FOCUSED MANAGEMENT AND OPERATIONS AUDIT OF NATIONAL FUEL GAS DISTRIBUTION CORPORATION

Prepared By The
Pennsylvania Public Utility Commission
Bureau Of Audits

Issued April 2012

Docket No. D-2011-2228385

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
FOCUSED MANAGEMENT AND OPERATIONS AUDIT

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I. INTRODUCTION

In accordance with the Pennsylvania Public Utility Commission's (PUC or Commission) program to identify improvements in the management and operations of fixed utilities under its jurisdiction, it was determined that a focused management and operations audit should be conducted of National Fuel Gas Distribution Corporation (NFGDC or Company). Management and operational reviews, which are required of certain utility companies pursuant to 66 Pa. C.S. §516(a), come under the Commission's general administrative power and authority to supervise and regulate all public utilities in the Commonwealth, 66 Pa. C.S. §501(b). More specifically, the Commission can investigate and examine the condition and management of any public utility, 66 Pa. C.S. §331(a).

This report represents the written product of the focused management and operations audit and contains the resultant findings and recommendations for improvement in the management and operations of NFGDC. The findings presented in the report identify certain areas and aspects where weaknesses or deficiencies exist. In all cases, recommendations have been offered to improve, correct, or eliminate these conditions. The final and most important step in the management audit process is to initiate actions toward implementation of the recommendations.

A. <u>Objectives and Scope</u>

The objectives of this focused management and operations audit were threefold:

- To provide the Commission, Company, and the public with an assessment of the economy, efficiency, and effectiveness of the Company's operations, management methods, organization, practices, and procedures.

- To identify opportunities for improvement and develop recommendations to address those opportunities.

- To provide an information base for future regulatory and other inquiries into the management and operations of NFGDC.

The scope of this audit was limited to certain areas of the Company as explained in Section B, Audit Approach, below.

B. Audit Approach

This focused management and operations audit was performed by the Management Audit Staff of the PUC's Bureau of Audits (Audit Staff). The audit process began with a pre-field work analysis as outlined below:

- A five-year internal trend and ratio analysis (see Appendix A) was completed using financial and operational data obtained from the Company, Commission, and other available sources. This analysis, which focused on the period 2005-2009, was supplemented by comparisons to a panel of gas utilities for the period 2005-2009 (see Appendix B).

- Input was solicited from Commission Bureaus and Offices, certain external parties, and the Company regarding any concerns or issues they would like to have addressed during the course of our review.

- Prior management and operations audits, follow-up management efficiency investigations, implementation plans, implementation plans/progress reports, and other available documents were reviewed.

Information from the above steps was used to initially focus the Audit Staff's work efforts in the field. Some areas or functions of NFGDC were selected for in-depth analysis. Specifically, the following areas or functions were selected for an in-depth analysis and are included in this report:

- Executive Management and Organizational Structure
- Corporate Governance
- Affiliated Interests
- Financial Management
- Emergency Preparedness
- Diversity and Equal Employment Opportunity
- Customer Service
- Gas Operations

The pre-field work analysis should not be construed as a comprehensive evaluation of the management or operations in the functional areas not selected for in-depth examination. Had we conducted a thorough review of those areas, weaknesses or deficiencies may have come to our attention not identified in the limited pre-field work review.

The information provided in this audit report reflects the conditions as they existed at the time of our fieldwork. The actual fieldwork began on March 21, 2011 and continued through August 11, 2011. The principal components of the fact gathering process included:

- Interviews with Company personnel.

- Analysis of records, documents, and reports of a financial and operational nature. This analysis focused primarily on the period 2005-2010, and the year 2011, as available.

- Visits to the gas control and emergency dispatch center, a service center, as well as observation of selected work practices.

C. Functional Area Ratings

For the functions or areas of the Company that were selected for in-depth examination, the Audit Staff rated the actual operating or performance level relative to the expected performance level at the time of the audit. This expected performance level is the state at which each area or function should be operating given the Utility's resources and general operating environment. Expected performance is not a "cutting edge" operating condition; rather, it is management of an area or function such that it produces reasonably expected operating results.

Presented below are the evaluative categories utilized to rate each function or area's actual operating or performance level relative to its expected performance level:

- Meets Expected Performance Level
- Minor Improvement Necessary
- Moderate Improvement Necessary
- Significant Improvement Necessary
- Major Improvement Necessary

Our ratings for each function or area reviewed in-depth can be found in Exhibit I-1 on the next page.

Exhibit I-1
National Fuel Gas Distribution Corporation
Focused Management and Operations Audit
Functional Rating Summary

Functional Area	Meets Expected Performance Level	Minor Improvement Necessary	Moderate Improvement Necessary	Significant Improvement Necessary	Major Improvement Necessary
Executive Management & Organizational Structure		X			
Corporate Governance		X			
Affiliated Interests			X		
Financial Management		X			
Emergency Preparedness		X			
Diversity & EEO		X			
Customer Service		X			
Gas Operations	X				

D. Recommendation Summary

Chapters III through X provide findings, conclusions, and recommendations for each function or area reviewed in-depth during this focused audit. Exhibit I-2 summarizes the recommendations with the following priority assessments for implementation:

- HIGH PRIORITY – Implementation of the recommendation would result in significant cost savings, major service improvements, and/or substantial improvements in management practices and performance. These recommendations should be implemented as soon as practical.

- MEDIUM PRIORITY – Implementation of the recommendation would result in important cost savings, service improvements, and/or meaningful improvements in management practices and performance. Implementation of these recommendations should begin within 12 months.

- LOW PRIORITY – Implementation of the recommendation could potentially enhance cost controls, service improvements, and/or management practices and performances. Implementation of these recommendations should begin within 18 months.

These priorities were assigned based on the Audit Staff's assessment of the potential impact of the recommendations and the Companies' available resources.

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Summary of Recommendations

Chapter/Section Title	Recommendation	Page Number	Priority
III. Executive Management & Organizational Structure			
	1. Examine the overall integrated management structure between National Fuel Gas Distribution Corporation and National Fuel Gas Company periodically and adjust reporting relationships, where appropriate, to eliminate unjustified low or high spans of control, and revise job titles based on reporting relationships and related responsibilities.	18	Medium
IV. Corporate Governance			
	1. Rotate the external audit firm on a periodic basis.	23	Medium
	2. Periodically rebid and/or conduct cost comparisons of external audit services.	23	Medium
V. Affiliated Interests			
	1. Submit updated affiliated interest agreement(s) to the Commission for approval of all transactions with affiliates whom NFGDC transacts business.	37	High
	2. Initiate efforts to increase the amount of work hours within support service departments that are directly charged based on the task performed rather than allocated as a common cost.	37	Medium
	3. Study possible alternatives for strengthening ring fencing by establishing procedures for obtaining external financing separate from the corporate parent and other appropriate measures.	37	High

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Summary of Recommendations

Chapter/Section Title	Recommendation	Page Number	Priority
VI. Financial Management			
	1. Establish a formal dividend policy.	46	High
	2. Submit a detailed, written explanation for each dividend payout exceeding 85% of net income to the Commission within 30 days after public release of this audit report, and ensure that advance notice and explanations are submitted to the Commission prior to making future dividend payments in excess of 85% of net income.	46	Medium
VII. Emergency Preparedness			
	1. Ensure that contact information for all local public and emergency officials as well as the Pennsylvania State Police is included in the Company's emergency response manual.	49	High
VIII. Diversity & EEO			
	1. Continue efforts to attain full representation of women and minorities.	58	Low
	2. Implement additional strategies, initiatives, and actions as appropriate to increase purchases from women and persons with disabilities owned businesses.	58	Low

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Summary of Recommendations

Chapter/Section Title	Recommendation	Page Number	Priority
IX. Customer Service			
	1. Track and report collection agency performance by state jurisdiction and include net collections as one of the performance measures used to evaluate each collection agency's results.	72	Low
X. Gas Operations			
	None		

II. BACKGROUND

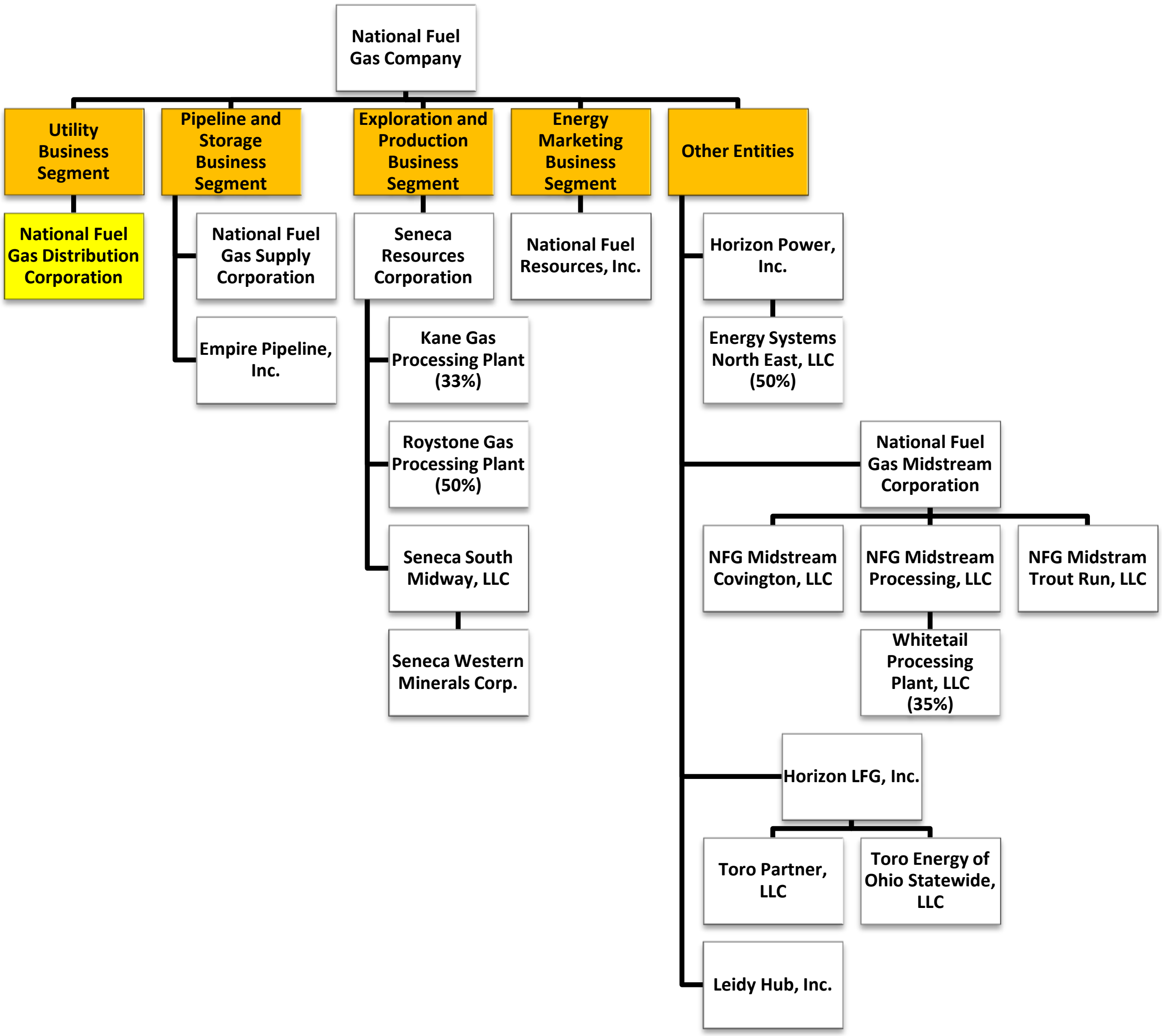
National Fuel Gas Company (National Fuel), a diversified energy company with headquarters in Williamsville, New York, is a holding company registered under the laws of the state of New Jersey that is publicly traded on the New York Stock Exchange as NFG. National Fuel's principal business segments include: Utility, Pipeline and Storage, Exploration and Production, and Energy Marketing. A corporate entity chart of National Fuel and its subsidiaries is shown on Exhibit II-1. National Fuel Gas Distribution Corporation (NFGDC), the Utility business segment, sells or transports natural gas to consumers through a local distribution system located in western New York and northwestern Pennsylvania. During the calendar year ended December 31, 2010, NFGDC had gross operating revenues of approximately $830.3 million from a throughput (or deliveries) of 126,850,000 thousand cubic feet of natural gas to approximately 729,300 customers. NFGDC had 1,313 employees at December 31, 2010. The principal metropolitan areas served by NFGDC include Buffalo, Niagara Falls and Jamestown, New York, and Erie and Sharon, Pennsylvania. The Utility business segment is regulated by the New York State Public Service Commission with respect to services provided within New York and by the Pennsylvania Public Utility Commission (PUC) with respect to services provided within Pennsylvania.

During the calendar year 2010, in its Pennsylvania service territory, NFGDC had an average of 212,134 customers (or approximately 29% of total customers served by NFGDC) comprised of 196,289 residential customers; 15,252 commercial customers; and 593 industrial customers. In calendar year 2010, NFGDC's Pennsylvania gross operating revenue was approximately $255.5 million or 31% of the total NFGDC operating revenue. In the Pennsylvania service territory, residential customers accounted for approximately 92.5% of the customer base, 72.6% of operating revenues, and 43.1% of total deliveries. Commercial customers accounted for 7.2% of the customer base, 16.9% of operating revenues, and 20.1% of total deliveries. Industrial customers accounted for 0.3% of the customer base, 5.3% of operating revenues, and 31.1% of total deliveries. The balance of the operating revenues, 5.2%, came from unmetered, off-system sales and other gas revenues; these sales accounted for the remaining 5.7% of total deliveries. Other key data and statistics for the Pennsylvania service area as of December 31, 2010 include: utility plant in service of $478.9 million; 4,974 total miles of main; 209,981 services; total gas operations and maintenance expense of $199.6 million; unaccounted for gas of 1.86%; and 334 Pennsylvania employees. NFGDC's Pennsylvania union employees are represented by the International Brotherhood of Electrical Workers and the National Conference of Fireman and Oilers unions.

Although the National Fuel affiliates shown on Exhibit II-1 are legally organized as separate companies, all entities of National Fuel are managed as an integrated business. National Fuel's organizational structure involves a group of key executives that hold officer level positions across the various companies. For example, the Controller of National Fuel Gas Company also holds the same position at NFGDC and several other affiliates. The responsibilities for the various functions that impact NFGDC is distributed among the President, two Senior Vice Presidents, five Vice

Presidents, three Assistant Vice Presidents, Secretary, Controller, Treasurer, and Assistant Treasurer as shown on Exhibit II-2. The Senior Vice Presidents, Vice Presidents, and Assistant Vice Presidents all have generic titles (i.e., they are not further identified with a title such as Vice President of Operations). However, these positions have specific responsibilities and the Audit Staff found that this does not present a problem in regards to organizational effectiveness.

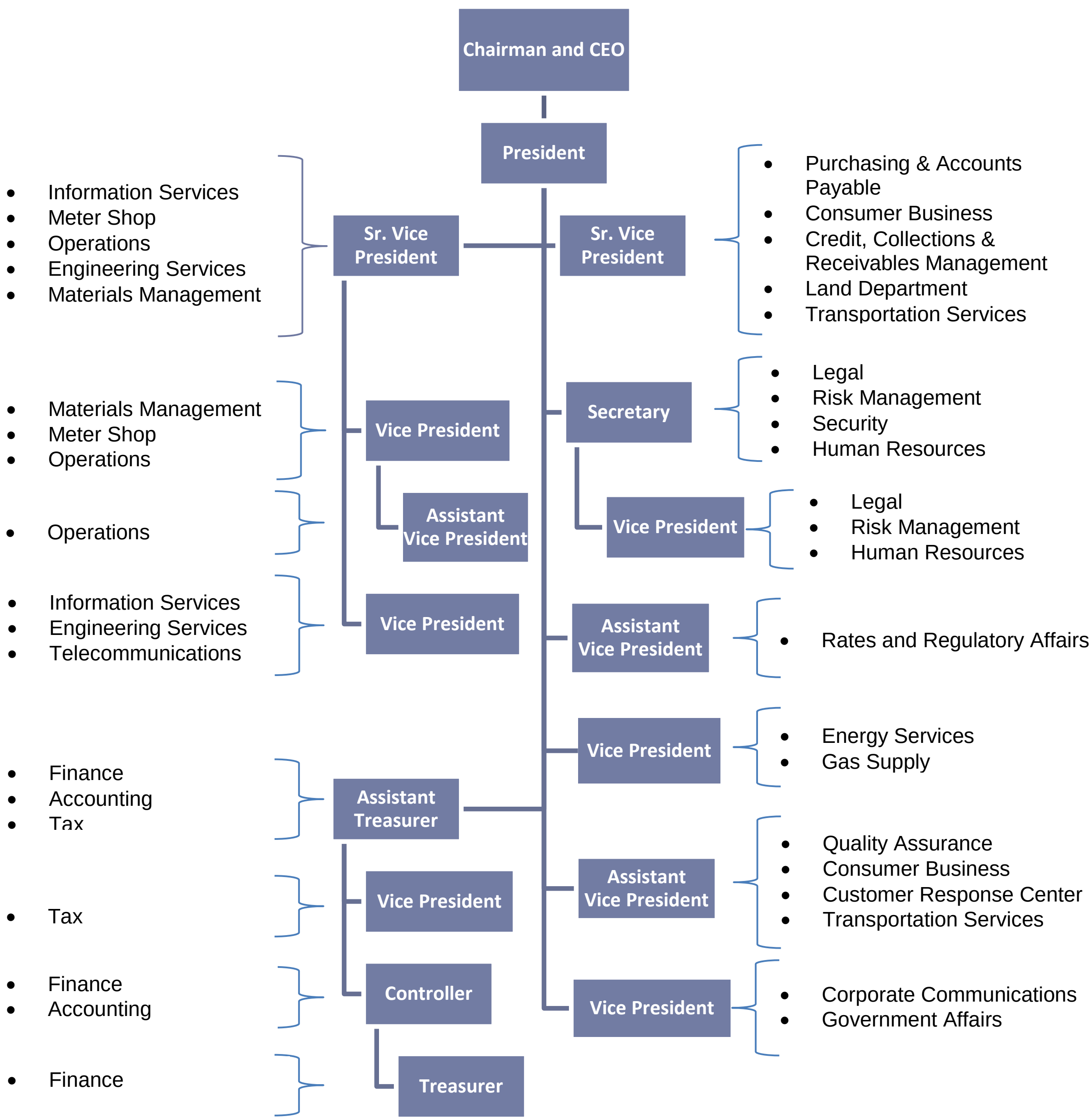
Exhibit II-1
National Fuel Gas Company
Corporate Entity Chart
As of June 30, 2011



Notes:
- Seneca Resources Corporation owns 33% of the Kane Gas Processing Plant Joint Venture
- Seneca Resources Corporation owns 50% of the Roystone Gas Processing Plant Joint Venture
- Horizon Power, Inc. owns 50% of Energy Systems North East, LLC
- NFG Midstream Processing, LLC owns 35% of Whitetail Processing Plant, LLC

Source: Data Request No. EM-1, Interview Request Nos. EM-1, 2, and Auditor Analysis

Exhibit II-2
National Fuel Gas Distribution Corporation
Organizational Structure
As of June 30, 2011



Source: Data Request No. EM-1, Interview Request Nos. EM-1, 2, and Auditor Analysis

III. EXECUTIVE MANAGEMENT AND ORGANIZATIONAL STRUCTURE

Background

National Fuel Gas Company (National Fuel), incorporated in 1902, is a diversified energy holding company organized under the laws of the state of New Jersey. National Fuel reports financial results under four business segments (see Exhibit II-1 in Chapter II – Background to see the organization of the various entities under each business segment):

- Utility – The Utility segment operations are conducted by National Fuel Gas Distribution Corporation (NFGDC), a New York Corporation. NFGDC sells natural gas or provides natural gas transportation services to approximately 729,000 customers in western New York and northwestern Pennsylvania. The principal metropolitan areas served by NFGDC include Buffalo, Niagara Falls and Jamestown, New York and Erie and Sharon, Pennsylvania.

- Pipeline and Storage – The Pipeline and Storage segment operations are conducted by National Fuel Gas Supply Corporation (Supply Corporation), a Pennsylvania corporation; and Empire Pipeline, Inc. (Empire), a New York Corporation. Supply Corporation provides interstate natural gas transportation and storage services for affiliated and nonaffiliated companies through an integrated gas pipeline system extending from southwestern Pennsylvania to the New York/Canadian border at the Niagara River and eastward to Ellisburg and Leidy, Pennsylvania, and 27 underground natural gas storage fields owned and operated by Supply Corporation as well as four other underground natural gas storage fields owned and operated jointly with other interstate gas pipeline companies. Empire, an interstate pipeline company, transports natural gas for NFGDC and for other non-affiliated utilities, large industrial customers and power producers in New York State. Empire owns the Empire Pipeline, a 157 mile pipeline that extends from the United States/Canadian border at the Niagara River near Buffalo, New York to near Syracuse, New York, and the Empire Connector, which is a 76-mile pipeline extension from near Rochester, New York to an interconnection with the unaffiliated Millennium Pipeline near Corning, New York.

- Exploration and Production – The Exploration and Production segment operations are conducted by Seneca Resources Corporation (Seneca), a Pennsylvania corporation; and by Seneca Western Minerals Corp., a Nevada incorporated subsidiary of Seneca South Midway, LLC, which is a subsidiary of Seneca. Seneca is engaged in the exploration for, and the development and purchase of, natural gas and oil reserves in California and in the Appalachian region of the United States.

- Energy Marketing – The Energy Marketing segment operations are conducted by National Fuel Resources, Inc. (NFR), a New York corporation, which markets natural gas to industrial, wholesale, commercial, public authority and residential customers primarily in western and central New York and northwestern Pennsylvania.

National Fuel's other direct wholly owned or recently owned subsidiaries, which are not included in the four reported business segments described above (see Exhibit II-1 in Chapter II - Background), include:

- Horizon Energy Development, Inc., a New York corporation, formed to engage in foreign and domestic energy projects through investments as a sole or substantial owner in various business entities[1].
- Horizon Power, Inc., a New York corporation which is an "exempt wholesale generator" under the Public Utility Holding Company Act of 2005 and is operating landfill gas electric generation facilities.
- National Fuel Gas Midstream Corporation, a Pennsylvania corporation formed to build, own and operate natural gas processing and pipeline gathering facilities in the Appalachian region.
- Horizon LFG, Inc., a dormant (i.e., inactive) subsidiary since the September 2010 sale of its landfill gas operations in the states of Ohio, Michigan, Kentucky, Missouri, Maryland, and Indiana.
- Leidy Hub, Inc., which was formed to provide various natural gas hub services to customers in the eastern United States, has been a dormant corporation since Ellisburg-Leidy Northeast Hub Company, a general partnership, was dissolved during fiscal year 2000. Leidy Hub, Inc. owned a 50% interest in Ellisburg-Leidy Northeast Hub Company.

NFGDC is a wholly owned subsidiary of National Fuel. NFGDC is regulated by the New York Public Service Commission with respect to services provided within New York and by the Pennsylvania Public Utility Commission (PUC) with respect to services provided within Pennsylvania. As of December 31, 2010, NFGDC had 213,043 Pennsylvania customers, an increase of 1,171 customers over the previous year. In its annual report filed with the PUC for 2010, NFGDC reported that it had 334 employees at the end of 2010, a decrease of 24 employees over the previous year. NFGDC is organized as shown in Exhibit II-2 (refer to Chapter II - Background). As discussed in Chapter V - Affiliated Interests, common expenses are allocated from the New York portion of NFGDC to the various affiliates, including the Pennsylvania portion of NFGDC.

As part of the review of NFGDC's planning process, the Audit Staff reviewed the Company's strategic planning process. After developing a corporate vision (outlines what the organization wants to be) and mission (defines the fundamental purpose of an

[1] The management audit reviewed transactions between NFGDC and affiliates for the period 2005-2010, and the year 2011, as available, which included Horizon Energy Development, Inc.; however, Horizon Energy Development, Inc. was sold in December 2010, and therefore is not shown in Exhibit II-1 found in Chapter II – Background.

organization), NFGDC formulates its tactical approach, which addresses the challenge of "how it gets to where it wants to go." The Board of Directors (Board) of National Fuel establishes goals on an annual basis for the President of NFGDC. In turn, the President of NFGDC establishes goals for NFGDC's senior officers (i.e., the two Senior Vice Presidents) who likewise are linked to the goals of the vice presidents and assistant vice presidents, and ultimately the department heads. NFGDC uses its performance appraisal process as a means of conveying the goals established down into the organization to the departmental level. The goals and direction are also communicated to all NFGDC supervisory personnel at National Fuel's annual management conference. Once the goals reach the departmental level, individual managers and supervisors define scopes, establish specific action items, define timeframes, explore best practices where feasible, and commit capital and personnel resources.

NFGDC favors this planning approach versus creating a stand-alone administrative planning function. Integral to this approach is the assessment of the current business, economic and regulatory environments in which NFGDC operates, along with its own self-assessment of its strengths, weaknesses, opportunities and threats (SWOT analysis). The Audit Staff reviewed NFGDC's vision and mission statements, assessment of its business environment, SWOT analysis, and the strategic objectives around which NFGDC's energies and resources are focused, and concluded that the strategic planning process currently in use adequately addresses NFGDC's needs. On an annual basis, the President of NFGDC delivers a presentation summarizing NFGDC's strategic plan to National Fuel's Board. The March 2011 presentation called for a continued focus on safety, the provision of excellent customer service, cost control, and maintenance of a constructive dialogue with regulators.

