



**NATIONAL FUEL GAS
DISTRIBUTION CORPORATION
PENNSYLVANIA PUBLIC UTILITY COMMISSION
DOCKET NO. R-00061493**

**Information Submitted Pursuant to Pa. PUC Regulation
Regarding Filing of Rate Changes**

**Tariff Gas Pa. P.U.C. No. 9
Rebuttal Testimony and Exhibits**

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Kathleen A. Frank

- 1 Q. Please state your name and business address.
- 2 A. My name is Kathleen A. Frank. My business address is 6363 Main
3 Street, Williamsville, New York 14221.
- 4 Q. Have you previously submitted testimony in this proceeding?
- 5 A. Yes, I have sponsored Statement No. 1, Statement No. 101.
- 6 Q. What is the purpose of your testimony?
- 7 A. I am rebutting the adjustments proposed by the Office of Trial Staff.
- 8 Q. Do you agree with Ms. Markovich's explanation of what is meant by
9 uncollectible accounts expense, which is discussed on page 8 of her
10 direct testimony?
- 11 A. No. Ms. Markovich states, "Uncollectible accounts are specific
12 receivables that are determined to be uncollectible in whole or in part,
13 either because debtors do not pay and/or the creditors finds it
14 impracticable to enforce payment." I am objecting to the portion of
15 Ms. Markovich's statement, which indicates that creditors find it
16 impracticable to enforce payment of a debt. This is certainly not a true
17 statement regarding National Fuel Gas Distribution Corporation,
18 ("NFGDC"). As referenced in Exhibit No. 16, NFGDC takes its
19 collection efforts very seriously and aggressively pursues outstanding
20 receivables on both the active and final bill sides. In fact, NFGDC
21 continues to pursue collection efforts on final billed accounts
22 receivable until they reach the statute of limitations.

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1 Q. Ms. Markovich, on page 9 and OTS Ex. No. 2, sch.2, pp. 1-2 of her
2 direct testimony, recommends that the uncollectible account expense
3 be based on a write-off ratio that is calculated using three years of
4 data. Do you agree with the utilization of three years of data to
5 develop the write-off ratio?

6 A. No, I do not agree. I believe that the twenty-four month factor is
7 appropriate because it reflects more timely information than the thirty-
8 six month factor. Because write-offs are made one year after a final
9 bill, net write-offs relate to revenues one year prior to the write-off.
10 Therefore, the three-year average actually considers revenues from
11 as much as four years prior to the beginning of the future test year.

12 Q. Do you have any other reasons to substantiate why the twenty-four
13 month factor methodology is more accurate than the thirty-six month
14 factor methodology?

15 A. Yes, I do. Senate Bill 677 was passed in December of 2004.
16 Therefore, it was in effect for the entire twenty-four month period
17 ended January 31, 2006 but not the entire thirty-six month period
18 ended January 31, 2006. Therefore, the twenty-four month period is
19 more representative of the future test year, the twelve months ending
20 January 31, 2007 which will be conducted in total under Senate Bill
21 677.

22 Q. Ms. Markovich's statements on pages 9, 10 and 11 of her direct
23 testimony suggests the removal of the LIRA write-offs from the write-

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1 off ratio calculation because LIRA write-off amounts are fixed and do
2 not vary at different levels of revenues. Do you agree?

3 A. No, I do not. Ms. Markovich fails to recognize that the company's Lira
4 program does not have a ceiling on participation. It also fails to
5 recognize that even if the net participation level remains the same that
6 preprogram arrearages will be ongoing. Enrollment in the Lira
7 program has increased from 7,560 participants in December 2003 to
8 8,326 participants in December 2004 to 10,054 in December 2005. At
9 May 2006, there were 11,169 and the company believes that this will
10 increase to 12,169 at January 2007 the end of the test year. As new
11 participants enter the program, they bring with them preprogram
12 arrearages. Therefore preprogram arrearages are ongoing not fixed.
13 As shown on OTS Exhibit No. 2 Schedule 2 page 4 Lira write-offs
14 were \$307,772 for the twelve months ended January 2004, \$537,847
15 for the twelve months ended January 2005 and \$664,679 for the
16 twelve months ended January 2006. Lira write-offs are clearly not
17 fixed but are increasing.

18 Q. Please explain why even if net participation level were to remain
19 constant that preprogram arrearages will be increasing.

20 A. On average, NFGDC loses between 2.09% to 5.58% of the monthly
21 enrollment of customers from the LIRA program. NFGDC has to
22 enroll this number of customers with the LIRA program each month
23 just to maintain its size. While trying to increase the number of

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1 customers for the LIRA program, this replacement issue presents an
2 additional challenge to NFGDC. The constant influx of new customers
3 into the program results in higher arrearage per customer as a result
4 of increases in rates to provide for recovery of increased purchase
5 gas costs. In an independent evaluation of the Company's Lira
6 program, it was noted that the average preprogram arrearage
7 increased from \$574 per enrollee in 2004 to \$622 per enrollee in
8 2005. In total, the write-offs will increase due to the higher number of
9 customers in the program and due to increased arrearages as gas
10 costs climb. Further, due to the constant movement of customers into
11 and out of the LIRA program and the growing of the LIRA program,
12 the only way to capture all customers correctly is to make projections
13 of uncollectible accounts expense based on all customers.
14 In addition to the aforementioned point, if LIRA write-offs were to be
15 removed from the write-off amount, which is utilized in the
16 development of the factor, to be consistent, LIRA revenues should
17 also be removed from the revenue portion of the factor development
18 calculation. Ms. Markovich has failed to apply her adjustment in a
19 consistent manner.

20 Q. Do you agree with Ms. Markovich's statement on page 11 of her
21 testimony stating, "Uncollectible accounts expense related to
22 arrearage forgiveness should be projected independently of normal

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1 uncollectibles. To date, no other utility has attempted to combine the
2 two for ratemaking purposes”.

3 A. No, I do not agree. NFGDC has combined the arrearage forgiveness
4 and normal uncollectibles for ratemaking purposes in its last rate
5 case, Docket No. R-00049656.

6 Q. Does this conclude your Rebuttal Testimony?

7 A. Yes, at this time.

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Ruth M. Friedrich-Alf

1 Q. Please state your name and business address.

2 A. My name is Ruth M. Friedrich-Alf. My business address is 6363 Main
3 Street, Williamsville, New York 14221-5887.

4 Q. Have you previously submitted testimony in this proceeding?

5 A. Yes, I have sponsored Statement Nos. 2, and 102 and the associated
6 Exhibits.

7 Q. What is the subject of Statement No. 202?

8 A. I will be addressing the Direct Testimony presented by the Office of Trial
9 Staff (OTS), the Office of Consumer Advocate (OCA), the Community
10 Action Association of Pennsylvania (CAAP) and comments made at several
11 of the Public Input Hearings. I am also providing exhibits that correct or
12 update previously submitted exhibits to reflect more current data, most of
13 which were provided to the parties in discovery.

14 Q. Which exhibits were prepared for you or under your supervision?

15 A. I am responsible for the information submitted in Exhibit No. 202
16 specifically:

<u>Topic</u>	<u>Testimony Page Numbers</u>	<u>Exhibit 202 Schedule No.</u>
Company Rebuttal Revenue Requirement Position	2	1
Labor	3	2
Benefits	7	2
Postage	15	
Clearing Accounts	16	2
Rate Case Expense	16	
GTI Funding	18	

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Ruth M. Friedrich-Alf

1 Labor

2 Q. Please describe OTS's adjustment to Labor expense.

3 A. Referencing OTS Statement No. 2 page 14, staff states for the "Other
4 Annualized Payroll component Payroll not subject to wage increases" that
5 "due to the fluctuating nature of the payroll related items included in
6 this category, I applied the concept of normalization to this expense."
7 Staff then applied a three-year average to this single component. Staff also
8 made an adjustment to Rate Base to account for the "non-O&M portion" of
9 the adjustment.

10 Q. Does Staff describe the "concept of normalization"?

11 A. Staff provides a description in Statement No. 2 page 3 which states:

12 "Normalization is a ratemaking concept that describes the
13 transformation of an operating expense that recurs at irregular intervals into
14 a "normal" annual test year expense allowance. Normalization specifically
15 addresses the prospective recovery of an ongoing expense that recurs
16 sporadically."

17 Q. What elements of cost and timeframe did staff apply the normalization
18 concept to?

19 A. Staff applied the normalization concept to Rate Case Expense and the
20 recommendation for the normalization period was 18 months.

21 Q. Does staff provide any justification for using a three-year average for the
22 labor component of "Other Annualized Payroll component Payroll not

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1 subject to wage increases”?

2 A. No justification or explanation was provided as to why a three-year average
3 is appropriate.

4 Q. Does the component “Other Annualized Payroll component Payroll not
5 subject to wage increases” recur sporadically?

6 A. No. “Other Annualized Payroll component Payroll not subject to wage
7 increases” recurs annually. The amount of the component does fluctuate
8 however.

9 Q. Do other components of “Other Annualized Payroll such as Permanent
10 Part-Time Payroll, Summer Payroll and Overtime – Total” for All
11 Nonsalaried Employees also fluctuate?

12 A. Yes. All three components fluctuated over the 2004 through 2006 time
13 period.

14 Q. Did staff apply the “concept of normalization” to these other three
15 components of payroll?

16 A. No. Staff accepted the filed for position in which two out of the three
17 components just happen to be the lowest amount of the three years.

18 Q. In staff’s adjustment calculation did staff adjust the 2004, 2005 or 2006
19 amounts to represent a test year amount?

20 A. No. Staff used the per book amounts which are considered stale for
21 ratemaking purposes. If an average of previous year’s amounts are to be
22 considered, the amounts must be represented in 2007 dollars.

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Ruth M. Friedrich-Alf

1 Q. What is your recommendation?

2 A. Staff's adjustment should be rejected based on lack of evidence and
3 justification that a three-year average is representative of the single
4 component "Payroll not subject to increase". The Company believes that
5 the historic test year "Other Annualized Payroll" amount presented is
6 representative of the future test year.

7 If staff's adjustment to "Payroll not subject to increase" is accepted,
8 then the staff's "concept of normalization" should be applied to all the
9 components. If an average methodology were to be applied then the
10 appropriate methodology would be to represent the amounts in future test
11 year dollars. The combination of averaging all other annualized payroll
12 components and applying the inflation factor would equate to a net
13 (\$25,813) adjustment to labor, as shown in Exhibit No. 202 Schedule 2
14 page 1.

15 Q. If an adjustment is accepted to the labor component, should an adjustment
16 be made to Rate Base?

17 A. No. The Plant in Service portion of Rate Base is calculated based on the
18 construction budget. Construction spending (via the construction budget) is
19 bottom line oriented and independent of any adjustments made to O&M
20 labor. The Company manages its construction activities to spend close to
21 the budgeted amounts. The construction spending decisions are
22 completely unaffected by any ratemaking adjustments especially those

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Ruth M. Friedrich-Alf

1 related to "Payroll not subject to increases". Staff's adjustment should be
2 rejected.

3 Q. Please refer to OCA Statement No. 1 pages 10 – 11. OCA makes an
4 adjustment to the number of employees using an average number of
5 employees from January 2006 through June 2006 which equals 336
6 employees. Do you agree with this adjustment?

7 A. No. The filed for position used the actual number of employees at February
8 2006 of 343. Information now available provides the complement at 343,
9 which was the filed for position. Specifically, the complement for August
10 2006 is:

11	Clerical	82
12	Local 22	72
13	Local 2154	74
14	Local 2154 S	15
15	Local 22S	5
16	Supervisory	82
17	Permanent Part Time	13

18 Q. What is your recommendation?

19 A. The OCA adjustment of (\$227,000) should be rejected based on the fact
20 that 336 employees do not represent current information. The most current
21 information available of 343 employees, which was the filed for position,
22 should be the employee count used.

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Ruth M. Friedrich-Alf

1 Benefits

2 Q. Please refer to OCA Statement No. 1 page 11 Group Life Insurance. OCA
3 makes an adjustment based on the employee count adjustment contained
4 in the Labor component. Do you agree with this adjustment?

5 A. No. For the reasons stated above, the current complement is 343
6 employees. No adjustment should be made to Group Life Insurance based
7 on number of employees.

8 Q. Do you recommend any other changes to Group Life Insurance?

9 A. Yes. Through discovery, a calculation error was determined in the
10 Supplemental volume calculation. This has been corrected and provided in
11 Exhibit No. 202 Schedule 2 page 2.

12 Q. Please refer to OCA Statement No. 1 page 12 401(K) Plan. OCA makes
13 two adjustments; one to reflect the changes to labor based on the number
14 of employees, the second to represent the 401(K) expense related to base
15 wages only. Do you agree with these adjustments?

16 A. The argument to reduce the claimed expense based on OCA's adjustment
17 to the number of employee is incorrect for the reasons stated above. The
18 Company accepts the adjustment to 401(K) expense to be calculated on
19 base wages only. Through the discovery process, it was determined that
20 the 401(K) expense was based on total labor including overtime and payroll
21 not subject to increase which is not appropriate. The Company has
22 recalculated this expense to be \$296,750 for Gross Union and \$309,689 for

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1 Gross Supervisory for a gross total of \$606,439 or \$466,958 to expense.

2 This is shown on Exhibit No. 202 Schedule 2 page 3.

3 Q. Why did the Company's claim increase based on this adjustment?

4 A. The original claim was based on the actual 401(K) match divided by the

5 actual payroll that included overtime and payroll not subject to increase.

6 The overtime payroll for the union employees was increased by the wage

7 increase so by removing it from the denominator in both instances has no

8 effect on the calculation. The payroll not subject to increase was included

9 in the supervisory calculation. Since this component was not increased in

10 the future test year including it in the denominator diluted the calculation.

11 The modified calculation is as follows:

12 The Company payment for union employees was \$285,602 based

13 on payroll of \$11,460,216 or 2.49%. This was then multiplied by the

14 forecasted payroll of \$11,908,770 or \$296,750.

15 The supervisory component was \$300,174 based on a payroll of

16 \$5,908,496 or 5.08%. This was then multiplied by the forecasted payroll of

17 \$6,095,795 or \$309,689.

18 The sum of these two components equals \$606,439. Multiplying this

19 total by 77.00% (Factor A; Exhibit No. 13 Schedule 4), the portion of payroll

20 expended to Operation and Maintenance for the historic test year to arrive

21 at the Operation and Expense amount for 401(K) expense of 466,958.

22 Q. What is your recommendation for 401(K) expense?

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Ruth M. Friedrich-Alf

1 A. The OCA adjustment based on the number of employees should be
2 rejected.

3 Q. Please reference OCA Statement No. 1 pages 13 – 16 which addresses
4 the Company's Hospitalization Expense. Please describe OCA's
5 adjustment to Health Insurance.

6 A. OCA witness Morgan provided three adjustments to Hospitalization
7 expense. First, he would to adjust for the number of employees, which is
8 incorrect, based on the reasons stated above. The second adjustment was
9 to decrease the monthly claim per employee based on the Segal survey
10 instead of experienced claims and the third adjustment was to remove the
11 rate effective period adjustment.

12 Q. Please discuss the second adjustment.

13 A. In the second adjustment, OCA witness Morgan relied on the 2006 Segal
14 Health Plan Cost Trend Survey to project the monthly claim per employee.
15 The 2006 Segal survey provided guidance that the Medical Indemnity Plans
16 for 2006 projected would be 14.4%. The Company, however, does rely on
17 public information such as the Segal survey. Instead, the Company relies
18 on its own actual experience which applies direct to it. The Company's
19 calculation was based on actual claims paid. Actual claims are more
20 representative of the Company's actual experience than the Segal Survey.

21 Using updated monthly information shows that the annual increase
22 grew to over 46% for the twelve months ended March 2006 and was at

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1 28% for the twelve months ended May 2006. The annual increase for the
2 twelve months ended May 2006 is calculated as follows:

(1)	Summation of total claims paid TME May 2006	\$10,077,382
(2)	Summation of total employees TME May 2006	19,820
(3) = (1)/(2)	Monthly Base Rate per employee TME May 2006	\$508.45
(4)	Summation of total claims paid TME May 2005	\$8,102,733
(5)	Summation of total employees TME May 2005	20,386
(6) = (4)/(5)	Monthly Base Rate per employee TME May 2005	\$397.46
(7) = [(3)-(6)]/(6)	% Change	27.93%

3

4 Even if the claim is updated to represent May 2006 experienced claims
5 increase, it exceeds the Segal survey relied on by OCA. The Company's
6 claim of \$777.39 per employee per month at the January 2007 level of
7 operations is appropriate. This multiplied by the 343 employees annualized
8 for 12 months equates to a gross cost of \$3,199,737 (\$777.39 x 343 x 12).
9 To calculate an expense to O&M this is multiplied by 77%, which equals
10 \$2,463,798. OCA's second adjustment to Health Insurance should be
11 rejected.

12 Q. Please discuss OCA's third adjustment to Health Insurance.

13 A. OCA would reject the Company's adjustment to the level expected to be
14 experienced during the first year that rates will be in effect. OCA describes
15 this as a post-test year expense adjustment.

16 On page 5 of OCA Statement No. 1, however the Company is
17 chided for not matching all components of the test year costs of service.
18 OCA, however, would reject the Company's claim that would provide for a
19 matching in expense. Allowing this adjustment would provide the match

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Rebuttal Testimony of Ruth M. Friedrich-Alf

1 between Rate Base and Expense that OCA believes is necessary.

2 Q. Please reference OC A Statement No. 1 page 15 and discuss the
3 adjustments to PCS expense.

4 A. OCA witness Morgan provided three adjustments to PCS expense. The
5 first to adjust for the number of employees, which is erroneous for the
6 reasons stated above. The second adjustment was to increase the monthly
7 claim per employee based on the Segal survey. Again for reasons stated
8 above, the use of the Segal Survey instead of actual claims is inappropriate
9 even though OCA's adjustment would increase the expense component. If
10 the Commission were to decline to use the Company's actual experience
11 however, it should be consistent. The third adjustment was to remove the
12 rate effective period adjustment.

13 The Company disagrees with the third adjustment again on a
14 theoretical basis specifically, allowing this adjustment would provide the
15 match between Rate Base and Expense that OCA believes is necessary.

16 Q. Please refer to OTS Statement No. 2 page 2 where a reduction of \$396,454
17 is attributable to Benefits. Please discuss.

18 A. The Company reviewed the testimony of the Trial Staff witnesses filed on
19 September 6, 2006 and could not determine the basis of this adjustment.
20 This was brought to the attention of Staff and an errata was issued on
21 September 18, 2006 to address this adjustment. It is this submission that I
22 am responding to and will address the pages as prefixed with an E so as

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1 not to confuse the remainder of my rebuttal testimony.

2 Q. Please reference OTS Statement No. 2 page E17. Staff adjusts benefits
3 reflected on the income statement by \$396,454 and rate base by \$118,421
4 because "the projection for July 2007 is based on theory that the
5 percentage increase from 2005 to 2006 will repeat itself in 2007 over 2006.
6 This theory is speculative and not based on any documented contract
7 costs". Do you agree with this statement?

8 A. No. As stated above, the Company's calculation was based on actual
9 claims. Using updated monthly information shows that the annual increase
10 for the twelve months ended May 2006 was 28%. In addition, as stated in
11 Statement No. 102, the Company is self-insured and therefore there is no
12 contract to document the claim per employee, but that is not reason to
13 disregard actual experience. Staff's adjustment should be denied.

