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STATE OF NEW YORK
EXECUTIVE DEPARTMENT
STATE CONSUMER PROTECTION BOARD

Eliot Spitzer
Governor

Mindy Bockstein
Chairperson and Executive Director

June 7, 2007

VIA HAND DELIVERY

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

Re: Case 07-G-0141, Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of National Fuel Gas Distribution Corporation for Gas Service.

Dear Secretary Brilling:

Enclosed for filing in this proceeding are five copies of the Direct Testimony and Exhibit Douglas W. Elfner. Copies have been delivered to the presiding officer, and have been served on all parties on the current Active Parties List.

Respectfully submitted,

David L. Prestemon
Intervenor Attorney

cc: All Parties (by electronic mail)

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STATE OF NEW YORK

PUBLIC SERVICE COMMISSION

Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of National Fuel Gas Distribution Corporation for Gas Service.	Case 07-G-0141

DIRECT TESTIMONY and EXHIBIT

OF

DOUGLAS W. ELFNER

Dated: June 7, 2007
Albany, New York

MINDY BOCKSTEIN
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Q. Please state your name and title.

A. My name is Douglas W. Elfner. I am the Director of Utility Intervention for the New York State Consumer Protection Board ("CPB").

Q. Dr. Elfner, please summarize your education and employment experience.

A. I received a B.A. with honors and distinction in economics and mathematics from the University of Delaware in 1976, and a Ph.D. in Economics from the University of Michigan in 1982. From 1982 through 1984 I was an Assistant Professor of Economics at the University of Vermont, where I taught courses in econometrics and microeconomics. I was employed from December 1984 to January 1989 by AT&T in Bedminster, New Jersey, where I held positions of increasing responsibility as an Economist in the Market Analysis and Forecasting organization. My responsibilities included developing revenue and quantity forecasts for existing services; analyzing opportunities for new services and the effects of changing the price and rate structures of existing services; and producing forecasts and market analyses for regulatory purposes.

Since January 1989, I have been employed by the New York State Consumer Protection Board. As Director of Utility Intervention, I am responsible for all aspects of analysis, policy development, and advocacy on behalf of New Yorkers regarding the regulation of utilities.

I am a member of Phi Beta Kappa, the American Economic Association and the National Association of Business Economists. I have presented original papers at conferences sponsored by the American Economic Association and the Econometrics Society.

Q. Have you previously testified before the Commission?

A. Yes. I have testified in numerous cases before the New York State Public Service Commission.

Q. Are there any Exhibits associated with your testimony?

A. Yes. Exhibit___(DWE) contains a copy of all responses to information requests that I reference in this testimony. For convenience, I refer to responses by National Fuel Gas Distribution Corporation ("Distribution" or the "Company") with the designation used by the Company, such as "CPB-24" or "DPS-12."

Q. What is the purpose of your testimony?

A. I address two issues affecting Distribution's revenue requirement: depreciation expense and inflation of health care and prescription drug costs. In addition, I respond to Company proposals regarding the "no harm, no foul" imbalance rule and revenue sharing for off-system sales and capacity release. I also address public policy issues of gas efficiency, revenue decoupling and retail competition, as well as rate design proposals regarding winter-only recovery of purchased gas demand costs and increases in the minimum charge for residential customers.

Q. What is your overall reaction to Distribution's proposals on the three public policy issues you mentioned?

A. Distribution is the first major utility in New York State to incorporate in a rate filing, proposals for utility-administered energy efficiency programs, revenue decoupling and the discontinuation of ratepayer-subsidized programs for competitive retail suppliers. The CPB commends the Company for embracing these new policies, and for advancing constructive proposals to implement each of them. As explained herein, we have several recommendations to enhance the consumer benefits from those proposals.

Q. Please briefly summarize the recommendations in your testimony.

A. I have the following major recommendations:

<u>Depreciation</u>

- The Company's new depreciation study should not be used to establish rate levels in this proceeding, thereby reducing projected revenue requirement by $8.65 million.

<u>Inflation of Health Insurance and Prescription Drug Costs</u>

- To avoid double-counting the impact of inflation, projected health insurance and prescription drug expense should be calculated based on the overall annual inflation factor. This would reduce projected rate year health insurance and prescription drug expense by approximately $1.4 million.

"No Harm, No Foul" Imbalance Rule

- The "no harm, no foul" rule for determining whether imbalances in deliveries to customers taking service under service classification ("SC") 13D are to be "cashed out," should be eliminated as proposed by the Company, making marketers and direct shippers responsible for their individual imbalances.

Revenue Sharing for Off-System Sales and Capacity Release

- The current formula for sharing revenue from off-system sales and capacity release transactions should be changed to provide customers a credit to Distribution's Cost Mitigation Reserve of the first $2 million in net revenues, and a flow-back of 80% of any additional revenue.

Energy Efficiency

- The overall objectives and structure of Distribution's energy efficiency proposal should be adopted.

- A collaborative proceeding should be conducted during the rate year to incorporate the expertise of NYSERDA and other parties and recommend program improvements.

- No more than 10% of the program's budget should be spent on outreach and education without empirical evidence, supported by NYSERDA, that additional spending is necessary and would be cost-effective.

- The monitoring and program evaluation aspects of the program should be greatly enhanced to help ensure accountability and assure that ratepayer funds are being spent effectively.

- The cost of the energy efficiency program should be recovered from all customers through a surcharge, similar to the Systems Benefits Charge applicable to electricity customers.

Revenue Decoupling

- The overall structure of Distribution's proposed revenue decoupling mechanism should be adopted, with modifications to ensure that deferrals do not generate major rate fluctuations, volumetric benchmarks are accurate, the methodology is transparent, the mechanism is applicable to all residential and small commercial customers, and consumer interests are protected through careful monitoring of customer bill impacts.

Retail Competition

- The Company's proposal to discontinue several programs to promote retail access should be approved, with modifications to discontinue the vast majority of ratepayer-funded outreach and education regarding retail competition and surveys of awareness of retail competition.

Winter Recovery of Purchased Gas Demand Costs

- The Company's proposal to recover 12 months of purchased gas demand costs over the November to March winter period is unnecessary, would be burdensome to residential customers, and should be rejected.

Minimum Charge for Residential Service

- The Company's proposal to increase the minimum charge for residential service classifications by approximately $6.50, should be rejected.

Depreciation

Q. What is the Company's proposal concerning depreciation expense?

A. The Company proposes to increase test year depreciation expense by $9.048 million, which has a net revenue requirement impact of approximately $8.9 million. (Exhibit ___(RLT-1); Company's January 29, 2007 filing letter, Attachment C) Of the latter amount, only about a quarter million is the result of an increase in depreciable utility plant. The balance of the added expense is attributable to methodological and procedural changes incorporated in a new depreciation study proposed for adoption by Company Witness Mr. John J. Spanos. (MI-125)

Q. What changes does Mr. Spanos recommend?

A. His study recommends three major changes: (a) adoption of Iowa curves in place of the H-curves currently employed by Distribution for asset life analyses; (b) use of the remaining life methodology to calculate depreciation rates rather than the whole life methodology; and (c) reduction of the average service life used for depreciation of plastic mains from 70 years to 55 years.

