Q. State your name and business address

A. My name is Eric H. Meinl. My business address is 6363 Main Street, Williamsville, New York 14221.

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

A. I am employed by National Fuel Gas Distribution Corporation ("Distribution" or the "Company" and, alternatively, "NFG" as defined in certain referenced NRG documents) as General Manager in Distribution's Rates and Regulatory Affairs Department.

Q. Describe briefly your educational background and experience.

A. In 1981, I graduated from the State University of New York at Buffalo, New York with a Bachelor of Business Management degree and with a concentration in Finance. In 1984, I received a Master of Business Administration degree from the State University of New York at Buffalo, and began my employment with Distribution as a Management Trainee. Later in 1984, I was promoted to the position of Supervisor. In 1988 I was promoted to the position of Assistant Manager, and in 1990 I was promoted to Director in Distribution's Market Planning and Analysis Department. In June of 1992, I was transferred to the Contract Administration Department and in August of 1994 I was promoted to the position of Manager of Regulatory Affairs. In January of 1995, I was transferred to Distribution's Market Planning Department and in August 1996 I was promoted to Senior Manager of the Market Planning Department. In September of 1998, I was promoted to Assistant General Manager of the Rates and Regulatory Affairs Department, and in March of 2002 to General Manager.

Q. Have you previously testified before the New York Public Service Commission?

A. Yes.

Q. Have you presented expert testimony before any other regulatory commissions?

A. Yes. In addition to the expert testimony I have presented to this Commission, I have presented testimony before the Pennsylvania Public Utility Commission and the Federal Energy Regulatory Commission.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide a full assessment as to whether Distribution's proposal to provide service to the Dunkirk generating plant provides a competitively superior alternative to NRG ownership. In particular, I will refute the assertion found on page 8, lines 2 through 5, of the Dunkirk Gas Corporation's ("DGC" or "NRG") Cost/Bypass Panel's December 19, 2014 Testimony (the "DCBP" panel testimony) that the "cost of NFG ownership exceeds NRG ownership by $9 million." My analysis of the information provided in the testimony of the DCBP panel indicates that the DCBP panel appears to have either ignored or unreasonably discounted significant cost components associated with NRG's ownership of the proposed pipeline. When a complete and reasonable assessment of the full cost to NRG ownership of its proposed pipeline is made, the competitiveness of Distribution's rate proposals for both proposed pipeline routes becomes readily apparent.

Summary

Q. Please summarize your analysis of the DCBP panel's testimony.

A. The DCBP panel's analysis comparing the cost of NRG to build, own and operate the pipeline, to the cost of purchasing transportation service from Distribution at the offered

price is not credible primarily because it appears to assume either no or unreasonably low capital costs incurred by NRG (or the NRG business unit financing the project). In fact, it appears that the panel merely added the listed variable charges to an average of the construction bid prices received. If a reasonable analysis is performed, Distribution's rate proposals for both pipeline routes are more competitive than the NRG ownership option.

Q. Why does it matter that NRG perform a "reasonable analysis" instead of choosing itself or an affiliate to build, own and operate the pipeline?

A. In its DCBP panel testimony, NRG attempts to make out a case against what is known as "uneconomic bypass," which occurs, according to the Commission, when the cost of the bypass service is lower than the price that could be charged by the LDC, but higher than the cost to the utility of providing similar service. In order to prevent uneconomic bypass, the Commission authorizes LDCs to offer rates below the ceiling rate set forth in the utility's tariff. That is what Distribution has done. The DCBP panel is clearly attempting to show that NRG's cost of bypassing Distribution is lower than the price that could be charged by Distribution, and lower than the cost to Distribution of providing similar service. Under closer scrutiny, however, the panel's analysis cannot be sustained.

Q. How did you determine that Distribution's rate proposals for both proposed pipeline routes are more competitive than the NRG ownership option?

