ORIGINAL

OTS Statement No. 3
Witness: Joseph Kubas

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

NATIONAL FUEL GAS DISTRIBUTION CORPORATION

DOCKET NO. R-00061493

Direct Testimony

of

Joseph Kubas

Office of Trial Staff

Concerning:

Rate Base Issues
Cost of Service Issues
Rate Structure
Scale-Back of Rates
Vice Chairman Cawley's Questions

Q. WHAT IS YOUR NAME AND BUSINESS ADDRESS?

A. My name is Joseph Kubas and my business address is Pennsylvania Public Utility Commission, P. O. Box 3265 Harrisburg, PA 17105-3265.

Q. IN WHAT CAPACITY ARE YOU EMPLOYED?

A. I am employed as a Fixed Utility Valuation Engineer with the Office of Trial Staff.

Q. WHAT IS YOUR EDUCATIONAL AND EMPLOYMENT EXPERIENCE?

A. An outline of my education and employment experience is attached as Appendix A.

Q. PLEASE DESCRIBE THE ROLE OF OTS IN RATE PROCEEDINGS.

A. OTS was established by the legislature and is responsible for protecting the public interest in rate proceedings. The OTS analysis in this proceeding is based on its responsibility to represent the public interest. This responsibility requires the balancing of the interests of ratepayers and the Company.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my direct testimony is to address the cost of service, revenue, rate structure, and tariff rider issues relating to National Fuel Gas Distribution Corporation's (NFGD or Company) request for $25,892,000 in additional annual revenue.

Q. WHAT ISSUES WILL YOU ADDRESS IN YOUR DIRECT TESTIMONY?

A. My direct testimony addresses post test year plant additions, customer charges, proposed rates of the various classes, the scale-back of rates, and Vice Chairman Cawley's issues.

A. Rate Base

Q. WHAT IS RATE BASE AND HOW IS IT USED FOR RATEMAKING PURPOSES?

A. A company's rate base is the total net investment in plant, materials, inventory and cash working capital that a utility uses in the provision of service to customers on a specific date. In this case, the Company selected January 31, 2007 as the projected rate base date. The rate base is multiplied by a utility's rate of return to determine the income available that a utility is granted the opportunity to earn through rates.

Q. WHAT IS THE COMPANY'S RATE BASE CLAIM IN THIS PROCEEDING?

A. The Company is claiming a rate base of $296,951,000 as of January 31, 2007 in this proceeding (NFGD Ex. 108, Sch. 1).

FERC Order No. 2004 Compliance

Q. WHAT IS FERC ORDER NO. 2004?

A. Federal Energy Regulatory Commission (FERC) Order No. 2004 describes the standard of conduct between regulated transmission providers and all their energy affiliates. The standard is intended to prevent transmission providers from giving their energy affiliates preferential treatment.

Q. DOES THE $296,951,000 RATE BASE AMOUNT INCLUDE A CLAIM FOR WHAT THE COMPANY CALLS "THE FERC 2004 COMPLIANCE"?

A. Yes. The claim includes $313,600 worth of what the Company calls "FERC 2004 Compliance" (NFGD Ex. 108, Sch. 1).

Q. WHAT IS THE BASIS FOR THIS $313,600 CLAIM?

A. The Company began with the estimated incremental expenditure of $1,300,000 for a separate gas dispatch site to comply with the FERC Order No. 2004 described above. Of this $1,300,000 expenditure, the Company is claiming that $1,000,000 will be a capital expense. Since the proposed dispatch center will serve both Pennsylvania and

New York customers, the Company allocated 31.36 percent of this $1,000,000 capital cost to Pennsylvania or $313,600 ($1,000,000 X .3136 = $313,600).

Q. WHAT DO YOU RECOMMEND CONCERNING THIS $313,600 CLAIM?

A. I recommend that the $313,600 claim be denied. OTS witness Janet Markovich is proposing a similar denial of the corresponding operating expense.

Q. WHY DO YOU RECOMMEND THAT THE $313,600 CLAIM BE DENIED?

A. The Company's response to OTS-RB-12 indicates that there is no certain date for the expenditure to occur (OTS Ex. No. 3, Sch. 1). Also, the Company response to OTS-RE-123 indicates that FERC has not yet acted on a Petition filed by National Fuel Gas Supply (Supply) for a waiver of FERC Order No. 2004. These responses indicate that the dispatch center is not used and useful in the provision of utility service, nor will it be used and useful within six months after the end of the future test year. Therefore, the $313,600 claim should be denied.

Post Test Year Plant Additions

Q. DOES THE $296,591,000 RATE BASE AMOUNT INCLUDE A CLAIM FOR WHAT THE COMPANY CALLS "CONSTRUCTION WORK IN PROGRESS"?

A. Yes. The claim includes $5,331,000 worth of what the Company calls "Construction work in Progress". This $5,331,000 represents plant that is to be installed between February 2007 and June 2007 (NFGD Ex. 108, Sch. 1).

Q. HOW DID THE COMPANY DETERMINE THIS $5,331,000 "CONSTRUCTION WORK IN PROGRESS" CLAIM FOR PLANT ADDED BETWEEN FEBRUARY 2007 AND JUNE 2007?

A. The Company employed a three step process. First, the Company projected the amount of plant estimated to be installed each month during the future test year, or from February 2006 through January 2007. Second, the Company simply projected that approximately the same amount of plant would be installed each month from February 2007 through June 2007, up to five months beyond the end of the future test year. Third, the Company removed 20.2% of these additions, claiming that 20.2 percent is "revenue producing" to arrive at the "Construction Work in Progress claim of $5,331,000 representing plant that is to be installed between February 2007 and June 2007(NFGD Ex. 108, Sch. 2). The Company believes that none of these plant additions will be "expense reducing" (NFGD St. No. 102, p. 36).

Q. SHOULD THE COMPANY BE PERMITTED TO INCLUDE THIS $5,331,000 ADDITIONAL PLANT IN RATE BASE?

A. No.

Q. WHY SHOULD THE COMPANY NOT BE PERMITTED TO INCLUDE THIS $5,331,000 ADDITIONAL PLANT IN RATE BASE?

A. There are three reasons. First, it is not actually construction work in progress. Second, the inclusion of this plant added between February 2007 and June 2007 will create a mismatch with regards to the other components of the ratemaking equation. Third, there is no support for the claim that the post test year plant additions are non-expense reducing.

Q. WHAT IS CONSTRUCTION WORK IN PROGRESS?

A. Construction work in Progress refers to multi-month utility projects that are started or "In Progress" during a rate case and expected to be completed and placed into service shortly after the end of the test year selected by the utility to determine rates. Projects of this type could include structures with specific in-service dates. It would not include such things as the purchase of transportation equipment, or the routine replacement of ordinary utility plant items such as mains, services, etc.

Q. WHY DO YOU BELIEVE THE $5,331,000 IS NOT CONSTRUCTION WORK IN PROGRESS?

A. As described above, for plant to be considered Construction Work In Progress, the construction should actually be "In Progress" during the case and in service shortly after the end of the test year. The plant listed on NFGD Ex. 108, Sch. 1 is merely, monthly routine additions of ordinary utility plant. Since this is the case, I consider this $5,331,000 to be post test year plant additions and not Construction Work in Progress. Since no part of the $5,331,000 in plant additions will be "In Progress" as of January 31, 2007, this $5,331,000 should not be included in the Company's rate base for the test year ending January 31, 2007.

