BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

National Fuel Gas Distribution Corporation

Gas Rates

Case 07-G-0141

June 2007

Prepared Exhibits of:
Staff Capacity Panel

James Lyons
Utility Consumer Program
Specialist 4

John P. Sano
Utility Engineer 3

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

Received: 5/18/2007

national fuel

May 18, 2007

Hon. Jaclyn A. Brilling
Secretary
Public Service Commission
Three Empire State Plaza
Albany, NY 12223-1350

Re: Proposed Tariff Amendment

Dear Secretary Brilling:

National Fuel Gas Distribution Corporation ("Distribution" or the "Company") submits the following proposed amendments to its tariff, P.S.C. No. 8 – GAS:

Leaf No. 265 Revision No. 6

The proposed changes are submitted as of the date hereof for an effective date of September 21, 2007.

Explanation of Proposed Amendments

Distribution is proposing to modify its customer aggregation tariff, Service Classification No. 19, Supplier Transportation, Balancing and Aggregation ("STBA") to conform to an update of a schedule currently contained in Distribution's Gas Transportation Operations Procedures Manual ("GTOP"). More particularly, due to higher-than-anticipated customer migration to services provided by Energy Service Companies ("ESCOs"),[1] Distribution believes that a threshold capping the level of "Elective Upstream Transmission Capacity," as provided in the STBA tariff, and currently expressed in the GTOP, may be achieved earlier than expected by the Company.

The Company's proposed amendment, if approved, would memorialize, in the tariff, a cap on the level of capacity utilized by ESCOs to meet the Company's firm upstream capacity requirement for STBA service. Currently, the Company's GTOP states as follows:

1 Since December 2006, customers have migrated to ESCO service at a rate of approximately 3,500 per month, reaching a total of 82,300 as of May 2007. For the same period last year, the rate of migration was approximately 400 per month.

Received: 5/18/2007

> Collectively, Suppliers may demonstrate capacity to serve approximately 128,000 STBA customers or 24% of the core market. . . . Over this customer level, approximately 50,000 additional STBA customers may be served under the Voluntary Critical Capacity Release Program . . . .

The above provision reflects the current division of Elective Upstream Transmission Capacity into two parts: ESCO-provided capacity (the "Marketer Program"), and released Distribution capacity (the "Voluntary Program"). Insofar as Distribution's tariff reflects the Commission's capacity allocation policies for the then-ongoing retail competition transition period, there is no provision in Distribution's tariff or GTOP for capacity allocations beyond the threshold migration levels identified above. At the time the Company's Elective Capacity thresholds were established, it was assumed that the Commission would address the issue of capacity allocation on a prospective basis at a later date in connection with the efforts of Natural Gas Reliability Advisory Group ("NGRAG"). That assumption turns out to have been correct, as the NGRAG has issued a White Paper recommending that the Commission direct LDCs to end the current "voluntary" capacity model in favor of "mandatory capacity assignment, " with "modifications to accommodate marketers who currently bring capacity used to serve core customers." Case 07-G-0299, *Staff White Paper on Capacity Planning and Reliability* ("White Paper") at 16 (issued March 14, 2007).

Prior to the issuance of the White Paper, Distribution filed a base rate case ("Rate Case") that included a proposal for mandatory capacity release similar to the approach recommended in Staff's White Paper. <u>See</u> Case 07-G-0141, *Direct Testimony of John J. Polka* (January 2007). As explained in Mr. Polka's testimony, the Company is proposing to eliminate the current "Voluntary Capacity" option and replace it with a "Marketer Program" and a "Company Program." The Marketer Program would operate as a continuation of the current marketer capacity option. The Company Program would allow marketers the choice of either released LDC capacity or marketer-supplied capacity. If, however, the threshold level of marketer capacity were exhausted, the Company Program – limited at that point to released LDC upstream capacity – would become mandatory.