A. I examined all reasonable cost components, including an independent analysis of the carrying charges associated with electric generating facilities in New York State to assess the costs of NRG owning the proposed pipeline (*See* Analysis Method 1 - NYISO

Levelized Carrying Charges). I have employed the carrying cost parameters used by the New York Independent System Operator ("NYISO") to perform its triennial review of New York Installed Capacity ("ICAP") demand curves. The NYISO triennial review provides an analysis of the appropriate levelized carrying charges for generating facilities. The Federal Energy Regulatory Commission ("FERC") determines the reasonableness of such carrying charge assumptions.[1]

The NYISO provides a levelized cost analysis for the carrying charges associated with investments in generating facilities. In its "Independent Study to Establish Parameters of ICAP Demand Curve for the New York Independent System Operator"[2], the NYISO's consultant, NERA Economic Consulting, identified annual carrying charges for investments in generating facilities as equaling the sum of the following cost components:

- Annual Principal Payments on Debt
- Interest on Debt
- Equity Costs
- Income Taxes
- Property Taxes (the NYISO presented analysis of carrying costs with and without property taxes; I have used the carrying costs without property taxes.)
- Insurance (similar to property taxes, I have used the NYISO analysis without insurance costs.)

[1] *See FERC, Docket No. ER14-500-000, Order Accepting Tariff Filing Subject to Condition and Denying Waiver.* (Issued January 28, 2014). ("FERC Order ER-14-500-000")

[2] *See FERC, Docket No. ER14-500-000, New York Independent System Operator, Inc., Proposed Tariff Revisions to Implement Revised ICAP Demand Curves and a New ICAP Demand Curve for Capability Years 2014/2015, 2015/2016 and 2016/2017 and Request for Partial Phase-In and for Any Necessary Tariff Waivers, Docket No. ER14-___-000; and Unrelated Ministerial Tariff Correction, Docket No. ER12-360-000; Attachment III; Filed, November 27, 2013.*

By applying the annual levelized carrying charges included in the NYISO filing[3] to the average of the other (i.e., non-Distribution) bids for construction of the pipeline received by NRG, the competitiveness of Distribution's offer compared to a more complete and, hence, more reasonable, assessment of NRG ownership of the pipeline becomes apparent.

Q. Have you prepared additional analyses to assess the competitiveness of Distribution's pipeline proposal?

A. Yes. I also prepared an additional analysis to verify that Distribution's proposal is competitive with the bypass of Distribution's system proposed by the DCBP panel (*See* Analysis Method 2 - NFGDC Bypass Breakeven). The additional analysis calculates the return on equity on NRG's pipeline investment that would result from NRG owning and operating the facility instead of choosing the delivery service option offered by Distribution. This additional bypass analysis yielded results consistent with the NYISO levelized cost analysis. Ultimately, the additional analysis confirmed that NRG would not be able to generate a return on equity of 12.5% on its pipeline investment.

Q. Have you provided a summary of the results of these two analytical methods?

A. Yes, Table EHM-1, presented at the end of this testimony in a separate "Table Summary Section," provides a summary of the results of Analysis Method 1 – NYSIO Levelized Charges and Table EHM-2 provides a summary of the results of Analysis Method 2 – NFGDC Bypass Breakeven. I will discuss each of these methods in greater detail later in my testimony.

[3] Excerpts of the NYISO analysis used in the calculations of this testimony are provided in Exhibit ___ (EHM-1).

Q. How do the total cost results from these two analyses compare to the costs associated with the rates and services included in Distribution's response to the NRG request for proposal?

A. Table EHM-3 summarizes the costs associated with Distribution's response to NRG's request for proposal. Exhibit ___ (EHM-2) provides a more detailed summary of Distribution's complete proposal in response to the RFP.

The $6,128,160 total annual cost of Distribution's proposed route is less than the levelized annual costs of NRG building and operating its own pipeline over all reasonable economic lives of the facility listed in Table EHM-1. Also, the $6,128,160 total annual cost of Distribution's proposed route, is less than the annual cost of NRG building and operating its own pipeline over the 10 and 20 year economic lives of the facility listed in Table EHM-2. Only under an assumed life of 30 years is the annual cost of NRG building and operating its own pipeline less than the annual costs of Distribution's proposed route.[4] Given that the Dunkirk generating facility only has a ten year agreement with National Grid and the uncertain nature of the generating requirements of Western New York State ten years from now, let alone thirty years from now, assuming a thirty-year facility life does not seem reasonable. For the sake of argument, however, if the Commission concludes that it is reasonable to assume a thirty year life for the generating facility (despite a 10 year term sheet) and Distribution's bypass method is the most appropriate method to use for valuing the bypass risk (as opposed the NYISO levelized charge), the

[4] FERC has previously concluded that a 20 year life was appropriate while the New York State Public Service Commission advocated for a longer 30 year amortization period. *See* FERC Order ER-14-500-000, pages 36 – 40. In that matter, electric generating companies in the state of New York sought to gain a financial advantage by advocating for *shorter* amortization periods for facilities in order to increase rates.