Q. WHY WOULD THE INCLUSION OF $5,331,000 IN ADDITIONAL PLANT CREATE A MISMATCH?

A. The Company selected a future test year ending January 31, 2007 in this case. Expenses, revenue, taxes and rate of return components used by the Company in the ratemaking formula to determine rates are based on the twelve months ending January 31, 2007. Therefore, allowing the Company to earn a return on $5,331,000 of plant projected to be installed between February 2007 and June 2007 would not match the timeframe in which the other ratemaking components used to establish rates are based. The balance of these items used to determine rates have not been claimed by the Company for that period. If the $5,331,000 is included in rate base the Company will

earn a return on plant that is not "used and useful" in the provision of service on January 31, 2007. Therefore, the $5,331,000 claim for Construction Work in Progress should be denied.

Q. WHY DO YOU BELIEVE THAT THE POST TEST YEAR PLANT ADDITIONS MAY BE EXPENSE REDUCING?

A. The Company has not demonstrated that the new post test year plant additions won't reduce expenses. Logic dictates that when the Company invests in the replacement of mains, services and meters unaccounted-for gas should be reduced, and the new plant should require less maintenance making the overall system more reliable. Therefore, these post test year plant additions can not be considered entirely "non-expense" reducing.

Q. DID THE COMMISSION REJECT THIS TYPE OF CLAIM IN A PAST NFGD BASE RATE CASE?

A. Yes. The Commission rejected NFGD's $5,331,000 claimed post test year plant additions because that claim did not meet the requirements for including construction work in progress in rate base (NFGD Docket No. R-00942991, Order entered December 6, 1994, page 16).

Pipeline Integrity Expenditures – Distribution Pipelines

Q. DOES THE $296,591,000 RATE BASE AMOUNT INCLUDE A CLAIM FOR WHAT THE COMPANY CALLS "DISTRIBUTION PIPELINES"?

A. Yes. The claim includes $828,611 worth of what the Company calls "Distribution Pipelines" as a capital cost under the Pipeline Integrity Expenditures (NFGD Ex. 108, Sch. 1).

Q. HOW DID THE COMPANY DETERMINE THIS $828,611 "DISTRIBUTION PIPELINES" CLAIM?

A. The Company's response to OTS-RB-11 indicates that the Company simply projected that it will spend ten percent more than the 2005 budgeted amount the Company invested in mains and services (OTS Ex. No. 3. Sch. 2).

Q. SHOULD THE COMPANY BE PERMITTED TO INCLUDE THIS $828,611 ADDITIONAL PLANT IN RATE BASE?

A. No. OTS witness Janet Markovich is proposing a similar denial of the corresponding operating expense.

Q. WHY SHOULD THE COMPANY NOT BE PERMITTED TO INCLUDE THIS $828,611 ADDITIONAL PLANT IN RATE BASE?

A. The claim is speculative and the Company has failed to provide a completion date or any way to distinguish between ordinary plant replacement and this program (OTS Ex. No. 3, Sch. 2).

B. Customer Cost Analysis

Q. IS NFGD PROPOSING TO INCREASE SOME OF ITS CUSTOMER CHARGES?

A. Yes. The Company is proposing to increase the customer charges for residential, small commercial / public less than 250 (LE250), small commercial / public greater than 250 (GT250), small volume industrial (SVIS), intermediate volume industrial service (IVIS), and large industrial service (LIS) customers. OTS Table 1 below shows the present customer charge, the proposed increase, the proposed customer charge, and the percent increase for each class:

OTS Table 1

Customer Class	Present Monthly	Increase	Proposed Monthly	Percent Increase
Residential Sales and Transport	$12.00	$8.64	$20.64	72.0%
Small Commercial / Public LE250	$17.00	$10.50	$27.50	61.8%
Small Commercial / Public LE250	$26.50	$9.00	$35.50	34.0%

SVIS	**$65.60**	**$0.37**	**$65.97**	**0.6%**
IVIS	**$149.00**	**$52.91**	**$201.91**	**35.5%**
LVIS	**$404.50**	**$70.00**	**$474.50**	**17.3%**
LIS	**$514.50**	**$70.00**	**$584.50**	**13.6%**

The Company is not proposing to increase the present $121.01 per month customer charge for the Large Commercial and Public Class. The Company is proposing to eliminate the Transportation Administrative Fee (TAF) currently $12.10 for residential transportation customers and $70.00 per month for all other transportation customers (NFGD Ex. No. 103, Sch.1).

Q. DID THE COMPANY PROVIDE A CUSTOMER COST ANALYSIS TO SUPPORT THE INCREASE TO THESE CUSTOMER CHARGES?

A. Yes. The Company provided a cost of service study that it claims supports these customer charge increases (NFGD Ex. No. 111). In that cost of service study, there is a schedule entitled "Customer Cost Analysis", which shows what the Company believes are the customer related costs by class (NFGD Ex. No.111 Sch. 4, p. 2).

Q. DESCRIBE WHAT IS SHOWN ON NFGD EXHIBIT NO. 111, SCHEDULE 4, PAGE 2.

A. This schedule is a summary of the operating and maintenance expenses, depreciation expense, taxes other than income, return dollars and income tax dollars that the Company allocated to the customer function in the Peak and Average cost of service study with no customer component of distribution mains. Once the revenue requirement was determined by class, the Company divided this amount by 12 months, and then divided that number by the number of customers in each class to determine the cost of providing each customer with service each month.

Q. WHAT GENERAL AND ADMINISTRATIVE EXPENSE ITEMS DID THE COMPANY INCLUDE IN ITS CUSTOMER COST ANALYSIS?

A. As shown on NFGD Ex. No. 111-A, Sch. 1, pp. 7-9, the Company included administrative and general salaries, office supplies, outside service expense, property insurance, franchise requirements, miscellaneous general expenses, and taxes other than income in the Customer Cost Analysis.

Q. WHAT OPERATION AND MAINTENANCE EXPENSE ITEMS DID THE COMPANY INCLUDE IN ITS CUSTOMER COST ANALYSIS?

A. As shown on NFGD Ex. No. 111-A, Sch. 1, p. 6, lines 271-298, the Company included mains and service expense, service maintenance expense, customer accounting expense, customer service expense, and sales promotion expenses in the Customer Cost Analysis.

Q. WHAT PLANT IN SERVICE DID THE COMPANY INCLUDE IN ITS CUSTOMER COST ANALYSIS?

A. As shown on NFGD Ex. No. 111-A, Sch.1, p. 1, lines 29-35, the Company included meters, services, house regulators, other plant, general plant and intangible plant in the Customer Cost Analysis.

Q. WHAT DEPRECIATION EXPENSE DID THE COMPANY INCLUDE IN ITS CUSTOMER COST ANALYSIS?

A. As shown on NFGD Ex. No. 111-A, Sch. 1, p. 3, lines 113-120, the Company included depreciation expense related to meters, services, house regulators, other plant, general plant and intangible plant in its Customer Cost Analysis.

