

TESTIMONY OF KENNETH C. SPRINGIRTH  
BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION  
ERIE, PA HEARING August 28, 2006 Docket No. R-00061493

STATEMENT #1

00061493 Erie 8/28/06 Springfield

National Fuel Gas Distribution Corporation (Respondent) on May 31, 2006 filed for a \$25,892,000 general rate increase. I filed my formal complaint in this proceeding on June 8, 2006. Purpose of my testimony is to oppose this increase. The (Respondent) on September 15, 2004 filed for a \$22,780,000 general rate increase and received \$12,000,000 effective April 15, 2005 Docket No. R-00049656. A residential customer of the Respondent in a winter month paid \$29.10 for 30 Mcf of gas in 1973 @ \$.97/Mcf and as of June 8, 2006 pays \$479.44 for 30 Mcf of gas @ \$15.98/Mcf which represents an 1,547% increase that is more than 4 times the increase in the consumer price index for that period. The proposed increase would add \$14.98 to the monthly winter gas bill of a residential customer using 30 Mcf of gas making the bill \$494.42. Even with the reduction that took place August 1, 2006, 30 Mcf of gas would cost \$393.61 @ \$13.12/Mcf which is a 1,252% increase since 1973 that is about 3.5 times the increase in the consumer price index for that period. With the August 1, 2006 change the proposed increase would add \$16.00 to that monthly winter gas bill of a residential customer using 30 Mcf of gas making that bill \$409.61.

**PUC must deny the increase and look at the following:**

1. Respondent's Pennsylvania Division for the year ending January 31, 2006 had a net income of \$8,440,000. It has contributed a positive flow of cash into the parent company. Respondent's overall rate of return for the year ending January 31, 2006 was 7.19%. At the proposed rates, Respondent would have an opportunity to achieve an overall rate of return of 9.48% Exhibit 102 Schedule 2 Pg. 1.
2. On June 8, 2006 the parent company National Fuel Gas Company announced the 104th year of uninterrupted dividend payments and 36th consecutive year of stock dividend increases.
3. Respondent has no common stock publicly traded and doesn't raise capital in the market. The parent company National Fuel Gas is the source of capital for the Respondent, and valuation ratios available from <http://www.investor.reuters.com> demonstrate its healthy position. In Modern Portfolio Theory, one of the basic statistical measures of risk is the Beta coefficient. Beta, a measure of risk in relation to the market such as the S&P 500, for National Fuel Gas on June 3, 2006 was 0.55, for the industry was 0.93, and for the S&P 500 was 1.00. A beta of less than 1 means there is less volatility and less risk. National Fuel Gas has less business risk than the S&P 500. **Payout Ratio**, a percentage of the firm's profits that is paid out to shareholders in the form of dividends, for National Fuel Gas on June 3, 2006 was 54.05, for the industry was 54.15, and for the S&P 500 was 28.25. The parent company is paying larger proportions of its highly dependable earnings in dividends. Hence the parent company's stock is attractive to investors. **Price Earnings ratio (P/E)**, price of a stock divided by its earnings per share gives investors an idea of how much they are paying for a company's earning power. The lower the P/E the less investors are paying and therefore less earnings growth is expected. P/E for National Fuel Gas on June 3, 2006 was 16.85, for the industry was 23.69, and for the S&P 500 was 20.23. Hence, with a low P/E, the parent company is a mature industry with a long record of earnings stability and regular dividends.
4. Respondent has requested a 12% to 12.25% cost rate for common equity capital, which I believe, is excessive. Cost of common equity is the expected return on a firm's common stock that an investor would deem sufficient to compensate for risk and the time value of money. *Since regulation is a substitute for marketplace competition, determination of an appropriate common equity cost must take into account that the utility has less business risk than an unregulated business company.* No economic purpose is served if a utility is allowed to earn