Commission could permit Distribution to provide NRG with a lower demand charge for serving the generating facility.

Q. Please Explain.

A. Distribution submitted proposals to serve the Dunkirk Generating Station that were based on a ten-year life of the facility. The DCBP panel opined, albeit with no regulatory support, that the power plant might remain in-service beyond its current ten-year horizon. If the Commission were to share the panel's belief that the power plant will require gas service for thirty years, then Distribution would be able to design and charge a lower demand charge. In the absence of such authority to operate the power plant beyond ten years, the panel's analysis is mere speculation.

Q. Have you prepared a more detailed summary of the analysis used to determine the competitiveness of the Company's rate proposal?

A. Yes, Exhibit ___ (EHM-3), provides a more detailed summary of these results. Rows 2, 9, and 16 (highlighted in yellow) reference levelized carrying data included in NYSIO testimony. Rows 7, 14, 21, and 50 (highlighted in blue) provide cost results that can be compared to the Company's bid. Distribution's bid proposals are summarized in Exhibit ___ (EHM-3), Lines 30 and 39 (highlighted in green). In short, a comparison of rows 30 and 39 to Method 1 NYISO Levelized Charges Line 14 and Method 2 NFG Bypass Analysis Line 50 provides a telling overview. Specifically, NRG's proposed route is not a competitive alternate route when compared to Distribution's proposed route.

Moreover, a comparison of the boxed cells on Line 50 to the boxed cells on Line 14 demonstrates that Distribution's bypass analysis method provides similar results for equivalent time periods to the NYISO method.

Review of DCBP Panel Testimony

Q. Have you reviewed the cost information provided by the DCBP panel?

A. Yes, I have reviewed the information included in the filing. I have used the cost information provided by the DCBP panel in my competitive analysis. While I used this information in my analysis to review the competitiveness of Distribution's proposal to the bypass alternative presented by the DCBP panel, I do not necessarily agree with the cost information provided by the DCBP panel.

The DCBP panel did not provide sufficient detail in its testimony to analyze the reasonableness of the panel's cost information. Distribution has submitted a series of data requests to DGC in order to gather more detail on the DCBP panel's cost estimates. Responses to those requests are not expected to be received until after the filing of this testimony. I will update this testimony if the responses to NFG's information requests warrant such an update.

Q. What concerns do you have regarding the completeness of the cost information included in the DCBP panel's analysis?

A. I have a number of concerns regarding the cost information provided by the DCBP panel. Among these concerns is the apparent exclusion or unreasonable discounting of carrying charges, insufficient detail to even begin to assess the balancing costs cited in the testimony of the DCBP panel, no mention of any asset retirement obligation, completely

speculative assessments of the pipeline resale value 10 years in the future, and other failures to perform a complete analysis.

For the purpose of my analysis I did not make any adjustments to the cost information provided by the DCBP panel. As I have demonstrated in the summary section of my testimony, even assuming for argument's sake that the cost information presented by the DCBP panel is correct, using NRG's own figures, the rate proposals submitted by Distribution in response to the NRG request for proposal to build, own, operate and maintain the pipeline provide lower costs to NRG than the system bypass alternative recommended by the DCBP panel.

Description of Method 1 – NYISO Levelized Carrying Charges

Q. Please describe your analysis of the economics of NRG's bypass of the Distribution system using Method 1 – NYISO Levelized Carrying Charges.

A. The method used is relatively straightforward as detailed in Exhibit EHM-3. I used the carrying charge rates for locations outside of New York City, without property taxes or insurance included, in Table 2 of the NYISO filing with FERC (see pages 6 and 7 of Exhibit ___ (EHM-1)(lines highlighted in yellow)). The carrying charge rates included on lines 2, 9, and 16 of Exhibit EHM-3 are those determined by the NYISO as for the three cases presented by the NYISO. The cases utilized by the NYISO in their filing include a Base Case and two nominal cases reflecting 200 and 400 basis point increases on nominal debt and equity costs.

As is demonstrated on Lines 3, 10 and 17 of Exhibit ___ (EHM-3), multiplying the NYISO carrying charges by the pipeline investment yields the overall carrying charges

for the investment. Adding the annual carrying charges on facilities to the variable costs identified by the DCBP panel yields the overall competitive costs of the bypass facilities (lines 7, 14 and 21 of Exhibit ___ (EHM-3)).