Q. Should those changes be approved by the Commission?

A. No, they should not. In this case, the Company is proposing an extremely large increase in its delivery rates – over 19.4%. (MI-1) Nearly one-sixth of that increase will be generated by the higher depreciation rates that result from Mr. Spanos' methodological and procedural changes. An adverse rate impact of that magnitude can only be justified by a finding that the annual depreciation accruals generated by the Company's existing calculation techniques are manifestly inadequate to provide for Distribution's recovery of its capital costs. That is clearly not the case.

Q. Please explain.

A. First of all, Distribution proposed an entirely new depreciation study in its most recent rate case, filed in 2004. By its own admission, the new service lives and net salvage percentages presented in that study "were almost entirely accepted." (DPS-115) As a result, the Company has in place a framework for the accrual of its depreciation reserve that is almost exactly what it wanted just three years ago. It is very unlikely that the mix of assets, or their characteristics, has changed materially in the interim.

Furthermore, the Company's experience since its last rate case suggests that, if anything, its overall depreciation rate should be reduced rather than increased. As of March 31, 2004, Distribution's theoretical reserve – the amount that should have been collected based on the forecast underlying its depreciation rates – exceeded its book reserve – the amount of actual expense accruals less retirements and cost of removal plus any salvage received - by nearly $14 million. (DPS-113) However, that relationship is projected to reverse by the end of 2007. (DPS-112) By the end of the 2008 rate year, the Company projects, <u>using existing depreciation parameters</u>, that its book reserve will exceed the theoretical reserve by over $12 million. (DPS-207) Clearly, there is no capital recovery crisis that would justify augmenting an already steep rate increase proposal.

Q. Is it your testimony that the methods and procedures for calculating depreciation that are currently in place at Distribution are superior to those proposed by Mr. Spanos?

A. No. I am not expressing an opinion as to whether any particular methodology is theoretically preferable to any other. I would note, however, that utility proposals to switch from the whole life method to the remaining life method, as recommended by Mr. Spanos, have been consistently rejected by the Commission. Distribution itself, acknowledges that it:

> is not aware of any cases in which the NY Commission approved the use of an 'average remaining life' technique for depreciation accruals for ratemaking purposes for major gas utilities. (DPS-109)

The question I have addressed is whether the Company's need for the depreciation-related changes proposed in this case is sufficient to justify the resulting rate increase for consumers. In my judgment, the answer is no. Accordingly, I recommend that the Company's proposed new depreciation study not be used to establish Distribution's delivery rates in this proceeding, thereby reducing revenue requirement by $8.65 million.

Inflation of Health Insurance and Prescription Drug Costs

Q. How has the impact of inflation been accounted for in the Company's forecast of rate year Operations and Maintenance ("O&M") expenses?

A. For most of the O&M categories included within the Company's "inflation pool," Distribution Witness Ms. Regina L. Truitt has escalated test year expense by a Gross Domestic Product ("GDP") deflator of 2.55% per year. For health insurance and drug costs, however, she has used a rate of 12%. (Testimony of Ms. Truitt, p. 12)

Q. What is the basis for the different rates?

A. Ms. Truitt argues that health care related costs are increasing much more rapidly than the general rate of inflation, and that 12% is within the range of projected increases provided by the Company's health care consultant. She concludes that the higher rate is, therefore, required.

Q. Do you agree?

A. I disagree with the Company's proposal to use a separate, higher rate of inflation for health care costs in addition to the overall GDP inflator. The GDP deflator represents a weighted average of price escalation factors for the full range of expenses incurred by companies such as Distribution, including health care and drug expenses. The composite rates captures expense categories that are projected to rise much more rapidly than others. For a company with a cost structure that approximates that of the index, undercollection for one expense category will be offset by overcollection for others.

Distribution acknowledges that it has not removed the effect of health care expenses from the GDP deflator it applies to its inflation pool. (MI-116)

Consequently, by using a different, higher rate for such expenses separately, it would overcollect for health care related inflation. I also note that the PSC has used the overall price inflator in forecasting health insurance and drug costs in other proceedings. Accordingly, I recommend that the Company's revenue requirement reflect health insurance and prescription drug expense based on the overall annual inflation factor of 2.55% proposed by the Company. (Ms. Truitt, p. 29) This would reduce projected rate year health insurance and prescription drug expense by approximately $1,381,000.

"No Harm, No Foul" Imbalance Rule

Q. What change is Distribution proposing for the cashing out of imbalances under its Service Classification 13D ("SC 13D") tariff?

A. Under the current tariff, customers receiving service under SC 13D are subject to being "cashed out" for imbalances exceeding the 10% tolerance level only when the net imbalance for all SC 13D customers is outside the limit. Distribution is proposing to eliminate this "no harm, no foul" rule, making each customer responsible for its individual imbalance. (Testimony of Mr. Thomas J. Clark, pp. 41-42)

Q. Do you agree with this proposal?

A. Yes, I do. As the Company points out, the marketer or marketers having the largest loads know that if they are out of balance, the entire class will almost certainly be out of balance as well, making cashouts likely. They, therefore, have a strong incentive to manage their deliveries to stay within the tolerance band. Since the converse is also true, that is, when the larger marketers are in balance the class will also be in balance, marketers with smaller loads are afforded what is, at best, a free ride, and at worst, an opportunity for gaming.

Cashout prices are intentionally punitive, because they are aimed at persuading suppliers to keep their deliveries in balance with the usage of their customers. Companies that do a better job of balancing incur fewer penalties and reduce their overall costs. Ultimately, consumers benefit from the competition among marketers to lower their operating costs and reduce their prices. Under the "no harm, no foul" rule, that competition is stifled because the best performers cannot gain any advantage over the free riders, and the free riders have no incentive to improve. The "no harm, no foul" rule impedes competition, to the detriment of consumers, and should be eliminated.

Revenue Sharing – Off-System Sales and Capacity Release

Q. How is revenue from off-system sales and capacity release transactions currently accounted for by Distribution?

A. The first $1.0 million in capacity release credits and net revenue from off-system sales generated by the Company is credited to a Cost Mitigation Reserve ("CMR"), for the benefit of consumers. Above the $1.0 million level, 85% of earnings from these sources is flowed back to ratepayers through the monthly gas supply charge; 15% is retained by Distribution.

Q. What is the CMR?

A. It is a fund which the Company can draw upon to defray costs incurred in excess of rate allowances for certain categories of expense that tend to be difficult to predict and are frequently permitted by the Commission to be deferred. To the extent such deferrals would eventually be recovered from ratepayers, the CMR serves as a rate mitigator and directly benefits consumers.

Q. Does Distribution propose to continue the CMR?

A. Yes. It proposes to make the fund permanent. (Testimony of Mr. Clark, p. 40)

Q. Do you support this proposal?

A. Yes, in general, but if the CMR is to become permanent, the management of the reserve, including accounting and reporting procedures and a definition of the purposes for which reserve funds may be utilized, should be explicitly defined. The Commission should ensure that the utilization of CMR funds always directly offsets costs that would otherwise be borne by ratepayers.