14 In addition, as stated above, the adjustment to rate base should also
15 be denied. As stated above, the Plant in Service portion of Rate Base is
16 calculated based on the construction budget. Construction spending (via
17 the construction budget) is bottom line oriented and independent of any
18 adjustments made to ratemaking O&M labor or benefits. Staff's adjustment
19 should be rejected.

20 Q. National Fuel Gas Supply Corporation ("Supply") is in a proceeding before
21 the FERC at Docket No. RP06-298-000 in which the Pennsylvania Office of
22 Consumer Advocate, Pennsylvania Public Utility Commission and National

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Ruth M. Friedrich-Alf

1 Fuel Gas Distribution Corporation are parties. Please describe.

2 A. On April 7, 2006 the Public Service Commission of New York, Pennsylvania
3 Public Utility Commission and Pennsylvania Consumer Advocate
4 (collectively, "Joint State Agencies") filed a complaint against Supply in
5 Docket No. RP06-298-000 ("Complaint"). The Joint State Agencies assert
6 in the complaint, among other things, that Supply's current rates include an
7 accumulating regulatory asset related to post employment benefits other
8 than pension ("OPEB") liabilities.

9 Q. Please state what the Joint State Agencies assert in the Complaint with
10 respect to the amount of Supply's current contribution to fund its OPEB
11 trusts.

12 A. On page 23 of the Complaint, the Joint State Agencies provide that
13 pursuant to the 1995 Rate Settlement, Supply's current contribution is
14 \$1,187,653 each quarter or \$4,750,612 per year to fund its OPEB trusts.

15 Q. What would the current Mercer prepared contribution be for Supply?

16 A. As shown in Exhibit No. 202 Schedule 2 page 4, Supply's current OPEB
17 amount that would be equivalent to Distribution's OPEB amount included in
18 this proceeding is \$9,361,619.

19 Q. How does this impact Distribution?

20 A. OPEBs are a component of the loading factor used to allocate benefits
21 when labor is loaned out of the originating subsidiary. As shown on Exhibit
22 No. 104 Schedule 2 (Benefits) page 16 Supply's loading factor included in

National Fuel Gas Distribution Corporation
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1 the case was 88.90%. If the Joint State Agencies' argument were accepted
2 and Supply OPEBs set at \$9,361,691 as the current amount, the Supply
3 loading factor would increase to 115.4%. This would increase the benefits
4 associated with labor loaned from Supply by \$348,561.

5 Q. Could the OPEB amount included in the Supply loading factor also include
6 an amortization?

7 A. Yes. The Joint State Agencies assert in Exhibit No. JSA-4 page 1 of 4 of
8 the Complaint that, Supply had a regulatory asset of \$6,992,485 associated
9 with OPEBs as of September 30, 2005. If Supply were allowed to amortize
10 this asset, the benefit loading factor would include the amortization.

11 Q. Have you represented an amortization of the \$6,992,485 regulatory asset?

12 A. Yes. I have amortized the \$6,992,485 over four (4) years or \$1,748,121
13 annually.

14 Q. How did you determine four years?

15 A. Distribution was been allowed several amortization periods for OPEBs in
16 recent settlements. In R-00038168, Distribution was allowed to amortize
17 \$8,912,703 over a four year period. In R-00049656, Distribution was
18 allowed to amortize \$1,005,345 over a two year period. I have chosen a
19 four year period to calculate an amortization amount for Supply
20 Corporation. This would calculate an annual amortization amount of
21 \$1,748,121.

22 Q. What is the total change to the Supply Corporation Benefit Loading Factor?

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1 A. Assuming the OPEB amount included in the Supply loading factor is
2 \$11,109,740 (\$9,361,619 + \$1,748,121), the Supply Corporation Benefit
3 Loading Factor would change from 88.90% as presented in Exhibit No. 104
4 Schedule 2 (Benefits) page 16 to 125.35%. This would increase the
5 benefits associated with labor loaned from Supply by \$479,436. This is
6 provided in Exhibit No. 202 Schedule 2 page 5.

7 Q. Has a final order been issued in Docket No. RP06-298-000?

8 A. No. The Company is currently participating in confidential settlement
9 negotiations among the parties to this proceeding. At this juncture, the
10 Company is unable to ascertain the outcome of the settlement discussions.
11 Should a settlement be filed at FERC, the Company reserves the right to
12 file updates as necessary to reflect changes in the Company's expense
13 levels, if any, arising from implementation of any RP06-298-000 settlement.

14 Postage Expense

15 Q. Please reference OCA Statement No. 1 page 18. OCA downward adjusts
16 the increase to postage because the decision to raise postal rates has not
17 been finalized. Please comment.

18 A. At Docket No. R2006-1, the Postal Commission's Presiding Officer's Ruling
19 Adopting Procedural Schedule issued June 30, 2006 stated that the filing of
20 the case-in-chief of each participant, including rebuttal to the Postal Service
21 was to have been completed by September 6, 2006. Evidentiary hearings
22 are scheduled for October 23 – November 9, 2006. Reply Briefs are due

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1 January 4, 2007. In the history of Postal Services rate proceedings, no
2 increase has ever been rejected in total. In this regard, it should be noted
3 that the Postal Commission is only advisory and the Postal Service Board
4 of Governors may implement a rate increase over any contrary
5 recommendation from the Postal Commission. A postal rate increase is
6 extremely likely and should not simply be ignored as OCA suggests. The
7 Company's position should be accepted.

8 Clearing Accounts

9 Q. Mr. Morgan adjusts the clearing accounts based on his labor, benefits and
10 postage adjustments. Do you agree?

11 A. I agree that adjustments made to labor and benefits do affect the clearing
12 accounts however, since I do not agree with the majority of OCA's
13 adjustments to labor and benefits, I can not agree with the specific
14 adjustments made by the OCA to the clearing accounts. I have made a
15 (\$2,852) adjustment to the Customer Billing and Postage clearing account
16 to reflect the 5.06% increase to postage in the historic test year (reference:
17 OTS-RE-16). This is included in Exhibit No. 202 Schedule 2 page 6.

18 Rate Case Expense

19 Q. Referencing OCA Statement No. 1 page 19 and OTS Statement No. 2
20 pages 3 - 7, please discuss the adjustment to rate case expense.

21 A. Both OTS and OCA adjust rate case expense to be normalized over 18
22 months, the average time OTS and OCA calculated to have elapsed

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1 between rate cases. The OCA also removes the expense to fully litigate
2 the base case. The Company disagrees with these adjustments. First, the
3 Company disagrees that the costs should be amortized over 18 months
4 since this is based on the assumption that the Company will not file annual
5 rate cases. This assumption is incorrect.

6 Q. Why is this assumption incorrect?

7 A. The Company believes that annual rate cases are inevitable due to a lack
8 of growth and indeed losses in the customer base and where usage per
9 account declines each year through customer conservation efforts; annual
10 inflation in costs; the need for continued investment in plant to replace
11 older, deteriorated facilities to keep the system safe and reliable. The
12 overall revenue requirement needed to maintain a safe and reliable system
13 makes annual rate filings necessary. The amortization period should be 12
14 months.

15 Q. Please explain why the Company disagrees with the OCA removal of the
16 litigation expenses.

17 A. OCA's premise for removing the litigation expense was because they
18 disagreed with the inflation escalation as a method to estimate the costs.
19 The escalator was used because it provided a forecast of litigation
20 expenses based on a known litigated case. Litigation involves not only
21 legal counsel but also is dependent on the issue(s). Certain issues would
22 involve outside consultants too. The Company took a very conservative

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1 position and did not include any outside consultants' in-person testimony at
2 hearing costs in the litigation estimate since the issues were not known at
3 the time of the filing. Based on the cases from OCA, OTS and OSBA it
4 appears that if this case were litigated, the Company's rate of return witness
5 would be needed and that the filed costs for litigation were under-estimated.

6 Q. OCA recommends that the actual costs incurred be updated by the hearing
7 to provide a more reasonable estimate of the cost to complete the case.

8 Please comment.

9 A. Updating the costs at the time of hearings will not provide further insight to
10 full litigation costs. Full litigation legal costs will be incurred until new rates
11 are in effect which is scheduled for March 2, 2007, and perhaps thereafter if
12 there are appeals or reconsideration petitions. OCA's recommendation to
13 remove the full litigation expense should be rejected.

14 GTI Funding

15 Q. Please refer to OTS Statement No. 2 pages 22 – 24. OTS recommends
16 the level of GTI expense be at the R-00049656 level of \$526,466. The
17 OTS provides comment that "the amount presents an unnecessary burden
18 on the ratepayers while the Company is essentially banking the cash
19 collected." Please comment.

20 A. As explained in Statement No. 102 page 26, Distribution will continue all the
21 provisions of the deferral set up in R-00049656 Settlement with the
22 exception of the amount amortized to expense. The Company recognizes

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1 the expense on its Income Statement. There is no "banking the cash
2 collected" as Staff accuses. As stated in the R-00049656 Settlement,

3 "Because research and development projects often
4 require a commitment over multiple years and
5 because the expenditures for such projects may
6 not match on an annual basis revenues for
7 funding of research and development projects,
8 deferred accounting is appropriate and is
9 approved. The regulatory deferral treatment
10 sought for the Research and Development
11 expenditures and rate relief requested in the
12 case are in accordance with SFAS No. 71.
13

14 The Company has chosen and will continue to choose projects that are
15 applicable and beneficial to the Pennsylvania ratepayer. The Company will
16 not choose projects just to "spend the money". It will continue to invest in
17 technologies that provide value to its ratepayers. The Company met with
18 the parties including OTS on November 17, 2005 to review the projects to
19 be funded. OTS did not object to any projects selected for funding. The
20 OTS adjustment should be rejected.

21 Q. Please reference OCA Statement No. 2 page 21. OCA has allowed the
22 requested expense for GTI projects based on the R-00049656 agreement
23 but does not believe that any of these funds should be utilized for customer
24 outreach programs. Please comment.

25 A. The Company is willing to accept the OCA's position and agree that the
26 \$876,942 allowed for in rates will be the basis for the deferral as provided
27 for in R-00049656. The Company recommends that the following language
28 be included in the Final Order related to this case:

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1 "National Fuel Gas Distribution Corporation's accounting policies
2 conform to the Statement of Financial Accounting Standards No.
3 71 'Accounting for the Effect of Certain Type of Regulations'
4 which are in accordance with the accounting requirements and
5 ratemaking practices of regulatory authorities. The application of
6 these accounting policies allows the Company to defer expenses
7 and income on the balance sheet as regulatory assets and
8 liabilities when it is probable that those expenses and income will
9 be allowed in the rate-setting process in a period different from
10 the period in which they would have been reflected in the income
11 statement by an unregulated Company.
12

13 "Because research and development projects often require a
14 commitment over multiple years and because the expenditures
15 for such projects may not match on an annual basis revenues for
16 funding of research and development projects, deferred
17 accounting is appropriate and is approved. The regulatory
18 deferral treatment sought for the Research and Development
19 expenditures and rate relief requested in the case are in
20 accordance with SFAS No. 71.
21

22 "The Company will manage the costs of the Research and
23 Development expenditures to match revenues deferred pursuant
24 to this Order to eliminate any differences between deferred costs
25 and deferred revenues at the end of a five-year period
26 commencing on the day after the R-00049656 Order was
27 entered."
28

29 Kaylor Gas Expense

30 Q. Please reference OCA Statement No. 1 page 21. OCA is removing the
31 remaining \$3,885 amortization agreed upon in Docket R-00049656 based
32 on the expense are one-time costs not ongoing expenses. OCA also
33 recommends that the remainder of the claim be amortized over 18 months.
34 Do you agree?

35 A. I agree that the amortization agreed on in R-00049656 will provide a zero
36 balance to the account in December 2006 if no other charges are booked.
37 This is a cost that is being expensed in the future test year, which is the
38 basis for the revenue requirement claim.

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1 I disagree that the amortization of the remaining portion of the claim
2 should be amortized over 18 months. The Company was required to
3 provide gas service to the Kaylor system and did so without receiving full
4 payment. The claim should be collected over 12 months.

5 BEGIN CONFIDENTIAL SECTION

6

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13 END CONFIDENTIAL SECTION

14 PUC Assessment

15 Q. Please reference OCA Statement No. 1 page 24. OCA recommends that
16 the Company's request be modified to reflect the July 2006 – June 2007
17 received assessment. The OCA also rejects the proposed addendum to
18 the STA mechanism. Please comment.

19 A. The Company agrees that the OCA adjustment reflects the most recent
20 PaPUC Assessment however; this reflects a cost that has the potential to
21 escalate on average over 15% in the next year. As shown on Exhibit No.
22 202 Schedule 2 page 8, the PaPUC Assessment has increased from

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1 \$758,376 (July 2004 – June 2005) to \$999,706 (July 2006 – June 2007) or
2 over 30% since 2005. A two-year average of the increases is 15.16%.
3 Applying the two-year average increase of 15.16% to the \$999,706 results
4 in \$1,151,211 or an adjustment of (\$15,051) from the Company's filed for
5 position.

6 The Company disagrees with the rejection of the addendum
7 proposal. The Company is not requiring a modification to the STAS whose
8 requirements are outlined by regulation. The Company is requesting an
9 addendum that would allow the process of the STA to be applied to the
10 PaPUC Assessment. The PaPUC Assessment would be a line item on the
11 filing and would follow all the procedures regarding timing and review that
12 are already in place. In the Company's view this is appropriate and legal
13 and allows for the proper review by the appropriate parties.

14 The Company has no control over this assessment and no means to
15 audit the costs that make up this assessment. Therefore, the Company is
16 in the same situation with regard to the Assessment as it is for the STA
17 components. Therefore, the Company should not be financially punished
18 for these increasing costs. The STA addendum would address this.

19 Another way to address the issue is to allow deferral treatment for
20 the assessment. Similar to other items such as the GTI expense, deferral
21 accounting would allow both the ratepayer and the Company the ability to
22 recognize this cost.

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1 Injuries and Damages

2 Q. Please refer to OCA Statement No. 1 page 25. OCA is eliminating the
3 inflation adjustment on the deductible component of the Company's claim.
4 Do you agree?

5 A. The Company will accept this adjustment.

6 Pipeline Integrity Expense

7 Q. Please refer to OCA Statement No. 1 pages 26 – 29. OCA has made two
8 adjustments; the first is a downward adjustment to the Transmission
9 Component to represent an adjusted average of the work to be completed
10 on Line Q and Line S-M77. The second is a \$260,124 downward
11 adjustment to the Distribution Component. Reductions were also made to
12 the rate base components of this element. Please comment.

13 A. The Company disagrees with the adjustments made by the OCA. With
14 regard to the Transmission component, the OCA revised the allowance to
15 reflect the average annual expense. The OCA believes this is conservative
16 because there are no pipeline assessment costs projected to be incurred in
17 2008. The Company disagrees with the justification of using an average
18 and categorizing the average as conservative because of estimates in
19 2008. The projects associated with these costs are required to be
20 assessed by December 17, 2007, the assessment it is not an option for the
21 Company. The work based on this assessment will commence in 2008.
22 The OCA's argument should be rejected.

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1 With regard to the Distribution component, on page 5 of OCA
2 Statement No. 1 the Company is chided for not matching all components of
3 the test year costs of service however the OCA rejects the Company's
4 claim that would provide for a matching in expense. Allowing the total
5 expense would provide the match between Rate Base and Expense that
6 OCA believes is necessary.

7 Q. Please refer to OTS Statement No. 2 pages 25 – 27. Staff rejects the
8 Distribution component of the claim because (1) the report has not been
9 issued, (2) the performance requirements are not know and (3) the
10 Company's current level of performance has not been documented. Please
11 comment.

12 A. Statement No. 102 page 27 states that the Company has begun the review
13 of the December 2005 report. The Company does agree that the final
14 report has not been issued however; the Company has attended meetings
15 with the members of the Northeast Gas Association (NGA) Distribution
16 Pipeline Integrity Committee. From these meetings, the Company expects
17 that the performance measures will be similar to the performance measures
18 currently in place in the New York Division, as required by the New York
19 State Public Service Commission. The premise of the 10% increase was
20 based on the current outstanding leak backlog and the NYSPSC goal which
21 would cause an incremental increase in annual costs of approximately
22 \$122,000 or 8.8% over fiscal 2005 expenditures which was rounded to

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1 10%. The premise of the 20% factors used was based on the current hits /
2 1,000 tickets and the NYSPSC goal which would cause an increase in
3 costs of approximately 18.8% which was rounded to 20%. The OTS
4 position should be rejected.

5 Another way to address the issue is to allow deferral treatment for
6 the amounts spent on the Distribution component. Similar to other items
7 such as the GTI expense, deferral accounting would allow both the
8 ratepayer and the Company the ability to recognize this cost.

9 Reconnection Charge

10 Q. Please reference OCA Statement No. 1 pages 29 – 31. OCA argues that a
11 twelve-month number of reconnections at the full rate of \$69 per
12 reconnection should be used. Do you agree?

13 A. No. Referencing Exhibit No. 104 Schedule 2 (Reconnection Charge) page
14 29 provides the information that a waiver of the \$69 was in effect from
15 November 15, 2005 through March 31, 2006. In addition, the November
16 2005 number of reconnections used by the OCA was not calculated
17 specifically to reflect the number charged at \$50 versus those charged at
18 \$69 but were estimated at ½ at \$69 and ½ at \$50. A more detailed analysis
19 would be required to determine the actual number of reconnect at each fee
20 rate.

21 Q. What is your recommendation?

22 A. The Company believes that the two year average based on fiscal periods

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1 provided in Exhibit No. 104 Schedule 2 (Reconnection Charge) Page 29 is
2 representative of the future test year expense and is in synch with the
3 Company's Uncollectible expense claim.

4 If the Commission decides that other expenses should be adjusted
5 based on multi-year averages, the Reconnection Charge should be
6 determined in the same manner. Exhibit No. 202 Schedule 2 page 9
7 calculates a reconnection charge of (\$205,093) based on a three fiscal year
8 average number of calls.

9 FERC 2004

10 Q. Please reference OCA Statement No. 1 page 31 and OTS Statement No. 2
11 pages 27 – 29 and discuss FERC 2004 costs.

12 A. The Company provided in discovery FERC Docket No. TS04-248-0001
13 Order on Requests for Waiver from the Standards of Conduct, Order Nos.
14 888 and 889, Requests for Rehearing and Compliance Filings issued July
15 20, 2006. Also provided was National Fuel Gas Supply Corporation Plan
16 for Compliance with Sections 4(b) and 5 of the Natural Gas Act with
17 Respect to National Fuel Gas Distribution Corporation as an Exempt Local
18 Distribution Company. The Company believes that the construction of a
19 separate dispatch site will not be necessary in the future test year, the
20 twelve months ending January 31, 2007 and therefore withdraws the
21 request for rate relief in this proceeding. However, the Company reserves
22 the right to file for a claim in a future base rate proceeding if the

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1 circumstances arise that a separate dispatch site becomes necessary.

2 Advertising

3 Q. Please refer to OTS Statement No. 2 page 18 – 21 adjustment to Co-op
4 Advertising. On page 20 OTS states that “The Co-op advertising
5 expenditures included in this base rate proceeding promotes the use of
6 natural gas and does not meet any of the six criteria established above.”
7 Do you agree?