National Fuel's Compensation Committee, which is comprised of six "non-employee" independent Board members, administers National Fuel's compensation program for its executive officers. It is responsible for various aspects of executive compensation, including approval of the base salaries and incentive compensation of the Company's executive officers. In addition, the Compensation Committee is authorized to evaluate director compensation and make recommendations to the full Board regarding director compensation. National Fuel's Compensation Committee has used two independent compensation consulting firms each year to assist in approving executive compensation levels. In 2009, the compensation consultants prepared an analysis of compensation practices at companies in the energy industry and in general industry for consideration by the Compensation Committee. One consultant provided an analysis of compensation practices with respect to base salary, total cash compensation (i.e., base salary plus short-term incentive) and total direct compensation (i.e., base salary plus short-term incentive plus long-term incentive) compared to similar jobs in general industry and, where appropriate, in the energy industry based on its proprietary databases. National Fuel's Chief Executive Officer also makes recommendations regarding compensation and employee benefits for consideration by the Compensation Committee.

Total compensation for executive officers is comprised of the following components:

- Base salary - The Compensation Committee targets a range of the 50th percentile to the 75th percentile of the market survey data provided by the compensation consultants. The Compensation Committee also considers overall corporate performance and an individual's specific responsibilities, experience, and effectiveness and makes adjustments based on the Compensation Committee members' business judgment and the Chief Executive Officer's recommendations.
- Annual cash incentive compensation - Additional executive compensation is provided via an annual cash incentive based on performance over one to two years compared to written goals. The target award is a percentage of the executive's base salary for the fiscal year; the target ranged from 30 percent of base salary for the Treasurer and Principal Financial Officer to 100 percent of base salary for the Chairman and CEO. The maximum annual cash incentive award is two times the target amount.
- Long term incentive compensation – Stock options, restricted stock, restricted stock units, stock-settled stock appreciation rights ("SAR's") and the Performance Incentive Program represent the long-term incentive and retention component of the executive compensation package. The Performance Incentive Program is the Company's cash based, long-term incentive program, based on three year performance periods, as opposed to annual cash incentive compensation, which is based on performance over two years for earnings per share goals and one year for all other goals.
- Employee benefits - This includes retirement, health and welfare benefits.

Based on the information provided and reviewed, it appears that National Fuel is adequately managing its executive compensation program.

Succession planning for executive officers of National Fuel is the responsibility of the Board with advice and counsel from National Fuel's Chief Executive Officer and Chief Operating Officer. Succession planning for lower level positions is the responsibility of the officers in charge of the various departments and the department managers. A similar succession planning format is followed for both officers and lower level positions (i.e., potential candidates are classified in one of three categories: sudden loss; 3-5 years; and 10+ years). Potential candidates placed in the sudden loss category are those who could fill a position immediately. For example, there are generally 2 to 3 individuals who could replace a manager level position. Potential candidates placed in the 3-5 years category are those who might be capable of filling a position within a 3 to 5 year time frame. Potential candidates placed in the 10+ years category are those who might be capable no sooner than 10 years out. Individuals placed in the 10+ years category are usually very junior employees.

Potential candidates are provided with mentoring and developmental activities to improve their readiness to succeed to a specific position(s). National Fuel strives to identify individuals who, with proper training and developmental experiences, could move into a particular position(s). National Fuel also utilizes a rotating engineer and

MBA (an individual with a graduate degree in business administration) program whereby promising individuals are rotated for six month assignments. Once finished with these assignments, employees in the rotating program will then be assigned to new assignments for a longer period, generally 3 to 5 years. Additionally, the annual performance review process used by National Fuel helps to identify promising candidates for future promotion. Also, salary increases reflect performance differentials and help to pinpoint high performing employees.

Findings and Conclusions

Our examination of the Executive Management function included a review of the Company's organization structure, planning, executive compensation, and succession planning. Based on our review, the Company should initiate or devote additional efforts to improving the efficiency and/or effectiveness of executive management by addressing the following:

1. A significant number of reporting relationships are outside of the commonly accepted span of control range of 1:4 to 1:9, and some job titles do not make sense based on their reporting relationships.

As part of the review of NFGDC's organization structure, the Audit Staff reviewed the appropriateness of spans of control at various key levels of management. Span of control refers to the number of subordinates a manager or supervisor directly supervises in an organization. Factors affecting span of control in an organization include:

- Nature of work;
- Similarity of work functions;
- Control practices followed;
- Geographic proximity;
- Degree of supervisory coordination needed;
- Operational assistance available to the manager;
- Effectiveness of communication;
- Capacity of subordinates;
- Ability of the executive; and
- Time available for supervision.

To maximize organizational efficiency and effectiveness, the Company should ideally aim for spans of control in the range of 1:4 to 1:9 to control layers of management and maintain effective communications. Overly narrow spans of control are considered inefficient because they can result in inefficient communications, micro-management, a larger number of supervisors, and higher than necessary compensation costs. Spans of control that are too wide can result in poor performance due to a lack of effective management oversight and control. The Audit Staff's analysis of NFGDC's span of control for manager and supervisor positions is shown in Exhibit III-1. Of the 129 reporting relationships identified, 35.6% have a span of control of 1:3 or less, while 3.9% have a span of control of 1:10 or higher.

Exhibit III-1
National Fuel Gas Distribution Corporation
Span of Control Analysis
June 30, 2011

Reporting Ratio	Number of Relationships	Percent of Total Relationships
1:1	12	9.3%
1:2	19	14.7%
1:3	15	11.6%
1:4	14	10.9%
1:5	16	12.4%
1:6	19	14.7%
1:7	11	8.5%
1:8	8	6.2%
1:9	10	7.8%
1:11	2	1.6%
1:13	3	2.3%
Total	129	100.0%

Source: Data Requests No. EM-1, Auditor analysis

There are situations where it is appropriate for a supervisor to have a span of control outside of the range from 1:4 to 1:9. For example, certain types of functions may require a position of authority to manage the function as opposed to managing employees (i.e., low spans of control), while other positions may manage a pool of employees that routinely perform a repetitive task (i.e., high spans of control). Some examples of positions with a low or high span of control (note: the number of direct reports listed is based on the organization charts provided by National Fuel) are as follows:

- Controller (Financial Accounting/Finance Department) – 2 direct reports
- Vice President (Energy Services Department/Gas Supply Administration) – 2 direct reports
- Senior Manager Financial Systems (Financial Accounting) – 3 direct reports
- CNBS Manager (i.e., Consumer Business Manager) (Pennsylvania Customer Service) – 1 direct report
- General Manager (Energy Services Department) – 2 direct reports
- Treasurer (Finance Department) – 2 direct reports
- Vice President (Finance Department) – 2 direct reports
- Assistant General Manager (Government Affairs) – 3 direct reports
- Vice President and General Counsel (Human Resources Department/Legal Department/Risk Management Department) – 13 direct reports
- Information Services General Manager (Information Services Department) – 2 direct reports
- Customer Information System Team and Web (Information Services Department) – 13 direct reports
- Superintendent (Materials Management) – 1 direct report

- General Manager CNBS Administration (Transportation Services) – 1 direct report
- Transmission and Distribution Staff Engineering Manager (Engineering Services Department) – 11 direct reports

The reporting relationships listed above, along with all other relationships included in Exhibit III-1, should be periodically reviewed as part of an organization study designed to achieve and maintain the most effective and efficient organizational structure. The organization study should also consider the job titles themselves and the reporting relationships of these job titles. For example, the Credit, Collections and Receivables Management Department organizational structure has a General Manager reporting to an Assistant General Manager[2]; while the Finance Department organizational structure has a Treasurer reporting to the Controller who reports to an Assistant Treasurer (the Assistant Treasurer for NFGDC is also the Treasurer and Principal Financial Officer for the parent, National Fuel). In both cases, there appears to be a reporting relationship that is the opposite of what one would expect to see based on titles.

A periodic review of the overall management structure would identify if there are sufficient levels of management oversight in each department and if the job titles adequately identify and match the levels of responsibility for each position. In addition, as part of National Fuel's integrated management structure, there are positions that fulfill more than one role to different affiliates. For example, NFGDC's Assistant Treasurer is also the Treasurer and Principal Financial Officer for the parent, National Fuel. Likewise, NFGDC's Controller is also Controller for National Fuel, National Fuel Gas Supply Corporation and Empire Pipeline, Inc. and NFGDC's Secretary is also General Counsel and Secretary for National Fuel. It would be prudent to identify and evaluate these types of positions for their extended spans of control across multiple entities within National Fuel to determine if such spans of control are reasonable considering the responsibilities held across multiple entities. The Company also uses generic titles, such as Manager, without identifying the position's area(s) or function(s) of responsibility. The Company should consider revising the generic job titles to reflect the area(s) of responsibility being managed by employees in all management positions. This will enhance communications by both internal and external contacts that need to occasionally interact with a particular function of the Company.

<u>Recommendation</u>

1. Examine the overall integrated management structure between National Fuel Gas Distribution Corporation and National Fuel Gas Company periodically and adjust reporting relationships, where appropriate, to eliminate unjustified low or high spans of control, and revise job titles based on reporting relationships and related responsibilities.

[2] As noted in Chapter IX – Customer Service, although it appears to be unusual to have a General Manager reporting to an Assistant General Manager, the Audit Staff could not identify a problem with the effectiveness of the reporting relationship.

IV. CORPORATE GOVERNANCE

Background

As discussed in Chapter II – Background, National Fuel Gas Distribution Corporation (NFGDC) is a wholly owned subsidiary of National Fuel Gas Company (National Fuel), a holding company organized under the laws of the state of New Jersey. National Fuel trades on the New York Stock Exchange under the symbol NFG. Therefore, National Fuel is subject to the corporate governance requirements contained in both the Sarbanes-Oxley Act of 2002 (SOX) and the corporate governance rules of the New York Stock Exchange (NYSE Rules).

In August 2002, the Audit Staff released a survey report entitled "A Review of Corporate Governance Controls and Audit-Related Practices Pertaining to the Financial Reporting Process Survey", which summarized and evaluated the corporate governance practices of 27 regulated Pennsylvania utilities and developed preferred corporate governance controls and audit related practices. In this audit, the Audit Staff reviewed the status of corporate governance practices at National Fuel in relation to SOX requirements, NYSE Rules, and the preferred corporate governance controls and audit related practices.

As of August 2011, National Fuel has a ten member Board of Directors (Board) composed of the Chairman (who also serves as the Chief Executive Officer of National Fuel), the former Chairman and Chief Executive Officer of National Fuel, and eight independent Directors as defined by NYSE Rules and Securities and Exchange Commission requirements. Generally, Directors are elected for three year terms. The terms of the Directors expire at successive annual stockholder meetings (i.e., three of the Directors terms expire in 2012, four in 2013, and three in 2014). National Fuel's Corporate Governance Guidelines were developed to help the Board discharge its responsibilities, with sections addressing: the size of the Board; the number of independent directors; director qualifications; selection of new directors; director term limits; changes in professional responsibilities; director age; Board leadership; Board Committees; Board Meetings; confidentiality; Board and Committee performance evaluations; Board compensation; directors access to National Fuel officers; access to independent advisors; director contact with National Fuel's constituencies; and director orientation and continuing education.

The Board conducts business by using the following committees:

- <u>Executive Committee</u> – the Executive Committee has and may exercise the authority of the full Board, except as may be prohibited by New Jersey corporate law. During fiscal year 2010, the Executive Committee held one meeting with the current Chairman and Chief Executive Officer, the former Chairman and Chief Executive Officer, and three independent Board members present.

- Audit Committee – responsible for assisting the Board in fulfilling its oversight responsibilities related to the integrity of National Fuel's financial statements; the independent auditors' qualifications and independence; National Fuel's compliance with legal and regulatory requirements; and the performance of National Fuel's internal audit function and independent auditors. The five independent members of the Audit Committee held nine meetings during fiscal year 2010 in order to review the scope and results of the annual audit, receive reports of the Company's independent registered public accounting firm and chief internal auditor, monitor compliance with the Company's Reporting Procedures for Accounting and Auditing Matters and prepare a report of the committee's findings and recommendations to the Board.

- Compensation Committee – responsible for exercising delegated authority of the Board regarding compensation of executive officers of National Fuel and its subsidiaries; making recommendations to the Board regarding compensation of directors of National Fuel; exercising authority granted by various employee benefit plans approved by the Board and/or National Fuel's shareholders; making recommendations to the Board on compensation related matters; reviewing and discussing with management National Fuel's compensation discussion and analysis; and preparing the disclosure required by item 407(e)(5) of the SEC's regulation S-K. The six independent members of the Compensation Committee held six meetings during fiscal year 2010 in order to review and determine the compensation of executive officers, to review reports and to grant awards under National Fuel's 2010 Equity Compensation Plan, the 1997 Award and Option Plan, the Performance Incentive Program, the Annual At Risk Compensation Incentive Program, and the Executive Annual Cash Incentive Program.

- Nominating/Corporate Governance Committee – responsible for identifying individuals qualified to become members of the Board consistent with any criteria approved by the Board, and to select, or to recommend that the Board select, the director nominees for the next annual meeting of shareholders; developing and recommending to the Board a set of corporate governance principles applicable to National Fuel; and overseeing the evaluation of the Board. The five independent members of the Nominating/Corporate Governance Committee held three meetings during fiscal year 2010.

National Fuel's Board Committees operate pursuant to written charters consistent with the applicable standards of the NYSE and the SEC and all employees are required to abide by National Fuel's Code of Business Conduct and Ethics. The Code of Business Conduct and Ethics, along with National Fuel's Corporate Governance Guidelines and Committee Charters, are available on National Fuel's website at www.nationalfuelgas.com under the Governance section.

NFGDC has a separate Board of Directors (NFGDC's Board) which consists of four members: the Chairman and Chief Executive Officer of National Fuel, the President and Chief Operating Officer of National Fuel, the President of NFGDC, and a Senior Vice President of NFGDC. None of the members of NFGDC's Board are independent, as they are all employed by NFGDC or its parent, National Fuel. NFGDC's Board does not use committees. Each year, typically in March or April, National Fuel's Board elects NFGDC's Board for the upcoming fiscal year which starts on October 1st, since National Fuel is the sole shareholder of NFGDC.

The Audit Services Department (Audit Services) performs the internal audit function for National Fuel. A portion of Audit Services costs are allocated to NFGDC. The Chief Auditor, who is responsible for managing the internal audit function, reports functionally to the Board's Audit Committee and administratively to National Fuel's General Counsel and Secretary. Audit Services develops its annual internal audit plan after analyzing the possible impact of risk on various areas of National Fuel, including NFGDC, through its risk based system wide audit approach. Risks are identified and captured in Audit Services' Risk Universe. The risks are broken down into the following categories: Enterprise Risks, Financial Risks, Internal Control Risks (related to process areas subject to compliance with Section 404 of the Sarbanes-Oxley Act), and Other/Operational Risks. National Fuel's Audit Committee approves the National Fuel internal audit plan and NFGDC's Board approves the NFGDC internal audit plan.

Based upon the Audit Staff's review, it appears that National Fuel is in compliance with SOX. For the fiscal years ended September 30, 2009 and September 30, 2010, non-audit services provided by the external auditors (i.e., tax advice and planning, tax compliance, and other fees) were not "prohibited activities" and received pre-approval from the Audit Committee. External audit fees for National Fuel Gas Company are shown in Exhibit IV-1. A portion of these external audit fees are allocated to NFGDC. Total external audit fees in fiscal year 2010 were approximately $595,000 less than in fiscal year 2009. National Fuel attributed most of this decrease to certain work performed in 2009 which did not recur in 2010 (i.e., work related to a debt issuance and tax services related to a tax accounting method change).

Exhibit IV-1
National Fuel Gas Company
External Audit Fees
For Fiscal Years Ended September 30, 2009 and 2010

Type of Fee	2009	2010
Audit Fees	$1,428,376	$1,185,536
Audit-Related Fees	18,000	0
Tax Advice & Planning (a)	42,000	21,700
Tax Compliance (b)	377,000	63,300
All Other Fees (c)	2,610	2,610
Totals	$1,867,986	$1,273,146

(a) Tax advice and planning includes consultation on various federal, state and foreign tax matters.
(b) Tax compliance includes tax return preparation and tax audit assistance.
(c) All other fees include the software-licensing fee for an accounting and financial reporting research tool.
Source: National Fuel Gas Company Proxy Statement

The Audit Committee is responsible for the appointment, compensation, and oversight of the registered public accounting firm, who reports directly to the Audit Committee. Each member of the Audit Committee is independent, and at least one member meets the definition of a financial expert. Corporate officers have certified the veracity of the financial reports, including their conclusions about the effectiveness of internal controls over financial reporting. Senior financial officers must adhere to National Fuel's Code of Business Conduct and Ethics which is applicable to all employees and officers of National Fuel and all of its subsidiaries.

Findings and Conclusions

Our examination of the Corporate Governance function included a review of National Fuel's relationship with the independent auditor, performance of non-audit services by the independent auditor and policies related to rotation of audit firms; compliance with Corporate Governance rules and guidelines; Board of Directors (Board), including the composition of and committees of the Board; compliance with the Sarbanes-Oxley Act of 2002; and the Internal Audit department's reporting relationships and recent reviews. Based on our review, the Company should initiate or devote additional efforts to improving the efficiency and/or effectiveness of its Corporate Governance function by addressing the following:

1. National Fuel has used the same external audit firm for 70 years.

National Fuel has used PricewaterhouseCoopers LLP (PwC) and its predecessor firms for its annual external audits since 1941. The lead partner for the external auditor was rotated beginning with fiscal year 2009, while the quality review partner was rotated beginning with fiscal year 2010; this meets the requirement of SOX. However, we believe the best practice is to periodically rotate the external auditor. When the same audit firm develops the overall audit approach and performs the annual audit steps, the auditors tend to become more and more complacent in the audit effort, thus lessening the objectivity of the audit. Therefore, it is a best practice to periodically rotate the external audit firm. This should be considered every five to ten years. There likely would be an increase in the cost of performing the audit in the first year or two as it will take a new firm more hours to develop familiarity with the company's accounting systems, policies and procedures as it goes through a learning curve and therefore rotation more frequently than every five years likely would not be cost beneficial. On the other hand, by using the same audit firm for more than ten years it is quite likely that familiarity will lead to complacency and that the objectivity of the audit will be reduced to the point that a fresh perspective is worth the additional cost of changing firms.

2. National Fuel has not sought to rebid its external audit services.

As mentioned above, National Fuel considers a variety of factors in support of its continued relationship with PwC. Some of these factors include the competitiveness of PwC's fees, benchmarking PwC's fees against the fees paid by other peer companies, and successful negotiation with PwC to hold fees at a constant rate. However, National Fuel has not sought to rebid external audit services. A formal process of rebidding or performing a thorough cost comparison of external audit fees should be conducted every two to four years. Competitive bidding is a vehicle to ensure high-quality services (e.g., oversight) at the best overall value. It is also a way of encouraging fresh and more independent views/points of view.

Recommendations

1. **Rotate the external audit firm on a periodic basis.**

2. **Periodically rebid and/or conduct cost comparisons of external audit services.**

V. AFFILIATED INTERESTS

Background

National Fuel Gas Company (National Fuel) is a diversified energy company that separates it operations into four business segments: Utility, Pipeline and Storage, Exploration and Production, and Energy Marketing. For a description of the various business segments operated by National Fuel, refer to Chapter III - Executive Management. Furthermore, an entity chart of National Fuel's various entities and their affiliate relationships is shown on Exhibit II-1. National Fuel's Utility segment operations are carried out by National Fuel Gas Distribution Corporation (NFGDC), a New York corporation. NFGDC sells natural gas or provides natural gas transportation services to approximately 729,000 customers through a local distribution system located in western New York and northwestern Pennsylvania. Natural gas service in Pennsylvania was provided to approximately 196,000 residential customers, 15,300 commercial customers, and 600 industrial customers as of year-end 2010. NFGDC's rates, services and other matters are regulated by the Pennsylvania Public Utility Commission (PUC or Commission) with respect to services provided within Pennsylvania and by the New York Public Service Commission with respect to services provided within New York.

NFGDC has submitted six affiliated interest agreements and securitization filings to the PUC from January 1, 2008 to August 11, 2011:

- A Fourth Amended and Restated Money Pool Agreement among National Fuel and certain subsidiaries was submitted to the PUC on February 25, 2009 and was ultimately approved by the Commission on November 1, 2011.
- A Securities Certificate of NFGDC for authorization to issue and sell promissory notes in the aggregate principal amount of not more than $175 million, and to assume the costs and benefits of certain derivative instruments, was submitted to the PUC on June 26, 2008 and approved by the Commission on August 7, 2008.
- As a result of the expiration of the 2008 Securities Certificate for $175 million, a Securities Certificate of NFGDC for authorization to issue and sell promissory notes in the aggregate principal amount of not more than $130 million, and to assume the costs and benefits of certain derivative instruments, was submitted to the PUC on June 28, 2011 and approved by the Commission on August 11, 2011.
- An Application for Approval of Credit and Derivative Agreements between NFGDC and National Fuel was submitted to the PUC on June 26, 2008. This application was approved by the Commission on August 7, 2008.
- As a result of the expiration of the 2008 Application for Approval of Credit and Derivative Agreements, an Application for Approval of Credit and Derivative Agreements between NFGDC and National Fuel was submitted to the PUC on June 28, 2011 and was approved by the Commission on August 11, 2011.

- A Billing Service Agreement for Consolidated Billing Service Under Rate Schedule SATS (Small Aggregation Transportation Supplier Service) between NFGDC and its suppliers was submitted to the PUC on or about March 31, 2009 and was approved by the Commission on June 29, 2010.

National Fuel's Accounting Department uses PeopleSoft as the basis of its accounting records and to develop its financial statements. When a transaction with affiliates takes place, intercompany receivables and payables balances are automatically updated to reflect the transaction. The Accounting Department provided two intercompany summary reports that are used to monitor and reconcile the intercompany receivables and payables. The reports include data from all the affiliated companies for which NFGDC performs the accounting functions. We noted that the intercompany summary reports do not include Seneca Resources Corporation (Seneca), National Fuel Resources, Inc. (NFR) and Highland Forest Resources, Inc. (Highland Forest), because they are not currently part of the PeopleSoft system. For these companies, NFGDC provided the Audit Staff a listing of the journal transactions that make up the balances shown on the reports**.** There are two reasons why Seneca, NFR and Highland Forest are not part of the PeopleSoft system. First, PeopleSoft does not provide solutions that sufficiently meet their needs. Seneca has partners on their wells that require them to bill or pay royalties at different rates based upon the contract and PeopleSoft doesn't have a module to perform such a function, therefore Seneca has an accounting system that integrates their land, drilling, accounts payable and general ledger function. Second, at the time the PeopleSoft system was being implemented at National Fuel, NFR and Highland Forest were small free standing entities. Highland has subsequently been merged into Seneca in 2011 and there are plans to transition the NFR accounting reports into PeopleSoft in May 2012.

National Fuel's cost allocations are premised on the use of a fully distributed cost allocation methodology. Under this methodology, costs are distributed to business activities either through direct charges or allocations. All direct and indirect expenses such as labor, materials, and other related expenses are included in the cost of the various business activities performed. Overhead charges, which include fringe benefits, department overhead, and corporate overhead, are applied to the direct and indirect labor charges to arrive at the fully distributed cost for each business activity.

National Fuel uses a "three step" approach to distribute costs for providing service among its subsidiaries. National Fuel's 'three step" allocation process begins with the premise that to the maximum extent practical, all costs that can be specifically attributed to various work units, departments or affiliated companies are directly charged to that business unit. Secondly, indirect costs that cannot be directly charged are allocated to business units on the basis of a causal relationship. Indirect costs are accumulated into clearing accounts or homogenous pools and are allocated on the basis of relevant cost causing relationship, which is a measure of activity level, output level, or resource consumption. Third, any remaining costs, which cannot be associated with a specific, identifiable, causal relationship, are pooled and allocated to business units on the basis of "common" factors. There is no difference in the way common costs are direct charged based on the particular subsidiary or subsidiaries involved. At National Fuel the only thing that is different is whether the expenses are compiled on the PeopleSoft system or not. If an entity is part of the PeopleSoft system, the accounting charges can be entered for the entity and the system will generate inter-unit accounting charges on both entities sets of books. If the entity is not on the PeopleSoft system, the inter-company receivable or payable account is charged and then forwarded via a memo or invoice so the other entity can book the offsetting charges.

National Fuel's approach to distributing costs among subsidiaries is designed to prevent cross-subsidization between the regulated and the non-regulated business activities of National Fuel, by using policies and procedures that ensure that all operations are charged for their appropriate share of costs. Common costs, which are the costs of certain administrative and general departments which provide services that benefit all or some of the National Fuel subsidiaries for which the benefiting entity cannot be directly identified, are allocated using a five factor formula. The five factor formula is based on total gross plant, total net plant, total gas throughput, number of employees, and operations and maintenance expense. Each factor is equally weighed and the formula is updated annually. There are 21 departments or functions for which their common expenses are allocated based on the five factor formula. All of the 21 departments/functions for which common expenses are allocated reside in the New York portion of NFGDC. The 21 departments/functions for which common expense are allocated via the five factor formula are as follows:

- Accounting
- Accounts Payable
- Asset Management
- Audit Services
- Budget
- Cash Management
- Corporate Communications
- Credit, Collections, & Receivables Management
- Executive
- Finance Administration
- Financial Planning
- General Finance
- Government Affairs
- Information Services
- Investor Relations
- Leasing
- Legal
- Purchasing
- Rates & Regulatory Affairs
- Security
- Tax Services

In addition to these 21 departments/functions, there are additional departments/functions whose costs are allocated based on cost causative factors. These include:

- Human Resources, allocated based on employee count.
- Benefit Services, allocated based on employee count.
- Payroll, allocated based on employee count.
- Materials Management, allocated based on the number of inventory transactions.
- Insurance, allocated based on net plant and net revenue.

Schedules depicting the affiliated charges to and from NFGDC's Pennsylvania operations for the fiscal years ending September 30, 2008-2010 are presented in Exhibits V-1 through V-5 on the next several pages. These affiliated transactions are tracked by National Fuel in two separate groups labeled as intercompany and inter unit transactions. Intercompany transactions are those generated within National Fuel's legacy automated accounting systems (i.e., those not recorded by the PeopleSoft portion of the accounting system) or by individuals creating manual journal entries. Inter unit transactions are generated by the PeopleSoft system when the transactions involve business units using the various PeopleSoft modules. A summary of the intercompany and inter unit transactions to and from NFGDC's Pennsylvania operations and the net impact of annual affiliated transactions during fiscal years 2008 through 2010 are shown on Exhibit V-1.