Q. What is Distribution's proposal in this case for sharing off-system sales and capacity release revenues?

A. The Company proposes to continue the current sharing mechanism. (Id.)

Q. Do you support this proposal?

A. I agree with the structure of the sharing mechanism, but the specific parameters should be changed. The first $2.0 million in capacity release credits and net revenues from off-system sales should be credited to the CMR. Ratepayers should be provided the benefit of 80% of earnings above that amount.

Q Why do you propose these changes?

A. The notion that utilities need to be paid an incentive from "dollar one" to manage their gas supply assets for the benefit of ratepayers is anachronistic. When this type of sharing mechanism was first introduced by the Commission in the early 1990's, FERC Order 636, which completed the unbundling of interstate pipeline services, was a recent event. Utilities were just beginning to be comfortable with their new obligation to separately contract for and maintain portfolios of gas supply to match their inherited pipeline capacity. Under the circumstances, giving them an incentive to investigate the market to find ways to get the most out of their capacity holdings was quite reasonable.

Today, the procedures and markets for releasing capacity and trading supplies are well-established. Gas supply portfolio management and optimization is a normal business practice for any company holding a significant inventory of pipeline capacity and gas supply contracts. Some base level of cost recovery through the proper management of these assets should be considered an obligation of all utilities. That is why I propose that the first $2.0 million in capacity release and off-system sales earnings be used to defray costs that would be borne by ratepayers.

This is clearly not a requirement that should be a burden for Distribution. From 2001 through 2005, it averaged just under $5.0 million in net revenues from these sources. In 2006, it brought in nearly $7.5 million from capacity release alone. (CPB-33)

On the other hand, it is perfectly appropriate to give utilities an incentive for superior performance. When they increase the revenues generated by their gas supply assets, ratepayers see a net decrease in gas costs. Consequently, I propose that the utility share of net revenues above the $2.0 million level be increased from 15% to 20%.

Q. Would this change be consistent with current Commission policy?

A. Yes, it would. When the Commission originally settled on 85%/15% sharing of capacity release and off-system sales revenues as the "general rule," it called that arrangement "a reasonable 'placeholder' ... unless and until a different sharing arrangement is justified on a case-by-case basis." (Opinion 94-26, Case 93-G-0932, p. 43) I doubt that the Commission expected its "placeholder" to still be the general rule twelve and a half years after that decision. In any event, it explicitly authorized re-examination of the sharing arrangement in individual utility cases.

Gas Efficiency Program

Q. Please summarize the energy efficiency program proposed by Distribution.

A. The Company proposes to implement an energy efficiency program costing $12 million per year. The program would be administered by Distribution to take advantage of its unique knowledge of its customers.

There are three main components of the Company's program. Distribution proposes to spend $2.6 million on a low income usage reduction program ("LIURP") modeled after a successful initiative in its Pennsylvania service territory; $4.8 million on a residential and small commercial appliance rebate program; and $4.6 million on a multi-media communication initiative to provide customers information designed to encourage them to conserve and educate them on specific energy efficiency programs offered by the Company. (Testimony of Mr. Eric H. Meinl, pp. 27-29)

Q. What is the CPB's position on this matter?

A. The CPB strongly supports Distribution's overall objective of implementing a cost-effective energy conservation program. If properly designed and implemented, such a program can provide substantial financial and environmental benefits to consumers. The CPB also agrees that the Company is generally in the best position to administer and implement energy efficiency programs because of its extensive knowledge of its customers, their energy usage, and programs that may best serve their needs. I also generally support the proposed size of the program, which is comparable to the size of the System Benefits Charge program for the State's electric utilities.

I have several recommendations to enhance the Company's proposal for the benefit of consumers.

Q. Please summarize your first recommended change to the Company's proposal.

A. The two main components of the Company's proposal, the LIURP and appliance rebate program, represent a good starting point for Distribution's energy efficiency program and should be implemented by the beginning of the rate year. However, the Company should work with the New York State Energy Research and Development Authority ("NYSERDA") and other interested parties during the rate year as part of a collaborative proceeding to consider additional or alternative cost effective energy efficiency programs, such as those involving improved insulation, doors and windows for Distribution's customers. This collaborative would also address ways in which the Company and NYSERDA can share information to enhance the cost effective delivery of energy efficiency programs, the appropriateness of additional funding, the potential reallocation of funding among programs and the expansion of energy efficiency programs to other service classifications. We recommend that the collaborative commence approximately three months into the rate year, and conclude within 2 months. This would provide an opportunity to propose changes to the rate year energy efficiency program, if necessary, and to design a new program that would be effective at the end of the rate year.

Q. What is the CPB's second recommended change to the Company's proposed energy efficiency program?

A. The CPB is concerned about the large portion of program funding that would be dedicated to outreach and education. We agree that consumers should be provided information to increase awareness of the benefits of conservation and enable them to make informed decisions regarding actions they can take to reduce their energy consumption, including Distribution's proposed programs. However, a budget of $4.6 million, more than 38% of total program spending, is excessive. It does not appropriately consider that these objectives could likely be achieved in other, more cost effective ways. For example, the budget was apparently developed without consultation with NYSERDA to determine whether the authority's existing, planned or potential advertising and other initiatives, would be more cost effective.

The Company and NYSERDA should immediately work together to share information regarding the most cost effective way to provide energy efficiency-related information to consumers. The Commission's decision on the level of funding for outreach and education efforts should be based on this input. Absent documentation from this cooperative venture, the CPB recommends that no more than 10% of funding for the energy efficiency program be dedicated to outreach and education.

Q. Please explain the CPB's next recommendation regarding the Company's proposal.

A. Distribution proposes to measure the performance of the rebate program through a short postcard survey mailed to all participants and a longer telephone survey given to a sample of participants. These surveys are intended to "determine the degree to which the rebate was instrumental in the customer's decision to purchase high efficiency equipment instead of standard efficiency equipment." (DPS 158)

This proposal is inadequate. Monitoring, accountability and program evaluation are critical project components, particularly due to the limited experience of Distribution in conducting gas efficiency programs in New York. It is imperative that any ratepayer funded energy efficiency program be accompanied by reports, which for the first year should be at least quarterly, on the expenditures, deliverables and resulting benefits in terms of therms saved. This data will enable parties, and the Commission, to evaluate the need for any changes to ensure that funding is used effectively and that the program is leading to reductions in energy usage, as intended.

Q. Should the cost of the Company's proposed energy efficiency programs be recovered from all customers?

A. Yes. Reductions in gas usage will exert downward pressure on natural gas commodity prices, including on the basis differential between the wellhed price and the delivered price of gas to Distribution's customers, thereby benefiting all customers. It will also result in environmental benefits that are favorable to all customers.