8 A. No. The co-op advertising program informs customers to encourage
9 purchases of highly efficient natural gas equipment. This type of
10 advertising meets three (3) of the 66 Pa. C.S. § 1316(a) parameters,
11 specifically:

12 (3) Encourages energy independence by promoting the wise
13 development and use of domestic sources of coal, oil or
14 natural gas and does not promote one method of generating
15 electricity as preferable to other methods of generating electricity
16 (emphasis added)

17 (4) provides important information to the public regarding safety,
18 rate changes, means of reducing usage or bills, load
19 management or energy conservation (emphasis added)

20 and

21 (5) provides a direct benefit to rate payers (emphasis added)

22 To qualify for the Co-op advertising program, advertising must include

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1 energy efficiency language, which ultimately generates a reduction in usage
2 or bills (all else being equal). This is specific to parameters (3) and (4).
3 Energy conservation can also be achieved through the use of natural gas
4 instead of other less efficient energy sources. If customers who select
5 efficient natural gas appliances for new construction or to replace
6 appliances using other fuels, costs are able to be spread over a wider base,
7 which is a direct benefit to ratepayers, thus meeting parameter numbers (3)
8 and (5).

9 Exhibit No. 202 Schedule 2 pages 10 - 11 contains copies of actual
10 ads representative of others that were paid for using Co-op advertising
11 dollars. The ads meet the criteria set forth in Pa. C.S. § 1316(a). They
12 provide information on natural gas being the energy efficient choice (wise
13 use and energy conservation), how natural gas provides a means of
14 reducing heating bills (means of reducing usage or bills), and low operating
15 costs and the comfort of natural gas (provides a direct benefit to rate
16 payers). These are all benefits to ratepayers, not benefits to stockholders.

17 It should also be noted that Co-op advertising is also used by the
18 Company to meet the performance criteria for electric and gas companies
19 under Section 523(b) of the Public Utility Code (entered January 31, 1989
20 at Docket No. L-880039) (reference: Statement No. 14).

21 Q. OTS provides Docket No. R-00901595 as a Commission decision that
22 disallows this type of expenditure. Is this decision applicable to National

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1 Fuel?

2 A. No. Docket No. R-00901595 was from an Equitable Gas Company case.
3 Equitable's service territory overlaps those of other gas companies where
4 there is gas on gas competition. The passage contained in OTS Statement
5 No. 2 page 21 related to gas on gas competition and therefore the decision
6 rendered in Docket No. R-00901595 is not applicable to this proceeding.
7 Gas on gas competition does not meet the standards of Section 1316(a)
8 because natural gas from one natural gas company is not more efficient
9 than natural gas from another natural gas company. Distribution does not
10 have gas on gas competition in the residential market. Distribution's
11 competition in the residential market is from different fuels or technologies
12 such as heat pumps. Explaining the benefits of natural gas will enable the
13 homebuyer to purchase a home with natural gas service and enjoy the
14 benefits of natural gas for as long as they own the home.

15 In summary, Distribution's Co-op advertising meets the criteria set
16 forth in Pa. C.S. § 1316(a). OTS' adjustment should be denied.

17 LIURP

18 Q. Please reference CAAP Statement No. 1 page 5. CAAP states that LIURP
19 funding over the last several years has decreased. Is this correct?

20 A. No. Spending for LIURP was \$1,289,497 in 2003, \$1,199,392 in 2004 and
21 \$1,191,073 in 2005. The funding for the same time periods is defined in R-
22 00038168 as \$1,183,566 and has not decreased. Cumulatively over the

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1 three years, the Company has spent \$129,264 more than the funding or
2 rate allowance. This is shown below:

Year	Funding = Rate Allowance	Spending	(Over) / Under Spent Rate Allowance
2003	\$1,183,566	\$1,289,497	(\$105,931)
2004	\$1,183,566	\$1,199,392	(\$15,826)
2005	\$1,183,566	\$1,191,073	(\$7,507)

3

4 Q. CAAP Statement No. 1 page 6 states that if the Company's rate structure is
5 approved that the LIURP funding should be at 0.4% of jurisdictional
6 revenues and if the proposed rate structure is not approved that the
7 Company be ordered to increase LIURP funding in conformance with
8 Section 58.4, at a level equal to 0.2% of its jurisdictional revenues. What
9 would the LIURP funding be at these two levels?

10 A. If the proposed rate structure is accepted, the 0.4% of proposed revenues
11 of \$424,136,000 would be \$1,696,544. If the proposed rate structure were
12 denied, the 0.2% of proposed revenues of \$424,136,000 would be
13 \$848,272.

14 Q. What is the Company's recommendation?

15 A. The Company recommends that the rate allowance for LIURP remain at
16 \$1,183,566. CAPP's recommendation should be rejected.

17 Payroll Taxes

18 Q. Please refer to OCA Statement No. 1 page 32 the adjustment to payroll
19 taxes. Do you agree?

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1 A. The adjustment provided by the OCA was in conjunction with the
2 adjustment to labor expense based on the number of employees. As stated
3 above, the Company does not accept the labor adjustment with respect to
4 the number of employees and therefore rejects the payroll taxes adjustment
5 for the reason stated above.

6 Taxes Other Than Income Taxes

7 Q. Exhibit No. 106 Schedule 1 Page 4 provides the Capital Stock Tax Liability
8 Calculation using a 2006 tax rate of 0.499%. Do you want to update this?

9 A. Yes. On July 6, 2006 Senate Bill 300 was signed by the Governor, which
10 accelerated the phase out of the Capital Stock Tax Liability by 0.1 mills from
11 0.499% to 0.489% retroactive to January 1, 2006. In addition, the
12 Company filed its annual STA on September 18, 2006. I have calculated
13 the Capital Stock Tax Liability to reflect these changes. Exhibit No. 202
14 Schedule 3 Page 1 reflects the September 18, 2006 filing which is an
15 adjustment of (\$38,769).

16 Rate Base

17 Post Tear Year Plant Additions

18 Q. Please reference OCA Statement No. 1 pages 4-6 and OTS Statement No.
19 3 pages 5 - 8. OCA and OTS make an adjustment to plant in service for
20 what they describe as "post test year capital expenditures". The reasons
21 are that the plant component cannot be adjusted without recognizing the
22 offsetting increases in Accumulated Depreciation and Accumulated

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1 Deferred Income Taxes. In addition, both believes the Company has
2 created a mismatch between revenues, expenses and rate base and that
3 the inclusion of "post test year capital expenditures" would "improperly allow
4 NFGD to earn a return for six months on plant which has not even been
5 constructed and for which the capital has not been invested." Do you
6 agree?

7 A. No. The Company filed for \$5,330,925 of Construction Work in Progress,
8 which by definition does not have depreciation expense, accumulated
9 depreciation or accumulated deferred income taxes associated with it;
10 therefore there are no amounts to be "mismatched". As defined by 52 Pa.
11 §69.371 (a)(4), Construction work in progress (CWIP) qualifies to be
12 included in rate base if it meets certain criteria. First CWIP must be
13 reasonably certain to be completed within the first 6 months after the new
14 base rates become effective. New base rates for this proceeding will
15 become effective on or about March 2, 2007. Exhibit No. 108 Schedule 2
16 page 1 outlines monthly non-revenue producing construction work in
17 progress from February 2007 through June 2007, which represents
18 expenditures during the first four months after new rates are in effect.
19 These expenditures meet the construction work in progress parameters set
20 forth in §69.371 because they will be in service within six months after new
21 rates are effective. In addition, they are not revenue producing because the
22 company has removed all revenue producing additions from the calculation

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1 nor are they expense reducing. The projected CWIP is primarily
2 replacement of pipes. The only expense reduction is Lost and
3 Unaccounted For Gas, which is flowed through to customers in the Section
4 1307(f) cases. Further, by reducing Lost and Unaccounted For Gas, i.e.
5 leaks, the Company is improving safety. Other maintenance is not reduced
6 because only a small portion of the system is replaced each year and the
7 system as a whole continues to age and deteriorate. The inclusion of the
8 Company's CWIP claim does not violate the Commission test year filing
9 requirements or provide a mismatch between revenues, expenses and rate
10 base. The OTS and OCA adjustment should be rejected.

11 Q. OTS references Docket No. R-00942991 Order entered December 6, 1994.
12 Was there a policy statement in place regarding CWIP at the time the R-
13 00942991 Decision was entered?

14 A. No. 52 § 69.371 which provides direction for the Ratemaking treatment of
15 construction work in progress (CWIP) was adopted May 19, 1995 effective
16 May 20, 1995. The R-00942991 Order was entered on December 6, 1994
17 (83 Pa. P.U.C. 262), which was prior to this policy statement. The current
18 case has been filed under the guidance of this policy statement.

19 Working Capital

20 Q. Please reference OCA Statement No. 1 page 10. An adjustment to
21 represent Materials and Supplies and Prepayments was made to represent
22 the appropriate averages at June 2006. Do you agree?

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1 A. No. The future test year is the twelve months ending January 31, 2007 not
2 the twelve months ended June 2006. The OCA's adjustment to working
3 capital does not include the increase to the PaPUC Assessment or the
4 future test year forecast to Other Insurance, which the OCA has accepted in
5 their Operation and Maintenance portion of the case. The adjustment
6 should be rejected and the Company's future test year forecast should be
7 accepted.

8 Other Rate Base Items

9 Q. Please reference OTS Statement No. 3 page 3-4. OTS removes the FERC
10 2004 costs. Please discuss.

11 A. As discussed above, the Company believes that the construction of a
12 separate dispatch site will not be necessary in the future test year, the
13 twelve months ending January 31, 2007 and therefore the Company
14 withdraws its request for rate relief in this proceeding. However, the
15 Company reserves the right to file for a claim in a future base rate
16 proceeding if the circumstances arise that a separate dispatch site become
17 necessary.

18 Q. Please reference OTS Statement No. 3 page 9 – 10. OTS removes the
19 Pipeline Integrity Expenditures Distribution Pipelines amount of \$828,611.
20 Please discuss.

21 A. As stated above, Statement No. 102 page 27 states that the Company has
22 begun the review of the December 2005 report. The Company does agree

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1 that the final report has not been issued; however, the Company has
2 attended meetings of the Northeast Gas Association (NGA) Distribution
3 Pipeline Integrity Committee. The Company anticipates that the
4 performance measures will be similar to the performance measures
5 currently in place in the New York Division. As a result of higher thresholds,
6 more monies will have to be expended on mains and services to meet the
7 stricter requirements. The OTS position should be rejected. Another way
8 to address the issue would be to allow deferral treatment for the amounts
9 spent on the Distribution component. Similar to other items such as the GTI
10 expense, deferral accounting would allow the Company the ability to
11 recognize this cost in rates while providing assurances to ratepayers that if
12 a lower amount were spent for this cost element, the difference would be
13 deferred for future ratepayer benefit.

14 Other Items

15 Q. The Company held several public input hearings in the service territory.
16 Were there any comments made that you wish to address?

17 A. Yes. There were several comments that I wish to address in order to
18 present an accurate account for the record. They are:

19 TR pages 78 – 86 where Kenneth Springirth testified to several
20 items and provided Springirth Statement 1 and Exhibit 1.

21 TR page 87 lines 12 – 20 where Regina Springirth testified “that at
22 Cherry Park, where they have baseball games.....included in this in these

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1 prizes was a candy dish that had "National Fuel Gas" etched into. And
2 there was also a pad and pen with "National Fuel Gas" written on it, that
3 they were giving out as prizes."

4 TR page 99 lines 1 – 3 where Lisa Bonilla testified, "the City
5 Missions had to close down. NFG cut off their gas."

6 TR pages 279 line 25 and page 280 lines 1 - 12 where Jacqueline
7 Homan testified "of a case that she knew of second hand where a 58-year-
8 old man, who died the first week of December, here in Erie, last year,
9 because, on his income of \$534 a month SSI, he could not afford to get his
10 gas reconnected, even though he was LIHEAP eligible, because his
11 LIHEAP grant was not enough to satiate NFG.....The cord was faulty, it
12 caused a fire. This gentleman died."

13 TR page 299 lines 17 – 21 where Debbie McChesney testified "..And
14 they have the nerve to donate \$25,000 to Gannon University this year."

15 Q. Please address TR pages 78 – 86 (K. Springirth testimony)

16 A. TR page 79 line 25 through page 81 line 24 are addressed in Mr. Hanley's
17 and Mr. Bauer's testimony. TR page 81 line 25 through page 82 line 12 is
18 addressed in Mr. Meinl's testimony.

19 TR page 82 lines 13 through line 23 speaks to executive
20 compensation of National Fuel Gas Company which is shared by all
21 subsidiaries of which Pennsylvania Division is a small portion.

22 TR page 82 line 24 through page 83 line 3 speaks to rate case

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1 expense. Rate regulation is for the benefit of the ratepayer and rate case
2 expense is one cost of rate regulation. Customers properly bear the costs
3 of rate regulation.

4 TR page 83 lines 4 through 14 are addressed in Mr. Clark's
5 testimony.

6 TR page 83 lines 15 through 18 speak to Administrative and General
7 expenses. Per the Uniform System of Accounts, the expenses related to
8 Pension and OPEBs are booked under Administrative and General
9 expenses.

10 TR page 83 lines 19 through 25 speak to replacement cost of plant.
11 Referencing Exhibit No. 102 Schedule 1 Page 2 the Company's filing is
12 based on original cost projected at January 31, 2007. The Company is not
13 presenting a Fair Value claim.

14 TR page 84 lines 1 through 9 speaks to local gas production. Local
15 gas is a component in the Company's annual gas cost rate filing (1307(f))
16 which is filed in January each year. The Company's purchasing policies are
17 reviewed annually in this proceeding including local production. The
18 Company purchases local production of acceptable quality when doing so
19 will not increase rates to sales customers.

20 TR page 84 line 10 through page 85 line 8 addresses customers
21 ability to pay. The Company has programs for customers who have
22 payment hardships. Specifically, the Company has a Lira program that

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1 provides a discounted rate based on the customer's percentage of the
2 Federal poverty level and family size.

3 Q. Please address TR page 87 lines 12 – 20 (R. Springirth testimony)

4 A. National Fuel Gas Distribution Corporation Pennsylvania Division does not
5 purchase any promotional articles such as candy dishes, pens or pads for
6 customers or potential customers. No costs are included in the requested
7 revenue requirement for such promotional items. Regina Springirth's
8 statements that "all the people who are customers of National Fuel Gas
9 have to pay for those gifts, for those prizes" are incorrect.

10 National Fuel Resources, Inc. the non-regulated marketing
11 subsidiary of National Fuel Gas does however provide such promotional
12 articles with the words "National Fuel Resources, Inc. A National Fuel Gas
13 System Company" printed on them. The cost of such promotional articles
14 is paid for by National Fuel Resources, Inc.

15 Q. Please address TR page 99 lines 1 – 3 (Bonilla testimony)

16 A. The Company acknowledges that on April 3, 2006 the City Mission owed to
17 the Company over \$6,100 in past due bills. The City Mission, however,
18 was given written notice of termination on March 30, 2006 and personal
19 notice via telephone on March 23, 2006 regarding the over \$6,100 in past
20 due bills. The City Mission did not make any payments or payment
21 arrangements. The service to the City Mission was terminated for
22 nonpayment and after several hours, payment arrangements were

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1 completed and service was reconnected on April 3, 2006, the same day as
2 the termination.

3 Q. Please address TR pages 279 line 25 and page 280 lines 1 – 12 (Homan
4 testimony)

5 A. Jacqueline Homan did not provide any specific information in her testimony
6 however; the Company believes Jacqueline Homan is referring to a fire at
7 328 East 5th Street Erie, PA. Referencing Exhibit No. 202 Schedule 4, the
8 PaPUC Press Release dated December 15, 2005 provides that the June
9 27, 2006 termination of electric service provided by Pennsylvania Electric
10 Company (Penelec) was the center of the investigation. According to
11 Company records, the gas service provided to this address by National
12 Fuel Gas Distribution Corporation was an active account at that time.

13 Jacqueline Homan's testimony does not relate to National Fuel.

14 Q. Please address TR page 299 lines 17 – 21 (McChesney testimony)

15 A. A \$25,000 contribution was made to Gannon University by National Fuel
16 Gas Company Foundation. The gift was donated by National Fuel Gas
17 Company Foundation, which is a 501 (c) (3) non-profit organization that is
18 funded entirely with contributions from the Company's shareholders. It
19 receives no financial support from any of National Fuel's business
20 segments, including the utility. National Fuel Gas Distribution Corporation
21 Pennsylvania Division ratepayers did not provide this contribution and the
22 Company is not seeking to recover any charitable gifts in this proceeding.

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Ruth M. Friedrich-Alf

- 1 The testimony of Debbie McChesney is erroneous.
- 2 Q. Does this conclude your rebuttal testimony?
- 3 A. Yes, at this time.

National Fuel Gas Distribution Corporation
Pennsylvania Division
Statement of Projected Income at Present and Proposed Rates
Annualized Twelve Months Ending January 31, 2007
\$000

	Note 1 (1) Annualized Twelve Months Ending January 31, 2007	(2) Adjustments under Present Rates	(3) Annualized Twelve Months Ending January 31, 2007	(4) Adjustments under Proposed Rates	(5) Adjusted Twelve Months Ending January 31, 2007
Operating Revenue					
Gas Service Revenue	\$406,384	\$0	\$406,384	\$23,659	\$430,043
Transportation Service Revenue	17,752	0	17,752	1,524	19,276
Other Operating Revenue	1,789	0	1,789	98	1,887
Total Operating Revenue	425,925	0	425,925	25,281	451,206
Operating Revenue Deductions					
Operation & Maintenance Expenses					
Purchase Gas Costs	320,398	0	320,398	0	320,398
Other	74,609	29	74,638	503	75,141
Depreciation Expense	11,913	0	11,913	0	11,913
Net Salvage Amortized	1,354	0	1,354	0	1,354
Taxes Other Than Income Taxes	1,974	(39)	1,935	0	1,935
Total Operating Revenue Deductions	410,248	(10)	410,238	503	410,741
Operating Income before Taxes	15,677	10	15,687	24,778	40,465
Income Taxes	2,373	(90)	2,283	10,281	12,564
Utility Operating Income	\$13,304	\$100	\$13,404	\$14,497	\$27,901
Rate Base	\$296,954	(\$2,947)	\$294,007	\$0	\$294,007
Rate of Return	4.48%		4.56%		9.49%

Note 1: See Exhibit No. 102 Schedule 2 page 1 Column (3)

National Fuel Gas Distribution Corporation
 Pennsylvania Division
 Statement of Operations and Maintenance Expenses at Present Rates
 Twelve Months Ending January 31, 2007