- more than the necessary return. Regulation should ensure that consumers receive quality service at the lowest possible cost.
5. The proposed Enhanced Energy Efficiency Program Cost Recovery Rider under which any decline in average usage per account for small volume customers would be recovered through an annual charge should be denied because the Respondent is financially healthy. The \$1,875,000 cost for the National Fuel Energy Efficiency plan should be denied (Volume III Exhibit 104 Schedule 2 page 38). Decline in sales can come from conservation, warmer than normal weather, price increases, population changes, and economic recession, which shrinks commercial activity and household budgets. I believe that much of the conservation has occurred because of high natural gas prices. Gas costs are largely fixed. Peak consumption will determine size of feeders and mains. Respondent would have guaranteed earnings while customers see higher rates. This allows for a change in rates without discovering why sales have declined. This will deter economic development with volatile and unpredictable rates. Rates would automatically rise if residential customers use less gas without the benefit of a public hearing. Risks are shifted to customers. There is no benefit to customers. This taxes consumers for the benefit of protecting Respondent. As a regulated utility, I believe the Respondent has an obligation to provide service to customers at the lowest possible cost, and that should include programs that can help customers reduce their bills.
  6. The executive compensation including base salary, bonus, long term incentive plan payouts, and other compensation for the five highest officers of National Fuel Gas was \$5,380,600 for the year ending September 30, 2005 which was 84 percent higher than the \$2,921,844 the five highest officers received for the year ending September 30, 2000. This does not include their restricted stock awards and securities underlying options, which add considerable value to their long-term compensation. I believe that customers should pay half of an officer's salary and stockholders should pay the other half. Both customers and shareholders benefit from competent officers and both should split the tab.
  7. The utility's request to recover rate case expenses should be denied. The Respondent plans to spend \$841,192 in rate case expenses for the year ending January 31, 2007. It doesn't make sense to use our money to argue that we have to pay even higher rates. The \$605,164 advertising expenses and \$204,263 dues expenses should be disallowed (Volume III exhibit 104 schedule 3 Page 1). Advertising expenses were \$373,645 for the year ending May 2003 from Vol. I Exhibit #4 Schedule 3 Pg. Docket No. R-00049656. Only expenses that are useful to customers should be charged to customers.
  8. Disallow the 72% proposed increase in the residential customer charge from the current \$12.00 to \$20.64/month. Residential customer charges of gas utilities in Pennsylvania are as follows: Mountain Energy LTD., \$3.50; Larkin Oil & Gas Co. \$4.34; Pike County Light & Power Co. \$5.00; North East Heat & Light Co. \$5.47; Kaib & Kaib Gas Co. \$5.50; C.E. Dunmire Gas Co. \$6.00; PG Energy Honesdale Division \$6.23; PECO Energy Co. \$7.20; Nido's Ltd Inc. Kaylor \$7.35; Sigel Gas Co. \$7.50; Herman Riemer Gas Co. \$8.20; UGI Utilities Inc. \$8.55; Barkeyville Gas Co. \$9.50; Walker Gas & Oil Co. \$10.00; Wally Gas Co. \$10.00; PPL Gas Utilities Corp (North Penn Gas Co. & PFG Gas Inc. \$10.50; Nido's Ltd. Inc. Shadyside \$10.52; Columbia Gas of Pa. \$10.81; T.W. Phillips Gas & Oil Co. \$11.00; Dominion Peoples \$11.00; PG Energy Division of Southern Union \$11.25; Andreassi Gas Co. \$11.39; CRG Inc. \$11.48; Equitable Gas Co. \$11.65; Cartiers Natural Gas Co. \$12.00; Philadelphia Gas Works \$12.00; and National Fuel Gas Distribution Corporation \$12.00. The increase in the customer charge shifts the impact of the increase to the small volume customer, and assures the Respondent that it will recover a large portion of its increase regardless of how much the customer actually uses.
  9. Require Respondent to reduce administrative and general expenses, which increased from \$18,679,191 for the year ending May 31, 2003 from Vol. I Exhibit 2 Schedule 5 Pg. 3 Docket

No. R-00049656 to \$26,747,560 for the year ending January 31, 2006 from Volume I Exhibit 2 Schedule 5 Pg. 3.

10. PUC needs to review Respondent's original cost of \$282,440,000 projected at 1/31/2007 shown in Exhibit 2 Schedule 2 Pg. 1. It might not be desirable to reproduce the old plant. Improved equipment and methods of operation would be incorporated if replacement were necessary. Furthermore, unless there was a war or an act of God, the entire plant would not be replaced at one time.
11. Require implementation of a program to increase lower cost local gas production. The estimated well count for Pennsylvania gas wells from which Respondent purchased all of the gas produced (wells whose reserves are dedicated by contract to Respondent) since 1993 are as follows: 1993 - 114, 1994 - 123, 1995 - 108, 1996 - 145, 1997 - 124, 1998 - 118, 1999 - 61, 2000 - 60, 2001 - 61, 2002 - 64, 2003 - 64, 2004 - 60, 2005 - 59, 2006 - 57 through May. PUC needs to look at a state wide energy policy. Many utilities have shifted from coal or oil to natural gas to produce electricity. With new computer driven technology for finding and drilling for natural gas, it should be possible to tap those reserves with almost no risk of environmental harm. There is no shortage of natural gas in the United States. However, there is a growing mismatch between supply and demand. The PUC needs to address the problem of price volatility, because consumers are hurting.
12. PUC needs to examine the impact of this increase on the ability of the customers to pay any increase particularly when the Respondent is financially healthy. There are hundreds of families that are having hard times making ends meet. Increased unemployment has strained finances for many. Many northwestern Pennsylvania families because of our cold winter climate may face insurmountable budget problems this winter because of high natural gas costs. Lower income households spend a greater percentage of their household income on heat and situation can be even more severe on senior citizens. Volume V Statement #14 states. "Recent bankruptcy reports reinforce the severity of the current economic decline. The U.S. Bankruptcy Court for Western Pennsylvania has set new records for bankruptcy filings each of the past 5 years. A reported 30,427 western Pennsylvania households and business filed for bankruptcy during 2005. This is almost 5 times the 6,300 bankruptcy filings in 1995.