Exhibit V-1
National Fuel Gas Distribution Corporation's
Pennsylvania Operations Affiliated Charges
For Fiscal Years Ending September 30, 2008 – 2010

Transaction Group	Fiscal Year			Compound Growth
	2008	2009	2010	
	$	$	$	
Intercompany Charges	56,772,428	52,654,597	55,862,980	-0.8%
Inter Unit Charges	699,184,915	639,809,899	466,613,100	-18.3%
Sub-totals of Charges To PA	755,957,343	692,464,496	522,476,080	-16.9%
Intercompany Transactions	6,013,927	8,592,108	7,336,715	10.5%
Inter Unit Transactions	2,120,278	6,093,486	5,862,146	66.3%
Sub-totals of Charges From PA	8,134,205	14,685,594	13,198,861	27.4%
Net Annual Affiliate Charges	747,823,138	677,778,902	509,277,219	-17.5%

Source: Data Request AR-2 and Auditor Analysis

The listing of annual intercompany charges paid by NFGDC's Pennsylvania operations to various National Fuel subsidiaries for the fiscal years ending September

30, 2008 -2010 are shown on Exhibit V-2. The inter unit amounts paid by NFGDC's Pennsylvania operations to affiliates for the fiscal years ending September 30, 2008-2010 are shown on Exhibit V-3. The total intercompany costs paid by NFGDC's Pennsylvania operations to affiliates for the fiscal years ending September 30, 2008-2010 do not vary much from year to year and the total inter unit amounts remain about the same from 2008 to 2009, but the total inter unit amounts decreased by about $200 million in 2010 as a result of much lower convenience payments to NFGDC's New York operations (NYD). Throughout National Fuel, a convenience payment occurs when one affiliate makes a payment that includes amounts for other affiliates. For example, an invoice for a Company-wide (National Fuel) insurance premium is paid by NYD. The Company doesn't receive a separate invoice for each affiliate, but rather pays the invoice and then each affiliate reimburses NYD for their portion of the premium. Within NFGDC, there are also convenience payments that arise from wire transfers. The wires are all processed through one bank for NYD, so a payment for a gas purchase is made by NYD, but the accounting charges are split based on the amounts of gas allocated to NYD and NFGDC's Pennsylvania operations. The affiliates receiving payments from NFGDC's Pennsylvania operations are: NFGDC's New York operations (NYD), National Fuel Gas Supply Corporation (Supply), National Fuel (NFGDC's Parent), National Fuel Resources, Inc. (NFR), Empire Pipeline, Inc. (Empire), Horizon Energy Development, Inc. (HED), and two subsidiaries of National Fuel Gas Midstream Corporation (i.e. Midstream and Midstream LLC). In addition, the Company's Executive Retirement Plan (ERP) receives funding contributions from NFGDC's Pennsylvania operations and is recorded as an intercompany account transaction.

The inter-company charges paid by National Fuel affiliates to NFGDC Pennsylvania operations for the fiscal years ending September 30, 2008 through 2010 are shown on Exhibit V-4. The inter unit account transactions paid by the various affiliates to NFGDC's Pennsylvania operations for the fiscal years ending September 30, 2008 – 2010 are shown on Exhibit V-5. As shown on Exhibit V-4, the total intercompany transactions paid by NFGDC's Pennsylvania operations vary quite a bit from year to year, which is primarily driven by a substantially higher NYD Other Expense charges that occurred in 2009. The high Other Expense from NYD in fiscal year 2009 was the result of a journal entry to adjust money pool balances between NFGDC's New York and Pennsylvania operations. The inter unit account transactions yearly totals increase substantially in fiscal years 2009 and 2010 due to the payment of higher NYD Convenience Payments account totals. The affiliates making payments to NFGDC's Pennsylvania operations are NYD, Supply, Empire, Midstream and Midstream LLC, National Fuel, Highland Forest Resources, Inc. (Highland), Seneca Resources Corporation (Seneca), NFR, HED, Horizon Power, Inc. (HPI), and Horizon LFG, Inc. (Upstate) and two subsidiaries of Upstate (i.e., Toro LLC and Toro LP). In addition, NFGDC routinely makes benefit payments to retirees and is reimbursed by the ERP, which are booked as an intercompany account transaction.

Exhibit V-2
Charges To National Fuel Gas Distribution Corporation's Pennsylvania Operations From Affiliates Via Intercompany Account Transactions For Fiscal Years Ending September 30, 2008 – 2010

Description of Transaction	Affiliate Involved	Year			Compound Growth
		2008	2009	2010	
Labor	NYD	$ 1,210,707	$ 1,285,979	$ 1,322,092	4.5%
Labor	Supply	59,143	241,438	288,943	121.0%
Loaned and Borrowed Labor	NYD	1,840,839	1,987,553	2,004,231	4.3%
Loaned and Borrowed Labor	Supply	1,557,497	1,553,014	1,527,336	-1.0%
Material	NYD	820,170	755,563	542,082	-18.7%
Rents	NYD	454,872	508,801	513,360	6.2%
Rents	Supply	284,376	356,983	413,762	20.6%
Transportation & Tools	NYD	54,134	34,540	48,608	-5.2%
Transportation & Tools	Supply	134,584	94,291	119,800	-5.7%
Utilities	NYD	384,698	330,419	368,308	-2.2%
Contractors & Outside Services	Parent	54,540	17,232	129,844	54.3%
Gas Purchases	Supply	25,969,136	25,889,017	25,294,646	-1.3%
Employee Benefits	NYD	3,123,047	3,123,987	3,813,417	10.5%
Employee Benefits	Supply	1,709,492	1,781,659	1,588,437	-3.6%
Employee Benefits	ERP	2,849,881	2,009,071	1,605,944	-24.9%
Employee Benefits	HED	0	0	11,926	NA
Employee Benefits	NFR	0	0	19,521	NA
Office and Employee Expense	NYD	10,059	35,017	0	-100.0%
Research and Development & Dem	NYD	89,104	75,889	114,077	13.1%
Other Expense	NYD	1,476,334	368,919	234,487	-60.1%
Other Expense	Supply	45,168	83,417	7,342	-59.7%
Other Expense	Parent	9,279,058	9,244,234	12,653,698	16.8%
Other Insurance	Parent	(45,924)	0	0	-100.0%
Information Services	NYD	2,801,831	2,856,605	3,210,161	7.0%
Environmental	NYD	2,592,680	0	0	-100.0%
Accounting Adjustment & Accruals	NYD	12,091	11,886	16,021	15.1%
Misc. Small Transactions*	Various	4,911	9,083	14,937	74.4%
Totals		$ 56,772,428	$ 52,654,597	$ 55,862,980	-0.8%

NA – Not Applicable

* - This line item includes all of the small transactions between various affiliates with whom NFGDC's Pennsylvania operations does business.

Source: Data Request AR-2 and Auditor Analysis

Exhibit V-3
Charges To National Fuel Gas Distribution Corporation's Pennsylvania Operations From Affiliates Via Inter Unit Account Transactions For Fiscal Years Ending September 30, 2008 – 2010

Description of Transaction	Affiliate Involved	Year 2008	Year 2009	Year 2010	Compound Growth
Convenience Payments	NYD	$ 690,173,551	$ 630,261,089	$ 457,000,446	-18.6%
Convenience Payments	Supply	427,616	482,226	431,401	0.4%
Convenience Payments	Empire	14,317	17,161	11,644	-9.8%
Convenience Payments	Parent	318,567	369,736	213,308	-18.2%
Inventory	NYD	2,900,384	3,219,032	3,141,794	4.1%
Inventory	Supply	184,053	321,420	419,409	51.0%
Messenger Expense Allocations	NYD	10,016	4,094	3,831	-38.2%
Officer Labor	NYD	19,226	19,226	26,988	18.5%
Officer Labor	HED	2,256	14,906	39,440	318.1%
Officer Expense Allocation	NYD	173,432	140,187	154,226	-5.7%
Officer Expense Allocation	Supply	11,882	18,509	18,142	23.6%
Fringe on Officer Labor	NYD	193,881	259,823	267,195	17.4%
Fringe on Officer Labor	Supply	9,560	48,795	58,395	147.1%
Customer Billing Allocation	NYD	268,491	144,942	143,393	-26.9%
Common Expense Allocation	NYD	2,329,441	2,410,484	2,591,826	5.5%
Control Group Allocation	NYD	199,813	159,266	255,860	13.2%
Customer Postage Allocation	NYD	936,859	982,539	1,006,397	3.6%
Meter Shop Allocation	NYD	524,977	519,663	506,190	-1.8%
Remittance - Mail Allocation	NYD	77,504	46,016	34,796	-33.0%
Transportation - Clearing Allocation	NYD	334,033	339,082	252,175	-13.1%
Telecom Allocation	NYD	39,067	20,743	24,624	-20.6%
Misc Plant Adjustment	Supply	24,362	0	0	-100.0%
Misc. Small Transactions*	Various	11,627	10,960	11,620	0.0%
Totals		$ 699,184,915	$ 639,809,899	$ 466,613,100	-18.3%

NA – Not Applicable

* - This line item includes all of the small transactions between various affiliates with whom NFGDC's Pennsylvania operations does business.

Source: Data Request AR-2 and Auditor Analysis

Exhibit V-4
Charges from National Fuel Gas Distribution Corporation's Pennsylvania Operations To Affiliates Via Intercompany Account Transactions For the Fiscal Years Ending September 30, 2008 – 2010

Description of Transaction	Affiliate Involved	Year 2008	Year 2009	Year 2010	Compound Growth
Labor	NYD	$ 847,427	$ 898,225	$ 966,323	6.8%
Labor	Supply	1,171,535	1,470,938	1,633,133	18.1%
Labor	Empire	164,143	42,019	9,537	-75.9%
Labor	Midstream LLC	0	24,466	32,611	NA
Labor	Parent	0	0	193,869	NA
Labor	Highland	8,444	3,977	12,297	20.7%
Labor	ERP	140,870	140,870	140,870	0.0%
Labor	Seneca	11,539	21,546	32,918	68.9%
Material	NYD	785,679	931,601	592,797	-13.1%
Material	Seneca	0	13,674	0	NA
Rents	NYD	0	0	58,163	NA
Rents	Supply	80,104	95,649	113,916	19.3%
Transportation & Tools	Supply	114,656	122,488	169,360	21.5%
Transportation & Tools	Empire	21,513	6,975	0	-100.0%
Contractors & Outside Services	Highland	6,665	7,302	11,545	31.6%
Contractors & Outside Services	Seneca	0	7,890	31,752	NA
Employee Benefits	NYD	874,602	991,119	883,783	0.5%
Employee Benefits	Supply	1,350,166	1,761,345	1,828,203	16.4%
Employee Benefits	Empire	192,376	52,132	11,349	-75.7%
Employee Benefits	Midstream LLC	0	30,412	38,807	NA
Employee Benefits	Seneca	13,523	26,833	37,469	66.5%
Other Expense	NYD	37,782	1,792,415	162,361	107.3%
Other Expense	Supply	5,000	54,692	0	-100.0%
Other Expense	Parent	0	0	229,895	NA
Revenue Income	NFR	99,464	8,728	11,667	-65.8%
Injuries & Damages	Highland	71,436	69,946	64,206	-5.2%
Accounting Adjustment & Accruals	NYD	49	0	24,780	2148.8%
Misc. Small Transactions*	Various	16,954	16,866	45,104	63.1%
Totals		$ 6,013,927	$ 8,592,108	$ 7,336,715	10.5%

NA – Not Applicable

* - This line item includes all of the small transactions between various affiliates with whom NFGDC's Pennsylvania operations does business.

Source: Data Request AR-2 and Auditor Analysis

Exhibit V-5
Charges From National Fuel Gas Distribution Corporation's Pennsylvania Operations To Affiliates Via Inter Unit Account Transactions For the Fiscal Years Ending September 30, 2008 – 2010

Description of Transaction	Affiliate Involved	Year			Compound Growth
		2008	2009	2010	
Convenience Payments	NYD	$ 642,665	$ 4,474,481	$ 4,249,377	157.1%
Convenience Payments	Supply	927,121	916,899	933,846	0.4%
Convenience Payments	Empire	126,159	18,365	2,176	-86.9%
Convenience Payments	Parent	17,118	28,173	13,153	-12.3%
Convenience Payments	Midstream LLC	0	0	22,976	NA
Inventory	NYD	104,967	207,185	137,225	14.3%
Inventory	Supply	120,647	181,945	293,330	55.9%
Messenger Expense Allocations	Supply	45,504	52,542	49,387	4.2%
Officer Expense Allocation	NYD	63,959	66,811	58,360	-4.5%
Officer Expense Allocation	Supply	9,338	13,289	14,733	25.6%
Fringe on Officer Labor	NYD	17,227	28,832	36,688	45.9%
Fringe on Officer Labor	Supply	2,461	10,973	19,736	183.2%
Customer Billing Allocation	NYD	0	0	24,377	NA
Common Expense Allocation	NYD	1,389	79,339	5,468	98.4%
Misc Plant Adjustment	Supply	39,081	7,463	0	-100.0%
Misc. Small Transactions*	Various	2,642	7,189	1,314	-29.5%
Totals		$ 2,120,278	$ 6,093,486	$ 5,862,146	66.3%

NA – Not Applicable
* - This line item includes all of the small transactions between various affiliates with whom NFGDC's Pennsylvania operations does business.
Source: Data Request AR-2 and Auditor Analysis

Competitive safeguards and affiliate standards of conduct at natural gas utilities were established by Commission Order, adopted on May 11, 2000, at Docket No. M-00991249F0009, and are further addressed by the Commission's policy statement addressing affiliated interest issues of Natural Gas marketers at 52 Pa. Code §69.191-192. The purpose of these safeguards is to assure the provision of direct access on equal and nondiscriminatory terms to all customers and suppliers, prevent discrimination in rates, terms or conditions of service by natural gas distribution companies, prevent the cross subsidization of service amongst customers, customer classes or between related distribution companies and suppliers, to forbid unfair or deceptive practices by production companies and suppliers, and to establish and maintain an effective and vibrant competitive market in the purchase and sale of retail energy. Suppliers and natural gas distribution companies must comply with certain requirements that address items such as:

- Preferential treatment in the processing of retail generation supply service requests,
- Dissemination or disclosure of customer information,
- False or deceptive advertising, and
- Dispute resolution process.

NFGDC addresses these regulations in its gas tariff by providing specific standards of conduct that the Company, affiliated suppliers, and non-affiliated suppliers must comply with. These standards of conduct are consistent with the guidelines set forth in 52 Pa. Code § 69.192. Employees in departments that are impacted by the guidelines are required to sign an acknowledgment confirming their understanding of and compliance with affiliated interest guidelines. As recommended by the policy statement, the Company also maintains chronological logs for any tariff provisions for which it has granted waivers, requests for relevant transportation services, transportation discounts to favored customers, disclosures of customer proprietary information, public dissemination of available gas supplies and/or upstream capacity, and complaints regarding discriminatory treatment of brokers. In addition to the foregoing procedures, NFGDC conducts annual marketer affiliate training that is required for relevant employees in departments that regularly deal with marketing affiliate issues; such as, Energy Services, Transportation Services, Rates and Regulatory Affairs, Gas Supply Administration and Credit, Collections and Receivables Management. The trainees are required to sign a log confirming their attendance at the marketer affiliate training. Employees also receive instruction regarding affiliate transactions and relations through less formal means; such as, new supervisor orientations, periodic department level training, department meetings, etc. Although not specific to affiliate interests, the Company also places a strong emphasis on ethical business relations, the protection of confidential non-public information, and compliance with laws, rules and regulations. Confidentiality and compliance are also addressed in the Company's *Code of Business Conduct & Ethics* and in agreements with Company contractors.

Findings and Conclusions

Our examination of the Affiliated Interests function focused primarily on a review of the cost allocation methodologies; compliance with existing cost allocation policies, practices, and procedures; ring fencing efforts; an examination of affiliated interest agreements and inter-company transactions; and a review of competitive safeguards. Based on our review, the Company should initiate or devote additional efforts to improving the efficiency and effectiveness of its affiliated interests function by addressing the following:

1. Affiliated interest agreements filed with, and approved by, the Commission do not list all affiliated companies with whom NFGDC is currently transacting business.

Contracts or arrangements providing for transactions between affiliates must be filed with and approved by the Commission before they become effective. In addition, when changes are made to service agreements, the contracts or arrangements should be updated and filed with the Commission. The Commission's authority to approve contracts between public utilities and their affiliates comes under its general authority to regulate public utilities in the Commonwealth, 66 C.S. §2102(a) which in part states:

> No contract or arrangement providing for the furnishing of management, supervisor, construction, engineering, accounting, legal, financial, or similar services, and no contract or arrangement for the purchase, sale, lease, or exchange of property, right, or thing or for the furnishing of any service, property, right or thing, other than those above enumerated, made or entered into after the effective date of this section between a public utility and any affiliated interest shall be valid or effective unless and until such contract or arrangement has received the written approval of the commission.

However, NFGDC is or was transacting business with several companies which were not included in the affiliated interest agreements that have been filed with and approved by the Commission. More specifically, NFGDC should revise and update, or amend its affiliated interest agreements, as needed, to identify that the agreements apply to all subsidiaries and affiliates of the Company with whom they are currently conducting business. As of August 2011, NFGDC was transacting business with the following affiliates that are not included in its approved affiliated interest agreements:

- Horizon Power Inc.
- National Fuel Gas Midstream Corporation (i.e. Midstream and Midstream LLC)
- Horizon LFG, Inc.[3]

Certain NFGDC employees perform services for Horizon Power, Inc., Midstream or Midstream LLC, resulting in NFGDC billing such affiliates for labor costs and fringe benefits. From time to time NFGDC will make a convenience payment on behalf of such affiliates, resulting in NFGDC billing the affiliates for their proportionate share of the cost. Horizon LFG, Inc. is a dormant subsidiary (previously known as Upstate) of National Fuel that formerly owned landfill gas operations in the states of Ohio, Michigan, Kentucky, Missouri, Maryland and Indiana through two subsidiaries known as Toro LLC and Toro LP, which were sold in September 2010. It is noteworthy that NFGDC does not provide gas sales or transportation service to any of the aforementioned affiliates.

The Company acknowledged that there have been changes to the organizational structure since the last affiliated interest agreement was provided to the Commission. The above entities were established as part of the National Fuel organization after the last affiliated interest agreement was filed with the Commission on January 4, 1993. Also, some entities included in the approved affiliated interest agreement are no longer part of National Fuel's corporate structure. As a result, the Company is not in compliance with 66 C.S. §2102(a) and should submit, for approval, updated and/or

[3] During its years of operation between 2004 and 2010, there were occasions where NFGDC's Pennsylvania operations employees charged labor hours to Horizon LFG, Inc. Although this subsidiary was dormant as of August 2011, and therefore no transactions were occurring between Horizon LFG, Inc. and NFGDC at that time, it is always possible that transactions (such as labor) could occur again in the future as it did from time to time from 2004 to 2010.

amendments to the affiliated interest agreement(s) to the Commission that detail all the goods and services provided between NFGDC and its affiliates.

2. A National Fuel internal audit noted that considerable amounts of support services labor hours are identified as common costs and are allocated based on a five factor allocation methodology and recommended that more efforts should be made to directly assign and direct charge labor hours based on the specific tasks performed.

In October 2008, National Fuel's Audit Services performed an internal audit of the common cost allocation process and recommended that all departments which are designated as common in nature (i.e., provide services that benefit various work units, departments or affiliated companies for which the benefiting entity cannot always be directly identified) should consider more closely tracking time spent on specific tasks and direct charge their work efforts where applicable. Audit Services indicated that many departments identified as providing common services that are shared by various work units are charging considerable amounts of labor to common expense, which is then allocated to the various business units based on a five factor allocation methodology (see the Background section of this chapter for more discussion on the five factor allocation methodology). The internal audit report included a recommendation that employees should be encouraged to more closely track time spent on specific tasks in order to facilitate more direct charging of costs to the work unit benefiting from the work efforts. In response to the internal audit report, National Fuel's management indicated that it was going to complete a study of labor charges and common expenses, and Audit Services would review the results. It should be noted that, in an overall sense, that the 2008 Audit Services report found that National Fuel's common cost allocation process was satisfactory and contained no major negative findings.

Labor costs which can be identified with a specific activity or project should be directly charged to that specific activity or project. Direct charging of expenses is more accurate in transferring the cost of services to the benefiting entity than using the common cost allocation process. Although National Fuel's study of labor charges and common expense had not been completed as of August 2011, the status of implementing this internal audit recommendation has not been included in the written status reports to the NFGDC Board of Directors since August 31, 2009.

Based on our review, it appears that National Fuel is still distributing a very large portion of support services costs based on the five factor allocation process. Therefore, National Fuel has an opportunity to improve the accuracy of the distribution of its support services/affiliated charges among the various work units, departments and ultimately the affiliated companies; by developing a process that facilitates employees identifying a higher percentage of their work hours to specific tasks that can be directly assigned.

3. **NFGDC does not appear to have any significant ring fencing practices in place to protect the utility's assets from any financial instability of its corporate parent or other affiliates.**

Ring-fencing is the term used to describe efforts which are intended to insulate a regulated utility from the potentially riskier activities of unregulated affiliates. The objective is to ensure that the financial stability of the utility and the reliability of its service are not impacted by the activities of non-regulated corporate activities. The following are ring-fencing practices National Fuel has in place which insulate NFGDC from the activities of National Fuel and its other subsidiaries:

- Cash Accounts: NFGDC maintains separate bank accounts and does not commingle its funds with its sister companies.

- Short-Term Borrowing: National Fuel and its subsidiaries (including NFGDC) manage their short-term financing needs through a Money Pool. Under that arrangement, National Fuel makes loans available to its subsidiaries utilizing the proceeds of borrowings under various borrowing facilities, which may include, among others, commercial paper, short-term lines of credit, demand credit facilities, revolving lines of credit, and committed credit facilities (Credit Facilities), as determined by National Fuel. In addition, at certain times during the year, National Fuel and certain of its subsidiaries generate surplus funds, which they may choose to invest in the Money Pool.

  Borrowings through the Money Pool are met first from available surplus funds of the subsidiaries, and then from available surplus funds of National Fuel. Once these sources of funds become insufficient to meet the short-term loan requests, borrowings will be made by National Fuel through the issuance and sale of commercial paper or borrowings under other Credit Facilities. It should be noted that the Fourth Amended and Restated Money Pool Agreement was filed at docket number G-2009-2092081, on February 25, 2009, and was approved via a PUC Secretarial Letter served June 4, 2009. There are two important exceptions to this, both of which have the effect of insulating NFGDC's finances from that of the other National Fuel subsidiaries:

  - NFGDC may borrow from the Money Pool but may not invest any excess cash in it. This allows NFGDC to benefit from any surplus cash their corporate parent or other sister affiliates may have without putting any of their own funds at risk.
  - In the event that there are insufficient funds available from Money Pool sources to satisfy Money Pool borrowing requirements of the subsidiaries, NFGDC will receive borrowing priority over the other subsidiaries.

However, National Fuel manages its capital structure on a consolidated basis. All capital is raised at the parent company level and then allocated to the various subsidiaries, including NFGDC. Financing plans for the consolidated group are developed by National Fuel's Treasurer and Principal Financial Officer and approved by

National Fuel's Chairman and Chief Executive Officer and President and Chief Operating Officer. This financing approach has enabled NFGDC to receive better financing rates and incur lower financing costs by receiving proceeds from bonds issued through National Fuel than it would have achieved by issuing its own debt. However, through this arrangement NFGDC is relying on its corporate parent for all of its financing needs which includes operations in much riskier business segments (i.e., exploration and production, energy marketing, pipeline and storage, etc.) as shown on Exhibit II-1 and discussed in Chapter III – Executive Management and Organizational Structure.

NFGDC's operations accounted for 46.6% of the total operating revenue of National Fuel in fiscal year ended September 30, 2010. Pennsylvania operations of NFGDC accounted for 14.5% of the total operating revenue of National Fuel in fiscal year ended September 30, 2010. Due to the extensive nature of National Fuel's unregulated affiliates' higher risk business activities, it appears that NFGDC should be exploring more extensive ring fencing practices. It would be beneficial for NFGDC to also have direct access to external financing should the current financing arrangement suddenly no longer be at favorable rates or even possible due to unexpected problems with its unregulated affiliates business activities. For example, there are other utilities that are able to obtain financing through an affiliate of their parent corporation that is a special purpose entity designed to handle the financing for the corporation and its affiliates. This enables the regulated utility to procure cost effective financing support while insulating itself from the activities of its parent and other affiliates. NFGDC should study possible alternatives to obtaining external financing should National Fuel ever experience some type of financial instability and also develop other ring fencing policies.