	Note 1 (1) Annualized Twelve Months Ending January 31, 2007	(2) Adjustments	(3) Annualized Twelve Months Ending January 31, 2007	Exhibit 202 Schedule 2
Labor	\$19,545,231	\$0	\$19,545,231	
Uncollectibles	8,437,000	0	8,437,000	
Employee Benefits	21,199,369	479,170	21,678,539	pages 2 - 5
Materials	864,676	0	864,676	
Rents	673,873	0	673,873	
Transportation Clearing	2,259,908	0	2,259,908	
Transportation Other	248,263	0	248,263	
Utilities Clearing	371,534	0	371,534	
Utilities Other	654,960	0	654,960	
Outside Services	2,583,613	0	2,583,613	
Equipment Rentals	395,153	0	395,153	
Office Employee Expense	393,428	0	393,428	
Advertising	605,164	0	605,164	
Research and Development	34,869	0	34,869	
Dues	204,263	0	204,263	
Other Expense Meter Shop Clearing	489,919	0	489,919	
Other Expense Other	602,172	0	602,172	
Customer Education Amortization	0	0	0	
PPUC Assessment	1,166,262	(15,051)	1,151,211	page 8
Other Insurance	569,046	0	569,046	
Injuries and Damages	1,299,254	(49,000)	1,250,254	
Postage	94,948	0	94,948	
Information Services Clearing	3,042,011	0	3,042,011	
Messenger Expense	99,715	0	99,715	
Contract Admin. Clearing	536,725	0	536,725	
Contract Admin Other	78,081	0	78,081	
Customer Billing and Postage Clearing	1,131,140	(2,852)	1,128,288	page 6
Rate Case Expense	841,192	0	841,192	
LIURP	1,183,566	0	1,183,566	
Customer Deposit Interest	190,455	0	190,455	
Reconnection Charge	(367,519)	0	(367,519)	
Other Gas Purchase Expense	(63,813)	0	(63,813)	
UNICAP	(478,708)	0	(478,708)	
Remittance Clearing	187,090	0	187,090	
Gas Transportation Clearing	803,856	0	803,856	
Gas Transportation Other	87,391	0	87,391	
Kaylor Gas deferral	70,723	23,981	94,704	page 7 CONFIDENTIAL
GTI Deferral	876,942	0	876,942	
Pipeline Integrity Expenditures	1,490,497	0	1,490,497	
FERC 2004 Compliance	407,680	(407,680)	0	
Energy Efficiency Expenditures	1,800,000	0	1,800,000	
Total Operation and Maintenance Expense	<u>\$74,609,929</u>	<u>\$28,568</u>	<u>\$74,638,497</u>	

Note 1: See Exhibit No. 104 Schedule 1 Page 2 Column (4)

National Fuel Gas Distribution Corporation
Pennsylvania Division
Statement of Projected Income Taxes at Present and Proposed Rates
Twelve Months Ending January 31, 2007
\$000

	Note 1 (1) Adjusted Twelve Months Ending January 31, 2007	(2) Adjustments Present Rates	(3) Adjusted Twelve Months Ending January 31, 2007	(4) Adjustments Proposed Rates	(5) Adjusted Twelve Months Ending January 31, 2007
Federal Income Taxes	\$774	\$24	\$798	\$7,806	\$8,604
Consolidated Tax Adjustment	(82)	(121)	(203)	0	(203)
Pennsylvania State Income Taxes	146	7	153	2,475	2,628
Deferred Income Taxes					
Investment Tax Credit	(4)	0	(4)	0	(4)
Liberalized Depreciation	1,539	0	1,539	0	1,539
Other	0	0	0	0	0
Total Deferred Income Taxes	1,535	0	1,535	0	1,535
Total Income Taxes	<u>\$2,373</u>	<u>(\$90)</u>	<u>\$2,283</u>	<u>\$10,281</u>	<u>\$12,564</u>

Note 1: See Exhibit No. 107 Schedule 1 page 1 column (3)

National Fuel Gas Distribution Corporation
Pennsylvania Division
Statement of Projected Income Taxes at Present and Proposed Rates
Twelve Months Ending January 31, 2007

		\$000				
		Note 1 (1)	(2)	(3)	(4)	(5)
		Adjusted Twelve Months Ending January 31, 2007	Adjustments under Present Rates	Adjusted Twelve Months Ending January 31, 2007	Adjustments under Proposed Rates	Adjusted Twelve Months Ending January 31, 2007
Operating Income before Income Taxes		\$15,677	\$10	\$15,687	\$24,778	\$40,465
Adjustments						
	Interest Expense	9,413	(64)	9,349	0	9,349
	Meals/Entertainment Adjustment (TRA-86)	(31)	0	(31)	0	(31)
	Additional Depreciation - State	4,838	0	4,838	0	4,838
	Other	0	0	0	0	0
Total Adjustments		14,220	(64)	14,156	0	14,156
Income Subject to Pennsylvania State Income Tax		1,457	74	1,531	24,778	26,309
Pennsylvania Income Tax		146	7	153	2,475	2,628
Income before Federal Income Tax		1,311	67	1,378	22,303	23,681
Adjustments						
	Additional Depreciation - Federal	(901)	0	(901)	0	(901)
	Other	0	0	0	0	0
Total Adjustments		(901)	0	(901)	0	(901)
Income Subject to Federal Income Tax		2,212	67	2,279	22,303	24,582
Federal Income Taxes		\$774	\$24	\$798	\$7,806	\$8,604
Additional Depreciation Calculation						
State Calculation						
	Tax Depreciation	16,751		16,751		16,751
	Rate Case Depreciation	11,913		11,913		11,913
	Additional Depreciation	4,838		4,838		4,838
Federal Calculation						
	Tax Depreciation	15,850		15,850		15,850
	Rate Case Depreciation	11,913		11,913		11,913
	Additional Depreciation	3,937		3,937		3,937
	Incremental above State	(901)		(901)		(901)
Interest Deduction Calculation						
	Rate Base	296,951		294,007		294,007
	Debt Rate	3.17%		3.18%		3.18%
	Total Interest Expense	9,413		9,349		9,349

Note 1: See Exhibit No. 107 Schedule 1 page 2 column (3)

National Fuel Gas Distribution Corporation
Pennsylvania Division
Statement of Projected Rate Base at Present Rates
Twelve Months Ending January 31, 2007

	Note 1 (1) Adjusted Twelve Months Ending January 31, 2007	(2) Adjustments	(3) Adjusted Twelve Months Ending January 31, 2007
Gas Plant in Service	431,372,823	0	431,372,823
Construction Work In Progress	5,330,925	0	5,330,925
Customer Advances For Construction	(135,033)	0	(135,033)
Subtotal	<u>436,568,715</u>	<u>0</u>	<u>436,568,715</u>
Reserve For Depreciation	(147,657,254)	0	(147,657,254)
Net Plant	<u>288,911,461</u>	<u>0</u>	<u>288,911,461</u>
Working Capital			
Cash Allowance	40,372,000	(2,633,000)	37,739,000
Gas Storage Inventory	10,517,109	0	10,517,109
Prepayments	630,619	0	630,619
Materials and Supplies	1,135,528	0	1,135,528
Total Working Capital	<u>52,655,256</u>	<u>(2,633,000)</u>	<u>50,022,256</u>
Deferred Income Taxes			
Investment Tax Credit	(1,869,449)	0	(1,869,449)
Liberalized Depreciation	(40,939,447)	0	(40,939,447)
Total Deferred Income Taxes	<u>(42,808,896)</u>	<u>0</u>	<u>(42,808,896)</u>
Customer Deposits	<u>(3,174,247)</u>	<u>0</u>	<u>(3,174,247)</u>
Total Rate Base	<u>\$295,583,574</u>	<u>(\$2,633,000)</u>	<u>\$292,950,574</u>
Pipeline Integrity Expenditures			
Transmission Pipelines	125,000		125,000
Distribution Pipelines	828,611		828,611
Total Estimated Pipeline Integrity Expenditures	<u>953,611</u>		<u>953,611</u>
FERC 2004 Compliance	313,600		0
Kaylor Gas	<u>100,000</u>		<u>100,000</u>
Total Rate Base	<u>\$296,950,785</u>		<u>\$294,004,185</u>

Note 1: See Exhibit 108 Schedule 1 Page 1

National Fuel Gas Distribution Corporation
Pennsylvania Division
Capital Structure
Twelve Months Ending January 31, 2007

Capital Mix	<u>Capital Structure Ratios</u>	<u>Cost Rates</u>	<u>Weighted Rate</u>
Long Term Debt	40.04%	6.64%	2.66%
Short Term Debt	8.46%	6.18%	0.52%
Common Equity	<u>51.50%</u>	12.25%	<u>6.31%</u>
	100.00%		9.49%

National Fuel Gas Distribution Corporation
 Pennsylvania Division
 Statement of Revenue Requirement
 Twelve Months Ending January 31, 2007

Company Rebuttal Rate Base		\$294,004
Rate Of Return		<u>9.49%</u>
Required Utility Operating Income / (Loss)		\$27,901
Projected Utility Operating Income / (Loss)		<u>\$13,404</u>
Required Net Revenue Increase / (Decrease)		\$14,497
Required Gross Revenue Increase / (Decrease)	0.573427	\$25,281
<u>Deductions:</u>		
Uncollectibles	1.9892%	503
SIT	9.9900%	2,475
FIT	35.0000%	<u>7,806</u>
Total Deductions		<u>10,784</u>
<u>Retention Factor</u>		100.0000
Uncollectibles		<u>1.9892</u>
		98.0108
SIT Reciprocal		<u>0.9001</u>
		88.2195
FIT Reciprocal		<u>0.6500</u>
		<u><u>57.3427</u></u>

National Fuel Gas Distribution Corporation
 Pennsylvania Division
 Operations and Maintenance Expense - Labor

	OTS-RE-1 <u>Payroll Not Subject To Increase</u>	<u>Calculation of 2 year Average</u>			<u>Filed For</u>	<u>OTS Position</u>
		2.93%	3.13%	2.63%		
		<u>2005</u>	<u>2006</u>	<u>2007</u>		
2004	362,523					
2005	267,663	267,663	276,041	283,301		
2006	<u>476,900</u>		476,900	489,442		
	1,107,086			386,372	476,900	369,029
	<u>OTS-RE-139 Perm Part Time</u>					
2004	195,097					
2005	205,238	205,238	211,662	217,229		
2006	<u>178,594</u>		178,594	183,291		
	578,929			200,260	188,093	188,093
	<u>OTS-RE-140 Summer</u>					
2004	70,414					
2005	71,478	71,478	73,715	75,654		
2006	<u>66,140</u>		66,140	67,879		
	208,032			71,767	69,136	69,136
	<u>OTS-RE-141 Over Time</u>					
2004	523,549					
2005	639,353	639,353	659,365	676,706		
2006	<u>556,513</u>		556,513	571,149		
	1,719,415			623,928	581,720	581,720
Total Gross				1,282,326	1,315,849	1,207,978
Total O&M		77.00%		987,391	1,013,204	930,143
Difference between Filed For and OTS					<u>(83,061)</u>	
Difference between Filed For and 2 year average				<u>(25,813)</u>		

National Fuel Gas Distribution Corporation
 Pennsylvania Division
 Operations and Maintenance Expense Adjustments to Benefits

Group Life Insurance
 Twelve Months Ending January 2007

Term Insurance Rate Note 1	\$0.161	
Term Insurance Volume (Calculation below)	<u>24,167</u>	\$3,891
AD & D Insurance Rate Note 1	\$0.025	
AD & D Insurance Volume (Calculation below)	<u>24,167</u>	604
Blanket Travel - Per Month		<u>339</u>
Total Monthly Gross Premium		\$4,834
Gross Normalized Group Life Insurance Annualized (x 12)		<u>\$58,008</u>
Amount to be charged to Operations and Maintenance Expense	77.00%	<u>\$44,666</u>
Officer Life Insurance		<u>\$20,546</u>
Total Group Life Insurance		<u>\$65,212</u>
less:		
FILED FOR Exhibit No. 104 Schedule 2 page 9		<u>66,025</u>
Rebuttal Adjustment		<u>(\$813)</u>

Volume Calculation

Management: (2 x \$6,095,795) / 1,000	12,192	
Union: (\$50,000 x Union)/1,000	11,500	
Supplementals (\$25,000 x Supplementals)/1,000	<u>475</u> changed	
	24,167	
Management =	83	
Union (excludes Supplementals) =	<u>230</u>	
	313	
Supplementals	<u>19</u>	
	332	
Permanent Part Time	<u>11</u>	
Total	343	

Note 1: Rates rate effective through May 31, 2006. This will be updated when known.

Exhibit No. 202
Schedule 2
Witness: Friedrich-Alf
Page 3

Exhibit No. 104
Schedule 2 (Benefits)
Witness: Friedrich-Alf
Page 11

National Fuel Gas Distribution Corporation
Pennsylvania Division
Operations and Maintenance Expense Adjustments to Benefits

401(K) Plan Company Payment
Twelve Months Ending January 2007

Company Payment -

401(K) Gross Union Annualized		296,750
401(K) Gross Supervisory Annualized		<u>309,689</u>
Gross Normalized 401(K) Cost		606,439
Amount to be charged to Operations and Maintenance Expense	77.00%	<u><u>\$466,958</u></u>
less: FILED FOR Exhibit No. 104 Schedule 2 page 11		<u>466,411</u>
Rebuttal Adjustment		<u><u>\$547</u></u>

National Fuel Gas Company
 Estimated Net Periodic Benefit Cost
 Retiree Medical Plan
 Rate of Return of Assets = 8.25%
 Discount Rate = 5.00%

(in \$millions)

ACTUARIAL ASSUMPTIONS Discount Rate	2005-2006			2006-2007		
	RP2000 proj. 5.00%			RP2000 proj. 5.00%		
	NY	Penn	Supply	NY	Penn	Supply
Beginning of Period:						
Accumulated Projected Benefit Obligation	325,592,678	94,667,069	121,626,930	333,763,660	97,924,406	124,385,611
Assets	186,186,261	37,204,465	48,245,100	209,536,460	46,429,209	51,919,763
Service Cost	4,517,782	1,675,194	1,702,683	4,743,671	1,758,954	1,787,817
Interest Cost	15,971,672	4,656,495	5,958,777	16,349,425	4,811,676	6,084,454
Expected Return on Assets	(15,363,381)	(3,098,554)	(3,840,555)	(17,401,205)	(3,960,199)	(4,149,511)
Amortizations:						
Transition Asset	4,001,816	1,270,215	1,833,011	4,001,816	1,270,215	1,833,011
Prior Service Cost	31,486	(39,200)	10,403	31,486	(39,200)	10,403
(Gains) and Losses	15,503,889	3,435,110	4,297,456	13,972,677	3,022,284	3,795,444
FAS 106 Expense	24,663,264	7,899,260	9,961,775	21,697,870	6,863,730	9,361,619

National Fuel Gas Distribution Corporation
Pennsylvania Division
Operations and Maintenance Expense Adjustments to Benefits

Other Benefits Charged to Pennsylvania Division
Twelve Months Ending January 2007

New York Division Labor Charges	\$3,551,255	
Benefits Loading Factor	<u>98.30%</u>	
Benefits from New York Division		\$3,490,884
Supply Corporation Labor Charges	1,315,324	
Benefits Loading Factor	<u>125.35%</u>	
Benefits from Supply Corporation		<u>1,648,759</u>
Total Annualized Other Benefits Charged to Pennsylvania		<u><u>\$5,139,643</u></u>
less:		
FILED FOR Exhibit No. 104 Schedule 2 page 16		<u>4,660,207</u>
Rebuttal Adjustment		<u><u>\$479,436</u></u>
Joint State Agencies position Docket No. RP06-298-000		
OPEB allowance 1995 base case	4,750,612	JSA complaint page 23
Regulatory Asset in 2003	2,255,238	Exhibit JSA-4 page 1
Regulatory Asset in 2004	5,276,716	Exhibit JSA-4 page 1
Regulatory Asset in 2005	6,992,485	Exhibit JSA-4 page 1
Current Mercer Calculated number for Supply Corp.	9,361,619	Exhibit No. 202 Schedule 2
2005 Regulatory Asset amortized over 4 years (assumed)	<u>1,748,121</u>	
Total Supply Corporation OPEB assumed to be included in Supply Corporation loading factor	<u><u>\$11,109,740</u></u>	

Budget Item Distribution Co.	Adjustments			Annualized TME 1/31/07		
	Specific	6.50%	Other 2.63%	NYD	PAD	Total Distribution
Labor	\$0.00		(1)	\$0.00	\$0.00	\$0.00
Material		0.00		0.00	0.00	0.00
Rents		0.00		0.00	0.00	0.00
Transportation		0.00		0.00	0.00	0.00
Utilities		0.00		0.00	0.00	0.00
Outside Services		11,974.40		468,141.94	0.00	468,141.94
Equipment Rentals		0.00		0.00	0.00	0.00
Employee Benefits	0.00		(2)	0.00	0.00	0.00
Office Employee Expense		9,843.65		384,839.90	0.00	384,839.90
Advertising		0.00		0.00	0.00	0.00
Dues		0.00		0.00	0.00	0.00
Other Expense (excl. p. 2932)				(1,238.63)	0.00	(1,238.63)
Postage		185,472.92		3,038,902.52	0.00	3,038,902.52
ISD		0.00		0.00	0.00	0.00
Labor L&B - Distribution	0.00		(1)	0.00	0.00	0.00
Gas Transportation		0.00		0.00	0.00	0.00
Acct Adj. & Accruals		0.00		0.00	0.00	0.00
Total Accounts 184240 / 184245	<u>\$0.00</u>	<u>\$207,259.34</u>		<u>\$3,890,647.73</u>	<u>\$0.00</u>	<u>\$3,890,647.73</u>
Charges Distributed						
146000 Accounts Receivable	\$0.00			\$0.00	\$0.00	\$0.00
163000 Stores Expense	0.00			0.00	0.00	0.00
184000 Construction Equipment Clearing	0.00			0.00	0.00	0.00
184140 Info. Services Clearing	0.00			0.00	0.00	0.00
184240 Customer Billing Clearing	(48,569.38)			(874,570.27)	0.00	(874,570.27)
184245 Customer Postage Clearing	(160,869.96)			(3,016,077.48)	0.00	(3,016,077.46)
184270 Gas Control Clearing	0.00			0.00	0.00	0.00
184400 Telephones Clearing	0.00			0.00	0.00	0.00
184280 Gas Planning Clearing	0.00			0.00	0.00	0.00
184300 Messenger Expense Clearing	0.00			0.00	0.00	0.00
188000 Misc. Deferred Debits	0.00			0.00	0.00	0.00
232100 Vouchers Payable	0.00			0.00	0.00	0.00
234000 Accounts Payable Assoc. Companies	0.00			0.00	0.00	0.00
Subtotal P.2932	<u>(207,259.34)</u>			<u>(3,890,647.73)</u>	<u>0.00</u>	<u>(3,890,647.73)</u>
401300 Oper - Other Gas Supply Expense	0.00			0.00	0.00	0.00
401500 Oper - Transmission Expenses	0.00			0.00	0.00	0.00
401800 Oper - Distribution Expenses	0.00			0.00	0.00	0.00
401700 Oper - Customer Account Expenses	207,259.34		(3),(4)	2,762,359.89	1,128,287.84	3,890,647.73
401800 Oper - Customer Service & Info Expenses	0.00			0.00	0.00	0.00
401900 Oper - Administrative & General Expenses	0.00			0.00	0.00	0.00
Subtotal P.2932 Expense	<u>207,259.34</u>			<u>2,762,359.89</u>	<u>1,128,287.84</u>	<u>3,890,647.73</u>
Total P. 2932	<u>\$0.00</u>			<u>(\$1,128,287.84)</u>	<u>\$1,128,287.84</u>	<u>\$0.00</u>
Clearing P. 2932	<u>(\$207,259.34)</u>			<u>(\$3,890,647.73)</u>	<u>\$0.00</u>	<u>(\$3,890,647.73)</u>
(Over)/Under Clearing	<u>\$0.00</u>			<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>

- (1) NYD Labor x effective labor increase of 2.58%
 PAD Labor x effective labor increase of 2.69%
 SUP Labor x effective labor increase of 2.5%
- (2) Calculation is NYD Labor x NYD Labor loading factor of 98.3%
 Calculation is PAD Labor x PAD Labor loading factor of 123.7%
 Calculation is SUP Labor x SUP Labor loading factor of 88.9%
- (3) The Total Clearing Account x 71% - the New York Allocation.
- (4) The Total Clearing Account x 29% - the Pennsylvania Allocation.