Q. Why did you use the carrying charges calculated in the NYISO filing for the calculation of reasonable carrying charges for NRG's financing of the proposed bypass pipeline?

A. For two reasons: First, the DCBP panel did not include any description of the carrying charges that were used in its analysis. Distribution has, as mentioned previously, requested this information. Second, and perhaps even more important than any carrying charges purportedly used by NRG to calculate the economic value of bypassing Distribution, is that the NYISO analysis provides an independent assessment of the carrying charges of electric generating facilities serving New York State. Included in this assessment is the establishment of a reasonable proportion of debt and equity financing for such projects, a reasonable projection of the cost of debt for such projects as well as a reasonable estimate of equity costs. These cost estimates should not be controversial because they were vetted by both the NYISO and FERC and form the basis of charges to New York state electric customers.

Q. Why is it appropriate to use the return on equity associated with an electric generating facility as opposed to the return on equity for a natural gas distribution company in your competitive bypass analysis?

A. The pipeline being built by NRG is being built exclusively to serve NRG's generating facility. The pipeline is effectively no different than any other investment in plant and equipment used in the generating facility. It should, therefore, receive the same carrying

cost values, including return on equity, as those assumed in establishing rates for investments in generating facilities in New York State.

Description of Method 2 – NFGDC Bypass Breakeven

[BEGIN CONFIDENTIAL SECTION OF TESTIMONY]

Q. Please describe Confidential Exhibit ___ (EHM-4) through Confidential Exhibit ___ (EHM- 6).

A. [redacted]

[redacted]

[redacted]

Q. What is the source of cost assumptions that are used in the NFG Bypass Analysis?

A. [redacted]

Q. Have you provided a summary of the calculations included in Confidential Exhibit ____ (EHM-4)?

A. Yes. [redacted]

Q. Have you provided a similar summary table for Confidential Exhibit ___ (EHM-5) and Confidential Exhibit ___ (EHM-6)?

A. Yes. [redacted]

Q. Please describe Confidential Exhibit ___ (EHM-8).

A. [redacted]

[END CONFIDENTIAL SECTION]

Conclusions

Q. Has Distribution provided NRG with a competitive rate in its response to NRG's request for proposals to build, own, operate, and maintain a natural gas pipeline to serve the Dunkirk generating station?

A. Yes. When a reasonable assessment of costs of building, owning, operating, and maintaining a pipeline that bypasses Distribution's system to serve an electric generating facility are factored into the analysis, it is clear that a bypass of Distribution's system is uneconomic for the owner of the bypass facility. As I noted earlier, bypass by NRG of Distribution's facilities to serve the power plant would be uneconomic because Distribution is able to build the pipeline for less, and certainly charge less, than NRG would incur if it were to build, own and operate the pipeline itself or through an affiliate. Further, as explained in Mr. Polka's testimony, the bypass of Distribution's system would not be beneficial to the Company's remaining customers.

Q. Your bypass analysis would seem to imply that NRG could pay higher rates than those proposed by Distribution in response to DGC's request for proposals to build, own, operate, and maintain the pipeline serving the Dunkirk generating facility. Why didn't Distribution propose a higher rate?

A. Distribution's response to the RFP was based on a cost based analysis that recognized the shared benefits to NRG and the other customers on Distribution's system resulting from Distribution's construction of the pipeline serving NRG's Dunkirk generating facility. Given the unique circumstances of this system expansion, including the large and well documented benefits to the community from repowering the NRG Dunkirk generating station, a standard cost of service based rate proposal seemed the most appropriate to include in response to the RFP.

Q. Does this conclude your testimony?

A. Yes, at this time.

TABLE SUMMARY SECTION

Table EHM-1 Analysis Method 1 – NYISO Levelized Carrying Charges		
Economic Life of Facility	Annual Levelized Costs at 12.5% Equity Return on Pipeline Investment	
10 Yrs	$9,577,000	See Exhibit EHM-3, Line 14
20 Yrs	$7,120,000	See Exhibit EHM-3, Line 14
30 Yrs	$6,355,000	See Exhibit EHM-3, Line 14
35 Yrs	$6,166,000	See Exhibit EHM-3, Line 14

