. RMFA-4 will be 290; RMFA-5, Exhibit 291; RMFA-6,

Exhibit 292; RMFA-7, Exhibit 293; RMFA Exhibit -- -8, Exhibit 294; RMFA-9, Exhibit 295; RMFA-10, Exhibit 296; RMFA-11 297; RMFA-12 298; and RMFA-13, Exhibit 299.

MR. NICKSON: Your Honor, the witness is available for cross-examination.

A.L.J. LECAKES: Thank you. The only, no -- do you have -- staff?

MR. FAVREAU: Yes.

A.L.J. LECAKES: Yes, do you have cross for --

MR. FAVREAU: Yes, we do.

A.L.J. LECAKES: -- this witness?

MR. FAVREAU: Yep.

A.L.J. LECAKES: Proceed.

CROSS-EXAMINATION

BY MR. FAVREAU:

Q. Good morning, Ms. Friedrich-Alf.

A. Good morning.

Q. I was reviewing your C.V. and your direct testimony. I think it's pages 1 and 2. And would it be fair to say that you are not a gas safety expert?

A. I am an employee of the distribution company.

Q. Do you have any gas safety experience, with -- with gas safety protocols?

A. No.

Q. Would it also be fair to say that you were not an expert in, like Mr. House, in capital expenditures?

A. I am aware of how the capital budget is prepared. I'm aware of how the capital budget is used in our revenue requirement. And I am -- I am also aware of the differences that Mr. House describes between how plant is put into service as opposed to how expenditures are -- are recorded as expenditures.

Q. Would you happen to know the composition of plastic pipe?

A. No.

Q. Okay. I'd like to refer you to your rebuttal testimony at page 9. And it's line 6 through 8. And I'll just read it in. I think you state, "Even though the expansion of service would be accomplished with new pipe, leaks could still occur." And could you point me to somewhere in your testimony that supports the basis for this comment, that leaks could still occur?

A. I believe that Mr. House testified yesterday or the day before that leaks do occur on plastic pipe. I believe he gave an example of a residential customer and a fence -- digging in a fence that it could -- it could damage the plastic pipe with a shovel.

Q. But there's nothing based on your experience, there's nothing that formed the basis for this comment. The basis for this comment was your understanding from a third party, from someone else?

A. From another witness in our -- on our case, yes.

Q. I'd just like to turn to some questions about the inflation pool? I believe, pertinent, and most of these questions will be on page 2 to page 6 of your rebuttal.

A. Okay.

Q. I guess, initially, could you identify the items in your inflation pool for me? I think you mentioned in, I think it's page 12 of your direct and it's also in your exhibit?

A. That would be correct. Would you like me to repeat them?

Q. Sure, that'd be great.

A. Okay. As I state on page 2 of my rebuttal testimony, the inflation pool for the company consisted of LICAAP cost element, contractors, dues, environmental cost element, equipment rentals, injuries and damages, material, office employee expense, other expense, other insurance, postage, promotional expense, rent, transportation expense, UNICAP and utilities expense.

Q. Could you tell me are healthcare costs, are they contained in that inflation pool?

A. Healthcare costs were defined in benefits and it is in the benefit cost element and portions of the benefit cost element were done by inflation and other portions of the benefit cost element were not.

Q. Can you tell me who -- who identifies what items are in in the inflation pool?

A. I identified the items that we used in the inflation pool for this revenue requirement.

Q. And I believe staff made 2 adjustments to the -- to the elements in the inflation pool, is that correct?

A. Yes. Staff made 2 adjustments to the inflation pool cost elements.

Q. Would you just discuss your understanding of what those adjustments are?

A. I believe that Mr. Haslinger made a downward adjustment to the contractors and staff accounting panel made a downward adjustment to material expense.

Q. And dealing with Mr. Haslinger, when you say downward adjustment, what exactly, to the best of your knowledge, did Mr. Haslinger recommend?

A. Mr. Haslinger normalized a specific payment out of the contractor cost element.

Q. Do you know the dollar value of that payment?

A. Per Mr. Haslinger's testimony on page 32, he has a 1.148 million to a vendor named HCL. And then page 33, it concludes on line 3 and 4 that staff reduced contractors and outside services cost element by 1.197 million.

Q. Were either of those -- to the best of your knowledge, either of those payments one-time payment?

A. They were a payment to the contractor in there that Mr. Boyle, I believe, answered in interrogatories.

Q. Were those payments expected to re-occur, happen every year, including the rate year?

A. That specific payment?

Q. Correct.

A. That specific payment, no. However,

as stated in the Judge's decision, that I quote for what is considered to be the inflation pool, the Judge made a very distinct decision where he talked about or she talked about, they talked about that actually said on page 4 of my rebuttal testimony, that it -- that it said staff in response says it has gone along with the general procedure of adding an inflation allowance to the historic expenditure level, which that payment was in. But the reasonableness of that process breaks down when what is intended as expeditious means to a fair projection becomes a perpetual upward cost trend, which occurs if the company succeeds in winning separate allowances for both past non-recurring expenditures increase for inflation and new prospective expenditures identified to specific functions.

Q. Initially, that -- that opinion, that's -- it's what? Over 30 years old, is that correct?

A. That opinion came from the 94-G-O885, which was issued in effect of September 15th, 1995.

Q. And if I'm not mistaken, it was -- I think we were talking about this yesterday. It is so outdated that in fact the Judge had to send around the RD in that case, is that correct? Do you recall that?

A. I believe that the DMM system for the electronic system of the Commission did not have it, but

I'm sure that the paper system of the Commission has it.

Q. So is it your contention that once the company puts an item in the inflation pool, that it is excluded from further party review?

A. For review, no. And I believe staff has reviewed considering the amount of interrogatories I got, I believe staff has reviewed.

Q. Would you -- is it your position that once reviewed, that a party cannot audit or make an adjustment to those items?

A. I believe what the Judge was saying that from the order that I just quoted was that the theory behind the inflation pool is that there would not be adjustments to the inflation pool.

Q. So your proposal is based -- is solely based on that opinion, is that correct?

A. That was justification for adjustments that were made in that case of why the company's adjustments were not accepted. And I don't believe that many things have changed in that theory since I looked at the '13 case that was settled. I looked at the '07 case, which I believe was not settled. I looked at the '04 case, which was settled and the theory in those last more recent cases was very, very similar.

Q. So it's your position that there is an abnormal one-time payment that you would skew that element?

MR. DELVECCHIO: Your Honor, we object, object to the abnormal characterization.

A.L.J. LECAKES: I'm going to let -- this is actually the second or third time that counsel has characterized certain things that he said. I'm going to let the question stand as they are but I -- I will let the company know that I understand that it is staff counsel's representations and adjectives -- and not necessarily that when the witness answers the question that she agrees with those characterizations. Go ahead, Mr. Favreau.

BY MR. FAVREAU: (Cont'g.)

Q. So it is your proposal when there is a substantial one-time payment that would skew or potentially skew the averaging of that element, it should -- it should remain under all circumstances given your interpretation of that order.

A. I believe the order was based on the theory that staff did not agree that the company had made adjustments that could have been a -- you know, a onetime adjustment to the element. And the idea was that the company's adjustment was not going to be allowed because it was considered to be outside of the inflation pool theory. I would say that the one-time, as you call it, HCL payment may have occurred in the historic test year but staff did not take into account or look at any of the payments that did not take place in the historic test year that could be taking place in the rate year. For example, we're going to continue to put our CIS system in. We will have other contractor dollars associated with that CIS part of the system. We are also putting in the PFI system, which is the pipeline facilities inspection program. Those will also have contractors but we did not put those in in the rate year with the theory that we have contractor dollars, some contractors go out, some contractors come in. As the Judge also said, I believe said that some increase higher than inflation and some decrease lower than inflation with the general theory that it's -- it's a construct.

Q. So -- so if the company incurred, let's say, a $5 million expense charge in the historic year, and after staff's review and audit, staff determined that it would not incur that same expense in the rate year, it's your position that that should be ignored by staff and there should be no adjustment?

A. If staff is saying that element should not be in the inflation pool, then staff should be making that as their argument. I don't believe my interpretation of staff's testimony did not take those elements out of the inflation pool because they -- after they adjusted, then they had added inflation to it, which is exactly what the Judge was talking about in that order.

About the idea that when you make adjustments and then apply inflation again, which would then, in my opinion, means it stays in the inflation pool, it is -- it's not with the same theory as what the inflation pool is I think designed for.

Q. Not to be argumentative but isn't that slightly form over substance? Staff, I think you said that -- that staff made an adjustment and implied inflation, right, Mr. Haslinger?

THE REPORTER: I'm sorry. Was there a response?

THE WITNESS: Oh, I'm -- yeah. Sorry.

BY MR. FAVREAU: (Cont'g.)

Q. And -- and then you presumed that then that item was still in the inflation pool because you initially proposed it to be in the inflation pool. Is that correct?

A. I don't remember reading anything in

either the staff's testimony that said that they were removing it from the inflation pool.

MR. FAVREAU: I have nothing further, Your Honor.

A.L.J. LECAKES: Mr. Mager?

CROSS-EXAMINATION

BY MR. MAGER:

Q. Good morning. I just have one line of cross-examination pertaining to your direct testimony starting at page 9, please. Specifically, I'd like to ask you about the NRG amortization cost element. Am I correct that this cost element relates to a gas pipeline project to connect with the non-incurred electric generating facility that had proposed to refuel its -- its facility from coal fire to gas fire?

A. That would be correct.

Q. And on page 10, referring to the approximate $3.6 million expense, you said -- you say at the top of page 10 that distribution spent these dollars at the request of the Commission, do you see that?

A. That would be correct.

Q. And is that in any -- was that request in any order that you're aware of?

A. I don't believe it is.

Q. Is that request in any writing that you're aware of?
A. I am not aware. I don't know.
Q. Okay. I'd like to make on the record a request for any writings from the Commission requesting that NFG indicate this project?
A. I know many meetings were held. But I don't, I was not party to most of those meetings and I don't know who those meetings were with.
A.L.J. LECAKES: Mr. Mager, is your request for documentation from the company still standing?
MR. MAGER: Yeah, I'd like to know if there was any written request that the company undertake it.
A.L.J. LECAKES: Does the company --
MR. DELVECCHIO: I can --
A.L.J. LECAKES: -- have enough specific information to understand the request that's being made?
MR. DELVECCHIO: It's a bit confusing, Your Honor. I -- you know, we've been in discovery now. This -- this testimony was filed back in April and we've answered hundreds and hundreds of interrogatories on it. And I'm a bit surprised that this request is coming now during cross-exam and I feel it's a bit inappropriate.
A.L.J. LECAKES: No I -- I don't agree. I

do think that it was elicited from -- from the witness. I think the request itself, I'm willing to grant it but I -- I -- the concern that I have is I don't want you having to do a needle in a haystack search. So I -- I just want to know if there's enough specific information that Mr. Mager's given that you understand the documents he's looking for. Mr. Mager, can you?

MR. MAGER: I can try to clarify, Your Honor.

A.L.J. LECAKES: Yeah, that would be good for my purposes.

MR. MAGER: Okay. My request pertains solely to the sentence on lines 1 and 2 of page 10. Where the witness states --.

A.L.J. LECAKES: Are we in the rebuttal or the direct?

MR. MAGER: No, the direct.

A.L.J. LECAKES: Okay. Let me pull that. Just a moment, please.

MR. DELVECCHIO: Your Honor, can we take a moment just to discuss?

A.L.J. LECAKES: Yeah, let's go off the record.

MR. VECCHIO: Thanks.

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(Off the record)

A.L.J. LECAKES: Let's go back on the record. Off the record, while the company was holding a conference among itself to discuss the request, I looked a little bit more at Mr. Mager's request in the direct testimony of Ms. Friedrich-Alf.

It actually begins on page 9 and goes over to page 10. It's in the answer to a question starting on line 15, please describe the NRG amortization cost element. And on the top of page 10 in the middle of the response, the witness responds distribution spent these dollars at the request of the Commission. As far as I understand it, that is what has led to the question, so I -- I do now understand the concern that the company has that the request wasn't made during discovery, however, Ms. Friedrich-Alf, do you know if there was any writing that documents this request to the Commission that you mention on line 22?

THE WITNESS: I do believe that the Governor made announcement in Dunkirk that the coal plant would be re-generated under natural gas. I do believe we have had meetings with staff, probably with emails, was there a Commission order on this, I don't believe that's correct, but I do believe that the company would not have undertaken this had it not been encouraged and directed to by the Commission.

A.L.J. LECAKES: It sounds to me, in your answer though, that it's more than just direct Commission request, which is -- is what the testimony sounds like and more of overall feeling that perhaps the Governor's office, DPS staff, the Commission and -- and a bunch of -- of public officers seem to encourage this. Is that where your testimony is more geared toward?

THE WITNESS: I guess, the intent of my -- my testimony would be is that the company would not have -- would not have undertaken this project without the urging from the Governor, Commission staff people.

A.L.J. LECAKES: I appreciate that. Mr. Mager, would you still like to see any documentation, written documentation that exists that supports that -- that more broad prospective?

MR. MAGER: Let -- let me try to follow-up with some questions --

A.L.J. LECAKES: Absolutely.

MR. MAGER: -- to make sure I understand this.

A.L.J. LECAKES: Go ahead. Proceed.

MR. MAGER: Then maybe we can, revisit a

narrow request.

A.L.J. LECAKES: Definitely.

BY MR. MAGER: (Cont'g.)

Q. Okay. You mentioned that a number of different parties, I guess, I'd like to just explore that. To -- to your knowledge, did the Governor ever request NFG to build this project?

A. The Dunkirk plant that the Governor announced would be gas fired resides in National Fuel's territory.

Q. Okay. Did the governor, to your knowledge, ever make a direct request to NFG to build a pipeline project for this plant?

A. Being that it's in the company's territory, I don't believe that the governor would have had to make a request to NFG because I don't know who else could have built it.

MR. DELVECCHIO: Yeah, and I -- I guess from the company's prospective, we'd be happy to -- if Mike has an IR request that he could serve, we could look at it on an expedited basis, Your Honor, and see if we could find the people that might have this information respond.

A.L.J. LECAKES: I appreciate that, Mr. Del

Vecchio, but I think Mike -- Mr. Mager is trying to figure out exactly what he will be looking for, if anything, at the end of this line of questioning. Go ahead, Mr. Mager.

MR. DELVECCHIO: Okay.

BY MR. MAGER: (Cont'g.)

Q. Sure. Putting your assumptions aside, are you aware of any explicit request from the Governor's office to NFG to undertake a gas pipeline project related to Dunkirk?

A. I have not seen any explicit request from the Governor to myself or the team that I know that was doing this project or the -- the revenue part of the project, no.

Q. Okay. And so you're -- you also mentioned the Commission and staff, let's take them separately. Are you aware of any explicit request from the Public Service Commission that NFG undertake this project?

A. Who are you defining as Public Service Commission?

Q. The five commissioners.

A. I don't have knowledge of that.

Q. Are you aware -- okay, I meant finally putting any assumptions aside, are you aware of any explicit request from the Department of Public Service staff that NFG undertake this gas pipeline project?

A. There were meetings with Public Service Commission staff people and the company people regarding this. And it was, in my opinion, on an expedited basis because the timeframe was very short of when something like this were to be gone in, and the company was very accommodating to staff people and did many things and spent lots of money to accommodate or something that is now in litigation and not going to go forward.

Q. And just so I'm clear to see whether I need to ask for anything or not. When you state on lines 1 and 2 on page 10, distribution spent these dollars at the request of the Commission. Would it be more accurate to say that distribution spent these dollars at the request of staff, Department of Public Service staff?

A. If you are tying the word request to meaning written request, which is not what it says, it just says request, I could have probably put down at the request of the Governor because he was the one who announced it.

Q. Well, I'm looking -- I'm more interested in an explicit -- whether there was an explicit request. As far as I can tell and please correct me, I don't want to mischaracterize your testimony, that there was no explicit request from the Governor, there was no explicit order or request from the Commission when we have our meetings with staff. Is that fair?

A. I'm not aware of an order that came out of the 5 commissioners. I am not aware of any written request from the governor. I am aware of public newspaper articles where the governor was quoted, that it was going to be repowered. That it was going to be repowered in an expedited fashion on a very short timeframe. I know that our company worked diligently and spent money in order to make that try to happen.

Q. Isn't it true that there was another proposal, provided gas to the Dunkirk generating facility?

A. I am vaguely aware of that.

Q. Do you know whether that was a proposal to -- to interconnect facility directly to the interstate pipeline?

A. I am not aware of the details of the proposal.

Q. Are you aware whether the refueling project that Dunkirk has even started in terms of the work?

A. The company has spent -- has spent money acquiring materials, et cetera, up and to a point where the project did not appear to be going forward and then the company stopped.

Q. The company started constructing the pipeline?

A. The company was making preparations, including doing surveys, I believe there was wetlands and there was, back of my mind, I'm remembering some type of migratory bird that needed to be accommodated, permitting, so the company has -- was down the pathway and has spent money to accommodate this.

Q. Now, would you agree with me that the -- the gas pipeline project currently is not used and useful?

A. Which pipeline is not used and useful?

Q. The one that NFG was developing.

MR. NICKSON: Objection, Your Honor, the question asks for a legal conclusion.

A.L.J. LECAKES: I agree. Sustained.

BY MR. MAGER: (Cont'g.)

Q. Has NFG put the staff's pipeline project into service?

A. I believe that the company has stopped everything dealing with this project.

Q. Does the company currently project to receive any revenues from the project?

A. There are no revenues in their current revenue requirement for this case, from this project.

Q. On page 10, you state, starting on line 4, "Distribution is proposing to recognize $1,320,988 of pipeline purchases and rate based material and supplies." Do you see that?

A. Yes, I do.

Q. Can you -- can you explain to me what -- what you mean by recognizing that expense. What's -- what's the impact of that?

A. The impact is that $1,320,988 was included in the rate-based portion, materials and supply rate based portion of the revenue requirement for the rate year.

Q. When you said recognized, that means seeking recovery out of this part of the revenue requirement?

A. That would be correct.

Q. And also seeking a return on it?

A. That would be correct.

Q. And when you say you've included

annual amortization -- I'm sorry, withdrawn. Then when you say the remaining $2,303,375 to be amortized over 10 years, that's also seeking recovery of that expense in the revenue requirement in this case, right?

A. That would be, we have recognized $230,337 in O&M expense for the first year amortization and the remainder is the unamortized portion is in rate base.

Q. So the -- and the -- and the company would be earning a return on the unamortized portion?

A. It is rate base.

Q. The answer is yes?

A. Correct.

Q. Does the company currently have plans to re-utilize any of the materials required for purposes of this project?

A. Not to my knowledge, no.

Q. All right. Is the pipeline contemplated unique in some way that it could not be re-utilized elsewhere on the company's system?

A. I believe, and I would have to say, I believe Mr. House would probably be a better respondent to that. But I believe that the pipe size for that project is not a normally used pipe size for distribution.

Q. Did the -- did the company ever get approval from the Commission to build this pipeline?

A. I think I already responded that I have not seen any orders regarding this pipeline.

Q. Okay. Yeah, and I just -- I want to be clear because this is separate from my prior question about a request. Do you know, if -- if the company submitted an Article 7 Application to build this pipeline?

MR. DELVECCHIO: Your Honor, I believe the company did file an Article 7 permit for -- for the pipeline.

A.L.J. LECAKES: And if the witness is aware of that, she can respond.

THE WITNESS: I've been advised by my counsel that the company has filed an Article 7.

BY MR. MAGER: (Cont'g.)

Q. Do you know whether that Article 7 was ever granted to the company?

A. Can I be advised by my counsel again?

A.L.J. LECAKES: Or you can answer based on your personal knowledge.

THE WITNESS: My personal knowledge, I do not.

MR. FAVREAU: I -- I don't recall, Your

Honor. It -- it should be in the record, there was a case number signed with the Article 7 filing.

A.L.J. LECAKES: Yeah, I believe there probably would have been a case number regardless if the Commission has taken an action or not, so.

MR. MAGER: Thank you, Your Honor, I do not have anything further. And I do not think I need any --.

A.L.J. LECAKES: Documents. Understood. Thank you. Ms. Friedrich-Alf, does the company have -- and this is only to your personal knowledge, following up on Mr. Mager's questions. Does the company have any program by which it has materials that it -- it purchased and then sells them potentially on a secondary market if it wasn't able to use them, to recover some of the costs that were expended?

THE WITNESS: I am not aware of that. But I do believe that this pipe size was not -- and again, not our normal pipe size, so I don't -- I don't know what -- if there was any plan for it, I just -- I do know that we have spent the money and there is no knowledge -- I do not have any knowledge that they were going to.

A.L.J. LECAKES: Right. No, I -- I understand your position at the company and I understand the purpose of -- of this testimony and I was just curious if you knew about any secondary sales.

Company, if you want to approach for re-direct and we can go off the record so that I'm --

MR. NICKSON: Maybe a minute. Okay.

(Off the record)

A.L.J. LECAKES: Okay, let's go back on the record. Company?

MR. DELVECCHIO: Your Honor, we have no re-direct.

A.L.J. LECAKES: All right, thank you. Ms. Friedrich-Alf, you are excused.

THE WITNESS: Thank you.

A.L.J. LECAKES: Good. The staff, please call their next witness or panel.

MS. WOEBBE: Your Honor, staff calls the Gas Rates panel.

A.L.J. LECAKES: Okay, panel members, when you're ready, could you please identify yourself by your name and your business address?

MR. TUSHAJ: My name is Michael Christopher Tushaj. And my business address is 3 Empire State Plaza, Albany, New York.

MR. RIDER: Aric Rider, same address.

MR. MCADOO: Scott McAdoo, same address.

A.L.J. LECAKES: Panel members, could you please stand and raise your right hand? Do you swear or affirm that the testimony you're about to give today is the whole truth?

PANEL: Yes.

MICHAEL C. TUSHAJ; Sworn

ARIC RIDER; Sworn

SCOTT MCADOO; Sworn

A.L.J. LECAKES: You may be seated. Ms. Woebbe, please continue.

DIRECT EXAMINATION

BY MS. WOEBBE:

Q. Members of the Gas Rates panel, has your pre-filed testimony for this case been prepared by you or under your supervision?

A. (Tushaj) Yes.

Q. Is the 100-page document in front of you that testimony?

A. Yes.

Q. Do you wish to make any changes to that testimony?

A. Yes, we do.

Q. What changes would you like to make?

A. So we have two corrections for typos.

The first being on page 17, line 21, to correct a typo, it should read 0.2% and not 1.2%. The next correction would be on page 52, line 7, to correct a typo in the dates. It should read the first delay was from July 2015, not 2105.

MR. FAVREAU: And, Your Honor, we will -- if you like, we will email you those -- that corrected testimony like we did previously. It's up to you.

A.L.J. LECAKES: You know, we have the corrections read into the record. There's just two of them, so --

MR. FAVREAU: Right.

A.L.J. LECAKES: -- I'm good with that, so.

MR. FAVREAU: Okay.

A.L.J. LECAKES: Can we go off the record for a second?

THE REPORTER: Yes.

(Off the record)

A.L.J. LECAKES: Okay. Let's go back on the record.

BY MS. WOEBBE: (Cont'g.)

Q. Panel members, if I were to ask you today the same questions as those in your prepared testimony, would your answers be the same noting the corrections on page 17 and page 52?

A. (Tushaj) Yes.

MS. WOEBBE: Your Honor, I ask that the panels' testimony be incorporated into the record as if given orally today.

A.L.J. LECAKES: Yes, so granted. And this is on the Staff provided testimony disc. So the file that should be inserted at this point is staff gas rates panel corrected clean testimony. And we will read it with the additional two corrections that were just made by staff on the stand. Proceed, Ms. Woebbe.

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

National Fuel Gas Distribution Corporation

Cases 16-G-0257

September 2016

Prepared Testimony of:

Staff Gas Rates Panel

Aric J. Rider
Utility Supervisor

Michael C. Tushaj
Utility Engineer 1

Scott McAdoo
Junior Engineer

Office of Electric, Gas, and Water
State of New York
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

Introduction and Qualifications

Q. Members of the Department of Public Service Staff (Staff) Gas Rates Panel (Panel), please state your names, employer and business address.

A. Our names are Aric Rider, Michael C. Tushaj, and Scott McAdoo. We are employed by the New York State Department of Public Service (Department) and our business address is Three Empire State Plaza, Albany, New York 12223-1350.

Q. Mr. Rider, in what capacity are you employed by the Department?

A. I am employed by the Department as a Utility Supervisor, currently assigned to the Gas and Water Rates Section of the Office of Electric, Gas and Water.

Q. Mr. Rider, please provide a summary of your educational background and professional experience.

A. I hold a Bachelor of Science Degree in Civil Engineering Technology, which I received in 2001 from the State University of New York Institute of Technology at Utica/Rome. Within the Office of Electric, Gas and Water, I am currently assigned to the Gas and Water Rates Section. I previously have been assigned to the Major Utility Rates, Gas Rates, Gas Safety, Gas Policy and Supply and Electric Rates Sections. My duties involve the engineering analysis of utility operations as they relate to the ratemaking process, as well as participating in various reviews of local distribution companies' activities.

Q. Mr. Rider, have you previously testified before the Public Service Commission (Commission)?

A. Yes, I have testified in several proceedings before the Commission regarding sales forecasts, revenue imputations, operation and maintenance expenses, depreciation, capital planning, development of net plant, cost of service, revenue allocation, rate design, merchant function charges (MFC), revenue decoupling mechanisms (RDM), gas safety performance mechanisms and tariff issues.

Q. Mr. Tushaj, what is your position in the Department?

A. I am a Utility Engineer 1 in the Office of

Electric, Gas and Water in the Gas and Water Rates Section.

Q. Please briefly describe your educational background and professional experience.

A. I received a Dual Bachelors of Science in Civil Engineering and Environmental Engineering from Clarkson University in 2007. After graduating from Clarkson University, I obtained a Master of Science in Water Resources Engineering from Lund University located in Lund, Sweden. After graduating from Lund University, I worked for Eastman Kodak Co. as a contracted Software Quality Assurance engineer. My responsibilities included project management of multiple digital accessories, error regression testing and authoring and implementing digital testing procedures. In 2013, I joined New York Spring Water Co., where my responsibilities included CAD drafting, water quality assurance, process engineering and hydrological testing of spring head flow rates. I joined the Department in 2014 as a Junior Engineer.

Q. Please describe your duties in the Office of

Electric, Gas and Water.

A. The majority of my duties have been focused in the Gas and Water Rates Section, where I have focused on several aspects of utility engineering, including customer and volumetric forecasting, the designing of delivery rates, revenue allocation, sales price outs, capital expenditures (CapEx) review, merchant function charges, gas adjustment clause (GAC) reconciliations, franchise expansions, and small water rate cases.

Q. Have you previously testified before the Commission?

A. Yes. I have previously testified to Lost and Unaccounted For (LAUF) gas and depreciation rates in Case 14-G-0319, regarding gas rates for Central Hudson Gas & Electric Corporation. I have also testified to sales forecasting, revenue price out, rate design, depreciation, MFC, Delivery Rate Adjustment (DRA), and RDM in the St. Lawrence Gas Company rate case, Case No. 15-G-0382.

Q. Mr. McAdoo, what is your position in the

Department?

A. I am a Junior Engineer in the Office of Electric, Gas and Water in the Gas and Water Rates Section.

Q. Please briefly describe your educational background and professional experience.

A. I graduated from the State University of New York at Canton in 2009 with an Associate's degree in Engineering Science. I then graduated from Clarkson University in 2011 with a Bachelor's degree in Chemical Engineering. After Clarkson, I worked for B&W Fluid Dynamics and conducted precommissioning/cleaning phases for construction projects. After working for B&W Fluid Dynamics, I received a master's degree at the State University of New York Colleges of Nanoscale Science and Engineering in 2015. I joined the Department in 2016 as a junior engineer.

Q. Please describe your duties in the Office of Electric, Gas and Water, Gas and Water Rates Section.

A. My duties in the Gas and Water Rates Section have been focused on several aspects of utility engineering including CapEx review, depreciation review, escrow account review and small water rate cases.

Q. Have you previously testified before the Commission?

A. No.

Summary of the Testimony

Q. What is the purpose of the Panel's testimony in this proceeding?

A. Our testimony will address National Fuel Gas Distribution Corporation's (Distribution or the Company) rate proposal in the following areas: (1) the Customer and Volumetric forecasts; (2) the price out of revenues at current rates; (3) the scope of our review of the Company's capital budgets; (4) the Company's capital budgeting process; (5) the Company's proposed capital expenditures by budget category; (6) reporting requirements; (7) depreciation rates; (8) development of net plant and depreciation expense, (9) our review of the Cost of Service (COS) study; (10) revenue allocation; (11) rate design; (12) capital investment reconciliation mechanism; (13) main replacement unit cost caps; and (14) system upgrade and modernization tracking mechanism. We will recommend an overall level of CapEx for the twelve months ending March 2018 (Rate Year or RY). Our testimony will also recommend a level of net plant and depreciation expense to be reflected in the revenue requirement for the Company. It is our position that the Company should spend at the levels it deems appropriate to provide safe and adequate service. We are, however, recommending adjustments to the capital programs, which will impact the amount of net plant in service balances and depreciation expense. These adjustments reflect the level of capital additions we believe the Company has justified in its initial testimony and responses to requests for information during the discovery phase of this proceeding.

Q. Please describe the Panel’s overall revenue forecast recommendations.

A. Staff’s recommends adjusting the customer and volumetric forecasts that result in total sales and transportation revenues of approximately $424.54 million and $114.62 million, respectively.

Q. Please describe the Panel's overall capital expenditure adjustments and recommendations.

A. We made two adjustments: (1) the total cost of the Barcelona project is reduced by $5 million with $3.74 million allocated to New York in the linking period and (2) based on our review of the unit cost projections for the accelerated Leak Prone Pipe (LPP) replacement program, we reduced the Company's Rate Year budget by $1.39 million.

Q. Please describe the Panel's depreciation expense adjustments and recommendations.

A. We adjusted the depreciation rates for accounts 367.1 mains-excluding cathodic protection, 375 structures and improvements, and 376.4 mains-plastic. We recommend that the plastic mains account be divided into two separate accounts moving forward, so that more accurate future deprecation rates for earlier brittle vintages and later polyethylene vintages of plastic main can be developed.

Q. What is the impact of the Panel’s recommended adjustments to the Company’s forecasted capital investment plan and depreciation rates in the Rate Year?

A. We recommend capital expenditure adjustments that are project and program specific and which, overall, decrease the plant in service levels in the Rate Year. We incorporated our adjustments, on a fiscal year (FY) basis, into the Company’s net plant model to develop an average net plant level for the Rate Year, which resulted in an overall decrease in Net Plant of $7.18 million and a decrease in depreciation expense of approximately $5.22 million. We provided our average net plant balance and annual depreciation expense forecasts to the Staff Accounting Panel.

Q. Please summarize the Panel’s remaining recommendations.

A. We make additional recommendations on capital reporting requirements, revenue allocation, rate design, capital investment reconciliation mechanism, unit cost caps for additional main replacements and the new surcharge mechanism.

Q. In your testimony will you refer to, or otherwise rely upon, any information obtained during the discovery phase of this proceeding?

A. Yes. We will refer to various information request (IR) responses throughout our testimony. All of the IR responses are included in Exhibit__(SGRP-1).

Q. Are you sponsoring any additional exhibits?

A. Yes. We are sponsoring 9 additional exhibits:

- Exhibit__(SGRP-2) – Customer Trend Graphs;
- Exhibit__(SGRP-3) – Margin Outline;
- Exhibit__(SGRP-4) –Actual, Budget, and Forecast Capital Investment Graphs and Table;
- Exhibit__(SGRP-5) – Historic and Forecasted Leak Prone Pipe Reduction Graph;
- Exhibit__(SGRP-6) - Summary of Gas Net Plant In Service and Depreciation Expense;
- Exhibit__(SGRP-7) – Depreciation Accrual Rates;

- Exhibit__(SGRP-8) – Revenue Allocation;
- Exhibit__(SGRP-9) – Rate Design; and,
- Exhibit__(SGRP-10) – Customer Bill Impacts.

Customer and Volumetric Forecasts

Q. Please describe how the Company developed its customer and usage forecasts.

A. As stated on pages 3 through 5 of the Company's Volumetric Forecasting Panel's pre-filed testimony, the Company developed a five year estimate to forecast gas consumption of its customers, which are segmented into four different marketing groups: (1) Residential, (2) Commercial, (3) Public Authority, and (4) Industrial. In addition to these groups, the Industrial group is further broken down into both small and large Industrial customers based on an annual consumption threshold of 55,000 Mcf. The Residential, Commercial and Public Authority groups are estimated using econometric forecasts for use per account, which are then applied to the historic level of customer accounts. The forecasted consumption levels for the small industrial marketing group were forecasted to remain constant at historic consumption levels. However, for the Large Industrial customers, the Company's major account representatives contact each customer to determine the estimated annual throughput based on specific need of the customer, taking into account any event that may alter consumption levels.

Q. Does the Panel agree with the Company's customer forecasts for the Residential and Commercial marketing groups during the Rate Year?

A. No. For example, the Company forecasted the number of accounts for the residential group to remain constant at the historic 2014 levels.

Q. How did the Panel develop the customer forecast?

A. Our methodology utilized historic data and linear regression analyses, which we believe more accurately represent customer connections that will occur during the Rate Year.

Q. What is a linear regression?

A. A linear regression is a statistical technique used to model the relationship for a set of data. The results of a linear regression provide an R-squared value, and two coefficients, one being the slope of the line and the other being the y-intercept. Using these two coefficients and the equation of a line (y = mx + b), it is possible to reasonably predict future trends.

Q. What is the R-squared value and what does it mean?

A. The R-squared value is a statistical term that indicates how well the line fits to the data, which ranges from 0.0 to 1.0, 1.0 being a perfect fit. For any R-squared value below 0.9 it was determined that the historical data did not show a high enough correlation and the regression analyses for that group was not utilized in our forecast.

Q. Describe how the Panel used linear regression analysis to develop its customer forecast for the Residential, Commercial, and Public Authority marketing groups.

A. We employed linear regression over the latest known three year period from May 2013 to April 2016 in order to develop our customer forecast for the associated marketing groups during the Rate Year using historic number of accounts. We sourced data from the Company's response to DPS-33 (Exhibit__(SGRP-1), Page 2) and pre-filed Company Exhibit__(VFP-4), Schedule 2; Exhibit__(VFP-5), Schedule 2; and Exhibit__(VFP-6), Schedule 2 for Residential, Commercial, and Public Authority groups, respectively. A graphical representation of Staff's Customer forecasts is outlined in Exhibit__(SGRP-2).

Q. Briefly describe the results of the Panel's customer forecast for the Residential and Commercial marketing groups.

A. Our analysis of the historic data showed a good statistical fit, an R-squared value greater than or equal to 0.9, for both the Residential and Commercial marketing groups.

Q. Did the Panel include any additional customer growth for the Residential marketing group?

A. Yes. Staff included additional growth, above the observed level of the trend, to coincide with the Company's gas expansion pilot programs. The additional growth is discussed in further detail in Staff's Gas Policy and Supply Panel testimony.

Q. Does the Panel agree with the Company's customer forecast for the Public Authority marketing group?

A. Yes, in part. Our customer forecast for the Public Authority marketing group showed a poorer statistical fit, an R-squared value less than 0.9. Although the R-squared value proved the trend was not statistically as good of a fit to the data, Exhibit__(SGRP-2) shows customer accounts climbing from the end of 2014 to present. With that being said, it is possible that in the future more public authority customers will be added at some rate less than the slope of the trend line. Ultimately, we decided to be conservative and hold public authority customers constant as of our latest available data. Additionally, we recommend that the public authority forecast be updated based on the most recent actual data in the Company's rebuttal filing.

Q. Does the Panel agree with the Company's customer forecast for the small and large industrial marketing groups?

A. Yes.

Q. Please describe the Company's Use per Account (UPA) forecasting methodology for the Residential, Commercial, and Public Authority marketing groups.

A. As described on page 9 of the Company Volumetric Forecasting Panel's pre-filed testimony, Distribution utilized econometric modeling to forecast UPA for the Residential, Commercial, and Public Authority marketing groups. For each of these three marketing groups, the Company's UPA forecasts incorporated two specific independent variables: (1) monthly heating degree days (HDD) based on the annual average of the Company's 21 billing cycles, and (2) a twelve month lag of the average monthly price of gas per Mcf.

Q. Does the Panel agree with the Company's UPA forecasts for the Residential and Commercial marketing groups?

A. No. For the Residential and Commercial marketing groups, Staff applied the base and slope variables from the regression between HDD actuals and UPA actuals against the normalized, thirty year average HDD. The regression was based on the three year period from May 2013 through April 2016 and attempted to describe the relationship between a specific customer group's usage and changing weather.

Q. What was the result of the Panel's UPA forecasts for Residential and Commercial marketing groups during the Rate Year?

A. Staff forecasted UPAs of 106.85 and 558.50 Mcf per account for the Residential and Commercial marketing groups, respectively, during the rate year.

Q. What UPA did the Company forecast for the Residential marketing group during the rate year?

A. The Company forecasted 106.59 Mcf per account during the rate year, 0.26 Mcf per account, or 1.2%, lower than Staff's forecast.

Q. What UPA did the Company forecast for the Commercial marketing group during the rate year?

A. The Company forecasted 557.82 Mcf per account during the rate year, 0.68 Mcf per account, or 0.1%, lower than Staff's forecast.

Q. Does the Panel agree with the Company's UPA forecasts for the Public Authority marketing group?

A. Yes. Based on our analysis, we believe the UPA is reasonable.

Q. Does the Panel have any other recommendations regarding the Company's customer and volumetric forecasts?

A. To the extent that the Company has not included all customers and volumes related to its Area Development Program, the final customer forecast should be updated to reflect the correct current number of customers and their associated volumes in the Company's rebuttal filing.

Rate Year Revenues at Current Rates

Q. Please identify the components of Distribution's operating revenues.

A. Distribution's total operating revenues, as presented in Exhibit__(JRB-1), are comprised of (i) total retail sales; (ii) total transportation revenues; slightly modified by (iii) adjustments; and (iv) other revenues.

Q. What does the Company forecast for its total operating revenues during the Rate Year under the existing rates?

A. The Company forecasts total operating revenues of $528.29 million during the Rate Year under the existing rates, which is comprised of approximately $408.95 million in total sales revenues, $114.90 million in total transportation revenues, ($0.46 million) in adjustments and $4.90 million in other operating revenues.

Q. Does the Panel agree with the Company's total sales and transportation revenue forecast during the Rate Year at current rates?

A. No. Our adjustments to customer and UPA forecasts provides different Rate Year throughput, which in turn yields adjustments to total operating revenues. The magnitude of the Panel's adjustments to Distribution's total sales and transportation revenues is highlighted in Exhibit__(SGRP-3).

Q. Did the Panel employ any additional forecasting methodologies that further adjust total operating revenues?

A. Yes. Similar to the methodology employed by the Company and further described in response to UFR-74 (Exhibit__(SGRP-1), Page 3), we utilized cumulative frequency OGIVE analysis to develop the distribution of total volumes through the rate blocks. Our OGIVE review included a redistribution of total volumes for Service Classification (SC) No. 1 Residential, SC No. 3 General, SC No. 1 Residential Transportation, and SC No. 3 General Transportation based on the Company's OGIVE data provided in response to UFR-76 (Exhibit__(SGRP-1), Page 4). The redistributed throughput by volumetric block was then applied to our revenue price-out model to forecast rate year revenues at current rates. While we did not employ an OGIVE analysis for the remaining service classifications during our review, we recommend that final sales forecast use the OGIVE analysis to more accurately forecast total throughput by block.

Q. What does the Panel recommend the Commission adopt for the Company's total sales and transportation revenues during the Rate Year under current rates?

A. We recommend total sales and transportation revenues of approximately $424.54 million and $114.62 million, respectively. A detailed breakdown of our revenue forecasts can be seen in Exhibit__(SGRP-3).

Q. Briefly describe how the Company priced out its customer forecast.

A. The Company priced out its customer forecast, as described in more detail in the Company's "Revenues" section beginning on page 2 of Mr. Jeremy R. Barber's pre-filed testimony, by multiplying the volumes by rate block of each SC by the current rates.

Q. Does the Panel agree with the Company's methodology for pricing out volumes by SC?

A. Yes.

Q. Did the Company employ any additional adjustments in order to finalize its Rate Year revenues?

A. Yes, following the response to UFR-66 (Exhibit__(SGRP-1), Page 5), the Company applied an adjustment to remove one half of the number of final and initial bills.

Q. Please explain in more detail.

A. The Company's customer forecast models the total number of bills, or accounts, which is not a true representation of the number of customers. The Company's response to IR DPS-57 (Exhibit__(SGRP-1), Page 8) highlights the definition of a customer as a ratepayer who receives a bill, which is not a true representation of the number of customers. The number of observed bills can be larger than the actual number of customers, due to circumstances related to customer migration, and therefore an adjustment is needed to more accurately represent customer counts. Take, for example, the scenario where a customer is issued an initial bill for his/her usage in the beginning of the month. After receiving the bill, the customer moves to a new location and receives a final bill at the end of the month. Given this situation, the total number of bills would inappropriately reflect an additional customer, and thus, an adjustment is necessary in order to truly represent the customer count.

Q. Did the Panel introduce any additional changes?

A. Yes. The Staff Consumer Services Panel recommends that the Low Income Program be made more transparent on the income statement. We, therefore, worked with the Company to identify the low income discounts included in the price out. We calculated approximately $5.614 million of low income discounts that should be removed. This number was given to the Staff Accounting Panel. The Company should confirm our calculations in its rebuttal testimony.

Review of the Capital Budget

Q. Please explain the scope of the Panel’s review of the proposed CapEx programs and projects.

A. We are testifying to a level of capital spending for the Rate Year and, therefore, reviewed all of the plans and projects from the beginning of the test year through March 31, 2018, or the Rate Year. We then incorporated our adjustments into the Company's net plant model. We also reviewed and are prepared to make recommendations to the fiscal years 2018 to 2021 CapEx budgets.