Filed For Exhibit NO. 104 Schedule 2 page 26
 Rebuttal Adjustment

1,131,139.89
 (2,852.05)

National Fuel Gas Distribution Corporation
 Pennsylvania Division
 Adjustment to Pennsylvania Public Utility Commission Assessment
 Twelve Months Ending January 31, 2007

<u>Assessment Period</u>	<u>Initial Assessment</u>	<u>Revisions</u>	<u>Total Assessment</u>	<u>Annual % Change</u>	<u>Cum. % Change</u>
July 2004 - June 2005	\$758,376	\$0	\$758,376		
July 2005 - June 2006	\$912,579	\$27,879	\$940,458	24.01%	24.01%
July 2006 - June 2007	\$999,706	\$0	\$999,706	6.30%	31.82%
Average Increase 2005 - 2007				15.16%	

Calculation of Future Test Year Assessment

July 2006 - June 2007 Assessment	\$999,706
Average Increase 2005 - 2007	15.16%
Projected Assessment July 2007 - June 2008	<u>\$1,151,211</u>
less:	
FILED FOR Exhibit No. 104 Schedule 2 page 21	<u>\$1,166,262</u>
Rebuttal Adjustment	(\$15,051)

National Fuel Gas Distribution Corporation
 Pennsylvania Division
 Summary of Account 551500 Reconnection Charge
 Actual through January 2006

	Actual dollars booked					Calculated Number of Calls					Forecasted \$	
	FY 2003	FY 2004	FY 2005	FY 2006	2003 - 2005 Average	FY 2003	FY 2004	FY 2005	FY 2006	2003 - 2005 Average	Feb. 2006 - Sept. 2006	Oct. 2006 - Jan. 2007
October	\$14,816	\$16,480	38,778	82,179	\$23,358	463	515	562	1,191	513		\$35,397
November	15,424	13,216	40,365	61,518	23,002	482	413	585	1,061	493		\$34,017
December	4,704	5,536	16,284	18,888	8,841	147	173	236	378	185		\$12,765
January	1,120	3,047	2,967	2,419	2,378	35	44	43	48	41		\$2,829
February	608	1,311	1,863	0	1,261	19	19	27	0	22	\$1,100	
March	384	483	1,104	0	657	12	7	16	0	12	\$600	
April	8,064	18,078	81,489	0	35,877	252	262	1,181	0	565	\$38,985	
May	6,752	18,078	91,701	0	38,844	211	262	1,329	0	601	\$41,469	
June	7,232	20,217	69,828	0	32,426	226	293	1,012	0	510	\$35,190	
July	8,416	20,355	58,512	0	29,094	263	295	848	0	469	\$32,361	
August	8,064	21,252	66,309	0	31,875	252	308	961	0	507	\$34,983	
September	8,608	23,460	64,239	0	32,102	269	340	931	0	513	\$35,397	
Total	\$84,192	\$161,513	\$533,439	\$165,004	\$259,715	2,631	2,931	7,731	2,678	4,431	\$220,085	\$85,008
Charge	\$32.00	\$32.00										\$305,093
eff. 1/15/2004		\$69.00	\$69.00	\$69.00							\$69.00	
effective 11/17/2005 - 3/31/2006				\$50.00							\$50.00	

Act 201 implementation plan filed April 15, 2005

Tariff waiver (decrease in charge) effective November 17, 2005 through March 31, 2006.

November 2005 Calculated Number of Calls = 1/2 at \$69 and 1/2 at \$50.

Schedule 2 (Reconnection Charge)

Witness: Friedrich-AIF

Page 29

Exhibit No. 104

Witness: Friedrich-AIF
Page 9

Exhibit No. 202
Schedule 2

RADIO

Client: 60610 NERTHLINGS HEATING & AIR COND.
For: Nerthling's Heating & AC 60 seconds
Begin: 5/29/06 End: 6/4/06
\$1100 Rebate

How would you like to have a lower cooling and heating bill and be able to put eleven hundred dollars in your pocket? Well you can, just by adding a complete Carrier System to your home from Nerthling's Heating and Air Conditioning. Call Nerthling's today to find out about the qualifying products that can earn you this Cool Cash \$1100 rebate. But you have to hurry, an offer like this won't last long. Carrier's air conditioners and high efficiency gas furnaces can keep your home within 1 degree of perfect comfort and can drastically reduce the cost of your heating and cooling bills. You'll love the low operating cost of natural gas and the comfort of natural gas heating. Natural gas is your most energy efficient choice. Don't miss this \$1100 rebate Cool Cash promotion going on now at Nerthling's Heating and Air Conditioning...to get more details, call Nerthling's today at 838-3-6-0-0, that's 8-3-8-thirty-six hundred. Turn to the experts at Carrier and Nerthling's Heating and Air Conditioning, Erie's only Carrier Factory Authorized Dealer.

(Jingle Out)

This announcement was broadcast 14 times, as entered in the station's program log. The times this announcement was broadcast were billed to the advertiser on the station's invoice number 7701 dated 6/25/06 at the following rates:

\$15.00	each for	9 announcements,	for a total of	\$135.00
\$15.00	each for	2 announcements,	for a total of	\$30.00
\$0.00	each for	3 announcements,	for a total of	\$0.00
For a total of		14 announcements and a total of		\$165.00

Ronald K. Raymond
Signature of station official Ronald K. Raymond
General Manager

WCTL
6/25/06

Commonwealth of Pennsylvania
NOTARIAL SEAL
JOYCE M. HAMMOND, Notary Public
City of Corry, Erie County
My Commission Expires Sept. 12, 2009

Joyce M. Hammond

NEWSPAPER
North East News Journal

GREGORY & LAND
PLUMBING, HEATING & AIR CONDITIONING
 Locally Owned: Patrick S. Gregory, Master Plumber
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**Call Today
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Exhibit No. 202
Schedule 3
Witness: Friedrich-Alf
Page 1

Exhibit No. 106
Schedule 1
Witness: Friedrich-Alf
Page 4

National Fuel Gas Distribution Corporation
Pennsylvania Division
Taxes Other Than Income Taxes
Pennsylvania Public Utility Realty Tax
and Capital Stock Tax
Twelve Months Ending January 2007

Public Utility Realty Tax

State Taxable Value at December 31, 2005	\$3,179,700	
Utility Realty Tax Rate	<u>2.82254%</u>	
Utility Realty Tax Liability		\$89,748

Capital Stock Tax Liability

Value of Capital Stock (2005 Return)		
Allocating Percentage (2005 Return)		
Taxable Value allocated to Pennsylvania	<u>139,671,386</u>	As per STA filing effective
Tax Rate - 2006	<u>0.489%</u>	9/28/2006.
Capital Stock Tax Liability		<u>\$682,993</u>
FILED FOR Exhibit No. 106 Schedule 1 Page 4		<u>721,762</u>
Rebuttal Adjustment		(\$38,769)



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PUC Increased Penelec Settlement Concerning Terminations in Hastings, Erie, Directs Money to Help Low-Income Customers

December 15, 2005

HARRISBURG – The Pennsylvania Public Utility Commission (PUC) today increased the amount Pennsylvania Electric Company (Penelec) will pay to help low-income customers in order to settle an informal investigation into the company's termination practices.

"The public interest would be better served if the proposed \$250,000 civil penalty were instead directed to be a contribution to the Dollar Energy Fund," said Commissioner Bill Shane. "I also believe a real difference exists between a civil penalty and a contribution that warrants a higher contribution amount." ([Motion by Commissioner Shane](#))

Commission Chairman Wendell F. Holland added, "With today's action, this Commission sends a clear and powerful message to not only Penelec and its parent company FirstEnergy, but to all utility companies that this Commission is watching and will not tolerate illegal terminations," said Commission Chairman Wendell Holland. "Utility companies will have to answer for the manner in which they terminate service to customers. And we expect the answer to be that the exact letter of the law was followed if a customer's utility service must be terminated."

The Commission voted 3-2 to approve a \$250,000 contribution by the company to be paid to the Dollar Energy Fund. It also increased the settlement by \$100,000 with that money being directed to the Penelec Customer Assistance Program (CAP).

"By unilaterally increasing the amount of the contribution in a final order, without giving the parties advance notice and an opportunity to be heard, the Commission has deprived the parties of due process," said Commissioner Terrance Fitzpatrick in his [dissent](#).

The Dollar Energy Fund is a non-profit organization that provides financial assistance to customers who are on a low or fixed income. CAP programs are established between the utility company and a customer to allow low-income, payment-troubled customers to pay their utility bills. Qualification in the CAP program is based on household size and gross household income.

The Settlement Agreement, reached between the PUC's independent Prosecutory Staff and Penelec in October, followed informal investigations into the utility's termination practices that preceded a fatal fire in Hastings, Cambria County, and injuries in an Erie fire. In the settlement, Penelec also agreed to implement changes in its business practices, particularly those related to service terminations. Many of these changes have already been implemented.

According to the PUC's Prosecutory Staff's Statement of Support of the Settlement Agreement, Penelec violated provisions of the Public Utility Code and Commission regulations in terminating electric service. Penelec denies those assertions.

The informal investigations centered on the May 11, 2005, termination of electric service at 334 Miller St. in Hastings and the June 27, 2005, termination of electric service at 328 E. 5th St., Erie. Following the termination in Hastings, fatalities resulted from a fire on May 14, 2005, which according to media reports was caused by an unattended candle. Following the termination in Erie, a July 3, 2005, fire led to injuries to two children. According to police reports, the fire was caused by an overloaded extension cord running from another apartment.

In addition to the financial settlement, Penelec has agreed to improve the following:

- Referrals to the CAP;
- Explanations of medical certification information provided on calls concerning termination notices;
- Procedures for making payment agreements and referrals to budget billing;
- Recognition of disputes and relaying rights to consumers;
- Length of payment agreements for reconnection of service; and
- Practices for reconnection upon receipt of a valid medical certification.

The Pennsylvania Public Utility Commission ensures safe, reliable and reasonably priced electric, natural gas, water, telephone and transportation service for Pennsylvania consumers, by regulating public utilities and by serving as responsible stewards of competition. For recent news releases, or more information about the PUC, visit our Internet homepage at www.puc.state.pa.us.

#

Docket No. M-00051906

Contact: Jennifer Kocher

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National Fuel Gas Distribution Corporation
Rebuttal Testimony of Regina Truitt

1 Q. Please state your name and business address.

2 A. My name is Regina Truitt. My business address is 6363 Main Street,
3 Williamsville, New York 14221.

4 Q. By whom are you employed and in what capacity?

5 A. I am employed by National Fuel Gas Distribution Corporation
6 ("Distribution") as a Senior Manager in the Rates and Regulatory Affairs
7 Department.

8 Q. Did you submit previous direct testimony in this proceeding?

9 A. Yes, I submitted Statement No. 105, which related to the calculation of
10 the revenues for the twelve months ending January 31, 2007, the
11 calculation of the Company's cash working capital requirement ("CWC"),
12 and the Cost of Service Studies that were performed under both present
13 and proposed rates.

14 Q. What is the purpose of your rebuttal testimony?

15 A. My rebuttal testimony will analyze the various theories and adjustments
16 proffered by Office of Trial Staff ("OTS") witness Joseph Kubas, OTS
17 witness Janet M. Markovich, Office of Consumer Advocate ("OCA")
18 witness Richard A. Galligan, OCA witness Lafayette K. Morgan, Jr., and
19 the Office of Small Business Advocate ("OSBA") witness Robert D.
20 Knecht in this case and present the Company's positions.

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Regina Truitt

1 Q. Ms. Markovich has made several adjustments to your proposed cash
2 working capital. Do you agree with these adjustments?

3 A. Not entirely.

4 Q. Please describe Ms. Markovich's adjustment to the Pension component
5 of the cash working capital.

6 A. Ms. Markovich has removed the amortization of the pension expense,
7 which was previously allowed in R-00038168 and R-00049656. She
8 then purportedly calculated the lag based upon payments compared to
9 the plan year associated with each payment.

10 Q. What was the reason for the removal of the amortization?

11 A. Ms. Markovich believes that the inclusion of the amortization in the
12 CWC, which is part of a Company's rate base upon which the Company
13 earns a rate of return, would allow the Company to earn a return on
14 these funds. She believes that the Commission approved the return of
15 the funds through this amortization not a return on those funds.

16 Q. Do you agree with Ms. Markovich's adjustment to remove the
17 amortization from the total pension expense included in the CWC lag
18 calculation of pension expense?

19 A. No. The amortization amounts approved for recovery in rates, as stated
20 above, represent amounts previously expended by the Company to fund

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Regina Truitt

1 the Company's pension plan. These cash outlays were not included in
2 the rate allowance recovered from ratepayers at the time of the funding.
3 The Commission has approved the recovery of these amounts in the
4 settlement at Docket No. R-00038168 and revised at Docket No. R-
5 00049656.

6 Additionally, the ratepayers have received a benefit from the
7 payment of these funds before recovery was allowed by the
8 Commission. The payment of the funds at the time they were paid, lead
9 to a reduction of funding required in subsequent years as Mr. Bauer
10 describes in his rebuttal testimony. The Commission recognized this
11 benefit and allowed the Company to collect from the ratepayers the
12 dollars funded by the Company. Therefore, the Company expended the
13 dollars for the ratepayers' and the Company's benefit and the
14 Commission should recognize that lag between funding the pension and
15 the receipt of cash from the ratepayer. This is best done by including the
16 amortization in the CWC calculation.

17 Q. Mr. Morgan has also removed the amortization from the calculation of
18 the pension component of CWC with a similar argument. Do you agree
19 with his reliance on the statement shown on lines 1-2 of page 9 of his
20 testimony?

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Regina Truitt

1 A. No, I do not. The statement is "The Commission has consistently held
2 that an expense that is being amortized and included in O&M expense
3 should not be included in rate base." Mr. Morgan also states that the
4 inclusion of the amortization "has the same effect as including the
5 unamortized balance of deferred pension and OPEB costs in rate base."
6 Mr. Morgan is not correct. Including the unamortized balance in rate
7 base would result in a full year's return on the balance as of the end of
8 the future test year. Including the balance in cash working capital allows
9 a return only on the balance for the period of time by which the revenue
10 lag exceeds the expense lag that is far less on average than one year.

11 As I stated in Statement No. 5, page 5, lines 14 through 17 "The
12 amount of cash working capital must be sufficient to cover the lag
13 between payment of expenses by a utility and the receipt of cash from
14 the utility's customers in payment for services furnished." There was a
15 lag in the time between when the pension was funded and when the
16 receipt of cash from the utility's customers. Inclusion of the Pension
17 Cost amortization is meant to recognize that lag.

18 Q. Do you agree with Ms. Markovich's or Mr. Morgan's calculation of lag
19 days for pension expense based on the plan year?

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Regina Truitt

- 1 A. No. Ms. Markovich's calculation includes an incorrect midpoint date for
2 the plan year ended 6/30/2004. The weighted lag of 425.09 days would
3 be correct based on the plan year methodology. Mr. Morgan also
4 incorrectly matched the plan year and the payment date.
- 5 Q. Do you agree the lag of 425.09 days represents the correct pension
6 expense lag?
- 7 A. No. The Company funds pension expense annually. Even though the
8 funding is associated with a plan year, the cash outlay by the Company
9 is on an annual basis. Therefore, the best representation of the
10 Company's need for cash working capital is to reflect the pension
11 funding on an annual basis as shown in Exhibit No. 205, Schedule 1.
- 12 Q. Have you recalculated your pension component to the CWC?
- 13 A. Yes. Exhibit No. 205, Schedule 1 contains my recalculation, which
14 changes my original position of (131.9) days to (46.61) days.
- 15 Q. Mr. Morgan has also removed the amortization from the OPEB CWC
16 component. Do you agree with this adjustment?
- 17 A. No, for the same reasons as presented above with the pension
18 amortization.

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Regina Truitt

1 Q. Ms. Markovich and Mr. Morgan have made adjustments to the Goods
2 and Services component of the CWC. Do you agree with these
3 adjustments?

4 A. While I do not agree with the adjustments as made, I will accept a 30
5 day lag for Goods and Services. The rationale for this acceptance is the
6 idea that the Goods and Services is made up of all the miscellaneous
7 expense that the Company makes, where the service provider provides
8 the service, sends the Company an invoice and the Company then pays
9 the invoice. Generally speaking, 30 days is a reasonable estimate for
10 the lag between the receipt of the service and the payment for the
11 service.

12 Thirty days is also supported by the comparison of different
13 companies CWC for Goods and Services as shown on OTS Exhibit No.
14 2, Schedule 7, Page 13. My comparison would exclude PPL and
15 Equitable as being significantly out of the range of other companies and
16 only counting one entry for the Aqua Company.

TWPhillips	36.97
PG Energy	21.56
Dusquene Light	34.86
Penelec	30.00
MetEd	30.00
Aqua 05	32.20
PA American	24.60
Average	30.03

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Regina Truitt

1 Q. Ms. Markovich has adjusted the Pennsylvania Public Utility Realty Tax
2 (PURTA) component of the CWC from your calculation of (36.53) days
3 to (32.3) days. Do you agree with this adjustment?

4 A. No. The PURTA Tax is an annual payment. Therefore, it doesn't make
5 sense to connect the payments with the tax period. The Company will
6 make a payment on May 1 and a payment on September 15th of every
7 year. Therefore, my calculation is appropriate.

8 Q Have you provided an update of your CWC Exhibit reflecting the
9 Company's position at rebuttal?

10 A. Yes. The update to the CWC is shown on Exhibit No. 205, Schedule 2.

11 Q. Do the witnesses from the OCA and OSBA agree with using
12 Distribution's blended cost of service studies which average the four cost
13 of service studies: Peak and Average with distribution mains allocated
14 as 100% demand related, Peak and Average with a customer
15 component of distribution mains, Peak with distribution mains allocated
16 as 100% demand related, and Peak with a customer component of
17 distribution mains in developing proposed rates in this proceeding?

18 A. In this proceeding the OSBA is using the simple average of the
19 Company's studies corrected for a programming error. For various
20 reasons the witness from the OCA did not agree with Distribution's use

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Regina Truitt

1 of blended cost of service study. Distribution has endeavored to weigh
2 equally the cost of service studies utilized by industry experts.
3 Distribution used all of the studies because they have all received
4 support in varying degrees from participants in Distribution's past rate
5 cases. Of the four studies, three are commonly set forth in textbooks
6 such as the American Gas Association's "Gas Rate Fundamentals." The
7 other study, Peak and Average, has been recognized by this
8 Commission.

9 Q. What study does Mr. Galligan recommend that the Commission rely on
10 to make their cost allocation decisions?

11 A. Mr. Galligan supports a modified Peak and Average allocation for the
12 allocation of costs in the OCA study.

13 Q. Is it appropriate to rely exclusively on the Peak and Average study as Mr.
14 Galligan suggests?

15 A. No. Reliance exclusively upon the Peak and Average study is most
16 adverse to large, high load factor customer classes who use the system
17 most efficiently and is most favorable to small, low load factor customer
18 classes who use the system least efficiently.