Table EHM-2 Analysis Method 2 – NFGDC Bypass Breakeven		
	Annual Levelized Costs at 12.5% Equity Return on Pipeline Investment	
10 Yrs.	$9,624,357	See Exhibit EHM-3, Line 50
20 Yrs.	$6,672,292	See Exhibit EHM-3 Line 50
30 Yrs.	$5,771,358	See Exhibit EHM-3 Line 50
10 Yrs. Assuming $30,000,000 Sale of Pipe in Year 11	$7,881,293	See Exhibit EHM-3 Line 50

Table EHM-3 Summary of the Costs Associated With NFG's Response to NRG's Request for Proposal		
	Annual Cost of Service	
Distribution Proposal: NRG Route	$6,535,320	See Exhibit EHM-3 Line 30
Distribution Proposal: NFG Route	$6,128,160	See Exhibit EHM-3 Line 39

Table EHM – 4
Summary of Calculations in Confidential Exhibit EHM-4

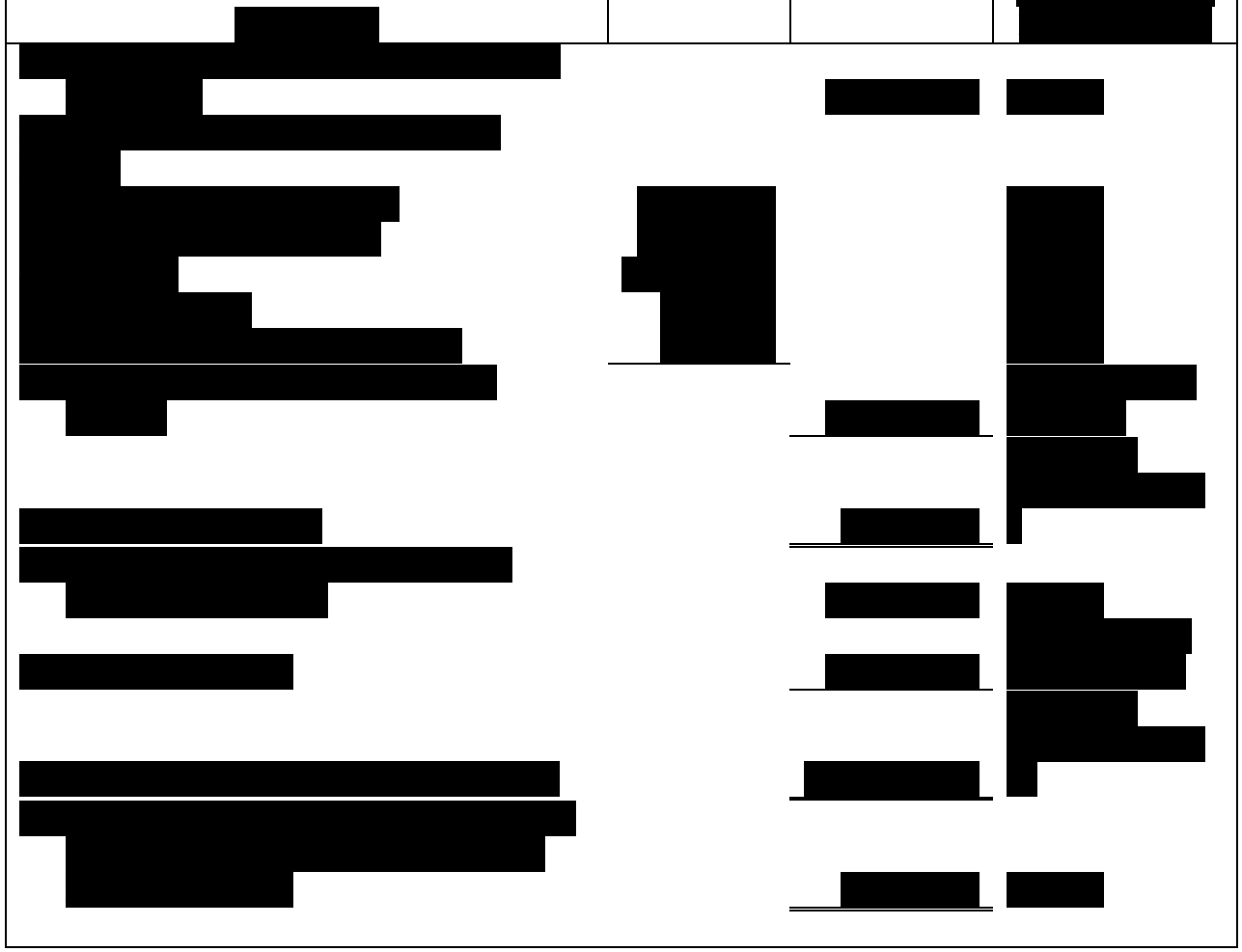

Table EHM – 5
Summary of Calculations in Confidential Exhibit EHM-5

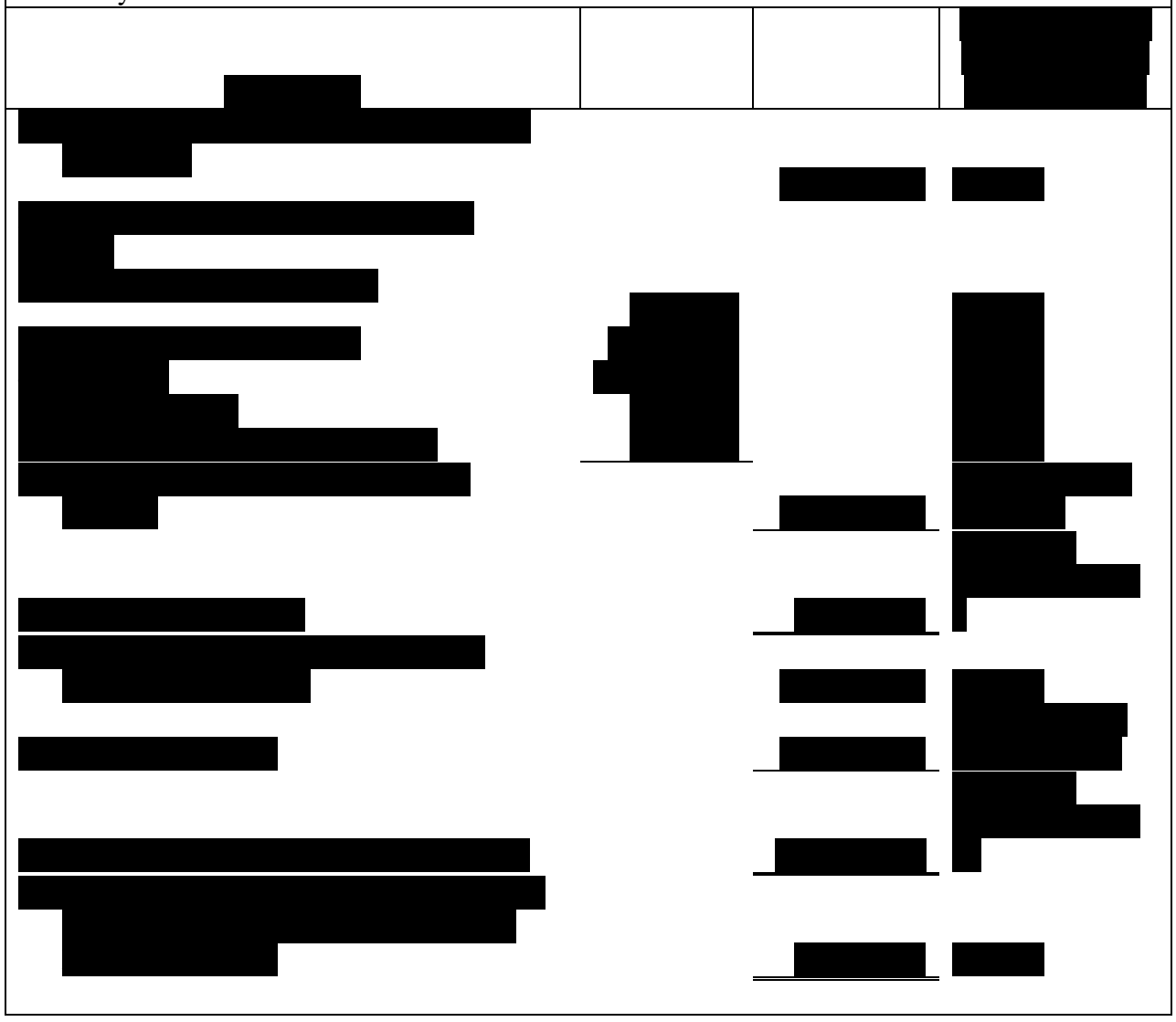

Table EHM – 6
Summary of Calculations in Confidential Exhibit EHM-6