Q. Please explain how Department Staff typically conducts a capital investment review during a rate proceeding.

A. Staff typically reviews how a company plans and controls its major capital expenditures by reviewing and evaluating the company's processes and procedures. We also evaluate whether the company is pursuing its budget priorities with sufficient oversight from both the Board of Directors and executive management, then measuring the project's progress during the year. Additionally, we analyze how load forecasting impacts capital planning in terms of meeting current and future loads. The capital budgeting process should be both a top-down and bottom-up process. The top-down perspective should represent the goals and objectives for the utility and be incorporated into both the capital and maintenance budgets. The bottom-up budgeting consists of identifying capital requirements on a project-by-project basis at the departmental level. The capital budget should be developed primarily from the bottom-up assessment of system needs giving due consideration to top-down financial considerations.

Q. What else can you tell us about the capital budgeting process?

A. The approval of the capital budget by the Board of Directors should not constitute authorization to proceed on the individual projects. Project managers should complete design engineering and preparation work to be submitted for formal budget approval, which should then be followed by a funding authorization. Our review looks to determine whether this process is being followed. After the authorization is granted, the company should closely track, on a monthly basis, the actual expenditures for each project in comparison to the initial authorized planned expenditures. Variance reports should provide sufficient detail as to why projects are over or under spent, or if there exists a need for a project with a greater priority to supersede the need for spending on any other particular project. Management should closely track the company’s expenditures and inform the Board of Directors on a timely basis of any issues that come to management’s attention.

Q. What capital planning information did the Panel review in these proceedings?

A. We reviewed the processes and procedures used by the Company, as outlined in the response to UFR-84 (Exhibit__(SGRP-1), Page 10), and conducted an analysis of historic expenditures and compared them to the forecast expenditures.

Q. Please explain why the Panel conducts a historic review of expenditures.

A. The purpose of a historic review is twofold, it provides insight as to a company’s capital spending performance and it is a final review of actual expenditures before they are incorporated into rate base.

Q. What does the Panel request from a company to conduct a historic review?

A. We request the actual and budgeted capital expenditure amounts for the last five historic years, including the test year, in aggregate and, for mass activities, by blanket project grouping or otherwise by specific project. Historic budgeted expenditure levels should be the levels approved by the company's Board of Directors for each historic period. We expect that the reporting format stay consistent from year to year. We also expect in a rate case that the company be able to provide a fully descriptive analysis to detail for each project line item, by year, whether project schedule slippage, scope change, cost variance or combination thereof, was the basis for deviations from budget.

Q. Please explain how the Panel typically reviews a company's forecast capital expenditure budget.

A. We review each capital expenditure project or blanket grouping by its associated line item. Our review contains: (i) a fully detailed description and includes all studies and alternative analyses on a project or program specific basis; (ii) a justification of project expenditures and budgets; (iii) the current construction schedule, with major milestones and in-service dates included; (iv) the project or program specific cost/benefit analysis; and (v) the associated corporate management project authorization papers.

Q. Why is the review of this information important?

A. Review of the documentation provided by the utility is how we verify that a company developed its plans to spend its capital budget in the best interest of customers.

Historical Review

Q. Are there a series of standard, or pre-filed, IRs that are given to a company prior to filing for rates that are expected to be provided when the rate case is filed?

A. Yes. These pre-filed IRs are identified by "UFR". Subsequent IRs are identified as "DPS".

Q. Did the Company file responses to Staff's pre-filed IRs?

A. Yes.

Q. What pre-filed IRs are applicable to your review in these proceedings?

A. The applicable pre-filed IRs are contained in Exhibit__(SGRP-1).

Q. Did the Panel review the Company's historical variance reports for common capital expenditures?

A. Yes, the Panel reviewed the responses to UFR-83 (Exhibit__(SGRP-1), Page 11), contained in Exhibit__(SGRP-1), which provided the Company's fiscal year 2011 through 2015 history of planned and actual capital expenditures by grouping and in total.

Q. What did the Panel discover?

A. We made several observations. First, the Company consistently budgets its capital expenditures into categories depending on the activity type of the project. The five primary categories include Production, Transmission, Distribution, General Plants and Special Projects. Second, the average increase in capital expenditures between fiscal years 2012 and 2015 was 27.3%. The increase in capital expenditures was driven by spending associated with the Vision Projects which is the replacement of the Company's mainframe computer. The largest component of the Vision projects is the Barcelona Project which is the replacement of the Company's Customer Information System (CIS). Also, the accelerated LPP replacements have increased capital expenditures. Lastly, we observed that there are always variances between the Company's capital budgets and the amount spent in any given year.

Q. Can you briefly explain some of the variances that you observed in the variance reports?

A. Yes. As shown in Exhibit__(SGRP-4), which was developed using the response to UFR-83 (Exhibit__(SGRP-1), Page 11), at times there were significant variances between planned and actual spending. For example, in fiscal year 2015, the Company's actual capital expenditures were $64 million; this is only 65% of the Company's total budget of $98 million.

Q. What is the Panel's opinion of the Company's historic under- and over-spending in its capital expenditure groupings?

A. The Company has provided reasoning for under and over spending in the responses to IRs DPS-95 and DPS-144 (Exhibit__(SGRP-1), Pages 13 and 18). Our variance analysis shows that for some accounts the Company over estimates or under estimates its budgets. For example, from fiscal year 2011 to 2015 the budget for Account 397 Communication Equipment was overestimated due to project delays (the fiscal year is the twelve months ended September 30th). Most account spending seems to be accurate when compared to its budget estimates. Consistent with Exhibit__(SGRP-4), Sheet 2, the Company spends within 5% of its capital budget with special projects excluded except in FY 2014. The main driver of the overspending in FY 2014 was an unbudgeted 15 mile increase in LPP replacement due to a settlement with Staff and interested parties that was adopted by the Commission (Case 13-G-0136). There was also unbudgeted fuel tank replacement at the Clarence service center. At the Minerals Springs service center there were unbudgeted building improvements, fuel tank replacements, equipment purchases and replacement of the slow fill CNG refueling system. The FY 2015 Special Projects over budget was due to the delay in implementation of the Company's Barcelona project.

Q. Does the Company generally adhere to its total budget?

A. Yes, without large unexpected expenditures like the increased LPP replacement target or special projects, the actual spending is close to the budget.

Cap Ex Forecast Review

Q. How did the Panel begin to review the Company's Rate Year and subsequent 2018 to 2021 fiscal year forecasts?

A. We reviewed the testimony, exhibits and pre-filed IR responses. We also held technical conferences, interviewed witnesses, and conducted a site visit to determine the reasonableness of the Company’s capital expenditure forecasts.

Q. What is the Panel’s opinion of the Company’s forecast capital investment plans?

A. We believe that most of the capital investment plans are justified, and will address each budget category and explain our adjustments.

Overview of the Capital Budgeting Process

Q. Before you do so, please explain how the Company generally develops its annual capital budget.

A. Annually, the Company develops a five-year capital plan as stated in the response to UFR-84 (Exhibit__(SGRP-1), Page 10). The process begins in May with the finance department compiling proposed spending for programs and individual capital projects that are grouped into five categories (as we stated earlier, Production, Transmission, Distribution, General Plants and Special Projects). The proposed spending for each program or project includes the latest cost estimates for in-progress projects as well as initial estimates for new projects. The first year of the forecast has detailed spending on specific programs, projects or equipment. The spending for the next four years is estimated using current information. All potential options for a project are considered when capital spending coordinators create budget requests.

Q. How does the Company determine which programs and projects to include in the capital plan?

A. According to UFR-84 (Exhibit__(SGRP-1), Page 10), to determine whether a program or project will be included in the capital plan the Company considers system integrity and reliability, historic spending, new business opportunities, public improvement projects, corporate objectives and regulatory requirements.

Q. After the capital plan is complete, who approves it?

A. In August, the capital plan is initially reviewed by the Company's Executive staff. Corporate Officers then review the capital budget and make final changes. The budget is then sent to Senior Executive staff before it is presented to the Company Board of Directors for approval.

Q. Are there additional approvals needed before a project in the annual capital plan may proceed?

A. Yes, according to the response to IR DPS-65 (Exhibit__(SGRP-1), Page 28), an expenditure request form must be completed before any capital projects can proceed. The request form includes information on the type of work proposed and its location. The expenditure request form is then submitted to an engineering clerk who puts the request into the PeopleSoft system. After the request is in PeopleSoft the project assumes a “proposed” status where no charges can be made to that project. Once the project is accepted, the project status changes to “approved” and the project account can accept charges. A project with actual or estimated costs that are greater than $100,000 has spending thresholds put into place. If the project exceeds the thresholds, then the project must be re-authorized.

Capital Expenditures

Q. Summarize the Company’s historic capital investments for the most recent five fiscal year period between 2011 and 2015.

A. According to the table from the response toUFR-83 (Exhibit__(SGRP-1), Page 11), the Company spent approximately $40.0 million, $39.5 million, $48.9 million, $59.9 million, and $64.1 million during fiscal years 2011 through 2015, respectively. Additionally, the Company’s actual historic capital investments are listed in Exhibit__(SGRP-4), which was created using the data supplied by the Company in response to UFR-83 (Exhibit__(SGRP-1), Page 11) as provided in Exhibit__(SGRP-1).

Q. Summarize the Company’s total capital investment forecast for the Rate Year.

A. The Company proposed increases to its FY 2017 and FY 2018 capital investment plans that make up the Rate Year, totaling approximately $67.28 million. The Rate Year consists of the second half of FY 2017 and the first half of FY 2018. According to the Company, it plans to make significant investments in order to increase LPP replacement. The Company is also increasing funding for projects that can reach additional customers and is attempting to acquire transmission piping that enhances reliability by providing customers a second source of distribution piping, or looping the distribution network.

Q. Please summarize how you will report on the Company's gas capital investment plans.

A. We will report on the Company's fiscal year gas capital investment plans by investment category: (1) Production, (2) Transmission, (3) Distribution, (4) General Plants, and (5) Special Projects. The Rate Year budget is comprised of portions of FYs 17 and 18, but we conducted our analysis on a FY basis.

Production Plant Category

Q. Summarize the Company's forecast for the Production Plant category during the Rate Year.

A. As shown in DPS-93 (Exhibit__(SGRP-1), Page 31), the Company's forecast for Production is the sum of production main replacement, measuring and odorization equipment replacement and the replacement program for aging correcting devices. The total Production category forecasts during the Rate Year for the Company is approximately $0.265 million.

Q. Has the Company proposed increases to the Production Plant category from its previous capital investment plans?

A. No, the Company has not.

Q. Do you have any Production Plant capital expenditure adjustments for the Company?

A. No.

Transmission Plant Category

Q. Please summarize the Company's forecasts for the Transmission Plant budget category proposed for the Rate Year.

A. As shown in DPS-93 (Exhibit__(SGRP-1), Page 31), the Company's forecasted total Transmission Rate Year expenditure level is $0.305 million. The Transmission portion of the Company's capital investment plan is comprised of transmission line and Metering and Regulating (M&R) equipment replacement.

Q. Has the Company proposed increases to the Transmission Plant category from its previous capital investment plans?

A. No, the Company has not.

Q. Do you have any Transmission Plant capital expenditure adjustments for the Company?

A. No.

Distribution Plant Category

Q. Summarize the Company's forecast for the Distribution Plant category forecasted for the Rate Year.

A. The Company's forecasted total Rate Year Distribution expenditures are $48.48 million which is shown in DPS-93 (Exhibit__(SGRP-1), Page 31). The Distribution portion of the Company's capital investment plan is comprised of several different categories, with the largest expenses for the Company related to replacing LPP mains and services.

Q. Over the last five years, what were the calendar year LPP replacement targets and what did the Company achieve?

A. The Company's mileage target from 2011 to 2013 was 80 miles and the target in 2014 and 2015 was 95 miles. According to IR DPS-73 (Exhibit__(SGRP-1), Page 33), the Company replaced 82.36, 81.79, 80.92, 96.04 and 97.35 miles from 2011 to 2015 respectively.

Q. Has the Company proposed to increase spending in the Distribution Plant category of its Capital Investment Plan?

A. Yes. The Company has proposed increasing its spending on LPP replacement due to increased unit costs. As shown in the response to IR DPS-93 (Exhibit__(SGRP-1), Page 31), the Company's average Distribution expenditures over the past five historical fiscal years from 2011-2015 were $37.15 million as compared to the proposed Rate Year budget of $48.48 million, or an increase of $11.33 million, or 130%.

Q. Please explain how the Company developed its FY 2016 LPP unit cost forecasts.

A. In the response to IR DPS-144, DPS-158 (Exhibit__(SGRP-1), Pages 18 and 36) and a meeting on August 16, 2016, the Company developed its FY 2016 LPP unit costs, using its

FY 2015 budgets as a base, in two categories: (1) blanket contracts (40%) and (2) bid contracts and Company crews (60%).

Q. Describe the adjustments made to the blanket contracts.

A. The Company projected a 15% increase in blanket contracts from four sources: inflation, restoration costs, material costs and labor costs. The Company assumed the blanket contracts have increased by 6% for inflation to account for a three year contract term. The Company projected that restoration costs have increased by approximately 6 to 7%, and also assumed that the contract costs have increased due to labor and material constraints as a result of the increased infrastructure replacements in the north east.

Q. Describe the adjustments made to the bid contracts and Company crews.

A. The Company added a 2% inflation factor to work done by bid contracts and Company crews.

Q. How did the Company forecast the LPP unit costs beyond FY 2016?

A. For the development of the LPP unit costs for FY 2017 and after, the Company held the blanket contracts fixed and increased the bid contracts and Company crews by 2% inflation plus an additional 5% for "ramp up costs" due to the proposed increase to the LPP mileage targets.

Q. How does the Company's proposed FY 2016 and FY 2017 LPP unit cost forecasts compare to the Company's FY 2015 forecast?

A. According to the response to IR DPS-144 (Exhibit__(SGRP-1), Page 18), the Company's FY 2015 total LPP unit cost of $359,732 per mile was increased to $387,256 per mile in FY 2016, or a 7.7% increase. The Company's FY 2017 LPP unit cost of $403,753 per mile is a total increase of 4.3% because the adjustments were made to 60% of the forecast unit costs.

Q. How does the Company's proposed FY 2017 total LPP unit cost forecast compare to the Company's FY 2018 forecast?

A. The Company's FY 2018 LPP unit cost of $420,953 per mile reflects the overall 4.3% increase.

Q. Does the Panel agree with the Company's justifications for increased LPP costs?

A. Not entirely.

Q. Please explain.

A. Based on our review of the historic LPP unit costs, considering the number of LPP miles achieved in each year, we believe an adjustment to the Company’s forecast is warranted.

Q. Explain your historic LPP unit cost review.

A. Based on the information provided in to the response to IR DPS-144 (Exhibit__(SGRP-1), Page 18), we developed the chart shown in Exhibit__(SGRP-5). The chart shows that from FY 2013 to FY 2014, the LPP unit costs decreased by 6.03% and then increased by 5.7% from FY 2014 to FY 2015.

Q. Why did the unit costs decrease from FY 2013 to FY 2014?

A. The unit costs decreased in FY 2014 due to the restructuring of the LPP plan. Historically, the Company had two targets, one for leak prone main removal and one for leak prone service removal. In the 13-G-0136 Case, the Commission approved a single LPP main target that incorporated the replacement of services as main was replaced. The more efficient program reduced the cost of the LPP program.

Q. Did the Company normalize the impact of the change in the program out of the historic LPP unit costs?

A. No, normalizing the LPP unit costs is displayed in the chart on page 2 of Exhibit__(SGRP-5). The LPP unit costs increase by 4.18% from FY 2013 to FY 2014 instead of the 6.03% decrease shown on page 1 of Exhibit__(SGRP-5).

Q. Does the Panel agree with the FY 2016 proposed LPP unit costs?

A. Yes. The Panel believes that the Company has justified the 7.7% total increase in unit costs from FY 2015 to FY 2016. The Company has blanket contracts that are for a 3 year term and were rebid at the end of 2015 for the 2016 to 2018 fiscal years. We verified the projected 15% increase in blanket bids during a meeting with the Company on August 16, 2016.

Q. Does the Panel agree with the projected FY 2017 and FY 2018 budgets?

A. No. We do not believe the total increase of 4.3% per year is reasonable. Specifically, we do not agree with the additional 5% for "ramp up costs" due to the proposed increase to the LPP mileage targets for the bid contracts and Company crews work.

Q. Please explain.

A. We believe that because the Company has already replaced 97.35 mile of LPP in CY 2015 and because its target for 2017 is 100 miles, inclusive of the incremental mileage proposed in the Special project budget category, a 5% ramp up cost is not required. Moreover, the Company will have two years to get its proposed total LPP replacement target of 105 miles by FY 2018, which should allow for a ratable transition for the bid contractors to plan for the additional work.

Q. Does the Company have a workforce development program?

A. Yes. As stated in the Staff Gas Policy and Supply Panel testimony, the Company has a long term workforce development program.

Q. What are the cost benefits for the Company associated with a workforce development program?

A. The Company should have lower contractor costs and less training required for new employees. The workforce development program should increase the amount of trained workers that are qualified to work on utility systems and lower unit costs.

Q. What does the Panel recommend?

A. We recommend that the Company be allowed the 15% increase in blanket contracts from FY 2015 to FY 2016, but the Company's total LPP unit costs budget be inflated by 2%, which equates to a 3.33% increase to the bid contracts and Company crew unit costs.

General Plant Category

Q. Summarize the Company's forecast for the General Plant category forecasted for the Rate Year.

A. As shown on DPS-93 (Exhibit__(SGRP-1), Page 31), the Company's forecasted total Rate Year General Plant expenditures are $5.98 million. The General portion of the Company's capital investment plan is comprised of several different categories, with the largest expenses for the Company related to maintenance and replacement of vehicles, backhoes and construction vans.

Q. Has the Company proposed to increase the General category from its previous capital investment plans?

A. No, the Company has not.

Q. Do you have any General Plant capital expenditure adjustments for the Company?

A. No.

Special Projects Category

Q. Summarize the Company's forecast for the Special Projects category forecasted for the Rate Year.

A. As shown in DPS-93 (Exhibit__(SGRP-1), Page 31), the Company's forecasted total Rate Year Special Projects expenditures are $12.25 million. The Special Projects portion of the Company's capital investment plan is comprised of several different categories, with the largest expenses for the Company related to accelerated LPP mains and services expenses and expenses related to the Vision project.

Q. Has the Company proposed to increase the Special Project category of its Capital Investment Plans?

A. Yes. The Company has proposed to increase its spending on an accelerated LPP replacement program. The special projects budget is inclusive of the replacement costs for the incremental mileage above the target ultimately approved by the Commission. The Company's average Special Projects expenditures over the past five historical fiscal years from 2011-2015 are $7.39 million. The proposed budget for the Special Projects category has increased by $4.86 million in the Rate Year or 166%.

Q. Does the Panel have any adjustments to the linking period Special Projects budget?

A. Yes, according to the response to IR DPS-158 (Exhibit__(SGRP-1), Page 36), the updated total Barcelona Project capital budget is approximately $5 million lower than the original budget and is forecast to be paid in March of 2017. We updated the net plant model to reflect Distribution's allocated portion of the expenditure which reduced net plant and depreciation expense for this adjustment in the Rate Year.

Q. What are the LPP replacement mileage targets that the Company has proposed?

A. The Company has proposed to increase its LPP mileage target from its current 95 mile per year target to 100 in FY 2017 and 105 miles per year after FY 2017.

Q. Does the Panel have any adjustments to the proposed Special Projects budget?

A. Yes. The Company uses one forecast of LPP unit costs and, therefore, as stated in the Distribution Plant section, we propose a 2% inflation increase to the unit cost of LPP removal after FY 2016. The reduction in the cost of incremental LPP replacement over the Commission target of 95 miles reduced net plant and decreased depreciation expense in the Rate Year.

Barcelona Project

Q. What is the Barcelona Project that the Company is undertaking?

A. The Company is implementing a new CIS to replace its existing 26 year old CIS.

Q. How did the Company plan for the Barcelona Project?

A. Company witness Boyle explains the Company's planning and project initiation in his testimony from page 19 line 12 to page 37 line 5. In 2006, the Company hired the consulting firm Micon Inc. to do a presentation for the Company. The Company also hired the Gartner Group to give it annual reviews on CIS industry trends. At that time, the Company determined that it should not replace its current CIS but to continue to monitor the situation. In 2010, the Company had IBM do a presentation on the state of its CISs. The Company determined at that time that two companies had acceptable utility CIS applications, Oracle and SAP, and that it should begin the process of replacing its CIS. After the Company made the decision to replace its CIS, Oracle offered to provide the Company with a free Program called "Oracle Insight" concentrated on replacing a CIS. The Company accepted the offer and learned about existing CIS applications which helped the Company create its CIS Request for Proposal (RFP).

Q. How did the Company initiate the Barcelona Project?

A. The Company established an executive steering committee for corporate governance of the project. National Fuel hired Five Point Partners, LLC (Five Point) to assist the Company with its CIS RFP and systems integrator selection. The Company also hired the law firm Jones Day to negotiate its system integrator and long term software/maintenance contracts. Five Point created the Company's RFP and released it for bids in January 2013. The bids were in a fixed cost milestone structure. The Company had onsite demonstrations by both Oracle and SAP to determine the functionality of its CIS and Mobile Workforce Management (MWM) System. After the RFP finalists did onsite presentations the Company checked its references. The Company chose HCL Technologies Ltd. (HCL) as the systems integrator and SAP for the CIS and MWM software.

Q. Has the Company had any delays with the Barcelona project?

A. As described by Company witness Boyle's testimony beginning on page 53 line 1 to page 59 line 2, the Company has delayed the implementation of the Barcelona project twice. The first delay was from July 2105 to October 2015, the next delay was from October 2015 to May 2016. According to the Company, HCL under estimated the amount of custom work that was required which contributed to the delays. Also, at each potential go live date the Company determined that there were too many significant defects to proceed. The Company tracked the number of defects so it would be easier to determine if the system was ready to go live.

Q. Did the Company provide the monthly Barcelona project expenditures?

A. Yes, the Company presented its expenditures for the Barcelona Project in the response to IRs DPS-65 and DPS-87 (Exhibit__(SGRP-1), Pages 28 and 38).

Q. Has the Company updated its expenditures associated with the Barcelona project?

A. Yes, in the response to IR DPS-158 (Exhibit__(SGRP-1), Page 36), the Company updated its total Barcelona project cost from $65 million to $60 million. The expenditure savings are reflected in IR DPS-87 (Exhibit__(SGRP-1), Page 38) with a total project cost of $59 million with a NY allocation of approximately $42 million. The original estimate for the New York allocation was $46 million.

Q. Does the Company expect to have any O&M savings after the implementation of the new CIS?

A. No, the Company does not expect any saving associated with its new CIS.

Q. Please explain why the Company believes there will be no savings.

A. At page 52 of Mr. Boyle’s testimony, the Company believes that there will be no savings associated with the Vision Projects until the old mainframe is retired sometime after 2019. The CIS was 80% of the mainframe utilization, but the remaining 20% of the programs have to be replaced before the mainframe can be retired.

Q. Does the Panel believe that there will be O&M savings moving forward from the replacement of the CIS and the addition of the MWM system?

A. Yes, we believe there will be many opportunities for O&M savings. Staff Policy Panel addresses how the O&M savings are reflected in Staff's filing. For example, Mr. Boyle's testimony states the following: the Company's current CIS is paper based; the new CIS is completely electronic, so management can effectively track who has done work and their current assignments; supervisors have increased flexibility to assign work, determine what work an employee has, where they are and their progress on that work in near real time; the new CIS is browser based so it will be significantly easier to use and allow employees to self-serve with proper training; costs for IT specialists should decrease as new IT graduates can start off with the knowledge to work on the CIS; and the SAP solution has many companies that provide add-ons to the system that can customize the system for the Company, and the Company can negotiate lower costs for maintenance and software due to the larger pool of competitors.

Reporting Requirements

Q. What does the Panel recommend regarding capital expenditure and variance reporting requirements?

A. It is important for Staff and the Commission to monitor the Company's capital work. To that end, the Company should be required to make regular filings. They would be made: (1) prior to the start of each Rate Year; (2) quarterly during the Rate Year; and (3) after the end of the Rate Year.

Q. What information would be required to be filed before the Rate Year, or shortly after the Commission sets rates in these cases?

A. Prior the beginning of the Rate Year the Company would be required by the Commission to file with the Secretary, its LPP prioritization summary identifying the proposed projects and its estimated costs, an inventory of Type 3 leaks on each system and the approved five year capital plan.

Q. What information would be filed quarterly?

A. The Company would be required by the Commission to file quarterly variance reports to Staff with explanations for variances between the approved budget and the actual expenditures. The Company would also be required to report in detail the progress of LPP retirement mileage, Type 3 leaks repaired and a summary of the current Type 3 inventory, and new customers attached to the system.

Q. When should the quarterly reports be filed?

A. We recommend that the Commission require that the quarterly reports be filed within 45 days after the end of each of the first three calendar quarters of each Rate Year.

Q. What information should be filed annually?

A. We recommend that the Commission require that these reports include: (1) a final variance summary of capital expenditures for all capital projects and programs including all on-going and active construction projects and programs; (2) a narrative explaining any cost or timeline deltas exceeding 10 percent; (3) a narrative on project design, permitting and or construction status (including a detailed construction schedule for each project) for any ongoing projects; (4) a description of any new projects or programs; and (5) capital project sanctioning documents for any projects exceeding $1M that were authorized during the previous Rate Year.

Q. When would the annual reports be filed?

A. We recommend that the annual reports be filed not later than 60 days after the end of the last quarter in each Rate Year.

Q. Should the reporting requirements continue beyond the Rate Year?

A. Yes because it is important for the Commission to monitor the Company's capital investment plans.

Depreciation

Q. Please explain what "depreciation" is, as it is used in ratemaking.

A. Depreciation is a method of recovering capital cost (less net salvage) related to plant in service over the plant's expected life.

Q. What is a depreciation rate and expense?

A. A depreciation rate is a percentage rate applied to the gross plant in service, by account, to determine the annual depreciation expense.

Q. What are the book and theoretical reserves?

A. The book reserve is the accumulation of the annual depreciation expense accruals, by account, less any retirements and cost of removal, plus any salvage received. The book reserve is subtracted from the original, or gross, plant to derive the net plant. The theoretical reserve is the amount that should have been collected given the survivor curve and net salvage selected when determining the depreciation rates.

Q. What is a survivor curve?

A. A survivor curve indicates the percentage of original plant, by age, which is still in service. Known curves, such as Iowa or h-curves, are fit to the observed curve. The area under the survivor curve is the average service life (ASL) or whole life. The observed curves are generated in a mortality study that examines the actual retirement patterns over several years.

Q. How are the depreciation rates calculated?

A. The rates are calculated differently depending on the depreciation system used. Each system is composed of a method, a procedure, and a technique.

Q. What depreciation system does the Company and other New York State utilities currently use for most, if not all, of its plant accounts?

A. The Company and other utilities currently use the straight line method, broad group procedure, average whole life technique, as is confirmed on page 4 of Mr. Spanos' pre-filed testimony.

Q. Please explain how the depreciation rates are calculated for each account.

A. The depreciation system, as previously described, uses the following formula: $Rate = (1 - Net\ Salvage)/(Average\ Service\ Life)$. For example, if the average service life for a plant account was 50 years and the net salvage was negative 50%, then the rate would be

R = (1-(-.5)) / 50

R = 0.03 or 3.0%

The computed rate is then multiplied by the gross plant to obtain the depreciation expense for ratemaking purposes. The net salvage is the sum of the cost to remove the plant and any revenue received for the retired plant. The net salvage is usually expressed as a percentage and is commonly some historic actual net salvage amount, divided by the original cost of the plant that was retired.

Q. Please explain the process of comparing the book reserve to the theoretical reserve.

A. Under the whole life technique, when a depreciation study is performed, the current book reserve is compared to the proposed theoretical reserve. The proposed theoretical reserve incorporates any changes to the survivor curves and net salvage. Traditionally, if the book to theoretical reserve difference is within plus or minus 10 percent, no adjustment is usually made to the over or under accruals. However, if the difference is greater than plus or minus 10 percent, then the difference could be amortized. If it is in excess, the funds could be used for other rate making treatments. The use of a 10 percent margin and the treatment are discretionary. An amortization is usually employed when the difference is too large to be corrected, going forward, by changing average service lives or net salvage percentages.

Q. Has the Panel reviewed the results of the Company's Depreciation Study performed by Gannett Fleming, as presented in the Company's pre-filed testimony?

A. Yes. The Company provided a summary of the results of the study and its recommendations in its pre-filed testimony. Gannett Fleming reviewed the average service lives of the Company gas plant accounts.

Q. Which accounts were the drivers for the change in depreciation rates?

A. On pages 2 of Mr. Spanos' pre-filed testimony, he mentions account 303 'Intangible Plant' having lower depreciation expense due to equipment being fully recovered. Longer average service lives in both Production and

Transmission Plant accounts have decreased depreciation expense. Account 376.4 'Mains-Plastic' has more negative net salvage and shorter service life which increases depreciation expense. Shorter average service lives in Accounts 392.1 'Transportation Equipment Under 1 Ton' and 396 'Power Operated Equipment' have increased depreciation expense.

Q. Has the Panel determined what depreciation rates should be employed by the Commission based on the information provided in the Company's study?

A. Yes. We have examined the results of the study in addition to the graphical curve fittings included in responses to IRs DPS-92 and DPS-143 (Exhibit__(SGRP-1), Pages 40 and 43), and agree with some, but not all, of the Company's proposals.

Q. Please quantify your adjustments to depreciation expense and the theoretical reserve.

A. Our adjustments to depreciation rates reduce the Company's proposed depreciation expense by approximately $5.25 million in the Rate Year. Our adjustments can be seen in Exhibit__(SGRP-

6). The justification for these changes are described later.

Average Service Lives and Survivor Curves

Q. How did the Panel conduct a review of the Company’s average service lives and survivor curves?

A. We reviewed the Company’s depreciation study which provides all survivor curve shapes and the selected survivor curve and average service life for each plant account. We then compared potential survivor curve shapes to each account and any potential ASL changes. Next, if we determined that a different survivor curve or ASL would better fit a specific plant account, we then requested that the Company provide its curve plotted with our proposed curve. We then visually analyzed the curves to determine which curve produced a better fit. We also examined the residual measure which is the average distance between each data point and the selected curve.

Q. Do you have any adjustments to the average service lives or survivor curves proposed by the

Company?

A. Yes, Exhibit__(SGRP-7), compares the Company's proposals with our recommendations by account.

Q. Please list the accounts for which the Panel recommends adjustments to the Company's proposal.

A. We recommend adjustments to the average service lives and/or survivor curves for the following Company accounts: (1) 367.10; (2) 375.00 and (3) 376.40.

Q. How did the Panel develop its proposed changes?

A. We chose the survivor curves that, in our opinion, best fit the observed retirement trend provided by the Company for each account in conjunction with the rolling and shrinking band analysis for each account provided in response to UFR-103 (Exhibit__(SGRP-1), Page 49), shown in Exhibit__(SGRP-1). The survivor curves we selected produce longer service lives, which reduce the depreciation accrual for those accounts, as shown in Exhibit__(SGRP-7).

Q. Explain the Company's adjustments for each account in more detail.

A. See Exhibit__(SGRP-7) for all changes. The average service life of account 376.4 mains-plastic was decreased from 70 years to 60 years.

Q. What are the Panel's adjustments to account 367.1 mains-excluding cathodic protection?

A. We increased the ASL of account 367.1 from 65 to 70 years. This change was made using the aforementioned methodology.

Q. What are the Panel's adjustments to account 375 structures and improvements?

A. We increased the ASL for account 375 from 70 to 75 years. This change was made using the aforementioned methodology.

Q. What are the Panel's adjustments to account 376.4 mains-plastic?

A. We initially increased the ASL of account 376.4 from 60 to 70 using the aforementioned methodology.

Q. Does the Panel recommend any further adjustment to Account 376.4 outside of the aforementioned methodology?

A. Yes, the ASL for Account 376.4 mains-plastic should be increased to 80 years.

Q. Why?

A. The plastic mains account is inclusive of some amount of older vintage plastic piping that is brittle and in need of replacement, which we believe skews the data on the curve.

Q. When did the Company first start using plastic piping and what material was it made of?

A. According to the response to IR DPS-207 (Exhibit__(SGRP-1), Page 50), the Company started using plastic piping in the late 1960's. The Company, however, is not able to provide the piping material that was installed in the late 1960's.

Q. What was each material used for plastic piping and when was it first put into service?

A. The Company was able to provide all plastic piping types currently used on its system shown in the response to IR DPS-207 (Exhibit__(SGRP-1), Page 50). The Company was not able to provide the information by each type of material or when each material was first put into service.

Q. Are any of the plastic piping types considered leak prone by the Company?

A. Consistent with the response to IR DPS-207 (Exhibit__(SGRP-1), Page 50), the Company considers pre-1982 vintage polyethylene, epoxy-fiberglass, polyvinyl chloride and Drisco8000 plastic piping to be leak prone.

Q. Does the Company include the plastic piping stated above in its LPP replacement program?

A. According to the response to IR DPS-207 (Exhibit__(SGRP-1), Page 50), the Company includes plastic piping that has leaked or has the potential to leak in its LPP replacement program. If the plastic piping is replaced for other reasons, such as municipal or highway projects, it is not included in the LPP program totals.

Q. How would including the earlier vintage leak prone plastic piping skew retirement data?

A. We believe that there would be more retirements to replace the LPP vintage plastic piping, which is not representative of the entire account or of the type of assets that have been installed since the early 1980s. We believe the newer, high or medium density, plastic piping should be accounted for in its own subaccount for depreciation purposes. Because the Company includes all plastic piping in one account, we believe the ASL depicted on IR DPS-143 (Exhibit__(SGRP-1), Page 43), Attachment C is showing an ASL of 70 years and is influenced by the older LPP vintage plastic piping retirements.

Q. Does the Company divide other type or vintage of mains into subaccounts?

A. Yes. The Company divides steel and other mains into two separate accounts as shown in UFR-102 (Exhibit__(SGRP-1), Page 55). The accounts are divided into 1939 and before and 1940 and after.

Q. Do other gas utility companies in New York divide their plastic mains account into older and newer vintage piping?

A. Yes, according to the Brooklyn Union Gas Company d/b/a National Grid NY, KeySpan Gas East Corporation d/b/a National Grid and Niagara Mohawk Power Corporation d/b/a National Grid annual reports submitted to the Commission, they divide their plastic main accounts into two subaccounts based on the vintage of the plastic piping. The depreciation accounts can be found on page 84 of the 2015 annual reports.

Q. Does the Panel recommend that the Company create subaccounts for Account 376.4-plastic mains and also for Account 380-Services?

A. Yes. We also propose to include Account 380-services because there are multiple material types, so this account should also be divided into subaccounts. We propose plastic and non-plastic services for the reasons listed below. In its rebuttal filing, we recommend the Company propose the vintage year that should be used to divide Account 376.4-plastic mains into two subaccounts and rational for the vintage year, so that in the next depreciation study we can assess the ASL of the two subaccounts.

Q. What are the ASLs of the other mains accounts?

A. According to the response to UFR-102 (Exhibit__(SGRP-1), Page 55), cast iron and steel piping currently have 73 year average service lives.

Q. Should plastic piping have a higher ASL than cast iron or steel piping?

A. Yes. Plastic piping is not subject to the chemical reactions that cause corrosion, so there should not be any corrosion leaks and the ASL should be at least as long. Newer plastic piping is not brittle so leak failures are much less frequent. We believe the plastic mains account should at least have the same ASL as the cast iron or steel mains account of 73 years.

Q. What do other New York gas utilities use for a plastic mains ASL?

A. According to annual utility reports submitted to the Commission, Consolidated Edison of New York, Inc. uses an 80 year ASL and The Brooklyn Union Gas Company d/b/a National Grid NY, KeySpan Gas East Corporation d/b/a National Grid and Niagara Mohawk Power Corporation d/b/a National Grid use a 75 year ASL for the plastic main account.

Salvage

Q. Please briefly describe the Company’s proposed net salvage percentages.

A. As stated on page 1-4 of Mr. Spanos’

Exhibit__(JJS-2), net salvage was determined by estimating a value based on his knowledge of the Company’s management plans, policies and outlook. The net salvage estimates were also based on the Company witness Spanos’ knowledge of the gas industry and his comparisons to other gas utilities net salvage. The net salvage is shown on pages IV-5 and IV-6 of Exhibit__(JJS-2).

Q. Do you agree with the Company’s approach to calculating net salvage?

A. Yes, the Company’s approach to calculating net salvage is reasonable.

Development of Net Plant In Service and Depreciation Expense

Q. Did the Company develop a model to forecast the average net utility plant in service and depreciation expense for the Rate Year?

A. Yes, in response to IR DPS-33 (Exhibit__(SGRP-1), Page 2), the Company provided the model they used to develop the forecasted monthly components of net utility plant in service.

Q. What are the Company's projections for net utility plant in service and depreciation expense for the Rate Year?

A. The Company projected $1.49 billion for net utility plant in service and $46.32 million in depreciation expense in the Rate Year.

Q. How did the Panel verify the Company's projections?

A. We reviewed the plant in service models' calculations to verify its accuracy.

Q. How did the Panel develop its forecast of net utility plant in service and depreciation expense?

A. We used the Company's model with the following modifications: (1) the models reflect our adjustments to the capital budgets; (2) depreciation rates reflect our recommendations and (3) our corrections to the Company's model.

Q. Please explain what is shown on page one of Exhibit__(SGRP-6).

A. Exhibit__(SGRP-6) summarizes the projected monthly plant in service balances for additions, non-interest bearing CWIP, reserve for depreciation, net utility plant in service and depreciation expense. The Company's Net Plant model takes the monthly balances and calculates the average for each of the components. These component averages are summed to arrive at the overall average net utility plant upon which the Company should be allowed a return, as well as the Rate Year level of depreciation expense.

Q. Please describe the errors you found in the Company's model.

A. We found two problems: (1) the Company matched its depreciation accrual amount for the Rate Year to the amount predicted in its depreciation study and (2) the Company used a hard coded number for the starting depreciation reserve in the Rate Year.

Q. Please explain the depreciation accrual adjustment the Company made.

A. The estimated depreciation accrual amount from the depreciation study is calculated using depreciation rates on a yearly basis and is not how the Company will actually incur its depreciation expense per books, which is calculated on a monthly basis using its depreciation rates. The Company added an $800,000 adjustment, for the difference between the calculated depreciation accruals in its net plant model and the value in the depreciation study, in its forecast of depreciation expense.

Q. Explain the Company's adjustment to the starting balance used to develop its depreciation reserve in the Rate Year.

A. The Company used a hardcoded value for depreciation reserve starting balance in the Rate Year, and did not forecast the reserve starting from the end of the test year.

Q. Did you correct model for the problems that you discovered?

A. Yes. We removed the depreciation accrual amount of $800,000 added to the Company's net plant model value. We also used the depreciation reserve starting with the actual balance on December 31, 2015 and forecasted the change monthly based on the monthly expenses and retirements through the Rate Year. Our adjustment reduced the depreciation reserve by $5.118 million.

Q. What are the Panel’s rate year projections for net utility plant in service and depreciation expense?

A. We project $1.49 billion for net utility plant in service and $41.10 million for depreciation expense for the Company. These figures were provided to the Staff Accounting Panel.

Cost of Service Study

Q. Did the Company file a cost of service (COS) study in this proceeding?

A. Yes. The Company filed an COS study.

Q. Briefly explain the purpose of a COS study.

A. A COS study shows how each service class or group of customers contributed to the system during a specific period of time.

Q. In general, how does a COS study influence a Company’s revenue allocation and rate design?

A. Generally, the COS study provides the Company with some indication of which service classifications are over or under-contributing to the system. The results of the COS study serve as a guideline for determining the allocation of revenue increases/decreases between service classifications. Additionally, the COS study assesses whether the current minimum charges correctly represent the customer related charges associated with each service classification.

Q. Do you have any comments regarding the quality of Distribution's COS study?

A. Yes. Generally speaking, we believe the COS study to be reasonable. However, we have one concern.

Q. Please explain.

A. The Company’s study used a three step process to analyze each component of plant, expenses, and revenues. The first step is Functionalization of plant and operating expenses. The second step is Classification of each functionalized cost component as Demand, Commodity, Customer or Revenue. The third step is class allocation where each functionalized, classified component is allocated to the rate classes. Allocators were used in each of the three steps and were based on studies derived from the Company's records. Specifically, the Company conducted a special study to determine the allocator that would be applied to the main accounts. The Company conducted a zero intercept study to identify the customer and demand related allocations used for distribution main.

Q. Do you agree with use of a zero intercept study to determine the allocator to classify distribution mains?

A. Not necessarily. We believe that the results of the zero intercept methodology may under-allocate costs to classes that have large demands placed on the system and few customers.

Q. How did the Panel use the COS study in this proceeding?

A. We used the COS study as a tool to aid in the revenue allocation and rate design process. Since there are many assumptions used in the development of a study of this nature, the cost study can be used as a guide for the revenue allocations within the Company's service classifications.

Revenue Allocation

Q. Did the Panel review the Company's proposed SC revenue allocation?

A. Yes.

Q. Briefly describe the Company's process for allocating the proposed revenue increases to each SC.

A. The Company's revenue allocation process is a nine step process and is outlined in Company Exhibit__(COSRD-8). The proposed revenue requirement is first adjusted to reflect the impact of incremental late payment revenues. Next, Distribution allocated the adjusted revenue shortfall to service classifications based on a percentage of total non-gas revenues. For this allocation step, similar SCs were grouped together and a total grouped percent of revenue shortfall was forecasted. The next step included resets for current MFC, RDM, and symmetrical transportation sharing targets. Lastly, the revenue allocations were further adjusted to reflect the impact of specific program changes.