19 Exhibit No. 205, Schedule 3 illustrates a distribution main
20 investment of \$100,000 where two customers, both with a peak day

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Regina Truitt

1 consumption of 10,000 Mcf, are allocated the distribution plant
2 investment. As can be seen in this exhibit, a wide range in the customer
3 responsibility depends upon the allocation methodology utilized. Under
4 the Peak Day allocation methodology, both customers would be
5 allocated 50% of the investment since they have identical peak day
6 consumption. Under the Peak and Average methodology, the customer
7 with a 100% load factor (Peak Day = Average Day) would be allocated
8 almost 75% of the distribution mains investment while the low load factor
9 customer would be allocated 25% of the distribution mains investment.
10 Since there are comparable facilities in place to serve these customers
11 (because of peak load requirements), it is not appropriate to rely solely
12 on a Peak and Average methodology. As stated on page 79 of
13 American Gas Association, Gas Engineering and Operating Practices,
14 Volume III, Distribution, Book D-1, System Design, "However, in sizing
15 gas piping, it is only the maximum flow rate or design that is of any
16 practical concern." Based on the above, as well as the restructuring of
17 the natural gas industry, peak cost of service studies, in addition to the
18 Peak and Average, should be used in determining proper class cost
19 recovery. As the gas industry is restructured both by regulatory forces
20 and economic forces, which drive the gas industry toward a competitive

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Regina Truitt

1 market structure, prices must be more cost-based. Otherwise, gas rates
2 will not encourage customers to use distribution systems efficiently and
3 economically. As highlighted previously, the only practical concern in
4 designing the size of a main line is the maximum flow rate. The
5 Company's engineers do not increase or decrease the diameter of pipe
6 or quality of the system installation based on revenue generated from
7 the customer.

8 Q. What is Mr. Galligan's stated reason for preferring the Peak and Average
9 method of allocation?

10 A. Mr. Galligan, at page 16, lines 10-14, states that, "The Peak and
11 Average cost allocation method reasonably balances distribution mains
12 cost associated with the provision of both annual and peak demands.
13 NFGD's distribution mains investment allocation, 50 percent on the basis
14 of peak demand and 50 percent on the basis of annual throughput,
15 reflects this peak and average methodology and is consistent with
16 Commission precedent".

17 Mr. Galligan states on Page 14, lines 16-18:"only a small portion
18 of the total investment in distribution plant is required to meet elevated
19 demands during peak periods compared to gas demands during the rest
20 of the year." I do not agree with this statement. The fact remains that if

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Regina Truitt

1 the pipe size, which dictates the costs of installation, is not sized
2 appropriately customers will not be served on a peak day. If the system
3 were designed only to meet average day needs, which are significantly
4 less than peak day, NFG would not be able to serve the customers on
5 peak day or even on just cold days. Mr. Galligan acknowledges this
6 need to design on peak in his example on page 7, lines 5-8 of his
7 testimony.

8 Mr. Galligan incorrectly relies on the tariff provision for future
9 Company investment for the upgrade or extension of facilities for a firm
10 gas customer. The tariff provision is to prevent a subsidy of uneconomic
11 investment by the current ratepayers. To the extent that the investment
12 is above an amount that would have no subsidy from the current
13 customers, the potential customer must decide to invest in the plant with
14 a contribution in aid of construction. The design of the plant requirement
15 to serve the future customer is based upon the projected maximum
16 requirement of the potential customer – not the amount of revenue
17 generated by the investment.

18 Mr. Galligan also attempts to tie in NFG's rate design proposal to
19 the proper allocation of distribution of mains. He believes that the shift
20 from tailblock to the monthly charge somehow supports the idea that it is

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Regina Truitt

1 important to allocate the distribution mains on average day factors.

2 Once again the cost of the investment is based upon the size of the
3 plant required to meet peak day requirements. Anything less than an
4 investment based on peak day would lead to customers not receiving
5 gas when they need it most.

6 Q. Mr. Galligan takes issue with the use of a customer component in
7 allocating mains. Does he give a reason for his disapproval of allocating
8 mains partially to recognize a customer component?

9 A. He states "mains are not sized for the number of customers served from
10 them, but the loads placed upon them" (pages 6-7). I disagree with his
11 position in that only loads are the determining factor for determining the
12 investment in pipe. Number and type of customers also factor into the
13 decision making process. In sizing a portion of new construction, piping
14 requirements would be different for different configurations of customers
15 and load. In Mr. Galligan's example on Page 7, the pipe requirement for
16 the load of 10 Mcf for a plastics factory might be a 4" pipe whereas the
17 pipe requirement for 5 large residences might be appropriately handled
18 by 2" pipe. This would mean different investment costs for the same
19 load requirement.

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Regina Truitt

1 It is proper to classify a portion of mains as customer related. Mr.
2 Galligan must recognize that there are times when the Company must
3 extend its main line to connect customers. This fact becomes
4 abundantly clear when a new residential development is constructed.
5 For new developments Distribution must construct main lines down the
6 streets of the new development in order to provide services to the
7 multiple homes on such streets.

8 As Mr. Galligan recognized, the Company used two cost variants
9 that extended the minimum system concept into the allocation. The
10 recognition of some customer cost component to distribution mains is
11 reasonable and the cost of service studies sponsored by the Company,
12 which employ such analyses, should not be ignored as a guide to
13 designing customer rates.

14 Q. Mr. Galligan, at page 8 of his testimony, refers to an electric industry
15 example contained on pages 347 and 348 of Principles of Public Utility
16 Rates by professor Bonbright which suggest that there is a "very weak
17 correlation between the area (or the mileage) of a distribution system
18 and the number of customers served by this system". Does Professor
19 Bonbright specifically admonish practitioners against classifying natural
20 gas distribution mains as customer related?

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Regina Truitt

1 A. No, Professor Bonbright does not condemn classifying gas distribution
2 mains as customer related. Professor Bonbright provides an example
3 from the electric industry in order to rebuke cost practitioners for
4 classifying certain distribution-related costs as customer-related only
5 when a weak correlation exists between the number of customers and
6 the distribution cost being classified. Although the correlation between
7 electric secondary distribution system costs and the number of
8 customers may be questioned, a strong correlation exists between the
9 length of gas distribution mains and the number of customers.

10 Q. Is there correlation between distribution mains investment and number of
11 customers?

12 A. Yes. In this proceeding, three bases for allocating demand cost related
13 to distribution mains have been suggested: (1) peak usage, (2) average
14 usage, and (3) the number of customers. The relationship of these three
15 bases to the number of miles of distribution main using national,
16 industry-wide data is examined. As shown on the table in Exhibit No.
17 205, Schedule 4, during the 1960-2001 period there have been steady
18 increases in miles of main and number of customers. Peak usage and
19 annual usage, however, peak during 1972 and 1973, respectively, and
20 generally have remained nearly level since then. Thus, the miles of

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Regina Truitt

1 distribution main have continued to increase despite the minimal
2 changes in both peak and annual usage.

3 It should be emphasized at this point that, despite the strong
4 correlation between numbers of customers and miles of distribution
5 main, Distribution is not proposing that distribution main costs should be
6 allocated exclusively based upon number of customers in each rate
7 class; instead, Distribution contends only that the number of customers
8 should not be completely ignored, as would OCA. It makes sense
9 intuitively that mains must be extended to connect customers, and this
10 obvious fact should not be ignored.

11 Q. You indicated that Mr. Galligan has cited Professor Bonbright's book
12 entitled, Principles of Public Utility Rates in support of his contention that
13 there is no customer component of mains. What is Professor
14 Bonbright's preferred allocation method?

15 A. As set forth in page 504 of the current edition of Professor Bonbright's
16 book, he prefers the pure peak method for allocation of capacity costs.
17 This is one of the methods, which I have used and given weight; Mr.
18 Galligan would reject the peak method, which Professor Bonbright
19 prefers.

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Regina Truitt

1 Q. Does Professor Bonbright have any comments concerning the Peak and
2 Average method, which Mr. Galligan prefers?

3 A. Yes, he does. At page 499, Professor Bonbright states the following
4 with regard to the Peak and Average method:

5 "Whether or not the rates actually charged for such a
6 service should nevertheless attempt to recover parts of the
7 Company's capacity costs because of the value-of-service factors,
8 or else because the widely-held view that even off-peak users and
9 interruptible power users should make some fair contribution to
10 the cost of a plant which confers upon them a benefit, is another
11 question – a question which, while related to that of cost
12 computation, is by no means necessarily tied thereto. Although,
13 sometime ago, the FPC (now FERC) allocated all of the fixed
14 (plant, transmission, etc.) costs to the demand category, in the
15 1952 Atlantic Seaboard case it shifted to fifty percent demand
16 charges and fifty percent commodity charges. In the 1973 United
17 case, the FPC moved to a twenty-five percent demand and
18 seventy-five percent commodity allocation formula. This
19 apportionment continued until the early 1980's, despite protests
20 that it was based upon a shortage situation – which imposed
21 higher costs on high-load industrial users – that was no longer
22 sensible. The split formulae cost apportionments used at various
23 times by the FPC in its life time (1935-1976) in its determination of
24 reasonable rates for natural-gas pipeline companies, are not
25 rational if viewed as attempts at actual cost determinations.
26 These apportionments, based on accounting legerdemain, can be
27 justified, if at all, only on fairness or value-of-service
28 considerations. Unfortunately, during the year such formulae
29 were used, the Commission was bound by provisions of the
30 Natural Gas Act (1938, amended 1942), which compelled it to
31 make arbitrary costs apportionments by restricting its ratemaking
32 jurisdiction to the sale of gas for resale, as distinct from sales
33 made directly to industrial customers."
34

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Regina Truitt

1 This Commission is not similarly restricted in setting rates for all
2 classes of customers. Mr. Galligan's loyalty to Professor Bonbright, and
3 Professor Bonbright's support of Mr. Galligan's proposal to rely solely on
4 the Peak and Average demand allocation method are, at best, spotty.

5 Q. Have other Commissions accepted an allocation of mains based on both
6 demand and customers?

7 A. Yes. I know specifically that the New York Public Service Commission
8 has accepted an allocation of mains to customers and that the method
9 used to allocate was the same as the Company presented in this
10 proceeding.

11 Q. Even though Mr. Galligan does not agree with classifying a portion of
12 mains to customers, he discusses the Company's method of allocation.
13 Mr. Galligan states the Company's calculation procedures equally weight
14 current dollars and dollars spent each and every year on distribution
15 mains over the Company's entire history. He also stated that anomalies
16 in the relationship between pipe size and pipe costs were not addressed
17 as part of the Company's customer cost determination. Do you have
18 any comment on these criticisms of the methodology the Company used
19 to allocate mains?

National Fuel Gas Distribution Corporation
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1 A. The purpose of a cost study is to allocate the costs that were incurred to
2 serve the various classes. The cost for every single investment in pipe is
3 based upon the conditions that are occurring when the investment is
4 made. A large size pipe might be less expensive than a smaller size
5 pipe on an individual basis depending upon the conditions of the soil and
6 site of the construction. Conditions that might make it more expensive
7 would be things like a water crossing, weather conditions, very rocky soil,
8 urban environment, etc. Whereas conditions that might make the
9 construction less expensive would be things like farm land, no water
10 crossings, weather conditions, etc. Therefore there is no need to explain
11 anomalies – the costs are the costs.

12 As far as Mr. Galligan's argument regarding the equal weighting
13 of dollars from various years goes, again the costs are what the costs
14 are. The System of Accounts requires that plant be recorded at original
15 cost. The rates that will be set are based upon an original cost rate
16 base. There is no need to revalue the investment into today's value.

17 Q. Mr. Galligan allocates 31.63% of the rate base and (30.3%) of utility
18 Operating Income to his "Lost Class" on the assumption that the costs
19 incurred were for customers who no longer receive service from National

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Regina Truitt

1 Fuel based on throughput from 1973-1979. Do you agree with this
2 assumption?

3 A. No, I do not. Mr. Galligan allocates utility operating income to "Prior
4 Service Units" as if NFG is actually incurring revenues and expenses on
5 behalf of these customers who aren't there. I am unaware of one dollar
6 of revenue that is currently or projected to be collected from a previous
7 customer, nor am I aware of one dollar of expense that is being spent
8 providing service to previous customers. The amount that is currently
9 being spent and is projected to be spent is to provide service for our
10 current customers who generate annual requirements of 42,560,886
11 Mcf.

12 It is difficult to imagine how Lost Sales could contribute to current
13 operating and maintenance expenses. Current operating and
14 maintenance expenses are incurred to keep gas flowing to existing
15 customers and benefits existing customers directly. It is also difficult to
16 understand why other taxes such as payroll and property taxes should
17 be allocated to the Lost Sales category. A downsizing of distribution
18 facilities is not likely to impact other taxes insignificantly since the total
19 installation cost of a distribution main is not likely to be greatly affected
20 by the reduction in mains diameter by 1 or 2 inches. Since no operating

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Regina Truitt

1 and maintenance expenses or other taxes should be allocated the Lost
2 Sales class, no rational argument can be made to allocate a working
3 capital requirement to the Lost Sales category.

4 Q. How much of rate base should be allocated to "Prior Service Units"?

5 A. None. Mr. Galligan states that the "NFGD system was built with the
6 capability of providing for service requirements that are on the order of
7 75% greater than current requirements." (Page 22, lines 8-9.) Our
8 current system would not be able to meet the 1973-1979 annual
9 requirement of 76,237,000 Mcf. Within the past 25-30 years, the system
10 has been modified by removing meter sets and retiring pipe to properly
11 serve our current customers. It is simply a wrong assumption to believe
12 that our system is the same system that it was during 1973-79.

13 Due to the loss of industrial load on our system we have been
14 downsizing our system over the last several years. A good example in
15 the Erie area is that since International Paper closed we have replaced
16 parts of our main 16" feed to the east side with 12" plastic and we also
17 abandoned two 10" lines that fed the lower east side. Since GE recently
18 added load on the east side we were forced to run two miles of new 12"
19 line to serve the new load. On the west side, the loss of industries like
20 Erie Forge and others around the 12th and Greengarden area allowed

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Regina Truitt

1 us to start downsizing our main 16" feed to the lower west side by
2 inserting it with 12" plastic. Similar downsizing has occurred throughout
3 our system so it is doubtful we could nearly double our peak day
4 capacity.

5 The downsizing of the distribution system occurs routinely.
6 Whenever reduced demand permits it, Distribution replaces old,
7 deteriorated mains with new, smaller mains by inserting the new mains
8 directly into the older mains. This process, referred to as main insertion,
9 is very efficient because the amount of excavation and restoration of
10 streets, sidewalks, etc. is greatly reduced. Further, the old, deteriorated
11 mains, even though they no longer can provide safe and adequate gas
12 service, still provide a measure of protection to the new mains inserted
13 into the old mains.

14 Q. Mr. Knecht corrects a programming error in the C, D, G and H studies for
15 mains/services. Do you accept this correction?

16 A. Yes, I do.

17 Q. Even though Mr. Knecht accepts the Company's Cost of Service
18 Studies, he addresses several concerns regarding the zero-intercept
19 analysis of the Company with his analysis from the Company's last rate
20 proceeding. Do you have any comment?

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Regina Truitt

1 A. The Company addressed all of Mr. Knecht's concerns regarding the
2 zero-intercept analysis in the testimony of Mr. Eric Meini in the Case R-
3 00038168. Mr. Meini's testimony is still valid in this area. It is important
4 to not lose sight that Mr. Knecht would utilize the same studies that the
5 Company does for guidance in designing rates in this proceeding. It
6 adds little to the record in this proceeding to quibble over statistical
7 analyses used to justify various differences in allocations when the end
8 results of those analyses are agreed to as reasonable by both
9 witnesses.

10 Q. Both Mr. Galligan and Mr. Kubas have disagreed with your analysis
11 "Customer Cost Analysis" and has excluded items that you have
12 included in the charge. Do you agree with their analyses?

13 A. No, both Mr. Galligan and Mr. Kubas excluded items that were classified
14 as customer costs in the cost of service study on the grounds that those
15 costs were not "direct" costs. To exclude these costs when setting the
16 customer charge allows an intraclass subsidy to occur. Proposing
17 customer charges below cost, as shown in the various cost of service
18 studies including Mr. Kubas', ignores the fact that residential customer
19 charges below the cost of serving a residential customer will provide a
20 subsidy for lower consuming residential customers at the expense of

National Fuel Gas Distribution Corporation
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1 higher consuming residential customers. Thus, for example, residential
2 customers who use gas only for cooking, heating a hunting cabin or a
3 seasonal vacation home would benefit at the expense of customers who
4 use gas for space heating. Residential customer charges closer to the
5 cost of serving a residential customer will reduce the subsidy.

6 Based on data contained within Exhibit 111, Schedule 4, Page 2,
7 the cost to serve a residential customer is \$26.61 per month. In the last
8 proceeding (R-00049656), the residential customer charge moved from
9 \$11.50 to \$12.00 or 4.3% even though the cost per customer was shown
10 to be \$23.67. The principle of gradualism has kept Distribution's
11 residential customer charge from increasing to the cost of serving that
12 customer.

13 It is to be emphasized that the issue presented here is a matter of
14 equity within the Residential rate class. Irrespective of the residential
15 customer charge increase approved in this proceeding, neither more nor
16 less of Distribution's annual revenue requirement will be allocated to the
17 Residential customer class.

18 When customer charges are priced below cost and commodity
19 charges are price above cost, large customers subsidize smaller
20 customers. In my view, it does not make sense for persons who are

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Regina Truitt

1 heating their home with gas to subsidize low use customers like vacation
2 homes and hunting cabins.

3 Q. How do "indirect" customer costs impact the residential customer
4 charge?

5 A. "Indirect" customer costs are contained within the total customer cost
6 presented in my direct testimony but, according to OTS and OCA, these
7 costs should not be collected through the customer charge. Failure to
8 recover indirect customer costs through the customer charge will result
9 in higher commodity charges.

10 Q. Do you agree with the elements of cost that Mr. Kubas and Mr. Galligan
11 contend are direct customer costs?

12 A. No, I believe that their definition of direct customer costs excludes items
13 that are also direct customer costs.

14 Direct customer costs under my definition would be the items
15 included in Exhibit No. 205, Schedule 5. Exhibit 205, Schedule 5
16 compares the direct customer charge costs for OCA's and OTS'
17 customer charge analysis with an analysis using my definition of direct
18 costs.

19 The customer component of Mains & Services Account 874
20 should be included in the O & M expenses. Account 874 includes the

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Regina Truitt

1 cost of labor, material, and expenses incurred in operating distribution
2 system services as well as mains. The customer component of this cost
3 element specifically related to services, was provided in Distribution's
4 cost of service studies and should have been included.

5 Customer service costs (Accounts 909-913) are also related to
6 serving customers and should be included as customer related costs.

7 These accounts are direct customer costs and should be included
8 in any analysis of the proper customer charge.

9 Taxes Other Than Income related to payroll for customer cost
10 items should also be included as a direct customer cost.

11 Q. Mr. Galligan includes an amount for Pension and Benefits. Do you
12 agree with this inclusion?

13 A. I agree with the theory that the labor included in the direct customer
14 costs should be loaded with the benefits. However, the numbers
15 included in Mr. Galligan's analysis already were loaded with pensions
16 and benefits (See NFG 2-37, Exhibit No. 111, Workpapers, page 45).
17 Therefore this amount should be excluded from Mr. Galligan's analysis.