Q. HOW DID THE COMPANY DETERMINE THE RATE BASE, RETURN DOLLARS AND INCOME TAXES IN ITS CUSTOMER COST ANALYSIS?

A. As shown on NFGD Ex. No. 111 Sch. 4, p. 2, the Company began by totaling the customer related gas plant, subtracted the corresponding accrued depreciation for this gas plant, added working capital, and subtracted customer deposits and deferred income taxes to determine the rate base, return dollars and income taxes to include in the Customer Cost Analysis.

Q. SHOULD THE COMPANY HAVE INCLUDED ALL THE ITEMS ON NFGD EXHIBIT NO. 111 SCHEDULE 4, PAGE 2 IN THE CUSTOMER COST STUDY?

A. No. In my opinion, NFGD's Customer Cost Analysis includes many items that are not direct customer costs.

Q. WHAT ITEMS SHOULD HAVE BEEN INCLUDED IN THE COMPANY'S CUSTOMER COST STUDY?

A. Only direct customer costs should be included in the Customer Cost Analysis.

Q. WHAT ARE DIRECT CUSTOMER COSTS?

A. Direct customer costs include billing and collection costs, meter reading costs, house regulators, and costs of meters and services.

Q. WHY DO YOU RECOMMEND ONLY DIRECT CUSTOMER COSTS BE INCLUDED IN THE CUSTOMER COST STUDY?

A. The customer charge is paid each month whether or not the customer uses any gas. Therefore, the customer charge should only include those costs that can be directly traced back to providing that customer with a monthly bill.

Q. HAS THE COMMISSION RULED ON THE ITEMS THAT ARE PROPERLY CONSIDERED DIRECT CUSTOMER COSTS?

A. Yes. In a 1994 Commission's Opinion and Order in the Pennsylvania-American Water Company case at Docket No. R-00932670, Order entered July 26, 1994, at pages 111-115, the Commission concluded that direct customer costs include "the depreciation, return and income taxes associated with meter and service investment, the operation and maintenance expense for meters and services, and the expense associated with meter reading and billing". In another 1994 Opinion and Order in the NFGD case at Docket No. R-00942991, Order entered December 6, 1994, page. 237 the Commission stated "Commission precedent is clear that indirect customer costs are not properly included in the customer charge".

Q. DID YOU PREPARE A CUSTOMER COST STUDY THAT ONLY INCLUDES DIRECT CUSTOMER COSTS?

A. Yes. I prepared OTS Ex. No. 3, Sch. 1 that only includes direct customer costs, as stated above, to determine the average cost of providing service to a customer each month. OTS Ex. No. 3 is based on NFGD Ex. No. 111 Sch. 4, p. 2.

Q. WHAT GENERAL AND ADMINISTRATIVE EXPENSES DID YOU EXCLUDE ON YOUR ANALYSIS THAT WERE INCLUDED ON THE COMPANY'S CUSTOMER COST ANALYSIS?

A. As shown on OTS Ex. No. 3, Sch. 3, pp. 7-8, I excluded all administrative and general expense because none of these expenses are direct customer costs.

Q. WHAT OPERATION AND MAINTENANCE EXPENSES DID YOU EXCLUDE ON YOUR ANALYSIS THAT WERE INCLUDED ON THE COMPANY'S CUSTOMER COST ANALYSIS?

A. As shown on OTS Ex. No. 3, Sch. 3, p. 6, lines 2, 7, and 8, I removed distribution expenses that are not customer related, such as mains, maintenance of equipment, rents and other distribution equipment. Also on this exhibit, I removed uncollectible account expense and all customer service expense, as well as the sales promotion expense (OTS Ex. No. 3, Sch. 3, p. 6, lines 13, 18, 19, and 22).

Q. WHAT LEVEL OF OPERATION AND MAINTENANCE EXPENSE SHOULD BE INCLUDED IN THE CUSTOMER COST ANALYSIS?

A. The total operation and maintenance expense that should be included in the Customer Cost Analysis is $19,166,379 (OTS Ex. No. 3, Sch. 3, p. 6, Column J, line 23).

Q. WHAT TAXES OTHER THAN INCOME DID YOU EXCLUDE ON YOUR ANALYSIS THAT WERE INCLUDED ON THE COMPANY'S CUSTOMER COST ANALYSIS?

A. As shown on OTS Ex. No. 3, Sch. 1, p. 9, I removed the FICA, federal unemployment, state unemployment, capital stock, property and PURTA, and sales taxes from the total taxes other than income taxes, since the Company did not segregate these taxes with respect to direct customer costs, (i.e. meter readers and billing labor).

Q. WHAT PLANT IN SERVICE DID YOU EXCLUDE ON YOUR ANALYSIS THAT WAS INCLUDED ON THE COMPANY'S CUSTOMER COST ANALYSIS?

A. I excluded other plant, general plant, and intangible plant from the Company's claimed plant in service because they are not direct customer related plant (OTS Ex. No. 3, Sch. 3, p. 2, lines 5 and 7-8).

Q. WHAT LEVEL OF PLANT IN SERVICE SHOULD BE INCLUDED IN THE CUSTOMER COST ANALYSIS?

A. After removing the items listed above, the total plant-in-service that should be included in the Customer Cost Analysis is $151,372,124 (OTS Ex. No. 3, Sch. 3, p. 2, Column J, line 9).

Q. DID YOU ALSO REMOVE THE CORRESPONDING DEPRECIATION EXPENSE FOR PLANT THAT IS NOT INCLUDED IN THE CUSTOMER COST ANALYSIS?

A. Yes. As shown on OTS Ex. No. 3, Sch. 3, p. 5 lines 5 and 7-8, I removed the corresponding depreciation expense for the other plant, general plant, and intangible plant from the Company's claimed depreciation expense, related to the plant in service described above, because this plant is not directly attributable to customer costs.

Q. WHAT LEVEL OF DEPRECIATION EXPENSE SHOULD BE INCLUDED IN THE CUSTOMER COST ANALYSIS?

A. After removing the items listed above, I determined that total depreciation expense that should be included in the customer cost analysis is $4,538,543 (OTS Ex. No. 3, Sch. 3, p. 5, Column J, line 9).

Q. DID YOU ALSO ADD BACK THE CORRESPONDING ACCRUED DEPRECIATION FOR THE PLANT THAT YOU BELIEVE IS NOT DIRECT CUSTOMER PLANT?

A. Yes. As shown on OTS Ex. No. 3, Sch. 3, p. 3 lines 5 and 7-8, I excluded the corresponding accrued depreciation on other plant, general plant, and intangible plant from the Company's claimed accrued depreciation, because of my recommendation to remove the original cost of the plant as described above.

Q. WHAT LEVEL OF ACCRUED DEPRECIATION SHOULD BE INCLUDED IN THE CUSTOMER COST ANALYSIS?

A. After removing the items listed above, I determined that total accrued depreciation that should be included in the Customer Cost Analysis is $55,244,739 (OTS Ex. No. 3, Sch. 3, p. 3, Column J, line 9).

Q. WHAT RATE BASE ITEM DID YOU EXCLUDE ON YOUR ANALYSIS THAT WAS INCLUDED ON THE COMPANY'S CUSTOMER COST ANALYSIS?

A. As shown on OTS Ex. No. 3, Sch.3, p. 4, line 3, I excluded the working capital component since it is not a direct customer cost.

