national fuel

Lee E. Hartz
Sr. Attorney

November 20, 2008

VIA NEXT DAY UPS
Secretary James J. McNulty
Pennsylvania Public Utility Commission
Commonwealth Keystone Bldg.
400 North Street
Harrisburg, PA 17120

Re: October 16, 2008 Secretarial Letter in: Revision of Guidelines for Maintaining Customer Services Establishment of Interim Standards for Purchase of Receivables (POR) Programs

Pa. P.U.C. Docket No.: M-2008-2068982

Dear Secretary McNulty:

As requested in the above-captioned Secretarial Letter, enclosed for filing are an original and 10 copies of the Reply Comments of National Fuel Gas Distribution Corporation.

Electronic service is also being effectuated as requested in the Secretarial Letter.

If you should have any questions regarding this filing, please contact me anytime at (814) 871-8060. Many thanks for your assistance in this matter.

Very truly yours,

Lee E. Hartz

Enclosures

cc: (w/ encl.) ***VIA E-Mail:***
Patricia Krise Burket, Assistant Counsel
Robert F. Young, Deputy Chief Counsel
Paul Diskin, Manager, Fixed Utility Services
Daniel Mumford, Policy Analyst

BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Revision of Guidelines for Maintaining Customer Services Establishment of Interim Standards for Purchase of Receivables ("POR") Programs	:	**Docket No. M-2008-2068982**
	:	**REPLY COMMENTS**
Secretarial Letter Requesting Comments Issued: October 16, 2008 Reply Comments Due: November 20, 2008	:	

REPLY COMMENTS OF NATIONAL FUEL GAS DISTRIBUTION CORPORATION

TO THE PENNSYLVANIA PUBLIC UTILITY COMMISSION:

National Fuel Gas Distribution Corporation ("Distribution"), a certificated natural gas distribution company providing service to approximately 213,000 customers in Northwestern and North-Central Pennsylvania, hereby submits the following Reply Comments to the various Comments filed in response to the above-captioned secretarial letter.

I. Introduction.

On October 16, 2008, the Commission issued a Secretarial Letter at Docket No. M-2008-2068982, soliciting comments regarding the revision of guidelines relating to customer services in order to implement POR programs by Natural Gas Distribution Companies ("NGDCs"). Comments were subsequently filed by 13 interested parties.[1] According to the Secretarial Letter, Reply Comments may be filed with a filing deadline of November 20, 2008.

In large part, many of the points raised in other Comments were addressed by Distribution in its original Comments filed on November 5, 2008. Distribution will not repeat its original Comments, rather, they are hereby incorporated as part of this Reply. In addition, the Energy Association of Pennsylvania ("EAPA"), in its Reply Comments, will be addressing some

[1] The following parties filed Comments: Office of Small Business Advocate; T.W. Phillips Gas & Oil; National Energy Marketers Association; U.S. Gas & Electric Inc.; Office of Consumer Advocate; PECO Energy Company; Mxenergy; Energy Association of Pennsylvania; Dominion Retail-Interstate Gas Supply-Shipley; Direct Energy; National Fuel Gas Distribution Corporation; Dominion Peoples; and, Philadelphia Gas Works (PGW).

of the more general issues raised by the initial Comments. Distribution joins in the Reply Comments filed by the EAPA.

In addition to the general items addressed by EAPA, these Reply Comments address to two specific items raised in various of the filed Comments. These are: (1) the notion that implementation of POR programs will not involve costs to an NGDC or its customers; and, (2) the comments insinuating that NGDC utility assets are cost-free goods that should be available to NGSs.

II. The implementation of voluntary POR programs will, necessarily, involve costs to the NGDC or its customers.

The Joint Comments of Dominion Retail, Inc., Interstate Gas Supply, Inc., and Shipley Energy Company ("Joint NGSs") state, on page 6, that it is "hard to imagine" how a utility's purchase of NGS receivables will increase costs to anyone. Likewise the comments of, Agway Energy Services, LLC, Gateway Energy Services Corporation, Interstate Gas Supply, Inc., Shipley Energy Company, Vectran Retail, LLC and National Energy Marketers Association ("NEMA, *et al*"), on page 4, assume that POR programs will add "virtually no additional costs to the utility or consumers."

Distribution disagrees with this notion and believes that, although POR may be implemented at a comparatively reasonable cost if the utility already offers retail consolidated billing, it needs to be recognized that the addition of a POR program is hardly cost-free. Distribution bases this position on its experience with its currently active POR program in its New York territory.

The most readily apparent costs involve modifications to the NGDC's billing systems. Systems must be modified to enable transfer of NGS billing information from the NGS to the utility as well as transfer of payment of the receivable from the utility to the NGS. Additional system requirements are necessary to update the billing information for the customer on the utility's billing system so that customer inquiries can be readily answered by the utility call center.

Another cost, although not easily quantified, is the utility's assumption of the risk of non-payment that absent a POR program would fall on the NGS. This credit risk can be managed, however, with a carefully designed program that includes, e.g., disconnection authority on par with non-NGS customers, among other things.

In addition, there are costs associated with administration and operation of a POR program. By way of example, NGDCs may incur legal fees in developing, implementing and managing contracts with the NGSs for purchasing the receivables.[2] There would also be day-to-day costs associated with the operation of the POR program.

Also, to the extent that an NGS would charge more than the utility and the customer defaults, a utility's uncollectible costs will increase. This is especially true in POR models where a utility must reconnect the defaulting customer when the customer pays the lower otherwise applicable utility rate.[3] This additional cost can be mitigated if a utility is permitted "partial recourse" of the amount of the receivable in excess of the utility's bill. Partial recourse would permit the utility to charge-back the portion of the unpaid receivable in excess of the utility bill to the NGS. Distribution currently has a POR program in its New York division that operates with a partial recourse feature.

III. Utility assets are not cost-free goods.

On page 4 of their comments, NEMA *et al,* make the curious statement that:

> POR enhances the ability of the competitive marketplace to serve credit-challenged customers. It is rarely noted that a marketer cannot reclaim its commodity in the event of a payment default. Utility assets are always there to use another day.

This comment presumes that utility assets are publicly-available, cost free goods and should be available for use by NGSs whenever the NGS needs them. Such a presumption, however, is incorrect. As the Commission, and any party to a utility rate proceeding, is abundantly aware, utility assets are neither public goods nor "always there to use another day." Utility assets are

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[2] For example, periodic UCC searches, and legal analyses, are required to insure NGS compliance with contract requirements for the sale of receivables free of encumbrances.

[3] This option was suggested as a possible POR model by the Office of Small Business Advocate and the Office of Consumer Advocate in their Comments.

available for the use of utility customers at just and reasonable rates to those customers. Utilities are required to provide those assets so that reliable service at the lowest cost consistent with that reliable service can be provided. To the extent that NGSs cannot enhance low cost reliable services to customers, they should not be permitted to free-ride on those utility assets, let alone increase overall costs of those services to customers and utilities.

IV. Conclusion.

National Fuel Gas Distribution Corporation appreciates the opportunity to provide these Reply Comments and looks forward to working with the Commissioners and their staff to make a viable competitive market.

Respectfully submitted,

Dated: November 20, 2008

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