18 Q. Does this complete your testimony?

19 A. Yes, it does.

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
PENNSYLVANIA DIVISION
PENSION FUNDING
TWELVE MONTHS ENDED JANUARY 2006

<u>Period</u> <u>Beginning</u>	<u>Period</u> <u>End</u>	<u>Mid-Point</u>	<u>Payment</u> <u>Date</u>	<u>Lag</u> <u>Days</u>	<u>Pension</u> <u>Expense</u>	<u>Deferral</u> <u>Amortization</u>	<u>Total</u>	<u>Weighted</u> <u>Total</u>
7/1/2004	6/30/2005	12/30/2004	2/24/2005	56.0	5,162,500	0	5,162,500	289,100,000
7/1/2004	6/30/2005	12/30/2004	3/21/2005	81.0	763,062	0	763,062	61,808,022
4/1/2005	4/30/2005	4/15/2005	10/10/2002	(918.5)	0	13,728	13,728	(12,609,168)
5/1/2005	5/31/2005	5/16/2005	10/10/2002	(949.0)	0	64,210	64,210	(60,935,290)
6/1/2005	6/30/2005	6/15/2005	10/10/2002	(979.5)	0	46,482	46,482	(45,529,119)
7/1/2005	7/31/2005	7/16/2005	10/10/2002	(1,010.0)	0	35,996	35,996	(36,355,960)
8/1/2005	8/31/2005	8/16/2005	10/10/2002	(1,041.0)	0	35,888	35,888	(37,359,408)
9/1/2005	9/30/2005	9/15/2005	10/10/2002	(1,071.5)	0	8,148	8,148	(8,730,582)
9/1/2005	9/30/2005	9/15/2005	2/28/2003	(930.5)	0	31,956	31,956	(29,735,058)
10/1/2005	10/31/2005	10/16/2005	2/28/2003	(961.0)	0	51,671	51,671	(49,655,831)
11/1/2005	11/30/2005	11/15/2005	2/28/2003	(991.5)	0	80,424	80,424	(79,740,396)
12/1/2005	12/31/2005	12/16/2005	2/28/2003	(1,022.0)	0	123,123	123,123	(125,831,706)
1/1/2006	1/31/2006	1/16/2006	2/28/2003	(1,053.0)	0	162,470	162,470	(171,080,910)
					5,925,562	654,096	6,579,658	(306,655,406)
Total Pensior							<u>6,579,658</u>	<u>(306,655,406)</u>
Total Weighted Lead Days for TME 01/31/06								<u>(46.61)</u>

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
PENNSYLVANIA DIVISION

53.53 III BALANCE SHEET AND OPERATING STATEMENT

A. ALL UTILITIES

15. Supply an Exhibit supporting the claim for working capital requirement based on a lead-lag method.
 - a. Pro forma expenses and revenues are to be used in lieu of book data for computing lead-lag days.
 - b. Respondent must either include sales for resale and related expenses in revenues and in expenses or exclude from revenues and expenses. Explain procedure followed.

National Fuel Gas Distribution Corporation submits a claim for working capital requirement, based on the lead/lag method, for the twelve months ended January 31, 2007 in the amount of \$37,739,000.

See Pages 2 through 7 for detailed calculations

A. ALL UTILITIES

16. Provide detailed calculations showing the derivation of the tax liability offset to gross cash working capital requirements

See Page 6 of this exhibit

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
PENNSYLVANIA DIVISION
SUMMARY OF CASH WORKING CAPITAL REQUIREMENT
AT PRESENT RATES
FOR THE YEAR ENDED JANUARY 31, 2007
(\$000)

Cash Working Capital	\$37,744
Less Adjustment for:	
Long-Term Interest Payments	294
Short-Term Interest Payments	<u>(288)</u>
	<u>5</u>
Total Cash Working Capital Requirement	<u>\$37,739</u>

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
 PENNSYLVANIA DIVISION
 ADJUSTMENT TO CASH WORKING CAPITAL FOR
 LONG-TERM DEBT INTEREST PAYMENTS
 FOR THE YEAR ENDED JANUARY 31, 2007
 (\$000)

<u>Line No.</u>			
1	Measure of Value		\$293,922
2	Weighted Cost of Long-Term Debt		
3	(\$293,922 X 2.66%)		\$7,818
4	Daily Interest Expense		
5	(\$7,818 divided by 365)		21.42
6	Days to Mid-Point of Long-Term Interest		
7	Payments	86.16	
8	Less: Revenue Lag	<u>72.45</u>	
9	Net Lag		<u>13.71</u>
10	Adjustment for Long-Term Interest Payments (Line 9 x Line 5)		<u><u>\$294</u></u>

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
PENNSYLVANIA DIVISION
ADJUSTMENT TO CASH WORKING CAPITAL FOR
SHORT-TERM DEBT INTEREST PAYMENTS
FOR THE YEAR ENDED JANUARY 31, 2007
(\$000)

<u>Line No.</u>		
1	Measure of Value	\$293,922
2	Weighted Cost of Short-Term Debt	
3	(\$293,922 X 0.52%)	\$1,528
4	Daily Interest Expense	
5	(\$1528 divided by 365)	4.19
6	Days to Mid-Point of Short-Term Interest	
7	Payments	3.56
8	Less: Revenue Lag	<u>72.45</u>
9	Net Lag	<u>(68.89)</u>
10	Adjustment for Short-Term Interest Payments (Line 9 x Line 5)	<u><u>(\$288)</u></u>

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
PENNSYLVANIA DIVISION
COMPUTATION OF CASH WORKING CAPITAL
FOR OPERATION AND MAINTENANCE EXPENSES
PRO FORMA STATEMENT OF INCOME AT PRESENT RATES
(\$000)

Line No.		Pro Forma January 31, 2007 <u>Present Rates</u>	<u>Days Lag</u>	<u>Weighted Average</u>
1	<u>Operating Revenues:</u>			
2	Sales and Transportation Service Customers	\$424,136	72.45	\$30,728,653
3	Other Revenues	<u>1,789</u>		<u>1,789</u>
4	Total Operating Revenue	<u>\$425,925</u>		<u>\$30,730,442</u>
5	<u>Operating Expenses:</u>			
6	Purchased Gas	<u>\$320,398</u>	<u>40.20</u>	<u>\$12,879,848</u>
7	Weekly Payroll			
	Net	7,555	14.00	105,776
	Federal Withholding	1,115	15.70	17,510
	State Withholding	290	38.45	11,160
	FICA	<u>722</u>	15.70	<u>11,334</u>
	Gross	<u>9,683</u>		<u>145,780</u>
8	Supervisory Payroll			
	Net	3,921	6.82	26,740
	Federal Withholding	549	6.75	3,702
	State Withholding	152	27.88	4,231
	FICA	<u>375</u>	6.76	<u>2,537</u>
	Gross	<u>4,996</u>		<u>37,209</u>
9	Hospitalization	2,687	8.36	22,466
10	Dental	206	(4.36)	(899)
11	Life Insurance	66	29.46	1,945
12	Prescription Drug	717	11.50	8,246
13	OPEB	8,653	30.72	265,785
14	Pension	3,623	(46.61) A	(168,868)
15	Goods and Services	<u>33,456</u>	30.00 B	<u>1,003,680</u>
16	Total Operation and Maintenance Expense	<u>\$384,485</u>		<u>\$14,195,192</u>

A Exhibit No. 205, Schedule 1
B Statement No. 205

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
PENNSYLVANIA DIVISION
COMPUTATION OF CASH WORKING CAPITAL
FOR OPERATION AND MAINTENANCE EXPENSES
PRO FORMA STATEMENT OF INCOME AT PRESENT RATES
(\$000)

<u>Line No.</u>		<u>Pro Forma January 31, 2007 Present Rates</u>	<u>Days Lag</u>	<u>Weighted Average</u>
17	<u>Taxes - Other Than Income</u>			
18	Federal Unemployment Tax	\$15	76.00	\$1,140
19	State Unemployment Tax	49	76.00	3,724
20	FICA	1,061	12.86	13,647
21	Capital Stock Tax	683	53.49	36,533
22	Pennsylvania Property Tax	33	(113.61)	(3,749)
23	Public Utility Realty Tax (PURTA)	90	31.33	2,820
24	All Other	4	33.27	133
		<u>1,935</u>		<u>54,248</u>
25	Total Taxes - Other Than Income			
26	Total Operating Revenue Deductions	<u>386,420</u>		<u>14,249,439</u>
27	Operating Income Before Taxes	<u>39,505</u>		<u>16,481,003</u>
28	Federal Income Taxes	771	37.25	28,720
29	State Income Taxes	145	55.45	8,040
30	Total Expenses	<u>387,336</u>	36.88	<u>14,286,199</u>
31	Net Utility Operating Income Available For Cash Working Capital	<u>\$38,589</u>		<u>\$16,444,243</u>

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
PENNSYLVANIA DIVISION
COMPUTATION OF CASH WORKING CAPITAL
FOR OPERATION AND MAINTENANCE EXPENSES
PRO FORMA STATEMENT OF INCOME AT PRESENT RATES
(\$000)

Line No.		
32	Average Days Lag in Receipt of Revenues	72.45
33	Average Days Lag in Payment of Expenses	<u>36.88</u>
34	Average Days Lag in Days Between Payment of Expenses and Receipt of Revenue	35.57
35	Daily Operating Expenses (Line 30, Page 6 / 365)	<u>\$1,061</u>
36	Cash Working Capital Requirement	<u><u>\$37,743</u></u>
	Reconciliation of Lead/Lag	
37	Operating Income Before Taxes	<u>\$39,505</u>
38	Less: Operation and Maintenance Expenses Excluded from Line 16	
39	Uncollectible Expense	8,437
40	PaPUC Assessment	1,151
41	Prepaid Insurance	569
42	Order 636 Amortization	0
43	Dues	204
44	Customer Deposits	190
45	Miscellaneous	0
46	Total	<u>10,551</u>
47	Less: Non-Cash Items	
48	Depreciation	13,267
49	Amortization	0
50	Take-or-Pay	0
51	Total	<u>13,267</u>
52	Operating Income Before Taxes (Per Exhibit 2)	<u><u>\$15,687</u></u>

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
 PENNSYLVANIA DIVISION
 CASE: R-00061493
 SIMPLIFIED COST OF SERVICE ALLOCATION

Assumptions

Total Distribution Mains: \$100,000
 Customers have comparable facilities to serve them

			<u>Allocation Factors</u>		
	<u>Peak Day</u>	<u>Average Usage</u>	<u>Peak Day</u>	<u>Average Day</u>	<u>Peak & Average</u>
Customer 1:	10,000	10,000	50.00%	99.73%	74.86%
Customer 2:	10,000	27	50.00%	0.27%	25.14%
Total	20,000	10,027	100.00%	100.00%	100.00%

	<u>Allocation Matrix</u>		
	<u>Peak Day</u>	<u>Average Day</u>	<u>Peak & Average</u>
Customer 1:	\$50,000	\$99,727	\$74,863
Customer 2:	50,000	273	25,137
Total	\$100,000	\$100,000	\$100,000

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
 PENNSYLVANIA DIVISION
 CASE R-00061493
 CORRELATION ANALYSIS

TOTAL NATURAL GAS INDUSTRY

SOURCES: AGA 1986 - 2003 GAS FACTS
 AGA 1976-1985 HISTORICAL STATISTICS OF THE GAS UTILITY INDUSTRY

YEAR	MILES OF DISTRIBUTION MAINS (000)	CUSTOMERS (000)	PEAK MONTH SALES (BCF)	ANNUAL THROUGHPUT VOLUMES (BCF)
	GAS FACTS TABLE 5-1		GAS FACTS TABLE 8-1	GAS FACTS TABLES 3-15 & 6-5
1960	391.4	33,053.8	1,078.4	9,281.9
1961	410.4	33,830.5	1,131.8	9,584.0
1962	428.1	34,683.4	1,231.4	10,230.1
1963	448.3	35,551.0	1,255.9	10,762.6
1964	469.8	36,463.3	1,380.6	11,588.1
1965	494.5	37,337.5	1,329.2	12,010.5
1966	519.6	38,228.4	1,355.8	12,856.9
1967	539.2	39,076.5	1,502.8	13,486.2
1968	562.7	39,930.0	1,671.0	14,470.4
1969	578.6	40,854.0	1,784.4	15,389.7
1970	594.8	41,482.1	1,865.8	16,041.9
1971	610.4	42,241.9	1,886.8	16,685.7
1972	623.1	42,954.8	1,908.1	17,082.1
1973	633.8	43,711.2	1,909.4	16,479.9
1974	645.6	44,267.2	1,847.6	16,000.3
1975	648.2	44,554.5	1,709.5	14,862.9
1976	659.1	44,941.4	1,797.5	14,813.5
1977	666.9	45,274.0	1,901.9	14,340.9
1978	677.5	45,788.9	1,834.1	14,748.4
1979	688.5	46,478.3	1,925.1	15,440.4
1980	701.8	47,222.9	1,871.4	15,413.2
1981	714.1	47,947.5	1,957.1	15,374.8
1982	721.2	48,414.9	2,083.2	15,608.3
1983	729.7	48,799.2	1,759.2	14,529.4
1984	736.8	49,324.6	2,113.8	15,632.1
1985	753.4	49,970.7	1,942.2	15,169.9
1986	769.3	50,704.3	1,896.7	14,086.4
1987	783.8	51,575.8	1,781.5	14,530.8
1988	801.3	52,421.5	2,028.2	15,444.7
1989	818.4	53,356.0	1,936.9	16,001.0
1990	864.6	54,261.3	1,768.6	14,150.4
1991	891.4	55,174.0	1,970.2	14,793.1
1992	892.0	56,132.3	1,859.1	15,149.9
1993	951.8	57,027.8	1,884.5	15,162.6
1994	955.6	57,936.3	2,157.2	15,020.3
1995	949.8	58,727.8	1,882.1	14,720.4
1996	1,001.8	60,043.7	N/A	15,173.5 *
1997	1,003.1	61,013.1	N/A	14,980.2 *
1998	1,022.1	61,528.1	N/A	14,804.8 *
1999	1,007.5	60,777.6	N/A	16,044.0 *
2000	1,045.6	61,262.3	N/A	14,840.6 *
2001	1,066.3	61,384.5	N/A	N/A *

(1) * LDC Deliveries to End-Users
 (2) N/A = Not Available

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
PENNSYLVANIA DIVISION
CASE R-00061493
CORRELATION ANALYSIS

REGRESSION: MILES OF MAINS AS A FUNCTION OF CUSTOMERS (1960-2001)

Regression Output:

Constant	(308.4)
Standard Error of the Estimate	15.9985
Adjusted R Squared	0.9931
No. of Observations	42

REGRESSION : MILES OF MAINS AS A FUNCTION OF PEAK MONTH (1960-1995)

Regression Output:

Constant	(80.7)
Standard Error of the Estimate	89.0864
Adjusted R Squared	0.6433
No. of Observations	36

REGRESSION : MILES OF MAINS AS A FUNCTION OF ANNUAL THROUGHPUT (1960-2000)

Regression Output:

Constant	(112.9)
Standard Error of the Estimate	151.1526
Adjusted R Squared	0.3166
No. of Observations	41

The Adjusted R Square Value provides the relative measure of correlation. The closeness of the Adjusted R Squared to a value of 1 implies a very strong association between two variables. As seen from the Adjusted R Squared values above, the association between miles of mains and customers is the strongest of the three variables tested.

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
 PENNSYLVANIA DIVISION
 TWELVE MONTHS ENDING JANUARY 31, 2007
 CUSTOMER COST ANALYSIS BASED ON "DIRECT" COSTS

	NFG Residential <u>Service</u>	OCA Residential <u>Service</u>	OTS Residential <u>Service</u>
<u>Operating & Maintenance Expense</u>			
Accounts 870, 885 Supervision & Engineering	1,504,860		1,504,860
Account 874 Mains & Services	1,357,474		
Accounts 878, 893 Meters & House Regulators	1,721,933	1,721,933	1,721,933
Account 879 Customer Installations	1,031,401		1,031,401
Accounts 887 Services Maintenance	480,625		480,625
Account 901 Supervision	1,009,313		1,009,313
Account 902 Meter Reading	2,368,315	2,368,315	2,368,315
Account 903 Customer Record & Collections	8,337,564	8,337,564	8,337,564
Account 905 Miscellaneous Customer Accounts	453,352		453,352
Customer Service Accounts	6,499,106		
Pension & Benefits		1,456,328	
Total O&M	24,763,943	13,884,140	16,907,363
Depreciation Expense	4,434,528	0	4,009,287
Taxes Other Than Income	368,282	0	0
Return	7,893,774	0	8,365,701
Income Taxes	3,275,916	0	3,471,766
Total Annual Customer Related Cost of Service	40,736,443	13,884,140	32,754,117
Monthly Customer Related Cost of Service	3,394,704	1,157,012	2,729,510
Average Annual Customers	193,982	193,982	193,982
Monthly Customer Related Cost per Customer	\$17.50	\$5.96	\$14.07
	<u>NFG</u>		
Rate Base Customer Plant	138,001,431		
Customer Reserve	(49,755,639)		
Net	88,245,792		
W/C	5,648,941		
Customer Deposits	(390,688)		
DIT	(10,236,390)		
	83,267,655		
Return	0.0948		
	7,893,774		
Taxes	0.415		
	3,275,916		

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Joanne E. Zablonki

1 Q. Please state your name and business address.

2 A. My name is Joanne E. Zablonki. My business address is 6363 Main Street
3 Williamsville, New York 14221.

4 Q. Did you previously submit direct testimony in this proceeding?

5 A. Yes. I submitted Statement Nos. 6 and 106.

6 Q. What is the purpose of your testimony?

7 A. I will respond to OSBA Witness Knecht's analysis of the Test Year
8 Throughput Forecast.

9 Q. What does Mr. Knecht conclude from his analysis of the Test Year
10 Throughput Forecast?

11 A. Mr. Knecht believes that customer usage has not declined, but rather
12 remained constant at the test year level from R-00049656 (twelve months
13 ended May 2005).

14 Q. Is this a reasonable conclusion?

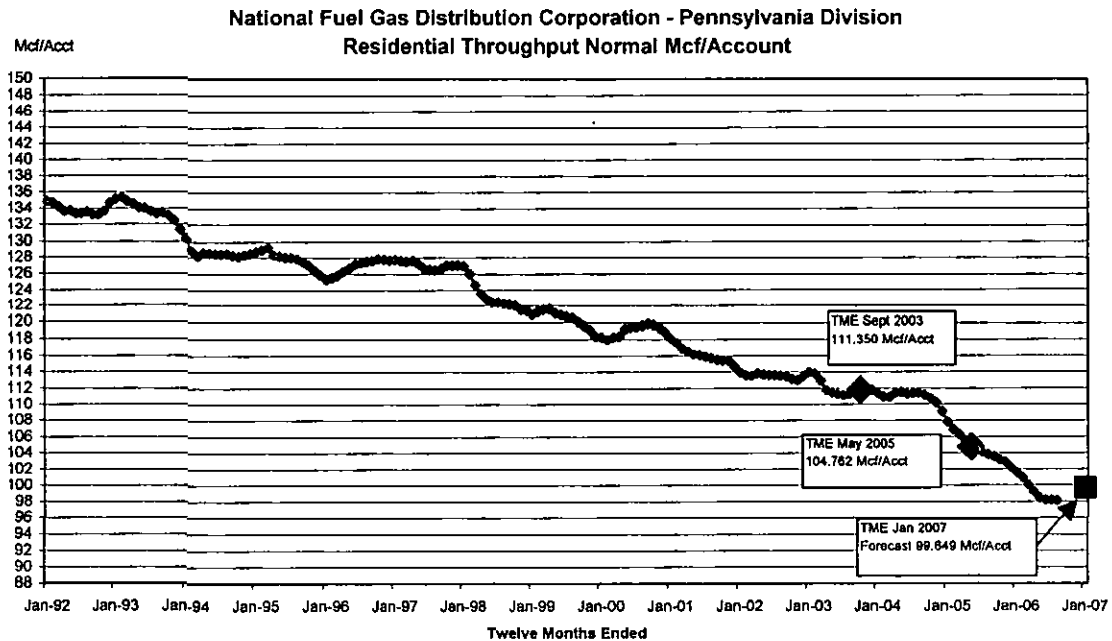
15 A. No, it is not. As shown in the following graph, residential normalized usage
16 has declined and continues to decline. The experienced residential normal
17 Mcf per account for the twelve months ended September 2003 and May
18 2005 are highlighted (future test years from the last two rate cases). In
19 addition, the future test year forecast (twelve months ending Jan 2007) is
20 highlighted on the graph.

