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July 24, 2014

**BY FEDERAL EXPRESS**  
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Rosemary Chiavetta, Secretary  
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Commonwealth Keystone Building  
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Harrisburg, PA 17120

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JUL 24 2014

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

Re: **Joint Petition for Generic Investigation or Rulemaking Regarding "Gas-on-Gas"  
Competition Between Jurisdictional Natural Gas Distribution Companies;  
Docket No. P-2011-2277868**

**Generic Investigation Regarding Gas-on-Gas Competition Between Jurisdictional  
Natural Gas Distribution Companies; Docket No. I-2012-2320323**

Dear Secretary Chiavetta:

Please find enclosed for filing a copy of National Fuel Gas Distribution Corporation's Reply to Exceptions in the above-referenced matter.

As evidenced by the attached Certificate of Service, all parties to the proceeding have been duly served with a copy of this document.

Very truly yours,

Damias A. Wilson  
On behalf of  
Bruce V. Miller  
Counsel for National Fuel Gas Distribution Corporation

Enclosure

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Joint Petition for Generic Investigation or Rulemaking Regarding "Gas-On-Gas" Competition Between Jurisdictional Natural Gas Distribution Companies	:	
	:	P-2011-2277868
	:	
	:	
Generic Investigation Regarding Gas-On-Gas Competition Between Jurisdictional Natural Gas Distribution Companies	:	
	:	I-2012-2320323
	:	

**REPLY TO EXCEPTIONS  
ON BEHALF  
OF  
NATIONAL FUEL GAS DISTRIBUTION CORPORATION**

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PA PUBLIC UTILITY COMMISSION  
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**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Joint Petition for Generic Investigation or	:	
Rulemaking Regarding "Gas-On-Gas" Competition	:	P-2011-2277868
Between Jurisdictional Natural Gas Distribution	:	
Companies	:	
	:	
Generic Investigation Regarding Gas-On-Gas	:	
Competition Between Jurisdictional Natural	:	I-2012-2320323
Gas Distribution Companies	:	

**REPLY TO EXCEPTIONS  
ON BEHALF  
OF  
NATIONAL FUEL GAS DISTRIBUTION CORPORATION**

**INTRODUCTION**

The Recommended Decision ("RD") of Administrative Law Judge Elizabeth H. Barnes regarding the Gas on Gas Competition Investigation at Docket Nos. P-2011-2277868 and I-2012-2320323 was served on June 24, 2014. In her decision, Judge Barnes found, as her primary recommendation, that the Commission direct that ratepayer funded gas-on-gas rate discounts be abolished no later than December 31, 2018. RD, p. 30. As her alternative recommendation in the event that the Commission does not wish to end gas on gas competition, Judge Barnes recommended the adoption of the proposal of Peoples Natural Gas Company LLC ("Peoples") that would permit existing contracts for discounted gas on gas competition to run their course and allow only for future such competition, as follows:

Peoples and Peoples TWP are, in essence, proposing the creation of a reasonable floor on gas-on-gas discounting for all new and renewal gas-on-gas discount agreements. That floor would be the lowest non-discounted tariffed distribution rates of any of the NGDCs competing for the customer's load. All existing gas-on-gas discount agreements would be permitted to run their terms. The NGDCs would be allowed rate recovery for Discount Adjustments for existing agreements as well [as] new/renewal agreements; provided that the NGDC can demonstrate that the discounts were prudently awarded and are reasonable.

RD, pp. 31-32, citing Peoples M.B. at 18. In its Reply Brief to Judge Barnes, National Fuel Gas Distribution Corporation (“Distribution” or “the Company”) adopted and endorsed Peoples’ proposal.

Distribution did not file a brief on exceptions given that Judge Barnes adopted Peoples’ proposal as her alternative recommendation. As Judge Barnes noted:

[Distribution] does not currently engage in any gas-on-gas competition and has not done so for a number of years. National Fuel endorses Peoples Proposal as it offers the least disruption to the diminished *status quo*, the smallest adverse effect on customers and the most modest expenditure of the resources of the Commission and stakeholders in this case and is the wisest course of action to follow. National Fuel avers the more immediate and rigid remedies supported by OCA, I& E and OSBA will create stranded costs and economic disruption for which the utilities will suffer shortfalls if they decide to compete. Additionally, hardship may be experienced by large business customers that relied upon the discounts in making business decisions.

RD, p. 18. The Industrial Energy Consumers of Pennsylvania (“IECPA”) and the Pennsylvania State University (“PSU”), however, continue to claim that the existing gas-on-gas competition regime should be permitted to continue. Distribution does not agree with those claims.

### DISCUSSION

Distribution notes that, by reason of the approval (granted at Docket No. A-2013-2353647) of the sale of Equitable Gas Company, LLC (“Equitable”) to Peoples and Equitable’s merger into Peoples, gas-on-gas competition (including the need for this proceeding) – which

was always limited geographically to parts of Western Pennsylvania – is now significantly reduced from even its former, limited context. Peoples points out, for example, that the number of customers involved in gas-on-gas competition has been reduced from approximately 401 to now just 74 customers. Peoples Main Brief, p. 22. I&E recognizes, moreover, that these 74 customers produce a total “revenue shortfall” of \$4.3 million. I&E Main Brief (at p. 24). Consequently, on a statewide basis, the issue of gas-on-gas competition is not one of the major policy matters with which the Commission must grapple.