Further, as explained in the testimony of Company witness Mr. Robert D. Eck, Distribution currently conducts, and proposes to continue, energy efficiency initiatives for its large volume customers. For example, the Company has a staff of account representatives assigned to large volume accounts, and provides the services of its engineering staff to provide free assessments of various gas technologies that would make large customers more energy efficient. (Testimony of Mr. Robert D. Eck, pp. 15 – 20) The general body of ratepayers has funded energy efficiency activities for large customers for years. Accordingly, it is equitable that all customers should fund the expanded energy efficiency programs adopted in this proceeding. Moreover, as explained above, the collaborative we recommend will consider whether, and how, to expand the energy efficiency services offered by Distribution to other service classifications, a change that could be implemented in the rate year.

Q. How should the costs of the energy efficiency program be recovered?

A. The CPB recommends that funding for the energy efficiency program be obtained through a surcharge on customer bills, similar to the System Benefits Charge on bills rendered by electric utilities for funding energy efficiency programs administered by NYSERDA. The amount of this surcharge would vary monthly, to match actual expenditures on the energy efficiency program, thereby addressing the Company's objective to match expenditures and recovery as closely as possible. A surcharge mechanism would also readily accommodate changes in the size of the program, if so ordered by the Commission, as well as the revenue decoupling proposal discussed below.

Revenue Decoupling

Q. Please summarize Distribution's proposal to address existing disincentives for utilities to encourage conservation.

A. The Company has correctly recognized that utilities have an economic disincentive to implement energy efficiency programs, such as the gas efficiency program discussed above. It proposes to eliminate the disincentive currently in small volume customer rates by implementing a revenue decoupling mechanism ("RDM"). As explained in the testimony of Mr. Meinl (pp. 29 – 34), this proposal is intended to permit the Company to recover the lost margin associated with reduced consumption by small volume customers. This would occur by reconciling any difference between actual and forecast weather-normalized usage per account, through an annual charge or credit on customer bills.

Q. What is the CPB's position regarding revenue decoupling in general, and the Company's proposed RDM in particular?

A. The CPB continues to recommend that the Commission approve an appropriate revenue decoupling mechanism for energy utilities, designed to serve the best interests of consumers. That measure, however, should not shift from utilities to consumers, the risk of profit losses from factors such as general economic downturns and/or a decline in the number of customers.

Conceptually, the Company's proposal would achieve this objective. However, several modifications to Distribution's recommended RDM are required to help ensure that it is in the consumers' interest. First, the proposal to recover or refund changes in normalized usage per account on an annual basis may result in large accruals that would have a substantial impact on customer bills. To help minimize the size of such accruals, thereby avoiding customer confusion and the potential loss of support for energy efficiency programs, the CPB recommends that accruals be calculated monthly. In addition, every six months, the deferred balance should be quantified, and if it exceeds 1% of actual delivery revenues in that six month period, it should begin to be collected from, or refunded to, customers as part of the surcharge for energy efficiency identified above.

In addition, the volumetric benchmarks to be used in the RDM calculation should be based on forecasts of usage and customers that underlie the PSC's revenue requirement determination in this proceeding, instead of on the Company's proposal. This would help ensure that the RDM targets are appropriate.

Further, the data and methodology used to calculate any changes in usage per customer must be readily verifiable. The data should be directly observable and not unduly impacted by anomalous events such as billing adjustments. A transparent and straight-forward methodology would enhance verification and acceptance of the RDM.

The CPB also recommends that the RDM apply to all residential and small commercial customers, including those in Service Classifications SC2, SC2A and SC2B. Some of these Service Classifications were apparently excluded from the Company's RDM proposal. (DPS-78, 79)

Overall, substantial care must be taken in the design of the RDM, to ensure that it protects consumer interests. The RDM adopted in this proceeding should also be carefully monitored so that any implementation concerns can be readily identified and addressed. We recommend that the RDM be evaluated during the rate year as part of the energy efficiency collaborative proposed above, and that any recommended changes be presented to the Commission.

Retail Competition

Q. Please summarize the Company's proposals regarding retail competition.

A. Pursuant to its current rate plan and PSC policies, Distribution conducts several programs and initiatives to promote retail energy competition. The Company has proposed to discontinue many of those efforts, such as its "Market Match," which includes a tool on its web site for customers interested in obtaining competitive price offers from energy services companies ("ESCOs"); "Market Expos," at which ESCOs, large non-residential customers and Distribution join together to exchange information; a residential energy fair; and a pilot program to promote hedged service options by ESCOs. Distribution would also substantially curtail other retail competition-related programs including its customer education efforts and customer awareness surveys.

Q. What is the CPB's position on these proposals?

A. With limited exceptions, the CPB supports these recommendations. It is neither reasonable nor appropriate for ratepayers to continue to subsidize the operation of competitive ESCOs. The CPB has supported these types of programs in the past in certain circumstances and with appropriate limitations, as transitional measures aimed at eliminating barriers to competitive retail marketing activities in service territories where ESCOs were absent or inactive. That is clearly not the situation in Distribution's service territory. According to the Commission's website, as of May 18, 2007, there were 14 ESCOs actively selling natural gas service to Distribution's residential customers and many of these companies were offering multiple products.

As I have testified in other proceedings including Case 06-G-1332 (Consolidated Edison's gas operations) and Cases 06-G-1185 and 06-G-1186 (KeySpan Energy Delivery New York and KeySpan Energy Delivery Long Island), the role of the Commission in fostering competitive retail energy markets should be restricted to eliminating impediments inherent in, or resulting from, the historic system of monopoly franchises and regulation. It is not the job of regulators to develop - and ratepayers should not be required to pay for – long-term programs aimed at reducing costs or risks to businesses that would be present in any competitive environment, whether regulation ever existed or not.

Moreover, subsidy programs can be harmful to individual ESCOs who choose to take risks, pay their stand-alone costs and develop innovative approaches to meet customer needs. These programs create an "unlevel playing field" that disadvantages ESCOs that conduct, and fund, their own advertising, marketing and customer acquisition activities. They impede competition and innovation, to the detriment of consumers.

For these reasons, we fully support the Company's proposals to discontinue the programs identified above. The CPB has no objection to Distribution's proposal to continue the purchase of receivables program, as long as the Company recovers all incremental costs from ESCOs, without subsidization or guarantee of recovery by ratepayers.

Q. Please summarize the Company's proposals regarding outreach and education, and customer awareness surveys regarding retail energy competition, and the CPB's position on those issues.

A. The Company proposes to continue its customer education efforts "but in a less intensive manner." (Testimony of Mr. Meinl, p. 47) Similarly, it states that it will continue conducting customer awareness surveys, "however, on a less regular basis." (Id.) No further detail regarding the scope, or projected cost, of continuing these initiatives is provided in the Company's filing.

Although a step in the right direction, these proposals should be strengthened. The CPB recommends that the Company discontinue its ratepayer-funded outreach and education regarding retail competition, except to provide basic information as part of its routine outreach and education efforts. For example, Distribution should include information regarding the availability of natural gas from ESCOs as well as how consumers may obtain more information regarding retail competition, in the materials it provides its customers regarding their rights and responsibilities, tips on saving energy, etc. However, the Company should not conduct outreach and education programs that focus on retail competition, including mailings and advertising. Similarly, the Company should discontinue its ratepayer-funded customer surveys of awareness of retail competition. Such surveys have long outlived their usefulness.