Q. Does the Panel agree with the Company's methodology for allocating revenues?

A. Yes. The Company did not propose to shift revenues to correct for return imbalances as shown in the COS study. We, therefore, believe the methodology is reasonable. We did make a change to remove the adjustment for the change in the low income program because in Staff's presentation the cost of the program is included in the revenue requirement.

Q. Are any additional changes to the MFC applicable?

A. Yes. The Panel recognizes adjustments made by the Staff witness Davi to reflect updates to the uncollectible percentage. The final MFC rate should ultimately be updated to reflect the Commission approved uncollectible rate.

Q. What does the Panel recommend as a total revenue adjustment by service classification as a result of its revenue allocation?

A. The Panel's total recommended revenue allocation by SC is outlined in Exhibit__(SGRP-8).

Rate Design

Q. Has the Panel reviewed the Company's proposed rate design for the Rate Year?

A. Yes.

Q. Summarize the Company's proposed rate design for the residential SC Nos. 1 and 2, as shown in Exhibit__(COSRD-5).

A. As described in the Company COS Rate Design Panel's pre- filed testimony beginning on page 57, the Distribution recommended recovering 75% of the proposed revenue increase through the minimum charge. The remaining 25% of the proposed increase was recommended to be recovered through the volumetric block rates.

Q. Summarize the Company's proposed rate design for the small non-residential service classifications.

A. For small, non-residential General customers, the Company recommended recovering 50% of the proposed revenue increase through the minimum charge. The remaining 50% of the proposed increase was recommended to be recovered through the volumetric block rates.

Q. Summarize the Company’s proposed rate design for the large non-residential service classifications.

A. For the large, non-residential SC No. 13 customers (TC-1.0, TC-2.0, TC-3.0, TC-4.0, and TC-4.1), the Company recommended recovering 100% of the proposed revenue increase through the volumetric block rates.

SC No. 1 Residential Customers

Q. Describe the Company’s proposal for SC No. 1 residential customers.

A. The Company’s proposed revenue increases are outlined in Exhibit__(COSRD-13), Schedule 1, page 1 of 17. For SC No. 1 residential customers, the Company proposes to increase the minimum charge from $15.54 to $19.66, an increase of $4.12 or 26.51%. Additionally, the Company proposed to increase the middle and tail block rates equally by $0.159 per Mcf, or 4.27% and 15.77%, respectively.

Q. Does the Panel agree with the Company’s rate design methodology for the residential service classification?

A. No. While Staff understands that rate structures should be designed to permit the Company to recover the allowed revenue requirement at a fair rate of return, it is important to note that rate design is not an exact science. Page 9 of the NARUC Gas Distribution Rate Design Manual highlights this sentiment, "…While cost is an important factor in ratemaking, actual rates are often designed to incorporate numerous other factors, including technological, economic, regulatory, political, promotional and social."

Q. What does the Panel recommend the Commission adopt for the residential SC rate design?

A. We recommend that the minimum charge remain unchanged. With the implementation of several different policy initiatives in energy efficiency, Reforming the Energy Vision (REV), clean energy and renewables, et cetera, Staff is attempting to better determine what the proper rate design is holistically, to further those public policies in the future. Additionally, our review of the Company's rate filing resulted in a revenue deficiency that was much lower than the Company's initial request. Concomitantly, we believe that the best approach to allow the Company to recover its revenue deficiency at this time would be through an equal percentage increase to the volumetric block rates. The Panel proposes to increase the middle and tail block rates equally by 2.84%, resulting in block rates of $3.8315 and $1.0368 per Mcf, respectively. The result of our rate designs are highlighted in Exhibit__(SGRP-9).

SC No. 1 Transportation Customers

Q. Describe the Company's proposal for SC No. 1 transportation customers.

A. Similarly outlined in Exhibit__(COSRD-13), Schedule 1, page 2 of 17, the Company proposes to increase the minimum charge and volumetric block rates to be consistent with the increase recommended for SC No. 1 residential customers. The Company proposed to increase the minimum charge from $17.86 to $23.77, an increase of $5.91 or 33.09%. Additionally, the Company proposed to increase the second, third, and tail block rates equally by $0.1661 per Mcf, or 6.61%, 8.55%, 10.58%, respectively.

Q. Does the Panel agree with the Company's rate design methodology for SC No. 3 customers?

A. No, for the same reasons stated above, we believe that the minimum charges should not be increased or decreased at this time.

Q. What does the Panel recommend the Commission adopt for the residential transportation service classification rate design?

A. We recommend an equal percentage increase to the volumetric block rates of 2.84% in order to allow the Distribution to collect the allocated revenue increase. As a result of our recommendation, the middle and tail block rates would increase to $3.8315 and $1.0368 per Mcf, respectively.

SC No. 3 General Customers

Q. Describe the Company's proposal for SC No. 3 general customers.

A. Similarly outlined in Exhibit__(COSRD-13), Schedule 1, page 2 of 17, the Company proposes to increase the minimum charge from $17.86 to $23.77, an increase of $5.91 or 33.09%. Additionally, the Company proposed to increase the second, third, and tail block rates equally by $0.1661 per Mcf, or 6.61%, 8.55%, 10.58%, respectively.

Q. What does the Panel recommend the Commission adopt for the general service classification rate design?

A. We propose to freeze minimum charges at the current level of $17.86 and recommends reaching the overall service class revenue decrease of ($1.168M) through equal percentage decreases to volumetric block rates of 3.407%. The result of our adjustments yields middle and tail block rates of $2.4278, $1.8766, and $1.5159 per Mcf, respectively.

SC No. 13- TC 1.1 MMT Customers

Q. Describe the Company's proposal for S.C. 13 TC 1.1 MMT customers.

A. The Company's recommendations are outlined on page 3 of 17 in Schedule 1 of Exhibit__(COSRD-13). The Company proposed no increases to the minimum charge and instead allocated all revenue increases to the volumetric blocks. The Company proposed to increase the block rate from \$1.43918 to \$1.67133, an increase of \$0.2322 per Mcf, or 16.13%.

SC No. 13- TC 1.1 DMT Customers

Q. Describe the Company's proposal for S.C. 13 TC 1.1 DMT customers.

A. Similarly, the Company proposed no increases to the minimum charge and allocated all revenue increases to the volumetric blocks. The Company proposed to increase the block rate from \$1.26479 to \$1.49694, an increase of \$0.2322 per Mcf, or 18.35%.

SC No. 13- TC 2 MMT Customers

Q. Describe the Company's proposal for S.C. 13 TC 2 MMT customers.

A. The Company proposed no increases to the minimum charge and allocated all revenue increases to the volumetric blocks. The Company proposed to increase the block rate from \$1.10320 to \$1.26496, an increase of \$0.1618 per Mcf, or 14.66%.

SC No. 13- TC 2 DMT Customers

Q. Describe the Company's proposal for S.C. 13 TC 2 DMT customers.

A. The Company proposed no increases to the minimum charge and allocated all revenue increases to the volumetric blocks. The Company proposed to increase the block rate from $0.92881 to $1.09057, an increase of $0.1618 per Mcf, or 17.42%.

SC No. 13- TC 3 MMT Customers

Q. Describe the Company's proposal for S.C. 13 TC 3 MMT customers.

A. The Company proposed no increases to the minimum charge and allocated all revenue increases to the volumetric blocks. The Company proposed to increase the block rate from $0.79578 to $0.90153, an increase of $0.1058 per Mcf, or 13.29%.

SC No. 13- TC 3 DMT Customers

Q. Describe the Company's proposal for S.C. 13 TC 3 DMT customers.

A. The Company proposed no increases to the minimum charge and allocated all revenue increases to the volumetric blocks. The Company proposed to increase the block rate from $0.62139 to $0.72714, an increase of $0.1058 per Mcf, or 17.02%.

SC No. 13- TC 4 MMT Customers

Q. Describe the Company's proposal for S.C. 13 TC 4 MMT customers.

A. The Company proposed no increases to the minimum charge and allocated all revenue increases to the volumetric blocks. The Company proposed to increase the block rate from $0.31775 to $0.36572, an increase of $0.048 per Mcf, or 15.10%.

SC No. 13- TC 4 DMT Customers

Q. Describe the Company's proposal for S.C. 13 TC 4 DMT customers.

A. The Company proposed no increases to the minimum charge and allocated all revenue increases to the volumetric blocks. The Company proposed to increase the block rate from $0.28967 to $0.33764, an increase of $0.048 per Mcf, or 16.56%.

SC No. 13- TC 4.1 MMT Customers

Q. Describe the Company's proposal for S.C. 13 TC 4.1 MMT customers.

A. The Company proposed no increases to the minimum charge and allocated all revenue increases to the volumetric blocks. The Company proposed to increase the block rate from $0.55173 to $0.61767, an increase of $0.0659 per Mcf, or 11.95%.

SC No. 13- TC 4.1 DMT Customers

Q. Describe the Company's proposal for S.C. 13 TC 4.1 DMT customers.

A. The Company proposed no increases to the minimum charge and allocated all revenue increases to the volumetric blocks. The Company proposed to increase the block rate from $0.37734 to $0.44328, an increase of $0.0659 per Mcf, or 17.47%.

Staff's TC Customer Rate Design

Q. Explain how the Panel developed rates for the Distribution's TC customers

A. Our recommendations are highlighted in Exhibit__(SGRP-9). We grouped the Company's TC

1.1, TC 2, TC 3, TC 4 and TC 4.1 customers together and designed rates based on a revenue allocated dollar amount for each group. We spread each group's portion of the revenue requirement to each TC customer within the group based on a percent of the group's total throughput. The minimum charge rates were frozen at the current values and all revenue changes were applied through the volumetric block rates.

Q. Did the Panel review the impact to its rate design on customer's bills?

A. Yes. Exhibit__(SGRP-10) highlights the impact of the Panel's rate changes on SC No. 1 residential and SC NO. 3 general customer's bills.

Q. Briefly describe the impact to these customer's bills.

A. The result of our rate design provides an average annual increase of 0.8% and an average annual decrease of 0.6% to S.C. 1 Residential and S.C. 3 General customer bills, respectively.

Capital Investment Reconciliation Mechanism

Q. Does the Panel propose a Capital Investment Reconciliation Mechanism?

A. Yes. As we stated earlier, based on the review of the Company's historical capital budgets and expenditures, it is clear that there are always variances between the capital budget and the actual expenditures. Consequently, we propose the Capital Investment Reconciliation Mechanism to protect ratepayers from paying delivery rates that are too high because the Company was not able to implement the entire capital plan.

Q. Please briefly describe the Capital Investment Reconciliation Mechanism the Panel proposes for the Rate Year.

A. We recommend that a comparison be performed to compare the actual net revenue requirement in the Rate Year with the net revenue requirement approved by the Commission. When measuring the net plant in service, we recommend including depreciation expense and the accumulated deferred Federal and State income taxes. The mechanism is to be downward adjusting only. The calculations should be made and filed with the Secretary on or before July 31st of the subsequent Rate Year. Any balance owed to customers would be deferred with carrying charges as calculated using the pre-tax rate of return approved by the commission in these proceedings.

Q. Why does the Panel recommend that the mechanism be a one-way downward-only true-up mechanism?

A. Customers are providing a return on a forecasted level of rate base. The one-way mechanism protects customers if the Company under-spend its capital budget or if there are significant slippage, or delays, in closing projects to plant in service.

Q. Has the Commission adopted a one-way, downward-only, capital reconciliation mechanism in a litigated rate proceeding?

A. Yes, the Commission adopted a one-way downward only capital expenditure true-up mechanism in the Con Edison of New York, Inc. electric rate case, Case 08-E-0539, and in Central Hudson Gas and Electric Corporation, Case 08-E-0887.

Q. Can the Company's proposed surcharge mechanism impact the Capital Investment Reconciliation Mechanism?

A. Yes and it is important to understand how these mechanisms will function together.

Q. Please explain.

A. The Capital Investment Reconciliation Mechanism is an asymmetric reconciliation mechanism, in that if net plant additions are lower than projected, the revenues collected to support the increment between actual net plant and the net plant target, would be deferred for customers' benefit, while the Company would bear the risk of carrying costs resulting from net plant additions higher than projected. However, this reconciliation mechanism must work in concert with the surcharge mechanism, to incent the Company to accelerate its replacement of LPP. Therefore, any capital expenditures specifically for LPP replacement, in excess of the Commission approved net plant target and within the per mile cap, should be recovered through the surcharge mechanism in the Rate Year.

Q. Are there any other comments you would like to make on the Capital Investment Reconciliation Mechanism?

A. Yes. The Staff Policy Panel testimony discusses a new incentive mechanism which may modify our recommendations by creating a means for the Company and ratepayers to benefit from the Company’s efforts to contain costs and reward its efficiency. Careful consideration of how the Capital Investment Reconciliation Mechanism operates should be made if the Commission adopts changes to incent efficiencies.

Proactive Main Replacement Unit Cost Caps

Q. Is the Gas Safety Panel recommending an incentive mechanism for the removal of LPP?

A. Yes.

Q. Please describe the proposal.

A. The Staff Gas Safety Panel recommends positive revenue adjustments for the Company of two pre-tax basis points for each full mile of leak prone main replaced beyond the annual minimum targets. However, the Company would only receive the incentive if they meet minimum targets in the rate year, capping the incentive at 10 pre-tax basis points. Should the Company opt to meet the cumulative target in lieu of the annual target, the positive revenue adjustment would not be available.

Q. Is the Gas Rates Panel recommending approval of the Company's Gas Safety and Reliability Surcharge?

A. Yes, with some modifications.

Q. Should there be a unit cost cap associated with incremental LPP replacement?

A. Yes. We recommend using the Rate Year unit cost per mile figure we calculated to forecast the proactive main replacement budget line item. Our forecast for the Company used an average price of $398,477 per mile in the Rate Year.

Q. Why should the Commission adopt unit cost per mile caps on the incremental LPP retirements?

A. We recommend implementing cost per mile caps as an incentive for the Company to control their costs, incent synergistic opportunities and limit customers' bill increases.

System Upgrade & Modernization Tracking Mechanism

Q. Briefly describe the Company's system upgrade and modernization tracking mechanism.

A. As stated on page 71 of the Company COS Rate Design Panel pre-filed testimony, the Company's proposed system upgrade and modernization tracking mechanism aims to allow for the recovering of carrying costs related to LPP replacement above and beyond the targeted miles. Exhibit__(COSRD-12) highlights the different components that total to the proposed carrying charges, which include pre-tax rate of return, depreciation, property taxes, and uncollectibles. The Company also proposed: (1) a reconciliation of low income expenses; (2) a reconciliation of management audit costs; and (3) a reconciliation of any safety related expenses without approval from the Commission.

Q. Does the Panel agree with the Company's proposed system upgrade and modernization tracking mechanism?

A. No. Due to Staff's modification of the collection of the low income program from rate design, a reconciliation mechanism is not necessary and will be handled as a deferral. Staff's recommendation to exclude the management audit expenses from the case results in our recommendation to eliminate this cost from the surcharge mechanism. We believe the tracking mechanism should be limited to incremental LPP costs and updated to reflect the Commission approved pre-tax rate of return, depreciation rates, property tax rates and uncollectible rates. We also recommend the Commission reject the Company's proposal to surcharge customers without Commission approval of such costs because the type of costs are not well defined, unknown, could pose significant impacts to customers and should ultimately be approved by the Commission.

Q. Did the Distribution propose any changes to their off-system sales and capacity release proceeds?

A. Yes.

Q. Briefly explain.

A. The Company currently funds their Gas Network

Enhancement Program, otherwise referred to as the Gas Expansion Plan (GEP), and Area Development Program (ADP) with their off-system sales and capacity release proceeds at levels of $750,000 and $250,000, respectively. As referenced from page 78 of the COS Rate Design Panel testimony, Distribution has included the $250,000 associated with the ADP in their revenue requirement, however, they propose to discontinue funding the ADP from off-system sales and capacity release proceeds. The Company's proposal will continue to include the $750,000 for the GEP. Distribution proposes to share the total off-system sales and capacity released revenues, less the $750,000 funded towards the GEP, with customers at a split of 85 percent customer and 15 percent Company, with the customer portion first being utilized to eliminate proposed system upgrade and modernization tracking mechanism deferrals.

Q. Does the Panel agree with the Company's proposal?

A. No. Off-system sales and capacity release proceeds provide a revenue stream to sales customers. Under the Company's proposal, customer share of these proceeds will first be used to write down the deferral amounts which would accumulate based on contributions from both sales and transportation customers. The Panel disagrees with the Company's proposal because it inappropriately applies transportation customer portions of the system upgrade and modernization tracking mechanism deferrals against what should be shared dollars allocated to sales customers only. In addition, Staff notes the Commission's ruling in Case 14-G-0214, where the Commission ruled against the request to use off-system sales and capacity release revenues to write down deferral in a similar fashion.

Q. Does the Panel have any other recommendations regarding the system upgrade and modernization tracking mechanism?

A. Yes, we recommend two modifications. The property taxes should be on a two year lag to simulate the timing difference between the installation of new pipe and its assessment. Additionally, the tracking mechanism shall be implemented over the Commission approved rate period, after which it will end furthermore until the Distribution’s next rate filing. We also believe that it is more equitable to first allocate the revenue to be collected in the surcharge to the SCs based on each SCs’ delivery revenues, and then develop a specific rate for each SC.

Q. Does this conclude the Panel’s testimony at this time?

A. Yes.

BY MS. WOEBBE: (Cont'g.)

Q. Staff Gas Rates panel, did you prepare or identify any exhibits to accompany your testimony?

A. (Tushaj) Yes, we did.

Q. Are the documents identified as Exhibits SGRP-1 through SGRP-10?

A. Correct.

Q. Do you wish to make any corrections to those exhibits?

A. No.

MS. WOEBBE: Your Honor, I ask that these exhibits be marked for identification.

A.L.J. LECAKES: So for SGRP-1, we'll mark it as Exhibit 300. SGRP-2, 301. SGRP-3, 302. SGRP-4, 303. SGRP-5, Exhibit 304. SGRP-6, Exhibit 305. SGRP-7, Exhibit 306. SGRP-8, Exhibit 307. SGRP-9, Exhibit 308 and SGRP-10, Exhibit 309.

MR. FAVREAU: Your Honor, what's the first one? The initial one, I'm sorry.

A.L.J. LECAKES: The initial one is 300 SGRP-1.

MR. FAVREAU: Thank you.

A.L.J. LECAKES: So altogether, those are Exhibits 300 to 309 covering SGRP-1 through SGRP-10.

MS. WOEBBE: Your Honor, the panel is ready for cross-examination.

A.L.J. LECAKES: Thank you. Company? Do you have any cross for this panel, I don't have you listed.

MR. DELVECCHIO: No, Your Honor.

A.L.J. LECAKES: All right. UIU?

MR. ZIMMERMAN: Yes, Your Honor, thank you.

CROSS-EXAMINATION

BY MR. ZIMMERMAN:

Q. And I would like to refer to page 77. Your testimony -- beginning at line 9, the question that reads, do you agree with the use of the zero intercept study to determine the allocated declassified distribution, the answer reads, not necessarily. We believe that the results of the zero intercept methodology may under allocate cost in classes that have large demands placed on the system and a few customers. And can the panel please explain why it believes that the results of a zero intercept methodology might have that?

A.L.J. LECAKES: Mr. Zimmerman, is your mike on? And if it is --

MR. ZIMMERMAN: No.

A.L.J. LECAKES: -- could you just please speak up a little bit.

MR. ZIMMERMAN: It isn't on, yeah. Would you like me to repeat the question?

A.L.J. LECAKES: No, I did hear the question at the end. I'm not sure I heard everything at the beginning but I think that the panel did, so.

THE WITNESS: (Rider) So I refer you to the gas distribution rate design manual that was being discussed yesterday. And there's 2 different methodologies that can be used to classify main costs. And that statement is really a recognition that there is those 2 methodologies that can be approved.

A.L.J. LECAKES: And you were referring to what was marked as Exhibit 253 for identification yesterday, Mr. Rider, this document here?

THE WITNESS: Yes.

A.L.J. LECAKES: Thank you.

THE WITNESS: Page 22 and 23.

BY MR. ZIMMERMAN: (Cont'g.)

Q. I'm sorry, panel, just to -- we want to get back to that question but those 2 methods that you -- that you're making referenced to in your opening, you -- your intercept is one of them, I presume with the other.

A. (Rider) Classifying mains is 100% demand.

MR. ZIMMERMAN: In that case, I have no further questions.

A.L.J. LECAKES: Mr. Mager?

MR. MAGER: No, I have nothing. No questions, Your Honor. Thank you.

A.L.J. LECAKES: I assume there is no need for a re-direct testimony?

MR. FAVREAU: No, re -- no redirect. Read the manual one by one.

A.L.J. LECAKES: No.

MR. RIDER: Did you want a couple of softballs to get, you know, --

A.L.J. LECAKES: Panel, you are excused. Thank you very much. Let's go off the record. Why don't we take a quick 10-minute break or so. When we come back, the Customer Service and low income order panel can be ready. We're going to break for about 10 minutes.

(Off the record.)

A.L.J. LECAKES: Okay. I'm ready. Let's go back on the record. Mr. Del Vecchio, while we were off the record you approached me about a statement you wanted to make about the -- Ms. Friedrich-Alf's --

MR. DELVECCHIO: Yes.

A.L.J. LECAKES: -- cross-examination. Go ahead.

MR. DELVECCHIO: Yes, Your Honor. During the cross examine -- examination of Ms. Friedrich-Alf, there was some discussion about a pipeline project that National Fuel had been involved with in the -- in Dunkirk, New York. And at the time, we did not have the case number for that proceeding. We did a little research and were able to -- to find that. And the Article 7 permit that we -- that the company sought was in case 14-T-0458, application of National Fuel Gas Distribution Corporation for certificate of environmental compatibility and public need. Constructed approximately 9.5 miles, 16-inch diameter natural gas transmission line located in the towns of Dunkirk, Pomfret and Albright, City of Dunkirk. And the Commission did issue an order granting the certificate of an environmental compatibility and public need and that order was issued and effective March 2nd, 2015 under that case number.

A.L.J. LECAKES: And has National Fuel Gas taken advantage of the CPC and have they started construction on anything?

MR. DELVECCHIO: No, Your Honor.

A.L.J. LECAKES: Okay. Is there anything else we need to go over before we call the next panels? Company, if you could proceed.

MR. NICKSON: The Company calls the Customer Service panel.

A.L.J. LECAKES: All right. And we are doing 2 panels together, correct?

MR. NICKSON: Correct. The Company would also call the Low Income Order panel.

A.L.J. LECAKES: Okay. If the combined panel members could identify themselves by name and business address for the record, please?

MR. FIGLIOTTI: Perry D. Figliotti, 6363 Main Street, Williamsville, New York.

MR. GOSSEL: Kenneth Gossel, 6363 Main Street, Williamsville, New York.

MR. MEINL: Eric H. Meinl, 6363 Main Street, Williamsville, New York.

A.L.J. LECAKES: And if the panel members could please rise -- raise your hand. Panel members, do you swear or affirm that the testimony you're about to give today is the whole truth?

PANEL: Yes.

PERRY D. FIGLIOTTI; Sworn

KENNETH GOSSEL; Sworn

ERIC H. MEINL; Sworn

A.L.J. LECAKES: Please be seated. Mr. Nickson, why don't we start with the Customer Service panel documents and then we'll do the Low Income Order panel documents.

MR. NICKSON: Okay.

DIRECT EXAMINATION

BY MR. NICKSON:

Q. Panel, do you have in front you a document entitled the Direct testimony of the Customer Service panel consisting of 15 pages of questions and answers?

A. (Panel) Yes.

Q. And was that document prepared by you or under your supervision?

A. (Gossel) Yes, it was.

Q. Do you have any corrections to your testimony?

A. No, we do not.

Q. If I were to ask you the same questions today, would your answers be same?

A. Yes, they would.

MR. NICKSON: Your Honor, I would ask that the direct testimony of the Customer Service panel be incorporated into the record as if given orally today.

A.L.J. LECAKES: Granted that in the transcript it should appear it is on the company's testimony disc in the file company direct testimony. And the file is called the Customer Service panel direct testimony. Proceed, Mr. Nickson.

DIRECT TESTIMONY OF CUSTOMER SERVICE PANEL

Q. Please introduce the members of the Customer Service Panel.

A. The Panel consists of Kenneth Gossel and Perry Figliotti.

Q. Mr. Gossel, please state your name and business address.

A. My name is Kenneth Gossel. My business address is 6363 Main Street, Williamsville, NY 14221.

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

A. I am employed by National Fuel Gas Distribution Corporation ("Distribution" or the "Company"). I was named to my current position, Deputy General Counsel, effective April 15, 2010. In my current role I am responsible for providing advice and guidance to the Company's Consumer Business Department related to customer service programs and offerings, including its low income programs. I am further involved in the Company's efforts to assist residential customers with obtaining Home Energy Assistance Program ("HEAP") and other public assistance ("PA") benefits.

Q. Please describe your educational background and experience.

A. I graduated from the State University of New York ("SUNY") at Buffalo in 1988 with a Bachelor of Science Degree in Business Administration and from SUNY Buffalo School of Law in 1991 with a Juris Doctorate Degree. I served as an Appellate Court Attorney for the New York State Supreme Court Appellate Division Fourth Department in Rochester, New York. I joined Distribution in 1993 as an attorney in its Legal Department. From February 2005 until April 2010, I headed Distribution's Quality Assurance Department and was responsible for low income and public benefits programs, resolving any consumer complaints and its operational compliance program. Thereafter, I returned to the Company's Legal Department.

Q. Have you previously testified before the Commission?

A. Yes. I have submitted pre-filed testimony in Distribution's 2007 rate proceeding (Case 07-G-0141).

Q. Mr. Figliotti, please state your name and business address.

A. My name is Perry Figliotti. My business address is 6363 Main Street, Williamsville, NY 14221.

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

A. I am employed by Distribution. In 2009, I was named to the position of Senior Manager in Distribution's Consumer Business Division in the Quality Assurance area. I held a variety of positions in Distribution's Rates and Regulatory Affairs Department from 1985 through 2000 prior to joining the Consumer Business Department in 2001. I have worked in the Administration, Consumer Assistance offices, and Transportation Services areas of Consumer Business prior to moving into the Quality Assurance area.

Q. Please describe your educational background and experience.

I received a Bachelor of Science Degree in Business Administration in 1983 from Canisius College and a Master's of Business Administration Degree from the SUNY at Buffalo in 1985. In addition, I was an adjunct professor in Niagara University's Commerce Department for many of the semesters between 1987 and 2005.

Q. Have you previously testified before the Commission?

A. Yes. I have submitted testimony in Case 90-G-0734, Case 91-G-0846, Case 93-G-0756, and Case 94-G-0885. I have also testified in front of the Pennsylvania Public Utility Commission in Case R-911912, Case R-932548, and Case R-942991.

Q. What is the purpose of the Panel's testimony?

A. The purpose of the Panel's testimony is to discuss the continuation of the Company's customer service programs, including low income programs.

Q. Are you aware of the Commission's current proceeding in Case 14-M-0565 to Examine Programs to Address Energy Affordability for Low Income Utility Customers ("Energy Affordability Proceeding"?

A. Yes. Distribution continues to actively participate in the Energy Affordability Proceeding and expects that additional guidance from the Commission will be forthcoming. Distribution will work with the Department of Public Service Staff ("Staff") and other stakeholders to address such guidance in its low income programs. Changes to eligibility criteria should be considered only after the issuance of a final order in the Energy Affordability Proceeding and pursuant to appropriate processes that fairly consider the interests of all affected customers and the Company.

Q. Does Distribution propose significant changes to its current low income programs as a result of this proceeding?

A. No, however, the Company is proposing minor changes to its current low income programs.

Q. Please describe Distribution's HEAP Residential Assistance Service ("HRAS") program.

A. In the current rate plan, customers qualifying for the HRAS program receive a discount of $12.50 to their minimum bill charge during the months of January through May.

Q. How do customers qualify for this program?

A. To quality for the HRAS program, customers must receive a Regular or Emergency HEAP grant during the current or immediately prior HEAP Plan Year.

Q. How many customers participate in the HRAS program?

A. HRAS is a broad-based program that Distribution designed to assist a larger number of its residential customers. As of March 31, 2016, there were approximately 58,000 retail sales customers and 19,800 customers billed under Purchase of Receivables ("POR") participating in the program.

Q. Please describe the POR customers.

A. These customers purchase their gas supplies from energy service companies ("ESCOs") that market gas on Distribution's system. Distribution then purchases the accounts receivable from the ESCOs that are participating in POR. As noted above, residential POR customers are eligible to participate in the HRAS program.

Q. Is the Company proposing to continue the HRAS program?

A. Yes. Subject to the update discussed below, Distribution proposes to continue the HRAS program.

Q. Is the Company proposing any changes to its HRAS program?

A. Yes. The Company proposes to expand the program by extending the monthly discount for an additional three months, from the current five months to the proposed eight months. Distribution's proposal will have the discount applied to participating customers' accounts in the months of October through May. This discount will apply during the months where gas usage is higher due to heating needs, and participating customers will be afforded a total annual discount of $100.00.

Q. Please describe the Company's Low Income Customer Affordability Assistance Program ("LICAAP").

A. Distribution's LICAAP program is a more targeted program which provides an even higher level of benefit to a subset of low income, payment-troubled residential customers that have a greater need. Under LICAAP, Distribution provides an affordable gas utility bill to households based on household income and the number of residents living in the home. The program also promotes good bill payment practices by providing participants with the opportunity to achieve complete arrearage forgiveness. Each month, one-twenty-fourth ($1/24^{th}$) of a customer's pre-program arrears is forgiven when timely payment of the reduced budget-billed amount is made. Arrearage forgiveness is available only during the first thirty-six (36) months that a customer is on LICAAP.

Q. Does Distribution plan on continuing this targeted program?

A. Yes. The LICAAP program has helped a significant number of customers achieve a gas utility bill that they can manage to pay and a fresh start.

Q. How many customers are participating in LICAAP?

A. As of December 31, 2015, there were 10,733 customers participating in LICAAP.

Q. Is the Company proposing any changes to LICAAP?

A. Yes. The Company is proposing that the LICAAP customers that have completed the arrearage forgiveness eligibility period of the program be moved to the broad-based HRAS discount program.

Q. Why is the Company proposing these transfers?

A. In the Joint Proposal adopted by the Commission in Case 13-G-0136, the parties agreed to continue LICAAP but further contemplated decreased expenditures through attrition, reduced enrollments and lowered per participant benefits within existing program guidelines. Transferring LICAAP customers that are no longer eligible for arrearage forgiveness to the HRAS discount program is consistent with the Joint Proposal and will further reduce administrative expenditures in LICAAP.

Q. What effect will these transfers of LICAAP customers have on their individual bills?

A. Most of the LICAAP customers that are transferred will have a reduced discount, dropping from the base LICAAP discount of $170 per year to $100 per year on the HRAS discount program. There were only 3 LICAAP customers, at a 10% discount, receiving more than the base LICAAP discount as of December 2015.

Q. Could you provide an estimate of the number of LICAAP customers that would be transferred to HRAS?

A. We estimate that approximately 4,100 LICAAP customers will be transferred to HRAS if the proposal is accepted.

Q. How much did you write-off for LICAAP arrearage forgiveness during the twelve months ended December 2015?

A. Distribution had just over $2.1 million in LICAAP arrearage forgiveness for the historic test year.

Q. Can you provide a summary of the LICAAP and HRAS program costs for the twelve months ended December 2015?

A. The following table summarizes the total costs of the HRAS and LICAAP programs from January 2015 through December 2015.

Summary of LICAAP and HRAS Program Costs	
HRAS Discounts	$4,317,662
LICAAP Discounts	2,018,937
Arrearage Forgiveness (Write-Off)	2,127,630
Administration	162,584
Total Program Costs	**$8,626,813**

Q. Are there changes to the funding mechanism that are being proposed by Distribution?

A. The funding proposal for our proposed low income rate proposals is presented by the rate design panel.

Q. Please discuss the Neighbor-For-Neighbor Heat Fund.

A. The Company's Neighbor-For-Neighbor Heat Fund provides grants of up to $300 to assist low-income seniors, disabled individuals and individuals receiving unemployment benefits to help meet their heating burden. All of the funding for this program is from private sources, with the vast majority coming from the Company's shareholders, employees and customers. As such, these costs have not been included in Company's revenue requirement in this case. Last year, National Fuel Gas Company shareholders contributed $133,000 to the New York Neighbor-For-

Neighbor Heat Fund. Neighbor-For-Neighbor served 496 customers in New York during the most recent program year, and since its inception, has paid over $5.3 million in heating assistance for low income individuals.

Q. Are there any other initiatives the Company is supporting?

A. Since 2006, Distribution has partnered with Neighborhood Legal Services, Inc. (a not-for-profit agency located in Buffalo that provides free legal services to persons with low-income and persons with disabilities). The Emergency Assistance Advocacy Project has provided customers with direct legal representation to assist customers in obtaining available emergency assistance to prevent gas shut offs or restore service.

Q. What other programs does Distribution have to assist low income customers?

A. Distribution has provided a heating equipment repair and replacement program for more than a decade to provide emergency assistance to its vulnerable elderly, blind and disabled low income homeowners ("EBD HERR") whose primary heat source fails. The Company utilizes a contractor to promptly assist with no heat situations for these customers to avoid potential emergency situations. The Company's contractor will respond and evaluate the condition of the primary heat source, and will either make repairs or replace units where repairs are not cost effective.

Q. How is the EBD HERR program funded?

A. Distribution has included $420,000 in its revenue requirement to fund this program, an increase of $10,000 from the twelve months ended December 2015.

Q. Does Distribution have any other heating equipment repair and replacement programs available to low income customers?

A. More recently, Distribution has made these services available to replace inoperable legacy heating systems of low income homeowners that receive a HEAP benefit ("HEAP HERR") with high efficiency heating equipment. The HEAP HERR program is nearly identical to the EBD HERR program absent the requirement for the customer to be coded as EBD.

Q. How is the HEAP HERR program funded?

A. The Commission recently authorized funding for HEAP HERR through Distribution's Conservation Incentive Program ("CIP") by Order issued and effective January 22, 2016 in Case 15-M-O252.

Q. Where can more information on HEAP HERR be found?

A. A high level view of the HEAP HERR program is found in the rate case testimony of the Energy Services Panel.

Q. Is the Company proposing any other changes related to service to low income customers at this time?

A. Yes. The Company is proposing a once per year waiver of reconnection charges to its low income customers that were shut off for non-payment. These customers already are having difficulty in paying their utility bill and the additional reconnection fee may put them further behind in their payment obligations.

Q. How do you propose to recover the reasonable costs of reconnection for customers receiving a waiver?

A. There were 7,357 reconnection fees of $73.92 each charged to 6,378 unique HEAP recipients during calendar 2015. The Company plans to deduct $471,500 (6,378 x $73.92) from the credit currently included in the Operations Expense as a result of waiving the first reconnection fee for a HEAP recipient.

Q. Are there any programs that you plan to discontinue, and, if so, why?

A. Yes. The Company proposes to eliminate the Elderly, Blind and Disabled Payment Troubled Residential Assistance Program ("EBD PTRA"). The EBD PTRA program is a legacy program that has not enrolled any new customers since initiation of the Company's LICAAP program in 2006. As of March 2016, there were only 99 customers remaining on the program. The participants have received full arrearage forgiveness. Elimination of the program will avoid incremental administrative expense with only minor effects on program participants. Finally, the EBD PTRA program was designed to be of limited duration, as stated on NY Tariff Leaf 156.1.

Q. What does Distribution intend to do with these customers?

A. Distribution proposes to transfer these customer accounts to the HRAS Program where they will continue to receive a discount on their gas utility bills.

Q. What effect will this have on program participants?

A. EBD PTRA participants will see a reduction in average discounts. It is expected that the average annual increase in customer bills will be approximately $170 based on current rates. Based on the proposed rate design, the Company will credit each active EBD PTRA customer $200 at the time this base rate case gets approved, $135 twelve months after this rate case is approved, and $70 twenty-four months after this rate case is approved to smooth the transition to another rate class for these customers.

Q. Does the Company propose the continuation of the Service Quality Performance Mechanism ("SQPM") agreed to in the Joint Proposal in Case 13-M-0136?

A. No. SQPMs are voluntary programs that arose through rate settlements to help ensure that customer service levels are maintained in a multi-year rate plan. Distribution has consistently achieved and surpassed its SQPMs. Under the Joint Proposal agreed to in the last settlement, the SQPM continues until changed in a subsequent proceeding by order of the Commission. The Company proposes elimination of the SQPM in the instant proceeding.

Q. Is a SQPM needed to ensure good customer service?

A. No. The Company has maintained excellent customer service whether or not it has been subject to a SQPM. To our knowledge, the Company has never been penalized for failing to meet a service quality performance metric.

Q. Is the SQPM an incentive mechanism?

A. No. The SQPM is a purely punitive measure. Indeed, the penalties under it can be quite severe, ranging from $200,000 to as much as $1,500,000. Therefore, it seems clear that the SQPM is not an "incentive" program but rather is a penalty program that assesses financial penalties or fines for failure to meet the various criteria. We are advised by counsel that the Company has serious reservations as to whether a punitive arrangement as the SQPM can lawfully be imposed under the existing statutory and regulatory scheme.

Q. Are the service standards contained in the SQPM applied or reported uniformly to utilities in the state?

A. To the best of our knowledge they are not. This is described in greater detail in the direct testimony of Evan M. Crahen.

Q. Does this conclude your testimony?

A. Yes.

BY MR. NICKSON: (Cont'g.)

Q. And panel, do you also have in front of you a document entitled the rebuttal testimony of the Customer Service panel --

A. (Gossel) Yes, we do.

Q. -- consisting of 55 pages questions and answers?

A. Yes, we do.

Q. And was that document prepared by you or under your supervision?

A. Yes, it was.

Q. Do you have any corrections to that testimony?

A. We do not.

Q. And if I were to ask you the same questions today, would your answers be same?

A. Yes.

MR. NICKSON: Your Honor, I would ask that the rebuttal testimony of the Customer Service panel be incorporated into the record as if given orally today.

A.L.J. LECAKES: Granted. And that is on the same CD or the transcript it appears in the folder, company rebuttal testimony. And the file is called the Customer Service panel-rebuttal testimony. Mr. Nickson?

Q. Please state your names and business addresses.

A. We are Kenneth Gossel, Perry Figliotti and Eric Meinl. Our business address is 6363 Main Street, Williamsville, New York 14221-5887. We are each employed by National Fuel Gas Distribution Corporation ("Distribution" or "Company").

Q. Have you testified previously in this case?

A. Yes, we all submitted direct testimony in this proceeding.

Q. Has the composition of the Company's Customer Service Panel that submitted direct testimony in this proceeding changed?

A. Yes. Eric Meinl has been added as a member of the Company's Customer Service Panel, joining original members Kenneth Gossel and Perry Figliotti.

Q. What is the purpose of your rebuttal testimony?

A. The Customer Service Panel will address the Prepared Testimony of the Consumer Services Panel ("Staff Panel") submitted in this case by the Staff of the New York State Department of Public Service. We also will address several matters addressed, respectively, in the prepared testimony of Gregg C. Collar on behalf of UIU, and William D. Yates on behalf of PULP.

Q. Is Distribution's Customer Service Panel sponsoring exhibits?

A. Yes, we are sponsoring 12 exhibits.

Q. Would you briefly describe each exhibit?

A. Exhibit __ (CSP-1) contains the Staff Panel's responses to Distribution interrogatories related to customer service.

Exhibit __ (CSP-2) contains the Staff Panel's responses to Distribution interrogatories related to credit and debit cards.

Exhibit __ (CSP-3) contains the Staff Panel's responses to Distribution interrogatories related to residential termination and uncollectibles goals.

Exhibit __ (CSP-4) contains the Staff Panel's response to Distribution interrogatories related to statewide performance metrics.

Exhibit __ (CSP-5) contains statewide complaint statistics from the PSC's "Complaint Activity of New York's Major Utilities" reports.

Exhibit __ (CSP-6) contains the Distribution's annual telephone response times from April 2009 through March 2016.

Exhibit __ (CSP-7) contains the PSC's "Case 12-M-0170 - 2011 Utility Service Quality Report."

Exhibit __ (CSP-8) contains selected pages from the PSC's Order in Case 13-G-0136.

Exhibit __ (CSP-9) contains Distribution's Petition for Rehearing/Reconsideration/Clarification in Case 14-M-0565.

Exhibit __ (CSP-10) contains PULP's letter in support of Distribution's Petition for Rehearing and Clarification in Case 14-M-0565.

Exhibit __ (CSP-11) contains New York City's response to Distribution's Petition for Rehearing and Clarification in Case 14-M-0565.

Exhibit __ (CSP-12) contains the PSC's "Case 16-M-00296 - 2015 Utility Service Quality Report."

Q. What is the subject of the Staff Panel's testimony?

A. The Staff Panel discusses the Company proposal related to its low income affordability programs and offers modifications to an existing customer service penalty mechanism that the Company proposes to eliminate. The Staff Panel further recommends the imposition of new potential penalties related to residential account terminations and uncollectibles, and for missed service appointments. Finally, the Staff Panel addresses the Company's outreach and education program. This Customer Service Panel will address these issues.

LOW INCOME PROGRAMS

Q. Does the Staff Panel discuss how Distribution's low income program budgets will be set in light of the May 20, 2016 Order in the Energy Affordability Proceeding in Case 14-M-0565 ("May 20 Order")?

A. Yes. The Staff Panel testimony summarizes *inter alia* various elements of the Commission Order including energy burdens, budget caps, discount examples based on historical revenue and cost figures.

Q. Does the Staff Panel recommend a specific budget cap for Distribution's low income program in this case?

A. Yes. The Staff Panel indicates that it should be set at $16,165,185, which it states was set by the Commission in the May 20 Order. The Staff Panel's figure is that which is listed for Distribution at Appendix C to the May 20 Order.