Recommendations

1. **Submit updated affiliated interest agreement(s) to the Commission for approval of all transactions with affiliates whom NFGDC transacts business.**

2. **Initiate efforts to increase the amount of work hours within support service departments that are directly charged based on the task performed rather than allocated as a common cost.**

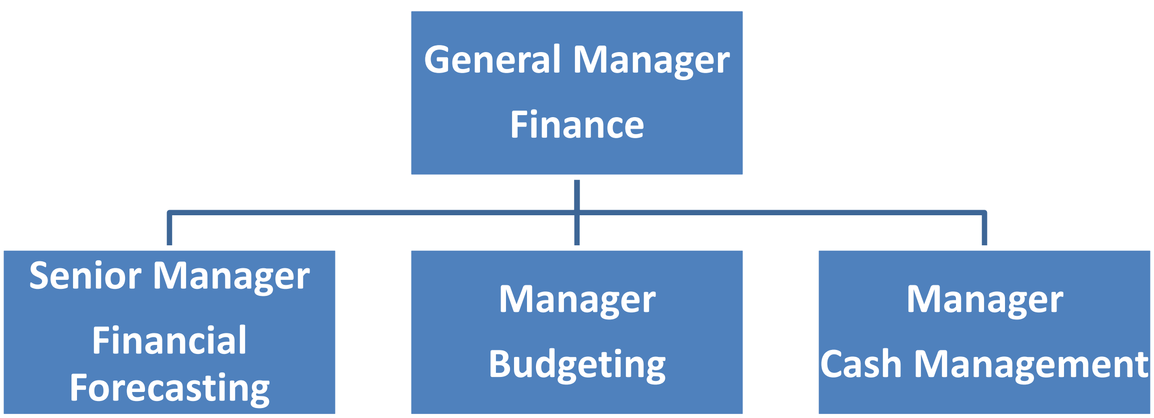
3. **Study possible alternatives for strengthening ring fencing by establishing procedures for obtaining external financing separate from the corporate parent and other appropriate measures.**

VI. FINANCIAL MANAGEMENT

Background

National Fuel Gas Company (National Fuel) is the parent of National Fuel Gas Distribution Corporation (NFGDC or Company). National Fuel's Finance Department (Finance) is divided into three groups: Financial Forecasting, Budgeting, and Cash Management. As shown in Exhibit VI-1, National Fuel's General Manager of Finance has overall responsibility for the Finance Department's operations, including those related to NFGDC. A Senior Manager in Finance is responsible for the Financial Forecasting group that projects National Fuel's future financial outcomes. The Manager of the Budget group is responsible for coordinating the operation and maintenance budget preparation, tracking expenses, and communicating spending and spending patterns to management. The Manager of the Cash Management group is focused on the collection, concentration, and disbursement of cash.

Exhibit VI-1
National Fuel Gas Company
Finance Department Organization Structure
As of March 23, 2011



Source: Data Request No. EM-1

National Fuel's fiscal year runs from October 1st through September 30th. National Fuel uses a five year capital spending forecast by plant type and plant account for each subsidiary and division on an annual basis. In March of each year, National Fuel's Finance Department sends a memo to National Fuel's Engineering Department with instructions and a May due date for submitting a forecast. Capital spending coordinators, department managers and executives representing the various corporate departments responsible for capital spending submit forecasts to the Engineering Department where all requests are compiled and a draft forecast is prepared for executive review. The Engineering Department prepares a final draft forecast for senior executive approval based on executive guidance issued for the budget year. Once the capital spending forecast is finalized and approved, it is sent to the Finance Department.

Based upon the approved capital spending forecast an annual Capital Budget is prepared by the Engineering Department for each corporate subsidiary and division starting in June. Capital spending is budgeted and tracked by plant type, plant account, and appropriation. Overall capital spending limits that correspond with corporate objectives are communicated by senior executives. A draft budget is developed by the Engineering Department based on the forecasted spending in the first year of the approved five year capital forecast. The draft budget includes the proposed amounts for the upcoming fiscal year, the current fiscal year budget, and the previous year's spending and budget, for reference.

In early July, the Engineering Department sends an email notification and draft capital budget for the upcoming fiscal year to coordinators, department managers and executives representing the various corporate departments responsible for capital spending. Coordinators review and update the draft budget with any additional project information or changes.

In early August, the Engineering Department compiles revisions from coordinators and develops a final draft capital budget for executive review. After executive review, a capital budget presentation is made to the corporate officers. The corporate officer presentation includes a detailed budget review, special project justification, system integrity review, and identification of the primary budget drivers. After the budget presentation, final changes are incorporated and the budget is circulated to senior executives for approval. Approved budgets are circulated to coordinators, department managers, and executives.

Capital spending and budget variances are monitored on a monthly basis at capital budget meetings attended by Engineering Managers, Operations Superintendents, Vice Presidents, Senior Vice Presidents, and Presidents of each corporate subsidiary. Budget reports that summarize variances between actual expenditures and the approved monthly budget, approved fiscal year-to-date budget and previous fiscal year-to-date spending are presented and reviewed. The remaining forecasted spending and available capital budget, progress on major construction projects, and pending projects are also reviewed monthly. The pending project schedules and discretionary spending are adjusted as necessary to maintain capital spending at desired levels.

National Fuel's Operations & Maintenance (O&M) Budgets are prepared based on the fiscal year of October through September. The O&M budget process begins in June. O&M budgets are initially prepared by individual departments or divisions and then are presented to senior management. After approval by senior management, the divisional budget data is combined at the subsidiary level by the Budget Group and is then forwarded to Financial Forecasting. Financial Forecasting uses the data to prepare the overall financial statement forecast.

The O&M Budget process is initiated by the Budget Group within the Finance Department, providing budget preparers with information to form labor budgets based on staffing levels. Also, a budget worksheet is created based on data from historical periods to help show previous spending patterns. Labor is the starting point for the O&M Budgets, due to the number of employees and corresponding labor costs driving other costs. The costs other than labor are then budgeted based on departmental needs and requirements. Each department has their own cost profile based on the type of work that they perform and their location. When it is approved, the cost data is distributed over the fiscal year based on historical spending patterns or through a manual arrangement by budget preparers. At this point, the O&M Budget is set for the fiscal year and unauthorized changes to the approved totals are not permitted.

Throughout the fiscal year, O&M Budget spending is monitored via monthly analysis reports that individual departments access via the PeopleSoft system. The departments must explain significant variances between their budget and the actual amounts spent. The determination of what constitutes a significant variance is initially left up to the judgment of the budget preparer, his or her department manager and the executive in charge. However, if a budget preparer does not provide a variance explanation because they believe it to be insignificant, but their manager or executive wants an explanation, an explanation is requested and provided. Two sets of reports are usually created. The first is used by budget preparers to analyze their monthly and year-to-date budget variances. The second is used by management in the Budget Group to analyze the overall budget position for the month and year-to-date. Budget preparers analyze their report(s) to look for monthly and year-to-date budget variances within their department(s) only. The Budget Group uses its report to review the monthly and year-to-date overall budget as a whole.

Since NFGDC is a wholly owned subsidiary of National Fuel, none of its common stock is publicly traded. NFGDC maintains a corporate wide balance sheet for public financial reporting purposes. The Company uses one operating cash account for both the New York and Pennsylvania jurisdictions, and uses allocation percentages to assign amounts to equity transactions conducted with its parent company, as a single legal entity. NFGDC uses a hypothetical capital structure approach for ratemaking. This approach uses a hypothetical rating and business profile assuming that NFGDC issues its own debt in the marketplace.

NFGDC’s capital structure is monitored on a quarterly basis. Appropriate changes are initiated through a combination of debt issues/repayments, changes in dividends, and capital contributions as necessary. The capital structure at September 30 of each year from 2005 through 2011 is shown in Exhibit VI-2. NFGDC’s goal is to obtain a 45%-50% level of equity for the Company.

Exhibit VI-2
National Fuel Gas Distribution Corporation
Capital Structure (in Thousands of Dollars)
As of September 30, 2005 through 2011

	2005	2006	2007	2008	2009	2010	2011
Total Debt	$360,610	$388,410	$462,000	$456,500	$414,000	$414,000	$414,000
Percentage of Total Capital	39.11%	42.49%	47.62%	46.11%	42.72%	45.29%	47.02%
Total Equity	$561,427	$525,754	$508,098	$533,613	$555,161	$500,172	$466,441
Percentage of Total Capital	60.89%	57.51%	52.38%	53.89%	57.28%	54.71%	52.98%
Total Capital	$922,037	$914,164	$970,098	$990,113	$969,161	$914,172	$880,441

Source: Data Request No. FM-32

NFGDC's short term borrowings are facilitated through the National Fuel Money Pool. The Money Pool agreement precludes NFGDC from investing its surplus cash into the Money Pool. Therefore, NFGDC invests its surplus cash into other various interest bearing instruments. The long-term borrowings are completed by National Fuel from time to time based upon market conditions and the requirements facing NFGDC. National Fuel meets these capital requirements by issuing securities in public offerings or private placement. In turn, NFGDC issues promissory notes to National Fuel in order to secure debt capital. The interest rates and maturity dates of the corresponding promissory notes are governed by the maturity dates and interest rates for debentures or notes issued by National Fuel. As of April 30, 2011, there are no short term borrowings for NFGDC. The long-term notes payable to the parent company by NFGDC are summarized in Exhibit VI-3.

Exhibit VI-3
National Fuel Gas Distribution Corporation
Long-Term Borrowings
As of April 14, 2011

Issued	Matures	Interest Rate	Principal	Semi-Annual Interest Due
3/30/1993	3/30/2023	7.46%	$49,000,000	$1,827,700
6/12/1995	6/13/2025	7.50%	$50,000,000	$1,875,000
2/18/2003	3/01/2013	5.35%	$90,000,000	$2,407,500
4/11/2008	4/15/2018	6.69%	$100,000,000	$3,345,000
4/06/2009	5/01/2019	8.93%	$125,000,000	$5,581,250
		Totals	$414,000,000	$15,036,450

Source: Data Request No. FM-12

National Fuel sponsors a defined benefit pension plan that covers most of its full time employees, including NFGDC's employees. However, this plan was closed to non-union employees that were hired on or after July 1, 2003. It was also closed to union employees hired on or after November 1, 2003. The plan is treated as a single-employer plan under the Pension Protection Act of 2006 (PPA). As shown in Exhibit VI-4, the National Fuel sponsored pension plan was 71% funded as of September 30, 2010.

Exhibit VI-4
National Fuel Retirement Plan
Pension Obligation and Funding Status
As of September 30, 2010

Accumulated Benefit Obligation	$843,526,000
Pension Assets at Fair Value	$597,549,000
Percent Funded	71%

Source: Data Request FM-4

The PPA includes benefit limits based on the single-employer plan's "adjusted funding target attainment percentage". The adjusted funding target attainment percentage is determined by comparing adjusted plan assets to the adjusted funding target for a specific time period. Under the PPA, a plan is considered at risk in 2011 if the adjusted funding target attainment percentage is below 80%. The funding provisions of the PPA require employers to amortize the entire unfunded obligation of their plans over a seven year period. National Fuel stated that a seven year window regulated by the PPA is in place and the pension fund has improved since the last valuation. An actuarial firm completed a certification of the National Fuel Retirement Plan on June 29, 2011. According to the actuarial firm used by National Fuel, and as shown in Exhibit VI-5, the National Fuel Retirement Plan had an Adjusted Funding Target Attainment Percentage of 80.05% for the plan year beginning July 1, 2010. National Fuel avoids the "at risk" designation by being funded at 80.05%, but it is still required to make up its overall funding shortfall over seven years.

Exhibit VI-5
National Fuel Retirement Plan
Adjusted Funding Target Attainment
As of July 1, 2010

Adjusted Funding Target	$707,121,603
Adjusted Plan Assets	$566,082,890
2010 Adjusted Funding Target Attainment Percentage	80.05%

Source: Data Request FM-23

Non-union employees hired on or after July 1, 2003, and union employees hired on or after November 1, 2003, can participate in a Retirement Savings Account, at no cost to the employee. Employees are eligible to participate once they have attained a minimum age of 21 and 12 months of continuous service. The current Company contribution schedule is as follows:

- 2% x Total Pay, for each year of service for years 2-5.
- 3% x Total Pay, for each year of service for years 6-15.
- 4% x Total Pay, for 16+ years of service.

Additionally, employees with six months of continuous service and a minimum age of 21 may defer 2% - 50% of their base pay, on a pre-tax basis, under the Tax Deferred Savings Plan. The Company match depends on length of service and employee contributions, and does not differ based on the date of hire.

Findings and Conclusions

Our examination of the Financial Management function focused primarily on a review of accounting policies and procedures, the capital and operating budget process, budget variance tracking and reporting, capital structure, long and short term financing, the pension plan, and dividend policies. Based on our review, the Company should initiate or devote additional efforts to improving the efficiency and effectiveness of its financial management operations by addressing the following:

1. National Fuel does not have a corporate dividend policy.

National Fuel is the sole shareholder of NFGDC and there are no National Fuel or NFGDC policies related to the payment of dividends from the regulated utility (i.e., NFGDC) to its parent corporation (i.e., National Fuel). Dividend payouts from regulated utilities to holding or parent companies typically range from 75 to 85 percent of net income. As discussed in Finding and Conclusion No. 2 below, NFGDC's Pennsylvania operations dividend payments to National Fuel have significantly exceeded net income in recent years to levels ranging from 125 to 209 percent of net income. The establishment of a formal dividend policy would set some sound business parameters from which to base dividend payouts.

2. NFGDC's Pennsylvania operations dividend payments to National Fuel for four of the past six years (i.e., 2006 through 2011) have significantly exceeded net income.

NFGDC's Pennsylvania operations net income, dividends paid to National Fuel, and dividends paid as a percentage of net income for the fiscal years from 2006 through 2011 are shown in Exhibit VI-6. NFGDC's Pennsylvania operations annual dividend payments to National Fuel have significantly exceeded its net income in four of the last six years (i.e., 2006, 2007, 2010 and 2011), ranging from a low of 52% in 2008 to a high of 209% in 2006; and during this six year period approximately 111% of NFGDC's Pennsylvania operations net income was paid as dividends to its parent corporation. This is not sustainable for long periods of time without borrowing significant amounts to sustain ongoing operations.

Exhibit VI-6
National Fuel Gas Distribution Corporation
Pennsylvania Operation's Dividend Payments to National Fuel Gas Company
For the Fiscal Years Ended September 30, 2006 through 2011

Fiscal Year	Net Income	Dividends Paid	Dividends Paid as a % of Net Income
2006	$9,784,714	$20,414,149	209%
2007	$17,124,033	$25,552,722	149%
2008	$20,774,265	$10,862,670	52%
2009	$20,962,409	$11,148,540	53%
2010	$23,010,033	$29,551,440	128%
2011	$28,277,252	$35,428,240	125%
Totals	$119,932,706	$132,957,761	111%

Source: Data Requests FM-3 and FM-30, and Auditor Analysis

NFGDC's companywide (i.e., New York and Pennsylvania operations) dividends paid to National Fuel as a percentage of net income for the fiscal years 2006 through 2011 is shown on Exhibit VI-7. Similar to the NFGDC Pennsylvania operations trends depicted in Exhibit VI-6, NFGDC's companywide total annual dividend payments to National Fuel have significantly exceeded net income in four of the six years reviewed.

Exhibit VI-7
National Fuel Gas Distribution Corporation
Total Dividend Payments to National Fuel Gas Company
For the Fiscal Years Ended September 30, 2006 through 2011

Fiscal Year	Net Income	Dividends Paid	Dividends Paid as a % of Net Income
2006	$49,814,877	$69,734,000	140%
2007	$50,886,082	$86,401,000	170%
2008	$61,472,089	$36,400,000	59%
2009	$58,663,751	$36,900,000	63%
2010	$62,472,771	$98,400,000	158%
2011	$63,227,501	$118,400,000	187%
Totals	$346,537,071	$446,235,000	129%

Source: Data Requests FM-34 and FM-36, and Auditor Analysis

In general, it is not a sound business practice to pay an annual dividend to a parent company that is more than 75% to 85% of the utility's net income on a consistent or long-term basis. However, there may be situations when higher than normal dividends are warranted for a particular period/year. The Company indicated that its actual capital structure is monitored on a regular basis and appropriate changes are initiated through a combination of debt issues/repayments, changes in dividends and capital contributions when necessary.

During the course of our audit, the Audit Staff found no evidence that indicates NFGDC's financial strength, service/reliability and/or safety has been affected by the high dividend payouts that have occurred since 2006. Exhibit VI-8 shows estimates of the Pennsylvania cash and temporary cash investments and retained earnings balances as of fiscal years ending September 30, 2005 - 2011. Exhibit VI-9 shows the companywide (i.e., New York and Pennsylvania operations) cash and temporary cash investments and retained earnings balances as of fiscal years ending September 30, 2005 - 2011. Nevertheless, the question arises as to whether or not NFGDC and its Pennsylvania customers would have benefited from retention of some of these funds for uses such as additional pipe replacement, system reliability improvements, deferred borrowing for capital improvement, pension plan funding, etc.

Exhibit VI-8
National Fuel Gas Distribution Corporation
Estimates of Pennsylvania Cash and Temporary Cash Investments
And Retained Earnings (in Thousands of Dollars)
As of Fiscal Year Ends September 30, 2005 through 2011

	2005	2006	2007	2008	2009	2010	2011
Cash and Temporary Cash Investments	$1,204	$1,406	$1,886	$1,939	$38,220	$22,134	$7,118
Retained Earnings	$112,813	$97,239	$93,673	$103,564	$113,178	$100,680	$99,562

Source: Data Request FM-33

Exhibit VI-9
National Fuel Gas Distribution Corporation
Companywide Cash and Temporary Cash Investments
And Retained Earnings (in Thousands of Dollars)
As of Fiscal Year Ends September 30, 2005 through 2011

	2005	2006	2007	2008	2009	2010	2011
Cash and Temporary Cash Investments	$4,061	$4,974	$6,548	$6,556	$125,452	$69,374	$20,045
Retained Earnings	$380,589	$344,002	$325,155	$350,227	$371,490	$315,563	$280,391

Source: Data Request FM-32

The Pennsylvania Public Utility Commission (PUC or Commission) is charged with regulation and oversight of all public utilities doing business within Pennsylvania and therefore has an obligation to ensure that a public utility's dividend practices do not harm service or reliability. Therefore, NFGDC should provide an explanation to the PUC describing the circumstances warranting the dividend payments that exceeded 85% of annual net income since 2006. Going forward, NFGDC should provide advance notice of, and an explanation for, annual dividend payments in excess of 85% of net income as circumstances warrant.

Recommendations

1. **Establish a formal dividend policy.**

2. **Submit a detailed, written explanation for each dividend payout exceeding 85% of net income to the Commission within 30 days after public release of this audit report, and ensure that advance notice and explanations are submitted to the Commission prior to making future dividend payments in excess of 85% of net income.**

VII. EMERGENCY PREPAREDNESS

Background

Effective June 11, 2005, Pennsylvania Public Utility Commission (PUC or Commission) regulations at 52 Pa. Code § 101.1-101.7 (Section 101) require jurisdictional utilities to develop and maintain appropriate written physical security, cyber security, emergency response, and business continuity plans to protect the Commonwealth's infrastructure and ensure safe, continuous and reliable utility service. Along with the requirement to establish these "emergency preparedness" plans, a utility is also required to annually file a Self Certification Form with the Commission. This form is comprised of 13 questions as shown in Exhibit VII-1 below.

Exhibit VII-1
Pennsylvania Public Utility Commission
Public Utility Security Planning and Readiness Self Certification Form

Item No.	Classification	Response (Yes-No-N/A*)
1	Does your company have a physical security plan?	1.
2	Has your physical security plan been reviewed in the last year and updated as needed?	2.
3	Is your physical security plan tested annually?	3.
4	Does your company have a cyber security plan?	4.
5	Has your cyber security plan been reviewed in the last year and updated as needed?	5.
6	Is your cyber security plan tested annually?	6.
7	Does your company have an emergency response plan?	7.
8	Has your emergency response plan been reviewed in the last year and updated as needed?	8.
9	Is your emergency response plan tested annually?	9.
10	Does your company have a business continuity plan?	10.
11	Does your business continuity plan have a section or annex addressing pandemics?	11.
12	Has your business continuity plan been reviewed in the last year and updated as needed?	12.
13	Is your business continuity plan tested annually?	13.

* Attach a sheet with a brief explanation if N/A is supplied as a response to a question.
Source: Public Utility Planning and Readiness Self Certification Form, as available on the PUC website at http://www.puc.state.pa.us/general/onlineforms/pdf/Physical_Cyber_Security_Form.pdf.

The Audit Staff reviewed the most recent (2010) Self Certification Form submitted by National Fuel Gas Distribution Company's (NFGDC or Company) to determine the status of its responses. Our examination of the Company's emergency preparedness included a review of the physical security plan, cyber security plan, emergency response plan, business continuity plan, and all associated security measures. This included a review of security manuals to ensure that proper identification of PUC and government agency contacts were sufficient and up to date. In addition, the Audit Staff also reviewed measures taken by the Company to safeguard its areas of vulnerability. If situations were to occur, however, which prevented normal operations from occurring; the Business Continuity Plan adequately addresses contingencies for people, equipment, facilities and services provided. Due to the sensitive nature of the information reviewed in this functional area, specific information is not revealed in this report but rather the generalities of the information reviewed is summarized.

To protect physical and cyber security, the measures used by the Company include the following:

- Physical access to buildings is restricted through electronic card access, alarm systems and keys. Access is determined by job requirement and/or business need. Additional access to facilities is granted upon approval from a department manager.
- Physical access to service centers, garages, and maintenance areas include traditional lock and key mechanisms, and/or electronic card access. Additional security is provided through proper lighting, fencing, alarm systems, security guards, and Closed Circuit Television monitoring.
- Cyber access allows varying levels of access to internet, intranet and software applications. Access levels are determined by an employee's job description and title.
- NFGDC's parent company, National Fuel Gas Company (National Fuel), utilizes multiple types of firewalls to secure and protect its networks. Furthermore, virus protection software is pushed to all National Fuel computers and servers.
- National Fuel issues Requests for Proposals for outside vendors to perform cyber security and vulnerability reviews.

National Fuel tests its physical security, cyber security, emergency response and business continuity plans every year and, in some instances, multiple times a year. A review is completed to ensure each plan has been tested, results of testing have been evaluated, and the necessary corrective measures have been taken as necessary. The plans are updated accordingly following the testing and review of the individual plan.

Findings and Conclusions

Our examination of NFGDC's Emergency Preparedness included review of the physical security plan, cyber security plan, emergency response plan, business continuity plan, vulnerability assessment and all associated security measures. Based on our review of the Company's emergency preparedness efforts, the Company should initiate or devote additional efforts to improving its security planning and preparedness procedures by addressing the following:

1. NFGDC's Emergency Response Plan does not have complete local and state police, fire and emergency medical services contact information for all of its service territories.

The Company's Emergency Response Plan (ERP) contains numerous outside contacts needed for emergency situations, for example:

- National Fuel Contacts
  - National Fuel Gas Operations Center Contacts – Mineral Springs, NY
  - NFGDC Gas Operation Pennsylvania Service Center Contacts
  - Supply Corporation Pennsylvania Contacts
  - Recovery Coordinator and Incident Managers
  - Senior Officers, Risk Management and Security Department Contacts
- Pennsylvania Public Utility Commission
- Department of Transportation National Response Center
- County Reach Emergency Numbers
- Daily Newspaper, Radio and Television station and Pennsylvania Energy Association Contacts
- County Emergency Management Coordinators

However, the Audit Staff's review of the emergency response manual revealed that information for service territories emergency responders (i.e., police, fire, and emergency medical services) was absent. Additionally, there was no contact information for the Pennsylvania State Police barracks. In some cases, small municipalities do not have local enforcement and therefore are patrolled by the Pennsylvania State Police. Although it is an acceptable practice and often preferable to call 911 centers directly during emergencies (especially in rural areas), the Company should have all local emergency responder and state police information documented. This information should be updated annually for the following reasons:

- Recommended Practice 1162, developed by gas pipeline operators in response to the Pipeline Safety Improvement Act (passed by Congress in December 2002), states that all local public and emergency officials must be made aware of pipeline safety activities involving the local gas distribution company.
- During an emergency situation there may become a need for assistance from or information needed from local emergency providers.
- During an emergency situation there may become a need for assistance from or information needed from state police barracks, in areas where there is no local enforcement agency.

Recommendation

1. **Ensure that contact information for all local public and emergency officials as well as the Pennsylvania State Police is included in the Company's emergency response manual.**

VIII. DIVERSITY AND EQUAL EMPLOYMENT OPPORTUNITY

Background

While the National Fuel Gas Distribution Corporation (NFGDC or Company) President is ultimately responsible for the areas of Equal Employment Opportunity (EEO) and Affirmative Action, the General Manager, Human Resources Department is the designated Corporate Affirmative Action Officer and is responsible for the day-to-day operations in these areas. The Human Resources Department (HRD) administers diversity related programs for NFGDC's Pennsylvania operations and compiles statistics for the Company's annual Affirmative Action Plan (AAP). Some of the other responsibilities of HRD include: developing affirmative action programs; implementing EEO policies; collecting and analyzing employment data; identifying problem areas; setting goals and timetables; and developing programs to achieve goals.

The Pennsylvania Public Utility Commission (PUC or Commission) has encouraged utilities to proactively improve the diversity in their workforce and purchasing efforts for almost two decades. In March 1992, the Commission issued a Secretarial letter directing all jurisdictional utilities affected by Section 516 of the Public Utility Code (i.e., utilities whose plant in service exceeds $10,000,000) to file quarterly diversity status reports with the Commission. In May 1994, the Commission issued an order directing Section 516 utilities to file diversity status reports on a semi-annual rather than a quarterly basis, to submit EEO plans annually, and to file certain diversity procurement data. In February 1995, the Commission adopted Chapter 69 regulations (at 52 Pa. Code §69.801-69.809) which encourage utilities to include diversity efforts as a component of their business strategy. Later, in March 1997, the Commission issued diversity filing requirements clarifications and revisions, which most significantly changed the filing requirements from semi-annual to annual.

NFGDC has filed annual diversity reports with the PUC since 2004. The diversity reports include the required human resources and procurement sections. Since NFGDC's Pennsylvania service area has had a very limited number of external hiring opportunities, additional measures were developed by NFGDC's Human Resources Department to help NFGDC's Pennsylvania service area meet its affirmative action goals, including:

- Position descriptions were reviewed in August 2009 to ensure that they accurately reflect duties performed. The Human Resources Department also performs this analysis as new positions or responsibilities are developed or requested.
- Workers' specifications by division, department, location or organizational unit were reviewed to ensure that they are nondiscriminatory. This is an ongoing process performed by the Human Resources Department.
- Position descriptions and employee specifications are made available to all members of management when filling vacancies (position descriptions and employee specifications are also made available to all external recruiting sources).