Winter Demand Charge Collection

Q. What change has Distribution proposed concerning the collection of purchased gas demand charges?

A. The Company is proposing to collect all such costs during the months of December through March, rather than year-round as is currently the case.

Q. What is the basis for this proposal?

A. The Company contends that these costs, primarily pipeline demand charges, are largely incurred to provide service during the winter when demand is highest. Collecting the costs in the winter, they say, will enable customers who achieve greater efficiency to realize greater savings. (Testimony of Mr. Meinl, p. 36)

Q. Do you agree with the proposed change?

A. No. The proposal is unnecessary and is burdensome to residential and most small commercial consumers. It is unnecessary because it does not match cost recovery with cost incurrence. For the most part, Distribution pays supplier and pipeline demand charges in equal monthly installments throughout the year, not just in the winter. It is unduly burdensome because it takes those levelized monthly costs and piles them on the residential customer's bill at the very time when that bill is highest. Given the usage required for winter heating, and the normally high commodity costs of the season, any incremental incentive to conserve generated by loading on demand charges would be inconsequential.

Minimum Charge for Residential Service

Q. Please summarize Distribution's proposal to increase the minimum charge for residential customers.

A. The Company's minimum charge for SC1 is currently $13.54. It proposes to increase that rate to $20.13 in the winter and $20.01 in non-winter periods (Exhibit___(TJC-12), Schedule 1), representing an increase of approximately 49%. The Company asserts that this rate design is necessary to ensure that fixed costs are recovered through fixed charges and will help provide revenue and earnings stability to the Company. (Testimony of Mr. Clark, pp. 18 – 20)

Q. What is the CPB's position on this proposal?

A. The Company's proposed minimum charge for residential natural gas customers is more than 33% higher than the highest such charge currently in effect for any utility in the State. That increase is unnecessary, would reduce customer incentives to conserve, and would be burdensome to low volume users of natural gas. The RDM, as discussed above, will ensure that the Company receives projected weather normalized, revenue per residential customer and will therefore address Distribution's concern about revenue stability. The risk of undercollecting fixed costs when they are recovered in volumetric rates is essentially eliminated by the RDM, making an increase in the minimum charge superfluous. The proposal would also be very burdensome to low-volume customers because it would result in higher charges that cannot be avoided, regardless of the customers' actions to conserve energy. Such a disincentive to conservation is also contrary to

State and PSC goals. For these reasons, the Company's proposal should be rejected.

Q. Does this conclude your testimony?
A. Yes.

EXHIBIT

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

Q. For each of the years 2000 through 2006, provide the following:
a. Net revenue from off-system sales subject to revenue sharing.
b. Capacity release credits subject to revenue sharing.
c. Company share of off-system sales and capacity release revenue.

A.

	Amount Subject to Sharing			
Fiscal Year	Off-System Sales Margin (A)	Capacity Release Revenue (B)	Total (C = A + B)	Company Share (D = C x 15%)
2000	1,111,567	381,472	1,493,039	223,956
2001	2,754,744	966,248	3,720,992	558,149
2002	2,561,720	517,867	3,079,587	461,938
2003	5,187,803	543,929	5,731,732	859,760
2004	3,667,793	550,173	4,217,966	632,695
2005	0	2,647,949	2,647,949	397,192
2006	0	6,435,001	6,435,001	965,250

Note: The above amounts exclude the first $1 million that is applied to the Cost Mitigation Reserve (CMR) each year per case 04-G-0147

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

Q. Does the forecast of 105.837 Mcf annual usage per residential customer include residential annual usage from customers served under SC 2 LIRA, SC 2A EBDPTRA and SC 2B LICAPP?

A. See page 3 of response DPS-77. SC 2A was excluded from the calculation of the 106.83 Mcf in the tariff. Including SC 2A would have a small impact on the calculation as is demonstrated on page 2 of the response. The Company is not opposed to including this class in the calculation. The 105.837 annual usage per residential customer included in Exhibit___(JEZ-1), Schedule 1, Page 1 of 3 does include residential annual usage from customers served under SC 2 LIRA, SC 2A EBDPTRA and SC 2B LICAPP.

National Fuel Gas Distribution Corporation
New York Division
Mcf

	Pg 74	Pg 75	76	Pg 80	Pg 84		
	Source: Exhibit TJC-1 Workpapers						
	SC 1	SC 2	SC 2 A	SC 1 AGG	SC 1 DSS	Total	Average Per Account
Basic Service Charge	4,781,150	251,546	5,972	523,843	58,245	5,620,756	468,396
0 - .4 Mcf	1,876,262	99,566	2,371	208,563	23,237	2,209,999	
.4 - 5 Mcf	15,911,362	923,127	0	1,874,569	223,000	18,932,058	
Over 5 Mcf	23,612,532	1,660,632	34,398	3,080,303	490,223	28,878,088	
Total Volume	41,400,156	2,683,325	36,769	5,163,435	736,460	50,020,145	106.79

Source: Exhibit TJC-1 Workpapers

	Pg 77	Pg 81		
	SC 3	SC 3 AGG		
Basic Service Charge	310,392	126,202	436,594	36,383
0 - 1 Mcf	270,796	118,821	389,617	
1 - 50 Mcf	4,676,502	3,012,062	7,688,564	
50 - 950 Mcf	3,404,557	3,428,790	6,833,347	
Over 1,000 Mcf	137,660	24,501	162,161	
Total Volume	8,489,515	6,584,174	15,073,689	414.31

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

Q. Will the operation of the proposed RDM include annual usage per customer from SC 2, SC 2A, and SC 2B?

A. It is intended that SC 2 and SC2B volumes be included in the calculation. SC2A was excluded from this rate calculation. As mentioned in response to question DPS-78 the Company is not opposed to including this class in the calculation.

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

Q. Please provide citations to cases in which the NY Commission approved the use of an "average remaining life" technique to determine annual depreciation accruals for ratemaking purposes for major gas utilities in the state.

A. The Company is not aware of any cases in which the NY Commission approved the use of an "average remaining life" technique for depreciation accruals for ratemaking purposes for major gas utilities.

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

Q. Please provide a comparison by plant account of the theoretical depreciation reserve (calculated accrued depreciation) using current depreciation rates and the book depreciation reserve as of December 31, 2007 (the historic test period in the current case).

A. The theoretical depreciation reserve is developed using life and salvage parameters not rates at a specific period of time. Therefore, the attached schedule sets forth the theoretical reserve as of December 31, 2007 using current life and salvage parameters versus the established book depreciation reserve as of December 31, 2007.