Q. Should the Staff Panel's budget figures be used?

A. No. The Staff Panel fails to recognize that the figures stated in the May 20 Order were only illustrative – they were used to show what the costs would be if the statewide program was in place in 2015 – apparently using historic revenues calculated for Public Service Law ("PSL") §18-a assessments. The May 20 Order, however, did not set actual budget figures for utility low income programs, but rather set the methodology for determining budget caps. The Commission, in fact, specifically recognized that the budget cap will vary with changes in commodity costs. The May 20 Order set the budget cap at 2% of revenues for sales to end-use customers, which includes "both total utility revenues and the commodity portion of Energy Service Company revenues collected through consolidated utility billing to those customers" (May 20 Order at p. 30). The Commission, in a footnote, further referenced the PSL §18-a requirement for utilities to estimate sales revenue for commodities sold in calculating its gross operating revenue (May 20 Order, fn 33 at p. 30). The Staff Panel's use of historic revenue figures is inappropriate where, as here, revenues consistent with the gas costs and associated revenues forecasted for the rate year are available.

Q. Staff requests that the Company provide updated 18-a assessment figures if available. Are such update figures available?

A. Yes. Distribution's most recent §18-a assessment reflected $588,694,548 of revenues applicable to the §18-a assessment. Applying the 2% budget cap to this figure would result in a program budget of $11,773,891. This highlights the potential volatility of the funding mechanism as recommended in the May 20 Order. Consequently, we believe it is more appropriate in this case to establish a budget level based on the cost of gas and associated revenues projected in the rate year.

Q. Has Distribution set forth the appropriate budget figures if the Commission's statewide low income program is ultimately mandated and placed into effect for the rate year?

A. Yes. The Supplemental Direct Testimony of the Distribution's Low Income Order Panel has calculated the low income program budget at $13,462,422. Exhibit __ (LIOP-1). This figure reflects pricing conditions in the rate year and is consistent with the intent of the May 20 Order.

Q. Does Staff address the Supplemental Direct Testimony of the Company's 2016 Low Income Panel?

A. Yes. The Staff Panel indicates that the Company has filed a Petition for Rehearing of the May 20 Order and seeks to continue its LICAAP program as the May 20 Order does not take into consideration household size and other factors. It further notes that the petition for rehearing remains pending at this time (Staff Panel at p. 15).

Q. Is there support for continuation of the Company's existing low income programs?

A. Yes. The methodology used for the one-size-fits-all statewide low income program set forth by the Commission in the May 20 Order has been called into question by other parties. The Comments of the City of New York In Response to Petitions for Rehearing and Clarification filed September 6, 2016 in Case 14-M-0565 state that "such approach, which does not consider differences in costs, average income levels, or needs across the State, is not in the best interest of the State's low income population." Exhibit __ (CSP-11). PULP further recognizes the need for the Commission to reconsider and clarify its May 20 Order in its reference to Distribution's LICAAP program that it asserts "offers the greatest discounts to households with the lowest income and largest number of inhabitants to provide an affordable bill." PULP Letter in Support filed July 5, 2016 in Case 14-M-0565. Exhibit __ (CSP-10). Replacing a successful low income program with a cookie cutter program would be harmful to low income customers of Distribution.

Q. What are some problems with the tiered discount program of the May 20 Order that the Staff Panel is recommending the Company implement as soon as possible?

A. As pointed out in Distribution's Petition for Rehearing in Case 14-M-0565 (Exhibit __ (CSP-9), and by the City of New York in its September 6, 2016 Comments in the proceeding, the proposed methodology fails to provide an affordable utility bill for customers with large households and very low incomes. The City of New York points out it procured Staff's work papers subsequent to the issuance of the May 20 Order which showed that "Staff erroneously used the maximum allowable income level for HEAP benefits for a two-person household as the proxy for the average income level for all low income customers. This error led to an incorrect calculation of the six percent energy burden for many low income customers and to understated discount levels." Exhibit __ (CSP-11) [footnote omitted].

Q. Is the Company's LICAAP program better suited to addressing customer needs than the new statewide standardized low income program ("SLIP") tier structure of the May 20 Order?

A. Yes. LICAAP uses household income and number of inhabitants to provide a variable rate discount particularly suited for the customer. This is contrasted with the tier structure set forth in the May 20 Order where, as noted by the City of New York in its September 6, 2016 comments filed in Case 14-M-0565 Exhibit __ (CSP-11), the number of HEAP adders bears little relationship to income levels or need. The City of New York further notes "the tiered approach creates a larger misalignment between the level of financial need and the discount received than under existing programs." Id.

Q. Does Mr. Collar caution about premature implementation of the May 20 Order?

A. Yes. Mr. Collar cites the open issues pertaining to applicability of the May 20 Order and notes that the Commission has accepted public comments but has not yet acted. He notes that the May 20 Order does not resolve all low income-related matters, leaves several low income-related matters to be resolved in rate proceedings and notes that some requirements are subject to change in the future.(Collar at pp. 17-18). In light of the foregoing, Mr. Collar cautioned that premature implementation of the May 20 Order by Distribution which could lead to duplicative or wasteful efforts. (Collar at p. 18).

Q. What are you recommending?

A. The Commission should grant the Company's Petition for Rehearing in Case 14-M-0565 and allow the Company to continue its low income programs as proposed by the Company in this proceeding. This includes the continuation of LICAAP and the HEAP Residential Assistance Service (HRAS) program.

Q. Should the Commission rule in the Company's favor on its Petition for Rehearing in Case 14-M-0565 allowing it to continue its existing low income programs, what is the Company's proposal on the HRAS discount?

A. As proposed in our Direct Testimony, the Company seeks rate relief to permit the $12.50 discount to be extended for the additional months of October, November and December.

Q. Does Mr. Yates raise a valid concern regarding the impact to low income discounts resulting from the potential elimination additional HRAS discounts resulting from the May 20 Order?

A. No. The Company fully expects that the Commission will decide which low income program(s) (e.g., SLIP, HRAS, LICAAP) the Company will be required to offer in its Order in this proceeding. The Company will implement or modify the necessary low income programs to comply with Commission orders. To the extent that SLIP is required and goes into effect on October 1, 2017, Mr. Yates's point is moot. Furthermore, the rates for low income customers should not be frozen until the May 20 Order is clarified as requested by Mr. Yates in the alternative.

Q. Please discuss Mr. Collar's proposal to extend the $12.50 monthly discount for HRAS participants to all 12 months and his proposal to increase monthly bill credits for these customers even further by the same percentage as any delivery rate increase awarded in this proceeding, all with corresponding rate recovery.

A. The Commission needs to balance the burden placed on non-participating customers, particularly the moderate income customers that will experience the greatest effects of such changes. Moreover, additional discounts may not be required to provide an affordable bill in the current pricing environment where, as described in the Rebuttal Testimony of The Company's Cost Of Service And Rate Design Panel a customer's gas bill is about one-half of what he or she paid in 2009.

Q. If the Company's Petition for Rehearing in Case 14-M-0565 is denied, when does the Company anticipate it will be able to implement the statewide low income program set forth in the May 20 Order?

A. The Company has filed its compliance plan as required in the May 20 Order and that plan anticipates an implementation date for its SLIP in the fourth quarter of calendar year 2017. It has recently implemented a new customer information system and is presently in a stabilization period. In addition, the Company will be unable to begin developing all the system requirements for SLIP until after we have the Commission order in this instant case that more fully defines the program parameters. For example, the Tier 3 discount provided in the May 20 Order is greater than the residential minimum bill which will require the Company to make extensive modifications to its billing programs to accommodate the Tier 3 bill discount. This contrasts with the Company's existing low income discount programs such as LICAAP and HRAS where the Company had to adjust only a billing rate to implement the rate discount.

Q. How would this impact the existing low income programs offered by the Company?

A. At the time of implementation of SLIP, the LICAAP and HRAS programs would be discontinued in their entirety, including arrearage forgiveness. There will be no available funds to continue them as the May 20 Order and the Staff Panel anticipate that the Company will exceed 2% of revenues in the administration of its SLIP.

WAIVER OF RECONNECTION FEES

Q. Please discuss the Staff Panel's Testimony that indicates that "no funds remain within the low income budget to provide [reconnection fee] waivers at this time." (Staff Panel at p. 9).

A. Should the Commission mandate implementation of a SLIP and the Company reaches the 2% budget cap, there is no ability to provide a once per year reconnection fee waiver to low income customers. However, we would support continuation of this waiver if recovery of our expenses is permitted.

SERVICE QUALITY PERFORMANCE MECHANISM AND NRA PENALTIES

Q. Next, please address the Staff Panel's testimony under the heading Customer Service Performance Incentive ("CSPI") Mechanisms?

A. First, clarification of the terminology used by Staff is needed. Staff states in Interrogatory Response NFG-DPS-023 (Exhibit __ (CSP-1))] that it uses the terms SQPM and CSPI interchangeably and that Staff prefers CSPI. The Staff Panel's interrogatory response further admits that "National Fuel's most recent

Joint Proposal uses the term SQPM ('Service Quality Performance Mechanism')" (Id.).

Q. What terminology should be used to describe this penalty mechanism?

A. SQPM. This is not only the proper name of the device that Distribution has proposed to eliminate, but the use of SQPM is appropriate because Distribution has been and continues to be subject to Customer Service Performance Indicator reporting. The use of CSPI in the Staff Panel Testimony is especially confusing because Distribution has been submitting to Staff monthly Customer Service Performance Indicator (CSPI) reports using the same "CSPI" acronym since 1992 pursuant to Commission Order in Case 91-M-0500 (Order Directing Utilities to Supply Service Data, issued January 16, 1992) and subsequent orders. To eliminate confusion, the Staff Panel's CSPI terminology will be identified by the Company as "SQPM" and the Company's Customer Service Performance Indicator reports will be denoted as "CSPIndicator" reports.

Q. Do the CSPIndicator reports and SQPM reports provide the same information?

A. No. The CSPIndicator report consists of the following seven items: Appointments Kept (excluding locks and unlocks), Adjusted Bills, Telephone Answer Response, Non-Emergency Service Response Time, Estimated Readings, Consumer Complaints to the PSC, and Customer Satisfaction (combined residential and non-residential). The SQPM report consists of the following eight items: Appointments Kept (including locks and unlocks), Adjusted Bills, Telephone Answer Response, Estimated Readings, Consumer Complaints to the PSC, Residential Customer Satisfaction, Non-Residential Customer Satisfaction, and New Service Installations. As such, it is misleading for Staff to be using SQPM and CSPI interchangeably because they are not measuring the same items in the same manner.

Q. Is the SQPM an incentive program?

A. No. Staff's testimony indicates that it is punitive only. Indeed, the penalties proposed by the Staff Panel under the SQPM can be quite severe, ranging from $150,000 to as much as $1,800,000. Therefore, the SQPM is no "incentive" program but rather is a penalty program that assesses financial penalties, fines, in fact, for failure to meet the various criteria. We are advised by counsel that the Company has serious reservations as to whether a punitive arrangement such as the SQPM can lawfully be imposed under the existing statutory and regulatory scheme. Although asked for the legal authority for the Commission to mandate performance incentives or quality standards on utilities, the Staff Panel failed to provide it. Instead the Staff Panel responded that the "discovery request improperly asks technical Staff for legal analysis." Exhibit __ (CSP-1), p. 2 (NFG-DPS-013). No analysis was requested, just a request to identify the basis in law.

Q. Do other utilities in the State have such programs?

A. Yes, but that is not a rationale for mandating a SQPM. The fact that other gas and electric utility companies in New York may have agreed to a SQPM (or CSPI) as part of a joint proposal in a settled rate case, or any other voluntary process or procedure for that matter, is not a sound justification for requiring that same mechanism, process or procedure be imposed on another utility company. In fact, it is our understanding that most joint proposals expressly state that they are not to be used as precedent. Tellingly, the Staff Panel offers no evidence as to how the criteria to be applied to Distribution compares to measurement criteria applied to other utilities.

Q. Is the setting of SQPM standards arbitrary?

A. Yes. The Staff Panel's response to a Distribution's interrogatory request, which admits that the standards "may be affected by the circumstances of settlement negotiation," suggests arbitrariness to the entire process. NFG-DPS-187 (Exhibit __ (CSP-1), p. 33) The result is that Distribution may be forced to meet performance criteria that far exceed the service being offered by other utilities in the State – and suffer significant financial penalties if it does not. There are simply no objective criteria in Staff's proposal by which an optimal or even acceptable level of customer service is to be measured. At the very least, one would expect some "benchmark," objective level of customer service for each category that might be adjusted to reflect the differences among the territories that the various utilities serve, if applicable. The absence of any such criteria reveals starkly a major deficiency of the SQPM.

Q. What rationale does the Staff Panel offer for the continuation of the SQPM for Distribution?

A. The Staff Panel's rationale for a SQPM appears to be that Distribution, as a monopoly provider, has no profit-based incentive to provide satisfactory customer service; thus, a SQPM "is needed to establish an incentive for the Company to provide satisfactory levels of customer service performance" (Staff Panel at p. 18).

Q. Is the Panel's rationale supportable?

A. No, it is not. Distribution's status as a regulated gas utility does not necessarily imply that it has no profit-based motive to provide satisfactory customer service. Distribution values its customers and has always strived to provide excellent service. Improvements in efficiency, and any related cost savings, do not have to be mutually exclusive to satisfactory customer service. Distribution monitors its customer service delivery and would continue to do so whether or not a SQPM exists. We would also point out that the historical context of SQPMs refutes their application in a one-year, litigated rate case. In the past, the Commission has recognized that multi-year settlements provided companies with incentives to reduce expenses and thereby maximize their earnings during the settlement period. There was concern, however, that companies would cut staffing levels to enhance earnings and that customer service would suffer as a result. The SQPM regime was instituted in such settlements as a means of ensuring that customer service remained adequate and did not suffer as a result of a company's cost cutting efforts. The two main things to remember are: (1) that SQPMs were voluntary programs that arose through rate settlements; and (2) that they were intended to apply in multi-year rate plans.

Q. Why aren't SQPMs needed?

A. SQPMs are not standard across the state and are not an appropriate basis for comparing utility performance in relation to the "adequate service" standard set forth in the Public Service Law. In addition to being unnecessary in a one-year, litigated rate case, there are already monthly customer service reporting requirements imposed on utilities pursuant to the Commission Order in Case 91-M-0500. These CSPIndicators provide the Commission with information by which to measure service levels to ensure that they are adequate. Indeed, the 2015 Utility Service Quality Report (Case 16-M-0296) provided by the Staff Panel in response to an interrogatory request notes the CSPInidicators "are designed to be reported on a uniform basis [and] these performance indicators facilitate comparative analysis of customer service on a consistent basis, and allow identification of overall trends in customer service." (Exhibit __ (CSP-12), pp. 3-4).

Q. Further explain how a company's customer service may be monitored.

A. All of the major gas and electric utilities in New York State are required to submit a monthly CSPIndicators report to the Director of the Office of Consumer Services. This report is required in addition to any reporting requirements established in each company's individually established, voluntary SQPM/CSPI. Distribution's monthly CSPIndicators report, which covers the vast majority of Distribution's interactions with its customers, provides Staff with a tool for monitoring the Company's customer service delivery on an on-going basis.

Q. What proof can the Company provide to demonstrate the existence of a superior and existing means for the Commission to evaluate satisfactory levels of customer service by utilities across the state when compared to individually set and unique SQPMs?

A. Exhibit __ (CSP-7) is the 2011 Utility Service Quality Report that was prepared by the Department of Public Service in July 2012 in Case 12-M-0170. In the report, Staff used the CSPIndicator reports filed by all utilities pursuant to Commission Order in Case 91-M-0500 "to analyze and compare utility customer service performance on a detailed and consistent basis." (Id. at p. 4).Staff prepared and reported to the Commission on customer service performance by the major utilities for the year 2011, concluding that "The data reported by the utilities show that all New York utilities appear to be providing satisfactory levels of service." Exhibit __ (Id. at p. 3). Thus, Staff utilized non-SQPM data it had readily available in its analysis of whether utilities are providing satisfactory levels of service. Staff further presented mean and median levels in all categories of service, and used this data to compare utility performance against each other and against the averages.

Q. Is CSPIndicator data still reported monthly to Staff by New York utilities?

A. Yes. The Company is aware of no changes to Commission orders requiring monthly reporting of this data, is itself continuing to file monthly CSPIndicator reports with Staff, and the final audit report from Overland Consulting filed in Case 13-M-0314 on April 20, 2016 confirms this fact.

Q. The Staff Panel contends that the SQPM “has been effective in promoting satisfactory customer service by the Company" (Staff Panel at p. 20). Do you agree?

A. No. The Staff Panel offers no evidence for its opinion. Distribution had been providing superior customer service prior to the implementation of any SQPM and will continue to do so without one.

Q. Staff frequently uses the term “satisfactory customer service.” Does the Staff Panel define this term anywhere in its testimony or specifically indicate how it is measured?

A. No. The Staff Panel was asked in interrogatory requests to provide Commission guidance or documentation to define “satisfactory customer service”, “quality customer service”, or “adequate service”. Staff failed to provide such guidance, claiming the request was unduly broad and not tailored to this particular proceeding. Staff failed to provide any meaningful definition or objective means of measuring the same Exhibit __ (CSP-1), pp. 3-4 [NFG-DPS-014 and NFG-DPS-015] or any Commission authority on the same.

Q. Does the Staff Panel use consistent terminology to define requirements for utility customer service standards?

A. No. The Staff Panel is frequently inconsistent in its terminology. In response to Distribution interrogatories, Staff stated that '"Adequate service," "satisfactory levels of customer service" and "quality [customer] service" are equivalent terms, and describe service levels that are of sufficient quality to be acceptable for most customers.' Exhibit __ (CSP-20), p. 8 [NFG-DPS-020].

Q. Do you agree?

A. No. The phrases "adequate service" and "quality service" have quite different meanings to the average person. The average person would consider "adequate service" to be of lesser or inferior performance levels when compared to "quality service" given the ordinary definition and usage of those words. The standards are not equivalent in any sense.

Q. Why is this significant?

A. The Commission has never set forth an objective standard for "adequate service" or "satisfactory customer service" for utility performance in New York despite initiating attempts to do so more than a quarter century ago in Case 91-M-0500. The Staff Panel suggests the need to meet "quality service" levels, yet another standard, and one with an increased burden not justified under Public Service Law.. A "quality service" standard is an elevated one when compared to an "adequate service" standard, just as a beyond a reasonable doubt standard is greater than a preponderance of the evidence standard. Without a uniform objective standard, there is no guidance provided to utilities as to what level of customer service is adequate, or not. Lack of a uniform objective standard defining adequate service results in unequal application across the state. Thus, the patchwork standards arising from the process of individual rate settlements leads to unequal treatment and disparate results where, for example, an acceptable Telephone Answered rate for Con Edison (Exhibit __ (CSP-4)) is 56% within thirty seconds but is proposed to be almost 86% in the Staff Panel's recommendations for Distribution in the instant proceeding.

Q. Has Staff identified statewide standards for utility achievement of either quality customer service or adequate service?

A. No. In its Interrogatory Responses, the Staff Panel admits that none exist for: PSC Complaints; Residential Customer Satisfaction; Non-Residential Satisfaction; Telephone Response; Adjusted Bills; Estimated Meter Readings; Appointments Kept; or New Service Installations Exhibit __ (CSP-1), pp. 20-26 (NFG-DPS-049 to 055). Staff did note that satisfaction surveys are different for each utility.

Q. Has UIU witness Collar set forth what he believes is inappropriate standard for customer service?

A. Mr. Collar makes reference to a level of service to which customers are entitled in several places in his Direct Testimony (Collar at p. 5, 7). Although he references the correct standard of providing "adequate service" (Collar at p. 10, line 1), he deviates from the lawful standard in urging the Commission to impose stricter service targets on Distribution. Mr. Collar states that "SQPM targets should therefore be set at levels that challenge utilities to achieve enhanced customer service, rather than staying with the status quo" (Collar at p. 10, line 23, and at p. 11, line 1).

Q. Is there legal authority to support an enhanced customer service requirement?

A. No. Public Service Law §65(1) requires that service be adequate. It does not require that service be "enhanced" beyond what is "adequate."

Q. Are higher standards required when seeking higher rates as Mr. Collar suggests?

A. No. Utilities face increased cost pressures like everyone else. Increased revenue requirements do not mandate increased service performance; rather, the opposite is true – increased service performance requires increased revenues to provide such service.

Q. Have parties proposed any changes to Distribution's SQPM?

A. Yes. Staff and UIU propose significant and punitive changes to the SQPM. Staff and UIU propose a revised approach to Distribution's SQPM targets which include: elimination of the Appointments Kept and New Service Installation metrics; reallocation of penalty amounts; elimination of the "unit" NRA system with null zone; and greatly increased service performance levels to avoid penalization. In addition, Staff proposes a 20% increase in the potential negative revenue adjustment penalty (NRA penalty) amounts.

Q. Are any of these proposed changes warranted?

A. No. Distribution has worked hard to achieve superior performance in the two standards now being proposed for elimination. The elimination of these two standards amounts to nothing more than punishing success. Staff and UIU both propose to eliminate them and shift the penalty to the remaining metrics simply because the Company has achieved truly superior results in these two categories. Should the Commission determine that a SQPM is appropriate, which it is not, there should be no changes to the existing SQPM. Indeed, if the two metrics are being eliminated simply because the Company achieved exemplary results, it is indefensible to shift the dollar penalties to the other metrics. Staff's and UIU's proposed changes to the SQPM would serve to penalize the Company for superior customer service and send a negative signal to all utilities, encouraging them to reduce customer service levels to the minimum required threshold.

Q. Can customer service suffer from removal of these two measures?

A. Staff certainly believes so as they admit in an interrogatory response that customer service quality could suffer from removal of the Appointments Kept and New Service Installations components of the Company's SQPM. Exhibit __

(CSP-1), p. 11 (NFG-DPS-030). The Company, on the other hand, has no intention of seeing service decline.

Q. Has Staff provided an explanation of when an existing SQPM service level no longer meets the definition of adequate service?

A. No. The Staff Panel refused to answer Distribution's interrogatory request asking it to "[s]tate the conditions under which a standard that is once deemed to establish "adequate service" no longer meets this threshold." Exhibit __ (CSP-1), p. 28 (NFG-DPS-057). The question is highly relevant and appropriate as the answer to it is necessary to determine whether any increase in customer service performance is required. Because Staff refuses to answer this question, its proposal to increase any service metric beyond what is currently set in the existing SQPM established in Case 13-G-0136 should be rejected. There is no basis to show a 74% SQPM Telephone Response rate is suddenly no longer adequate, nor for a 2.1% SQPM PSC Complaint rate being inadequate.

Q. Are the Appointments Kept and New Service Installation service measures important for customers?

A. Yes. Not only were these measures identified by Staff as important measures of adequate service in Case 91-M-0500, but they were deemed important by the parties to the original rate case in which the concept of SQPM was negotiated in the course of settlement discussions. After 25 years, utilities are still making appointments and installing new services for customers and customers continue to value adequate service in relation to these activities.

Q. Why does the Staff Panel propose eliminating a quarter of the existing SQPM metrics?

A. Staff states that the "multiple-year reports indicate a consistently high level of customer service in these areas. There is no longer a need to separately measure these two standards" (Staff Panel at p. 21).

Q. What is Mr. Collar's rationale for eliminating the Appointments Kept and New Service Installation Measures?

A. He states that the excellent historic performance of 99.1 and 99.9% for these measures respectively "indicates that they do not represent areas of significant concern, and therefore the Company should focus on improving other aspects of its customer service quality." (Collar at p. 13).

Q. Are these arguments supported in the record?

A. While the Company's performance in these areas has been excellent, superior performance does not provide a basis for eliminating the measures from a SQPM. Distribution has provided superior performance in other areas of customer service that Staff and UIU do not propose to eliminate. Particularly, the Company's Telephone Response performance is believed to the best in New York State. Because Staff refused to respond to Distribution's Interrogatory Request NFG-DPS-063 (Exhibit __ (CSP-1), p. 31) seeking six years of Telephone Answer performance data for all utilities, Distribution presents its own Telephone Response statistics for the last seven years at Exhibit __ (CSP-6). Distribution reserves the right to address this issue at a later time when Staff provides the requested information that it possesses on other utility Telephone Response statistics. Distribution's performance is particularly impressive given that the Company answers every service-related call with a live individual rather than an Interactive Voice Recognition system used by the other utilities. Under Staff's and UIU's rationale, Telephone Response should also be eliminated as a SQPM based on the consistently high level of customer service demonstrated by Company in this area.

Q. In what other areas has Distribution outperformed the field, but Staff and UIU do not recommend elimination of SQPM standards?

A. Distribution has had stellar results in the PSC Complaint Rate over at least the last five years, rated the best utility in the State during that time. Because Staff has refused to provide a simple ranking from best to worst of major utilities over the past handful of years in the PSC Complaint Rate (Exhibit __ (CSP-1), p. 30 (NFG-DPS-061), a measure that is entirely determined and maintained by Staff, Distribution presents (Exhibit __ (CSP-5) which shows that Distribution has achieved the lowest complaint rate of all major utilities in New York State. Staff's analysis of "the past six years has found that the Company has surpassed the current targets by substantial margins" (Staff Panel at p. 27). The Staff Panel's logic -- "multiple-year reports indicate a consistently high level of customer service in these areas. There is no longer a need to separately measure these two standards" (Staff Panel at p. 21) -- that it uses for the two measures it proposes to eliminate from the SQPM is equally applicable here. Thus, using the Staff Panel's own logic, the PSC Complaint Rate should also be eliminated from any SQPM directed at Distribution.

Q. Is there other support for removing the PSC Complaint Rate and Telephone Response as measures in the SQPM?

A. Yes. Staff reported in the 2011 Service Quality Report in Case 12-M-0170 that Distribution had the "top scores on PSC Complaint Rate and Telephone Response" for 2011 (Exhibit __ (CSP-7). Additionally, Exhibit __ (CSP-6) shows Distribution's Telephone Response rate over the past seven years. Taken together with Distribution's PSC Complaint performance (Exhibit __ (CSP-5), and consistent with Staff's logic (see, Staff Panel at p. 21), the "multiple-year reports indicate a consistently high level of customer service in these areas. There is no longer a need to separately measure these two standards"

Q. What effect does elimination of any SQPM measure have on the remaining measures under Staff's and UIU's approach?

A. By removing select service measures that Staff and UIU feel are easily achieved by a utility, the potential penalty for failure to meet more difficult service standards is proportionally increased; the basis points for any remaining measure are increased. Interestingly, however, the removal of these two measures essentially refutes Staff's and UIU's arguments that a SQPM mechanism is necessary to achieve and maintain high levels of customer service.

Q. Is Staff's and UIU's approach logical?

A. No. If their approach removes a quarter of the SQPM measures it should reduce the potential NRA penalties by twenty-five percent. Thus, eight measures with the potential NRA of $1.5 million as exist today would be reduced to six measures with a potential NRA of $1.125 million. If Staff were to remove half of the SQPM measures, half of the NRA penalties should be reduced -- the four remaining measures would be reduce the potential NRA penalty of $750,000.

Q. What other changes does Staff propose to the SQPM?

A. The Staff Panel proposes a twenty percent increase in the NRA penalties – an increase of $300,000 to a maximum adjustment of $1.8 million.

Q. On what basis does the Staff Panel make this recommendation?

A. The Staff Panel argues that the amount at risk for SQPMs was last set almost ten years ago and that the Company's equity balances have increased since then (Staff Panel at p. 22). It further suggests this will return the amount at risk to approximately 30 basis points which it claims is more in line with other New York utilities, and stating "[i]n recent rate cases, the Commission has ordered an approximate range from 37 to 107 basis point potential NRAs associated with the customer service performance of major utilities." (Id.). The Staff Panel further testifies that, "[n]otwithstanding the Company's good performance to date, the Commission has recognized this level is necessary to maintain management's attention focused on providing quality customer service" (Id.).

Q. Is the Staff Panel's recommendation appropriate?

A. No. It is not logical to suggest that penalties be increased where the Company's performance under the existing penalties has been exemplary – resulting in performance so laudable that Staff has proposed eliminating two of the measures because the Company's performance has exceeded all expectations. In fact, Staff fails to see that eliminating two categories but keeping the overall amount at risk alone increases the potential penalty for each category. To further increase it is insupportable. Further proof that increased basis points or potential penalties are inappropriate is found in the 2015 Utility Service Quality Report (Case 16-M-0296) (Exhibit __ (CSP-12) provided by the Staff Panel in response to Distribution interrogatory requests. This Report indicates that the amount of risk can be below 30 basis points "because the subject utility's performance has not presented any concerns with respect to service quality." (Id. at pp. 5-6). Distribution has long demonstrated superior service quality, and has not been penalized for inadequate service. It is appropriate, therefore, for it to have basis points at risk set to an amount that is below 30.

Q. Has the Staff Panel provided support for its 37 – 107 basis point range of potential NRA penalties?

A. No. Quite the contrary, in response to Distribution Interrogatories the Staff Panel provided a chart of Energy Utility Customer Service Performance Incentive Plans which identifies current Basis Point Equivalents in place for major gas corporations in New York (Exhibit __ (CSP-4), NFG-DPS-047). The Staff Panel admits the basis point equivalent for Con Edison is 9; Corning's is 13; National Fuel's is 23; NYSEG's is 29; and Orange and Rockland's is 30.

Q. Has the Commission reduced SQPM penalties for any utility that has been penalized for missing a SQPM performance target?

A. Yes. Exhibit __ (CSP-1), p. 12 NFG-DPS-031 shows that Rochester Gas and Electric had its Electric NRA penalty reduced by 10% from ($5,000,000 to $4,500,000) despite missing a performance target.

Q. Do the Staff Panel and UIU propose further changes to Distribution's SQPM?

A. Yes. Both parties further propose that Distribution's SQPM be changed to eliminate the "unit" NRA system. The Staff Panel claims that it "is overly complicated and decreases the weight of any individual service metric target" (Staff Panel at p. 23), while Mr. Collar suggests that the existing method makes the service levels more lax than they initially appear and are not consistent with those of other utilities(Collar at p. 15).

Q. Is such a change warranted?

A. No. The negotiated "unit"-based NRA does allow Distribution to be penalized for a failure to meet any one SQPM measure. Thus, under this method all SQPM measures are important. The methodology, as agreed in the past by the parties to the joint proposals containing SQPMs, provides a utility with some flexibility in meeting the numerous measures while still providing high levels of service to its customers. The “unit”-based NRA further proves that a utility need not hit established targets in every category measured in order to provide customers with adequate service.

Q. Should changes be made to the SQPM to achieve parity with the incentive structures for other utilities?

A. No. Most other utilities have, at least one time, failed to meet a CSPI/SQPM and have suffered a NRA penalty. Distribution has never been subject to a NRA penalty and should not be subject to enhanced performance standards imposed on utilities that have been penalized in the past.

Q. Does Staff recommend any other changes to Distribution’s SQPM?

A. Yes. Rather than a linear NRA penalty from $200,000 - $1,500,000, the Staff Panel urges a specifically weighted risk to the remaining SQPM measures. It recommends a $600,000 NRA penalty for Customer PSC Complaints which it contends is one of the most reliable customer service metrics; $300,000 each for Telephone Response, Residential Satisfaction, and Non-Residential Satisfaction; and $150,000 each for Adjusted Bills and Estimated Meter Readings (Staff Panel at pp. 24-25; Exhibit __ (Staff’s CSP-4)).

Q. Is a change in weighting necessary?

A. No. We are advised by counsel that the Commission has never initiated a rulemaking to examine the relative weight of different measures of adequate service by utilities. The weighting proposed by Staff is completely arbitrary and unsupported. Moreover, the Staff Panel's proposal would illogically weigh more heavily a subjective measure (such as Customer Complaints) than other, more objective measures.

Q. Does the Staff Panel make any other recommended changes to Distribution's SQPM?

A. Yes. Staff proposes significant increases in the performance target levels of Customer PSC Complaints and Telephone Response rates.

Q. Are such changes warranted?

A. No. Staff has failed to provide the performance information on these statistics that was requested in interrogatories. Nevertheless, we believe that Distribution is among the best performing utilities in the State of New York for these two measures over the past six years (Exhibit __ (CSP-5) and Exhibit __ (CSP-6). As noted above, under Staff's and UIU's logic, Distribution's superior level of performance should lead to the elimination of these measures from the SQPM altogether. There is no basis for increasing the service performance level for these measures because Distribution is already setting a best practice for the state. Staff has not shown why a 74% Telephone Response measure for Distribution, already among the best in the state, should be increased by nearly 12 percentage points to

85.95%. Nor has the Staff Panel shown why the best utility in the state for Customer PSC Complaints needs any target threshold increase to make it provide even more superior service. Ratcheting up standards based on utility success – essentially punishing good performance - will actually lead to diminished customer service across the state, as utilities will quickly learn that stellar performance will lead to punishment and ever escalated standards far beyond the adequate service standard set by the Legislature. Standard ratcheting will cause utilities to target the lowest acceptable level of customer service, and no more.

Q. Is there anything unique about the Telephone Response measure?

A. Yes. In May 2016 Distribution replaced a 25-year-old legacy customer information system with a new one. With the implementation of a project of this magnitude, it is anticipated that additional call handle time will be experienced by representatives that have to learn a new system. Distribution has indeed seen a significant increase in call handle times and, correspondingly, its Telephone Response numbers cannot fairly be compared with historic figures.

Q. Does Distribution propose a new Telephone Response measure?

A. Should the Commission find that a SQPM is necessary in a one-year litigated rate case, which it should not, and further find that a Telephone Response measure is required for the utility that is believed to have outperformed all New York utilities in this area of measure over the past five years , again which it should not, the Commission should lower Distribution’s Telephone Response measure to 50% of calls answered within 30 seconds due to the recent implementation of a new customer information system, as well as the fact that Distribution answers such calls with a representative rather than an automated process.

Q. Why should the Commission ignore the Staff Panel's recommendation that two standard deviations be used from the six-year average for the Telephone Response targets?

A. The use of a six-year average for the Telephone Response target is inappropriate in this proceeding as the historic performance numbers were based on the use of a customer information system that is no longer utilized. The Staff Panel fails to take into account the fact that Distribution has a brand new customer information system and its call handle time for customer service calls has expectedly increased significantly with it. Use of a historic average under these circumstances is inappropriate, as there is no rational basis for believing that call expediency will improve in the short term following the introduction of a completely new customer information system. In fact, Company rebuttal witness Parr explicitly testifies that it is common knowledge and industry experience that productivity declines initially upon the introduction of a new CIS.

Q. Are Staff and UIU consistent with respect to Distribution appointments?

A. No. Staff's and UIU's testimony regarding Distribution's appointments is completely inconsistent. These parties recommend elimination of Appointments Kept as a SQPM measure, yet replace that existing potential penalty with new individual penalties in the form of a $30 credit to customers for missed appointments. If the Staff Panel and UIU believe that appointments are an important measure of customer service, which apparently they do by suggesting a new penalty of $30 for each instance of a missed appointment, they should keep the Appointments Kept SQPM measure and abandon efforts to inject new penalties that are not supported in law or regulation.

Q. What is the effect of Staff's and UIU's appointment change?

A. The Staff Panel and UIU use this proposed penalty swap on appointments to increase overall potential penalties on Distribution. This is because the parties' proposals to drop the Appointments Kept measure does not include a proportional reduction of overall potential SQPM penalties; while Appointments Kept goes away the penalty associated with the measure is reassigned to remaining SQPM measures. New penalties are then proposed by the Staff Panel and UIU that would be individually credited to customers for missed appointments.

Q. Has Staff or UIU identified a legal basis for imposition of customer credit penalties for missed appointments?

A. No. Staff's Interrogatory Responses fail to identify any legal basis for imposition of customer credit penalties for missed appointments. Exhibit __ (CSP-1), p. 13 (NFG-DPS-032). UIU points out that the $30 credit is similar to ones implemented by Central Hudson and Niagara Mohawk, but fails to properly note that these penalties were agreed to by those utilities in a settlement. There is no basis for imposing the same on a utility without its consent.

Q. Has the Commission mandated the imposition of missed appointment credits against any utility in New York other than through rate case settlements?

A. No. There is nothing in the record to indicate that the Commission has ever forced a utility to provide missed appointment credits to customers as a penalty.

Q. Does every utility other than Distribution pay a penalty credit to customers for missed appointments?

A. No. Q. Does Staff or UIU provide any economic justification for the $30 penalty?

A. No.

Q. Does Staff or UIU provide any specifics as to how the penalty for a missed appointment is to be implemented?

A. No. Questions such as whether the Company representative can call the customer before the appointment to confirm, how long he or she has to wait for a customer, if there is a "window" for the Company representative to arrive before he or she is late all remain unaddressed in the proposals of the Staff Panel and UIU.

Q. Theoretically, would the implementation of the $30 penalty proposed by Staff and UIU for missed appointments, payable to the customer, encourage the Company to continue to provide customers with shorter appointment time windows?

A. No. The proposal actually encourages the Company to offer fewer AM and PM appointments and more all-day appointments since the all-day appointments give the Company a greater time period in which to complete (meet) the appointment.

Q. Does Mr. Collar urge other changes to Distribution's SQPM?

A. Yes. Mr. Collar proposes using two standard deviations on Distribution's five-year average performance on the six service metrics it recommends be continued. In making this recommendation, he supports changes to every remaining measure. He further recommends the $1.5 million in potential penalties be reallocated among the six remaining measures.

Q. Are any of these changes appropriate?

A. No.

NEWLY PROPOSED PENALTIES FOR TERMINATIONS AND UNCOLLECTIBLES

Q. Does the Staff Panel propose new risk and penalties for Distribution?

A. Yes. Staff proposes a NRA penalty for Distribution for failure to meet two new measures, to wit, Residential Terminations and Uncollectibles. The maximum penalty or NRA that the Staff Panel recommends being imposed on the Company for failure on both measures is $590,000.

Q. Has Staff identified any legal authority for requiring these new NRA penalties?

A. No. Staff's Interrogatory Responses failed to cite any legal authority in support of its proposal. Exhibit __ (CSP-3), p. 4 (NFG-DPS-224)

Q. Has the Commission ever unilaterally mandated any NRA penalty mechanism for terminations and uncollectibles?

A. No. Staff's Interrogatory Responses concede the Commission has never unilaterally mandated a NRA penalty mechanism on a regulated New York utility. Moreover, Staff has admitted "All Service Termination/Uncollectible Performance Mechanisms adopted by the Commission to date have contained only Positive Revenue Adjustments." Exhibit __ (CSP-3), p. 5 (NFG-DPS-226).

Q. Does the Staff Panel provide a reason for the recommended institution of new penalties?

A. No. The Staff Panel fails to present any rationale or basis for its recommendation. Staff has not criticized Distribution for its level of terminations or uncollectibles, and has not alleged that Distribution has done anything improper in its use of a legislatively supplied method for ensuring that those that those who use utility service pay for it so that other customers are protected. Staff simply urges that Distribution "be encouraged to alter their practices and reduce residential service terminations for nonpayment while at the same time not increasing uncollectibles" (Staff Panel at p. 33). The Staff Panel fails to recognize the impossibility of this task; the stated goals are contradictory.

Q. Has Staff compared Distribution's terminations and uncollectibles to those of other New York utilities?

A. Staff's testimony demonstrates it performed no such analysis.

Q. Why is Staff's proposal improper?

A. There are numerous reasons why the Staff Panel's proposal to impose NRA penalties on Distribution for increases in terminations and uncollectibles is improper. First, there is no basis in law or regulation for the Commission to implement such measures. The Public Service Law and regulations balance customer rights and utility obligations in the provision of utility service. All electric and gas utilities are required to accept all applicants for service without regard to creditworthiness, must bill in arrears, must provide deferred payment agreements, and must provide extensive consumer protections. The obligation on the customer is to pay for service received. In enacting the Home Energy Fair Practices Act, the New York Legislature provided utilities with the remedy of utility service termination for a customer's failure to pay for utility service (Public Service Law §32). The remedies available to a utility to ensure that it can continue to provide both safe and reasonably priced service are very limited, but the most effective one is the right to discontinue service for nonpayment, which Distribution exercises only as a last resort after exhausting all available alternatives as described in the Rebuttal Testimony of Ms. Frank. The Staff Panel's proposal would improperly restrict a utility's rights under Public Service Law and hamper its ability to provide continued service at just and reasonable rates.

Q. Has Staff addressed this issue previously?

A. Yes and it is curious that Staff is making this proposal after opposing it when PULP raised it in Case 13-G-0136. In that case the Commission's Order "Adopting Terms Of Joint Proposal And Establishing Rate Plan" (issued May 8, 2014) both agreed with Staff's opposition to such a metric and explained why it was both poor public policy and contrary to law, as follows:

> With respect to service terminations, Staff points out that PULP provides no explanation as to how a performance measure would be implemented.
> Restricting terminations to a target level, Staff argues, would be unreasonable and poor public policy, because service termination, as a last resort, is a necessary tool not only to collect revenues but also to reduce uncollectible bill writeoffs, the cost of which is borne by all ratepayers. NFGD adds that service terminations and collections are governed by HEFPA, and there is no evidence that the Company has not complied fully with that law and associated regulations. PULP's proposal is inappropriate. NFGD is required to comply with HEFPA, and the Department has established a consumer complaint process that identifies apparent HEFPA violations.
>
> * * *
>
> The obligation of NFGD, and all utilities, is to conduct service terminations and reconnections in full compliance with the requirements of the law. A performance requirement that merely requires such compliance adds nothing, particularly in the absence of any evidence of past HEFPA violations. Furthermore, there is no legal basis for making a negative adjustment to a utility's earnings for actions taken in full compliance with statutory requirements, or for precluding the utility from taking such actions under the threat of sanctions, as would be the case if a target maximum number of terminations were imposed.