- All other Company selection processes were reviewed to ensure that they are nondiscriminatory. This is an ongoing process performed by the Human Resources Department and includes training for functional area employees involved in the recruitment process.
- Job openings for internal positions are posted, allowing candidates to review the job specifications for all available opportunities.
- The use of the Pennsylvania Commonwealth Workforce Development System (PA CareerLink), local job services/employment offices, the Erie Hispanic American Council and the Greater Erie Community Action Center as recruitment referral sources.
- Formal briefing sessions are available for representatives from other recruiting sources.
- Current employees are actively encouraged to refer non-relative minority candidates.
- The Company advertises in minority and women's interest media when recruiting, if available.
- All job advertisements include a statement highlighting the fact that the Company is an Equal Opportunity Employer.
- Training and educational assistance is offered to NFGDC employees in a non-discriminatory manner.
- The Company ensures that minority and female employees have equal opportunity to all promotions by posting promotional opportunities for bargaining unit employees, maintaining an inventory of the skills and academic experience levels of all employees, implementing a formal performance management process for non-union NFGDC employees, reviewing worker specifications, reviewing seniority practices and seniority clauses to ensure that such practices are non-discriminatory, and ensuring that non-union hourly and supervisory posting programs allow for promotional opportunities based on job specific qualifications.
- The Company offers a competitive salary and benefits package, mentoring programs/career counseling, part-time and flex-time work, an employee assistance program, and a tuition assistance program.

National Fuel has developed a Code of Business Conduct and Ethics for directors, officers and employees. In addition, Corporate Governance Guidelines have been developed. National Fuel's website includes a toll free hotline which allows employees to report questionable accounting, internal accounting controls, or auditing matters to a third party company. Complaints can also be filed in writing with the Chairman of the Audit Committee. The Office of Federal Contract Compliance Programs did not audit NFGDC's diversity and equal employment opportunity programs during the period January 1, 2006 to March 23, 2011.

Exhibit VIII-1 presents the number of NFGDC employees who work in Pennsylvania service areas by EEO category, gender, and race for the years 2006-2010. The total number of employees increased by 2, or 0.6%, during the period 2006-2010. During this period, white male employees declined by 0.9%, white female employees increased by 8.0%, minority male employees declined by 15.4%, and minority female employees declined by 9.1%.

Findings and Conclusions

Our examination of the Diversity and Equal Employment Opportunity function included a review of the Affirmative Action Plans, staffing trends, labor market comparisons, purchasing practices and trends, latest PUC diversity filings, policies and procedures, communication methods, management philosophy and accountability, and Office of Federal Contract Compliance Programs audits. Based on our review, the Company should initiate or devote additional efforts to improving the efficiency and/or effectiveness of diversity and equal employment opportunity areas by addressing the following:

1. Women and minorities are under represented in several job categories.

A summary of NFGDC's utilization of women and minority employees based in Pennsylvania, as of December 31, 2010, is shown in Exhibit VIII-2. As of yearend 2010, women were under represented in six job groups, and minorities were under represented in two job groups. Total female under representation was 27 employees, while total minority under representation was 3 employees. The Company's Female under representation occurred in the Executive/Senior Level Officials, First/Mid Level Officials, Professionals, Craft Workers, Operatives, and Laborers & Helpers job groups. NFGDC's Pennsylvania based employee minority under representation occurred in the Operatives and Laborers & Helpers job groups.

Utilities should be striving to achieve female and minority employee representation that is comparable to female and minority availability within the Company's recruiting area for each job group. The Company indicated that hiring from 2006 through April 2011 was very limited, making it difficult to achieve the goals in all job groups. Also, the Erie, Pennsylvania metropolitan statistical area (MSA) is used for all employees in Pennsylvania; this service area has a higher availability of women and minorities than the MSAs of smaller Pennsylvania cities and towns, thus making it more difficult to achieve the goals for each job group. Nonetheless, the Company should proactively seek to achieve full representation of women and minorities in the under represented job groups by further initiatives aimed at retaining, recruiting, and advancing diverse talent.

National Fuel Gas Distribution Corporation
Number Of Pennsylvania Based Employees
By EEO Category, Gender, And Race
For The Years 2006-2010

Total Pennsylvania Service Area Employees								
EEO Job Categories	**2006**	**2007**	**2008**	**2009**	**2010**	**Percent of Total 2010**	**Net Change 2006-2010**	**Percent Change 2006-2010**
Officials & Managers	54	55	56	61	57	17.1%	3	5.6%
Professionals	28	27	27	24	21	6.3%	-7	-25.0%
Technicians	2	3	3	3	3	0.9%	1	50.0%
Sales Workers	0	0	0	0	0	0.0%	0	0.0%
Admin Support Workers	97	107	111	108	98	29.3%	1	1.0%
Craft Workers (Skilled)	43	43	36	36	33	9.9%	-10	-23.3%
Operatives (Semi-Skilled)	94	91	105	106	103	30.8%	9	9.6%
Laborers (Unskilled)	14	17	22	20	19	5.7%	5	35.7%
Service Workers	0	0	0	0	0	0.0%	0	0.0%
Totals	332	343	360	358	334	100.0%	2	0.6%

Source: National Fuel Gas Distribution Corporation EEO-1 reports for 2006-2010

National Fuel Gas Distribution Corporation Number Of Pennsylvania Based Employees By EEO Category, Gender, And Race For The Years 2006-2010

White Males

EEO Job Categories	2006	2007	2008	2009	2010	Percent of Total 2010	Net Change 2006-2010	Percent Change 2006-2010
Officials & Managers	45	46	45	47	44	20.2%	-1	-2.2%
Professionals	16	14	14	15	11	5.0%	-5	-31.3%
Technicians	2	2	2	2	2	0.9%	0	0.0%
Sales Workers	0	0	0	0	0	0.0%	0	0.0%
Office & Clerical	21	22	22	19	18	8.3%	-3	-14.3%
Skilled	40	40	34	34	31	14.2%	-9	-22.5%
Semi-Skilled	85	84	97	98	95	43.6%	10	11.8%
Unskilled	11	15	17	18	17	7.8%	6	54.5%
Service Workers	0	0	0	0	0	0.0%	0	0.0%
Totals	220	223	231	233	218	100.0%	-2	-0.9%
% of Total Company	66.3%	65.0%	64.2%	65.1%	65.3%			

White Females

EEO Job Categories	2006	2007	2008	2009	2010	Percent of Total 2010	Net Change 2006-2010	Percent Change 2006-2010
Officials & Managers	9	9	9	12	11	11.6%	2	22.2%
Professionals	10	11	12	8	9	9.5%	-1	-10.0%
Technicians	0	1	1	1	1	1.1%	1	NM
Sales Workers	0	0	0	0	0	0.0%	0	0.0%
Office & Clerical	64	74	77	77	70	73.7%	6	9.4%
Skilled	0	0	0	0	0	0.0%	0	0.0%
Semi-Skilled	3	2	2	3	3	3.2%	0	0.0%
Unskilled	2	2	3	1	1	1.1%	-1	-50.0%
Service Workers	0	0	0	0	0	0.0%	0	0.0%
Totals	88	99	104	102	95	100.0%	7	8.0%
% of Total Company	26.5%	28.9%	28.9%	28.5%	28.4%			

NM – Not Meaningful

Source: National Fuel Gas Distribution Corporation EEO-1 reports for 2006-2010

National Fuel Gas Distribution Corporation
Number Of Pennsylvania Based Employees
By EEO Category, Gender, And Race
For The Years 2006-2010

Minority Males								
EEO Job Categories	2006	2007	2008	2009	2010	Percent of Total 2010	Net Change 2006-2010	Percent Change 2006-2010
Officials & Managers	0	0	1	1	1	9.1%	1	NM
Professionals	1	1	1	1	1	9.1%	0	0.0%
Technicians	0	0	0	0	0	0.0%	0	0.0%
Sales Workers	0	0	0	0	0	0.0%	0	0.0%
Office & Clerical	2	2	2	1	1	9.1%	-1	-50.0%
Skilled	3	3	2	2	2	18.2%	-1	-33.3%
Semi-Skilled	6	5	6	5	5	45.5%	-1	-16.7%
Unskilled	1	0	2	1	1	9.1%	0	0.0%
Service Workers	0	0	0	0	0	0.0%	0	0.0%
Totals	13	11	14	11	11	100.0%	-2	-15.4%
% of Total Company	3.9%	3.2%	3.9%	3.1%	3.3%			

Minority Females								
EEO Job Categories	2006	2007	2008	2009	2010	Percent of Total 2010	Net Change 2006-2010	Percent Change 2006-2010
Officials & Managers	0	0	1	1	1	10.0%	1	NM
Professionals	1	1	0	0	0	0.0%	-1	-100.0%
Technicians	0	0	0	0	0	0.0%	0	0.0%
Sales Workers	0	0	0	0	0	0.0%	0	0.0%
Office & Clerical	10	9	10	11	9	90.0%	-1	-10.0%
Skilled	0	0	0	0	0	0.0%	0	0.0%
Semi-Skilled	0	0	0	0	0	0.0%	0	0.0%
Unskilled	0	0	0	0	0	0.0%	0	0.0%
Service Workers	0	0	0	0	0	0.0%	0	0.0%
Totals	11	10	11	12	10	100.0%	-1	-9.1%
% of Total Company	3.3%	2.9%	3.1%	3.4%	3.0%			

NM – Not Meaningful

Source: National Fuel Gas Distribution Corporation EEO-1 reports for 2006-2010

National Fuel Gas Distribution Corporation
Utilization Analysis for Employees Based in Pennsylvania
As of December 31, 2010

Job Group	Total Number of Employees	Women				Minorities			
		Utilization Number	Utilization Percent	Availability Percent	Number Under-Represented	Utilization Number	Utilization Percent	Availability Percent	Number Under-Represented
Executive/Senior Level Officials	14	2	14.3%	23.3%	1	0	0.0%	4.7%	0
First/Mid-Level Officials	43	10	23.3%	39.9%	7	2	4.7%	4.2%	0
Professionals	21	9	42.9%	57.6%	3	1	4.8%	6.3%	0
Technicians	3	1	33.3%	59.2%	0	0	0.0%	7.9%	0
Craft Workers	33	0	0.0%	4.0%	1	2	6.1%	4.8%	0
Operatives	103	3	2.9%	16.2%	13	5	4.9%	7.5%	2
Laborers & Helpers	19	1	5.3%	16.7%	2	1	5.3%	11.9%	1
Administrative Support Workers	98	79	80.6%	76.8%	0	10	10.2%	7.0%	0
Totals	334	105	31.4%		27	21	6.3%		3

Source: National Fuel Gas Distribution Corporation 2011 Affirmative Action Plan

Exhibit VIII-2

2. NFGDC's purchases from women-owned and persons with disabilities-owned businesses have declined.

The Commission encourages utilities to make efforts to maximize their purchases from minority/women/persons with disabilities-owned business enterprises (MWDBEs). The PUC's diversity policy statement, adopted in February 1995, at 52 Pa. Code § 69.801-69.809, encourages major jurisdictional utility companies to develop a diversity program which is designed to provide that a fair proportion of products and services contracts are offered to MWDBEs. The Company should identify MWDBEs and offer them the chance to bid on the Company's purchases of goods and services, with the objective of increasing the amount of purchases made from such businesses. However, in recent years NFGDC has had less success in this regard. From 2006 to 2010, NFGDC's total purchases increased 14.4% while purchases from MWDBEs declined by 47.9%. More specifically, purchases from minority-owned businesses during this period increased by approximately $102,000, or 19.3%, while purchases from women-owned businesses decreased by approximately $1.5 million, or 62.1%. Purchases from persons with disabilities owned businesses increased from $0 in 2006 to $49,777 in 2008, and then decreased to $2,849 in 2010. NFGDC's purchases from MWDBEs during the period 2006 through 2010 are summarized on Exhibit VIII-3. These are purchases for both the New York and Pennsylvania operations.

Exhibit VIII-3
National Fuel Gas Distribution Corporation
Purchases Made From
Minority/Women/Persons with Disabilities-owned Business Enterprises
2006 – 2010

Year	Minority-Owned Purchases	% of Total Purchases	Women-Owned Purchases	% of Total Purchases	Persons With Disabilities-Owned Purchases	% of Total Purchases	Total MWDBE Purchases	% of Total Purchases	Total Purchases
2006	$526,722	0.69%	$2,503,536	3.28%	$0	0.00%	$3,030,258	3.97%	$76,424,859
2007	$261,804	0.35%	$1,683,949	2.25%	$6,175	0.01%	$1,951,928	2.60%	$75,001,395
2008	$562,097	0.62%	$1,441,616	1.60%	$49,777	0.06%	$2,053,490	2.28%	$90,037,708
2009	$726,352	0.88%	$949,532	1.15%	$27,647	0.03%	$1,703,531	2.07%	$82,492,593
2010	$628,286	0.72%	$948,521	1.09%	$2,849	0.00%	$1,579,656	1.81%	$87,415,992
% Change*	19.3%		-62.1%		-53.9%		-47.9%		14.4%

* Note that the percentage change for Minority-Owned purchases and Women-Owned purchases is based on the period 2006-2010, the percentage change for Persons With Disabilities-Owned purchases is based on the period 2007-2010, and the percentage change for Total MWDBE Purchases and Total Purchases is based on the period 2006-2010.

Source: Data Request Nos. DIV-8, 11

The Purchasing/Accounts Payable Department continually updates its database of active suppliers maintained in PeopleSoft. Suppliers are contacted through direct mailings in order to update key vendor/supplier information. The Purchasing Department routinely searches the "web" in order to identify suppliers with whom NFGDC has not had an ongoing relationship but are qualified to meet NFGDC's current requirements. Also, vendors who "cold call" the Purchasing Department are investigated to determine whether a product/service "fit" exists and if the supplier is otherwise qualified. External outreach efforts include membership in the Upstate New York Supplier Development Council, participation in the May 2010 Small Business Matchmaker Exposition held in Buffalo, New York, participation in the May 2010 Annual Business Opportunity Fair held in Monroeville, Pennsylvania, participation in the Annual Exposition and Business Opportunity Fair held in Rochester, New York, and inclusion of MWDBE subcontractor language in the letter sent to vendors requesting vendor profile updates. The Company indicated that it continually takes steps to broaden vendor participation by diverse vendors.

However, despite NFGDC's efforts described above, its total amount of purchases made from MWDBEs has declined. The Company gave the following reasons for increases or decreases in purchases from MWDBE:

- Purchases from minority-owned businesses increased from $526,722 in 2006 to $628,286 in 2010 primarily due to the use of a vendor that performs energy audit related services.
- Purchases from women-owned businesses decreased from $2,503,536 in 2006 to $948,521 in 2010 primarily due to the reduction in business with two vendors, with one of the vendors having received a large contract in 2006 for construction work for the Warren, Pennsylvania Service Center.
- There were no purchases from persons with disabilities-owned businesses in 2006 because information for this category was not tracked in that year.
- Purchases from persons with disabilities-owned businesses decreased from $49,777 in 2008 to $2,849 in 2010 primarily because an automobile vendor closed their business.

From 2006-2010, despite the increase in purchases from minority-owned businesses, purchases from women-owned and persons with disabilities-owned businesses declined. As a result, total MWDBE purchases declined from 4.0% of total purchases in 2006 to 1.8% of total purchases in 2010. Therefore, NFGDC should make further good faith efforts to increase its use of MWDBE businesses.

Recommendations

1. Continue efforts to attain full representation of women and minorities.

2. Implement additional strategies, initiatives, and actions as appropriate to increase purchases from women and persons with disabilities owned businesses.

IX. CUSTOMER SERVICE

Background

In its Pennsylvania (PA) service territory, National Fuel Gas Distribution Corporation (NFGDC or Company) provides natural gas service to approximately 197,000 residential customers, 15,500 commercial customers, and 600 industrial customers as of December 31, 2010. The Company's customer service functions are performed in three departments:

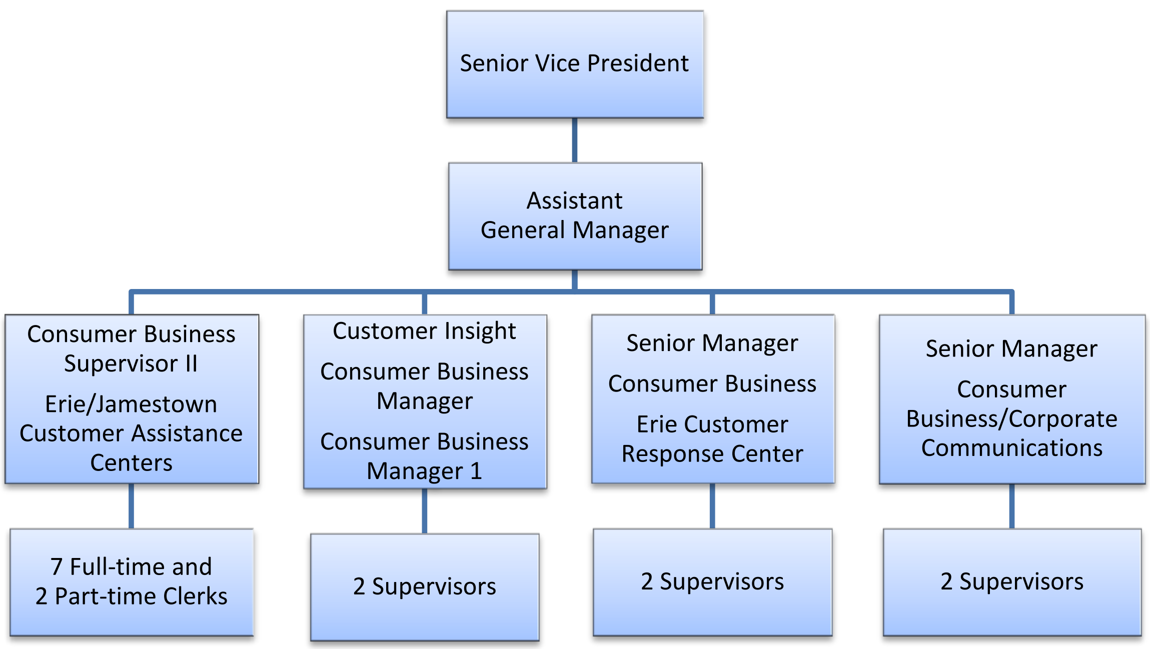
- Consumer Business Department,
- Operations Department, and
- Credit, Collections and Receivables Management (CCRM) Department.

The Consumer Business Department is responsible for customer telephone and walk-in inquiries, customer billing and customer payment processing. The Department also responds to customer complaints filed with the Pennsylvania Public Utility Commission (PUC or Commission) and manages the Low Income Residential Assistance (LIRA) program. NFGDC has two Customer Assistance Center (CAC) locations in Pennsylvania. The Erie, PA CAC processes walk-in customer service, cashier, and other back office work and customer accounting. The Oil City, PA CAC is responsible for processing walk-in customer service, cashier, and other back office work and customer accounting. The Operations Department performs customer meter reading and the CCRM Department handles customer credit, collections, and receivables.

The Consumer Business Department's organizational structure of its PA operations is shown in Exhibit IX-1. The Jamestown, New York (NY) CAC is a location in the New York service territory of NFGDC. The Jamestown, NY CAC is a small location that does not warrant a full-time manager. Given Jamestown's geographic proximity to Erie, it is managed by a Consumer Business Supervisor II out of the Erie Office. The Consumer Business Supervisor II works in the Jamestown office 2-3 days per week with the remainder of the work week spent in the Erie Office. The labor and benefits for the Consumer Business Supervisor II are appropriately charged to the Pennsylvania or New York operations, based on time spent in Erie or Jamestown, respectively. Additionally, the Consumer Business Manager and Consumer Business Manager 1 have been temporarily assigned as the subject matter experts to a four year project called the Customer Insight Project (Customer Insight). Customer Insight is designed to add automated assistance to customer service representatives (CSRs). Phase I of Customer Insight, which includes call initiation, collections and payment options, was scheduled for implementation by September 30, 2011. Phase II related to customer service, meters and emergency orders was initially implemented on June 6, 2011. Modifications for both Phase I and Phase II are projected for completion in early November 2011. Customer Insight is discussed in more detail later in this chapter. The Senior Manager of Consumer Business in Erie is responsible for the operation of the Erie, PA CAC. The Senior Manager of Consumer Business and Corporate Communications is shared between the Consumer Business and Corporate

Communications Departments. For Consumer Business, the Senior Manager of Consumer Business and Corporate Communications evaluates all PUC complaints for compliance and training. Issues are tracked, electronically logged by the Senior Manager of Consumer Business and Corporate Communications, and communicated to the Senior Manager of Consumer Business in Erie for corrective action. Any corrective action taken is then noted in the electronic log. The Senior Manager of Consumer Business and Corporate Communications manages the Pennsylvania Corporate Communications Department and is also the spokesperson for the Pennsylvania operations of NFGDC.

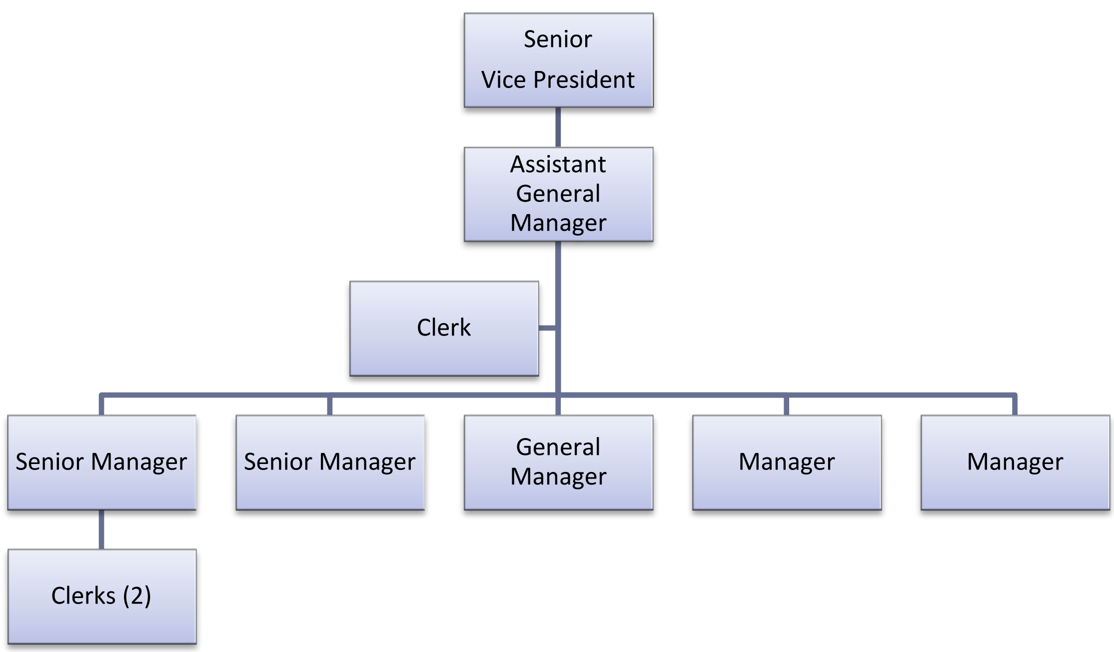
Exhibit IX-1
National Fuel Gas Distribution Corporation
Consumer Business Department for Pennsylvania Operations Organizational Structure
As of March 23, 2011



Source: Data Requests EM-1 and CS-36 and Interview Request No. CS-1

The major objective of the CCRM Department is to identify and minimize corporate financial risk and to protect corporate assets as they relate to accounts receivable. The CCRM Department is operated as an integrated unit that performs duties related to both New York and Pennsylvania customers. As shown in Exhibit IX-2, the organizational structure of the CCRM Department is flat as all supervisory personnel report to the Assistant General Manager. Two Senior Managers, two Managers and a General Manager report to an Assistant General Manager. There is a clerk who reports to the Assistant General Manager and two clerks who report to a Senior Manager. Although it appears to be unusual to have a General Manager reporting to an Assistant General Manager, we could not identify a problem with the effectiveness of the reporting relationships. However, this is an example of a job title that may need to be revised based on reporting relationships as previously discussed in Finding and Conclusion No. 1 of Chapter III - Executive Management. There are two Senior Managers whose primary responsibilities include credit and collection issues related to NFGDC's final bills and external collection agencies, non-residential customer (i.e., industrial and commercial) accounts, transportation customers and external marketers. The General Manager's primary responsibilities include credit and collection issues related to National Fuel Gas Supply Corporation and Empire Pipeline, Inc. customers. One of the Managers is responsible for the administration of National Fuel Gas Company's (National Fuel) (i.e., the holding company parent of NFGDC) corporate credit policy in an effective and efficient manner to minimize the risk and incidence of financial loss to National Fuel. This is accomplished by directly evaluating the financial condition and related credit risk profiles of companies with which National Fuel conducts business. The other Manager's responsibilities are to: prepare quarterly and monthly reports which analyze and report on risk assessment and mitigation of customers and vendors; analyze and forecast receivables, recoveries and bad debts; aid in facilitating the collections and recoveries process; analyze and prepare credit reports on requested vendors and/or customers; assist with methodologies, exhibits and interrogatories for rate cases; and prepare the department budget forecast.

Exhibit IX-2
National Fuel Gas Company Distribution Corporation
Credit, Collections and Receivables Management Department
Organizational Structure
As of March 23, 2011



Source: Data Request No. EM-1 and Interview Request No. CS-3

NFGDC's customer meters are read on a 21 business day cycle. Meter reading routes are assigned by location and read bi-monthly. Three business days after the scheduled meter reading, a bill is generated and mailed. The payment due date is 20 days after the bill is mailed for residential customers and 15 days after the bill is mailed for non-residential customers. NFGDC meter reads are processed by Company employed meter readers, using hand-held data gathering devices. The meter readers process reads, by direct keypad entry, into the hand-held devices. After reading the routes, the hand-held units are connected to the Company's network to upload and download reads and routes, and to send data to the mainframe that is needed for customer billing.

NFGDC's customer service representatives (CSRs) complete a six to eight week comprehensive training program shortly after they are hired. NFGDC's CSRs are thoroughly trained in all areas of customer billing, accounting, and collection activities. An Electronic Resource Center, designed by National Fuel, is available to all CSRs and includes all applicable forms, letters, and resource information. As of mid-2011, National Fuel had designed and was implementing a call flow software system called Customer Insight. Customer Insight guides CSRs through various customer scenarios by providing instructions and notes regarding the regulations being followed and scripts for responding correctly to customer inquiries. Customer Insight is a front-end module to augment use of NFGDC's preexisting mainframe Customer Information System (CIS). Customer Insight is an enhanced user interface that provides tools and features to assist CSRs in responding to customer inquiries. It provides standardization and improved compliance with policies and procedures through easy use of guided informational text and scripting. Customer Insight provides CSRs a preset call flow for the most common customer inquiries.