Very simply stated, the threshold level expressed in the GTOP and set forth above represents the level above which the Company will need to impose a mandatory capacity requirement. **For this filing, the Company is proposing to explicitly state the threshold level as a maximum of 112,600 Dth/day of marketer-provided upstream capacity**. If the marketer option is permitted to continue beyond 112,600 Dth/day, the Company will be unable to shed its remaining critical capacity assets without jeopardizing reliability, as explained in Mr. Polka's testimony filed in the Rate Case. Had the rate of customer migration continued at historic levels – as was reasonably anticipated by the Company - the current capacity program would have been sufficient to maintain system reliability until well after the Commission issued an order addressing the Company's Rate Case. However, because the rate of migration has far exceeded expectations, there is a risk that the critical capacity threshold level will be achieved before an order is issued in the Rate Case in December 2007 (for an effective date in January 2008). The purpose of this filing is to seek approval of the Marketer Program threshold level, at 112,600 Dth/day, well before that late date.

Received: 5/18/2007

Effect of Proposed Amendment

The proposed amendment, if approved, would have no incremental effect on revenues or expenses. Until the threshold level is achieved, there would be no effect on the Company's STBA service or retail access program. Upon the achievement of the threshold level, ESCOs would be required to take an allocation of Distribution's upstream pipeline capacity as provided in the tariff (or otherwise as necessitated by the circumstances). Other impacts of approval (or denial) are described in Mr. Polka's testimony filed in the Rate Case. Approval of this filing will not alter the Company program for capacity release proposed in the Rate Case.

Newspaper Publication

Notice of the Company's proposed tariff amendment will be published in accordance with Public Service Law §66(12) and applicable regulations.

Contact Information

In addition to the undersigned, please send information relating to this filing to the following individual:

John Polka, Jr.
National Fuel Gas Distribution Corporation
6363 Main Street
Williamsville, NY 14221
(716) 857-7000
PolkaJ@Natfuel.com

Conclusion

For all of the foregoing reasons, Distribution respectfully requests that the Commission approve the proposed tariff amendment for an effective date of September 21, 2007.

Respectfully submitted,

Michael W. Reville

SERVICE CLASSIFICATION No. 19 (Cont'd)

SUPPLIER TRANSPORTATION, BALANCING AND AGGREGATION - Continued

(b) Assignment of Pipeline (NFGSC EFT) Transmission Capacity
One hundred percent (100%) of extreme peak day requirements shall be served through the Company's Enhanced Firm Transportation ("EFT") capacity on NFGSC. The Supplier shall take release of such EFT capacity from the Company at the maximum rate under NFGSC's gas tariff filed with the FERC. If a Supplier's STBA agreement is cancelled or terminated the Company may recall EFT capacity that has been released to the Supplier.

(c) Waiver of the Intermediate Capacity requirement may be granted to a Supplier upon a showing, to the Company's satisfaction, of comparable replacement capacity.

(3) Elective Upstream Transmission Capacity
Supplier-provided Elective Upstream Transmission Capacity is authorized for total combined Supplier load up to a threshold level of 112,600 Dth/day. The percentage of extreme day requirements to be served by pipeline capacity upstream of NFGSC obtained by the Supplier shall be as determined at Section 2.(2)(a)(i) above. As to such capacity, the following requirements shall apply:

(i) Supplier must maintain five (5) winter months (November - March) of primary firm capacity upstream of NFGSC sufficient to meet Supplier's extreme peak day ADDQ. Supplier shall produce proof of such contracted primary firm capacity to the Company as provided in the Procedures Manual prior to receiving service under this Rate Schedule and must provide such proof whenever the Supplier's extreme peak day ADDQ increases. Capacity must be obtained between the point where gas is produced and the interconnection with released NFGSC capacity as described above. Alternatively, where gas is available at "liquid points," Suppliers are not required to show firm capacity upstream of such points. Acceptable "liquid points" for this purpose are identified in the Procedures Manual.

(ii) Except as provided in (4)(i), Supplier's capacity must include primary delivery points which coincide with Company's primary receipt rights on the NFGSC capacity retained by the Company. The total primary receipt point rights of elective upstream capacity into NFGSC held by the Company as of the effective date hereof are as follows:

Upstream Pipeline Company Interconnect	Dth Rights
Texas Eastern Transmission Corporation	48,880
Dominion Transmission Incorporation	83,065
Transcontinental Gas Pipe Line Corporation	17,398
Columbia Gas Transmission Corporation	988
National Fuel Gas Supply Corporation -- FSS	4,138

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
NEW YORK DIVISION
RESPONSE TO FORMAL STAFF REQUEST FOR INFORMATION
CASE 07-G-0141