At the very least Staff should have explained the reason for its surprising about face on this matter. More to the point, the Commission's observations in the 2014 decision recited above remain valid; *viz.* that an incentive mechanism that seeks to override the Legislature's policy on terminations is both unlawful and bad public policy.

Q. Does the proposal suffer from other infirmities?

A. Yes. The Staff Panel's proposal for NRA penalties for increased terminations and uncollectibles further fails to recognize the numerous factors outside the control of Distribution that directly affect those activities. Chief among them are gas costs and weather-related degree days. Increased commodity pricing and consumption both lead to much higher customer bills and, in turn, higher uncollectibles and terminations. These go hand-in-hand. It is patently improper and unfair, indeed illogical, to subject Distribution to a NRA penalty for increases in uncollectibles that result simply from cold weather or increases in the price of gas. There is a direct correlation between large bills and terminations and uncollectibles. The Staff Panel's proposal fails to recognize factors outside the control of Distribution that could cause it to incur NRA penalties despite doing nothing wrong.

Q. What else has Staff disregarded in putting forth a proposed NRA penalty for increased terminations and uncollectibles?

A. The Staff Panel's testimony and its Interrogatory Responses demonstrate that its proposal to penalize (or, indeed, "incentivize") Distribution for increased or decreased terminations and uncollectibles further fails to give consideration to other changes outside of the utility's control including, changes in Public Service Law and Regulations, changes to Social Service Law and Regulations, changes to state and federal collection laws, changes to the Federal HEAP program including funding amounts and state allocations, economic conditions including recessions and depressions, natural disasters, riots, war, terrorism, acts of God, etc. Exhibit __, (CSP-3), pp. 6-15 (NFG-DPS-229 through NFG-DPS-238.

Q. Under what conditions is a utility excused from a NRA penalty under the Staff Panel's proposal?

A. None. The Staff Panel was specifically asked this but it failed to provide any such conditions. Rather, its responses suggest that each mechanism is based on historical performance over several years and impacts of such things would be reflected in the average and standard deviations which were used to compute recommended targets. Exhibit __ (CSP-3), p. 6-16 (NFG-DPS-229 through NFG-DPS-239). It is unconscionable that a utility can be penalized for increases in terminations and uncollectibles due to factors wholly beyond its control, such as weather and gas cost increases, especially when it is required under law to provide service at reasonable rates. The Staff Panel's proposal would eliminate the most effective tool – terminations – that is available to a utility to prevent excessive write-offs and keep rates reasonable for all customers.

Q. Are there other inconsistencies in the Staff Panel's testimony on terminations and uncollectibles?

A. Yes. The Staff Panel uses a simple analysis of variance to calculate standard deviations, throwing out high and low figures to purportedly normalize the data. This approach is not only statistically invalid, but it omits many additional factors that directly affect terminations and uncollectibles. Staff has failed to perform a meaningful and reliable analysis to account for these other legitimate variables, and its proposal should be disregarded in its entirety.

Q. Are there further flaws in the Staff Panel's analysis?

A. Yes. The flawed analysis is further subject to the Staff Panel's interjection of a 4 standard deviation threshold to establish a positive revenue adjustment for decreased terminations. Because Staff apparently didn't like what the typically employed 2 standard deviations showed, it aggressively doubled the standard deviation claiming without support that it creates a "meaningful incentive goal." This arbitrary substitution is without support in accepted statistical methods.

Q. Does Distribution present any additional testimony on terminations and uncollectibles?

A. Yes. Ms. Frank also addresses this matter in her Rebuttal Testimony.

Q. What are the aggregate maximum penalties or NRAs that Distribution would be subject to under the Staff Panel's testimony in relation to customer service measures in place today?

A. The maximum NRA penalty faced by Distribution in the Staff Panel's proposal for not meeting all of its customer service measures is $2,390,000, a very significant increase of nearly 60 percent over the present $1.5 million in potential penalties. This does not include additional penalties in the form of $30 credits that the Staff Panel recommends for each missed customer appointment or the numerous other potential penalties proposed by the Gas Safety Panel.

Q. Is any increase in potential NRA penalties appropriate?

A. The Company has not only met the customer standards and never been subject to penalties, it has consistently exceeded these standards – even to the point that Staff proposes that two be eliminated because the Company realistically cannot improve in those areas. There is no basis for imposing any penalties on the Company where it is providing adequate service to its customers, let alone increasing penalties in the face of the superior service that Distribution provides. While penalty mechanisms and SQPMs are inapplicable in one year litigated rate cases, if the Commission should adopt them, there should be no increase in the potential penalty amounts.

Q. Does the Company consider the SQPM penalties to be another way to implement retroactive rate making?

A. Yes. The Commission determines a total revenue requirement that includes an allowed rate of return for the Company. Penalizing the Company at a future point in time because the Company was unable to achieve a goal arbitrarily established in a rate proceeding effectively reduces the Company's allowed rate of return that had been previously authorized by the Commission.

Q. Does the Commission have any other ways, other than retroactive ratemaking, to address situations where service has fallen below adequate levels or the Company has been able to reduce expenditures for customer service that produce a potential situation where the Company earns more than its allowed rate of return?

A. Yes. The Commission can issue a Show Cause Order requiring such a company to show that it is providing adequate customer service or to provide updated revenue and expense information to see if a change to the approved rates is necessary.

CREDIT/DEBIT CARD CONVENIENCE FEES

Q. Does the Company currently offer free payment methods to its customers?

A. Yes. Customers utilize the Company's Direct Pay (direct debit) program, the Company's Online Services (web-based) ACH payment options, online banking (via the customer's bank), or make a payment at one of the Company's customer service offices. There is also no charge to the customer to pay by mail (other than the cost of postage).

Q. Does the Company allow customers to pay by credit or debit card?

A. Customers do have the option to pay by credit or debit card using the Company's Online Services provider. There is, however, a convenience fee of $2.95 charged by the provider to the customer electing to make payment via this method. The Company does not receive any portion of the convenience fee.

Q. Do you agree with Staff's proposal that the Company should "socialize" the cost of credit and debit card payments across all its customers?

A. No. As stated above, customers currently have multiple free payment options in which to make a payment. Offering a free credit and debit card payment method to customers will involve significantly higher transaction costs to the Company which ultimately have to be recovered from all customers as a legitimate expense.

Q. Does the Commission have the legal authority to mandate that a regulated utility bear the expense associated with credit or debit card processing?

A. No, the Company is entitled to recover all of its legitimate expenses from ratepayers. If the Commission required the Company to offer credit card payments to customers without a charge to them, the cost of processing the credit card payment would have to be borne by the Company's ratepayers. In response to an interrogatory request, the Staff Panel admits that "To date, no utility has been directed to bear this expense as a mandated cost to the utility." Exhibit __(CSP-2), p. 1 (NFG-DPS-066).

Q. Have any customers interposed a complaint with the Commission against Distribution, seeking to avoid the convenience fee associated with credit or debit card payments?

A. No. In response to an interrogatory request, the Staff Panel admits that there have been no complaints against Distribution related to credit cards, debit cards, merchant point of sale and other such methods. Exhibit __ (CSP-2), p. 3 (NFG-DPS-079).

Q. If there are no customer complaints, should the Company’s other customers be forced to pay for this service?

A. No. There is no basis for charging other customers the expense associated with credit or debit card convenience fees. Those charges are rightfully the responsibility of the individual seeking to use that method of payment.

Q. Can you provide the hypothetical rate impact should the Company offer customers the option to pay by credit or debit card without them incurring the convenience fee?

A. There are multiple factors that affect the potential rate impact of absorbing credit and debit card processing fees should the Staff Panel’s proposal be mandated. First, there is uncertainty as to the transaction fee/rate that will be charged to the Company by its vendor for credit and debit card processing. A preliminary quote from our vendor indicated that this fee could be in the 2.00% to 3.25% range. Second, the number of customers utilizing a credit or debit card is likely to increase dramatically once the customer no longer has to pay a convenience fee. Third, the transaction fee is based on the amount paid which can be impacted by colder than normal weather or increases in gas prices. For example, 50,000 customers (9.5% of the customer base) paying an average of $91 per month by credit card would result in a cost increase of $1.4 million that would need to be incorporated into the revenue requirement. Assuming that 20% of the customer based switched to paying by credit or debit card, the potential impact could exceed $3 million per year.

Q. Why would a customer switch to paying by credit or debit card if they are already using one of the existing free payment options offered by the Company?

A. Some credit cards provide benefits such as frequent flier mileage, cash back offers, points that can be redeemed for goods or services, etc. that will entice many customers to switch to paying by credit card once the customer no longer has to pay a convenience fee.

Q. Has the Company adjusted its revenue requirement to reflect Staff's recommendation on credit and debit card fees?

A. No. The Company did not include this amount in the revenue requirement since it did not propose to socialize the credit and debit card expenses across all customers. In addition, there are too many variables that can dramatically affect the revenue requirement impact as illustrated above.

Q. What does the Company propose should the Commission adopt Staff's proposal regarding credit and debit card processing fees?

A. The Company proposes to add $3 million to the revenue requirement to cover the estimated costs of processing credit and debit card payments. A tracker would also be established, that would be reconciled on an annual basis, to refund money back to ratepayers if the previous year's credit and debit card processing fees were less than $3 million and surcharge ratepayers if the previous year's credit and debit card processing fees were more than $3 million.

Q. Does Company expect any changes to personnel if the customer-paid credit and debit card fees are eliminated?

A. The Company will continue to outsource its credit and debit card processing. Customers utilizing existing free self-help options will have one additional option to choose from if Staff's proposal is adopted. Customer payments made at Company locations account for approximately 2% all the payments made so there is likely to be no impact for this segment.

Q. Is the Staff Panel correct in its assertion that there will be reduced operational costs as a result of no fee credit/debit card transactions" (Staff Panel at p. 39, lines 13-26)?

A. No. Staff erroneously contends that customers will utilize self-service options, such as online web payments that will reduce customer service representatives' and bill processing times. Exhibit __ (CSP-2), p. 14 (NFG-DPS-092). Distribution already has those self-service options available at no charge to the customer.

PULP – LOW INCOME HOUSING COST BURDEN

Q. Please describe PULP's analysis of housing cost burdens on low income customers.

A. PULP, at 10, cites "numerous indicators of long term and increasing unaffordability [sic] among the Company's customers whose households receive less than $35,000."

Q. What does PULP provide as support for this position?

A. PULP analyzed data from the United States Census Bureau's American Community Survey, reviewed data request responses from Distribution, summarized information from the Office of Temporary and Disability Assistance, and reviewed LICAAP and HRAS reports filed by the Company.

Q. Where is the data PULP used from the United States Census Bureau addressed in rebuttal testimony?

A. This is addressed in the rebuttal testimony of the Cost of Service and Rate Design Panel.

Q. Please describe the data request responses PULP used.

A. PULP's testimony, at 11, references Exhibit___(WDY-05), which includes a data request response from Distribution. This data request response was included as a table in PULP's testimony, at 11. The table on page 11 outlines the total number of heating and non-heating low income discount customers by county. In essence, this is a "current snapshot" of low income discount customers.

Q. Is this an accurate representation of the affordability of natural gas bills?

A. No. Customer counts are not a meaningful "yardstick" of the affordability of natural gas bills because the metric isn't even measured in currency.

Q. Please describe the information PULP used from the Office of Temporary and Disability Assistance.

A. PULP submitted Exhibit___(WDY-06), which provides Temporary and Disability

Assistance Statistics from the Office of Temporary and Disability Assistance. This information is summarized and presented in Chart 2, on page 14 of PULP's testimony. Chart 2 shows the number of HEAP grants and the average dollars per HEAP grant in Erie and Niagara Counties.

Q. Is Chart 2 an accurate representation of the affordability of natural gas bills?

A. No, Chart 2 is inherently flawed. PULP, at 13, claims that Chart 2 was prepared using pages 26 and 58 from the Office of Temporary and Disability Assistance. The title of chart 2 states that the data presented is "Non-Emergency HEAP Grants." However, in reviewing PULP's analysis, Distribution discovered that pages 26 and 58 do not represent "Non-Emergency HEAP Grants," as claimed by PULP.

Due to PULP's error, "Grants" is not an appropriate measure of the effectiveness of HEAP. "Grants" fails to normalize for the fact that a single customer can receive multiple grants (i.e., basic, emergency, second emergency, or supplemental), depending on the non-Company operational characteristics and program rules established for any given program year. "Grants" also fails to normalize for the fact that program years have different open and close dates. The number of grants issued is often driven by how long program funding is available to customers. When the program is open longer, customers have a greater likelihood of receiving an emergency, second emergency, or supplemental grant.

Q. Please continue.

A. Due to PULP's error, "Dollars Per Grant" is not an appropriate measure of the effectiveness of HEAP. "Dollars Per Grant" fails to normalize for the fact that the dollar amount of grants, as well as grant adders can vary year to year, depending on the non-Company operational characteristics and program rules established for any given program year. Dollar amount of HEAP grants, as well as grant adders, can be impacted by the dollar amount of funding allocated to: (1) furnace replacement initiatives, (2) cooling initiatives, and (3) multiple fuel types. These allocations are not established by Distribution.

Q. Please describe the information PULP used from the LICAAP and HRAS reports filed by Distribution.

A. PULP submitted Exhibit___(WDY-01), which contains Company quarterly report filings from July 17, 2013 and April 22, 2016. PULP, at 14, states "the percent of customers participating in the LICAAP program, whose accounts were in arrears rose from 39% to 49%. The result is that almost half of LICAAP customers can't keep up with their utility bills, despite the assistance provided by the program."

Q. Is this an accurate representation of the affordability of natural gas bills?

A. No, LICAAP customers represent low income payment troubled customers. LICAAP customers do not represent the entire population of low income customers.

From 2011 to 2015, Distribution increased the number of active LICAAP account enrollments by 5,390 accounts (11,268 - 5,878, from Exhibit___(WDY-01)). The Company purposefully expanded the program's enrollment specifically to increase the affordability of natural gas bills for low income customers. Distribution expanded the LICAAP program for customers with "failed" deferred payment agreements, as evidenced by the significant increase in the number of LICAAP customers during this time period, in an effort to allow these customers to maintain their gas service. This program expansion offered these customers the opportunity to receive arrearage forgiveness, in addition to a significantly discounted bill. Unfortunately, some of the new LICAAP customers did not take advantage of the arrearage forgiveness portion of LICAAP, by not paying the significantly discounted bill in a timely manner. As such, the percentage of the number of customers in arrears increased as a result.

It should also be noted that the Company implemented an electronic deferred payment agreement program in May 2013, again, to increase the affordability of natural gas bills for low income customers. PULP, at 8, even recognizes that "the Company has pioneered an innovative program to increase the percent of its customers in arrears that negotiate and execute deferred payment agreements (DPAs) on their past-due balances through the use of electronically signed DPAs (e-DPAs)."

Q. Did PULP's analysis of costs consider the fact that 2014 and 2015 had significantly lower natural gas prices than 2009, directly contributing to affordability?

A. No. However, Exhibit___(EHM-1), Schedule 2, submitted by the Company, validates this fact.

Q. Explain the reduced expense to LICAAP customers.

A. As stated in the Rebuttal Testimony of the Cost of Service and Rate Design Panel,

> "Exhibit___(COSRD-19), Schedule 1 demonstrates that the LICAAP customer's annual out-of-pocket cost dramatically decreased from $382.83 to $200.51, or (47.6%), from 2008 to 2016, for those customers using the same amount of natural gas as the average residential customer. Stated otherwise, on a budget billing plan (dividing the annual bill by 12 months), the total monthly bill for these customers in 2016 is $16.71 at current rates."

Q. Did PULP's analysis of costs consider a quantification of income-based assistance programs, directly contributing to affordability?

A. Although PULP makes reference of such programs, at 10, no.

Q. Has PULP supported the claim that "numerous indicators of long term and increasing unaffordability [sic] among the Company's customers whose households receive less than $35,000" exist?

A. Based on the aforementioned, no. Moreover, even if PULP's "unaffordability" claim had merit with respect to other costs, the price customers pay for gas service clearly did not contribute to unaffordability in any way. Quite the contrary, as Messrs. Meinl and Crane demonstrate in their Cost of Service and Rate Design rebuttal testimony (at p. 5-6), without any allowance for intervening inflation, the average residential customer's annual bill dramatically decreased from $1,631.39 to $746.55, or (54.2%), from 2008 to 2016. PULP needs to look elsewhere to address its claimed unaffordability problem.

OUTREACH AND EDUCATION

Q. The Staff Panel proposes the Company allocate a portion of its outreach and education resources toward the provision of energy literacy education. Does the Company support this recommendation?

A. No. This recommendation is not necessary given that the Company has already incorporated such outreach efforts both in the past and currently, and will continue to do so.

COLLAR – DOCUMENTATION TO OPEN NEW ACCOUNT

Q. Is Mr. Collar's recommendation to accept ITINs in lieu of a Social Security Numbers a viable option for applicants who want to establish gas service?

A. No. The IRS website at https://www.irs.gov/individuals/general-itin-information clearly states, "ITINs are for federal tax reporting only, and are not intended to serve any other purpose." under the "What is an ITIN used for?" section.

Q. Did the Company's response to UIU No. 23 exclude any of the other forms of identification listed on page 21 of Mr. Collar's testimony?

A. No. The response to UIU No. 23 stated the following:

> "An applicant for service is asked for his or her social security number for the purpose of confirming identity. He or she is not required to provide documentation. In the event that identification cannot be confirmed, an applicant will be asked to provide two forms of identification, one of which contains a picture."

Q. Does this conclude your testimony?

A. Yes.

BY MR. NICKSON: (Cont'g.)

Q. And panel, did you also sponsor 12 Exhibits to your rebuttal testimony which were identified as CSP-1 through CSP-12?

A. Yes, we did.

Q. And were those documents prepared by you or under your supervision?

A. Yes, they were.

Q. And do you have any corrections to those documents?

A. We do not.

MR. NICKSON: Your Honor, I would ask that the rebuttal Exhibits identified as CSP-1 through CSP-12 be marked for identification.

A.L.J. LECAKES: Okay. Starting with CSP-1, we'll mark it as Exhibit 310. Exhibit CSP-2, 311. Exhibit 3S -- CSP-3, Exhibit 312. CSP-4, 313. CSP-5, 314. CSP-6, 315. CSP-7, 316. CSP-8, 317. CSP-9, 318, CSP-10, 319, CSP-11, 320 and CSP-12, 321. Is there any other exhibits or did I get them all?

MR. NICKSON: No, you got them all.

A.L.J. LECAKES: Okay. Proceed.

MR. NICKSON: Okay. We'll get to do that, yeah.

BY MR. NICKSON: (Cont'g.)

Q. And panel, do you also have in front of you a document entitled the supplemental direct testimony of the Low Income Order panel consisting of 9 pages of questions and answers?

A. Yes, we do.

Q. And was that document prepared by you or under -- or under your supervision?

A. Yes, it was.

Q. And do you have any changes to your testimony?

A. We do not.

Q. If I were to ask you the same questions today, would your answers be the same?

A. Yes, they would.

MR. NICKSON: Your Honor, I ask that this supplemental direct testimony of the Low Income Order panel consisting of 9 pages questions and answers be incorporated into the record as if given orally today.

A.L.J. LECAKES: That's granted. For the transcript at this point, this is on the same company supplied testimony CD. This appears in the folder 6/10/2016, company supplemental testimony. And the file is called Low Income Order panel supplemental direct testimony. Mr. Nickson.

Supplemental Direct Testimony of the 2016 Low Income Order Panel

Q. Please introduce the members of the 2016 Low Income Order Panel.

A. The Panel consists of Perry Figliotti, Kenneth Gossel and Eric Meinl.

Q. Mr. Gossel, please state business address.

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

Q. Have you provided your educational and professional experience elsewhere in this proceeding?

A. Yes. I have provided this information in the Direct Testimony of the Customer Service Panel on behalf of National Fuel Gas Distribution Corporation ("Distribution" or "the Company").

Q. Mr. Figliotti, please state business address.

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

Q. Have you provided your educational and professional experience elsewhere in this proceeding?

A. Yes. I have provided this information in the Direct Testimony of the Customer Service Panel.

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

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

Q. Have you provided your educational and professional experience elsewhere in this proceeding?

A. Yes, I have provided this information in the Direct Testimony of Eric H. Meinl in this proceeding.

Q. Why is the Panel submitting supplemental testimony?

A. The direct testimony of the Customer Service Panel discussed the Commission's ongoing Energy Affordability Proceeding (Case 14-M-0565 Proceeding to Examine Programs to Address Energy Affordability for Low Income Utility Customers) and had anticipated the issuance of an Order directing statewide changes to low income utility programs. Of course, the terms and scope of that order could not have been known at the time this case was filed. Since that time, however, the Commission recently issued an Order in Case 14-M-0565. The Order adopts a regulatory policy framework for addressing low income customer needs, addresses implementation of this framework, and directs filings by certain utilities to achieve that goal. The Order also stated that the mode of cost recovery for low income programs will be determined in rate cases (Order at 29, 31). Supplemental testimony is thus needed to address the impact the Order will have on Distribution's low income programs and address cost recovery for those low income programs in light of the Order.

Q. Are changes to Distribution's low income programs necessary as a result of the Order?

A. Yes. The Order directs utilities, including Distribution, to make a filing on or before August 18, 2016 discussing required low income program changes and implementation timelines for a new uniform statewide low income program consistent with the Order. Distribution believes it is appropriate to address any program changes associated with the Order in this rate proceeding and that they should become effective when new rates are established in this case. This is believed to be the least disruptive way to implement the program envisioned in the Order.

Q. Does the Order clearly set forth a required funding level for the newly contemplated low income programs?

A. The Order appears to set forth two competing measures that, without clarification, do not allow precise funding levels to be determined at this time. While the Order did set a 2% budget cap of gas revenues on sales to end-use customers, it also set a target energy burden for low income households of 6% (3% each for electric and gas service). The Order did not directly address whether the 2% budget cap would yield to a household energy burden exceeding 10% (or 5% each for gas and electric) as was contemplated in Staff's Straw Proposal, but the Order clearly stated that the Commission was adopting a policy that an energy burden at or below 6% of household income shall be the target level for all low income households in New York (Order at p.3).

Q. How will the Order affect Distribution's rates?

A. The Order sets a 2% budget cap of gas revenues on sales to end-use customers, defined to include both total utility revenues and the commodity portion of Energy Service Company revenues collected through consolidated utility billing (Order at p.30), to fund utilities' low income programs. Based on the 2% budget cap requirement established in the Order, the Company anticipates an addition to revenue requirement increase established in this case of $2,768,308. The Company arrived at this amount as shown in the attached Exhibit ___(LIOP-1).

Q. Please describe Exhibit___(LIOP-1).

A. Exhibit___(LIOP-1) provides a summary of the impact of the Order based on the low income volumes and costs included in the rate year revenue and cost of service and rate design exhibits submitted by the Company in its initial filing.

Q. As mentioned previously, the Order established an overall budget of 2% of revenues on sales to end use customers and transportation customers. Has Distribution calculated this budget amount for the rate year?

A. Yes. Section 1 of Exhibit___(LIOP-1) calculates a low income program budget of $13,462,422 based on 2% "cap" of the sales and transportation charges included in the rate year. For purposes of calculating transportation service revenues, the transportation volumes associated with the residential, general, and HRAS transportation classes were priced out at the average natural gas supply ("NGS") rate for the sales service rate class in the rate year. Applying the 2% budget cap to the total revenues of $673,121,109 yields a program budget cap of $13,462,422.

Q. Has the Company calculated the aggregate discount that would be provided at the specific discount rates for Distribution customers specified in the Order?

A. Yes, Section 2 of Exhibit___(LIOP-1) provides the discounts by tier for Distribution referenced in the Order and calculates the aggregate discount that would result from the application of those rates. For Distribution to implement the Order based on the set discounts of $3.00, $12.00, and $31.00/month for Tier 1, 2, and 3 customers, respectively, as have been set forth for Distribution in Appendix B of the Order, the estimated cost to ratepayers is $17,381,866. The low income program costs as dictated by Appendix B of the Order of $17,381,866 would exceed the budget cap by $3,919,464. Column O in Section 2 of Exhibit___(LIOP-1) provides the estimate of the energy burden by discount tier. The Company estimates that the energy burden (after "applying" one-half of the Basic HEAP grant to the gas bill) to be 2.7%, 2.9%, and 2.7% for Tier 1, 2, and 3 customers, respectively. Each discount tier achieves an energy burden of less than the 3% target referenced in the Order.

Q. Did the Company calculate what the aggregate discount would be to achieve the 3% energy burden referenced in the Order?

A. Yes, Section 3 of Exhibit___(LIOP-1) provides that calculation. Tier 1 customers would be provided the minimum monthly discount established in the Order while Tiers 2 and 3 were calculated to achieve a 3% energy burden. These adjustments would still provide discounts in excess of the 2% of revenue cap by $1,366,905.

Q. Has Distribution calculated discounts that would meet the 2% revenue cap budget and not the 3% energy burden target?

A. Yes, Section 4 of Exhibit___(LIOP-1) provides a set of discounts that would achieve the 2% revenue cap. The energy burden under these discount amounts would be 3.09% for the Tier 2 and Tier 3 category of customers.

Q. Is the $13,462,422 budget target greater than the costs of low income programs originally proposed by the Company in this case?

A. Yes, the Company calculated $10,699,114 of costs (discounts and arrearage forgiveness) in its initial filing. The $13,462,422 of discounts calculated based on the requirements in the Order is $2,768,308 greater than the low income costs included by the Company in the initial filing.

Q. How does Distribution propose to recover this increase?

A. The increase is proposed to be added to the overall revenue requirement requested in this case, Exhibit___(LIOP-2) provides an update of Exhibit___(COSRD-8), Schedule 1 that increases the costs of low income rate changes in step 4 of that exhibit by $2,768,308.

Q. Does the Order permit reconciliation of costs between respective amounts allowed in rates and actual program costs?

A. Yes, the Order allows for deferral of variances between actual costs and the amounts allowed in rates. The Order also allows for interest to be accrued on any deferral balance. It is proposed that the other customer capital rate (currently 2.6%) be applied to any deferral balance consistent with the interest rate currently applied to low income program deferral balances.

Q. What affect will the Order have on your broad based HEAP Residential Assistance Service program?

A. Upon implementation of the Order's new four-tier low income program, the HEAP Residential Assistance Service Program will be discontinued.

Q. Are you recommending changes to the HEAP Residential Assistance Service program prior to implementation of the new four tier low income program required under the Order?

A. No. Based on the Order, Distribution proposes to operate its HEAP Residential Assistance Service program as currently designed until implementation of the new four-tier low income program. Thus, the discount of $12.50 to HEAP customers should remain for the months of January through May (five months) rather than the eight months as proposed by the Company in its Direct Testimony of Customer Service Panel (page 6).

Q. Do you plan to continue the LICAAP program?

A. No. The Order requires that the expenditures for any other rate discount program or arrearage forgiveness program must be included in the 2% budget cap. As indicated above, Distribution is at or above the 2% budget cap so there will be no available funding for continuation of LICAAP. LICAAP and its arrearage forgiveness component will be discontinued at the time of implementation of the new four-tier low income program required under the Order.

Q. Would the Company prefer to continue its low income programs as proposed in its initial filing?

A. As demonstrated by this supplemental testimony, the cost to implement the low income program as directed in the Order is substantial as are the changes to program features such as the level of discount, the elimination of LICAAP program discounts based on percentage of the bill as opposed to flat discount amounts, and the effective elimination of arrearage forgiveness. Should the Commission wish to mitigate the rate impact of such programs on the Company's other rate payers as well as the changes that will be experienced by the substantial number of customers currently participating in the Company's low income programs, the Commission could choose to modify the Order with respect to the Company and instead direct Distribution to continue its low income programs as initially proposed by the Company in this proceeding.

Q. Has this proposal achieved the 6% standard set forth on page 3 of the Order?

A. No. Because of the 2% revenue cap, also set forth in the Order, the Company is unable to mathematically achieve both goals. If the Commission should order the 6% energy burden to override the 2% revenue cap, the Company should be allowed to recover the differential amounts in rates.

Q. Does this conclude your supplemental testimony?

A. Yes.

BY MR. NICKSON: (Cont'g.)

Q. And, panel, are you sponsoring 2 exhibits to your supplemental direct testimony which were identified as LIOP-1 and LIOP-2?

A. Yes, we are.

Q. And were those documents prepared by you or under your supervision?

A. Yes, they were.

Q. And do you have any changes to these documents?

A. No, we do not.

MR. NICKSON: Your Honor, I ask that those exhibits be marked for identification.

A.L.J. LECAKES: LIOP-1 is 322 and we'll mark LIOP-2 as Exhibit 323.

MR. NICKSON: Both panels are available for cross-examination.

A.L.J. LECAKES: And I'm not sure if it got on the record earlier. But by consent, all parties have agreed to cross-examine these panels at the same time jointly since the overlap in the subject matter is quite extensive. We will start with staff. Mr. Miller?

MR. MILLER: Mr. Gossel was reminding me that we had a discussion about additional documents during

Customer Service.

MR. FAVREAU: The supplemental, you mean the supplemental responses?

MR. NICKSON: Your Honor, my understanding was that those were going to get in prior to the cross-examination of the staff.

A.L.J. LECAKES: The staff Consumer Service panel, that was my understanding as well.

MR. NICKSON: Okay.

A.L.J. LECAKES: Is that -- do they need to be referred to by this panel at all?

MR. MILLER: Mr. Gossel will answer that. I don't believe so.

MR. GOSSEL: I may refer to them but it's okay if they're put in later.

A.L.J. LECAKES: They'll be put in later. I assume that the main purpose of the company wanting them in is to cross-examine staff on those, is that correct?

MR. GOSSEL: yes.

A.L.J. LECAKES: Yeah. I think it will serve our purposes better to have them before the staff panel goes up to them.

MR. NICKSON: Okay.

A.L.J. LECAKES: Staff, go ahead with your cross-examination.

MS. AISSI: Thank you, Your Honor.

CROSS EXAMINATION

BY MS. AISSI:

Q. Good morning, panel.

A. (Panel) Good morning.

Q. My first question has to do with page 15 of your rebuttal testimony. So I'll just give you a moment to find it. On lines 11 through 12, you state distribution status as a regulated gas utility does not necessarily imply that it has no profit-based motive to provide satisfactory customer service. Does the company have a profit-based motive to provide satisfactory customer service?

A. (Gossel) The company is very interested in providing excellent customer service and has a great record in doing that, irrespective of whether it has a profit-based motive or not. It does always seek to provide excellent customer service.

Q. Thank you. But my question is whether or not the company does have a profit-based motive provide that satisfactory service?

A. (Meinl) If you're asking whether it is beneficial to the company from an earnings perspective to provide satisfactory service, I would say yes, on a number of grounds. First, if we were performing unsatisfactory service, I would imagine in a rate case, we would receive an ROE adjustment, downward ROE adjustment. In this case, because of the superior performance that Mr. Gossel just cited, we think that's one of the many reasons why we deserve a -- an equity reward at the high end of a reasonable band. Also just from a practical perspective, if you have a reputation performing unsatisfactory service, it's not likely that or it would be less likely or else being equal that customers will want to connect to your system. If you have a reputation for poor service, why would you want to seek service from a company that does not provide a reasonable product.

BY MS. AISSI: (Cont'g.)

Q. So your response -- your first response regarding the downward ROE adjustment. Is that something that would apply in the current rate case or would that be an adjustment that would happen in a future rate case?

A. (Meinl) Well, it would be if we were performing poorly in this rate case highly for rate really, I would assume that staff would be recommending a lower return on equity collective of that inferior performance. We are performing much better than many -- most or all facilities in the state and for a variety of reasons, including cost control, the audit information that Mr. Crane testified to, our performances has been well documented as superior and that's why we believe we deserve a share on equity above of the average.

Q. So that downward adjustment would happen in a future rate case, is that correct?

A. That's not what I said.

Q. And your -- your answer. I'm sorry.

A. We are in a case today --

Q. Yes.

A. -- with a requested return on equity. Had we been performing at an inferior level of service, the justification for us requesting a return on equity at the high end of the range would be less justified.

Q. And you also stated that un -- if you were providing unsatisfactory service, that customers would not want to connect. Can you explain what sort of impact that would have on your profits?

A. There would be less revenue to the company from a customer not connecting to the businesses.

Q. So in the absence of a customer service performance incentive or a service quality performance metric, what is the impact to shareholders if the company provides unsatisfactory service -- customer service?

A. I believe I just went over that.

Q. Okay. Moving on to our next topic. On page 20 of your rebuttal testimony, and I'll just give you a moment to turn. Lines 6 through 12. You state, "Lack of a uniform objective standard defining adequate service results in unequal application across the state, the patchwork standards arising from the process of individual rate settlements leads to unequal treatment and disparate results, where, for example, an acceptable telephone answer rate for Con Edison is 56% within 30 seconds. But is proposed to be almost 86% in the staffs' panel recommendations for distribution in the instant proceeding." Are you aware that Consolidated Edison has an automated interactive voice response system?

A. (Gossel) The company believes that most of the major utilities all use an IVR systems, the company itself provides a higher standard of service by answering telephone calls live with representatives.

MR. DELVECCHIO: And I would add they're -- they're in our service territory.

BY MS. AISSI: (Cont'g.)

Q. So your company -- does your company have an automated interactive voice response system?

A. I believe it does not for purposes of handling customer inquiries, the one limited aspect is if a customer chooses to input a meter read, he or she may do so through that system.

A. (Figliotti) Which is a separate phone number.

Q. So would you agree that your customer service representatives handle all issues of customer calls from the simple to the complex?

A. (Gossel) Yes, they do. And it does take extensive training to provide that level of service.

Q. And do you believe that your company's call answer rate target should be the same with an IVR system if you were to have one?

A. Well, having an IVR system is hypothetical in our instance. We believe that having live representatives handle those calls, being able to, for instance, if the benefit of a quicker response to emergencies and the like is a superior service provided and if I haven't answered your question.

Q. Is it your position that all utilities should be held to the same standard or measures of customer service, such as call answer rates?

A. It's our position that it is for the Commission to decide what level of service telephone answer category or metric, Commission should decide and have a universal standard that applies and sets forth what is adequate service for purposes of utilities providing service to their customers.

Q. Turning to page 47 of your rebuttal testimony, line 16 to -- through 21, you propose that if the Commission adopts staffs' proposal to include credit and debit card processing fees and rates, you propose that $3 million be added to the company's revenue requirement. Could you explain how you arrived at that figure?

A. (Figliotti) If you look at the previous page and go through the details of how we came up that figure.

Q. I think on that page, you gave a range, for example, when you discuss your vendor's fee, that the range would be between 2 and 3.25%. Which figure did you use for the calculation to arrive at the 3 million?

A. Well, it says assuming 20% of the customer based, they switched by paying -- paying by credit or debit card, the potential impact could exceed $3 million per year. We have customers now that could be paying by either direct deposit or direct payments, making online payments, sending their checks in. If you now offer free credit card service, and just assuming 20% of the customers switched over, I would probably be one of them because I could get points. You know, when our vendors said that the fee is going to be probably around the 2% range. That ends up to be about $3 million very quickly.

A.L.J. LECAKES: Excuse me, for a second, Ms. Aissi. Which page are we on right now?

THE WITNESS: (Figliotti) Page -- well, she had a question on 47.

MS. AISSI: Page 47.

A.L.J. LECAKES: Right, and so we're talking 46.

THE WITNESS: And on 46, you know, we have kind of how we stepped through it.

A.L.J. LECAKES: Okay. Thank you.

MS. AISSI: Would you be able to provide your work papers for this calculation? Because I don't believe your testimony addresses the detailed calculations and we would appreciate the chance to review.

A.L.J. LECAKES: Did the panel prepare any work papers for this calculation? Any -- any --.

MR. GOSSEL: That's what I was asking and it has not. I think it was the back of a napkin, assuming 20%, which is line 20 on page 46, 20% of the customer based switching. I believe taking the number --.

MR. FAVREAU: That's fine. That's a no work papers. They're no work papers.

MR. GOSSEL: Yeah.

A.L.J. LECAKES: Right. And Counsel, is there anything further you're looking for besides the calculation itself, that's -- that's why I was asking and I'm assuming that's what the panel members were discussing.

MS. AISSI: Well, I think it -- I'd like to ask a follow-up question to determine --

A.L.J. LECAKES: Absolutely, go ahead.

MS. AISSI: -- how the 20% figure was arrived at as an estimate.

A. (Gossel) It's my experience, similar to Mr. Figliotti's, there are certain utility bills that I pay via credit card because the entity in this particular -- my particular case, Verizon, waived the convenience fee and in other everyday experiences, hearing stories about a utility in Arizona that has offered this particular program within one year because it was so expensive discontinuing it. It a very, very expensive way to process a customer payment. In part, it takes away our existing very, very low cost online bill payments. I don't have, nor did I see anywhere that an average of 20% conversion rate happens, that is offered more so as a hypothetical. It could be well in excess of the 20%. I believe the customers -- the testimony the panel further suggests that there be a tracker that would basically make the company whole if that requirement is adopted by the Commission.

A. (Figliotti) And we consider that to be an expensive, like Ken said, an expensive payment method that other rate payers would have to pick up, that we're trying to control costs.

BY MS. AISSI: (Cont'g.)

Q. And does the explanation you provided regarding the estimate of how many customers might switch over to credit card and debit card payments suggest that it's a service that customers would like to receive?

A. (Gossel) We who get points may very well, they were -- not necessarily. Certain customers well love to see that. It's the moderate income, perhaps the low income customers that would have to pay more, especially those people that aren't using that particular type of service. So I don't believe, I do know that staff had provided interrogatory responses in which it indicated over the past three years, there have been no complaints against the utility for purposes of not offering that as an overall means of payment.

Q. And why do you believe low Income customers might pay more?

A. All customers would pay more if the additional expenses, say, $3 million were to be spread across the rate base, all customers would pay for those increased cost of services. And it's especially hard on the low income customers, the moderate income customers.

A. (Figliotti) Customers do have the opportunity to pay by credit and debit card now, they just have to pay a fee associated with it, to a third party, not to the company.

Q. And are those -- are some of those customers low-income customers now that currently pay a fee?

A. (Gossel) All customers that choose to pay a National Fuel utility will be a credit card. In that method, do pay a convenience fee whether they are low income, moderate income or high income customers.

Q. And I'm trying to see if we need more information since you stated that you did not prepare work papers for this calculation. Just turning back to page 46 of your rebuttal testimony. You stated, "A preliminary quote from your vendor indicated that the fee could be in the 2% to 3.25% range." So which of -- which of -- which figure did you use for your 3 million calculation?

A. (Figliotti) I believe I used a 2% figure to be conservative.

Q. Thank you.

MS. AISSI: Thank you. No further questions. Thank you.

A.L.J. LECAKES: Thank you, Ms. Aissi. I have PULP, MI and UIU, is there any discussion among the parties of any particular order? And I don't care if -- if it covers the Low Income Order panel or the Customer Service panel, so.

MS. JORGENSEN: Yeah, I'll go.

A.L.J. LECAKES: All right. Ms. Jorgensen for PULP.

CROSS-EXAMINATION

BY MS. JORGENSEN:

Q. Can you see me all right?

A. (Figliotti) Yes.

Q. I could -- okay. Great -- great. If you would, let's go to the supplemental direct testimony of the Low Income Order panel, the staff. One questionnaire to get us started. Okay. Page 8, line 8 to 9. I just want to be clear for this record. It is the company's plan to end the LICAAP upon implementation of the Commission's low income affordability orders, new 4-tiered low income program in case 14-M-0565, is that correct?

A. (Gossel) Yes, that's our understanding. What the -- the order would require that to be discontinued.

Q. Okay. Okay, so. Now, prior to the implementation of the orders, new 4-tiered low income program, will you operate LICAAP as currently designed by the previous proceedings?

A. Yes, we continue to offer the LICAAP program.

Q. Okay. So let's now go to your direct customer service panel. Page 6, starting on line 10. This is where you discuss LICAAP through page 9, line 5. Now, is it fair to say that in this part of your testimony, you describe LICAAP and then certain proposed modifications to the program, including the transfer of those customers who have completed their 36 arrears forgiveness program component in LICAAP would then be moved to the HRAS program, is that correct?

A. To the extent that the Commission permits the company to continue its LIOP program.

Q. Right.

A. And it's got a petition -- three hearing, it's got support from the City of New York in parts and other parts. To the extent that it's allowed to do that, then the proposal as in the original testimony is that the customer -- the company would transfer those customers that you identified that had completed the arrear forgiveness component to the HRAS service classification, yes.

Q. Okay. So I -- so I understand that and thank you for bringing that up. A company has a petition for rehearing in case 14-M-0565. And if granted, the company would like to continue its low income programs as proposed in this proceeding, which includes the transfer of the HRAS, possible to the -- those small subset who have achieved their 36 month expiration of the arrears forgiveness component would be transferred to the HRAS.

MR. DELVECCHIO: Your Honor, I just point out that sometimes the -- we've granted the order may perhaps specify things that we are unable to do based on our petition for re-hearing, depends on what Commission says, Your Honor.

A.L.J. LECAKES: Right. I appreciate that as someone who will be responsible for writing a recommended decision and advising the Commission, there may be things that I'm doing -- myself be restricted on advising because of previous Commission orders, so I do appreciate that. However, given the status that things are still up in the air, I will let Ms. Jorgensen pursue this line.

MR. DELVECCHIO: Thank you.

MS. JORGENSEN: Thank you, Your Honor.

BY MS. JORGENSEN: (Cont'g.)

Q. Okay. So that was more just a confirmation. So I'm understanding those variables. The Depart -- the timeframe, and I'm concerned and trying to hone in on here is prior to the implementation of an order or decision on your petition for rehearing, how does the LICAAP function? Is it based on the previous rate proceedings and settlements stemming back all the way from 2004 or is it the proposed modifications as explained in the direct testimony?