Furthermore, all parties appear to recognize that ending gas-on-gas competition, as the *Recommended Decision* counsels as its “primary recommendation,” will raise some significant legal problems associated with dividing up service territories (stranded costs and constitutional takings issues), dividing up customers and meeting re same (anti-trust concerns) and ending contracts before their end dates (impairment of contracts and lack of a record to warrant that result) that the People’s compromise position wisely avoids.

IECPA and PSU, however, continue to argue that the existing situation, with all of its false “competition” and subsidies must be maintained. IECPA, for example, argues that because class rates of return vary, there is no reason to assume that discounts to large customers are supported by smaller customers. *IECPA Exceptions*, p. 7. IECPA also contends that there is no reason to permit discounting to address bypass from interstate pipeline and gas producers while constraining discounting for gas on gas competition. *IECPA Exceptions*, pp. 12-15. PSU argues that “large customers with competitive options must be offered discounted rates in order to retain the overall system benefits derived from keeping that customer’s load on the system” *PSU Exceptions*, p. 10. In PSU’s view “it is basic business that someone who has two sources for a desired commodity or service may be able to purchase it a lower price due to competition than

someone who has only one source. PSU Exceptions, p. 11. Finally, IECPA claims that gas on gas competition is “consistent with current public utility law and ratemaking principles...”

IECPA Exceptions, p. 4.

Contrary to IECPA’ claim, utility discounting of rates to meet gas on gas competition is unlike discounting to meet pipeline or gas producer bypass, or bypass from alternative fuels. The Commission does not regulate those other business and has no interest in whether their customers are subsidizing reduced rates to meet competition from NGDCs. On the other hand, the Commission does regulate all NGDCs in Pennsylvania and has a keen interest in seeing that rates are not reduced to meet a false competition. Here, IECPA and PSU fail to realize that some limits must be placed on gas-on-gas competition in the future, lest the “race to the bottom” that such competition creates artificially lowers rates for a select few customers while improperly increasing rates for the rest. Even in the case of discounting to meet bypass and alternative fuel threats, there are still limits that are placed on the utility’s ability to meet such competitive threats in a way that preserves benefits for customers rather than requiring them to subsidized such competition.

Distribution previously endorsed competition at rates that would permit NGDCs to recover the cost of providing the service so that no undue subsidy will result. Peoples’ recommendation, adopted as the Recommended Decision’s alternative recommendation, is consistent with that view. Distribution believes that in order to limit the disruption to customers who might have made decisions based on their discounted contract rates, equity and law counsel that such rates for gas-on-gas competition be permitted to remain in effect through the expiration of their contract term. Given that the gas-on-gas rates agreed to in these contracts have been

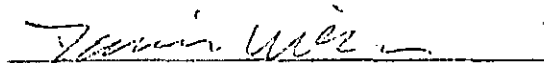
relied upon by customers in projecting their energy costs over the duration of their contracts, this is also sound economic policy.

The alternative proposed by Peoples would also avoid the significant legal hurdles created by a more rapid cessation of gas on gas competition, with the abrogation of contracts and the potential division of customers resulting from it. In view of the now-limited amount of such discounting (both in numbers and dollars), there is simply no sound basis or justification to create these legal problems and the costs attendant to seeing them through to a conclusion.

**CONCLUSION**

For all the above reasons, Distribution believes that the proposal of Peoples, endorsed by the Recommended Decision as its alternative resolution of this matter, represents a reasoned path to the ultimate elimination of gas-on-gas discounting at rates below the cost of providing such service. Given the now extremely limited nature of gas-on-gas competition, such a gradual resolution is in the best interests of all stakeholders in this proceeding. Therefore, Distribution recommends that the Commission adopt the resolution offered by Peoples and issue it for the appropriate notice and comment.

Respectfully submitted,



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**CERTIFICATE OF SERVICE**

**Docket Nos. P-2011-2277868 and I-2012-2320323**

I hereby certify that I am this day serving a true copy of the foregoing document upon the participants listed below in accordance with the requirements of 52 Pa. Code Section 1.54 (relating to service by a participant).

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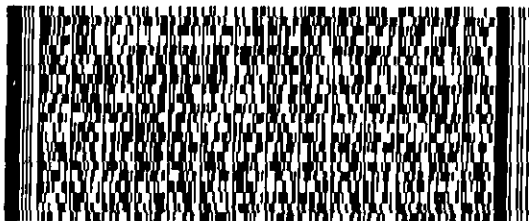
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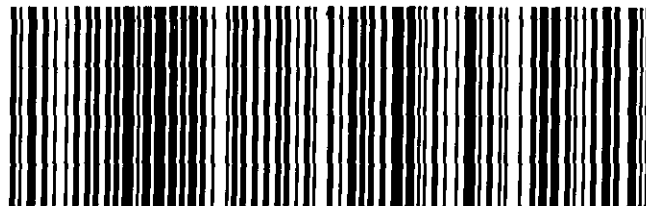
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