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
NEW YORK DIVISION
COMPARISON OF CALCULATED ACCRUED DEPRECIATION USING CURRENT LIFE AND NET SALVAGE PARAMETERS VS. BOOK RESERVE AS OF DECEMBER 31, 2007

	Depreciable Group (1)	Calculated Accrued Depreciation (2)	Book Reserve (3)
DEPRECIABLE GAS PLANT			
303	Miscellaneous Intangible Plant	3,719,757	3,808,095
Natural Gas Production Plant			
325.4	Rights of Way	190,818	217,510
327	Compressor Station Structures	132,575	184,761
328	Measuring & Regulating Station Structures	10,823	17,638
332	Field Lines	5,938,051	10,405,574
333	Compressor Station Equipment	849,980	1,015,900
334	Measuring & Regulating Station Equipment	1,977,906	1,726,033
Total Natural Gas Production Plant		**9,100,153**	**13,567,416**
Transmission Plant			
365.2	Rights of Way	112,265	125,994
366.2	Structures and Improvements	92,588	159,222
367.1	Mains - Excluding Cathodic Protection	3,946,225	3,584,624
367.2	Mains - Cathodic Protection	701,176	734,516
369	Measuring & Regulating Station Equipment	488,071	163,263
Total Transmission Plant		**5,340,325**	**4,767,619**
Distribution Plant			
374.2	Rights of Way	1,891,434	1,981,992
375	Structures and Improvements	567,928	617,548
376.1	Mains - Cast Iron	1,701,030	1,541,439
376.2	Mains - Steel and Other		
	1939 and Prior	5,842,391	5,293,806
	1940 and Subsequent	96,277,103	86,709,740
	Total Account 376.2	102,119,494	92,003,546
376.3	Mains - Cathodic Protection	879,217	815,096
376.4	Mains - Plastic	129,082,060	140,879,001
377	Compressor Station Equipment	630,055	706,702
378	Measuring & Regulating Station Equipment	4,124,366	4,705,604
380	Services	78,511,904	90,185,821
381	Meters	5,025,214	4,707,271
381.1	Meters - Automatic Reading Equipment	1,856,507	1,912,312
382	Meter Installations	1,342,334	1,398,109
383	House Regulators	20,956	13,992
384	House Regulator Installations	431,559	516,580
385	Industrial Measuring & Regulating Sta. Equipment	4,491,677	4,676,703
387	Other Equipment	61,724	66,104
Total Distribution Plant		**332,737,459**	**346,727,820**
General Plant			
389.2	Rights of Way	96	233
390.1	Structures and Improvements - Large Structures	9,263,420	(315,452)
390.2	Structures and Improvements - Small Structures	1,916,420	129,802
391.1	Office Furniture and Equipment - Furniture	21,916	(57,728)
391.2	Office Furniture and Equipment - Equipment	6,186	25,038
391.3	Office Furniture and Equipment - Computers	851,343	(1,407,533)
392	Transportation Equipment	713,671	1,515,813
393	Stores Equipment	9,457	4,155
394.1	Tools and Work Equipment	267,993	(435,237)
394.2	Shop Equipment	76,484	(70,641)
394.3	Garage Equipment	1,588,555	(576,063)
396	Power Operated Equipment	234,919	205,970
397	Communication Equipment	321,192	420,417
398	Miscellaneous Equipment	64,776	70,503
Total General Plant		**15,336,428**	**(490,723)**
TOTAL DEPRECIABLE PLANT		**366,234,122**	**368,380,227**

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

Q. Please provide a comparison by plant account of the theoretical depreciation reserve (calculated accrued depreciation) using current depreciation rates and the book depreciation reserve as of March 31, 2004 (the historic test period used in Case 04-G-1047, the company's last litigated rate proceeding).

A. The attached schedule sets forth a comparison of the theoretical reserve using the life and salvage parameters currently in use versus the book depreciation reserve as of March 31, 2004.

It should be noted that the theoretical reserve is calculated using life and salvage parameters, not depreciation rates.

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
NEW YORK DIVISION
COMPARISON OF CALCULATED ACCRUED DEPRECIATION ANC
BOOK RESERVE AS OF MARCH 31, 2004

	Depreciable Group (1)	Calculated Accrued Depreciation (2)	Book Reserve (3)
DEPRECIABLE GAS PLANT			
303	Miscellaneous Intangible Plant	1,777,134	1,773,543
Natural Gas Production Plant			
325.4	Rights of Way	170,780	191,218
327	Compressor Station Structures	116,140	173,880
328	Measuring & Regulating Station Structures	9,888	17,139
332	Field Lines	5,748,987	10,226,032
333	Compressor Station Equipment	770,247	815,686
334	Measuring & Regulating Station Equipment	1,804,077	1,371,932
Total Natural Gas Production Plant		8,620,119	12,795,887
Transmission Plant			
365.2	Rights of Way	102,487	113,486
366.2	Structures and Improvements	84,690	143,343
367.1	Mains - Excluding Cathodic Protection	3,529,583	3,207,183
367.2	Mains - Cathodic Protection	582,942	529,695
369	Measuring & Regulating Station Equipment	680,540	689,894
Total Transmission Plant		4,980,242	4,683,601
Distribution Plant			
374.2	Rights of Way	1,512,424	1,474,603
375	Structures and Improvements	527,818	598,938
376.1	Mains - Cast Iron	1,849,484	1,307,101
376.2	Mains - Steel and Other		
	1939 and Prior	6,136,723	4,337,057
	1940 and Subsequent	89,170,442	63,020,165
	Total Account 376.2	95,307,165	67,357,222
376.3	Mains - Cathodic Protection	852,756	602,675
376.4	Mains - Plastic	101,360,450	89,990,567
377	Compressor Station Equipment	517,142	778,718
378	Measuring & Regulating Station Equipment	3,570,995	3,816,836
380	Services	64,033,782	106,198,638
381	Meters	5,271,446	5,207,888
381.1	Meters - Automatic Reading Equipment	1,623,261	1,603,689
382	Meter Installations	1,196,809	1,079,553
383	House Regulators	54,587	50,347
384	House Regulator Installations	370,188	432,470
385	Industrial Measuring & Regulating Sta. Equipment	3,545,902	2,205,443
387	Other Equipment	58,821	78,466
Total Distribution Plant		281,653,030	282,783,154
General Plant			
389.2	Rights of Way	83	226
390.1	Structures and Improvements - Large Structures	9,182,732	(492,136)
390.2	Structures and Improvements - Small Structures	3,256,195	(174,512)
391.1	Office Furniture and Equipment - Furniture	2,845,061	1,442,877
391.2	Office Furniture and Equipment - Equipment	1,514,349	768,004
391.3	Office Furniture and Equipment - Computers	1,193,587	605,329
392	Transportation Equipment	19,151	26,131
393	Stores Equipment	55,840	60,518
394.1	Tools and Work Equipment	3,504,332	2,164,662
394.2	Shop Equipment	482,263	297,899
394.3	Garage Equipment	1,848,966	1,142,125
395	Laboratory Equipment	5,568	(4,285)
396	Power Operated Equipment		
	Unamortized	42,285	30,490
	Amortized	359,555	259,258
	Total Account 396	401,840	289,748
397	Communication Equipment	2,198,493	1,581,323
398	Miscellaneous Equipment	51,364	63,880
Total General Plant		26,559,824	7,771,789
TOTAL DEPRECIABLE PLANT		323,590,349	309,807,974

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

Q. Please indicate what changes to depreciation rates the company had proposed in Case 04-G-1047 and also any depreciation rate changes that were approved by the Commission in that case.