Residential customers are being hit hard with this proposed increase. A rate decrease should be granted which could occur with the following cost savings. Reduce the salary of the 5 top NFG executives from \$5,380,600 to \$2,000,000 that would yield \$3,380,600. The NFG 2005 Annual Report shows 674,633 average number of utility retail customers plus 56,262 average number of utility transportation customers for a total of 730,895. Since there are 214,000 Pennsylvania customers our share should be 214,000 divided by 730,895 times 3,380,600 which is \$989,812. Add to this \$605,164 for elimination of advertising expense, \$841,192 for elimination of rate case expense and \$204,263 for elimination of dues expense and the total savings is \$2,640,431. Divide the \$2,640,431 by 214,000 customers and the annual savings is about \$12.33 per year.

This decrease is:

1. Practical in that it can be done without any additional costs.
2. Positive in that it can achieve a new image for the utility.
3. Proactive in helping to give new hope to families and businesses in surviving in hard economic times in this region.

There can be a new role for the PUC in helping the Respondent to reduce costs. The PUC should be responsible for the conservation program.

Let's make this a reality and put a smile back on the faces of consumers in Northwestern Pennsylvania.

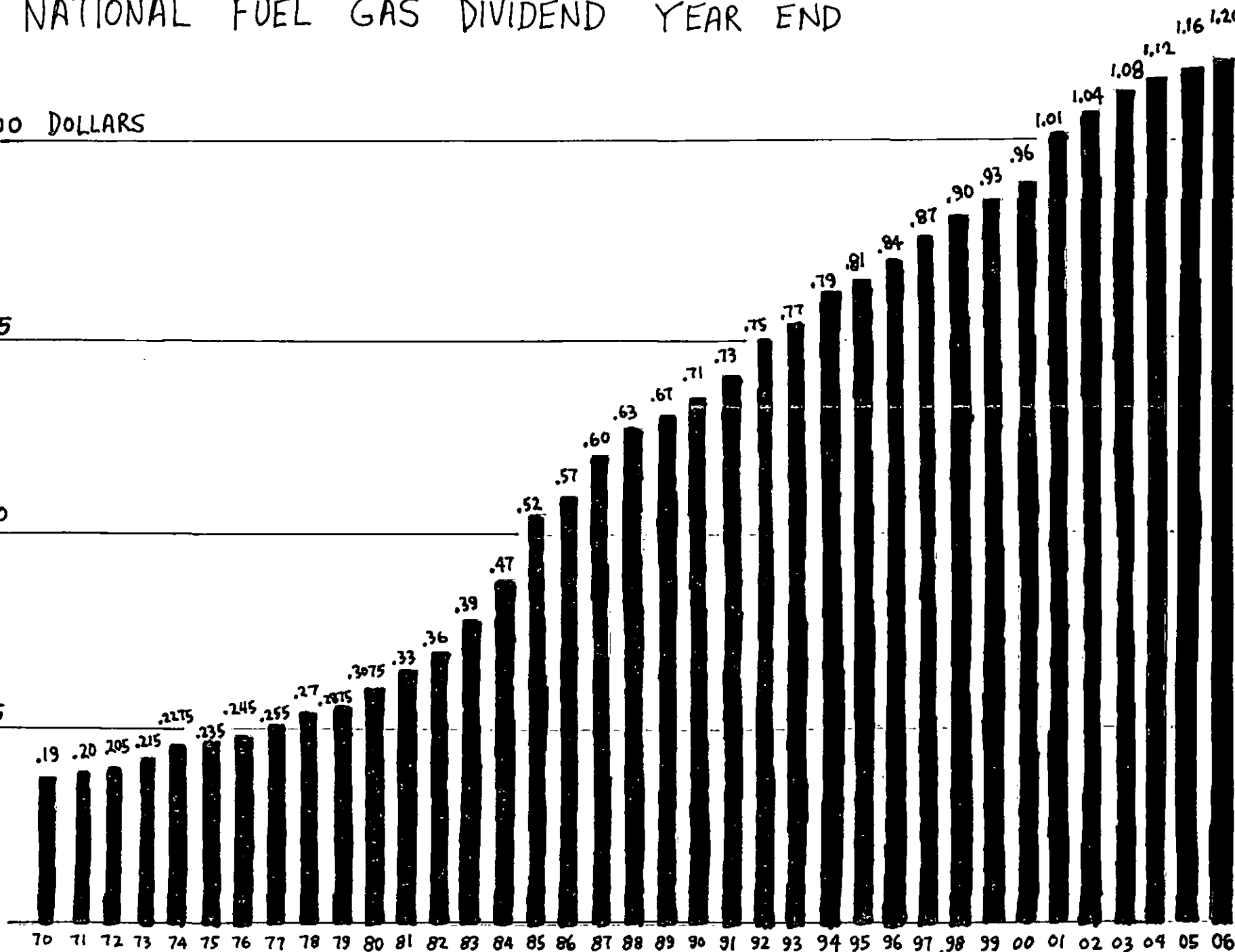
# NATIONAL FUEL GAS DIVIDEND YEAR END

1.00 DOLLARS

.75

.50

.25



YEAR

R-0006/493  
EXHIBIT KCS-1  
Erie 08-28-06