Question

Starting on page 10, you explain that the capacity available for release for the Voluntary Capacity Release Program includes Tennessee FT-A Zone 1 receipt to Zone 4 delivery and DTI South Point receipt to Supply. Again, in your response to IR #MI-109, you identify that "…allocation of upstream capacity under the Voluntary Capacity Release Program is two parts Tennessee FT-A Zone 1 to one Part DTI FT South Point."

a. How was this allocation determined?

b. What is the unitized cost of this allocation?

c. What is the company's unitized weighted average cost of capacity?

d. How does NFG propose to provide the transportation customers a true-up of these charges with actual costs to comply with FERC regulations?

e. Please provide copies of the materials that are/will be provided to marketers explaining these processes (tariffs, GTOPs) or a description of how this information will be provided to marketers and Direct Customers.

Response

a. The allocation was determined as part of a settlement collaborative during a previous rate case. The goals in determining the allocation were to provide the marketers with an option to providing their own upstream capacity, avoiding a "piece of the pie" allocation approach resulting in a number of unusable capacity releases, and to provide a mix of capacity that was nearly equal to the company's average cost of capacity.

b. The unitized Reservation Charge for this capacity allocation is approximately $8.64/Dth/Month.

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
NEW YORK DIVISION
RESPONSE TO FORMAL STAFF REQUEST FOR INFORMATION
CASE 07-G-0141

c. The Company's unitized weighted average cost of critical upstream capacity, which includes both the 20,000 Dth/day of Tennessee FT-A Zone 1 to Zone 4 and the 10,000 Dth/day of DTI South Point Capacity, is approximately $8.79/Dth/Month.

d. A true-up is not required, since the capacity was released at the maximum rates for each piece of capacity and was nearly equal to the company's average cost of capacity

e. The Voluntary Capacity Release program is defined and explained on page 27 of NFG's Gas Transportation Operating Procedures Manual. A copy of that page is attached as Attachment A.

service for isolated load pockets. To the extent capacity is available, Suppliers may elect the Voluntary Critical Capacity Release Program pursuant to Section 4.b.

In addition to supplier-provided upstream capacity, Suppliers receive an allocation of Intermediate Transmission and Storage providing Suppliers with capacity from an interconnect with NFGSC to the City Gate. This capacity includes both EFT and ESS storage capacity. The capacity allocation is based upon a peak day calculation. For example, 33% of the peak day requirement is met through EFT deliveries of ESS withdrawals when the load factor is less than 40%. For load factors in the 40% to 60% range, 22% is met through storage and in the 60% to 80% range, 11% is met through storage. Load factors over 80% are met entirely though firm transportation.

Suppliers demonstrating supplier-provided capacity must submit to Distribution for approval copies of upstream contracts[1] indicating:

- Upstream pipeline
- Firm, non-recallable contract number
- Contract term that includes five (5) winter months (November – March)
- Contract quantity maximum flow rate (Dth/day)
- Primary receipt point(s) and Distribution approved "liquid" points
- Primary delivery point(s) at Distribution approved interconnects

b. Voluntary Critical Capacity Release Program

To facilitate migration of sales customers to STBA service, Distribution will release upstream capacity ("Voluntary Capacity") to Suppliers serving STBA customers to satisfy the upstream capacity requirement, to the extent capacity is available and in an amount not to exceed the Supplier's market requirements. Voluntary Capacity is created when customers migrate from sales service to STBA service; Supplier-to-Supplier migration does not impact the amount of available capacity. Suppliers must request access to Voluntary Capacity at the time of customer migration.

To request Voluntary Capacity, Suppliers must place a written request to Distribution's Gas Supply Administration Department [contact: Ken McAvoy, (716) 857-7960, McAvoyK@natfuel.com]. Voluntary Capacity will follow customer load and be returned to Distribution when the Supplier is no longer serving the STBA customers for which the release was obtained. Suppliers may not re-release capacity to other shippers or amend receipt or delivery points associated with the Voluntary Capacity. Additionally, Distribution may issue flow directives requiring Suppliers to utilize the Voluntary Capacity to deliver gas to specific points necessary to balance the system.