21 TME Sept 2003 111.350 normal Mcf per account (experienced)

22 TME May 2005 104.762 normal Mcf per account (experienced)

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Joanne E. Zablonki

1 TME Jan 2007 99.649 normal Mcf per account (projected)



2
3 Q. What is the current level of residential Mcf per account?

4 A. The current level of residential normal Mcf per account is 98.095 for the
5 twelve months ended August 2006. This is 1.554 Mcf per account lower
6 than the future test year projection. It is apparent that residential customers
7 are reacting to high natural gas prices by continued conservation.

8 Q. How do customers react to high natural gas prices such as those
9 experienced as a result of the hurricanes that occurred in the fall of 2005?

10 A. Customers react to high natural gas prices by installing energy conservation
11 measures such as a new furnace, windows and insulation. Those
12 conservation measures cause a permanent reduction to a customer's
13 usage. Customers also react to high natural gas prices by turning back

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Joanne E. Zablonki

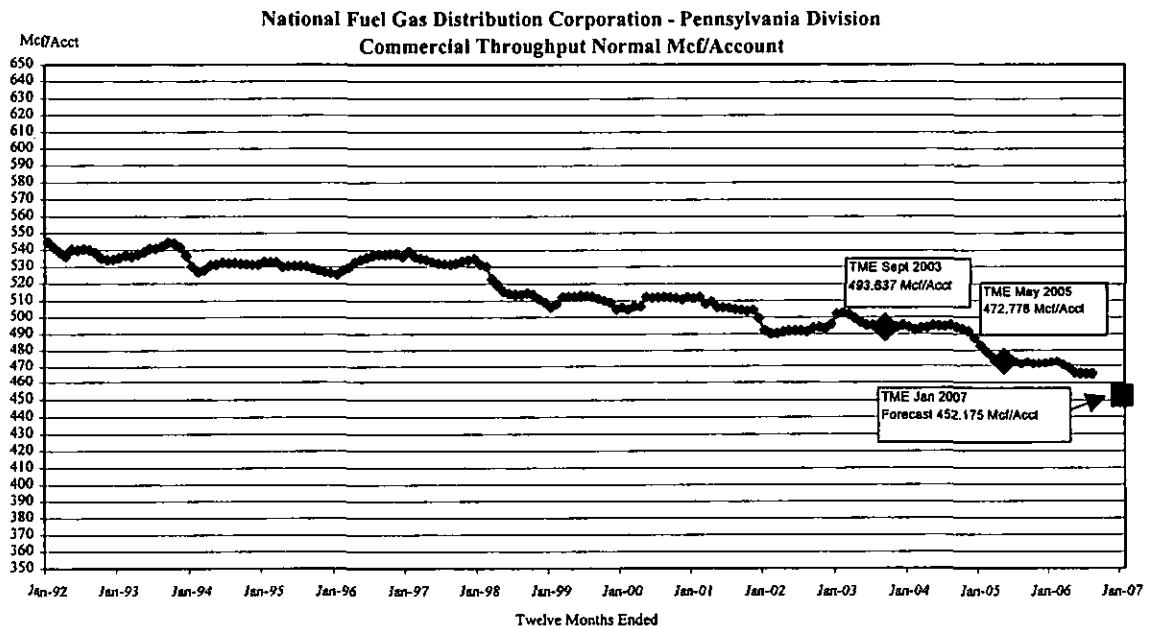
1 their thermostat, whether with a programmable thermostat or a manual
2 thermostat. The results of these measures are not felt immediately,
3 however until the customer experiences the full effect of a heating season.

4 Q. Has the commercial class experienced the same decline?

5 A. Yes. As shown in the following graph, commercial normalized usage has
6 declined and continues to decline. The experienced commercial normal
7 Mcf per account for the twelve months ended September 2003 and May
8 2005 are highlighted (future test years from the last two rate cases). In
9 addition, the future test year forecast (twelve months ending Jan 2007) is
10 highlighted on the graph.

11	TME Sept 2003	493.637 normal Mcf per account (experienced)
12	TME May 2005	472.778 normal Mcf per account (experienced)
13	TME Jan 2007	452.175 normal Mcf per account (projected)

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Joanne E. Zablonki



- 1
2 Q. What is the current level of commercial Mcf per account?
- 3 A. The current level of commercial normal Mcf per account is 465.076 for the
4 twelve months ended August 2006. Although this level is currently greater
5 than the projection, it is expected that commercial customers will continue
6 to react to high natural gas prices and continue to conserve.
- 7 Q. Can you address Mr. Knecht's concern regarding the reduction in the small
8 commercial/public authority class consumption less than 250 Mcf per year
9 (Lower Limit (LL)) from the last base rate case?
- 10 A. Yes. The throughput for the commercial/public authority class as a whole is
11 projected to decrease from the last base rate case by 5%. Further, based
12 on the historic allocations used in to distribute throughput volumes into the
13 Lower Limit, Upper Limit and Large categories, the Lower Limit and Upper
14 Limit categories have experienced a decrease and the Large category has

National Fuel Gas Distribution Corporation
Rebuttal Testimony of Joanne E. Zablonksi

1 experienced an increase. Below is a summary of the throughput allocations
2 between the Company's last base rate case (R-00049656) and the current
3 base rate case (R-00061493).

	R-00061493	R-00049656
4		
5 Small Com/Pub-LL Throughput	10.61%	12.04%
6 Small Com/Pub-UL Throughput	20.30%	20.82%
7 Large Com/Pub Throughput	<u>69.09%</u>	<u>67.14%</u>
8	100.00%	100.00%

9 These percentages are based on experienced usage by the Lower Limit,
10 Upper Limit and Large categories.

11 Q. Does this conclude your testimony?

12 A. Yes, at this time.

1 NATIONAL FUEL GAS DISTRIBUTION CORPORATION

2 REBUTTAL TESTIMONY OF DAVID P. BAUER

3 Q. Please state your name and business address.

4 A. My name is David P. Bauer, and my business address is 6363 Main
5 Street, Williamsville, New York, 14221.

6 Q. Have you previously filed testimony in this proceeding?

7 A. Yes. I have sponsored Statement No. 8 and the associated
8 Exhibits.

9 Q. What is the purpose of your rebuttal testimony?

10 A. I will address concerns expressed in Staff Witness Markovich's
11 testimony regarding other post-retirement benefit ("OPEB")
12 expenses. I will also respond to the deferred OPEB cost
13 amortization periods proposed by Ms. Markovich and Office of
14 Consumer Advocate ("OCA") Witness Morgan and briefly discuss
15 how ratepayers benefit from increased pension funding. Lastly, I
16 will provide an update to the forecast of National Fuel Gas
17 Company's ("National") short-term debt rate and respond to an
18 adjustment contained within Staff Witness Deardorff's proposed
19 hypothetical capital structure.

1 A. Please summarize Ms. Markovich's testimony concerning OPEB's.

2 Q. Ms. Markovich claims National Fuel Gas Distribution Corporation
3 (the "Company") did not consider the impact of the Prescription
4 Drug, Improvement and Modernization Act of 2003 (the "Medicare
5 Act") when developing its revenue requirement in this proceeding
6 and proposes a \$160,000 adjustment to reflect her estimate of the
7 impact of the Medicare Act on the Company's revenue requirement.

8 Q. Do you agree with her conclusion?

9 A. No.

10 Q. Please elaborate.

11 A. The Company determines the OPEB expense component of its
12 revenue requirement using the method of accounting prescribed in
13 Financial Accounting Standards Board ("FASB") Statement of
14 Financial Accounting No. 106, *Employers' Accounting for Post-
15 retirement Benefits Other Than Pensions* ("FAS 106"), which was
16 further interpreted by FASB Staff in FSP FAS 106-2, *Accounting
17 and Disclosure Requirements Related to the Medicare Prescription
18 Drug, Improvement and Modernization Act of 2003* ("FSP FAS 106-
19 2"). Under FSP FAS 106-2 the Company is required to reflect the

1 impact of the Medicare Act subsidy in its accrual-based FAS 106
2 calculations, and the paragraph under the heading "Medicare
3 Reform" on Exhibit 4, Schedule 7, page 43 makes it clear that the
4 Company has in fact done so. The first sentence of that paragraph
5 (which is part of the list of actuarial assumptions that underlie the
6 FAS 106 calculations) states: "The Medicare Prescription Drug,
7 Improvement and Modernization Act of 2003 is reflected assuming
8 National Fuel Gas Co. will continue to provide a post-65
9 prescription drug benefit to retirees that is at least actuarially
10 equivalent to Medicare Part D and that National Fuel Gas Co. will
11 receive the federal subsidy." Those same actuarial assumptions
12 were used to develop the OPEB expense forecast included in
13 Exhibit 104 Schedule 2 (Benefits) Page 14. Therefore, given that
14 the Company has in fact reflected the impact of the Medicare Act
15 subsidy in its revenue requirement, Ms. Markovich's adjustment is
16 without merit.

17 Q. Please summarize the deferred OPEB balance amortization
18 periods proposed by the Company and those proposed by Staff
19 Witness Markovich and OCA Witness Morgan.

1 A. As I described in Statement No. 8, with respect to the deferrals
2 established in prior cases, I recommend continuing the amortization
3 periods approved at Dockets R-00038168 and R-00049656.
4 Further, I recommend an amortization period of one year for the
5 OPEB deferral proposed in R-00061493. Ms. Markovich proposes
6 an amortization period of 18 months for the R-00049656 and R-
7 00061493 OPEB deferrals. Ms. Markovich does not propose
8 changing the R-00038168 amortization period. Mr. Morgan
9 proposes a four year amortization for the R-00061493 OPEB
10 deferral.

11 Q. Do you agree with either of their proposals?

12 A. No.

13 Q. Please elaborate.

14 A. Ms. Markovich states that her eighteen month amortization period
15 is reasonable given the historical frequency of the Company's rate
16 filings. The fact of the matter is that absent the stay-out provision
17 contained in the settlement agreement reached in the Company's
18 most recent case, the consistent rise in operating costs and decline
19 in usage per account would have likely caused the Company to

1 make a more rapid rate filing. Unless the trend in operating costs
2 and usage stabilizes, it's very likely the Company will file another
3 rate case within the next year. Given that likelihood, a one year
4 amortization period is in my opinion more reasonable.

5 Mr. Morgan uses similar reasoning in justifying his
6 adjustment to the R-00061493 amortization. Under his proposal,
7 the continued amortization of the R-00038168 and R-00049656
8 deferrals combined with the revised four year amortization of the R-
9 00061493 deferral would be sufficient to fully recover all of the
10 Company's OPEB deferrals after fifteen months from the date new
11 rates are placed into effect. While I do not dispute his
12 mathematical conclusion, the fact remains that under his proposal it
13 will take greater than twelve months to recover the deferrals. As
14 stated above, since it is likely the Company will file another case
15 within one year, a twelve month amortization period is more
16 reasonable.

17 Q. Aside from the amortization period, do you have any other issues
18 with Ms. Markovich's proposed OPEB amortization adjustments?

1 A. Yes. Ms. Markovich calculates her proposed OPEB amortization
2 adjustment amounts using the gross amount of the respective
3 OPEB deferrals. While as stated above I don't agree with the
4 conceptual need for the adjustments, I do believe that, should the
5 Commission ultimately determine that adjustments to the OPEB
6 amortizations are warranted, any such adjustments should be
7 calculated based upon the net amount of the OPEB amortizations
8 that will be recorded to operation and maintenance expense.
9 Hypothetically, had Ms. Markovich used the net OPEB amounts,
10 her adjustments would be as follows:

	Company	OTS	Adjustment
R-049656 amortization	502,673	39,479	
Amount charged to O&M	77%	77%	
	<u>387,058</u>	<u>30,399</u>	356,659

R-061493 amortization	1,642,905	1,095,270	
Amount charged to O&M	77%	77%	
	<u>1,265,037</u>	<u>843,358</u>	421,679

11
12 Q. In the 2004, National and the Company significantly increased the
13 annual level of funding to National's pension. Can you please

1 explain how ratepayers benefit from increased funding to the
2 pension plan?

3 A. Ratepayers benefited from this increase in two ways. First,
4 ratepayers avoided a dramatic increase in the Company's pension
5 rate allowance. In the 2002 – 2003 timeframe, National was
6 advised by its consulting actuary that if it did not increase its
7 pension funding, it risked facing a \$144 million funding requirement
8 in 2006 and a further \$85 million funding requirement in 2007. To
9 avoid that increase, National increased its annual pension
10 contributions, and as a direct result, the Company's pension
11 contribution increased from approximately \$700,000 in 2000 to \$4.7
12 million in 2002. Though rates increased in the short-run because of
13 that increase in funding, ratepayers avoided the dramatic increase
14 that would have occurred in 2006 had National not increased its
15 funding level. Second, that increased funding will lead to lower
16 pension expense in the future. Like any other pension contribution,
17 the funds contributed by National in 2002 – 2003 were invested by
18 the pension trust fund. Those investments will earn a long-term

1 return (currently estimated at 8.25% per annum) that will serve to
2 lower future funding requirements.

3 Q. Have you updated your forecast of National's short-term debt rate?

4 A. Yes.

5 Q. What short-term debt rate are you recommending?

6 A. I am recommending a short-term debt rate of 6.18%. Consistent
7 with Statement No. 8, that rate consists of two components: 1) the
8 short term borrowing rate charged by the Company's lenders
9 (5.45%, up from 5.3%) and 2) the fees incurred by the Company for
10 rating agency services and a committed line of credit (unchanged at
11 0.73%).

12 Q. Please describe how you arrived at the 5.45% short-term borrowing
13 rate.

14 A. As I indicated in Statement No. 8, National Fuel's borrowings under
15 its uncommitted lines of credit and commercial paper programs
16 typically range from overnight to thirty days. Recent quotes from
17 National Fuel's lenders indicate that National Fuel would be
18 charged an interest rate in the range of 5.35% – 5.60% for
19 overnight borrowings and 5.40% – 5.60% for thirty day borrowings.

1 Thus, depending on the length of the borrowing, National Fuel
2 would currently expect to pay a short-term interest rate of between
3 5.35% - 5.60%. Since the duration of National Fuel's borrowings
4 can vary based upon its working capital needs, I chose 5.45%
5 (roughly the middle of the range of 5.35% - 5.60%) as an estimate
6 of National Fuel's current borrowing costs.

7 Q. You indicated that the 5.45% interest rate is what National Fuel's
8 lenders are charging in today's interest rate environment. Do you
9 expect that rate to continue into the first quarter of fiscal 2007?

10 A. Yes. The Consensus Forecast of U.S. Interest Rates published in
11 the most recent Blue Chip Economic Indicators (September 1,
12 2006) indicates that the nation's leading economists expect virtually
13 every benchmark short-term interest rate (including the Federal
14 Funds, 3-month LIBOR, 1-month commercial paper and 3-month
15 Treasury bill rates) to remain flat through the first quarter of 2007.
16 Since those benchmark rates underlie the interest rates charged to
17 National Fuel by its lenders, it is reasonable to assume that
18 National Fuel's short-term borrowing rates will also remain flat.

1 Q. In OTS Statement No. 1, Staff Witness Deardorff recommends a
2 hypothetical capital structure of 40.6% long-term debt, 11.58%
3 short-term debt, and 47.75% common equity. In arriving at that
4 capital structure, Mr. Deardorff includes an adjustment to reflect the
5 fact that stored gas inventory is financed with short-term debt. Do
6 you agree with his adjustment?

7 A. No. While I agree with Mr. Deardorff's conclusion that short-term
8 debt should be included in the capital structure since stored gas
9 inventory is included in rate base, I disagree with the amount of
10 short-term debt he attributes to the financing of stored gas
11 inventory. Mr. Deardorff's analysis assumes the Company's
12 thirteen-month average short-term debt balance approximates its
13 average stored gas inventory. In reality, a significant amount of
14 short-term debt exists beyond stored gas inventory that, in the
15 context of a hypothetical capital structure, would be financed with
16 permanent capital.

17 Q. Is there a more reasonable method of calculating the hypothetical
18 capital structure that uses Mr. Deardorff's general methodology but

1 recognizes only the short-term debt that is used to finance stored
2 gas inventory?

3 A. Yes, Exhibit No. 208 contains my calculation of the hypothetical
4 capital structure using (a) the long-term debt and common equity
5 ratios recommended by Mr. Deardorff and (b) the average gas
6 storage inventory included in the Company's rate base.

7 The top half of Exhibit No. 208 is an allocation of the
8 Company's permanent capital between long-term debt and
9 common equity. The schedule starts with the Company's rate base
10 as adjusted to reflect the adjustments proposed by Staff in their
11 testimony (I used rate base as a proxy for total capital since the
12 Pennsylvania Division of the Company does not have its own
13 standalone capital structure). Next, to arrive at total permanent
14 capital, I deducted the \$10.5 million of average gas storage
15 inventory included in the Company's rate base. I then allocated the
16 resulting permanent capital between long-term debt and common
17 equity using the 46% and 54% ratios recommended by Mr.
18 Deardorff.

1 The bottom half of Exhibit No. 208 then calculates a
2 hypothetical capital structure using Mr. Deardorff's methodology.
3 That is, the \$10.5 million of average storage gas inventory is
4 assumed to be financed using short-term debt and the remaining
5 items of rate base are assumed to be financed using the long-term
6 debt and common equity amounts calculated in the top half of
7 Exhibit No. 208. The resulting hypothetical capital structure for
8 ratemaking purposes is 44.31% long-term debt, 3.67% short-term
9 debt and 52.02% common equity.

10 Q. Does this conclude your rebuttal testimony?

11 A. Yes.

**National Fuel Gas Distribution Corporation
 Pennsylvania Division**

Calculation of Capital Structure Based on Assumption that Storage Inventory is Financed by ST Debt
 (OTS Statement No. 1 Page 11 Line 11)

The following is calculated to demonstrate OTS capital structure based on application of their arguments to NFGDC Pa Division information. It is not an acceptance of the OTS position on rate base or capital structure arguments.

1) OTS Rate Base Position	\$ 286,633,000		Company calculated based on OTS adjustments.
2) Short Term Debt	<u>\$ 10,517,109</u>		Exhibit 108, Schedule 3, Average Gas Storage Inventory Included in Rate Base
3) Long Term Financing	\$ 276,115,891		Line 1 less Line 2
4) Long Term Debt	<u>\$ 127,013,310</u>	46%	Based on OTS position of 46% Debt (OTS Statement Number 1, Page 11, Line 11)
5) Equity	<u>\$ 149,102,581</u>	54%	Based on OTS position of 54% Equity (OTS Statement Number 1, Page 11, Line 11)

	\$	%	
Implied Capital Structure			
6) Short Term Debt	\$ 10,517,109	3.67%	\$ = Line 2, % = Line 6/Line 9
7) Long Term Debt	\$ 127,013,310	44.31%	\$ = Line 4, % = Line 7/Line 9
8) Equity	<u>\$ 149,102,581</u>	52.02%	\$ = Line 5, % = Line 8/Line 9
9) Total	<u>\$ 286,633,000</u>	100.00%	Sum of Lines 7 through 8