Q. WHAT RATE BASE ITEMS DID YOU INCLUDE ON YOUR ANALYSIS THAT WERE EXCLUDED ON THE COMPANY'S CUSTOMER COST ANALYSIS?

A. As shown on OTS Ex. No. 3, Sch. 3, p. 4, lines 4-6, since the amounts are negative, I reversed and added back the customer deposits and deferred income tax amounts that the Company incorrectly credited against the total customer rate base because these items are not considered direct customer costs.

Q. WHAT LEVEL OF RATE BASE SHOULD BE INCLUDED IN THE CUSTOMER COST ANALYSIS?

A. After adding and removing the rate base items listed above, I determined that total rate base that should be included in the Customer Cost Analysis is $99,512,868 (OTS Ex. No. 3, Sch. 3, p. 4, Column J, line 7).

Q. HOW DID YOU DETERMINE THE LEVEL OF RETURN DOLLARS AND INCOME TAXES THAT SHOULD BE RECOVERED IN THE CUSTOMER CHARGE?

A. I determined the level of return dollars by multiplying the Company's claimed 9.48 percent overall requested rate of return. This results in $9,433,820 of return dollars on direct customer costs (OTS Exh. No. 3, Sch. 3, p. 4, line 8). I determined the level of income taxes by multiplying the $9,433,820 in return

dollars by the 41.5 percent return to revenue gross-up factor. This calculation results in $3,915,035 of income tax on the return dollars associated with the direct customer costs (OTS Ex. No. 3, Sch. 1, p. 4, line 9).

Q. HAVE YOU DETERMINED THE TOTAL DIRECT CUSTOMER COSTS THAT SHOULD BE RECOVERED IN THE CUSTOMER CHARGES BY CLASS?

A. Yes. I prepared OTS Ex. No. 3, Sch. 3, p. 1, which only includes the direct customer costs described above. Columns B through I show the direct customer costs per class. The results of this study show that the average customer charge for all NFGD customers on a system wide basis should be no more than $14.71 per month (OTS Ex. No. 3, Sch. 3, p. 1, Column J, line 9).

C. Proposed Rates

Residential Service

Q. WHAT RATE CHANGES ARE BEING PROPOSED BY THE COMPANY FOR THE RESIDENTIAL CLASS?

A. The Company is proposing to increase the current residential customer charge of $12.00 by $8.64 per month to $20.64 per month. For sales and SACT customers, the Company is proposing to increase the present $2.7673 per Mcf first usage block rate for all usage up to 5 Mcf per month by $1.3725 to $4.0948 per Mcf, and

lower the present $1.9456 per Mcf second usage block rate for all usage over 5 Mcf by $1.696 to $0.2496 per Mcf. For transportation customers, the Company is proposing to eliminate the current $12.10 per month Transportation Administrative Fee (TAF), and increase the present usage rate of $2.27 per Mcf to $2.6088 per Mcf. The net affect of the customer charge increase, TAF elimination, and usage rate changes is an increase in revenue of $20,031,000 (NFGD Ex. No. 103, Sch. 1, p. 1).

Q. WHAT ARE TRANSPORTATION ADMINISTRATIVE FEES?

A. TAFs are monthly charges paid by transportation customers to offset the administrative cost incurred by the Company to provide transportation service. The fee is $12.10 per month for all residential transportation customers (NFGD Ex. No. 103, Sch. 1, p. 1).

Q. DO YOU OPPOSE THE COMPANY'S PROPOSAL TO ELIMINATE THE TAF FOR THE RESIDENTIAL CLASS?

A. No.

Q. BASED ON YOUR ANALYSIS, WHAT IS THE MONTHLY RESIDENTIAL CUSTOMER COST FOR BOTH SALES AND TRANSPORTATION CUSTOMERS?

A. Based on my analysis, the direct residential customer cost is $14.07 per month. This was calculated by dividing the appropriate monthly direct residential customer costs allocated to the residential class by the average number of residential customers (OTS Ex. No. 3, Sch. 3, p. 1, Column B, lines 7-9).

Q. WHAT RESIDENTIAL CUSTOMER CHARGE DO YOU RECOMMEND FOR THIS PROCEEDING?

A. For this proceeding, I recommend that the monthly residential customer charge be increased to $14.00 per month.

Q. WHY DO YOU RECOMMEND THAT THE CUSTOMER CHARGE FOR ALL RESIDENTIAL CUSTOMERS BE INCREASED TO $14.00 PER MONTH?

A. In my opinion, customer charges should be based on cost. As described above, a proper analysis of customer costs shows that the residential customer charge should be no higher than $14.07 per month.

Q. IS THERE ANOTHER REASON WHY THE COMPANY'S PROPOSED RESIDENTIAL CUSTOMER CHARGES ARE NOT REASONABLE?

A. Yes. As described above, the Company is proposing to increase the residential customer charge by 72%. This percentage increase is more than **eleven times** the overall system increase of 6.1% requested by the Company in this case. I believe that such a large increase in the customer charge violates the principles of gradualism and rate continuity, and therefore should not be approved.

Q. DID THE COMMISSION ALSO EXPRESS A CONCERN WITH GRADUALISM IN A PAST NFGD BASE RATE CASE AT DOCKET NO. R-00942991?

A. Yes. The Commission stated in that case that increasing the customer charge 15.6% "violates the principals of gradualism" because the 15.6% increase in the customer charge requested by NFGD was so much more than the overall requested increase of 6.8%" (page 237 of Order entered December 6, 1994). If an increase of 15.6%, as compared to an overall increase of 6.86%, was too large in that case, then obviously an increase of 72%, as compared to an overall increase of 6.1%, in this case, also violates the principle of gradualism.

Q. WHY IS THE COMPANY PROPOSING TO INCREASE THE FIRST BLOCK USAGE RATE TO $4.0948 PER MCF AND DECREASE THE SECOND BLOCK USAGE RATE TO $0.2496 PER MCF?

A. The Company is proposing to increase the first usage block rate and decrease the second usage block rate in order to protect its "financial and earnings stability" (NFGD St. No. 9, p. 3). The Company has shown over the past several years that the average customer is using less gas. By recovering more revenue from the customer charge and first usage rates, and less revenue from the second usage rate, the Company's revenue will be less affected by weather and lower sales. When customers use less gas, the Company typically receives less revenue from the second usage block. By decreasing the amount of revenue the Company receives from the second usage block rate when rates are established in this case, the Company will be able to better protect its margin. Therefore, by lowering the second usage block rate, less revenue will be lost when the customers use less gas.

Q. DO YOU AGREE WITH THE COMPANY'S PROPOSAL TO INCREASE THE FIRST BLOCK USAGE RATE TO $4.0948 PER MCF AND DECREASE THE SECOND BLOCK USAGE RATE TO $0.2496 PER MCF?

A. No, I disagree with the proposal for several reasons. First, I do not believe that any usage block rate should be decreased. When customers are accustomed to paying a rate, there is no reason to reduce it when a Company is requesting that

other rates be increased. Second, while I am cognizant of the Company's loss of margin claim, I believe the Company's usage rate proposal impacts lower usage customers in a negative way. As shown on the Company's bill comparison, the bill for a residential customer that uses five Ccf per month will increase 50 percent. Residential customers that use less than five Ccf per month will experience percentage increases greater than 50 percent (NFGD Ex. No. 111 Sch. 3, p. 1). This increase is too large compared to the overall revenue increase request of 6.1 percent in this case.