The PUC's Bureau of Consumer Services (BCS) publishes two reports annually that summarize customer service performance results for all large natural gas distribution companies (NGDCs). BCS' Customer Service Performance Report details statistics for the following performance measures:

- Call Center Performance
- Billing
- Meter Reading
- Residential Disputes
- Customer Satisfaction

BCS' Utility Consumer Activities Report and Evaluation shows performance for the following:

- Consumer complaint types (credit and deposits, metering, billing disputes, etc.)
- Consumer complaint rates
- Justified consumer complaint rates
- Response time to BCS regarding consumer complaints
- Payment arrangement requests

- Justified payment arrangement requests
- Response time to BCS regarding payment arrangement requests
- Residential service terminations and termination rates
- Commission infraction rates

Generally, for the years 2007 through 2009, the BCS reports indicate that NFGDC's performance for most categories tracked and compared were equal to or better than the customer performance level indicators of the NGDC panel averages. More specific customer service performance information compiled by BCS is provided in the following paragraphs and exhibits.

Data regarding call center performance related to Busy-Out Rate, Call Abandonment Rate, and the Percent of Calls Answered within 30 seconds for NFGDC's Pennsylvania service territories during 2007 – 2009 is shown in Exhibit IX-3. The Exhibit compares NFGDC to the Panel Average of all other large NGDCs serving Pennsylvania customers (i.e. Columbia Gas of Pennsylvania, Inc., Equitable Gas Company, Philadelphia Gas Works, The Peoples Natural Gas Company, UGI Penn Natural Gas, Inc. and UGI Utilities, Inc.). The Busy-Out Rate represents attempted calls that received a busy signal or message. The Call Abandonment Rate indicates how many customers drop out of the queue of customers waiting to talk to a utility representative. The Percent of Calls Answered within 30 seconds is a measure of all calls to the utility answered within a 30 second time period. NFGDC's performance was equal to or worse than average in the Busy-Out Rate category. NFGDC was better than average in the Call Abandonment Rate for 2007 and 2009. NFGDC's performance for Percent of Calls Answered within 30 Seconds was better than the panel average for all three years and was significantly better than the panel averages for 2007 and 2009.

Exhibit IX-3
National Fuel Gas Distribution Corporation
Call Center Performance Measures for Pennsylvania Operations
2007 – 2009

Busy-Out Rate			
	2007	**2008**	**2009**
NFGDC	1%	3%	1%
Panel Average	1%	2%	1%
Call Abandonment Rate			
	2007	**2008**	**2009**
NFGDC	4%	8%	4%
Panel Average	6%	7%	6%
Percent of Calls Answered within 30 Seconds			
	2007	**2008**	**2009**
NFGDC	87%	73%	91%
Panel Average	71%	72%	76%

Source: 2007, 2008, and 2009 PUC Customer Service Performance Reports

Comparisons of the level of customer satisfaction with NFGDC's call center activities to the Panel Average are shown on Exhibit IX-4. The activities evaluated are: Satisfaction with Ease of Reaching the Company, Satisfaction with Representative's Handling of Contact, Overall Satisfaction with Contact, and Satisfaction with Wait to Speak to a Representative. NFGDC's performance in these four categories was better than or equal to the panel averages in all of these metrics other than being slightly below average for the Satisfaction with Representative's Handling of the Contact in 2008.

Exhibit IX-4
National Fuel Gas Distribution Corporation
Customer Satisfaction Levels with Contacting Call Center
For Pennsylvania Operations
2007 – 2009

Satisfaction with Ease of Reaching the Company			
	2007	**2008**	**2009**
NFGDC	86%	87%	89%
Panel Average	78%	79%	80%
Satisfaction with Representative's Handling of the Contact			
	2007	**2008**	**2009**
NFGDC	85%	86%	87%
Panel Average	85%	87%	85%
Overall Satisfaction with the Contact			
	2007	**2008**	**2009**
NFGDC	81%	84%	87%
Panel Average	81%	83%	82%
Satisfaction with Wait to Speak to Representative			
	2007	**2008**	**2009**
NFGDC	86%	86%	89%
Panel Average	76%	78%	78%

Source: 2007, 2008, and 2009 PUC Customer Service Performance Reports

NFGDC's customer satisfaction with call center customer service representatives' (CSR) courtesy and knowledge of the subject matter is compared to the Panel Averages in Exhibit IX-5. In 2009, customer satisfaction with NFGDC's CSRs was better than the panel average in regards to both courtesy and knowledge. During 2007 and 2008 customers rated CSR courtesy and knowledge equal to or slightly below the panel averages.

Exhibit IX-5
National Fuel Gas Distribution Corporation
Customer Satisfaction Levels with Call Center Representatives
For Pennsylvania Operations
2007 – 2009

Call Center Representative's Courtesy			
	2007	**2008**	**2009**
NFGDC	88%	91%	91%
Panel Average	90%	91%	90%
Call Center Representative's Knowledge			
	2007	**2008**	**2009**
NFGDC	88%	88%	91%
Panel Average	87%	89%	88%

Source: 2007, 2008, and 2009 PUC Customer Service Performance Reports

A comparison of customer satisfaction with the field representatives' (i.e., employees that actually visit customer premises to perform work) performance is compared in Exhibit IX-6. The field representative performance tables include: Overall Satisfaction with Way Premise Visit Handled, Satisfaction that Work Completed Promptly, Field Representative's Courtesy, Field Representative's Knowledge, Field Representative's Respect for Property, and Satisfaction that Work Completed in a Timely Manner. In 2007 and 2008, NFGDC was below or equal to the Panel Average in each of the six metrics except for being above average in the Field Representatives Knowledge category for 2008. However, by 2009 NFGDC's performance had improved to the point that it was above or equal to the Panel Average for all six metrics.

NFGDC's residential billing and collection performance is shown in comparison to the Panel Average for Pennsylvania NGDCs excluding Philadelphia Gas Works (PGW) on Exhibit IX-7. The Exhibit IX-7 Panel Average excludes PGW's residential billing and collections data because PGW has a much higher percentage of low income residential customers and customers enrolled in customer assistance programs, and its collection performance is much worse than most NGDCs; and therefore its data is not useful to assess collection performance. The Percent of Total Residential Natural Gas Customers in Debt (i.e., with past due, in arrears or delinquent accounts receivable) is a useful statistic that may indicate the need for NGDCs to modify its universal service programs. A company with a low percent of its residential customers in arrears will experience better cash flow and have a better credit rating than one with a high percent of its residential customers in debt. The percent of customers in debt is calculated by dividing the number of delinquent residential customers by the total number of residential customers. Average Arrearage is calculated by dividing the total amount of delinquent residential accounts receivable by the number of residential customers in debt. Larger Average Arrearages normally take more time for customers to pay off and pose more of an uncollectible risk than smaller arrearages. The percentage of residential billings written off as uncollectible is the most commonly used long-term

Exhibit IX-6
National Fuel Gas Distribution Corporation
Customer Satisfaction Levels with Field Representatives
For Pennsylvania Operations
2007 – 2009

Overall Satisfaction with Way Premise Visit Handled			
	2007	**2008**	**2009**
NFGDC	94%	89%	97%
Panel Average	94%	95%	93%
Satisfaction that Work Completed Promptly			
	2007	**2008**	**2009**
NFGDC	84%	81%	93%
Panel Average	84%	86%	84%
Field Representative's Courtesy			
	2007	**2008**	**2009**
NFGDC	93%	90%	95%
Panel Average	96%	96%	95%
Field Representative's Knowledge			
	2007	**2008**	**2009**
NFGDC	95%	99%	100%
Panel Average	96%	96%	94%
Field Representative's Respect for Property			
	2007	**2008**	**2009**
NFGDC	98%	92%	99%
Panel Average	98%	98%	97%
Satisfaction that Work Completed in a Timely Manner			
	2007	**2008**	**2009**
NFGDC	84%	84%	93%
Panel Average	87%	88%	86%

Source: 2007, 2008, and 2009 PUC Customer Service Performance Reports

measure of collection system performance. One measure, called the Gross Write-Offs Ratio, is calculated by dividing the annual total residential accounts receivable written off by the total annual residential billings. Another measure, called the Net Write-Offs Ratio, is calculated by dividing the annual total residential accounts less any recoveries by the total annual residential billings. The percent of Revenues (Billings) in debt is calculated by dividing the total annual residential revenues (billings) by the total monthly average residential amount in arrears. This calculated variable provides another way to measure the extent of customer delinquencies. NFGDC was better than average in every billing and collection metric, other than being slightly above or worse than the panel average arrearages for 2007 and 2008.

Exhibit IX-7
National Fuel Gas Distribution Corporation
Residential Billing and Collections Performance
For Pennsylvania Operations
2007 – 2009

Percent of Total Residential Natural Gas Customers in Debt			
	2007	**2008**	**2009**
NFGDC	5.0%	5.0%	5.0%
Panel Average	10.2%	9.5%	7.5%
Average Arrearage			
	2007	**2008**	**2009**
NFGDC	$481	$490	$517
Panel Average	$456	$467	$543
Gross Write-Offs Ratio			
	2007	**2008**	**2009**
NFGDC	3.2%	2.1%	2.3%
Panel Average	3.2%	3.1%	3.4%
Net Write-Offs Ratio			
	2007	**2008**	**2009**
NFGDC	2.7%	1.7%	1.8%
Panel Average	2.2%	2.5%	2.4%
Percent of Revenues (Billings) in Debt			
	2007	**2008**	**2009**
NFGDC	1.8%	1.7%	2.0%
Panel Average	4.7%	3.8%	3.8%

Source: 2007, 2008, and 2009 Universal Service Programs and Collections Performance Reports and 2007, 2008, and 2009 Residential Collections Data

Metrics related to NFGDCs handling of customer complaints and payment arrangement requests (PARs) for the years 2008 through 2010 are shown on Exhibit IX-8. Once a BCS investigator finishes the investigation of a consumer's complaint regarding the handling of a complaint or PAR dispute and makes a decision, BCS reviews the utility's records to determine if the utility took appropriate action when handling the customer's contact and uses these records to classify the outcome of the case. There are three possible case outcome classifications: justified, inconclusive and unjustified. This approach focuses strictly on the regulatory aspect of the complaint and evaluates utilities negatively only where, in the judgment of BCS, appropriate complaint handling procedures were not followed or applicable regulations were not properly applied by the utility. Specifically, a case is considered "justified" in the appeal to BCS if it is found that, prior to BCS intervention, the utility did not fully comply with Commission Orders, regulations, reports, Secretarial Letters, tariffs, etc. "Unjustified" complaints or PAR requests are those cases in which the utility demonstrates correct procedures were followed prior to BCS intervention. "Inconclusive" complaints are those with incomplete records, equivocal findings or uncertain regulatory interpretations, which make it difficult to determine whether or not the customer was justified in the appeal to the Commission. Exhibit IX-8 shows the percentages of justified residential consumer complaints and payment arrangement requests, and includes the response time for these complaints and requests. The Response Times are the average number of days that it takes the utility to respond to the PUC for all justified consumer complaints and PARs. The information in Exhibit IX-8 is from the years 2008 through 2010 with statistics from NFGDC and a Panel Average of other large NGDCs serving Pennsylvania customers.

Exhibit IX-8
National Fuel Gas Distribution Corporation
Percentage of Justified Residential Consumer Complaints & Payment Arrangement Requests and the Related Response Times
For Pennsylvania Operations
2008 – 2010

Percent of Justified Residential Consumer Complaints			
	2008	**2009**	**2010**
NFGDC	12%	0%	7%
Panel Average	16%	11%	9%
Percent of Justified Payment Arrangement Requests			
	2008	**2009**	**2010**
NFGDC	16%	4%	3%
Panel Average	19%	9%	5%
Response Time to Justified Residential Consumer Complaints			
	2008	**2009**	**2010**
NFGDC	16.5	4.9	10.2
Panel Average	17.5	14.6	15.3
Response Time to Justified Payment Arrangement Requests			
	2008	**2009**	**2010**
NFGDC	11.7	2.7	6.0
Panel Average	9.8	5.9	6.4

Source: 2008, 2009, and 2010 Utility Consumer Activities Report and Evaluation

NFGDC uses four Universal Service programs for its low-income, payment troubled customers. Low Income Residential Assistance (LIRA) is a discounted rate program (i.e., a 10%-80% cost reduction) offered to customers who by analysis of both household size and income fall below 150% of the Federal Poverty Level (FPL). Low Income Usage Reduction Program (LIURP) is a weatherization and usage reduction program offered to low-income customers (i.e., households below 200% of the FPL), who have maintained their residence for at least 12 months and whose annual usage exceeds 130 thousand cubic feet of gas. Customer Assistance Referral Evaluation Services (CARES) is a special payment program designed to assist customers with temporary hardships that affect their ability to pay their natural gas bill. A temporary payment plan (typically less than four months) is established until their circumstances improve. If the customer's circumstances become long-term, then a referral is made to the LIRA program. Neighbor for Neighbor Heat Fund (N4N) is an independently managed heat fund, established through voluntary utility customer and parent company shareholder contributions. N4N Fund grants are available to all residents of NFGDC's service territory who are age 55 or older, have exhausted all other resources, and remain in a heating crisis situation.

Pennsylvania utility customers are required to first deal with NFGDC representatives regarding any disputes, inquiries, and issue resolution before presenting them to the PUC for resolution. NFGDC advises customers of their rights, including the right to contact the PUC for assistance in dispute resolution. Exhibit IX-9 summarizes the number and type of consumer complaints and mediation requests submitted to the PUC by NFGDC customers from 2008 to 2010. Consumer complaints are disputes including such areas as service, repairs and billing. Mediation requests are customers requesting BCS assistance with payment agreements and service terminations. As shown on Exhibit IX-9, the number of consumer complaints and mediation requests submitted from NFGDC customers has declined over the past three years. The reason for the decline in consumer complaints and mediation requests can be attributed to the inception of Chapter 14 in 2004. One of the changes in this regulation was the requirement that the customer contact the utility prior to requesting Commission assistance with an issue. Additionally, if a customer does not keep a Commission issued Payment Agreement, another one is not offered. Lower gas costs have also resulted in fewer consumer complaints and mediation requests.

In accordance with Commission standards, all NGDCs are required to conduct telephone transaction surveys of customers that were involved in recent transactions with the utility. Each month, NFGDC submits a random sampling of customers with recent transactions to an outside research firm (i.e., Metrix Matrix) it has contracted to complete the survey. Each year the research firm conducts 700 customer satisfaction surveys for NFGDC.

Exhibit IX-9
National Fuel Gas Distribution Corporation
Number and Type of Customer Complaints and Mediation Requests
For Pennsylvania Operations
Received by the PUC
2008 – 2010

Consumer Complaints	2008	2009	2010
Billing Disputes	158	130	62
Service Delivery	53	31	22
Repairs	12	4	11
Credit & Deposit	414	363	245
Rate and Tariff	3	0	2
Other	4	2	27
Totals	644	530	369

Mediation Requests	2008	2009	2010
Notice Only	43	45	15
Dispute with Notice	227	126	79
Arrangement Refused	9	4	15
Arrangement Not Kept	780	580	329
Recently Terminated	369	315	217
Final Outstanding	0	0	1
Other	2	0	7
Totals	1,430	1,070	655

Source: Data Request CS-7

Findings and Conclusions

Our examination of NFGDC's Customer Service function included a review of the organizational structure, current policies and procedures, performance measures and levels, customer billing and payment processing, credit and collections procedures, meter reading, and BCS data and performance comparisons and trends. Based on our review, the Company should initiate or devote additional efforts to improving the efficiency and effectiveness of its customer service operations by addressing the following:

1. NFGDC does not track the individual performance of each collection agency it uses nor does it track collections performance separately by state jurisdiction.

NFGDC utilizes outside collection agencies after first attempting to recover inactivated accounts with in-house staff. NFGDC uses 12 different collection agencies for its collections. Collection agency performance is tracked on a consolidated basis for both Pennsylvania and New York service areas, but the Company was able to provide state specific information upon request. A report is generated monthly by the Company showing each collection agency's performance for each receivable segment. NFGDC tracks receivable collection performance in total by the following categories:

- Primes – 24 business days after an inactivation record is created on an unpaid final bill receivable, it is sent to an outside agency as a "Prime" receivable for collection. As a general rule, primary receivables will remain with the primary agency for a period of one year or less if the account is paid in full within that time.

- Seconds – At the end of the first year of collection activity as a "Prime" receivable, any unpaid monies still owed to NFGDC are then sent out to a different, secondary outside collection agency. Secondary agencies will typically utilize different strategies than primary agencies to collect the debt as a "Second". These secondary receivables will remain with the secondary agency for a period of one year or less if the account is paid in full within that time.

- Thirds - After the receivable has worked through both the primary and secondary agencies, any unpaid monies still owed to NFGDC are then sent to another outside collection agency. These third ranking, or tertiary, collection agencies will typically utilize different strategies than primary and secondary agencies to collect the debt as a "Third". The tertiary receivables will remain with the tertiary collection agency for a period of up to five years.

- Legals - Are final bill receivables that have been deemed difficult to collect, but at the same time, NFGDC has been able to identify debtor assets that could be used to satisfy the delinquent account receivable. These are typically sent to an outside law firm for legal action in order to facilitate collection. An account may be sent for legal action, in order to facilitate collection, at any time during the collection cycle.

An analysis of collection performance is gained by running a Champion-Challenger scenario between all of the collection agencies that handle a particular receivable segment (i.e., Primes, Seconds, and Thirds). The performance of each agency handling a specific segment of NFGDC accounts receivable is analyzed and the highest performing agency, based on adjusted gross recovery rates, is designated the top performer. Due to recoveries being somewhat cyclical in nature, the top performer's recovery rate is adjusted (normally between 0.10% and 1.25%) and that level of performance becomes the goal for that particular receivable segment the following month.

However, the Champion-Challenger scenario is based on adjusted gross recovery rates, not net recovery rates or net receipts by NFGDC. Also with the Champion-Challenger scenario the goal fluctuates from month to month. NFGDC did calculate and provide data showing net collection recovery rates when requested by the Audit Staff to assess overall impact of the utility's collection efforts; however, the Company does not track and monitor net collection recovery performance on an ongoing basis. Net collections reflect the percentage of original accounts receivable amounts assigned to a specific agency, plus or minus any balance adjustments (i.e., balance transfers, billing adjustments, etc.) compared to actual value, or cash, received by the utility net of fees paid and/or percentages of recoveries retained by the collection agency.

Since there are differences in regulatory requirements for collections in Pennsylvania versus New York, the Company should report and track collection performance by state jurisdiction. The Company was able to provide collection performance by state when requested, but the Company does not track this information for its own use. In addition, NFGDC included net collections by receivable segment handled by collection agency as one of its performance measures. Net collection performance should also be measured against a set annual goal for each receivable segment established periodically by the Company. This will enable NFGDC to better identify the success of the collection agencies it uses and determine which agencies to continue to use or replace.

Recommendation

1. **Track and report collection agency performance by state jurisdiction and include net collections as one of the performance measures used to evaluate each collection agency's results.**

X. GAS OPERATIONS

Background

As of year-end 2010, National Fuel Gas Distribution Company (NFGDC or Company) served approximately 196,000 residential customers, 15,300 commercial customers, and 600 industrial customers in northwestern Pennsylvania. NFGDC is headquartered in Williamsville, New York with a separate office for Pennsylvania operations, located in Erie, Pennsylvania. Within the Pennsylvania operating area, NFGDC divides the responsibility of Gas Operations between 12 service centers, shown in Exhibit X-1. Each service center is responsible for duties within their respective operating areas. The gas control and an emergency dispatch center is located in Buffalo, New York and is located approximately 12 miles away from NFGDC's headquarters in Williamsville, New York. The gas control center manages gas flow through its distribution lines in connection with its city gates and storage facilities. During regular business hours, all calls originating in Pennsylvania, including emergency and PA One Call, are directed to the Erie Office. Outside of regular business hours, the Buffalo dispatch center is responsible for calls originating in Pennsylvania. NFGDC indicated that at the present time it has no plans to alter any service area territories or functions of the gas control and dispatch centers.

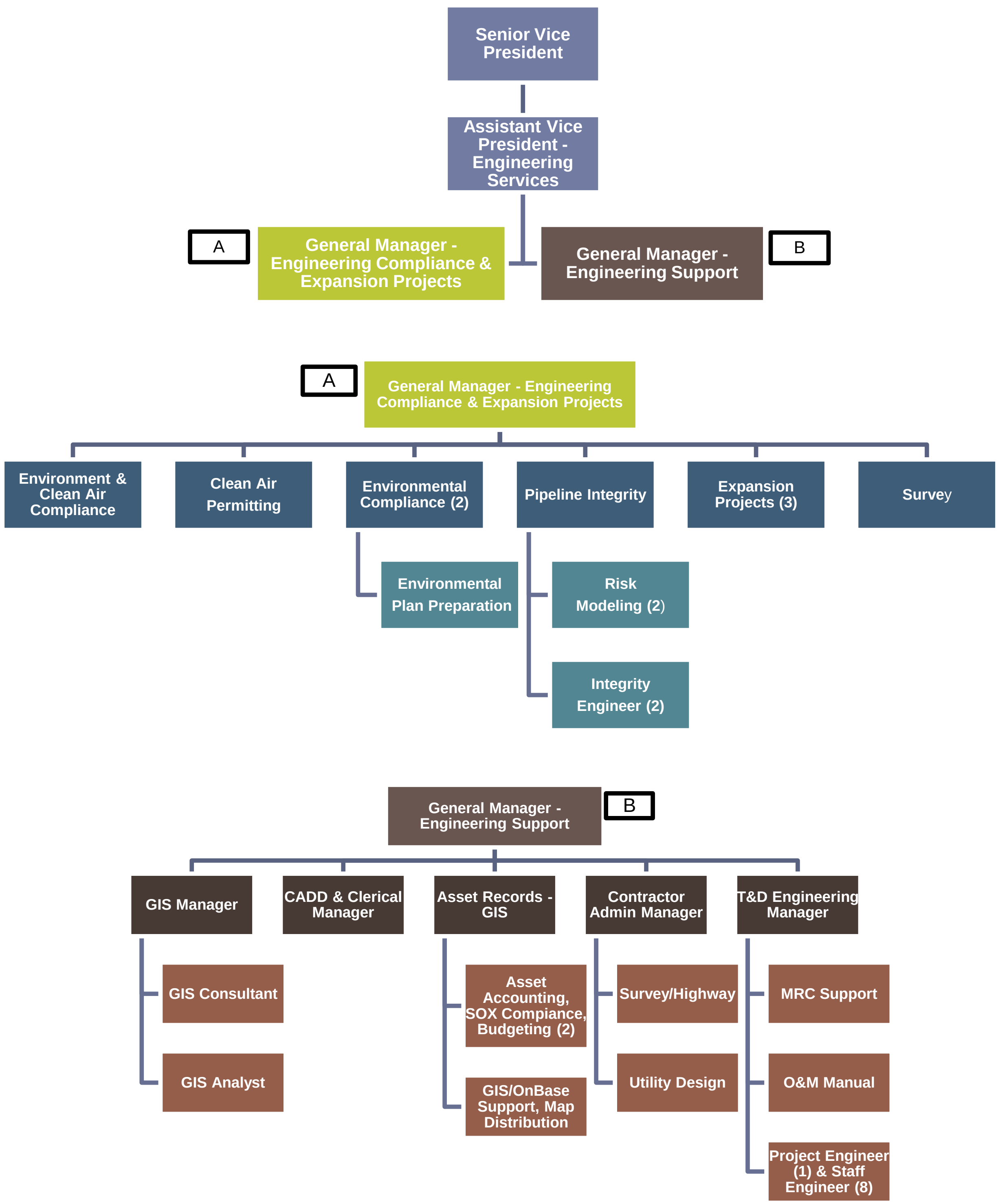
Exhibit X-1
National Fuel Gas Distribution Corporation
Pennsylvania Service Centers
As of July 2011

Service Center #	Operating Area
311	Erie
312	West County
314	Warren
317	Corry
323	Bradford
326	Clarion
327	Chicora
329	DuBois
332	Elk
344	Meadville
347	Oil City
350	Sharon

Source: Data Request No. GO-25

The Audit Staff's review of Gas Operations includes the Engineering and Operations Departments. NFGDC's Engineering and Operations Departments are both headed by the Senior Vice President of Distribution, who is responsible for these respective duties for both NFGDC's Pennsylvania and New York service areas. The organization of NFGDC's Engineering Department (Engineering) for the Pennsylvania operations is shown in Exhibit X-2. The Assistant Vice President of Engineering is responsible for the overall engineering activities directed by a General Manager of Engineering Compliance & Expansion Projects and a General Manager of Engineering Support. These General Managers are in charge of several personnel and engineering teams; as well as clerical support. Engineering's main responsibilities are system planning and budgeting for its infrastructure. System planning and budgeting includes the design and coordination of infrastructure improvement projects, including project accounting and mapping. Annually, Engineering reviews the distribution system for possible improvements and problematic areas. These reviews are done with the assistance of NFGDC's Operations Department (Operations). Once the reviews by Operations are finished, a construction schedule is prepared to prioritize and

Exhibit X-2
National Fuel Gas Distribution Corporation
Engineering Department for Pennsylvania
As of March 31, 2011



Source: Data Request No. EM-1, Interview Request No. GO-1, PUC Auditor Analysis organize capital projects for the following construction year. The annual reviews are held in the fall, while the construction schedule is finalized in the spring. There are unexpected events such as new business, municipal projects, highway projects and public improvement projects that can alter the construction schedule throughout the year. Engineering and Operations utilize monthly and even weekly status reports to track progress of capital projects and their individual budgets.