A. (Gossel) The conclusion of this rate proceeding will tell us that. Until then we're following the whole -- the whole existing orders, we're continuing to operate our LICAAP program, continuing to operate our HRAS service classification as well. There would be no transfer of 4,000 or how many ever customers until that is concluded in this proceeding.
Q. All right. Well, I think based on that answer, I would like to just ask some follow-up questions about this -- this proposed transfer of customers. Okay. So let me direct you to the -- okay. So on page 7, starting on line 5, you say as of December 31st, 2015, there are 10,732 customers participating in LICAAP. Now, you provide quarterly updates to the Commission of the company's LICAAP and HEAP residential assistance service programs, correct?
A. Yes.
Q. Okay. So on page 8, line 11, you proposed that 4,100 of those participating customers are eligible for transfer to HRAS if your proposal is accepted. Do you have an updated number as to how many could be transferred as the latest quarterly report that you provided to the Commission for the period through June 2016?

A. If we are -- yes, we have not done a new estimate. That estimate was based at the time that the direct testimony together on either information, I believe it's information from March of 2016.

Q. Okay. Of the, I mean subject to check. You did file a quarterly report on September 2nd and I did see some numbers for June 2016. So perhaps those would be updated. Okay.

A. (Figliotti) Well, the number of people supporting 100, it's not part of the quarterly report that would say --.

Q. Right. That's correct.

A. Well, that's --.

Q. That's correct, yes. That's why --

A. Yes.

Q. -- I wanted to see whether you might have that information today.

A.L.J. LECAKES: Ms. Jorgensen, do let the witness finish his --

MS. JORGENSEN: Oh, sure.

A.L.J. LECAKES: -- response --

MS. JORGENSEN: Oh, I'm sorry.

A.L.J. LECAKES: -- before you interject.

MS. JORGENSEN: Yes, sorry.

A.L.J. LECAKES: No, no, that's fine.

BY MS. JORGENSEN: (Cont'g.)

Q. Did you have anything further to say?

A. (Figliotti) No, like I said, we list --

Q. Okay.

A. -- that's not part of our quarterly reporting.

Q. Okay. Thank you. Okay. Now, so of those, let's just go with the 4,100 number now because that's what we have. So those customers that would be transferred will have a reduced discount dropping from the base LICAAP discount of 170 per year to 100 per year, is that correct?

A. (Gossel) Under the original testimony direct proposal, yes, that's correct. We had proposed 3 additional months at $12.50, taking that benefit up by that amount. Obviously, once the Commission order and the low income proceeding came out directing that we move to the 4-tiered new systems, statewide system. And indicated that if that is going to happen and go forward, we would not make changes to the discount under HRAS, so we just keep it as it is, the existing 5 months and not an increase to the 8 months.

Q. Now, so you brought up HRAS but I wanted to stay with LICAAP. For LICAAP, will be reduced from 170 to 100 for -- for each customer?

A. If I could ask -- I -- we do, the panelists needs a little bit of clarification with the -- with the question. You're referring to the 4,100 estimated that would transfer at the conclusion of this case if not directed otherwise by the Commission in the 4-tiered statewide low-income program. So I guess if that transfer won't occur until the conclusion of the rate case, whatever proposal, you know, is accepted by the Commission. Until that point, those customers will still continue to stay on LICAAP at the $170 per year, as opposed to any lesser amount under HRAS. They will not be transferred until the conclusion of this case.

Q. Okay. Then let's just -- let's revisit an earlier question. Maybe I didn't understand you correctly. In the rate plan, regardless of the order. Let's just say the order doesn't come out until late 2017, it gets appealed, there's a lot of decisions, we're in limbo. Rate plan, January 2nd, we're not settling. You decide re -- the recommended decision comes up in favor of proposal for the company. Are your proposed modifications to HRAS included in the rate plan to LICAAP with the transfer to HRAS?

MR. DELVECCHIO: If I could -- if we can just so we -- we can understand the question. With all due respect, Your Honor, we need a Commission order.

A.L.J. LECAKES: No, I understand. I was actually almost going to get some clarification on the question myself. But I was waiting to see if the panel members would answer it. There are several assumptions that lie behind the question that I am not sure I understood them. One of them consisted of January 2nd date or something like that, which doesn't fit within my understanding of the filing of tariff leaves and the 11 months suspension period or the rate year in this case.

MS. JORGENSEN: My apologies, Your Honor.

A.L.J. LECAKES: No, no. That's fine.

MS. JORGENSEN: The date is not correct.

A.L.J. LECAKES: I understand that you're looking for information. I'm trying to figure out which of the information is, you know, substantively important --

MS. JORGENSEN: Can I try --

A.L.J. LECAKES: -- to your question.

MS. JORGRNSEN: Yeah. Let me try.

A.L.J. LECAKES: Yeah. Why don't you

rephrase your question?

MS. JORGENSEN: I'll rephrase.

A.L.J. LECAKES: Thank you so much.

BY MS. JORGENSEN: (Cont'g.)

Q. Is it the company's intention in the rate plan to include the modifications as outlined in your direct testimony for the LICAAP program?

A. (Gossel) Yes, it is.

Q. Okay. So if we do not have a Commission order decision on your rehearing and the 4-tiered implementation program or in the rate plan, we would be operating the LICAAP program with the modifications as proposed in your direct testimony.

MR. DELVECCHIO: Your Honor, I was just going to point out that it really is an unanswerable question by the panel because it's all going to depend on the decision from the Commission in this current rate proceeding.

A.L.J. LECAKES: Right. And -- and I would -- I would point out to counsel that I'm not sure that the legal status of the low income order that was released is as accurate as you're depicting in your question. There is a low-income order that is out notwithstanding the fact that there are petitions for rehearing and reconsideration on that order. That order stands that the effect of that order is not suspended during those petitions, so --

MS. JORGENSEN: Your Honor --

A.L.J. LECAKES: -- I myself may be -- may be --

MS. JORGENSEN: Yeah.

A.L.J. LECAKES: -- constrained from -- from regardless of any sympathy or whatever that I may have for anyone's -- any party's position in this case on those low income issues. I myself may be constrained from what I may recommend to the Commission because that order is existing and in operation. So if you would take that into consideration when you ask your questions.

BY MS. JORGENSEN: (Cont'g.)

Q. Panel, I'm -- Thank you for the -- to allow me just to consult with them. On page 6, line 12 through 14 of your direct Customer Service panel, you speak to the fact that the LICAAP program is a more targeted program which provides an even higher level of benefit to a subset of low income payment troubled residential customers that have a greater need, correct?

A. (Gossel) That's correct.

Q. Okay. Has the company in the course of this rate proceeding or in the preparation of the company's low-income program, implementation plan filed with the Commission on September 16th, performed any analysis on the ability of these customers to keep current with their utility bills upon having no discount reduced?

A. (Figliotti) Well, the company has not done that type of analysis and I would like to point out the 2 or 3 discount, which most of our few customers are in, would qualify for tier 3 will be receiving a larger discount than they currently receive. That's why the program would cost more than LICAAP and HRAS programs combined.

(Gossel) But that does depend on how much the customer -- how much gas they use, LICAAP has currently implemented thus taking into account a lot of those things, household size.

THE REPORTER: Excuse me.

A.L.J. LECAKES: Yep, absolutely. Okay. Proceed.

THE REPORTER: If we could just repeat that last bit.

A.L.J. LECAKES: Yeah.

THE WITNESS: (Gossel) That -- that depends, just pointing out that LICAAP does in that targeted way provide variable rate discount based on the volume, based on household composition, meaning the number of inhabitants and the income level itself. So those can vary quite -- quite greatly.

BY MS. JORGENSEN: (Cont'g.)

Q. My understanding is that the discount, the 170 discount, that was something that was a feature informed from the 2004 case when there was a rate, right? Is that correct?

A. That's correct, yes.

Q. Okay. So the -- the price of LICAAP participants bills also is on a graduated scale based on household size and income, is provided with a discounted rate, but that's separate and apart from the 170 benefit, discount benefit from the old program in 2004.

A. I believe that's correct. Part of the discount that I think about historically is the discount on the rate, gas costs were very, very high and we were discounting 70% of the bill to the customer, gas costs have come down very, very significantly. So there's, I guess, a couple of components in the LICAAP discount both that rate type discount and as you mentioned, the $14.33 a month, I think, towards that $170.

Q. Is it fair to say there's basically 3 components to LICAAP. There's the -- the discount, the base discount, the 170. There's the affordability -- the arrears forgiveness program component. That's the 36-month program. And then, there is just the fact alone that on a graduated scale, based on household size and income, that there is a discount in --

MR. DELVECCHIO: In gas price that --

MS. JORGENSEN: -- in gas price, correct.

MR. DELVECCHIO: -- that discount amount fluctuates based on -- on gas price and what we think is one of the -- one of the beneficial features of LICAAP is that as market price is in -- we all know how volatile energy prices can be and gas prices can be volatile. They are at an all time low today but they can increase, that the percentage discount will change to track those -- to track those prices and change really on a 1 month lag. The current proposal that -- from the commission order, the state low income plan does have a feature that will adjust the budget payments the way I best understand it.

But there is a significant lag in that since it's based on historical revenues. Another -- another -- another issue with that, it's my understanding we are supposed to apply the historical revenue amount in developing a budget. My understanding of that order that the revenues are not what are normalized, so you can have swings in historical revenues based on changes in the weather.

MS. JORGENSEN: Right. Sure.

MR. DELVECCHIO: That can lead to a volatile budget.

MS. JORGENSEN: Thank you.

BY MS. JORGENSEN: (Cont'g.)

Q. That is my understanding as well in having read your annual report on LICAAP, but in terms of the discount proposal from 170 to 100, that will happen regardless of gas price under your proposed proposal?

A. (Figliotti) You're referring to the people that would be moved out of LICAAP --

Q. Correct.

A. -- and into HRAS.

Q. Right. So that's -- that's what we're honing in here. So to date, has the company developed a plan for monitoring or addressing the possibility that the decreased benefit of those customers that are transferred could jeopardize their ability to pay their bills on time and in full?

A. (Gossel) The company has not specifically done that but the company has, for a very long time, in the industry with respect to system, customers and finding other assistance especially HEAP, other forms of public assistance.

Q. I'm glad you brought that up. Has the company, to date, contemplated any communication that it will have with or provide to human service agencies about the modifications to LICAAP if adopted for the proposed rate plan?

A. It has not yet at this point in time. As we've been talking, there's a number of different moving targets, possibly be premature to develop that type of material.

(Off the record)

BY MS. JORGENSEN:

Q. Thank you again for your patience. We just have a couple of follow-ups based on those statements you made. And so, just to be clear. Are you asserting that the tier 3 discount would be more beneficial to consumers even though LICAAP is more targeted?

A. (Gossel) No, those are generalizations because tier 3 in its design is based on two-family household at maximum income level. Many households have many more people, some with much lower levels of income. So we would not make that generalization.

Q. Do you happen to know how much is the average LICAAP benefit?

A. (Meinl) Not off the top of my head but it is available.

A. (Figliotti) When you say LICAAP benefit, what do you specifically mean here?

Q. Well, do you have -- do you know what the -- the impact to bills would be -- or do you know the average bill, for example, of a LICAAP house participant?

A. (Meinl) There is in the -- in the revenue work papers the LICAAP class calculated, so the number can be -- can be determined for the.

Q. Would you be willing to provide that information?

A. There is also an exhibit in the cost service rate design panel. If you recall, we put together that -- that seven paragraphs. There is the 50% greater than the average residential customer consumption, that approximates the average LICAAP customer consumption.

Q. I just have one further question for you. Has the company contemplated any communication it will produce to explain to LICAAP participants themselves that they will be transferred to the HRAS program and what their reduced benefit would be?

A. (Gossel) The company has prepared no such material at this point in time. As I indicated earlier, there are quite a number of different things that need to happen before that but it would be very helpful to have that ready to go when a decision in this case is found.

Q. Thank you, that is all.

A.L.J. LECAKES: Ms. Jorgensen, during your questioning, especially at the very end there, it sounded like you were about to make a record request or request for information. Are you still making that request of the panel?

MS. JORGENSEN: Let me -- let me try to ascertain that.

A.L.J. LECAKES: Okay.

(Off the record)

MS. JORGENSEN: Thank you your patience again. Your Honor, we would like to request information be provided of the average benefit of a household in the LICAAP program.

A.L.J. LECAKES: Okay. This is the way that I would propose handling that rather than reserving an exhibit number for a number that appears to be calculated, why don't we leave, if -- if we can't get that number at the end of the testimony or the cross-examination before lunch break, we'll leave the panel sworn in and then if the company could calculate that during the lunch break, we can have the panel put that on the record just when we come back from lunch. If in fact the company is unable to do that during the lunch break, then we'll reserve an exhibit number for that and -- and have that supplied after the hearing.

MS. JORGENSEN: Thank you, Your Honor.

A.L.J. LECAKES: Okay, Ms. O'Hare, Mr. Zimmerman.

MR. DELVECCHIO: Your Honor, we had just one clarification --

A.L.J. LECAKES: Yep, absolutely.

MR. DELVECCHIO: -- from -- for Ms. Jorgensen's request -- as a request. So is that, when you say average household, would that be -- would it be okay to do it just on an account basis or are you looking to estimated household size?

MS. JORGENSEN: Can you do the latter?

MR. DELVECCHIO: I suspect doing it by account number would be much simpler but I would have to defer to our panel on that.

MR. MEINL: Yeah, one number is better than --

MS. JORGENSEN: By account spec.

MR. MEINL: Thank you.

A.L.J. LECAKES: Ms. O'Hare.

CROSS EXAMINATION

BY MS. O'HARE:

Q. Is the panel familiar with your employer identification number?

A. (Gossel) Yes, it is.

Q. Can you describe what that is?

A. (Figliotti) Our -- our understanding of an employer identification number is a number that is available through the United States Department of Treasury for taxpayers to use for purposes of making the tax filings.

Q. Thank you. And does the company currently accept employer identification numbers as a form of identification for businesses that wish to establish utility service?

A. Are you talking about residential accounts or?

Q. I'm -- I'm talking about the employer identification number that businesses use to establish utility service.

A. Business, yeah, they can use it.

CROSS EXAMINATION

BY MR. ZIMMERMAN:

Q. I just had a couple of additional questions. With respect to the -- the credit card fees, for a customer to use a credit or debit card to pay their utility bill, they need to have a credit or debit card, right?

A. (Figliotti) Yes, if you're going to pay that. Unless you can borrow someone, borrow it from a friend but, yes, you need to have a credit or debit card.

Q. Right. Does a company -- are there customers to panel's knowledge in the company service territory that don't have credit or debit card?

A. (Gossel) Probably many customers who don't have credit or debit cards, yes.

Q. So those customers, if the credit card fees were socialized, would have to pay for at least a part of the cost of a service that they can't use, right?

A. That would be correct. They would be paying for that expense.

Q. All else equal, is a lower income customer more or less likely to have a credit or debit card?

A. I don't know that we have that information. That would be really asking that the panel speculate.

MR. ZIMMERMAN: Thanks. That's all I have.

A.L.J. LECAKES: Did -- did the panel do any surveys about its customers, about the credit card issue?

THE WITNESS: (Figliotti) We have not. We do have customers that use it on a regular basis or we have credit and debit card payments coming on a regular basis.

A.L.J. LECAKES: Right.

THE WITNESS: -- now whether it's the same customers or different customers but, no, we do have customers that use that service.

A.L.J. LECAKES: Mr. Mager?

CROSS-EXAMINATION

BY MR. MAGER:

Q Thank you. Good morning, panel?

A. (Panel) Good morning

Q. I have a -- I have two lines of question, both, I think are relatively brief. The first is, I just wanted to get -- relates to the low income programs and -- and I don't want to dive into the specifics of any of them. I'm just trying to figure out how much the program is going to collectively cost. And so my -- my understanding is there's a commission order and your -- you've revised your proposal to be in compliance with that order, is that correct?

A. (Gossel) That's correct.

Q. And there's also outstanding petitions for re-hearing including one filed by the company. Is that correct?

A. That is correct.

Q. Okay. And so, however the Commission resolves the re-hearing issues presumably will govern at some point, correct?

A. Yes, those issues.

Q. Okay. And so, I guess, I want to focus on what would -- what the company's current proposal is assuming we're still waiting on a Commission decision.

A. Well, the Commission order is valid despite any petitions or re-hearing the company has pursuant to that May 20th commission order submitted an implementation plan or that stablize low income program with the 4 tiers. The company estimates that it will be able to put that system in place and enforce an order, calendar court order of 2017, and we had provided some rebuttal testimony with respect to what the budget, we believe the budget should be.

Q. Right. And so you've -- you've calculated in your supplemental direct testimony program budget of approximately 13.5 million, is that correct?

A. Yes, 13,462,422, I believe to be precise. One of the exhibits to that supplemental testimony contains that.

Q. The supplemental, and this represented an increase from the company's original proposal in this case, correct?

A. Yes, consistent with Commission order.

Q. And the Commission's order includes a 2% cap on the program cost, correct?

A. It has a budget cap of 2%, correct.

Q. And now, your rebuttal -- your rebuttal testimony as applies to 2% Cap for the company's most recent assessment, is that what you're doing on page 5?

A. Rebuttal testimony on page 5 sets forth a number of things, headlines, 4 and 5 it talks about a figure with a 2% budget cap based on most recent 18-A assessment figures and a little bit later on that page, lines 13, 14, 15 does reference that exhibit that the low-income order panel had filed with that $13.46 million figure.

Q. Okay. And -- and so, am I correct that $13,462,422 figure was, reflected the 2% cap at the time of your supplemental direct testimony?

A. (Meinl) Yes, the $13,462,000 number is applying the order to the revenues in the rate year, the gas cost in the rate year.

Q. (Meinl) And is the $11,773,891 figure, also on page 5 of your rebuttal, is that a more recent figure or a less recent figure than the 13 million --

A. No, the -- the $11,773,000 number is based on the 18-A assessment amounT done in December 2005. That's an actual number. The $13.4 million number is based on the assumptions in the rate year regarding volumes, revenues, including assumed gas costs.

A. (Gossel) I believe it's the staff panels' testimony had requested that the company present most recent 18-A assessment figures and that's why it was provided in the rebuttal testimony.

Q. So it's your understanding that -- that staff's position is the most recent number should be utilized?

A. I believe staff is suggesting actually on the top of page 4 that $16,165,185 figure that was set forth in one of the exhibits, it was Appendix C to the May 20th order -- is what is to used.

Q. All right, so we have a $16 million figure from staff on page 5 of your rebuttal. And we have $11.8 million approximate and $13.5 million approximate number from you. What is your actual position in this case?

A. (Meinl) Our position is to use the $13.4 million -- use the conditions in the rate.

Q. Now, is that -- is that your -- based on your interpretation of the Commission's order or is that -- is that how you think it should be?

A. That's the -- the -- our interpretation of the rate year impact. The rate year straddles two annual assessment periods. So we effectively averaged what would be the conditions in the rate year equal the $13.4 million number.

A. (Gossel) And if I'm not mistaken, the May 20th order did give indication that this budgeting would be determined in the next rate case.

Q. So if -- if gas prices move sharply either up or down starting tomorrow, your position would be that should be ignored for purposes of application of the 2% cap?

A. (Meinl) What's in -- what's in -- our gas cost projection in the rate year would need to be changed and we are not planning on updating the rate year gas cost projections. There's a deferral treatment also if, for example, gas costs rise sharply, the cost of the program that would be generated from -- from that sharp rise in gas cost, we would increase the amount of discounts that would be required, those costs, to the extent that they are different from the $13.4 million number, on the staffs' proposal, it would be deferred. Under our proposal, we would -- we would either surcharge or refund depending on the variants.

Q. And if the cost of gas went down, would the discounts then be reduced?

A. That's -- that's my understanding of how the -- the program works.

Q. So sitting here today, your -- your interpretation of the order would lead to the approximate $13.5 million figure and not to be updated between either now or at the end of the case?

A. It -- right. But it would -- but -- but --

Q. I'm trying to understand --.

A. -- but variants, I understand, Mike, but variants, I just want to make clear. Variances from that, actual variances from that $13.5 million would be deferred or under our proposal would be surcharged or refund to customers.

Q. Okay. And so let's just follow-up that. So if -- if the cost of the program were to decline from the approximate $13.5 million figure, you would refund the over collections to all customers?

A. To residential customers.

Q. Okay. Now, are only residential customers paying for the program?

A. That gets into the cost allocation at the -- you're well aware, we did an embedded cost of service study that I believe allocated all the low-income program costs to the residential class of customers. It went over, I think, in great detail yesterday, we have a, had our increase allocation proposal, which used a variety, and considered a variety of factors for designing, adjusting reasonable rates.

Q. Okay. Let's switch gears. Very briefly, I just want to follow-up on this credit card expense testimony. I believe it's just starting on page

44 of your rebuttal. So basically, you're responding to a staff proposal to waive any fee for credit card payments, correct?
A. (Gossel) Yes, staff in its testimony, so suggesting that the company should adopt, should pay convenience fees for credit and debit cards used by customers to pay for utility service.
Q. Okay. Then the call for that change would be borne by -- by all the customers under your proposal?
A. We're -- we're not proposing that would be adopted.
Q. Your understanding is that staffs' proposal would have those associated costs borne by all customers?
A. Yes.
Q. You're estimating that those costs could be approximately $3 million a year?
A. It could be at, if 20% of our customer base decided to use this methodology of payment.
Q. And Mr. Zimmerman asked you some questions about the fact that some low-income users may have less access to credit cards than the residential population as a whole, do you recall that?

A. Yes, I do.
Q. Is it also fair to say that typically large commercial industrial customers do not pay their bills by credit card?
A. I don't have any independent basis to know that.
Q. Would you know if somebody started to put in on credit card, you know, $100,000 monthly bill?
A. If a customer chooses to pay via credit or debit card and chooses to agree to a convenience fee, company gets no convenience fee, no part of any fee paid, that's entirely with -- within that entity or individual's discretion.
Q. What's -- what's the -- I'm sorry.
A. (Figliotti) Excuse me.
Q. Sure, go ahead.
A. Right now, there's a current cap of $1,000 per transaction, so if the large industrial customer wants to make 100 $1,000 transactions, they can do that.
Q. So will the panel subject to check that most large commercial industrial customers have monthly bills in excess of $1,000?
A. Yes.

Q. Okay. So basically if staffs' proposal is adopted, you would not expect large commercial industrial customers to take advantage of it, would you?

A. (Gossel) I don't know whether we have a basis to make that conclusion.

Q. Does the panel have any knowledge whatsoever about the rate of credit card payments by large commercial industrial customers? Any knowledge whatsoever?

A. (Meinl) I think it's common practice for companies to provide employees with company credit cards. So I would think it's rather common for industrial customers to make credit card payments.

Q. Now, I'm talking about the corporations themselves.

A. Well, I am -- I am assuming it's -- it's the corporation that owns that credit card since they're paying whatever the employee charges on that card.

Q. So, just for instance, you think there are a lot of SC13 transportation customers that pay by credit card?

A. Again, Mike, I think there's a lot of SC13 customers that may have corporate credit cards for whatever reason that they provide to their employees.

They may provide their human resources department with a corporate credit card to make office supply purchases. They may provide a sales representative a corporate credit card to use when they're on sales calls and taking clients or customers to lunch.

Q. So you think many SC13 customers have monthly bills less than 1,000?

A. I think I already answered that.

MR. DELVECCHIO: Your Honor, I think that was asked and answered.

A.L.J. LECAKES: Yeah, it was asked and answered.

MR. MAGER: Okay, right.

A.L.J. LECAKES: And, Mr. Mager, I do understand. You -- you can move on.

MR. MAGER: Okay. All right. In that case, I think I can stop.

A.L.J. LECAKES: All right. Does anyone else have cross-examination for this panel? Company, if you'd like to approach and discuss redirect.

A.L.J. LECAKES: Let's go off the record.

[Off the record conversations]

A.L.J. LECAKES: Okay, back on the record. Company?

MR. DELVECCHIO: Your Honor, the company has no redirect.

A.L.J. LECAKES: Thank you, Mr. Del Vecchio. Panel, you are not being excused at this point simply because after lunch, we will bring you back up just to see if we could fill the record from PULP but otherwise we will be adjourned until 1:00 p.m. we'll reconvene. Thank you very much, everyone. Off the record.

MR. MAGER: Thank you.

MR. DELVECCHIO: Thank you, Your Honor.

(Off the record)

A.L.J. LECAKES: Let's go back on the record. The customer service low income order panel from the company was held over from just prior to our lunch break. For the purposes of filling in information on one question that was asked, a calculation was made in a small conversation we had off the record just before we re-opened it. After lunch, a request was also made from PULP for the ability to ask one other cross-examination question. The company has consented to that and so I don't need to rule.

Ms. Jorgensen, why don't you ask your question first?

MS. JORGENSEN: Thank you, Your Honor.

RECROSS-EXAMINATION

BY MS. JORGENSEN:

Q. Does the company know what percent of customers in any of its low income programs pay by credit card, debit card or EBT card and if so, the percent of each type of card?

A. (Figliotti) We do not track those types of payments.

Q. Thank you.

A.L.J. LECAKES: Okay, Panel, as was just discussed, you were held over to do a calculation or to provide a number. Were you able to do that during the lunch break?

MR. MEINL: Yes, Your Honor.

A.L.J. LECAKES: And could you please put that information into the record?

MR. MEINL: Yes. We were asked to calculate the average LICAAP discount computed in our rate year revenue exhibits. The source of this information is exhibit JRB-1, work papers sheet 62, the amount is $193.80. That number is an average number of the discount tiers just to provide some background as far as the magnitude of differences by discount tier. We went back to some fiscal year 2015 data which is the 12 months ending September 2015 or the 0% additional discount tier, the average discount is approximately $170, for the 10% discount tier, the average was $291.

A.L.J. LECAKES: And that was JRB --?

MR. MEINL: Exhibit JRB-1 work papers.

A.L.J. LECAKES: Okay. So the work papers were JRB-1, for the record purposes are established as Hearing Exhibit No. 5. Thank you, panel, you are excused and dismissed.

PANEL: Thank you, Your Honor.

MS. JORGENSEN: Thank you.

A.L.J. LECAKES: And staff, could you please call your next panel?

MR. NICKSON: Your Honor, would you like to mark --

A.L.J. LECAKES: Oh, yes.

MR. NICKSON: -- those exhibits for identification?

A.L.J. LECAKES: I apologize. Scott, before we get to you, there was that request made from the company to mark certain exhibits. Mr. Nickson, yes, proceed.

MR. NICKSON: Yeah. The company would like to mark two information request responses from -- from staff. The first would be the supplemental response to NFG-DPS-22.

A.L.J. LECAKES: Okay.

MR. NICKSON: And just for the record, it's the response and 20 attachments attached thereto.

A.L.J. LECAKES: Okay. And did you provide those earlier to me?

MR. NICKSON: They were on the CD I provided to you.

A.L.J. LECAKES: Okay.

MR. NICKSON: Yeah. And the second would be the supplemental response to NFG-DPS-63 which consists of the response and 50 attachments.

A.L.J. LECAKES: Okay. So the first one we'll mark as Exhibit 324 and that number again was DPS --

MR. NICKSON: NFG-DPS-22.

A.L.J. LECAKES: NFG-DPS-22 and Exhibit 325 and the number on that one is?

MR. NICKSON: NFG-DPS-063.

A.L.J. LECAKES: Okay, very good. So Exhibit 324 and Exhibit 325.

MR. FAVREAU: And Your Honor, we have no -- no objection. We were provided a disk also, but we haven't had a chance to go through it, just to make sure that it is what we provided in response.

A.L.J. LECAKES: Right, I understand that.

MR. FAVREAU: So just reserving that it should be given out.

A.L.J. LECAKES: Right, assuming that -- yeah, assuming that they are the same as was provided.

MR. FAVREAU: And any attachments --

A.L.J. LECAKES: Yep.

MR. FAVREAU: -- which are remaining.

A.L.J. LECAKES: And the response was otherwise compiled in the course of regular business by Department staff?

MR. FAVREAU: Correct.

A.L.J. LECAKES: Okay, staff.

MR. DELVECCHIO: Your Honor, if we could --

A.L.J. LECAKES: Yeah.

MR. DELVECCHIO: -- have one moment, please?

A.L.J. LECAKES: Absolutely.

MR. DELVECCHIO: We're all set, Your Honor, thanks.

A.L.J. LECAKES: Thank you. Ms. Aissi, please call your next panel, please?

MR. AISSI: Your Honor, staff calls its consumer services panel.

A.L.J. LECAKES: Members of staff consumer service panel, please identify yourself by your name and your business address and if you have not had a chance to speak to the court reporter beforehand, please spell your last names out once you say it.

MS. BENTZEN: Julie Bentzen of the Consumer Services, 3 Empire State Plaza, Albany, New York. B-E-N-T-Z-E-N.

MR. INSOGNA: Hi, Martin Insogna, 3 Empire State Plaza. Let me spell that for you. I-N-S-O-G-N-A. 3 Empire State Plaza, Albany, New York.

MS. FERRERI: Monica Ferreri, spelled F-E-R-R-E-R-I. Address, 3 Empire State Plaza.

A.L.J. LECAKES: Thank you, panel members. Could you please rise and raise your right hands? Do you swear or affirm that the testimony you're about to give this afternoon is the whole truth?

PANEL: Yes, I do.

MONICA FERRERI; Sworn

MARTIN INSOGNA; Sworn

JULIE BENTZEN; Sworn

A.L.J. LECAKES: Thank you, you may be

seated. Ms. Assisi -- Aissi.

MS. AISSI: Members of the panel, has your pre-filed testimony for this case been prepared by you or under your supervision?

MR. INSOGNA: Yes, it has.

MS. AISSI: And is the 44-page document in front of you that testimony?

MR. INSOGNA: Yes.

MS. AISSI: Do you wish to make any changes to that testimony?

MR. INSOGNA: Not at this time.

MS. AISSI: And if I were to ask you the same questions today as those that are in your testimony, would your answers be the same?

MR. INSOGNA: Yes.

MS. AISSI: Your Honor, I ask that the panels' testimony be incorporated into the record as if given orally today?

A.L.J. LECAKES: Granted and for the transcript purposes that is the staff testimony disk and the file is called the staff consumer services panel updated testimony.

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

National Fuel Gas Distribution Corp.

Case 16-G-0257

October 2016

Prepared Testimony of:

Staff Consumer Services Panel

Martin Insogna
Chief, Consumer Advocacy

Monica M. Ferreri
Utility Analyst 2

Julie Bentzen
Utility Analyst Trainee 2

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

Q. Please identify the members of the Consumer Services Panel and provide their business address.

A. The Panel includes Martin Insogna, Monica M. Ferreri, and Julie Bentzen. Our business address is Office of Consumer Services, New York State Department of Public Service, Three Empire State Plaza, Albany, New York 12223-1350.

Q. Mr. Insogna, what is your position in the Department?

A. I am the Chief of Consumer Advocacy in the Office of Consumer Services.

Q. Please summarize your educational background and professional background.

A. I hold a Bachelor's Degree in philosophy and economics from Colgate University. Prior to joining the Department, I was employed in a wide range of customer service fields, including a representative of the then New York Telephone Company. I joined the Consumer Services Division of the Department in 1990 as a Consumer Services Specialist, investigating and resolving utility consumer complaints. In April 1994, I was accepted into a traineeship with the Office of Energy Efficiency and Environment, with responsibility for policy and operational considerations involving utility energy efficiency and emerging environmental issues. In March 1998, I was promoted to the title of Associate Utility Rate Analyst and transferred to the Electric Division, with responsibility for review and analysis of utility rate and rate-related filings. In 1999, I was assigned to the Retail Competition section of the Office of Electricity and Environment, with responsibility for a wide variety of initiatives related to the introduction of retail access. In January 2000, I was promoted to the title of Associate Policy and Compliance Analyst and transferred to the Residential Advocacy section of the Office of Consumer Education and Advocacy. The Department of Civil Service subsequently reclassified the title of Associate Policy and Compliance Analyst to Utility Consumer Program Specialist 4. In August 2008, I was promoted to Utility Consumer Program Specialist 5. After Departmental reorganizations, most recently in 2014, I am assigned to the Office of Consumer Services. In February 2016, I was promoted to my current title.

Q. Please briefly describe your current responsibilities with the Department.

A. I manage Department Staff that monitor utility compliance with consumer protections and access to service requirements detailed in the Public Service Law and Commission regulations, analyze utility customer service quality performance and responds to customer needs, promote access to affordable utility services for low-income and other special needs customers and addresses residential and small business customer interests in utility rate cases and other Commission proceedings.

Q. Have you testified in any prior proceedings before the Commission?

A. Yes. I have previously testified in proceedings concerning Consolidated Edison of New York, Inc.; KeySpan Energy Delivery New York and KeySpan Energy Delivery Long Island; New York State Electric and Gas Corporation; Niagara Mohawk Power Corporation, d/b/a National Grid;

Orange and Rockland Utilities, Inc.; and Rochester Gas and Electric Corporation. The subjects of my previous testimony include energy efficiency programs, system benefits charge implementation, rate design, consumer protections, service quality, low income customer needs, outreach and education, informational advertising, call center operations, credit and collections, utility metering, advanced metering infrastructure, commodity supply pricing, bill formats, management compensation, and use of the utility corporate name.

Q. Mr. Insogna, do you have knowledge of and adopt the pre-filed testimony of the Staff Consumer Services Panel?

A. Yes.

Q. Ms. Ferreri, what is your position at the Department?

A. I am employed as a Utility Analyst 2 in the Consumer Advocacy and Education Section of the Office of Consumer Services.

Q. Please state your educational background and professional experience.

A. I received a Bachelor of Arts degree in History from Vassar College and a Master's degree in International Relations and Economics from Johns Hopkins University. Before joining the Department of Public Service, I taught History and Economics at the secondary level, held positions as a corporate litigation paralegal and in financial services, and worked as an energy market analyst for a consulting firm. I have worked for the Department of Public Service since 2013. I work in the Office of Consumer Services where my responsibilities include advocating on behalf of residential customers in utility rate proceedings, monitoring utility service quality incentive programs and evaluating utility low income programs.

Q. Have you previously testified before the Commission?

A. Yes, I have testified in Cases 14-E-0318 and 14-G-0319, Central Hudson Gas and Electric Corporation; Cases 15-E-0283, 15-G-0284, 15-E-0285, and 15-G-0286, New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation; Case 16-G-0058, Brooklyn Union Gas

Company d/b/a National Grid New York; as well as in Case 16-G-0059 KeySpan Gas East Corporation d/b/a Brooklyn Union of Long Island. The subjects of my previous testimony include customer service, service quality performance, billing, and outreach and education.

Q. Ms. Bentzen, what is your position at the Department?

A. I am employed as a Utility Analyst Trainee 2 in the Consumer Advocacy and Education Section of the Office of Consumer Services.

Q. Please provide a summary of your educational and professional background.

A. I received a Bachelor of Arts from St. Michael's College in 2009, with a major in History and minors in Spanish and Global Studies. Prior to employment at the Department of Public Service, I was employed by the New York State Department of Labor, where I was a Senior Employment Security Clerk, and later worked as a Labor Services Representative. I have been employed by the Department since May 2015. My responsibilities include consumer service advocacy in rate proceedings, utility emergency response plan review, representing consumer interests in the REV initiative with respect to utility demonstration projects, and utility service quality metrics review.

Q. Have you previously testified before the Commission?

A. Yes, I have testified in Case 15-G-0381, St. Lawrence Gas, and in the pending Consolidated Edison rate cases, 16-E-0060 and 16-G-0061. The subjects of my previous testimony include low income assistance programs, outreach and education, customer service performance mechanisms, and terminations and uncollectibles.

Q. Panel, what is the purpose of your testimony?

A. The purpose of our testimony is to address proposals by National Fuel Gas Distribution Corp. (Distribution or the Company) to: (i) modify its low income affordability programs; and (ii) modify its treatment of the current Customer Service Performance Mechanism. We will also propose a new performance-based ratemaking mechanism for reducing residential and uncollectible payment levels, and recommend modifications to the reporting requirements for the Company's outreach and education plan.

Q. Is the Panel sponsoring exhibits?

A. Yes, we are sponsoring six exhibits.

Q. Would you briefly describe each exhibit?

A. Exhibit___(CSP-1) contains the Company's responses to Staff interrogatories that we have relied upon. Exhibit___(CSP-2) presents Current and Proposed Low Income Program Budgets. Exhibit___(CSP-3) presents the current Customer Service Performance Incentive Program target levels for the Company. Exhibit___(CSP-4) shows Staff's proposal for the Company's Customer Service Performance Incentive (CSPI) program. Exhibit___(CSP-5) presents data from 2009-2015 regarding residential service terminations and uncollectibles. Exhibit___(CSP-6) presents Staff's recommendation regarding an incentive for residential service terminations and uncollectibles.

LOW INCOME PROGRAMS

Q. Please summarize the importance of low income energy assistance programs for customers.

A. Energy costs continue to place a great burden on low income households. Lower-income customers historically have spent a larger portion of their incomes on energy costs, estimated in the range of 15 to 20 percent of total income, when compared to middle and upper income households, whose home energy burdens typically lie in the range of 1 to 5 percent. Financial assistance for these households is essential as energy costs continue to place a burden on low income customers. The Commission has recognized the need to support low income and affordability programs for customers facing financial difficulties in each of the major investor-owned energy utility service territories. On May 20, 2016, the Commission issued an Order Adopting Low Income Program Modifications and Directing Utility Filings (May 20 Order) in Case 14-M-0565, Proceeding on Motion of the Commission to Examine Programs to Address Energy Affordability for Low Income Utility Customers, which establishes a framework that addresses energy affordability for low income customers.

Q. What are the elements of the low income program framework provided in the May 20 Order?

A. As described in more detail in the May 20

Order, the framework provides for six elements, including: eligibility and enrollment criteria; benefit levels; program budgets; treatment of arrearage forgiveness; reconnection fee waivers; and program reporting.

Q. How does the May 20 Order impact the Company's current eligibility and enrollment criteria?

A. Beginning with the 2015-2016 Home Energy Assistance Program (HEAP) year, OTDA will begin providing lists of all HEAP recipients to the utilities. Thus, utilities, including Distribution, will soon have the ability to identify all HEAP recipients, regardless of fuel type, and enroll those customers in their low income program, as discussed on page 15 of the May 20 Order.

Q. How does the May 20 Order affect the Company's benefit levels?

A. The low income program discounts will be set at levels for customers to reach a 6% energy burden, which means that household energy costs will not exceed 6% of household income. The 6% energy burden cap consist of 3% for electricity costs and 3% for gas costs. The May 20 Order establishes a three-tiered approach in which larger benefits are provided to customers in lower income brackets. The May 20 Order also states that customers who receive a direct voucher or utility guarantee will not receive any benefits since the local social services department provides funding for the customer's utility bills. Discount levels are provided in Appendix B of the May 20 Order.

Q. Does the May 20 Order include an arrearage forgiveness program?

A. The May 20 Order allows for the Company to provide an arrearage forgiveness program to its low income customers. The May 20 Order states that any utility which institutes an arrearage forgiveness program may not use funding from the total program budget that exceeds 10% or reduces the discount levels.

Q. How will the Company's low income programs budgets be set?

A. The low income program budget will be set as a target that takes into account participation and discount levels for customers to reach a 6% energy burden. However, the May 20 Order provides a budget cap at 2% of the Company's total revenue and allows for reconciliation for over or under spending, and does not establish a specific mode of cost recovery. The Commission anticipates that Distribution's program will reach the budget cap, limiting the program to the maximum 2% of revenues. This results in an energy burden level slightly higher than the 3% goal of the May 20 Order. The program funded by the 2% cap will result in an energy burden of approximately 3.41%. The discounts shown in Appendix B of the May 20 Order represent such levels.

Q. What other proposals have been submitted by the Company?

A. The Company proposes to waive reconnection fees once per year for low income customers who have been turned off for non-payment.

Q. Does the May 20 Order establish a specific policy regarding reconnection fees?

A. The Commission concluded that these fees remain optional to each utility. Similar to the arrearage forgiveness program, a limit to the budget amount allocated to reconnection fees is set at 1% of the total low income budget and may not reduce discount levels. Given that the Company will reach the 2% budget cap by implementing the discount levels directed in the May 20 Order, no funds remain within the low income budget to provide these waivers at this time.

Q. Describe the low income reporting element adopted in the May 20 Order.

A. As provided in Appendix D of the May 20 Order, each utility must comply with specific reporting requirements and file quarterly reports to the Secretary. The additional reporting requirements will provide key information to monitor the effectiveness of each utility's low income program.

Q. Does the May 20 Order impose additional requirements on the Company?

A. Yes. The Company was directed by the Commission to submit compliance filings within 90 days of the May 20 Order's issuance. The Secretary recently extended the filing date by 30 days, to September 16, 2016.

Q. Please summarize the Company's current low income customer programs.

A. The Company's current low income programs include the HEAP Residential Assistance Program (HRAS), the Low Income Customer Affordability Assistance Program (LICAAP), the Elderly, Blind and Disabled payment troubled residential assistance program (EBD PTRA), and the Elderly, Blind and Disabled heating equipment repair and replacement program (EBD HERR).

Q. Describe the specific components of the HRAS program.

A. The HRAS program assists residential customers who receive a regular or emergency HEAP grant during the current or the immediately prior HEAP plan year. The program provides a $12.50 per month discount for five months each year, from January through May, for a current total discount of $62.50.

Q. Describe the LICAAP.

A. The LICAAP provides a discounted gas utility bill to customers based on household size and income. It also includes an arrearage forgiveness component. Each month one twenty-fourth of a customer's pre-program arrears is forgiven when timely payment of the reduced budget-billed amount is made.

Q. Describe the EBD PTRA.

A. The EBD PTRA assists eligible elderly customers who are blind or disabled with a discounted rate, arrearage forgiveness, and certain energy efficiency measures to help reduce gas usage and lower bills.