Q. WHAT USAGE RATES DO YOU RECOMMEND FOR THE RESIDENTIAL CLASS?

A. I recommend that the first usage block rate be increased to $3.9833 per Mcf and the second usage block rate remain at $1.9456 per Mcf. These usage rates combined with the customer charge recommendation described above will increase residential revenue by $22,631,000 (OTS Ex. No. 3, Sch. 4, p. 1, line 34).

Q. WHY DO YOU RECOMMEND THAT THE SECOND USAGE RATE USAGE RATE REMAIN AT $1.9456 PER MCF?

A. Under normal ratemaking circumstances, I would recommend that both usage rates be increased the same percentage, since there is no support in the cost of service study for increasing one usage rate more than another usage rate within a class.

However, I believe that the Company's lost margin concern should be addressed in the proposed rate structure rather than a separate surcharge as proposed by the Company. This goal can be accomplished by keeping the second usage rate at $1.9456. Keeping this rate the same and increasing other base rates will cause a smaller proportion of base revenue to be collected from this usage rate.

Q. WHY DO YOU RECOMMEND THAT THE FIRST USAGE RATE BE INCREASED TO $3.9833 PER MCF?

A. As described above, I recommend a customer charge of $14.00 per month and the second usage rate remain at $1.9456 per Mcf. Therefore, the first usage block needs to be increased to $3.9833 per Mcf to produce the $22,631,000 in additional annual revenue that I am recommending for the residential class to recover the corresponding cost of providing service to this class.

Q. HOW DOES YOUR PROPOSED RATES STRUCTURE ADDRESS SOME OF THE COMPANY'S LOSS OF MARGIN CONCERN?

A. By only increasing the customer charge and first usage rate for the residential class, the Company's loss of margin that typically occurs in the second block will have a lower rate than it otherwise would. The loss of margin will be minimized under my proposal since the second usage rate will not be increased. This rate

structure proposal addresses some of the Company's concerns regarding the loss of sales volumes over time.

Q. CAN YOU PROVIDE AN EXAMPLE OF HOW THIS WOULD APPLY TO THE RESIDENTIAL CLASS ASSUMING THAT USAGE DECLINES TWO PERCENT?

A. Yes. As shown on OTS Ex. No. 3, Sch. 4, page 1, Column I, lines 1-3, I recommend that total residential base revenue at proposed rates be approximately $83.6 million ($30.9 million from the customer charge, plus $32.2 million from the first usage block plus $20.5 million from the second usage block). As described above, ordinarily, both the usage rates would be increased the same percentage in a base rate case. Under this scenario, both usage rates would be increased 23.0 percent in order to achieve the same $83.6 million (OTS Ex. No. 3, Sch. 6, p. 1, column E). However, under my rate structure proposal, with all of the increase being applied to the customer charge and first block while maintaining the $1.9456 per Mcf second usage block rate, the same $83.6 million is achieved. Assuming hypothetically that the average usage for residential customer declines two percent to 98.9 Mcf per year, under the first scenario with the two usage rates being increased the same percentage, the Company's margin would decrease $894,000 (OTS Ex, No. 3, Sch. 6, p. 2, lines 1-4). Under my residential usage rate structure proposal, the Company's margin would only decrease $727,000 (OTS Ex, No. 3,

Sch. 6, p. 2, lines 5-8). The difference in these two margins is $167,000 (OTS Ex, No. 3, Sch. 6, p. 2 line 9). This $167,000 represents margin the Company would not otherwise retain if both usage rates were increased the same percentage in this case, and customer usage declines two percent.

Q. WHY ARE YOU RECOMMENDING A HIGHER REVENUE INCREASE FOR THE RESIDENTIAL CLASS THAN THE COMPANY IS PROPOSING?

A. The Company's cost of service study indicates that the rate of return for the Residential Class under proposed rates is 9.00 percent, which is below the requested 9.50 percent rate of return (NFGD Ex. No. 111-B, Sch. 1, p. 11). The lower rate of return for this class indicates that the proposed rates for this class produce less revenue than is necessary to recover the corresponding cost of providing service to this class. Therefore, I believe additional revenue should be received from the Residential Class so that the revenue received from the Residential class in order to move it closer to the system average rate of return.

Q. WHAT WILL THE RATE OF RETURN FOR THIS CLASS BE UNDER YOUR PROPOSED RATES?

A. The rate of return for this class under my proposed rates would be 9.77 percent (OTS Ex. No. 3, Sch. 5, Column C, line 14).

Small Commercial / Public LE 250 (LE250)

Q. WHAT RATE CHANGES ARE BEING PROPOSED BY THE COMPANY FOR THE LE250 CLASS?

A. The Company is proposing to increase the current customer charge of $17.00 by $10.50 per month to $27.50 per month. For sales and SACT customers, the Company is proposing to increase the present $2.6041 per Mcf first usage block rate for all usage up to 5 Mcf per month by $1.6249 to $4.2290 per Mcf, and lower the present $2.2994 per Mcf second usage block rate for all usage over 5 Mcf by $1.0673 to $1.2321 per Mcf. For transportation customers, the Company is proposing to eliminate the $70.00 per month TAF for transportation customers and increase the usage rate by 27.4 percent. The net affect of these customer charge, TAF, and usage rate changes is an increase of $1,170,821 in annual revenue (NFGD Ex. No. 103, Sch. 1, p. 2).

Q. DO YOU OPPOSE THE COMPANY'S PROPOSAL TO ELIMINATE THE TAF FOR THE LE250 CLASS?

A. No.

Q. BASED ON YOUR CUSTOMER COST ANALYSIS, WHAT IS THE MONTHLY LE250 CUSTOMER COST?

A. Based on my customer cost analysis, the direct customer cost is $15.48 per month. This was calculated by dividing the appropriate monthly direct LE250 customer costs allocated to the LE250 class by the average number LE250 customers (OTS Ex. No. 3, Sch. 3, p. 1, Column C, lines 7-9).

Q. WHAT LE250 CUSTOMER CHARGE DO YOU RECOMMEND FOR THIS PROCEEDING?

A. For this proceeding, I recommend that the LE250 customer charge remain at $17.00 per month.

Q. WHY DO YOU RECOMMEND THAT THE CUSTOMER CHARGE FOR THE LE250 CUSTOMERS REMAIN AT $17.00 PER MONTH?

A. I believe that customer charges should be based on cost. However in this case, since the rate is already higher than the direct cost, there is no reason to increase the $17.00 per month rate. Also, since these customers are currently accustomed to paying the $17.00 per month customer charge, there is no reason to reduce it.

Q. WHY IS THE COMPANY PROPOSING TO INCREASE THE FIRST BLOCK USAGE RATE TO $4.2290 PER MCF AND DECREASE THE SECOND BLOCK USAGE RATE TO $1.2321 PER MCF?

A. The Company is making this proposal in order to protect its margin if the LE250 customers use less gas historically. The Company's rationale for this proposal is similar to the rationale provided for the Residential class described above.

Q. DO YOU AGREE WITH THE COMPANY'S PROPOSAL TO INCREASE THE FIRST BLOCK USAGE RATE TO $4.2290 PER MCF AND DECREASE THE SECOND BLOCK USAGE RATE TO $1.2321 PER MCF?