Capital projects are approved via an electronic document system (refer to Chapter VI – Financial Management for additional information on capital budgets). Expenditure Request forms are completed and electronically entered into a document management system, OnBase. OnBase requires various levels of authorization from Engineering, Operations and Executive Management. The authorization levels are determined by the estimated costs for proposed replacement projects. The estimated costs are generated electronically either by PeopleSoft or the Pipeline Replacement Evaluation Program (note that these programs are described in more detail later in this chapter).

There are various software programs utilized to assist in system planning and budgeting. The Pipeline Replacement Evaluation Program (PREP) is a Company developed tool used to support repair/replace decisions and in prioritizing potential capital projects. PREP is used to predict leak repair cost, leak forecasting, and monitoring cost. These factors predict the severity of future leaks and can compare the cost of pipeline replacement to anticipated Operations and Maintenance (O&M) expense. Pipeline replacement cost is based on footage and size of main pipe and number of associated service renewals. O&M costs are determined by the number of outstanding and repaired leaks and/or the number of customer interruptions; a leak forecasting factor is also used to predict future O&M spending. The net present value (NPV) of capital carrying cost, compared to the NPV of O&M costs, produces a ratio or score that is used to evaluate pipeline replacement projects. As of May 2011, NFGDC was in the process of implementing an enhanced version of PREP to comply with the U.S. Department of Transportation's (DOT) Pipeline and Hazardous Material Safety Administration's Distribution Integrity Management Program that became effective on February 12, 2010 and required natural gas distribution company (NGDC) implementation by August 2, 2011. The PREP software will also evaluate pipeline replacement projects on the basis of risk.

As of March 2011, NFGDC is utilizing an Intergraph, automated mapping/facilities management (AM/FM) mapping system. The AM/FM system supports PREP by gathering information on leaks for the distribution system. The AM/FM mapping system supports every phase of distribution system operations, maintenance and construction. Similar to PREP updates, NFGDC is also in the process of upgrading its AM/FM mapping system to a Geographic Information System (GIS). The installation of GIS will not eliminate any features of the AM/FM mapping system but expand the information readily available to PREP and other programs once implementation is complete.

The financial planning and tracking of capital projects and booked assets are maintained through PeopleSoft Projects and Asset Modules. PeopleSoft Projects keeps data and costs associated with capital and O&M projects. Whereas the PeopleSoft Assets module retains data for utility plant in service; plant data is maintained in accordance with the FERC uniform system of accounts. PeopleSoft Projects and Assets major functions are:

- Individual project monitoring
  - Project Life Cycle
    - Authorization, in-progress, in-service, completion, mapping and unitization in Assets
  - Spending by activity
    - Labor, transportation, benefits, material, overhead, etc.
- Financial reporting
- Monitoring and reporting capital spending
  - Division
  - Subsidiary
- U.S. Department of Transportation reporting of main pipeline data
- Depreciation

The total miles of main in NFGDC's Pennsylvania operating area and the miles of unprotected bare steel, wrought iron and cast iron mains which are particularly susceptible to corrosion, cracking and leaks are shown on Exhibit X-3. From calendar year ends 2005 to 2010, the miles of main within the Pennsylvania portion of NFGDC's system fluctuated from a high of 4,917 miles as of year-end 2007 to a low of 4,899 miles as of year-end 2010. During this period the miles of unprotected bare steel mains decreased by 16.2% from 1,086 miles (or approximately 22.1% of total mains) as of yearend 2005 to 910 miles (approximately 18.6% of total mains) as of yearend 2010. Wrought iron mains decreased 11.6% during the same period from 95 miles (approximately 1.9% of total mains) as of yearend 2005 to 84 miles (approximately 1.7% of total mains) as of yearend 2010. It is noteworthy, as shown on Exhibit X-3, that NFGDC does not have any cast iron pipe in its Pennsylvania operating area. Over this five year period, the Company replaced an average of approximately 35.2 miles of unprotected bare steel each year. By maintaining its current replacement rate, NFGDC should be able to eliminate the remaining bare steel pipe within the Pennsylvania service area in 25 more years or by 2036.

The success of NFGDC's system planning process, particularly related to its pipeline replacement program, is also evident from reviewing the operating data shown in Appendix B. From 2005 to 2009, the number of main leak repairs per 100 main miles decreased at a 3.4% annual compounded rate based in large part on replacing leak prone sections of mains while maintaining the level of leak inspections that are conducted annually. In addition, the number of service leaks discovered per 1,000 services decreased by an 8.0% annualized rate from 2005 to 2009 while maintaining the same level of annual leak inspections. It should also be noted that the comparative data shown in Appendix B related to cast iron pipe is actually a combination of various forms of iron pipe (i.e., cast iron and wrought iron), and since NFGDC does not have

Exhibit X-3
National Fuel Gas Distribution Corporation
Miles of Unprotected Bare Steel, Wrought Iron,
Cast Iron and Total Mains in Pennsylvania Operations
As of December 31, 2005 through 2010

Year End	Miles of Unprotected Bare Steel Mains	Miles of Wrought Iron Mains	Miles of Cast Iron Mains	Total Miles of Main
2005	1,086	95	0	4,913
2006	1,051	93	0	4,916
2007	1,012	91	0	4,917
2008	977	87	0	4,916
2009	946	86	0	4,911
2010	910	84	0	4,899

Source: DOT Annual Reports

cast iron pipe in its system, the data for NFGDC reflects only wrought iron, which has material characteristics that are actually more similar to unprotected bare steel than cast iron.

As a result of these efforts, during the period 2005-2009, NFGDC experienced very low levels of unaccounted for gas (UFG), which fluctuated from a high of 0.3% to a low of -1.5%. UFG represents differences between the sum of the components of natural gas supply (i.e., receipts) and the sum of components of natural gas disposition (i.e., deliveries). These differences may be due to quantities lost (e.g., due to leaks) or to the effects of timing differences and data reporting problems. Data reporting problems include differences due to the net result of conversions of flow data metered at varying temperatures and pressure bases and converted to a standard temperature and pressure base and the effect of variations in company accounting and billing practices; and timing differences result from differences in estimating the volumes for billing cycles to match to calendar period time frames. The most likely cause of negative UFG levels being reported is NFGDC's estimates of customer consumption for those meters that are not read on the last day of the month. If NFGDC's consumption estimate in any given month exceeds actual customer consumption, then it is possible for the deliveries portion of the calculation to exceed total receipts of gas, creating a negative unaccounted for gas percentage. However, over a number of periods the impact of these estimates to actual variances should be minimal. In general, NFGDC has shown good performance for UFG levels (i.e., close to 0.0%) when compared to a panel of Pennsylvania NGDCs (i.e., 2.3%-4.0%) during the period 2005-2009.

The Operations Department's organization for Pennsylvania is shown in Exhibit X-4. The Assistant Vice President of Distribution and Supply is in charge of 11 service centers as well as new services, and Measurement Regulation and Corrosion (MRC). The 12th service center, Bradford, PA, is managed by a Superintendent who reports directly to the Vice President. Since Bradford borders New York, the Superintendent also has equivalent obligations for several service centers located in New York. The remaining 11 Pennsylvania service territories are run by Superintendents, Assistant Superintendents and District Managers. These management employees are in charge of their respective service centers.

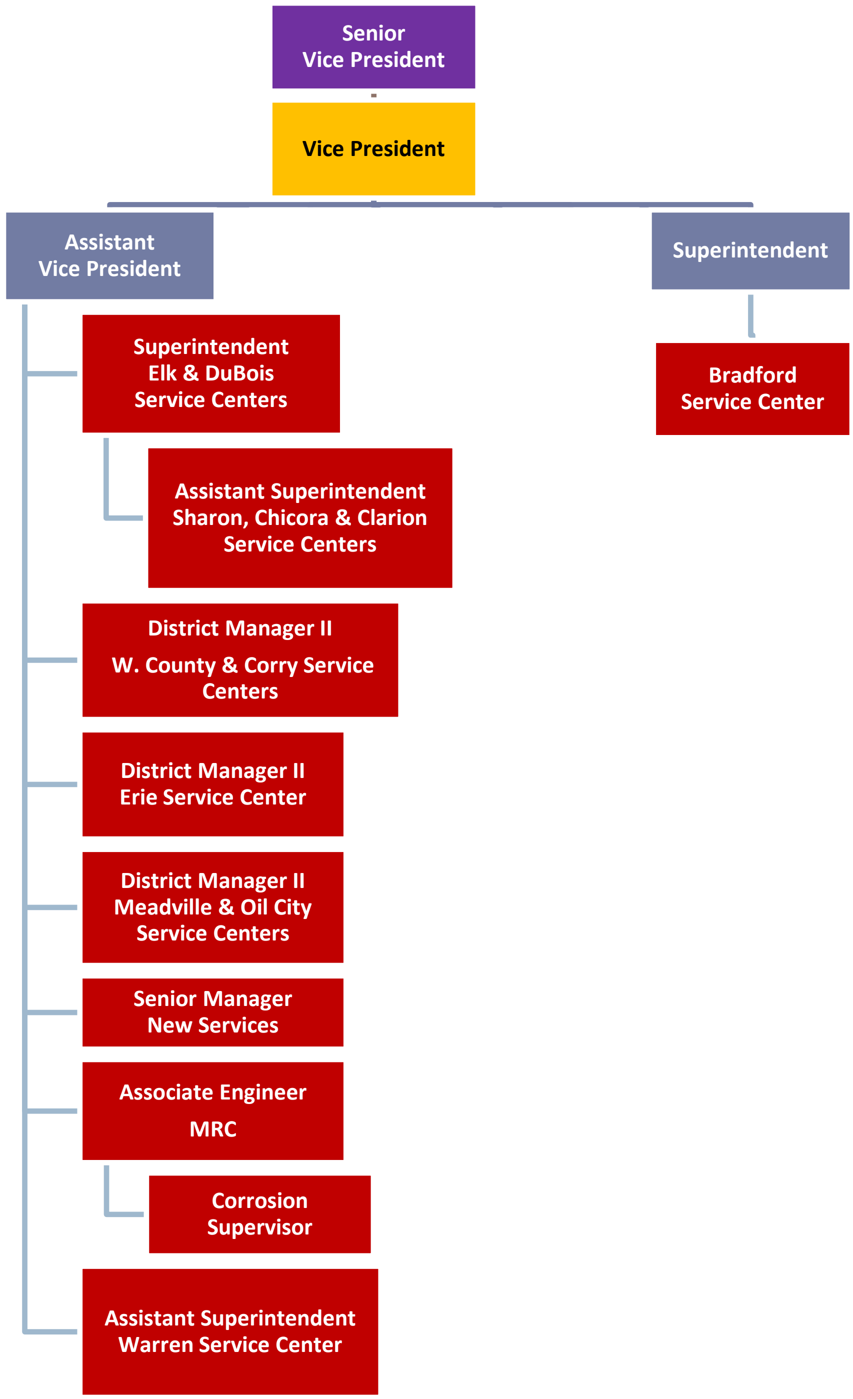
The Operations Department is responsible for installation and maintenance of the gas distribution system. This includes pipe and appurtenance installation, meter reading and leak response. There are generally three types of field operations personnel: construction, service specialist and meter reader. The construction employees can be divided into further classifications such as crew chiefs, foremen, equipment operators, fitters, line locators and service investigators. The service specialists are responsible for customer oriented service calls, primarily meter locks and unlocks. Meters readers do not perform service calls and only read customer meters (refer to Chapter IX - Customer Service for additional information on Meter Readers). All routine distribution system work and maintenance are recorded via mobile laptop computers used in the field then uploaded at the end of the business day. The mobile laptop computers have the ability to upload the data wirelessly from the vehicles or manually plugged in to NFGDC's mainframe via a docking station.

Emergency calls to NFGDC's entire Pennsylvania service territory are received at the Erie, PA office during normal business hours. Dispatch of emergency orders is completed by an automated system. The automated system utilizes the GPS location of the company vehicle and the geographical location of the emergency order. The order is automatically dispatched to the nearest available employee assigned to the area. After hour emergencies, when service centers are closed, are handled by a dispatcher located in Buffalo, New York that has a "Stand By" sheet detailing all personnel available for assignment.

NFGDC emergency orders are tracked by dispatch and response times. The preferred PUC benchmarks are for emergency order dispatches and their related response to take no longer than 15 minutes and 60 minutes, respectively. NFGDC's dispatch and response times from 2006 through February 2011 for the Pennsylvania operations are summarized in Exhibit X-5. Note that the bolded percentages on Exhibit X-5 are the percentage of dispatches or responses that were not executed within the PUC benchmarks periods. From 2006 through 2010, NFGDC achieved reasonable annual rates of dispatch within 15 minutes of 98.4% or higher and response times within 60 minutes of 98.9% or higher. It is also noteworthy that the total number of emergency orders differs between dispatch and response results during the period. This is attributed to the following reasons:

- Some Emergency leaks are found by NFGDC employees, when working on non-emergency and/or non-gas leak jobs. When this occurs, the employee is already on-site where the leak was identified and therefore a dispatch order is unnecessary.
- Depending on the type of emergency, it is possible for a single dispatch order to have multiple emergency responses recorded. The first emergency order may have an initial response which temporarily makes the emergency "safe" and a second response occurs later when the work order is completed.

Exhibit X-4
National Fuel Gas Distribution Corporation
Operations Department for Pennsylvania
As of March 31, 2011



Source: Data Request No. EM-1 and PUC Auditor Analysis

Exhibit X-5
National Fuel Gas Distribution Corporation
Emergency Dispatch/Response Data for Pennsylvania
For The Fiscal Years Ended September 30, 2006 through 2010 and
The Period October 2010 through February 2011

Year	Time Interval	Normal Business Hours (8am-5pm)			Outside Normal Business Hours			Weekend & Holiday Hours			Total Annual %
		# of calls	% of calls	% of Annual	# of calls	% of calls	% of Annual	# of calls	% of calls	% of Annual	
EMERGENCY CALL DISPATCH RESULTS											
2006	0-15 min	5,247	99.4%		2,149	99.7%		1,398	96.9%		99.1%
	> 15 min	31	**0.6%**		7	**0.3%**		45	**3.1%**		**0.9%**
	Totals	5,278	100.0%	59.5%	2,156	100.0%	24.3%	1,443	100.0%	16.3%	100.0%
2007	0-15 min	5,459	99.6%		2,257	97.2%		1,536	96.4%		98.4%
	> 15 min	23	**0.4%**		65	**2.8%**		58	**3.6%**		**1.6%**
	Totals	5,482	100.0%	58.3%	2,322	100.0%	24.7%	1,594	100.0%	17.0%	100.0%
2008	0-15 min	5,575	99.1%		2,154	98.8%		1,459	98.4%		98.9%
	> 15 min	51	**0.9%**		27	**1.2%**		24	**1.6%**		**1.1%**
	Totals	5,626	100.0%	60.6%	2,181	100.0%	23.5%	1,483	100.0%	16.0%	100.0%
2009	0-15 min	4,595	99.7%		1,857	98.8%		1,367	98.3%		99.3%
	> 15 min	13	**0.3%**		23	**1.2%**		23	**1.7%**		**0.7%**
	Totals	4,608	100.0%	58.5%	1,880	100.0%	23.9%	1,390	100.0%	17.6%	100.0%
2010	0-15 min	4,826	99.8%		1,952	98.9%		1,388	98.8%		99.4%
	> 15 min	8	**0.2%**		22	**1.1%**		17	**1.2%**		**0.6%**
	Totals	4,834	100.0%	58.9%	1,974	100.0%	24.0%	1,405	100.0%	17.1%	100.0%
2011[1]	0-15 min	2,256	100.0%		967	99.4%		702	99.2%		99.7%
	> 15 min	1	**0.0%**		6	**0.6%**		6	**0.8%**		**0.3%**
	Totals	2,257	100.0%	57.3%	973	100.0%	24.7%	708	100.0%	18.0%	100.0%
EMERGENCY CALL RESPONSE RESULTS											
2006	0-60 min	5,296	99.1%		2,148	98.7%		1,415	98.2%		98.9%
	> 60 min	46	**0.9%**		29	**1.3%**		26	**1.8%**		**1.1%**
	Totals	5,342	100.0%	59.6%	2,177	100.0%	24.3%	1,441	100.0%	16.1%	100.0%
2007	0-60 min	5,440	99.8%		2,232	97.2%		1,513	98.2%		98.9%
	> 60 min	12	**0.2%**		64	**2.8%**		28	**1.8%**		**1.1%**
	Totals	5,452	100.0%	58.7%	2,296	100.0%	24.7%	1,541	100.0%	16.6%	100.0%
2008	0-60 min	5,742	99.6%		2,175	98.6%		1,462	97.5%		99.0%
	> 60 min	23	**0.4%**		31	**1.4%**		37	**2.5%**		**1.0%**
	Totals	5,765	100.0%	60.9%	2,206	100.0%	23.3%	1,499	100.0%	15.8%	100.0%
2009	0-60 min	5,110	99.8%		2,014	98.6%		1,458	98.1%		99.2%
	> 60 min	12	**0.2%**		28	**1.4%**		28	**1.9%**		**0.8%**
	Totals	5,122	100.0%	59.2%	2,042	100.0%	23.6%	1,486	100.0%	17.2%	100.0%
2010	0-60 min	4,950	99.9%		1,979	99.0%		1,398	98.9%		99.5%
	> 60 min	5	**0.1%**		21	**1.1%**		16	**1.1%**		**0.5%**
	Total	4,955	100.0%	59.2%	2,000	100.0%	23.9%	1,414	100.0%	16.9%	100.0%
2011[1]	0-60 min	2,313	99.9%		978	99.5%		711	99.0%		99.7%
	> 60 min	2	**0.1%**		5	**0.5%**		7	**1.0%**		**0.3%**
	Totals	2,315	100.0%	57.6%	983	100.0%	24.5%	718	100.0%	17.9%	100.0%

[1] October 1, 2010 through February 28, 2011
Source: Data Request No. GO-33, PUC Auditor Analysis

NFGDC's emergency dispatch and response results for the Pennsylvania operating area, as shown on Exhibit X-5, indicate that its performance has consistently and materially improved since 2007. This has resulted from the use of the Company's automated dispatch system. The automated dispatch system utilizes geo-positioning to determine the closest service person to the work order. It is interesting to note that the majority, ranging from 57.3% to 60.6%, of the NFGDCs Pennsylvania operating areas' emergency calls have been received during the normal business hours of 8:00 a.m. to 5:00 p.m. even though this represents less than 26% of the total annual hours. As expected, dispatch and response performance was better during normal business hours than during after hours and weekend/holiday hours, which has helped the Company's overall results. Furthermore, NFGDC has an internal goal to reduce response times to within 45 minutes, and within the Pennsylvania operating area the responses have improved from 96.7% in 2006 to 98.6% in 2010.

Field staffing levels of NFGDC's Pennsylvania operating areas has remained consistent from fiscal year 2006 through the end of January 2011 as illustrated on Exhibit X-6. Exhibit X-6 shows the number of Pennsylvania operation employees per district and their overall percentage of overtime for each fiscal period. The employee categories contained in this exhibit includes construction personnel, service specialists and meter readers. The Erie service center has the highest number of operations personnel. The Erie service center has employees on duty at all times of the day since this area is the busiest and most populated service area in NFGDC's Pennsylvania operational territory. The remaining service territories have personnel on call to respond to after regular business hour emergencies and controlled overtime work orders. NFGDC's overall percentage of operations employees' overtime has averaged from 3.0% to 3.6% of regular time hours, which is well below the normal gas utility target of 10% to 15% overtime. NFGDC's approach to staffing its busiest operating area, i.e. the Erie service center, with around the clock work shifts have substantively contributed to the Company's relatively low levels of field staff overtime.

Findings and Conclusions

Our examination of the Gas System Operations function included a review of assigned responsibilities, policies and procedures, O&M budget and expense trends, system operations, preventative maintenance, capital planning, workforce management, emergency call-out response, etc. Based on our review of the gas operations function, no evidence came to our attention that would lead the Audit Staff to conclude that areas reviewed were not being addressed adequately.

Recommendations

None.

Exhibit X-6
National Fuel Gas Distribution Corporation
Staffing and Overtime Data for Operational Personnel in Pennsylvania
For the Five Fiscal Years Ended September 30, 2006 through 2010 and
The Period October 1, 2010 through January 31, 2011

District	2006	2007	2008	2009	2010	2011*
Erie	61	57	60	61	64	60
West County	11	11	10	10	10	10
Warren	13	14	13	13	11	11
Corry	4	4	4	5	5	5
Bradford	8	8	8	8	7	7
Clarion	6	6	6	6	6	6
Chicora	6	6	6	6	6	6
DuBois	12	12	14	15	15	14
Elk	14	16	14	14	12	13
Meadville	13	14	17	15	14	15
Oil City	20	20	20	20	19	19
Sharon	24	23	26	26	26	26
TOTALS	**192**	**191**	**198**	**199**	**195**	**192**
Overtime hrs.	11,833	13,108	14,704	14,181	12,338	4,931
Average Overtime %**	**3.0**	**3.3**	**3.6**	**3.4**	**3.0**	**N/A**

* - October 2010 through January 2011
** - Based on a 2,080 hour work year
Source: Data Request No. GO-14

XI. ACKNOWLEDGEMENTS

We wish to express our appreciation for the cooperation and assistance given to us during the course of this Focused Management and Operations Audit by the officers and staff of National Fuel Gas Distribution Corporation and National Fuel Gas Company.

This audit was conducted by Bryan Borres, Eric McKeever, and Craig Bilecki of the Management Audit Staff of the Bureau of Audits.

XII. APPENDICES

Appendix A	National Fuel Gas Distribution Corporation – Pennsylvania Operations Financial and Operating Data and Statistics
Appendix B	National Fuel Gas Distribution Corporation – Pennsylvania Operations Comparative Data and Statistics for the Pennsylvania Panel

National Fuel Gas Distribution Corporation - Pennsylvania Operations
Financial and Operating Data and Statistics
For Calendar Years Ended 2005-2009

Operating Statistics	**2005**	**2006**	**2007**	**2008**	**2009**	**Compound Growth**
Gross Utility Plant	$417,710,281	$432,122,888	$443,498,839	$457,169,854	$468,653,202	2.9%
Depreciation & Amortization	-142,068,498	-150,101,368	-155,987,415	-162,753,219	-168,046,043	4.3%
Net Utility Plant	$275,641,783	$282,021,520	$287,511,424	$294,416,635	$300,607,159	2.2%
Operating Revenue:						
Residential	$287,649,930	$276,619,607	$266,781,655	$294,992,735	$251,952,429	-3.3%
Commercial	72,015,128	69,807,439	64,959,843	69,073,486	58,346,265	-5.1%
Industrial	14,954,598	15,092,844	13,698,580	13,885,183	12,148,248	-5.1%
Other (Incl. Off-System Sales)	1,697,795	2,156,180	6,310,024	10,823,302	2,675,313	12.0%
Totals	$376,317,451	$363,676,070	$351,750,102	$388,774,706	$325,122,255	-3.6%
Deliveries by Volume (Mcf)						
Residential	20,638,560	17,342,510	19,103,693	19,493,178	19,030,590	-2.0%
Commercial	9,524,918	8,975,730	9,158,678	9,048,496	8,847,722	-1.8%
Industrial	13,775,239	15,476,187	15,203,895	13,943,272	11,579,130	-4.2%
Total Mcf Sales	43,938,717	41,794,427	43,466,266	42,484,946	39,457,442	-2.7%
Injected into Storage	8,977,291	7,538,193	8,526,481	9,456,356	7,799,258	-3.5%
Company Use	0	0	0	0	0	NM
Exchange Gas, Off System Sales, etc.	0	218,656	1,442,906	1,970,226	533,305	NM
Total Deliveries (Mcf)	52,916,008	49,551,276	53,435,653	53,911,528	47,790,005	-2.5%
Total Receipts (Mcf)	53,079,559	48,810,800	52,850,680	52,771,499	47,416,032	-2.8%
Unaccounted for Gas (Mcf)	163,550	-740,476	10,024	-273,978	-197,800	NM
UFG as a % of Total Receipts	0.3%	-1.5%	0.0%	-0.5%	-0.4%	NM
Customers (Average):						
Residential	197,876	196,692	195,778	196,237	195,890	-0.3%
Commercial	15,549	15,428	15,357	15,341	15,226	-0.5%
Industrial	609	612	608	602	597	-0.5%
Transportation	0	0	0	0	0	0.0%
Other	0	0	0	0	0	0.0%
Totals	214,034	212,732	211,743	212,180	211,713	-0.3%
Employees (Average)	327	334	343	352	359	2.4%
Distribution Mains (M. Ft.)	24,429	24,448	24,461	24,455	24,452	0.0%
Transmission Mains (M. Ft.)	1,793	1,793	1,786	1,786	1,798	0.1%
Total Main Pipeline (M. Ft.)*	26,222	26,241	26,247	26,241	26,250	0.0%
Total Main Pipeline (Miles)*	4,966	4,970	4,971	4,970	4,972	0.0%
Services	193,813	193,828	194,025	194,202	193,361	-0.1%

NM = Not Meaningful
* Totals for Main Pipeline (M. Ft.) and Main Pipeline (Miles) do not include gathering field lines.
Source: PUC Annual Reports

National Fuel Gas Distribution Corporation - Pennsylvania Operations
Financial and Operating Data and Statistics
For Calendar Years Ended 2005-2009