Q. What does the Company propose regarding the LICAAP, EBD PTRA and EBD HERR programs?

A. The low income programs proposed by the Company in its initial testimony have a calculated cost of $10,699,114. The Company made several proposals with regard to these programs in its initial testimony; however, after the Commission issued its May 20 Order, the Company submitted supplemental testimony indicating that compliance with the May 20 Order will result in the transfer of all of these customers to the tiered discount low income program.

Q. What does the Company propose regarding the heating equipment repair and replacement program EBD HERR?

A. The Company proposes to continue the EBD HERR program. The Company has included $420,000 in its revenue requirement, an increase of $10,000.

Q. How does the Company propose to comply with the directives of the order establishing a goal of a 6% maximum energy burden?

A. The Company states that the cost to implement the low income program as directed in the Order is substantial (Supplemental Direct Testimony of the 2016 Low Income Order Panel, page 8). The Company estimates that total program costs would increase from a current level of $10,699,114 to $17,381,866, which would exceed the budget cap. This confirms the Commission's expectation in the May 20 Order that the Company's program will reach the budget cap, limiting the program to the maximum 2% of revenues.

Q. How does the Company propose to comply with the budget cap of 2% of revenues?

A. The Company states that the 2% budget cap yields a program budget of $13,462,422, when applied to total revenues of $673,121,109 (Supplemental Direct Testimony of the 2016 Low Income Order Panel, p.5). The Company's calculations are evidently based on different total revenue figures than those the Commission used to calculate the budget cap in the May 20 Order, which yielded a budget cap estimate of $16,165,000 for Distribution. The most current average bill and total revenue numbers should be used to calculate discount levels and the 2% budget cap.

Q. What should the Commission establish as a budget cap for the low income program in this case?

The program budget cap should be as established in the May 20 Order, at $16,165,185. Adherence to the 2% budget cap established in the May 20 Order will result in the addition of $5,466,071 to the revenue requirement. On the other hand, the Commission's estimate was based on 2015 billings for 18-a assessments. If updated 18-a assessment figures are available at the time the Company files its rebuttal, it should provide an updated low income discount budget calculation in its supplemental testimony.

Q. What effect will implementation of the May 20 Order have on the Company's current LICAAP arrearage forgiveness programs?

A. The Company states that the 2% budget cap will result in the discontinuation of the LICAAP program. According to the directives within the May 20 Order, expenditures for arrears forgiveness must be included in the 2% budget cap, and may not reduce discount levels. Given that Distribution is at the 2% cap, there will be no available funding for the continuation of LICAAP. In addition, shifting funds from the tiered low income program to specifically fund LICAAP would reduce the amount of funding available for the tiered low income discount program and would lead to an increase in the energy burden above the 3.41% level.

Q. What effect would the discontinuation of LICAAP have on discount amounts and arrearage forgiveness?

A. In its Petition for Rehearing of the May 20 Order, the Company seeks to continue the LICAAP program. The Company states that the framework of the May 20 Order does not take into consideration that the LICAAP program has established its discount levels based not only on household income, but also on household size.

The Company states that discontinuation of LICAAP would effectively end the arrearage forgiveness component of the program. That petition for rehearing remains pending at this time. The Company will need to provide additional information in its compliance filing concerning how it will transition customers currently enrolled in the program.

Q. What effect will implementation of the May 20 Order have on the HRAS Program?

A. The Company proposes to operate HRAS as currently designed until implementation of the new three-tier low income program (See Supplemental Direct Testimony of the 2016 Low Income Order Panel, p.8). It proposes to maintain the current discount of $12.50 for HEAP customers for the months of January through May (five months) rather than the eight months as originally proposed in Direct Testimony.

Q. Does the Panel have recommendations concerning the Company's low income programs?

A. Yes, Staff recommends that the Company modify the low income programs as soon as possible to conform to the May 20 Order. The Company is expected to make a compliance filing by September 16, 2016.

Q. Does Staff have any recommendations regarding the funding mechanism for the low income programs?

A. Yes. The funding for the low income programs is currently accounted for in the Company's rate design and (Operation & Maintenance) O&M expense. We propose that the budgets for the program be included as a line item in the O&M expense, providing increased transparency and ease of administration of low income program allocations. We also recommend a two-way deferral mechanism so that any under-expenditures should be rolled over for future use for the low income programs and any over-expenditures should be recovered by the Company. The implementation of these recommendations is discussed by the Staff Gas Rates Panel and Staff Accounting Panel.

CUSTOMER SERVICE PERFORMANCE INCENTIVE (CSPI) MECHANISMS

Q. What is the purpose of a CSPI?

A. CSPIs help to align shareholder and ratepayer interests by providing earning consequences related to the quality of service provided by a utility to its customers. Currently, such mechanisms are in effect for all of the major energy investor owned utilities. The mechanisms link earnings directly to a utility's performance on specific measures of customer service.

Q. Why are CSPIs used?

A. As a monopoly provider of delivery service, the Company does not have a profit-based incentive to provide satisfactory customer service because their customers cannot select another utility on the basis of the quality of service provided. However, obtaining quality service is extremely important to customers and the public interest. A CSPI is needed to establish an incentive for the Company to provide satisfactory levels of customer service performance.

Q. Please describe the Company's current CSPI.

A. The CSPIs measure the following areas: (i) Appointments Kept; (ii) New Service Installations; (iii) Residential Satisfaction; (iv) Non-Residential Satisfaction; (v) Customer

PSC Complaints; (vi) Telephone Response; (vii) Adjusted Bills; and (viii) Estimated Meter Readings. The CSPI thus provides a broad range of measures that promote satisfactory performance across all aspects of customer service.

Q. Please explain the incentive structure of this program.

A. Each of the individual performance measures provides up to 126 disincentive units, termed negative revenue adjustment (NRA) units. If the Company does not achieve the listed performance target for an individual performance measure, NRA units are accrued in amounts that increase from 25 units to a maximum of 126 units as performance decreases. The units accrued for the individual measures are added together in order to determine the annual total. From 0 to 125 total units, the assessment is $0. From 126 to 800 total units the assessment increases in a linear manner from $200,000 to a maximum of $1,500,000. The revenue adjustment, if any, is deferred to be applied later for customer benefit, as indicated by Exhibit___(CSP-3).

A. How has the Company performed under the current CSPI mechanism?

Q. The Company has achieved its performance targets and has not received any negative revenue adjustments (NRAs) during the last several rate plans.

Q. Does the Company propose to continue its current CSPI?

A. No. The Company proposes to eliminate the existing CSPI.

Q. Do you recommend continuing the CSPI?

A. Yes. The CSPI has been effective in promoting satisfactory customer service by the Company and we propose that it should be continued with specific modifications, described below. This will provide assurance to the Commission and the customers that customer service will continue to be satisfactory throughout the next rate plan. Additionally, elimination of the CSPIs would make Distribution the only major electric or natural gas distribution utility in New York State to be without a CSPI.

Q. What modifications is Staff proposing?

A. Staff is proposing a revised and refocused approach to the current CSPI targets. First, two metrics are proposed to be eliminated: Appointments Kept and New Service Installations. Secondly, Staff is proposing to increase the potential NRA total amount at risk from $1,500,000 to $1,800,000, equivalent to approximately thirty basis points. Staff also proposes the “unit” NRA system be replaced with a more customarily apportioned NRA system.

Q. Why is Staff proposing to eliminate the Appointments Kept and New Service Installation metrics?

A. In the service quality years August 1, 2009 to July 31, 2015, the Company’s reported results for Appointments Kept has been consistently high, ranging from 98.8% to 99.3%. The current performance target for this metric is at or above 98%. New Service Installations have remained even higher during the same period, at or above 99.9%. The target result on this metric is currently a target equal to or above 98%. These multiple-year reports indicate a consistently high level of customer service in these areas. There is no longer a need to separately measure these two standards. As with all aspects of customer service, performance on these standards will continue to be captured under the PSC Complaint Rate and Customer Satisfaction survey measures.

Q. Does the Panel have a proposal related to missed appointments?

A. Yes, the Company should provide a $30 credit to customers in the event the Company misses an appointment. This would directly compensate the customers who are being inconvenienced by a missed appointment for their time.

Q. Why is Staff proposing to increase the NRA associated with customer service performance by $300,000, to a maximum adjustment of $1,800,000?

A. Staff has proposed this increase because the Company’s amount at risk associated with CSPIs was last set almost ten years ago, and the Company’s equity balances have increased since then. Staff’s proposal will update and return the amount at risk to approximately 30 basis points, to be more in line with other New York State utilities. In recent rate cases, the Commission has ordered an approximate range from

37 to 107 basis point potential NRAs associated with the customer service performance incentives of major utilities. Notwithstanding the Company's good performance to date, the Commission has recognized this level is necessary to maintain management's attention focused on providing quality customer service. However, we note that expressed in terms of basis points, Staff's proposed potential NRA amount is still one of the lowest in the state. The updated disbursement of the proposed amount is explained below.

Q. Why is Staff proposing to replace the current "unit"-based NRA system?

A. The current system is overly complicated and decreases the weight of any individual service metric target. In order for an NRA to be incurred in the current system, the Company would need to incur either the maximum service level decrease in any one metric, a significant decrease in service, or a combination of lesser decreases in two or more metrics. Even if two separate metrics were to drop 50 units each in service quality, a NRA would still not be incurred. For instance, under the current system, if Telephone Response results were to decrease to 70.0%, and Customer PSC Complaints were to increase to a rate of 2.4, the Company would not incur a NRA, incurring only 100 units. To point to another example, if Estimated Meter Readings were to increase to 24.0%, a significant increase, the Company's performance under the current system still would not warrant a NRA. The Company should be held accountable for significant performance decreases such as those shown in the examples above, and the current system does not provide sufficient accountability. Thus, Staff recommends that the CSPI system be updated as we propose, which also achieves parity with the incentive structures in place for other New York State gas and electric utilities.

Q. How is Staff proposing to replace the current system?

A. In lieu of the current system, Staff is proposing that each metric carry a specific amount at risk, according to the weight placed on the metric. This is consistent with the incentive structure faced by other New York utilities. Staff proposes Adjusted Bills and Estimated Meter Readings each be subject to a $150,000 NRA, Residential Satisfaction and Non-Residential Satisfaction each be subject to a $300,000 NRA, or $600,000 for Customer Satisfaction as a whole, Telephone Response be subject to a $300,000 NRA, and Customer PSC Complaints be subject to a $600,000 NRA, as shown in Exhibit___(CSP-4)

Q. Why does Staff propose these amounts?

A. Although Staff considers every included metric significant to ensure quality customer service, the specific weighting of risk per metric is reflective of the importance of each metric in terms of measuring customer service. The highest amount of risk is carried by Customer PSC Complaints. Across utilities, PSC Complaints are one of the most reliable customer service quality metrics in that these come directly from customers to the PSC. Customer Satisfaction is also one of the most reliable methods to measure customer service quality. In addition, PSC Complaint Rate and Customer

Satisfaction are global measures of service level that capture a wide range of utility operations. Telephone Response is also a significant metric, because customers cannot receive satisfactory service if they cannot reach the company to discuss their business. Adjusted Bills and Estimated Meter Readings are more targeted measures of specific areas of service quality that are important to customers, which are receiving accurate bills that do not require adjustment, based on actual meter readings of usage. To reiterate, every metric recommended herein, though they may be weighted differently, remains critical to the ultimate goal of maintaining quality, reliable customer service. In addition, each standard should have its amount at risk divided into four equal amounts, with one quarter added for each additional drop in customer service performance, until the maximum is reached at the fourth level, as indicated in Exhibit__(CSP-4). This ensures that the Company continues to exert efforts to provide good service, even after a threshold is reached.

Q. Is Staff proposing any other changes to the CSPI?

A. Yes, Staff is proposing to adjust the current targets of Customer PSC Complaints and Telephone Response metrics.

Q. Why is Staff proposing to adjust Customer PSC Complaint targets?

A. Our analysis of the Company's CSPI reports for the past six years has found that the Company has surpassed the current targets by substantial margins. The current targets no longer provide an effective incentive for the Company to continue to maintain the same quality of service to its customers. To continue the provision of quality customer service, we recommend that several targets be revised to reflect the service levels the Company has been providing.

Q. How did the Panel determine the targets recommended for the PSC Complaint Rate?

A. Staff reviewed the Company's PSC Complaint Rate performance for the six year period from 2010 through 2015. Then, we calculated the average PSC Complaint Rate for that six year period, and the standard deviation, which is a statistical measure of the distribution of a set of numbers. The Company's average PSC Complaint Rate for this period was 0.07 PSC complaints per 100,000 customers. The standard deviation was 0.07.

Q. How does the average and standard deviation relate to your recommended targets?

A. The average corresponds to what represents typical performance for the Company. The standard deviation is an interval around the average that represents a typical range of variation. In other words, if the Company maintains its historical level of effort in customer service, it can be expected to average 0.07 complaints, but that would also be expected to vary between 0.14 and 0.0. When complaints fall outside this level, it is more likely due to changes in the level of service offered, and not due to random variations.

Q. What does the Panel recommend as an adjusted PSC Complaint Rate target?

A. The Panel recommends adjusting the PSC Complaint Rate target to 1.0. Although this proposed target deviates from the traditionally utilized method of calculating two standard deviations from the average, in this case the traditionally used method would yield a PSC Complaint rate target of 0.2. Staff believes a PSC Complaint rate target of 0.2 is an inordinately low and unreasonable target. For example, the Company's PSC Complaint Rate for the Rate Year ending July 31, 2010 was 0.2. In lieu of a target of 0.2, Staff believes the aforementioned 1.0 proposed target is fair and reasonable, as it is equal to the lowest target currently in effect at other utilities. Under the current mechanism, units begin to be incurred below 2.1 complaints per 100,000 customers. Our recommendation represents a decrease of 1.1 points.

Q. Why is Staff proposing to adjust Telephone Response targets?

A. Our analysis of the Company's CSPI reports for the past six years found that the Company has surpassed the current targets by substantial margins. The current targets no longer provide an effective incentive for the Company to continue to provide quality service to its customers. To continue the provision of quality customer service, we recommend that the

Telephone Response target be revised to reflect the service levels the Company has been providing.

Q. How did the Panel determine the targets recommended for Telephone Response?

A. We reviewed the Company’s Telephone Response performance for the six year period from 2010 through 2015. Then, we calculated the average Telephone Response for that six year period, and the standard deviation. The Company’s average Telephone Response rate for this period was 90.18%. The standard deviation was 2.11%.

Q. How does the average and standard deviation relate to your recommended targets?

A. The average corresponds to what represents typical performance for the Company. The standard deviation is an interval around the average that represents a typical range of variation. In other words, if the Company maintains its historical level of effort in customer service, it can be expected to average 90.18%, but that would also be expected to vary between 92.29% and 88.07%. When the telephone response rate falls outside this level, it is more likely due to changes in the level of service offered, and not due to random variations.

Q. What does the Panel recommend as an adjusted Telephone Response target?

A. The Panel recommends adjusting the Telephone Response target to 85.95%, equivalent to two standard deviations above the six year average. This is being recommended as a measure to ensure that the Company will be exposed to a NRA only due to actual deterioration in the level of service offered.

Q. How does your recommendation compare to the Company's present Telephone Response target?

A. Under the current mechanism, units begin to be incurred below 74%, with lower standards earning more units. Our recommendation represents an increase of 11.95 percentage points.

Q. Would the Company have had a NRA within the past six years at either of the proposed targets?

A. No.

Q. How often should the Company report to the Department on the results of the CSPI?

A. The Company should continue to submit quarterly and annual reports to the Department, as required under the current rate plan. We also recommend that the Company continue to provide Staff in the Office of Consumer Services with a detailed report on the methodology, results, and conclusions of the customer satisfaction surveys.

RESIDENTIAL SERVICE TERMINATIONS

Q. What is the State policy regarding utility customer protections relating to termination of service for non-payment?

A. The Home Energy Fair Practices Act, or HEFPA, enacted in 1982, establishes a State policy that, "the continued provision of gas, electric and steam service to residential customers without unreasonable qualifications or lengthy delays is necessary for the preservation of the health and general welfare and is in the public interest." HEFPA and Commission regulations implementing HEFPA include many provisions designed to keep customers connected to the utility system without jeopardizing the utility's financial health, for example due to increasing uncollectibles. HEFPA also prescribes the minimum steps that utilities must take before they can terminate the service of residential customers for nonpayment. Excessive use of service terminations as a credit and collections tool may jeopardize the health, safety, and welfare of customers.

Q. What is the Company’s record regarding uncollectible expenses and residential terminations?

A. As shown in Exhibit__(CSP-5), the Company has maintained a normalized average rate of about 20,752 terminations on an annual basis for the previous seven years, from 2009 through 2015. For the same time period, the Company’s normalized average residential uncollectible debt was $9,684,150.

Q. What is the Panel’s recommendation regarding a termination incentive?

A. The Company should be encouraged to alter their practices and reduce residential service terminations for nonpayment while at the same time not increasing uncollectibles. Rather than propose specific actions that the Company should take as alternatives to service termination or increased uncollectible debt, we recommend that the Commission adopt a positive financial incentive for the Company to identify and implement new measures to reduce residential service terminations for nonpayment while decreasing, or maintaining, the dollar amount of uncollectibles from residential accounts. We also recommend a potential NRA, if either residential terminations or residential uncollectibles increase significantly.

Q. Please explain the Panel’s incentive recommendation.

A. Details of the incentive proposal are presented in Exhibit__(CSP-6). We recommend a maximum positive revenue adjustment, or PRA, of $590,000 if NFG achieves both of the following targets for the rate year: uncollectible debt level of no more than $4,580,000 and residential service terminations for nonpayment of no more than 12,700 customers. If uncollectibles rise to $14,800,000 or more and terminations rise to 25,000 customers or greater, a maximum NRA of $590,000 would be applied. Partial positive or negative revenue adjustments are possible if targets are partially met, as detailed in Exhibit __(CSP-6).

Q. How did the Panel determine the recommended amounts?

A. The maximum PRA and NRA are approximately ten basis points, which Staff believes is an appropriate amount in this instance for an incentive mechanism. It provides a meaningful amount as an incentive to the Company to strive to achieve the incentive targets.

Q. How did the Panel determine the recommended targets?

A. The Company's targets are based on the most recent normalized seven-year average of both uncollectibles and terminations with a standard deviation above and below the normalized seven-year average, as shown in Exhibit __(CSP-5). In all targets but terminations, positive incentives for two standard deviations were used. In 2015, the Company achieved a lower terminations level than two and three standard deviations from the normalized average. In order to create a meaningful incentive goal in this metric, four standard deviations were used.

To normalize the data, the highest and lowest years were not included in the averages. In determining our recommendation, we utilized an approach similar to that used in the Orange and Rockland Utilities rate proceeding, Cases 14-E-0493 and 14-G-0494, as well as New York State Electric & Gas and Rochester Gas and Electric Corporation rate proceedings, Cases 15-E-0283, 15-G-0284, 15-E-0285 and 15-G-0286. These methodologies are similar to the ones Staff has used in the past, and the methodologies that have been utilized in this case to set the targets for the customer service performance incentive mechanisms. These targets are based on accepted statistical methods and targets based on this methodology have been approved by the Commission.

Q. Does the Panel recommend any reporting requirements?

A. Yes. We recommend that the Company file with the Secretary quarterly and annual reports within 60 days of a Commission rate order in these proceedings, to demonstrate the Company's progress relative to the goals of the incentive mechanism and to provide updates on any actions being taken to achieve those goals. This will assist Staff in assessing the impact of this new incentive measure. The reports should include brief narrative descriptions of the measures the Company has taken to achieve the targets, and assessments of their effectiveness.

CREDIT/DEBIT CARD PAYMENTS

Q. How does the Company currently handle credit and debit card payments?

A. Currently, a third-party vendor processes credit and debit card payments on behalf of the Company. These payments are accepted via phone, web, mobile web, call center agent or third-party collection agent, according to the Company's IR response to DPS-208 as presented in Exhibit__(CSP-1). Residential customers are charged a $2.95 per-transaction fee when they pay their bill with a credit or debit card, either through online services or by phone. When customers pay at a third party payment center that handles the processing through Western Union, NYCE or MoneyGram, customers are charged a $1.50 fee.

Q. What is the Panel’s proposal regarding transaction fees?

A. The Panel proposes that the Company socialize the costs of paying bills through third party payment processors. In particular, the Panel recommends that the Company process credit/debit cards directly so residential customers do not incur a fee every time they pay their bill with a credit/debit card. The Panel proposes that the Company prepare a timeline delineating the procedure by which it could incorporate payment processing costs and credit and debit card fees into base rates, including whether a reconciliation mechanism is appropriate for these costs. The costs associated with this payment method should be considered among the Company’s general costs of doing business, such as direct debit and auto-pay, and be recovered in base rates. The Panel requests that the Company obtain estimated payment processing costs, including credit card transaction rates from Visa, MasterCard and other credit card companies currently accepted by the Company’s third-party vendor and include these estimates in their rebuttal testimony.

Q. Why is Staff proposing this program?

A. Staff believes that in general, customers should not have to pay a fee for the privilege of paying their utility bills. In addition, the number of consumers who use a credit or debit card to pay their bills, including their utility bills, has consistently increased in recent years. The Panel believes these per-transaction vendor fees to pay a utility bill are inconvenient and burdensome to customers. Many customers prefer to pay their bills with a credit card or debit card and are accustomed in doing so with other business transactions. Eliminating the customer’s transaction fee lowers a barrier to making utility payments this way, especially for low income customers using benefit cards. Customers will also benefit from the convenience of having the capability to arrange for recurring payments and to use self-service payment options. The Panel also believes the Company will benefit from reduced operational costs as a result of no-fee credit/debit card transactions, as customers will utilize self-service options, such as online web payments, to pay their bills.

OUTREACH AND EDUCATION

Q. Describe the Company's Outreach and Education Plan.

A. The Company's Customer Outreach and Education Plan is designed to inform customers about a number of important issues: natural gas safety; customer rights and responsibilities, including billing/meter reading and special customer needs; energy efficiency and conservation; rates, the rate setting process, and the cost of gas supply; and general information about the Company's programs and services.

Q. Do you have any recommendations regarding outreach and education?

A. Yes, we propose that the Company allocate a portion of outreach and education resources toward the provision of energy literacy education, as directed in the May 20 Order.

Q. Do you propose any other reporting requirements?

A. Yes, we propose that the annual Outreach and Education Plan be filed with the Secretary of the Commission and sent to the Director of the

Office of Consumer Services.

Q. Does this conclude your testimony at this time?

A. Yes.

Proceed.

DIRECT EXAMINATION

BY MS. AISSI:

Q. Members of the panel, did you prepare or identify any exhibits to accompany your testimony?

A. (Insogna) Yes.

Q. And are those documents identified as Exhibits CSP-1 through CSP-2,-6 of those exhibits?

A. Yes, they are.

Q. And do you wish to make any corrections to those exhibits?

A. No, we do not.

MS. AISSI: Your Honor, I ask that the exhibits be marked for identification?

A.L.J. LECAKES: So, we'll mark CSP-1 as Exhibit 326. CSP-2 as Exhibit 327, CSP-3 as Exhibit 328, CSP-4 as Exhibit 329, CSP-5 as Exhibit 330 and CSP-6 as Exhibit 331.

MS. AISSI: Thank you. The panel is available for cross-examination.

A.L.J. LECAKES: NFG?

MR. MILLER: Thank you, Your Honor.

CROSS-EXAMINATION

BY MR. MILLER:

Q. Good afternoon, Panel.

A. (Insogna) Good afternoon.

Q. Has the legislature established a standard that utilities must provide safe and adequate services?

A. Yes.

Q. The number of issuances by your group, you've used the term satisfactory service, do you recall that?

A. By our group, do you mean, this panel, sir?

Q. Consumer Services Group and the Commission and various reports to the company to 2011 report in this proceeding are termed satisfactory services?

A. Staff has used the term satisfactory service, yes, sir.

Q. Does satisfactory service all buyers adequate service?

A. Yes.

Q. Over a quarter century though, did the staff recommend to the commission that it adopt uniform customer service standards for gas, electric, telephone, water utilities?

A. I would say no.

Q. Do you recall a proposed new Part 15 to the Commission's regulations that would cover customer service?

A. I recall that there is not currently such a Part 15.

Q. Were you around when the those proposed regulations would have been issued?

A. I joined the Commission 26 years ago, so if you're referring to an event 25 years ago, I guess I would have.

Q. Do you recall that in January, 1992, the Commission asked utilities to provide customer service information to the Commission?

A. Yes.

Q. And I believe you said that to date the Commission has not issued regulations governing uniform customer service manuals for gas and electric utilities in this area, correct?

A. I don't recall saying that before but I will agree with that.

Q. Okay.

A. Okay.

Q. Now, in this case, you're proposing

negative revenue adjustments for 6 customer service categories, is that correct?

A. Hold on, we have to count. Yes, it is 6, Mr. Miller.

Q. And they're shown on your exhibit CSP-4, which is marked as Exhibit 329?

A. Yes.

Q. In the last rate agreement in case 13G0136, is it my -- is my recollection correct that there were 8 customer service standards?

A. Yes.

Q. And you're proposing to drop 2 of them, correct?

A. That's correct.

Q. And they are appointments kept and new service installations, correct?

A. Yes.

Q. And is the reason you propose to drop these standards because the company's performance has been exemplary in these two categories?

A. Mr. Miller, that's a partial explanation and I think in our testimony, we perhaps could have explained better, but the fact that the performance is excellent on those indicators is an important reason why we're proposing it.

Q. It's also true, is it not, that the negative revenue adjustments formerly attached to those standards have now been switched to other standards?

A. Yes.

Q. Just keeping with the appointments standard that's been dropped, I don't know if it's fair to say you've substituted but you've also proposed a new penalty on the company which is $30 penalty for missed appointments, is that correct?

A. Mr. Miller, I wouldn't characterize it as a -- as a penalty, however, we have proposed a credit that would be given to customers for whom the company has missed an appointment, yes.

Q. Do you know how staff proposes to treat the dollars elected under that proposed credit?

A. A credit, yes. We do not have a specific proposal, and if your question is what we're proposing should be undertaken by the shareholders, the answer would be no.

Q. How did you determine that $30 was the right amount?

A. It's somewhat subjective but that is within the range of credits that are offered by other utilities in the state for the same situation.

Q. Do you know if the Commission ever determined that or that is -- are those other credits by other utilities the result of settlements?

A. I would say that the answer to both your questions is yes. The question, the Commission has adopted settlements that include those figures and by inference has adopted that figure.

Q. I see what you're saying but would you agree with me that most of those -- let's back up. Is that $30 credit uniform across the state?

A. No.

Q. What does it range from?

A. It's $20 at Central Hudson, $20 at New York State Electric and Gas and Rochester Gas and Electric. It is $30 at Niagara Mohawk and for the downstate grid companies, both New York and Long Island, it is $30 for residential customer, $60 for a commercial customer.

Q. And it's not a symmetrical credit, is it, in that the customer would owe the utility money if the customer's not there if the utility shows up?

A. We do not promote -- propose such a payment for a customer that's delayed. That is correct.

Q. I do want to move on to residential customer satisfaction. The first of the categories that you proposed to keep and impose on National Fuel is residential customer satisfaction, correct?

A. I don't know if it has a particular order but that is among the 6 that we have proposed to retain, yes.

Q. Okay. And my understanding is that if residential satisfaction falls below 85.1%, the NRAs can range from $75,000 up to -- for 1% drop all the way up to $300,000 for a drop of 6%. Is that a fair summary?

A. Yes.

Q. Is residential satisfaction measured the same way at all gas and electric utilities?

A. No, it is not. Each utility has its own survey instrument which was developed by the utility for its own purposes. Each one of those surveys includes one or more questions that seek to determine the respondent's overall satisfaction with the company service and it is the answer to that question or questions that is used at each individual utilities customer service performance incentive mechanism for this particular measure.

Q. I take it you'd agree with me that

residential measure, residential satisfaction is not contained anywhere in the Commission's regulations?

A. Correct.

Q. And so there isn't any minimum or maximum level prescribed for measured residential satisfaction in the Commission's regulations?

A. Not in the regulations I see.

Q. Do you know if all gas and electric utilities are subject to the same metric, and NRAs of the residential satisfaction?

A. Each one of the utilities has this measure, however, as I mentioned previously, the specific question or questions on the survey may not be exactly the same, as well as the way they are scored.

Q. Let's move on to non-residential customer satisfaction, please.

A. Sure.

Q. And this is another category you propose that would be subjected to an NRA, correct?

A. Yes.

Q. And my understanding is if residential -- non-residential satisfaction falls below 86%, the NRAs can range from $75,000 all the way up to $300,000, non-residential satisfaction falls through 76% overall, is that correct?

A. Yes.

Q. Do you know how non-residential satisfaction is measured?

A. It's measured in a similar fashion, through a survey of our customers in the non-residential.

Q. And is it also true as with residential satisfaction, that it's measured differently at the different gas and electric utilities?

A. Yes.

Q. And is it also true that there is no provision in the Commission's regulation that refers to measurement of non-residential customer satisfaction?

A. Yes.

Q. Are all gas and electric utilities subject to the same metric in NRA for non-residential customer satisfaction?

A. No.

Q. Let's move on to the PSC complaints. Another category that you would subject to NRAs is PSC customer complaints, correct?

A. Yes.

Q. Now, if PSC complaints are 1% or greater, under your proposed metric, the customer -- the company would pay an NRA of $150,000 going up to $600,000 if the PSC complaints were greater than 1.4?

A. Mr. Miller, just for the qualification, that it's actually not a percentage, it's 1 complaint per 100,000 customers.

Q. I think I changed course in mid-question.

A. On an average monthly basis.

Q. Thank you, Mr. Insogna. Can you explain what 1.0 means in terms of PSC complaints?

A. Yes. Again, it's -- it would be on an average monthly basis, receipt of less than 1 complaint per 100,000 customers.

Q. Is an acceptable rate of PSC complaints set forth anywhere in the Commission's regulations?

A. No, sir.

Q. And is a minimum rate of PSC complaints set forth in the Commission's regulation?

A. Not for energy companies.

Q. Or are there other companies to which there are regulations of PSC complaints?

A. Yes, telephone companies.

Q. Telephone companies.

A. Yes.
Q. Does staff have criteria for determining the minimum acceptable level of customer complaints?
A. Yes.
Q. Is that published anywhere?
A. It's published in our testimony.
Q. Other than the testimony, in individual rate cases, is it published in any public document?
A. It's published in all of our testimony in every rate case.
Q. Do all utilities have the same thresholds in customer rate cases?
A. Yeah.
Q. Do they all have the same NRAs for customer complaints?
A. No, they do not.
Q. Now, I just want to ask you a question. In both your 2010 and 2011 report to the Commission with the analysis of transient customer service, it is stated the PSC complaints statistics compiled and issued monthly by the Office of Consumer Services along with data provided by each utility in this

performance indicator reports, allow the Office of Consumer policy to analyze and compare utility, customer service components on a detailed and consistent basis. Does that sound familiar to you?

A. Yes.

Q. And is it true that those PSC complaint statistics and utility data are used today for analyzing and comparing utility performance?

A. Yes.

Q. Is it also correct that that data was compiled and used by staff to inform itself whether New York utilities were providing satisfactory levels of customer service?

A. Yes.

Q. Now, do you have 2010 staff service quality report?

A. I did not bring it to the stand.

Q. Just ask you some questions from that. Maybe they will sound familiar. Is it your recollection that the 2010 report stated that data above show that while performance varies from utility to utility, all New York utilities are providing satisfactory service in the service areas covered by these performance indicators. Does that sound right?

A. Mr. Miller, I would have to check, I don't have the report in front of me, but it certainly sounds like something we have said.

Q. Okay. Do you recall that in 2010 that KEDLI had telephone response rate, 32.53%?

MR. FAVREAU: Your Honor, I mean, if we're going to go to the specifics about this report, I mean, do you have an extra copy for the witnesses?

MR. MILLER: We do.

MR. FAVREAU: If I can have one, that would be great.

THE WITNESS: Mr. Miller, I do see that. 32.53%.

BY MR. MILLER: (Cont'g.)

Q. But I think the question is where is this report located, from the supplemental response?

MR. NICKSON: Exactly, yes, it's in the exhibits we just identified.

BY MR. MILLER: (Cont'g.)

Q. I'm sorry, Mr. Insogna, I missed that.

A. I do see that, 32.53%.

Q. Thank you. Does it also indicate that Con Edison's PSC complaint rate was 1.62?

A. Yes.

Q. Let's move on to telephone response time. Telephone response time is another one of the metrics you're proposing, correct?

A. Yes.

Q. And my understanding is that unless distribution achieves a telephone response of 85.95%, that error will be subject to an NRA?

A. Yes.

Q. And is it also correct that the NRA has estimated from $75,000 up to $300,000 if the telephone response rate falls below 79.59%?

A. Yes.

Q. Do you know how the telephone response rate is determined?

A. Yes.

Q. Can you explain how?

A. Certainly. The -- the percentage is derived from the number of customers who request to speak to a representative for National Fuel Gas, a couple of this panel indicated just earlier this morning, does not use interactive voice response system. It's virtually 100% of their callers. For other utilities that do utilize such technology, total pool would be somewhat less than all the callers as it won't be the customers selected

an IDR option. So it would be from the number of customers who request to speak with a representative, the average response time for that call to be answered.
Q. Is telephone response time determined the same way for all utilities?
A. Yes.
Q. Maybe with the exception of the IDR versus the National Fuel live operator?
A. Again, it's only the percentage of customers who request to speak with a representative. For NFG, that's all of the callers.
Q. Is the appropriate telephone response time described anywhere in the Commission's regulations?
A. No.
Q. Is there an acceptable telephone response rate spelled out anywhere in the Commission's regulations?
A. No.
Q. Do all utilities have the same telephone response rate?
A. No.
Q. And do they have the same NRAs for telephone response rate?
A. No.

Q. If you -- did I hand you the 2011 service quality report?
A. This is the report on 2010 performance. It was delivered to the Commission in 2011.
Q. Did I give you this 2012 report?
A. So far, Mr. Miller, I've only received the one.
Q. Do you have the 2011 report issued in case 12-M-0170?
A. Yes.
Q. Which utility had the best telephone response rate in New York State in that report?
A. It appears that will be National Fuel with 90.9.
Q. And what was the lowest telephone response rate for a utility in that report?
A. That would be Keyspan Energy Delivery Long Island with 39.4.
Q. Let's move on to adjusted bills. What is an adjusted bill?
A. An adjusted bill is a bill that was issued to the customer that subsequently requires correction due to company error.
Q. How is the percentage -- is it

measured on percentage basis?

A. It is measured as the number of adjusted bills divided by the number of bills issued in a month.

Q. That's how the calculation is made?

A. Yes.

Q. And you're proposing NRAs for adjusted bills?

A. Yes.

Q. And my understanding is the NRAs run from 75,000 if adjusted bills exceed 2% up to 150,000 if they exceed 3.5%, is that correct?

A. Yes.

Q. And again, same question, do the regulations describe adjusted bills.

A. No, they do not.

Q. And do they prescribe a maximum acceptable level of adjusted bills?

A. No.

Q. Move on to estimated meter readings. You're also proposing an NRA for estimated meter readings, correct?

A. Yes.

Q. Okay. And the range there is

estimated meter readings of 30% or more, the NRA would be 150,000 or -- what's maximum NRA for the estimated readings?

A. The maximum is 150,000 and that would be associated with estimated readings that exceed 24%.

Q. And the minimum is what?

A. Minimum to incur negative revenue adjustment would be 16%. That would be a revenue -- negative revenue adjustment of 37,500.

Q. And again, with respect to the regulations, do they state a maximum acceptable level of estimated meter readings?

A. No.

Q. Do all utilities have the same thresholds for meter -- estimated meter readings?

A. No.

Q. Do all utilities provide the same level of customer service?

A. No.

Q. Do you agree that customers that provide superior -- the companies that provide superior customer service should be rewarded, would you agree so?

A. No, I don't think I would agree with that.

Q. Do you agree that companies that provide inferior customer service should be punished for doing so?

A. I don't know if I would characterize it as a punishment, Mr. Miller. I think that the -- the Commission's implementation of the public service law which requires not just adjusting reasonable rates but safe and adequate service adjusting reasonable rates. So adjusted reasonable rates which include among other things, the opportunity for the utility to earn a reasonable rate of return is predicated upon providing safe and adequate service and if the service is not safe or adequate, then the company's returns should be adjusted commensurately.

Q. Going back to the two reports I gave you covering 2010 and 2011 that are issued respectively in 2011 and 2012, do you have them?

A. Yes.

Q. Okay. I can look at those reports, can I not, and find most of the metrics that you're proposing here for all the utilities in the state, correct?

A. I don't have --

Q. For those years?

A. Yes.

Q. We tried to do the same for the years 2012 to 2015. We couldn't find that same comparative data. Do you agree with that?

A. For certain years, reports such as this was not publicly issued. The report was still delivered to the Commission, I think it was not yet public for at least two years.

Q. Mr. -- well, panel, the last discussion we had, we talked about the fact that the comparable statistics where consumer service metrics were available for all utilities, all gas and electric utilities in the state for 2011 and 2012, 2010-2011, I'm sorry. That they were not available from 2012 through 2015. Do you believe it is important for utilities to be able to determine how they essentially stack up against their peers in providing customer service?

A. No, Mr. Miller, I actually don't think that's very important at all.

Q. Why is that?

A. We judge each utility on the basis of its own performance. The measures that we proposed and the targets that we proposed for NFG with reference to NFG's performance historically and are designed to prevent deterioration from that level of service, so they're set without regard to how company A or company B may be performing that on the same level -- on the same measure of performance.

Q. Just going back to that 2011 report, and I'd refer you to page 7.

A. I'm sorry, Mr. Miller, is that the report on 2011 performance, the one that was provided in 2012?

Q. Yes.

A. Thank you. Page 7?

Q. Uh-huh.

A. All right.

Q. Where the report discusses residential satisfaction, customer service.

A. Is it the one for 12-M-0170?

A. It's there, yeah.

Q. It was a 2012.

A. Yeah, I'm finding that section beginning on page 6, sir.

Q. On 6, okay.

A. Yes.

Q. I'm just looking at a quote on page 7 that says that reliable macro measures of each utility's customer service performance is measured against itself but do not furnish a means for comparing utility's performance to that of its peers, do you see that?

A. Yes.

Q. And do you agree with that?

A. Yes.

Q. That's also -- that's true for both the residential and non-residential service?

A. Yes.

Q. Would you agree that steps, the report that I just had you look at, among other reports, 2011 report, refers to the certain micro measures, such as telephone answer time and adjusted bills that are in place for some utilities?

A. Okay.

Q. And is it true that this micro measures performance have been added to the customer service metrics and NRAs in response to specifically identified deficiencies, is that what those report said?

A. Yes.

Q. Okay. And would you agree that National Fuel has been the best utility in New York for telephone response time for the last 6 years?

A. I'm not sure if I can agree with that without doing a more detailed analysis, however, I'm certainly prepared to agree that on the measure of telephone answers phones, generally the company does very well.

Q. We move onto the terminations and uncollectable metric that you proposed.

A. Yes.

Q. So do I understand it that as opposed to being a voluntary mechanism, you would have the Commission impose this metric on the company?

A. We propose that the Commission adopt this mechanism.

Q. Okay. And explain to me the way that mechanism works or explain to the record the -- where the mechanism would work and propose -- in regard to positive and negative revenue adjustments?

A. Ms. Bentzen will answer that question, sir.

Q. I'm sorry. Okay. Someone else gets a chance.

MS. BENTZEN: Can you just repeat the question?

BY MR. MILLER: (Cont'g.)

Q. Okay. Explain to me how the

terminations and uncollectable metric would work, just briefly, in terms of the positive and negative benefits that you're proposing?

A. (Bentzen) Okay. So if the company were to -- so the positive revenue adjustment would work, the lower target for customer terminations would be 12,700, the lower target for uncollectables would be $4,580,000. The company would receive $590,000 positive incentive if both measures are equal to or below the lower targets. It would receive $295,000 positive incentive if one measure is equal to or below the lower target and the other is equal to or below the 4-year average. As far as the negative incentive, the upper thresholds are customer terminations would be $25,000 and uncollectables, the upper threshold would be $49,800. Similarly, for the negative incentive, the company get the negative incentive would be $590,000 negative incentive if both measures are equal to or exceed the upper thresholds and $295,000 negative incentive if one measure is equal to or exceeds upper threshold -- the upper threshold and the other is equal to or below the 4-year average.

Q. Do you know if there's any other gas or electric utility in the state upon which this type of a mechanism has been imposed against its will?

A. I'm not sure that I understood.

MR. FAVREAU: I object to the question. You mean litigate a case or.

A.L.J. LECAKES: Right. I think the confusion of the witness might be just the understanding of against its will, so --

MR. MILLER: Okay.

A.L.J. LECAKES: -- rephrase that.

BY MR. MILLER: (Cont'g.)

Q. As opposed to a settlement agreement where a utility might agree to take on this mechanism, are you aware of any case in which the Public Service Commission has required a mechanism of this nature be adopted at a utility.

A. No.

Q. Are customer terminations subject to Section 32 of the Public Service Law?

A. Is it customer termination?

Q. Yes.

A. Yes.

Q. Do you have any reason to believe that National Fuel is not complying with the Public Service Law in that regard?

A. No, I do not.

Q. Are residential bill collections generally covered under Article 2 of the Public Service Law?

A. (Insogna) Mr. Miller, when you say covered, I'm not sure exactly what -- what you're implying. Article 2, which encompasses the whole Management Fair Practices Act have established certain minimums. In other words, certain practices and procedures that are required by law before a customer can be terminated. So if that's what you mean, then the panel can agree, yes, it's covered.

Q. And are uncollectable account -- is uncollectable accounts expense affected by Article 2 of the Public Service Law?

A. I think the -- no, I don't think the uncollectables are affected by the Article 2, I mean, uncollectables are affected by terminations, that's what you're getting at?

Q. Do you know if uncollectable -- okay, strike that.

Does the threat of termination of service, one, means the company has to ensure that customers pay their bills?