A. No. I believe the Company's loss of margin concern can be addressed through proposed rates similar to the Residential Class described above.

Q. WHAT USAGE RATES DO YOU RECOMMEND FOR THE LE250 CLASS?

A. I recommend that the first LE250 usage block rate be increased 39.8 percent to $3.6405 per Mcf, and that there be no increase in the second usage block rate of $2.2994 per Mcf. A 39.8 percent increase in the first usage block rate will produce $492,000 in additional annual revenue which is an overall increase of 2.9 percent for the LE250 class (OTS Ex. No. 3, Sch. 4, p. 2, line 20).

Q. WHY DO YOU RECOMMEND A 39.8 PERCENT INCREASE IN THE FIRST LE250 USAGE RATE AND NO INCREASE IN THE SECOND USAGE RATE FOR THIS CLASS?

A. I applied the entire increase to the first usage block to address some of the Company's concerns regarding the loss of sales volumes, and corresponding revenue received in the second usage block. I do not believe a usage rate should be lowered when other rates are being increased.

Q. WHY DO YOU RECOMMEND AN INCREASE IN TOTAL REVENUE THAT IS LESS THAN THE COMPANY PROPOSED FOR THIS CLASS?

A. The Company's cost of service study indicates that the rate of return for the LE250 class under proposed rates is 13.73 percent, which is above the requested 9.50 percent rate of return (NFGD Ex. No. 111-B, Sch. 1, p. 11). The higher rate of return for this class indicates that the proposed rates for this class produce more revenue than is necessary to recover the corresponding cost of providing service to this class. Therefore, I recommend that the revenue increase for this class be limited to $492,000 rather than the $1,171,000 proposed by the Company. An increase of $492,000 will move the rate of return for this class toward the system average rate of return.

Q. WHAT WILL THE RATE OF RETURN FOR THIS CLASS BE UNDER YOUR PROPOSED RATES?

A. The rate of return for this class under my proposed rates would be 9.77 percent (OTS Ex. No. 3, Sch. 5, Column D, line 14).

Small Commercial / Public GT250 (GT250)

Q. WHAT RATE CHANGES ARE BEING PROPOSED BY THE COMPANY FOR THE GT250 CLASS?

A. The Company is proposing to increase the current customer charge of $26.50 by $9.00 per month to $35.50 per month. For sales and SACT customers, the Company is proposing to increase the present $1.9583 per Mcf first usage block rate for all usage up to 5 Mcf per month by $2.1290 to $4.0873 per Mcf, and lower the present $1.8271 per Mcf second usage block rate for all usage over 5 Mcf by $0.7133 to $1.1158 per Mcf. For transportation customers, the Company is proposing to eliminate the $70.00 per month TAF, and increase the present usage rate of $1.9873 per Mcf by $0.7045 per Mcf to $2.6918 per Mcf. The net affect of the customer charge increase, TAF elimination, and usage rate changes is an increase of $1,378,954 in annual revenue (NFGD Ex. No. 103, Sch. 1, p. 3).

Q. DO YOU OPPOSE THE COMPANY'S PROPOSAL TO ELIMINATE THE TAF FOR THE GTE250 CLASS?

A. No.

Q. BASED ON YOUR CUSTOMER COST ANALYSIS, WHAT IS THE MONTHLY GT250 CUSTOMER COST?

A. Based on my analysis, the direct GT250 customer cost is $20.59 per month. This was calculated by dividing the appropriate monthly direct customer costs allocated to the GT250 class by the average number of GT250 customers (OTS Ex. No. 3, Sch. 3, p. 1, Column D, lines 7-9).

Q. WHAT SMALL GT250 CUSTOMER CHARGE DO YOU RECOMMEND FOR THIS PROCEEDING?

A. For this proceeding, I recommend that the GT250 customer charge remain at $26.50 per month.

Q. WHY DO YOU RECOMMEND THAT THE CUSTOMER CHARGE FOR THE GTE 250 CLASS REMAIN AT $26.50 PER MONTH?

A. I believe that customer charges should be based on cost. However in this case, since the rate is already higher than the direct cost, there is no reason to increase the $26.50 per month rate. Also, since these customers are currently accustomed to paying the $26.50 per month customer charge, there is no reason to reduce it.

Q. DO YOU AGREE WITH THE COMPANY'S PROPOSAL TO INCREASE SOME AND DECREASE OTHER USAGE RATES IN THE GT250 CLASS?

A. No.

Q. WHAT USAGE RATES DO YOU RECOMMEND FOR THE LE250 CLASS?

A. I recommend that all current GT250 usage rates remain the same (OTS Ex. No. 3, Sch. 4, p. 7, Column E).

Q. WHY DO YOU RECOMMEND THAT ALL PRESENT GT250 USAGE RATE REMAIN THE SAME?

A. There are two reasons. First, since customers are accustomed to paying the current usage rates, I see no reason to change them. Second, the Company's cost of service study indicates that the rate of return for the GT250 class under proposed

rates is 15.10 percent, which is above the requested 9.50 percent rate of return (NFGD Ex. No. 111-B, Sch. 1, p. 11). The higher rate of return for this class indicates that the proposed rates for this class produce more revenue than is necessary to recover the corresponding cost of providing service to this class. Therefore, I recommend no revenue increase for this class. By not increasing rates, the rate of return for this class will remain at 10.07 (OTS Ex. No. 3, Sch. 5, Column E, line 14).

Q. WHY DO YOU RECOMMEND A 10.07 PERCENT RATE OF RETURN FOR THIS CLASS WHEN THE SYSTEM AVERAGE REQUEST IS ONLY 9.50 PERCENT?

A. As described above, customers are accustomed to paying the current customers charges and usage rates. Therefore, I do not believe any of these rates should be reduced to lower the rate of return for this class when other customers in other classes are required to pay higher rates.

Large Commercial / Public Authority (LC/PA)

Q. WHAT RATE CHANGES ARE BEING PROPOSED BY THE COMPANY FOR THE LC/PA CLASS?

A. The Company is proposing to maintain the current customer charge of $121.01 per month, eliminate the $70.00 per month TAF for transportation customers, and

increase the usage rates as much as 64.5 percent. The net affect of these TAF, and usage rate changes is an increase of $3,209,000 in annual revenue (NFGD Ex. No. 103, Sch. 1, p. 5).

Q. DO YOU OPPOSE THE COMPANY'S PROPOSAL TO ELIMINATE THE TAF FOR THE GTE250 CLASS?

A. No. I do not oppose the elimination of the current LC/PA TAF of $70.00 per month as long the revenue currently being collected from the TAF in this class will be collected through the customer charge.

Q. HOW MUCH SHOULD THE LC/PA CUSTOMER CHARGE BE INCREASED TO ACHIEVE THIS GOAL?

A. I recommend that the current $121.01 per month LC/PA customer charge be increased by $22.74 to $143.75 per month.

Q. HOW DID YOU DETERMINE THE $143.75 PER MONTH FOR THE LC/PA CLASS?

A. The current $70.00 per month TAF produces approximately $619,000 dollars per year. Increasing the current $121.01 per month customer charge by $22.74 to $143.75 per month produces approximately the same $619,000 in revenue (27,240 X $22.74 = $619,437). This recommendation will allow the Company to receive

the same amount of money through the customer charge that it currently receives from both the customer charge and TAF.