Voluntary Capacity consists of 20,000 Dth/day of Tennessee Gas Pipeline FT-A Zone 1 receipt (Zone 4 delivery) and 10,000 Dth of Dominion Transmission South Point receipt (RQ point delivery). Voluntary Capacity is released in a 2 to 1 ratio at each pipeline maximum tariff rate for the applicable firm transportation schedule. The initial date of release is November 1st and the term is 12 months. The release quantity will be adjusted, as necessary, to reflect customer migration to and from the Supplier utilizing Voluntary Capacity. If the adjustment results in an incremental capacity release, the term will be for the remainder of the 12-month period, i.e. through and including October 31st.

c. Liquid Points

Upstream Pipeline	Liquid Trading Point
Columbia Gas	Points in Appalachian Pool
Dominion Transmission	South Point
Tennessee Gas Pipeline	Zone 0, Zone 1
Texas Eastern	South TX, East LA, West LA
Transco	Station 65
TransCanada	Dawn, AECOC Hub

[1] Suppliers may redact confidential information.

Case 07-G-0141
National Fuel Gas Corporation
New York Division
Revised Capacity Cost Analysis and Charges

Retained Capacity and Associated Costs

(1) Daily Temperature Swing/ Peaking/Balancing Capacity Costs	(2) Monthly Capacity Dth	(3) Annual Capacity Dth	(4) December-06 Demand Rate $ per Dth	(5) Total Demand Cost $
NFGSC EFT Capacity	149,092	1,789,104	$ 3.5570	$ 6,363,843
NFGSC ESS Delivery	101,477	1,217,724	$ 2.1345	$ 2,599,232
NFGSC ESS Capacity	710,129	8,521,548	$ 0.0432	$ 368,131
NFGSC FSS Delivery	1,702	20,424	$ 2.1556	$ 44,026
NFGSC FSS Capacity	59,267	711,198	$ 0.0432	$ 30,724
NFGSC FSS Delivery	13,460	161,520	$ 2.1556	$ 348,173
NFGSC FSS Capacity	468,700	5,624,400	$ 0.0432	$ 242,974
Central NY Oil a& Gas	24,264	291,168	$ 2.2500	$ 655,128
Tennessee Lateral	24,000	288,000	$ 1.3077	$ 376,618
	140,639			$ 11,028,848

Contingency Capacity @ 4.3% of Total Peaking Requirements	Monthly Capacity Dth	Annual Capacity Dth	December-06 Demand Rate $ per Dth	Total Demand Cost $
NFGSC EFT Capacity	6,081	72,972	$ 3.5570	$ 259,561
System Upstream Capacity	6,205	74,461	$ 7.9184	$ 589,610
	6,081			$ 849,171
	in dth	in mcf		
	6,081	5,921		$ 849,171
Total	**146,720**			**$ 11,878,019**

Determination of Capacity Costs Incurred to Support Firm Monthly Metered Delivery Services

(1) Company Peak Requirements by Class	(2) Mcf	(3) % Mcf	(4) $	(5) Normalized Throughput (Mcf)	(6) Base Cost of Gas ($ per Mcf)
Large Industrial TC 4.0[1]	3,088	2.1957%	$ 260,805	10,118,527	**$ 0.02577** ◄
Total Other Classes	137,551	97.8043%	$ 11,617,214	82,272,250	**$ 0.14120** ◄
Total Peaking Req'mnts	140,639	100.0000%	$ 11,878,019	92,390,777	

[1]

			Total Extreme Day		
	Demand	Demand w/ 2% shrinkage	Delivery	Deficinecy	Dth @ 1.027 per mcf
TC 4.0	30,063	30,677	27,931	2,746	2,820
TC 4.0 Negotiated	9,303	9,493	9,186	307	315
Total	39,366	40,170	37,117	3,053	3,135

Determination of Capacity Costs Incurred to Support Daily Delivery Services

(1) DMT Base Cost of Gas	(2) Total Peak Consumption (Mcf)	(3) 2% Total Peak Consumption (Mcf)	(4) % of Total Peaking Requirements (% Mcf)	(5) DMT Base Cost of Gas ($ per Mcf)
Large Industrial TC 4.0	39,366	787	24.8258%	**$ 0.0064** ◄
Other Classes*	676,547	13,531	9.5784%	**$ 0.0135** ◄

* Forecasted Firm Peak consumption requirements of 746,845 mcf minus 30,952 mcf contingency capacity minus 39,366 mcf large industrial requirement.