Gas Operation & Maintenance Expenses	**2005** $	**2006** $	**2007** $	**2008** $	**2009** $	**Compound Growth**
Natural Gas Production Expenses	63,162	8,258	14,847	10,826	19,245	-25.7%
Other Gas Supply Expenses	230,457,624	221,871,559	195,713,851	230,561,396	171,006,207	-7.2%
Natural Gas Storage, Terminating, & Processing Expenses:						
Underground Storage Expenses	12,955,220	13,241,036	12,549,192	12,638,900	12,192,346	-1.5%
Maintenance	7,191	-844	711	0	0	-100.0%
Totals	12,962,411	13,240,192	12,549,903	12,638,900	12,192,346	-1.5%
Transmission Expenses:						
Operation	32,016,042	29,227,776	28,584,420	28,717,040	28,651,757	-2.7%
Maintenance	139,641	240,859	299,195	270,508	393,347	29.6%
Totals	32,155,683	29,468,635	28,883,615	28,987,548	29,045,104	-2.5%
Distribution Expenses:						
Operation	9,667,222	9,128,409	10,023,667	9,984,732	9,029,662	-1.7%
Maintenance	3,475,225	3,337,456	3,628,121	3,773,310	3,563,442	0.6%
Totals	13,142,447	12,465,865	13,651,788	13,758,042	12,593,104	-1.1%
Customer Accounts Expenses	21,346,432	18,648,490	17,316,565	16,793,674	13,671,789	-10.5%
Customer Service & Inform. Expenses	4,550,636	4,543,806	4,289,986	4,267,367	4,149,728	-2.3%
Sales Expenses	169,965	148,148	180,890	234,458	188,835	2.7%
Administrative & General Expenses:						
Operation	26,520,834	26,477,323	26,252,749	26,725,900	26,451,197	-0.1%
Maintenance	95,102	89,006	101,475	112,474	99,720	1.2%
Totals	26,615,936	26,566,329	26,354,224	26,838,374	26,550,917	-0.1%
Total Gas Operation. & Maintenance Expense	341,464,296	326,961,282	298,955,669	334,090,585	269,417,275	-5.8%
Operating Income	16,223,975	16,226,487	27,322,049	28,957,331	30,660,307	17.2%
Net Income	10,639,936	9,117,573	19,265,979	21,411,060	21,373,616	19.1%

Source: PUC Annual Reports

National Fuel Gas Distribution Corporation - Pennsylvania Operations
Comparative Data and Statistics for the Pennsylvania Panel

ELEMENT	NFG	CGP	EGC	PNG	TWP	UGIC	UGIP	UGIU	Panel Average
Number of Customers - 2009	211,713	413,011	273,954	356,727	62,749	75,795	159,353	333,424	239,288
Number of Customers - 2005	214,034	405,881	255,936	355,465	61,659	76,123	158,794	309,361	231,888
Compound Annual Growth Rate	-0.3%	0.4%	1.7%	0.1%	0.4%	-0.1%	0.1%	1.9%	0.6%
% Residential Customers - 2009	92.5%	90.8%	93.3%	92.0%	92.9%	86.6%	90.0%	89.7%	90.8%
Total Throughput (thousand Mcf) - 2009	47,416	110,550	76,203	82,340	25,175	26,615	54,846	95,331	67,294
Total Throughput (thousand Mcf) - 2005	53,080	112,954	67,143	93,060	26,525	28,361	48,117	95,818	67,425
Compound Annual Growth Rate	-2.8%	-0.5%	3.2%	-3.0%	-1.3%	-1.6%	3.3%	-0.1%	0.0%
Mcf/Residential Customer - 2009	97	70	90	94	85	87	106	71	86
Transportation (thousand Mcf) - 2009	16,963	33,737	27,708	31,876	14,026	13,433	21,230	50,962	27,567
Transportation (thousand Mcf) - 2005	18,410	40,776	27,708	36,687	13,579	13,208	23,922	49,101	29,283
% Transportation - 2009	35.8%	30.5%	36.4%	38.7%	55.7%	50.5%	38.7%	53.5%	43.4%
% Transportation - 2005	34.7%	36.1%	41.3%	39.4%	51.2%	46.6%	49.7%	51.2%	45.1%
Compound Annual Growth Rate	0.8%	-4.1%	-3.1%	-0.5%	2.1%	2.0%	-6.1%	1.1%	-1.2%
Number of Employees @ 12/31/09	358	495	387	507	201	250	333	766	420
Miles of Distribution Main - 2009	4,631	7,363	3,355	6,647	2,715	3,682	2,591	5,322	4,525
Miles of Transmission Main - 2009	341	67	150	624	13	123	29	117	160
Services - 2009	193,961	NA	249,079	347,836	58,087	79,852	163,050	334,028	205,322
Net Plant ($Million) - 2009	301	670	635	617	153	236	536	755	514
Net Plant/Gross Plant - 2009	64.1%	70.7%	65.4%	63.7%	66.1%	69.3%	73.6%	65.1%	67.7%
Customers/Main Mile - 2009	43	56	78	49	23	20	61	61	50
Average Revenue/Residential Customer - 2009	$1,286.19	$931.63	$1,368.91	$917.65	$1,211.63	$1,381.31	$1,594.09	$1,044.76	$1,207.14
Average Revenue/Residential Mcf - 2009	$13.24	$13.39	$15.14	$9.77	$14.23	$15.84	$15.07	$14.61	$14.01

NFG = National Fuel Gas Distribution Corporation
CGP = Columbia Gas of Pennsylvania, Inc.
EGC = Equitable Gas Company
PNG = The Peoples Natural Gas Company

TWP = Peoples TWP LLC
UGIC = UGI Central Penn Gas, Inc.
UGIP = UGI Penn Natural Gas, Inc.
UGIU = UGI Utilities, Inc.

NA = Not Available
Source: PUC Annual Reports

National Fuel Gas Distribution Corporation - Pennsylvania Operations
Comparative Data and Statistics for the Pennsylvania Panel
For The Years Ended December 31, 2005-2009

Administrative & General Expense/Customer

Company	2005	2006	2007	2008	2009	Compound Growth
Columbia	$117.80	$111.37	$120.61	$96.68	$109.72	-1.8%
Equitable	$182.35	$159.88	$254.71	$133.32	$109.43	-12.0%
Peoples	$47.70	$43.75	$23.09	$42.26	$27.66	-12.7%
Peoples TWP	$143.52	$172.37	$189.59	$197.76	$193.85	7.8%
UGI Central	$267.03	$297.20	$315.62	$227.23	$206.41	-6.2%
UGI Penn	$92.28	$91.88	$107.71	$129.36	$139.52	10.9%
UGI Utilities	$122.50	$130.63	$114.50	$110.84	$117.30	-1.1%
Panel Average	$139.03	$143.87	$160.83	$133.92	$129.13	-1.8%
National Fuel	$124.35	$124.88	$124.46	$126.49	$125.41	0.2%

Operations & Maintenance Expense/Customer

Company	2005	2006	2007	2008	2009	Compound Growth
Columbia	$1,416.75	$1,263.53	$1,425.16	$1,708.06	$1,092.53	-6.3%
Equitable	$1,546.21	$1,436.33	$1,564.79	$2,024.18	$1,414.57	-2.2%
Peoples	$1,243.90	$1,165.41	$1,020.88	$1,204.77	$928.11	-7.1%
Peoples TWP	$1,855.96	$1,880.00	$1,801.92	$2,102.22	$1,458.59	-5.8%
UGI Central	$1,888.65	$2,264.15	$2,131.67	$2,161.84	$1,804.74	-1.1%
UGI Penn	$1,635.50	$1,592.49	$1,658.41	$1,858.47	$1,749.52	1.7%
UGI Utilities	$1,532.71	$1,515.19	$1,531.76	$1,544.85	$1,306.53	-3.9%
Panel Average	$1,588.53	$1,588.16	$1,590.66	$1,800.63	$1,393.51	-3.2%
National Fuel	$1,595.37	$1,536.96	$1,411.88	$1,574.56	$1,272.56	-5.5%

Net Plant/Customer

Company	2005	2006	2007	2008	2009	Compound Growth
Columbia	$1,216.30	$1,279.13	$1,380.91	$1,535.01	$1,623.09	7.5%
Equitable	$2,111.81	$2,236.16	$2,330.28	$2,279.26	$2,316.36	2.3%
Peoples	$1,572.44	$1,599.43	$1,616.44	$1,671.31	$1,728.35	2.4%
Peoples TWP	$2,384.41	$2,247.58	$2,315.16	$2,400.19	$2,432.58	0.5%
UGI Central	$2,640.51	$2,855.99	$2,935.34	$2,986.69	$3,115.06	4.2%
UGI Penn	$3,191.45	$3,438.57	$3,342.48	$3,368.80	$3,363.24	1.3%
UGI Utilities	$2,129.75	$2,170.20	$2,213.25	$2,254.48	$2,264.95	1.6%
Panel Average	$2,178.09	$2,261.01	$2,304.84	$2,356.53	$2,406.23	2.5%
National Fuel	$1,287.84	$1,325.71	$1,357.83	$1,387.58	$1,419.88	2.5%

Source: PUC Annual Reports

National Fuel Gas Distribution Corporation - Pennsylvania Operations
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Operations & Maintenance Expense/Operating Revenue

Company	2005	2006	2007	2008	2009	Compound Growth
Columbia	$0.88	$0.90	$0.90	$0.90	$0.83	-1.6%
Equitable	$0.88	$0.87	$0.92	$0.88	$0.80	-2.4%
Peoples	$0.80	$0.82	$0.78	$0.80	$0.77	-1.1%
Peoples TWP	$0.84	$0.87	$0.84	$0.87	$0.84	-0.2%
UGI Central	$0.88	$0.91	$0.87	$0.86	$0.90	0.6%
UGI Penn	$0.83	$0.84	$0.81	$0.85	$0.83	-0.1%
UGI Utilities	$0.81	$0.83	$0.80	$0.81	$0.78	-0.8%
Panel Average	$0.85	$0.86	$0.84	$0.85	$0.82	-0.8%
National Fuel	$0.91	$0.90	$0.85	$0.86	$0.83	-2.2%

Net Plant/Operating Revenue

Company	2005	2006	2007	2008	2009	Compound Growth
Columbia	$0.76	$0.91	$0.87	$0.81	$1.23	12.9%
Equitable	$1.20	$1.35	$1.36	$0.99	$1.31	2.2%
Peoples	$1.01	$1.13	$1.23	$1.12	$1.43	8.9%
Peoples TWP	$1.09	$1.04	$1.07	$0.99	$1.40	6.5%
UGI Central	$1.23	$1.15	$1.19	$1.18	$1.55	6.0%
UGI Penn	$1.62	$1.81	$1.63	$1.54	$1.59	-0.5%
UGI Utilities	$1.12	$1.18	$1.16	$1.18	$1.36	4.9%
Panel Average	$1.15	$1.22	$1.22	$1.12	$1.41	5.3%
National Fuel	$0.73	$0.78	$0.82	$0.76	$0.92	6.0%

Operations & Maintenance Expense/Net Plant

Company	2005	2006	2007	2008	2009	Compound Growth
Columbia	$1.16	$0.99	$1.03	$1.11	$0.67	-12.8%
Equitable	$0.73	$0.64	$0.67	$0.89	$0.61	-4.4%
Peoples	$0.79	$0.73	$0.63	$0.72	$0.54	-9.2%
Peoples TWP	$0.78	$0.84	$0.78	$0.88	$0.60	-6.3%
UGI Central	$0.72	$0.79	$0.73	$0.72	$0.58	-5.1%
UGI Penn	$0.51	$0.46	$0.50	$0.55	$0.52	0.4%
UGI Utilities	$0.72	$0.70	$0.69	$0.69	$0.58	-5.4%
Panel Average	$0.77	$0.74	$0.72	$0.79	$0.59	-6.7%
National Fuel	$1.24	$1.16	$1.04	$1.13	$0.90	-7.8%

Source: PUC Annual Reports

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Operations & Maintenance Expense/Mcf

Company	2005	2006	2007	2008	2009	Compound Growth
Columbia	$14.29	$15.03	$14.83	$17.50	$12.20	-3.9%
Equitable	$8.16	$8.44	$8.41	$10.80	$7.22	-3.0%
Peoples	$6.23	$6.41	$5.35	$6.20	$5.04	-5.1%
Peoples TWP	$4.73	$4.95	$4.70	$5.52	$4.23	-2.7%
UGI Central	$5.94	$7.66	$7.14	$7.09	$6.13	0.8%
UGI Penn	$5.44	$5.89	$5.58	$6.69	$6.44	4.3%
UGI Utilities	$5.60	$6.14	$5.47	$5.88	$5.24	-1.6%
Panel Average	$7.20	$7.79	$7.35	$8.53	$6.64	-2.0%
National Fuel*	$7.77	$7.82	$6.88	$7.86	$6.83	-3.2%

Net Plant/Mcf

Company	2005	2006	2007	2008	2009	Compound Growth
Columbia	$12.27	$15.22	$14.37	$15.72	$18.12	10.2%
Equitable	$11.14	$13.14	$12.52	$12.17	$11.83	1.5%
Peoples	$7.87	$8.79	$8.47	$8.61	$9.39	4.5%
Peoples TWP	$6.08	$5.92	$6.04	$6.31	$7.06	3.8%
UGI Central	$8.30	$9.66	$9.83	$9.79	$10.58	6.3%
UGI Penn	$10.61	$12.72	$11.24	$12.13	$12.39	3.9%
UGI Utilities	$7.78	$8.79	$7.90	$8.59	$9.09	4.0%
Panel Average	$9.15	$10.61	$10.05	$10.47	$11.21	5.2%
National Fuel*	$6.27	$6.75	$6.61	$6.93	$7.62	5.0%

Distribution Expense/Thousand Ft. Distribution Mains

Company	2005	2006	2007	2008	2009	Compound Growth
Columbia	$740.99	$745.74	$898.75	$981.97	$967.53	6.9%
Equitable	$1,149.30	$1,110.52	$1,159.21	$1,416.46	$1,497.99	6.8%
Peoples	$849.49	$823.04	$856.00	$915.36	$926.31	2.2%
Peoples TWP	$494.83	$536.67	$593.04	$245.93	$262.72	-14.6%
UCI Central	$549.53	$558.97	$521.51	$725.48	$611.19	2.7%
UGI Penn	$723.70	$755.42	$826.87	$838.66	$1,050.01	9.8%
UGI Utilities	$851.25	$808.66	$878.59	$894.98	$824.32	-0.8%
Panel Average	$765.58	$762.72	$819.14	$859.84	$877.15	3.5%
National Fuel	$537.99	$509.89	$558.10	$562.59	$515.01	-1.1%

* - NFGDC's off-system gas sales reported as unmetered were not included in the Mcf volumes used to calculate this ratio.

Source: PUC Annual Reports

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Customer Accounts Expense/Customer

Company	2005	2006	2007	2008	2009	Compound Growth
Columbia	$98.27	$91.92	$83.95	$108.00	$94.46	-1.0%
Equitable	$95.77	$64.09	$73.74	$57.27	$33.89	-22.9%
Peoples	$66.51	$60.10	$82.07	$61.88	$61.17	-2.1%
Peoples TWP	$51.45	$49.77	$48.43	$51.12	$58.82	3.4%
UGI Central	$69.39	$73.70	$66.66	$96.08	$89.57	6.6%
UGI Penn	$64.64	$66.25	$67.71	$96.47	$73.32	3.2%
UGI Utilities	$71.87	$70.24	$67.00	$75.19	$57.35	-5.5%
Panel Average	$73.99	$68.01	$69.94	$78.00	$66.94	-2.5%
National Fuel	$99.73	$87.66	$81.78	$79.15	$64.58	-10.3%

Unaccounted For Gas (as a % of Total Receipts)

Company	2005	2006	2007	2008	2009	Compound Growth
Columbia	1.1%	0.1%	-0.1%	-0.7%	-0.2%	NM
Equitable	10.2%	11.9%	9.3%	10.0%	4.8%	-17.4%
Peoples	5.1%	5.9%	9.0%	6.4%	4.4%	-4.0%
Peoples TWP	4.6%	4.1%	4.3%	3.7%	5.1%	2.8%
UGI Central	4.4%	2.7%	5.5%	4.4%	1.0%	-30.6%
UGI Penn	0.2%	1.0%	-0.3%	0.7%	0.9%	38.2%
UGI Utilities	-0.4%	0.4%	0.6%	0.4%	0.5%	NM
Panel Average	3.6%	3.7%	4.0%	3.6%	2.3%	-10.2%
National Fuel	0.3%	-1.5%	0.0%	-0.5%	-0.4%	NM

Operating Revenue/Employee

Company	2005	2006	2007	2008	2009	Compound Growth
Columbia	$1,170,737	$1,210,081	$1,051,926	$1,534,643	$1,069,471	-2.2%
Equitable	$954,461	$937,702	$987,637	$1,653,646	$1,304,578	8.1%
Peoples	$982,237	$957,885	$924,021	$1,029,932	$850,136	-3.5%
Peoples TWP	$633,021	$631,401	$638,828	$733,000	$541,877	-3.8%
UGI Central	$517,499	$601,270	$526,449	$665,663	$631,781	5.1%
UGI Penn	$741,916	$739,744	$833,940	$939,018	$981,130	7.2%
UGI Utilities	$638,032	$618,336	$663,534	$756,916	$722,661	3.2%
Panel Average	$805,415	$813,774	$803,762	$1,044,688	$871,662	2.0%
National Fuel	$1,150,818	$1,088,851	$1,025,511	$1,104,474	$905,633	-5.8%

NM = Not Meaningful
Source: PUC Annual Reports

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Customers/Employee

Company	2005	2006	2007	2008	2009	Compound Growth
Columbia	729	859	849	810	811	2.7%
Equitable	542	565	596	679	704	6.8%
Peoples	633	675	733	716	702	2.6%
Peoples TWP	288	293	301	308	311	2.0%
UGI Central	241	241	249	263	283	4.1%
UGI Penn	377	390	410	435	464	5.3%
UGI Utilities	336	337	349	397	433	6.5%
Panel Average	449	480	498	515	530	4.2%
National Fuel	655	637	617	603	590	-2.6%

Plant Materials and Operating Supplies/Net Plant

Company	2005	2006	2007	2008	2009	Compound Growth
Columbia	0.11%	0.05%	0.06%	0.11%	0.08%	-7.6%
Equitable	0.42%	0.27%	0.17%	0.15%	0.13%	-25.1%
Peoples	0.34%	0.35%	0.35%	0.37%	0.35%	0.8%
Peoples TWP	1.17%	1.25%	0.98%	0.69%	0.57%	-16.4%
UGI Central	1.12%	0.97%	1.04%	1.11%	1.08%	-1.0%
UGI Penn	0.37%	0.39%	0.37%	0.43%	0.00%	-100.0%
UGI Utilities	0.32%	0.35%	0.28%	0.30%	0.29%	-2.3%
Panel Average	0.55%	0.52%	0.46%	0.45%	0.36%	-10.2%
National Fuel	0.20%	0.22%	0.24%	0.23%	0.17%	-3.7%

Unprotected Bare Steel Main %

Company	2005	2006	2007	2008	2009	Compound Growth
Columbia	31.8%	30.1%	28.4%	27.1%	26.2%	-4.7%
Equitable	26.5%	25.1%	24.3%	23.7%	23.0%	-3.4%
Peoples	29.8%	29.1%	28.3%	27.8%	27.4%	-2.1%
Peoples TWP	43.0%	43.9%	39.5%	38.4%	37.3%	-3.5%
UGI Central	18.5%	18.3%	17.8%	17.5%	16.9%	-2.3%
UGI Penn	12.2%	11.9%	11.3%	11.1%	11.0%	-2.7%
UGI Utilities	6.3%	6.0%	5.6%	5.3%	5.1%	-5.1%
Panel Average	24.0%	23.5%	22.2%	21.6%	21.0%	-3.3%
National Fuel	22.1%	21.4%	20.6%	19.9%	19.3%	-3.3%

NA = Not Available
Source: PUC Annual Reports, DOT Annual Reports

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Cast/Wrought Iron Main %

Company	2005	2006	2007	2008	2009	Compound Growth
Columbia	1.0%	1.0%	1.0%	0.9%	0.9%	-3.1%
Equitable	1.4%	1.4%	1.4%	1.4%	1.4%	-0.4%
Peoples	1.0%	1.0%	1.0%	1.0%	1.0%	-0.3%
Peoples TWP	0.0%	0.0%	0.0%	0.0%	0.0%	NM
UGI Central	0.8%	0.8%	0.7%	1.6%	0.5%	-10.2%
UGI Penn	5.9%	5.9%	5.5%	5.2%	2.5%	-19.3%
UGI Utilities	8.5%	8.5%	8.1%	7.9%	7.5%	-3.2%
Panel Average	2.7%	2.7%	2.5%	2.6%	2.0%	-7.3%
National Fuel	1.9%	1.9%	1.9%	1.8%	1.8%	-1.2%

Main Leaks Repaired/100 Main Miles

Company	2005	2006	2007	2008	2009	Compound Growth
Columbia	47.5	50.6	56.8	67.2	53.2	2.9%
Equitable	62.3	29.8	34.3	29.0	28.4	-17.8%
Peoples	35.5	32.3	37.2	34.5	41.8	4.1%
Peoples TWP	45.2	46.9	53.1	48.8	52.6	3.9%
UGI Central	6.0	16.9	12.9	14.2	16.3	28.3%
UGI Penn	33.6	34.8	34.5	31.8	30.1	-2.7%
UGI Utilities	23.2	26.1	25.2	22.6	27.9	4.8%
Panel Average	36.2	33.9	36.3	35.4	35.8	-0.3%
National Fuel	34.9	35.0	31.0	29.3	30.4	-3.4%

Unprotected Bare Steel Service %

Company	2005	2006	2007	2008	2009	Compound Growth
Columbia	20.7%	19.5%	18.2%	17.3%	16.8%	-5.1%
Equitable	8.9%	7.9%	7.7%	7.5%	6.6%	-7.1%
Peoples	16.8%	16.4%	16.0%	15.6%	15.2%	-2.5%
Peoples TWP	24.2%	23.4%	23.4%	21.4%	20.8%	-3.7%
UGI Central	2.6%	1.7%	1.0%	0.8%	0.8%	-25.4%
UGI Penn	1.7%	1.5%	1.2%	1.1%	1.0%	-12.3%
UGI Utilities	6.2%	5.8%	5.5%	5.3%	5.1%	-4.7%
Panel Average	11.6%	10.9%	10.4%	9.9%	9.5%	-4.9%
National Fuel	18.7%	17.9%	17.0%	16.1%	15.3%	-4.9%

NA = Not Available
NM = Not Meaningful
Source: PUC Annual Reports, DOT Annual Reports

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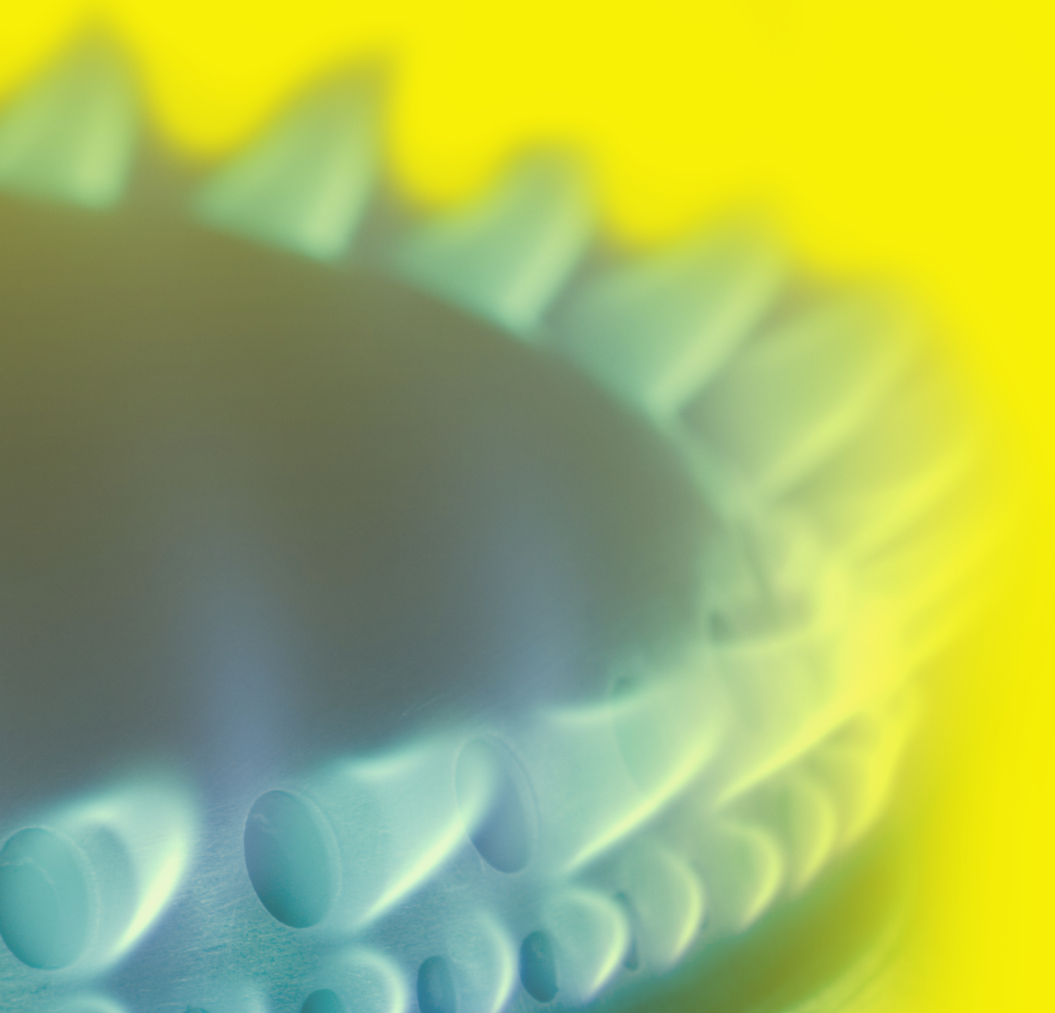
Service Leaks Discovered/1,000 Services

Company	2005	2006	2007	2008	2009	Compound Growth
Columbia	4.4	4.1	4.6	4.7	4.2	-0.9%
Equitable	3.8	3.0	3.7	3.4	2.8	-7.1%
Peoples	11.4	8.1	10.7	9.6	11.3	-0.3%
Peoples TWP	2.7	2.7	6.0	5.4	3.7	8.6%
UGI Central	1.1	2.9	2.7	2.3	2.5	23.8%
UGI Penn	6.5	6.5	3.5	5.8	7.2	2.5%
UGI Utilities	7.2	3.9	6.8	2.9	2.9	-20.3%
Panel Average	5.3	4.5	5.4	4.9	4.9	-1.6%
National Fuel	4.2	4.1	3.7	3.3	3.0	-8.0%

NA = Not Available
Source: PUC Annual Reports, DOT Annual Reports



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