Q. DO YOU AGREE WITH THE COMPANY'S PROPOSAL TO INCREASE THE USAGE RATES FOR LC/PA CUSTOMERS AS MUCH AS 64.5 PERCENT?

A. No.

Q. WHAT USAGE RATES DO YOU RECOMMEND FOR THE LC/PA CLASS?

A. I recommend that all LC/PA usage rates be increased 13.8 percent. A 13.8 percent increase in all LC/PA usage rates together with increasing the customer charge to $143.75 per month will produce $1,268,000 in additional annual revenue which is an overall increase of 3.7 percent for the LC/PA class (OTS Ex. No. 3, Sch. 3, p. 4, column H, line 37).

Q. WHY DO YOU RECOMMEND AN 13.8 PERCENT INCREASE IN LC/PA USAGE RATES?

A. There are two reasons. First, the Company's cost of service study indicates that the rate of return for the LC/PA class under proposed rates is 12.90 percent, which is above the requested 9.50 percent rate of return (NFGD Ex. No. 111-B, Sch. 1, p.

11). The higher rate of return for this class indicates that the proposed rates for this class produce more revenue than is necessary to recover the corresponding cost of providing service to this class. Therefore, I recommend that the revenue increase for this class be limited to $1,268,000 rather than the $3,209,000 proposed by the Company.

Q. WHAT WILL THE RATE OF RETURN FOR THIS CLASS BE UNDER YOUR PROPOSED RATES?

A. An increase of $1,268,000 will move the rate of return for this class under my proposed rates to 9.77 percent (OTS Ex. No. 3, Sch. 5, Column F, line 14).

Small Volume Industrial Service (SVIS)

Q. WHAT RATE CHANGES ARE BEING PROPOSED BY THE COMPANY FOR THE SVIS CLASS?

A. The Company is proposing to increase the current customer charge of $65.60 by $0.37 per month to $65.97 per month, eliminate the $70.00 per month TAF for transportation customers, and decrease the usage rates slightly. The net effect of the customer charge increase, TAF elimination, and usage rate increases is an increase of $19,763 in annual revenue (NFGD Ex. No. 103, Sch. 1, p. 6).

Q. DO YOU OPPOSE THE COMPANY'S PROPOSAL TO ELIMINATE THE TAF FOR THE SVIS CLASS?

A. No.

Q. DO YOU AGREE WITH THE COMPANY'S PROPOSAL TO DECREASE THE USAGE RATES FIVE PERCENT?

A. No.

Q. WHAT USAGE RATES DO YOU RECOMMEND FOR THE SVIS CLASS?

A. I recommend that all current SVIS usage rates remain the same (OTS Ex. No. 3, Sch. 3, p. 5).

Q. WHY DO YOU RECOMMEND THAT ALL PRESENT GT250 USAGE RATE REMAIN THE SAME?

A. There are two reasons. First, since customers are accustomed to paying the current usage rates, I see no reason to change them. Second, the Company's cost of service study indicates that the rate of return for the SVIS class under proposed rates is 18 percent, which is above the requested 9.50 percent rate of return (NFGD Ex. No. 111-B, Sch. 1, p. 11). The higher rate of return for this class indicates that the present rates for this class produce more revenue than is necessary to recover the corresponding cost of providing service to this class. Therefore, I recommend

no revenue increase or decrease for this class. By keeping rates the same, the rate of return for this class will remain at 18 percent (OTS Exh. No. 3, Sch. 5, column G, line 14).

Intermediate Volume Industrial Service (IVIS)

Q. WHAT RATE CHANGES ARE BEING PROPOSED BY THE COMPANY FOR THE IVIS CLASS?

A. The Company is proposing to increase the current customer charge of $149.00 per month by $52.91 to $201.91, and to eliminate the $70.00 per month TAF for transportation customers. The Company is also proposing to increase some usage rates and decrease other usage rates. The net affect of the customer charge increase TAF elimination and usage rate changes is a decrease in present revenue of $15,858 (NFGD Ex. No. 103, Sch. 1, p. 8).

Q. DO YOU OPPOSE THE COMPANY'S PROPOSAL TO ELIMINATE THE TAF FOR THE IVIS CLASS?

A. No.

Q. WHAT IVIS CUSTOMER CHARGE DO YOU RECOMMEND FOR THIS PROCEEDING?

A. For this proceeding, I recommend that the IVIS customer charge be increased to $175.00 per month.

Q. WHY DO YOU RECOMMEND THAT THE CUSTOMER CHARGE FOR IVIS CUSTOMERS BE INCREASED $26.00 PER MONTH TO $175.00 PER MONTH?

A. The current $70.00 per month TAF produces approximately $232,000 dollars per year. Increasing the current $149.00 per month customer charge by $26.00 to $175.00 per month will produce approximately $114,000 in additional annual revenue to offset the $232,000 dollars described above (4,382 X $26.00 = $113,932). This recommendation will allow the Company to receive some of the money through the customer charge that it currently receives from both the customer charge and TAF.

Q. WHY DO YOU RECOMMEND THAT ONLY SOME OF THE $232,000 SHORTFALL BE RECOVERED THROUGH A HIGHER CUSTOMER CHARGE?

A. As described above, a higher customer charge is not supported by the customer cost analysis. Also, not all the IVIS customers currently pay the $70.00 per month

TAF. Therefore, I believe increasing the current customer charge for these customers by 35 percent is too large of an increase. A customer charge of $175.00 per month strikes a balance between these two concerns.

Q. DO YOU AGREE WITH THE COMPANY'S PROPOSAL TO INCREASE SOME AND DECREASE OTHER IVIS USAGE RATES?

A. No.

Q. WHAT USAGE RATES DO YOU RECOMMEND FOR THE IVIS CLASS?

A. I recommend that all IVIS usage rates be increased 21.0 percent. A 21.0 percent increase in all IVIS usage rates together with increasing the customer charge will produce $586,000 in additional annual revenue which is an overall increase of 7.8 percent for the IVIS class (OTS Ex. No. 3, Sch. 4, p. 6, line 35).

Q. WHY DO YOU RECOMMEND A 21.0 PERCENT INCREASE IN THE IVIS USAGE RATES?

A. There are several reasons. First, the Company's cost of service study indicates that the rate of return for the IVIS class is 6.34 percent, well below the requested 9.50 percent rate of return (NFGD Ex. No. 111-B, Sch. 1, p. 11). The lower rate of return for this class indicates that the proposed rates for this class produce less revenue than is necessary to recover the corresponding cost of providing service to

this class. Therefore, I recommend that the present usage rates be increased to the levels described to move the rate of return for this class to 8.57 percent. Second, I do not believe a revenue decrease for the IVIS class is reasonable at this time, considering the increases being proposed by the Company in other classes. Third, increasing these usage rates will produce additional revenue that can be used to mitigate the revenue increase that will apply to other classes.