A. It's a very strong means, yes.

Q. And if National Fuel is not vigilant in trying to collect accounts note which other customers have to fund that higher expense?

A. Yes, uncollectables are an expense that are borne by all the utilities.

Q. Now, you propose that National Fuel incur a negative revenue adjustment if uncollectable accounts expense rose over $14,800,000, correct?

A. (Bentzen) Yes.

Q. Can uncollectable accounts expense increase if gas prices increase?

A. Yes, it's possible.

Q. And gas price is also increased due to abnormally cold weather?

A. Can gas prices increase due to abnormally cold -- cold weather?

Q. Yes.

A. (Insogna) I mean, that calls for a lot of speculation, Mr. Miller, but certainly it's possible, yes. If there is abnormally cold weather and gas is in short supply, that can put up a pressure in prices, yes.

Q. And gas -- overall, gas price increase due to cold weather?

A. Yes.

Q. Are gas prices generally within the control of the company?

A. No.

Q. Do gas prices conceivably rise also due to things such as pipeline outage?

MR. FAVREAU: Your Honor, I'm objecting. This is a consumer service panel. They are now being asked gas operations, gas supply type question.

A.L.J. LECAKES: I --.

MR. FAVREAU: I mean, they can answer, I mean, but it calls for speculation.

A.L.J. LECAKES: Right. I -- I understand your point, but at the same time, I haven't heard any of the panel members say that they don't know the answers to the question or have refused to answer it on the basis of lack of their knowledge.

THE WITNESS: (Insogna) Mr. Miller, similar to your question about cold weather having an impact on gas prices, I think you are asking this panel to speculate in areas that perhaps are a little bit out of our area of expertise, however, as we understand it, yes, there can be disruptions in pipeline supply and all capacity can have an impact on downstream prices.

BY MR. MILLER: (Cont'g.)

Q. Is the intention of your proposal to incent or dis-incent certain types of behavior on the part of the company?

A. Yes.

Q. And that gas prices rise or fall due to no action on the part of the company, you view that as a valid incentive?

A. Yes. The reason we view it to be a valid incentive is because the targets that have been established in staff's proposal are based on the variations in these measures in a number of residential terminations and in the amount of residential bad debt that has historically taken place over the last 5 years and that 5-year period includes supply disruptions, changes in weather and all of the -- the other factors that might -- that might impact a rise and fall in collectables, so we believe we are confident that our targets, if they are achieved either in a positive or negative fashion, would occur not because of these random events, but because of the company's activity that we're trying to incent.

Q. Let's talk about the terminations. What type of incentive are you proposing to give the company in your terminations piece of the incentive?

A. I'm sorry. It's $590,000. Did I misunderstand the question?

Q. Maybe I can phrase it differently, but what sort of activity in terms of just the terminations incentive or disincentive are you trying to incent the company to do?

A. Mr. Miller, I'd say at a high level what we're trying to incent the company to do is to be creative in finding ways to avoid terminating customers by keeping that tool which we've already agreed is a very powerful tool as a last resort and trying other techniques, other strategies to get customers to pay their bills. As -- as we have seen from other utilities that have this incentive as part of their rate plans there are variety of such strategies, some of them I've heard, for example, Hafler [phonetic] requires a single written notice at least 15 days in advance of termination. Some utilities are experimenting with a second notice. Some utilities are using a phone call as an additional means to try and contact the customer and work out payment arrangements in advance of requiring termination. We're not suggesting any specific measures because that is the sort of command and control type regulation that we're trying to avoid here. We could simply propose that the company be required to send the second notice sort of make a phone call or to do any of the other dozen things that I have to think of that might help collect bills without resorting to termination. We're not seeking to do that. We're providing the company with a financial incentive to reduce terminations without negatively impacting bad debt and allow the company to be creative in finding solutions to do that.

Q. Doesn't National Fuel have an arrears for getting this program?

A. Yes.

Q. Are you supporting the continuation of that arrears for getting this program?

A. No. I'm sorry, may I expand on that?

Q. Sure.

A. We are not proposing that the company continue its arrears for getting this program primarily because the low-income program that we are proposing would consume all of the budget available under the budget cap. So there's no funds available for this.

Q. Going back to an answer you gave me, Mr. Insogna, or anyone on the panel, you said that you developed your terminations and uncollectables metric based on 5 years of data, correct?

A. (Bentzen) Section 7 there's a data.

Q. You used 7 -- you used the 7-year period, correct?

A. We used the 7-year period.

Q. But is it also correct that you dropped off the year 2009, which had the highest gas costs and then highest uncollectables?

A. You're talking about the uncollectables, not terminations? I just want to make --.

Q. Sorry?

A. I just want to make sure I'm looking at the right table.

Q. I'm looking at CSB-5, page 1 of 1.

A. All right. You're ask -- I'm sorry, I missed what exactly you're talking about.

Q. You used -- you looked at a 7-year period, correct?

A. Yes. From 2009 to 2015.

Q. Right. But you dropped off the highest and the lowest years for terminations and for uncollectables, correct?

A. Yes.

Q. And the basis for doing that is what?

A. We wanted to get rid of outlier

information, so we took out the highest and lowest tiers.

Q. Why would you consider that outlier information?

A. Just going back to the data -- oh, of course.

(Insogna) Mr. Miller, I think in your previous question referred to 2009 as being a period of high gas prices. This panel can neither confirm or deny that. We are certainly aware the 2009 was the last year of what has been called the second great recession, so it was a period of extreme economic difficulty for many customers, and in 2009, the Commission liberalized the ability of utilities to write off bad debt, so we did believe that in looking at a wide range of years, which we certainly could have saved this discussion by -- by making it a 6-year average, then 2009 would have never been part of the conversation and as a matter of fact, if we chose not to throw out the highest and lowest value, then the value for 2013, which was the lowest in that 6-year period, would have been included when we calculated the average. We thought it was fair to the company to approach it this way.

MR. DELVECCHIO: We just need a moment, Your Honor.

A.L.J. LECAKES: Not a problem.

MR. MILLER: I apologize, Your Honor, I'm trying to shorten this up.

A.L.J. LECAKES: Okay. There's no need to apologize, we're fine. We're way ahead of schedule anyway.

MR. INSOGNA: Doesn't mean we're going to stay till 11.

A.L.J. LECAKES: No. Actually, why don't we take 5 minutes, go off the record. The Company can look at the rest of its cross-examination and figure out what it wants to keep and what it wants to throw away, 5 minute break. Off the record.

(Off the record)

A.L.J. LECAKES: Okay. Let us go back on the record. Mr. Miller, you may proceed.

MR. MILLER: Thank you, Your Honor.

BY MR. MILLER:

Q. Panel, do you recall that we were talking earlier about the calculation of the targets where your combinations and uncollectables metric?

A. (Bentzen) Yes.

Q. And my understanding is that when we were talking -- let’s -- we'll do them both separately.

We was -- we were talking about the terminations, correct?

A. Uh-huh.

Q. We used -- you had 7 years of data, because there was 7 data points and you dropped off the high and the low, correct?

A. That's correct.

Q. And then is it -- and then you calculated the standard deviation, correct?

A. Yes.

Q. Is it also true that when you calculated that standard deviation, you used not 5 but 6 data points which would be 5 data points plus the average and the average was a 6 data point?

A. From my recollection, that's not correct. I believe, I don't think that's correct.

Q. How about for the other metric?

A. No, they were done the same way.

Q. They were done in the same way?

A. Yes.

Q. Would you agree, subject -- subject to check, that if you did use that 6 data point, which was the average, that that would be an incorrect way to calculate the standard deviation?

A. Yes. I -- yes, subject to check, but

-- but to my recollection, that is not how that worked out.

A.L.J. LECAKES: Does the company have work papers that show because I don't want to belabor a point if it can be proven by an exhibit that we can put in.

MR. FIGLIOTTI: I have a spreadsheet. I can --

A.L.J. LECAKES: Was that provided by the staff Consumer Services Panel or was that something that the company -- company created calculation?

MR. FIGLIOTTI: It's something we created to confirm the numbers.

A.L.J. LECAKES: So when you ask Mr. Miller subject to check, how should the witness be checking to -- to -- if she did the calculation correctly or not?

MR. MILLER: I think that's the way she would check to see whether she used 5 or 6 numbers and whether the 6 data point was the average. We know about lawyer's math from yesterday.

A.L.J. LECAKES: All right. I don't think there needs to be any clearing up or exhibit entered at this time. You may proceed.

BY MR. MILLER: (Cont'g.)

Q. Is it also true that in calculating

your targets, you used 4 standard deviations?

A. Only in one target and then terminations, goals target.

Q. In the higher target you used 2?

A. For every other -- for every other metric, it was 2.

Q. Let me get this right. So, are you saying that for your penalty target, you used 2 and your goals target you used 4 for the terminations and uncollectables metric?

A. No.

Q. Okay.

A. For termination metric. The goal target was set using 4 standard deviations. For terminations, upper threshold, 2 standard deviations were used.

Q. And the up --?

A. Did I say that correctly? Hold on. So, yes for the goals -- I'm just making sure I'm stating it correctly, so we're all clear. So, for the goal lower target on terminations, 4 standard deviations were used. For everything else, including goal uncollectables and upper thresholds on terminations and uncollectables, 2 standard deviations were used.

MR. MILLER: Give me a minute or two, I may be able to end this pretty quickly.

A.L.J. LECAKES: Okay. All right. Go off the record. Let me know when you're ready.

(Off the record)

A.L.J. LECAKES: Let's go back on the record. Proceed, Mr. Miller.

BY MR. MILLER: (Cont'g.)

Q. We were talking about things the company could do in the area of terminations. Do you recall that discussion?

A. (Bentzen) I do.

Q. Are you aware that National Fuel offers telephone deferred payment arrangements to customers?

A. (Insogna) Mr. Miller, we are aware that the company offers electronic DPAs. So, a DPA can be signed by the customer electronically, which is a crude form of signature in the State of New York under the Electronics Signature and Records Act. The negotiation of the DPA, which is also electronically signed may take place over the telephone but it is an electronic DPA, not a telephone.

Q. Do you know how many other utilities

have this arrangement with customers where they do the arrangements over the phone?

A. I will rephrase your question. Do I know how many utilities besides NFG offer electronic DPAs and the answer would be no.

MR. MILLER: We have nothing further. Thank you.

A.L.J. LECAKES: Thank you. Ms. Jorgensen, do you still have no questions now?

MS. JORGENSEN: No questions, Your Honor. Thank you.

A.L.J. LECAKES: Mr. Zimmerman, do you have no questions? Mr. Mager?

CROSS EXAMINATION

BY MR. MAGER:

Q. I just wanted to clarify the kind of record and my understanding on the questions I asked the company's panel on low incomes budget. Do you agree that the Commissions ordering a low income proceeding has a 2% cap on total expenditures, correct?

A. (Ferreri) Yes, it does.

Q. At the bottom of page 13 of your direct testimony, you state that -- I’m sorry. Let me know when you get there. Are you there?

A. Yes.
Q. Okay. The most current average bill in total revenue numbers should be used to calculate discount levels in the 2% budget cap. Do you see that?
A. I'm not seeing that. What line?
Q. Oh. I'm sorry. I might -- I'm looking at the end of page 13 from what you originally filed. I apologize. If you made some corrections, we might be a few lines off or.
MS. WOEBBE: The top of page 17 on the updated testimony.
A. The most current, yes.
BY MR. MAGER: (Cont'g.)
Q. Can you explain what staff means when you say the most current?
A. The most current would be the best available at this time.
Q. Are you familiar with the companies -- at all, the calculations of the company's low income panel would be, rebuttal?
A. Yes.
Q. I believe they had a figure of approximately of 11 million and change, that they calculated. Do you have that?

A. Yes, it’s 11.7.

Q. Okay. Do you agree that's the most current information available at this time?

A. This would be the number based upon the 18A assessment numbers.

A.L.J. LECAKES: Did that answer your question?

MR. MAGER: Not totally, Your Honor. If I may follow up.

A.L.J. LECAKES: Yes, please do.

CROSS EXAMINATION

BY MR. MAGER: (Cont’g.)

Q. Are you --?

A. (Insogna) I guess, I was just going to add that the company provided two estimates in its testimony. Our best understanding of it is that one is backward looking and one is forward looking. So, the 18A assessment which was based on previous year's revenues would be backward looking. That was the 11.7. On that same page of their rebuttal, they also provided an estimate 13.5 million and that is based on their projected revenues in the rate year. Presuming that projection assumes that the company adopts -- or the Commission adopts the company's rate proposal.

Q. Okay. And so, my understanding of the company's two numbers, I think it's similar to yours, Mr. Insogna, that there is one forward looking and one backward looking, and in this case the backward looking was calculated more recently than the forward looking. So, which one is the most current in staff's position? Or does staff have a firm position on this?

A. Assuming that you are correct that the -- and I guess you are since the 13.5 million was originally provided in the company's LIOP testimony. So, that was the one that appeared earlier in the record. So arguably, the 11.7 million is more current. Perhaps the real question is which one is the better number to use and the Panel did not furnish a recommendation on that in our testimony. But it certainly makes sense to us that the number that most accurately reflects the conditions of rate year might be preferable.

Q. Well, I thought we discussed a moment ago, your recommendation was that the Commission used the most current number. Wasn't that your position?

A. Yes, but I guess, we didn’t necessarily intend to mean the number most recently produced. The most current number would be the number that’s closest in time to point when the program would be in effect. So you could ask the company to produce an estimate of its total revenues for 1987 and they could do that today. I guess that would be the most current estimate.

Q. So the panel's interpretation of the Commission’s order is that the 2% cap should be applied to -- based on projected future gas costs and revenue?

A. It's fair to say that the Commission's May 20 order on affordability programs was not specific in that regard. So, we can’t look to that order to provide the guidance. Again, I think it's the panel's recommendation that the -- the figure that most accurately represents the conditions that would be in effect during the rate year.

Q. I think I'm just about done. Would it be your recommendation that that number be updated at any point between now and the conclusion of the rate case?

A. Certainly, if this estimate is based on the company's proposed revenues, it would be reasonable to expect that the Commission’s ultimate decision probably isn't going to accept the company's proposal in its entirety, so it probably is planning to update that.

MR. MAGER: I think I’ll stop now, thank you. Thank you, Panel.

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A.L.J. LECAKES: Thank you, Mr. Mager. Following up on that then, as someone who has to make a recommendation of the revenue requirement, I mean is it the panel's position that I shouldn't be taking the fact that the low-income funding for the program is going to be taken out of whatever revenue requirement that I recommend at 2% cap on that. I mean, how am I supposed to develop a recommendation on a revenue requirement to the Commission knowing that 2% of that is going to be funding the low-income program and knowing that as I shave off money from what the company's filed, I'm reducing also the money available to -- actually my neighbors in -- in the Western New York area and their ability to afford gas?

MR. INSOGNA: Your Honor, I think I heard two questions there.

A.L.J. LECAKES: Yeah, feel free to answer both.

MR. INSOGNA: One is a sort of a calculation question. And I think, you know, the answer to how you make that calculation is that, you know, it does involve a certain amount of calculus that's above my math ability. But I think that's a calculation that's capable of being made as to whether or not that number is appropriate, that's, of course, for Your Honor to decide.

I will add for background purposes the May 20 order did use 18A assessments. The most recent at that time was the 2015 assessment. Again, they are backward looking, so the 2015 assessment was based on 2014 revenues. The 2016 assessment was based on 2015 revenues. So, it is a backward looking device.

It is used there because, first of all, we had to provide the Commission with an estimate -- we were going to ask them to vote on this -- on this program and have some sense of what the price tag was what they were buying. So we had to figure a budget for all companies and relying on the 18A assessment was a convenient way to do that because it is based on total revenues inclusive of revenues. It’s calculated on a consistent basis across the utilities. So it was a convenient way to do that and I think the Commission's order notes that 18A assessment was used for that purpose but it didn’t necessarily dub that as the form, saying that we shall do it that way going forward. So there is some latitude there for Your Honor to decide what's the most appropriate way to set that budget is.

A.L.J. LECAKES: Right. I -- I do recollect that now that you mention it. There is another thing that -- it’s been a while since I read the low-income order. It was actually before the public statement hearing. So it was previous to the beginning of July, end of June, so it has been a while since I read it. I'm absolutely going to have to. It’s very clear about that but my recollection may be, and you can absolutely correct me if I am wrong, that the 2% cap wasn't necessarily a hard cap in the sense that there was a determination that the 2% cap didn’t provide enough money. There were -- wasn't there some kind of adjustment mechanism or ratcheting mechanism to move into the 2% cap or am I just completely misremembering that?

MR. INSOGNA: The --.

A.L.J. LECAKES: And I know the order speaks for itself. I’m just trying to find out here.

MR. INSOGNA: The order builds on a staff report which was issued previously and the staff report discussed a mechanism which was intended to complement the budget cap. That type of budget -- the budget cap that was proposed on the staff report was a little bit different from the 2% revenue cap. However, the other mechanism was that if the budget cap was engaged, then there would be a reduction in the discounts that are offered. And those discounts would be ratcheted up from the original target, which is a 6% energy burden through to a 10% energy burden. And at the point where you can no longer provide customers with at least a 10% energy burden without exceeding the budget cap, then the 10% energy burden would control.

A.L.J. LECAKES: Okay, I can follow that. Yeah, that does jog my recollection quite a bit. How -- the company asked about the arrearage forgiveness program, the fact that it existed and now that the company's low income offerings are going to use up the 2% cap, the arrearage forgiveness can't continue. How did the arrearage forgiveness work with the uncollectables number previously? Was -- so an amount was forgiven for the people who were unable to pay their bills. So, therefore it wasn't an uncollectable, is that right?

MR. INSOGNA: Yes, that -- that is right. The Commission determined that there was little evidence that forgiving customer arrears was effective in keeping distressed customers on the system, which is the reason why they declined to require arrearage forgiveness programs as part of its model. The companies that already had arrearage forgiveness programs were allowed to continue them provided that they fit within the 2% budget cap, which, of course, National Fuel Gas' program was not. However, the basis of the Commission's lack of endorsement of arrearage forgiveness, if you will, is that there is no clear indication that arrears that were forgiven kept customers from falling into further arrears in turn.

A.L.J. LECAKES: All right. Look, and that’s fair. I mean if the Commission found that based on staff’s recommendation and staff's research then that’s fine. But by eliminating the arrearage forgiveness, aren't you essentially conceding that the uncollectable amounts -- so you use a 6-year average of years that included an arrearage forgiveness program, are you conceding now that the future circumstances are different than the past circumstances on which you computed this target level and you already know that the urge -- I’m sorry, the uncollectable will probably go up simply by eliminating the arrearage forgiveness program?

MR. INSOGNA: Yes. The Commission, in allowing arrearage forgiveness programs to continue for utilities that didn’t want to continue those recommended a 50% offset. So it wasn't a recommendation. This is the Commission speaking. It found that there should be a 50% offset. So any incremental dollars that are spent on arrearage forgiveness would offset uncollectable expense by 50%, which again reflects the sort of uncertainty as to when these programs were effective.

A.L.J. LECAKES: Okay. So if I -- I'm sorry to interrupt but if I'm understanding your answer so far correctly, what you're saying is that your target didn't necessarily take into consideration the end of the arrearage forgiveness, but the way that uncollectables will be calculated or reported in the future does take that into consideration, is that right?

MR. INSOGNA: I'm not sure that it does, but I'll try answering a different question.

A.L.J. LECAKES: Yeah, please do.

MR. INSOGNA: Which if the -- I think what your -- your concern is is that if the company's arrearage forgiveness program goes away, what adjustment, if any, should be made to the company's uncollectable expense and --.

A.L.J. LECAKES: Well, the expense that's measured against the target for the CSPI purposes. You said this is -- my issue is that you're setting a target based on past performance, but as I discussed with a previous panel in this -- in this hearing, the circumstances are changing by virtue of Commission action. So past performance is not necessarily indicative of future results. And -- and this is the second time I've run into this with staff and what I'm hearing is we acknowledge that there is a change that's been made in the law that affects the company's reporting. However, we've made no adjustment in our -- just on our 2 standard deviations, our averages and we haven't made any additional correction to that new target in order to account for this change that's going -- that we know today as we sit here is affecting the company's reporting requirement.

MR. INSOGNA: I think we would be prepared to concede that there is a material change in circumstances the company faces, then that --perhaps that -- they should be taken into account in setting the target for that particular metric.

A.L.J. LECAKES: Okay.

MR. INSOGNA: As to -- again, as to what that adjustment ought to be, I would say a 50% offset seems to be reasonable. I'm not sure at this particular moment exactly how much of the company's low income program budget is devoted to arrears forgiveness but I believe it's in the range of about $2 million. And if that's -- if that's correct, then perhaps an adjustment of a million dollars should be moved.

A.L.J. LECAKES: Okay. I appreciate that the percentage and we can take a look at that. Can you turn in your updated testimony to page 30? Look at particularly lines 8 through 14. The question is why is staff proposing to adjust the customer PSC complaint targets? The answer is our analysis of the company's CSPI reports for the past 6 years has found that the company has surpassed the current targets by substantial margins. The current targets no longer provide an effective incentive for the company to continue to maintain the same quality of service to its customers. Can you help me understand the logic behind those two sentences and how they tie together? The way I read it is they are surpassing the current targets not just by a little bit but by substantial margins.

MR. INSOGNA: Yes.

A.L.J. LECAKES: And the conclusion that the panel is reaching is that, therefore, the current targets no longer provide an effective incentive for the company to continue to maintain the same quality of service. How do those two things tie together logically or how does that -- that second sentence become the conclusion from the first sentence?

MR. INSOGNA: The company has provided in its rates today the sufficient amount in revenue requirement to provide a given level of service, and that level of service is -- can be measured in various ways. One of the most important being their rate of PSC complaints. So we start with the assumption that the company is providing adequate service or satisfactory service, or quality service today. And so the question becomes, what is the target that is needed to maintain service at its present level? And if your present level is 99 and your target is 50, then your service level could deteriorate significantly without engaging the target. So the target needs to be adjusted to ensure that the service remains at 99.

A.L.J. LECAKES: Right. It -- it could. But at the same time, I mean, is there any demonstration -- have -- the first sentence says our analysis of the company's CSPR reports for the past 6 years. So, what did 6 years show? Did it show a trend one way or the other? Did it show the -- the company's service, customer complaints were decreasing over the past 6 years? Did it show that they were increasing or was it just a jumble, was it, you know, a 0.2 one year, a 0.4, a 0.3?

MR. INSOGNA: Uh-huh.

A.L.J. LECAKES: Because that makes a huge difference. I mean, if it -- if it's going up, then -- then there -- there is no logic to these two sentences.

If it's going down I see that there could be logic to these two sentences. If there's no trend, in my mind, it could make any number of conclusions, so.

MR. FAVREAU: Is -- is the problem with the word the same?

A.L.J. LECAKES: No. The problem is -- is that it says our analysis of the company's CSPI -- CSPI reports for the past 6 years, without describing what that analysis is or what -- what the underlying data is.

MR. INSOGNA: Uh-huh.

A.L.J. LECAKES: So if you -- if you look at it, our analysis of the company's CSPI reports for the past 6 years found that the company has surpassed the current targets by substantial margins. So let's start in, like, 2009, right? Their PSC complaint rate, right, their -- their target is -- is 2 complaints per 100,000 customers, I believe it is.

MR. INSOGNA: 2.1.

A.L.J. LECAKES: 2.1 per 100,000 customers. Their performance is, like, .02, .01 per 100,000 customers. So if we start in 2009, and they're getting 1 complaint per 100,000 customers, and then you go to -- to 2010, you get .09 complaints per 100,000 customers. You go to 2011, you get .08 per 100,000 customers. You go to

2012, and -- and you're trending up. Then the conclusion that the current target's no longer provide an effective incentive for the company to continue to maintain the same quality of service doesn't make sense to me.

In fact, it shows that just keeping the level where it was at a -- a 2.1 has -- has either incented the company to continue to improve for 6 years or it hasn't had any effect one way or the other and the company despite that has improved for the past 6 years. So, it's -- I'm very curious as to what the data points are for those 6 years.

MR. INSOGNA: So we -- we do have those available in our work papers. And, you know, I can read these numbers off.

A.L.J. LECAKES: Yeah. Please do.

MR. INSOGNA: Sure. So, starting with the year 2010, the company's annual PSC complaint rate for the following 6 years was .20, .02, .02, .03 and .13.

A.L.J. LECAKES: Okay.

MR. INSOGNA: The -- that's an average over that period of .067 and a standard deviation of .073. A target that would be set using our traditional method of 5-year average -2 standard deviations would be a target of .146.

A.L.J. LECAKES: The -- the recommendation is to move it to -- the target to 1.0.

MR. INSOGNA: Yes.

A.L.J. LECAKES: Right. Because -- now I understand it's my characterization and not the panel's characterization, but because the company's performance in this area was so exemplary that if you were to move it to where the calculation that you normally do for a utility when you ratchet up a performance target were -- were to occur, that it would be too high of a target. It would just be -- it would be, I guess, too high of a target would -- would be an accurate one. I mean, is that a fair characterization?

MR. INSOGNA: It -- it actually is. But, you know, our -- our view is that the -- the trending data that -- excuse me, the set of data that we just recited to you shows no trend whatsoever. It's basically just noise. So, you know, I don't think it's beyond dispute that the company's performance on PSC complaints is exemplary. And our testimony is that a target of 2.1, just a current target furnishes no incentive to maintain exemplary service in this area. Complaints could increase by, well, given that average, could increase by more than a hundredfold and not engage the target.

A.L.J. LECAKES: But in your discussion with Mr. Miller earlier, didn't you point out or concede that the panel actually agreed to eliminate two targets because of exemplary performance?

MR. INSOGNA: Uh-huh.

A.L.J. LECAKES: What makes this PSC complaint rate, and -- and the exemplary performance of the company as shown here, different from those other two targets?

MR. INSOGNA: The differences in the character and the measure itself, the -- the two measures that you feel are most important in measuring service quality are the PSC complaint rate and the customer satisfaction survey. And for each of those, there are two reasons. One is that they are both global measures of company performance. They are not measuring speed of answer on the telephone. They are not measuring how accurate the bills are. They are not measuring how many meters are estimated readings. They're -- they're -- they measure virtually every facet of the utility's performance because the customer can call the PSC and file a complaint about virtually any -- any part of service that they are dissatisfied with. So the global measures that capture every facet of utility's performance, and there are also independent -- the PSC complaint rate is counted by us.

A.L.J. LECAKES: Right.

MR. INSOGNA: So we don't rely on utility to tell us how they did because we keep that record. The customer satisfaction survey is somewhat different.

However, we do require that the utilities use an independent survey contractor. And so we do have some additional confidence in that measure because it is secured by reputation of the survey contractor that the reports of utilities -- the results have been reported accurately.

A.L.J. LECAKES: Okay. I can appreciate that and I'm glad that we got that on the record here. I think that distinction was -- was an important one that could have been in the testimony because I -- I really think that if -- if it's -- if -- if that's a difference that -- that this one is so important for those reasons, then I -- I think it would have really benefitted the record as a -- as a testimonial position.

MR. INSOGNA: I can only agree, Your Honor, and I think that was the -- I think this was the -- the area we were talking about earlier. And so I think we could explain it better.

A.L.J. LECAKES: We do agree that we

shouldn't be setting targets for any of these metrics where -- where they're basically setting a company up to fail. I mean, do you agree with that statement? We're -- we're not looking to fail the company on the target when we set it.

MR. INSOGNA: Absolutely not. Yeah, we would be --.

MR. FAVREAU: So -- so you don't -- you don't agree?

A.L.J. LECAKES: I -- I understood what he said.

MR. FAVREAU: I -- I know, but the record --

A.L.J. LECAKES: I know. And -- and I was going to -- yeah.

MR. INSOGNA: I'm sorry. I'm sorry. Let me rephrase. I do agree with your statement. We are not looking to set the company up to fail. We would consider these incentive mechanisms to be a success if the company never incurs a negative revenue adjustment. In fact, the methodology that we use based on the company's own historic performance and with allowance of two standard deviations, which statistically speaking eliminates 95% of the random variations in performance that would be expected given a normal distribution, gives us confidence that those targets would only be exceeded if the service levels actually did deteriorate. In fact, one of our acid tests, if you will, is once we've gone through our process, we go back and we look at the last 5 years and say if this had been the target in the past 5 years, would the company have incurred an NRAs and if the answer is yes, we would revise the target.

A.L.J. LECAKES: Right. And I can appreciate that. And then that's why I think, and particularly the uncollectables target concern me when I was listening to the discussion on arrearage forgiveness and I appreciate the panel's willingness to revisit, perhaps, the target there. It's -- it's a -- a re-visitation that a previous panel had testified before you was not willing to make on a stand when it was pointed out to them that was in the reporting requirement imposed on them and -- and I appreciate this panel's understanding of the issue there. I just have another question or two.

In -- in the discussion you had with Mr. Miller, I believe it was, you made a statement somewhere to -- it's not a direct quote, but it was if -- if there isn't adequate service, then return should be adjusted commensurately in the context of, you know, that's --

that's why it's important for measures to be there to ensure adequate performance and, you know, a fair rate of return for what the company provides, the service the company provides can account for that when a negative revenue adjustment is made. But -- and I understand that you're not a financial witness. I understand that you're not an accounting witness. In your mind, is there a floor to that? At which point, did the -- the amount of negative revenue that you're taking from the company, is -- is there a floor to which you should not go below? And I'm not going to ask you to identify the floor if you agree with the statement.

MR. INSOGNA: Well, I do agree with it. And in the case of the customer service performance incentive, the floor is 1.8 million. Because that's the total if every one of the measure -- the 6 measures that are included in this mechanism. The company dropped below the lowest target on each and every one of them, the most it could possibly suffer would be a revenue reduction of 1.8 million. So that would be the floor.

A.L.J. LECAKES: For the consumer service performance incentives?

MR. INSOGNA: Yes.

A.L.J. LECAKES: Well, what about the other negative revenue adjustments in this case?

MR. INSOGNA: I don't have any numbers.

A.L.J. LECAKES: Right. Did -- did the consumer service panel meet with the other panels in this case and was there ever a time at which in preparing the case that staff got together and said, how much are we dinging the company for if they miss every single one of these? Or, did -- I can't ask if other --

MR. FAVREAU: I'm sorry. What was the question?

A.L.J. LECAKES: I can't ask if other panel members, if -- if you're aware that other panels or other members got together. But the consumer service panel ever get together with gas safety panel, did it ever get together with some of the other panels that might have negative revenue adjustments? And -- and say this is how much we're dinging the company for? How much are you dinging the company for?

MR. INSOGNA: I'd -- I --.

MR. FAVREAU: Can -- can I just make one comment. I don't mean to -- you can answer all you want, but I do think that our -- our finance panel considers, you know, that -- that potential when they -- when they -- when they come to their calculations ROE.

A.L.J. LECAKES: Is that -- is that in their testimony?

MR. FAVREAU: I'm not sure. Maybe -- and then -- it might not have been said that definitively.

MR. INSOGNA: I really don't --

A.L.J. LECAKES: In -- in building a hearing record, it is an answer of no, I mean.

MR. FAVREAU: I'll check.

A.L.J. LECAKES: Okay.

MR. INSOGNA: And -- and I would only add that from the perspective of customer service, we seek to put a dollar amount that's equivalent to 30 basis points at risk. Regardless of the company's past excellent performance, we still think that that's a reasonable amount to seek in order to maintain customer service as an important priority for the company's management. So, we would -- we seek 30 basis points equivalent here at $1.8 million. And we have done several past cases, I think without regard to what amounts other witnesses have gotten. And again, as Mr. Favreau said, perhaps the finance panel takes all of the various metrics into account but we do not do so. We are simply looking for our 30 basis points.

A.L.J. LECAKES: And so in the testimony, it doesn't read as basis points though. It reads as dollar figures, right?

MR. INSOGNA: Yes.

A.L.J. LECAKES: Okay. Because -- and I'm just -- because the Gas Safety presented it as a basis point adjustment. It didn't choose dollar figures. Was there any particular reason why the panel chose to represent in dollar figures and not basis points?

MR. INSOGNA: There are -- are many reasons. Maybe one most importantly is because equity balances change over time and we were -- we were looking to set a dollar amount. We tried to achieve 30 basis points because it's a -- it's a way to compare the total amount at risk across utilities in a reasonable way. So, you know, so we have that -- we have that sort of standard in mind. But once we -- you know, once we calculate the amount that is equivalent to 30 basis points, we present our proposals in terms of dollar amounts.

A.L.J. LECAKES: Okay, okay. I don't have anything further. So if you want to continue to look at it when you discuss with the -- the panel, or do you have any redirect, you can go use another room or whatever.

MR. FAVREAU: Sure. Yes.

A.L.J. LECAKES: All right. Why don't we

go off the record?

(Off the record)

A.L.J. LECAKES: We're back on the record. Staff, is there any redirect?

MR. FAVREAU: Yes, since -- a couple of questions, Your Honor.

REDIRECT EXAMINATION

BY MR. FAVREAU:

Q. Panel, do you recall Mr. Miller's line of questioning asking if the performance metric targets are the same for all utilities?

A. (Insogna) Yes.

Q. And was it -- did you testify that they were different or the same for utilities?

A. Mr. Miller, in going through each of the measures included in the mechanism asked individually for each measure whether the target was the same for all utilities and the answer in each case is no.

Q. So, they're different for all utilities?

A. Yes.

Q. Can you explain to me why they are different? And if you want to give examples, that's fine.

A. Yes. In brief, it's because each

utility faces different circumstances. As an example, for ConEdison, which has the highest complaint rate target of any of the utilities and in fact receives more complaints than any of other utilities but a very high percentage of those -- those complaints involve shared meter. And shared meter is a situation that’s encountered almost exclusively in multi-family buildings. So, simply by virtue of their customer base, which a very high percentage of reside in multi-family buildings, they face a much larger number of complaints for that particular situation than the other utilities in the state. And so therefore it's fair for them to have a higher target for PSC complaints to me.

Another example would be estimated readings. In that particular measure, natural fuel gas has among the highest targets to meet. Most of the other utilities perform much better than 15.9%, which is NFG's target. National Grid, which almost exclusively has automated meter reading, only misses about 1% of its meter readings on an annual basis. So, these are examples of how each utility faces different circumstances -- I'm sorry.

If there is one more that I could mention, Keyspan Energy Delivery of Long Island until very recently was compelled to use a legacy customer information system that was formerly the property of the Long Island Lighting Company. And now is the property of the Long Island Power Authority, which has been reluctant to replace it. So they have an archaic, wonky system that's very slow to respond and very difficult to extract information from. And this impacts their ability to handle customer calls quickly and efficiently.

So, again, each one of the utilities faces different circumstances, which result in different standards of performance for each utility. And again, we set our standards based on the utility's own historic performances and the targets we set are designed to prevent deterioration.

MR. FAVREAU: Thank you. Nothing further, Your Honor.

A.L.J. LECAKES: Any re-cross?

MR. DELVECCHIO: Your Honor, we just need a moment.

A.L.J. LECAKES: Absolutely.

MR. DELVECCHIO: Thanks.

MR. MILLER: Do you know if the shared meter complaints were included in the published?

A.L.J. LECAKES: Now are we -- okay, go

ahead.

MR. MILLER: Are we on the record?

EXAMINATIOIN

BY MR. MILLER:

Q. Panel, do you know if the shared meter complaints accounted for the PSC complaints in the published information?

A. (Insogna) Yes. Yes, I know and yes, they are.

Q. Is it possible to eliminate that?

A. It would be possible.

MR. MILLER: We have nothing else.

A.L.J. LECAKES: Before I excuse the panel, I'd -- I'd like to thank very much. It's not easy to go last. It's particularly not easy to go last at 3 o'clock on -- on a Friday before a long weekend. I just want to say again thank you very much for your professionalism in answering and -- and presenting yourselves is a real credit to your office. Thank you.

MR. INSOGNA: Thank you, Your Honor.

A.L.J. LECAKES: You are excused. Let's go off the record.

(Off the record)

A.L.J. LECAKES: Back on the record. Mr.

Favreau, while we were off the record, reminded me that a staff did want to reserve an exhibit. I'm at 331 was the last staff consumer panel CSP-6. So, I believe 33 -- 332 is the next number. What are we reserving 332 for specifically, Mr. Favreau?

MR. FAVREAU: It is -- IR response. I think it's a DPS 245. Yes, at a couple days ago and I know the company's low-income and consumer service panels were tied up. But depending on what that response is, I'd like to put that on the record.

A.L.J. LECAKES: So, 245 may or may not be used but if it is used, the company is stipulating that it's prepared the response?

MR. INSOGNA: Yes, Your Honor, we haven’t prepared the response yet --

A.L.J. LECAKES: Right.

MR. INSOGNA: -- but when we do, we've got no problem with it going into the record.

A.L.J. LECAKES: Okay. So, by my account, we have 332 exhibits, including affidavits that have been submitted for this hearing record. I haven’t heard any objections during the hearing, although, then again, most of the exhibits that were offered were -- were pre-filed. So there were no motions to strike the exhibits prior to the hearing. But now is your last chance if you have any objections on the exhibits that have been offered today.

Hearing none on my own motion, I move all the exhibits into evidence. The corrected exhibits that I have on CD will be placed onto DMM, as will any exhibits offered during this hearing with new numbers. I can't guarantee how quickly that will happen. But let's turn then to the briefing schedule. Earlier, I believe it was off the record completely. The way it worked is Mr. Favreau approached me at the beginning of the hearing and asked about a briefing schedule. I told him I wanted to discuss it with him anyway. I gave him a couple of dates. He had a couple of dates in mind. I said that I could work with those dates and asked him to -- to approach, I don’t even remember which the original ones I proposed to him were. But he -- he approached the parties and we had a discussion about the parties' various responses.

At the end of everything, what I've decided to go with is November 7th for an initial brief, November 21st for a reply brief in this case. I would expect that all briefs have healthy citations to the record so that it will help me find what I need to in order to -- to make a fair and accurate recommended decision in this case. I would like to know that Mr. Mager, as well as some of the

-- other parties expressed a concern that if there is a potential for settlement negotiations that may take place after the hearing, those dates, November 7th and November 21st, may be burdensome, particularly on parties that don’t have additional attorneys to help them write the briefs.

I can very much appreciate that. So I am establishing on the record that I am willing to reconsider the dates without any guarantee that I -- I will reconsider the dates if it looks like a settlement would be explored. There are two things that can very much help me in that decision to move the dates either by a little or -- or by more than a little. The first is a -- and I know this has been done in other cases, where the parties get together and agree on a joint table of contents for a brief. The way that would work is if you have a revenues section, that everybody would work with revenues on -- on for example, heading one and then go through a list of A, B, C, D or whatever to the extent that UIU or MI only has particular issues, your numbering in your brief for your headings will have, you know, complete vacancies, but what that does is when I get -- when I get these briefs in later on, and I'm reading them along and I say, oh, what did UIU have on that issue, I can turn to your brief and just look in the table of contents and find -- or whatever and there's either nothing there or, you know, because it's not listed or I can go right to that page, so that really helps.

MR. FAVREAU: So I understand, you want basically a joint table of contents.

A.L.J. LECAKES: A joint table of contents would really be helpful, especially if the parties want to move the dates at all. The other thing that would help obliviously is the traditional extension of the suspension period if it looks like settlement is going to be pursued for more than a few days. But again that's totally in the company's control and that's also totally in the company's judgment, if -- it feels that what it gets from maybe a day or two of settlement. If it happens, a day or two settlement negotiation looks promising. If I were to have a month extension on the suspension with -- I may call, of course, then I could move the -- the briefs by a much greater margining, 5 to 7 days. Does anyone have anything else?

MR. FAVREAU: Your Honor.

A.L.J. LECAKES: Yes, Mr. Favreau.

MR. FAVREAU: Just a question. On the extension of suspension period with the make whole, does the Commission have to take any action on that or is that --?

A.L.J. LECAKES: The Commission does but it's based on a recommendation by myself. I -- I see no reason not to provide a recommendation that the make whole be granted in this case. I think the parties are just going to end by thanking everyone for their professionalism and their diligence in these hearings. They went very smoothly. We were able to -- to conduct them in the 3 days that we had planned and I just -- it has been a -- a good experience for the hearing here. I think everyone would agree. I don’t see a problem with the recommendation on the make whole there.

MR. FAVREAU: Thank you.

A.L.J. LECAKES: Mr. Favreau.

MR. FAVREAU: Yeah, when do you expect the transcript?

A.L.J. LECAKES: Generally, transcripts should be available in 5 days. If there is a problem and I find out about it, I'll let people know as soon as possible. The 5 days applies to my office. So, the way the process works is my secretary gets a copy of the hearing transcript. She tells me here it is. You know, take a look at it and give me your approval. And then when I don’t do that within 4 or 5 hours, she sends me some more nasty emails saying, hey, we need to get this up. So, it should be --

MR. FAVREAU: Maybe late next week --.

A.L.J. LECAKES: Yeah, that's what I'm thinking. Particularly with the long weekend. But that's one of the things that went into -- into November 7th and the consideration there. The other thing is I -- I understand as my -- myself involved in some of these cases, that there are other cases that other parties are involved with and that are going to take some time, so. Again, thank you.

MR. FAVREAU: Thank you.

A.L.J. LECAKES: It's been very good and --

MR. DELVECCHIO: Thank you. Your Honor.

A.L.J. LECAKES: -- if you have any questions or concerns in the meantime, please do feel free to contact me. This hearing is ended. Thank you very much.

(Off the record)

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STATE OF NEW YORK

I, Gerry Revai, do hereby certify that the foregoing was reported by me, in the cause, at the time and place, as stated in the caption hereto, at Page 2301 hereof; that the foregoing typewritten transcription consisting of pages 2301 through 2742, is a true record of all proceedings had at the hearing.

IN WITNESS WHEREOF, I have hereunto subscribed my name, this the 17th day of October, 2016.

Gerry Revai, Reporter