A. The Company proposed in Case 04-G-1047 new service lives and net salvage percentages which were almost entirely accepted, however, the depreciation procedure was settled in Case 04-G-1047, therefore, the proposed depreciation rates were not agreed upon. Consequently, approval by the Commission in the last case was not applicable.

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

Q. How does the company propose to measure the performance of the rebate program for non-residential customers? Is a comparison of actual non-residential customer consumption before and after new high efficiency equipment is installed, for each individual customer participating, the best measurement of the effectiveness of the conservation incentive program? Is it the company's proposal to perform a comparison of actual non-residential customer consumption before and after new high efficiency equipment is installed, for each individual customer participating, in order to measure the performance of the conservation program?

A. Distribution envisions conducting quantitative customer behavior market research through the use of 2 surveys as mentioned on page 28 of my testimony. A short postcard survey will be mailed to all participants, and a longer telephone survey will be performed to a statistical sample of all the participants. Both surveys will attempt to determine the degree to which the rebate was instrumental in the customer's decision to purchase high efficiency equipment instead of standard efficiency equipment. This feedback should give us the most direct measure of the Conservation Incentive Program's effectiveness on changing customer behavior.

At this point, Distribution does not envision using a quantitative analysis of actual customer consumption before and after the high efficiency equipment is installed as an indication of the program's effectiveness. This approach is more indirect than the behavioral market research we plan to utilize, since there are too many variables that can change before and after the installation, and from customer to customer, to be able to make a direct correlation between gas usage changes and customer behavior changes. Some of these uncontrollable variables are:

Business Conditions

- Changes in business operation (number of hours/day, days/week, number of employees, etc.)
- Changes in business environment (increased/decreased production of product or demand for services, health of local/national economy, labor strikes, supplier problems, etc.)

Space Heating

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

- Changes in thermostat settings and setback points before and after installation
- Changes in building envelope (insulation, caulking, windows, etc) before and after installation
- Changes in building internal heat gain (number of occupants, electric appliances, etc.) before and after installation
- Changes in weather conditions (temperature, wind, amount of sunlight, etc.) before and after installation

Water Heating
- Changes in hot water demand before and after installation

Distribution feels a quantitative assessment of customer behavior is a much more direct measure of the program's effectiveness than the use of quantitative assessment of gas usage changes as a proxy for changes in customer behavior.

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

Q. Please provide a comparison by plant account of the theoretical depreciation reserve (calculated accrued depreciation) using current depreciation rates and the book depreciation reserve for fiscal year ending 2004, 2005, & 2006. Please include in the data the life and salvage parameters for each account.

A. As discussed in previous responses, a comparison of the theoretical depreciation reserve to the actual book depreciation reserve is not performed. However, a comparison of the theoretical depreciation reserve using current life and net salvage parameters to the projected December 31, 2008 book depreciation reserve by account has been conducted in response to this data request and is attached.

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
NEW YORK DIVISION

COMPARISON OF CALCULATED ACCRUED DEPRECIATION USING CURRENT LIFE AND NET SALVAGE PARAMETERS VS. BOOK RESERVE AS OF DECEMBER 31, 2008

	Depreciable Group (1)	Calculated Accrued Depreciation (2)	Book Reserve (3)
DEPRECIABLE GAS PLANT			
303	Miscellaneous Intangible Plant	4,276,783	4,335,041
Natural Gas Production Plant			
325.4	Rights of Way	196,315	223,576
327	Compressor Station Structures	137,271	184,958
328	Measuring & Regulating Station Structures	11,074	17,665
332	Field Lines	5,883,229	10,109,963
333	Compressor Station Equipment	870,477	1,108,072
334	Measuring & Regulating Station Equipment	2,003,913	1,776,387
Total Natural Gas Production Plant		**9,102,279**	**13,420,621**
Transmission Plant			
365.2	Rights of Way	114,983	129,003
366.2	Structures and Improvements	94,706	160,801
367.1	Mains - Excluding Cathodic Protection	4,069,918	3,734,806
367.2	Mains - Cathodic Protection	754,303	818,370
369	Measuring & Regulating Station Equipment	447,747	42,728
Total Transmission Plant		**5,481,657**	**4,885,708**
Distribution Plant			
374.2	Rights of Way	2,003,486	2,098,895
375	Structures and Improvements	579,592	630,513
376.1	Mains - Cast Iron	1,709,903	1,610,333
376.2	Mains - Steel and Other		
	1939 and Prior	5,876,289	5,523,692
	1940 and Subsequent	98,716,685	91,809,875
	Total Account 376.2	104,592,974	97,333,567
376.3	Mains - Cathodic Protection	927,084	906,175
376.4	Mains - Plastic	137,175,310	151,222,379

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
NEW YORK DIVISION

COMPARISON OF CALCULATED ACCRUED DEPRECIATION USING CURRENT LIFE AND NET SALVAGE PARAMETERS VS. BOOK RESERVE AS OF DECEMBER 31, 2008

	Depreciable Group (1)	Calculated Accrued Depreciation (2)	Book Reserve (3)
Distribution Plant, cont.			
377	Compressor Station Equipment	659,879	751,540
378	Measuring & Regulating Station Equipment	4,299,022	5,010,028
380	Services	82,966,346	96,287,103
381	Meters	4,988,707	4,663,698
381.1	Meters - Automatic Reading Equipment	1,906,331	2,089,942
382	Meter Installations	1,382,381	1,439,836
383	House Regulators	13,061	3,925
384	House Regulator Installations	449,628	539,843
385	Industrial Measuring & Regulating Sta. Equipment	4,784,901	5,023,873
387	Other Equipment	62,452	67,187
Total Distribution Plant		**348,501,057**	**369,678,837**
General Plant			
389.2	Rights of Way	100	234
390.1	Structures and Improvements - Large Structures	9,420,790	1,230,817
390.2	Structures and Improvements - Small Structures	1,983,762	539,028
391.1	Office Furniture and Equipment - Furniture	25,743	(47,993)
391.2	Office Furniture and Equipment - Equipment	15,831	33,438
391.3	Office Furniture and Equipment - Computers	1,447,495	560,455
392	Transportation Equipment	1,080,866	1,973,492
393	Stores Equipment	9,841	5,848
394.1	Tools and Work Equipment	311,564	(345,850)
394.2	Shop Equipment	88,427	(47,816)
394.3	Garage Equipment	1,532,213	(533,134)
396	Power Operated Equipment	369,733	303,744
397	Communication Equipment	474,280	561,010
398	Miscellaneous Equipment	32,548	37,047
Total General Plant		**16,793,193**	**4,270,320**
TOTAL DEPRECIABLE PLANT		**384,154,969**	**396,590,527**

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

Source: NFRAMR05

	Reserve at 9/30/04 A/C 101000	Reserve at 9/30/05 A/C 101000	Reserve at 9/30/06 A/C 101000
PRODUCTION			
32520 Producing Leaseholds	(115,909.00)	(115,908.52)	(115,908.52)
32540 Rts of Way	(194,940.00)	(202,270.81)	(209,043.70)
32550 Other Land	0.00	0.00	0.00
32710 Field Compress Sta-Local Prod	(177,458.00)	(178,879.88)	(178,879.88)
32810 F e d M&R Sta Str-Local Prod	(17,139 00)	(17,138.96)	(17 138 96)
33010 We Construct - Weaver	(215,940 00)	(215,940 41)	(215 940 41)
33110 Well Eqpt - Weaver	(41,850.00)	(41,850.03)	(41,850.03)
33210 Field Lines Retained	(10,412,958.00)	(10,512,871.86)	(10,516,101.93)
33310 F.e.d Compr Eqpt Retained	(841,535 00)	(893 662.40)	(947 944 09)
33410 F eld M&R Eqpt Retained	(1,392 122 00)	(1,510 226.25)	(1 656 015 07)
33710 Otner Eqpt - Weaver	(17 798 00)	(17 798 07)	(17,798 07)
33810 Unsuccess Dev Weaver	(716 189 00)	(716 189 01)	(716,189 01)
Total	(14,143 838 00)	(14 422 736 20)	(14,632 809 67)
TRANSMISSION			
36510 Land	0.00	0.00	0.00
36511 Land Rights	(37.00)	(40.91)	(40.91)
36520 Rts of Way	(115,154.00)	(118,489.25)	(121,824.66)
36620 Meas & Reg Sta Structures	(146,602 00)	(150 651 75)	(155,104 17)
36700 Ma ns	(3,836,974 00)	(4 027 197 58)	(4 074,702.11)
36900 Meas & Reg Sta Eqpt	(729,831 00)	(308 623 08)	(334 866 67)
37100	0.00	0.00	0.00
Total	(4,828,598.00)	(4,605,002.57)	(4,686,538.52)
DISTRIBUTION			
37400 Land	(6,597.00)	(4,596.42)	(9,874.29)
37410 Land Rights	(1,512,229.00)	(1,720,381.18)	(1,834,757.39)
37500 Structures & Improvements	(611,377.00)	(583,557.06)	(600,923.51)
37600 Mains	(162,488,280.96)	(210,161,455.96)	(221,293,815.65)
37610 Ma ns Sq. Island	(249,884.00)	(249,883.92)	(249,883.91)
37700 Compress Sta Eqpt. General Mills	(801,567.00)	(611,407.44)	(649,449.77)
37800 Meas & Reg Sta Eqpt Gen	(4,015,862.00)	(4,045,713.63)	(4,336,144.09)
38000 Services	(110,161,980.00)	(79,371,256.67)	(83,873,292.59)
38100 Meters	(6,850,221.00)	(6,509,046.27)	(6,357,945.44)
38110 Meter Metscan	0.00	0.00	0.00
38200 Meter Installations	(1,097,977.00)	(1,300,762.05)	(1,344,915.88)
38300 House Regulators	(51,552.00)	(25,838.93)	(27,370.97)
38400 Hse Reg Installations	(440,945.00)	(462,798.28)	(486,541.45)
38500 Industrial M&R Sta Eqpt	(2,290,591.00)	(3,824,950.17)	(4,185,823.33)
38700 Other	(78,466.00)	(63,278.82)	(63,278.82)
Total	(290,657,528.96)	(308,934,926.80)	(325,314,017.09)
GENERAL			
38900 Land	(305,813.00)	(264,848.08)	(264,848.08)
38910 ROW	(228.00)	(230.92)	(231.91)
39000 Structures & Improvements	479,812.00	1,669,958.46	1,470,410.80
39100 Gen Office - Furn	(1,397,983.00)	(1,925,553.68)	1,876,522.12
39200 Auto - Cmpt	(1.00)	(29.93)	(29.93)
39210 Auto Other	(25,053.00)	(382,130.62)	(412,658.86)
39220 Auto Tk Un 1 Ton	(84,819.00)	46,523.97	(457,585.89)
39230 Auto Tk 1Ton&Ov	(5,981.00)	(111,883.68)	(183,505.76)
39240 Gen Trnsp-Eqpt-General	(1,098.00)	(37,855.94)	(37,855.94)
39300 Stores Eqpt	(58,181.00)	(52,066.51)	(46,039.81)
39400 Small Tools	(3,739,823.00)	(4,125,827.11)	993,401.14
39500 Laboratory Eqpt	7,097.00	9,403.95	13,433.34
39600 Main Line Trucks	(6,290.00)	547,678.21	439,288.25
39610 Exc&Const Eqpt	35,959.00	118,312.93	115,535.76
39620 M sc Const Eqpt	(15,450.00)	(759,208.58)	(764,472.82)
39640 Weld Eqpt	(2,485.00)	(2,781.12)	110.82
39660 Power Tools	(269,145.00)	(306,596.19)	59,145.38
39700 Communications Eqpt	(1,485.036 00)	(1,725,296.56)	(92 220 72)
39800 Miscellaneous Eqpt	(64,111 00)	(71,071.03)	(70 413 03)
Tota	(6,938,629 00)	(7,373.502 43)	2,637 984 86
INTANGIBLE			
301000 Organization	0.00	0.00	0.00
30200 Fran&Consents Perpetual Fees	0.00	0.00	0.00
30300 Financial System Software	(2,052,612.00)	(2,603,254.72)	(3,111,813.68)
	(2,052,612.00)	(2,603,254.72)	(3,111,813.68)
Total	(318,621,205.96)	(337,939,422.72)	(345,107,194.10)

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
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Q. On page 1 of the January 29, 2007 letter accompanying its rate filing ("January 29th Letter"), National Fuel Gas Distribution Corporation ("NFG") states that "the revised tariff leaves are designed to increase annual revenue recovered in base rates by approximately $52 million." Based on NFG's rate filing, what is the proposed system-wide increase to delivery rates, in percentage terms (excluding commodity)?

A. $51,546/$265,531 = .1941 or 19.41%. See Exhibit___(RLT-1), Sheet 1.

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Q. With respect to the inflation factor discussed starting on page 29, line 10, confirm whether the "GDP Deflator" relied upon includes health care and medical expense of the type that NFG seeks to exclude from its inflation pool. If not confirmed, explain how such costs were removed from the factor used.

A. These costs were not removed from the GDP Deflator by National Fuel.

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Q. On Attachment C to the January 29th Letter, the revenue requirement impact attributed to depreciation is $8.9 million. In this proceeding, NFG's depreciation study reflects certain methodological changes from prior studies. Do those methodological changes have the impact of increasing or decreasing NFG's revenue requirement? What is the revenue requirement impact solely attributable to the methodological changes? What would be the revenue requirement impact attributable to depreciation if NFG conducted its depreciation study in a manner consistent with the depreciation study filed by the utility in its last gas rate proceeding?

A. The changes in methodology increase the revenue requirement. Mr. Spanos provided me with the attached breakdown. The revenue requirement for each component is as follows, however, any change to the income tax depreciation that might result from the change in book depreciation has not been included in the calculation.

Service Life and Net Salvage	$6,799.000
Remaining Life to Whole Life	$1,853,000