Large Volume Industrial Service (LVIS)

Q. WHAT RATE CHANGES ARE BEING PROPOSED BY THE COMPANY FOR THE LVIS CLASS?

A. The Company is proposing to increase the current customer charge of $404.50 by $70.00 per month to $474.50 per month with a corresponding elimination of the $70.00 per month TAF for transportation customers. The Company is also proposing to increase some and decrease other usage rates. The net affect of these customer charge, TAF elimination, and usage rate changes is a decrease in present revenue of $51 (NFGD Ex. No. 103, Sch. 1, p. 9).

Q. DO YOU OPPOSE THE COMPANY'S PROPOSAL TO ELIMINATE THE TAF FOR THE LVIS CLASS?

A. No.

Q. DO YOU AGREE WITH THE COMPANY'S PROPOSAL TO INCREASE SOME OF THE USAGE RATES AND DECREASE OTHER LVIS USAGE RATES?

A. No.

Q. WHAT USAGE RATES DO YOU RECOMMEND FOR THE LVIS CLASS?

A. I recommend that all LVIS usage rates be increased 21.0 percent. A 21.0 percent increase in all LVIS usage rates will produce $596,000 in additional annual revenue which is an overall increase of 18.7 percent for the LVIS class (OTS Ex. No. 3, Sch. 4, p. 7, line 21).

Q. WHY DO YOU RECOMMEND A 21.0 PERCENT INCREASE IN LVIS USAGE RATES?

A. There are several reasons. First, the Company's cost of service study indicates that the rate of return for the LVIS class is 2.81 percent, well below the requested 9.50 percent rate of return (NFGD Ex. No. 111-B, Sch. 1, p. 11). The lower rate of return for this class indicates that the proposed rates for this class produce less revenue than is necessary to recover the corresponding cost of providing service to this class. Therefore, I recommend that the present usage rates be increased to the levels described to move the rate of return for this class to 5.75 percent. Second, I do not believe that rates should be decreased when the Company is requesting

additional revenue from other customers and classes. Third, increasing these usage rates will produce revenue that can be used to mitigate the revenue increase for other classes.

D. Interclass Subsidies

Q. WHEN DOES INTERCLASS SUBSIDY OCCUR?

A. Interclass subsidies occur when the revenue received from one class or group of similar classes is less than the corresponding cost of serving that class or group of classes. In this case, I consider the industrial SVIS, IVIS, LVIS and LIS as the industrial classes.

Q. WHY SHOULD THERE BE NO INTERCLASS SUBSIDY?

A. I believe it is unfair for one class or group of classes to subsidies other classes. In this case, there is an interclass subsidy of $1,445,000 from the residential, LE250, GT250, and PC/PA classes to the industrial SVIS, IVIS, LVIS and LIS classes (OTS Ex. No. 3, Sch. 7, lines 16-17).

Q. SHOULD THERE BE ANY INTERCLASS SUBSIDIES?

A. No. I believe rates should be designed so that the revenue received from each class or group of classes is equal to the corresponding cost to serve that class or group of classes.

Q. DOES YOUR RATE STRUCTURE PROPOSAL REDUCE THIS $1,445,000 SUBSIDY THAT THE INDUSTRIAL CLASS RECEIVES?

A. Yes. Under my proposed rates, this $1,445,000 subsidy decreases by approximately 50 percent to $748,000 (OTS Ex. No. 3, Sch. 5, line 17).

Q. HOW DID YOU REDUCE THE $1,445,000 SUBSIDY THE INDUSTRIAL CLASS RECEIVES?

A. As described above, I recommended that the usage rates for the IVIS and LVIS class be increased 21 percent to produce additional industrial class revenue. This additional revenue reduces the $1,445,000 subsidy that the industrial class receives by approximately 50 percent.

Q. WHY DIDN'T YOU PROPOSE TO ELIMINATE THE SUBSIDY IN THIS CASE?

A. To eliminate the subsidy would have required a 42 percent increase in the IVIS and LVIS usage rates in one case which I believe would be excessive. Therefore, I recommend that the subsidy be eliminated over two base rate cases.

Q. WHY DIDN'T YOU INCREASE THE USAGE RATES FOR THE SVIS AND LIS INDUSTRIAL CLASSES?

A. The rate of return for the SVIS class is already 18 percent, well above the system average rate of return and the rate of return for the other industrial classes. Therefore, I did not propose that any SVIS rates be increased. The LIS class is comprised of customers with competitive alternatives. Therefore, I did not propose any LIS rates be increased.

Q. DO YOU ALSO RECOMMEND THAT THE COMPANY BE GRANTED SOME FLEXIBILITY IN DESIGNING IVIS, LVIS AND LIS USAGE RATES?

A. Yes. The 21.0 percent described above is simply illustrative and would be the weighted average increase necessary to reduce the subsidy the industrial classes receives by 50 percent. The Company may adjust this usage rate increase recommendation as long as the proposed revenue received from the SVIS, IVIS, LVIS and LIS class is equal to the $15,340,000 that I recommend be recovered from the industrial classes under full proposed rates (OTS Ex. No. 3, Sch. 5, Columns G-J, line 1).

E. Seasonal Purchase Gas Demand Charge (PGDC)

Q. HOW ARE THE CURRENT USAGE RATES APPLIED?

A. Currently, customers pay demand costs totaling $1.7566 per Mcf throughout the year. The $1.7566 per Mcf is comprised of a $0.3078 per Mcf delivery charge plus a $1.4488 per Mcf charge recovered through the Company's Natural Gas Supply charge for a total charge of $1.7566 per Mcf (NFGD St. No. 11, Table 13).

Q. IS THE COMPANY PROPOSING TO ESTABLISH SEASONAL RATES TO RECOVER PURCHASE GAS DEMAND COSTS IN THIS PROCEEDING?

A. Yes, the Company is proposing to implement a seasonal rate structure to recover the purchase gas demand costs only during the winter months (NFGD St. No. 11, Table 13, and NFGD Ex. No. 103 Sch. 1).

Q. WHAT IS THE COMPANY'S SEASONAL RATE PROPOSAL?

A. Under the Company's seasonal rate proposal, the present PGDC would increase from $1.7566 per Mcf to $2.6425 per Mcf (NFGD St. No. 11, Table 13). However, this rate would only apply during the months of December, January, February and March. From April through November, the rate would be zero (NFGD St. No. 11, Table 13, p. 25-26).

Q. WHAT IS THE BASIS FOR THE COMPANY'S PROPOSAL?

A. According to the Company, it must secure enough pipeline capacity (demand) and storage service to serve customers during the winter months when demand is highest. Therefore, the rate should only apply during the winter months of December - March to send the proper pricing signals to customers. The Company claims that increasing the distribution demand charge, but only charging the rate during the four winter months will mitigate this recovery discrepancy (NFGD St. No. 11, p 26). Also, this change is being proposed in conjunction with the Company's proposal to decrease the second usage block so that a customer's winter bill does not decrease as much as it would if the PGDC was the same rate throughout the year.

Q. WILL THIS HIGHER PGDC PRODUCE THE SAME AMOUNT OF REVENUE OVER A TWELVE MONTH PERIOD AS THE CURRENT PGDC?

A. Yes. According to the Company, total gas costs for the twelve month period will not change but there will be a redesign of rate gas costs between customer classes.

Q. DO YOU AGREE WITH THE PROPOSAL TO IMPLEMENT SEASONAL PGDC?

A. No. I recommend that the current monthly charge remain the same.

Q. WHY DO YOU RECOMMEND THAT THE SEASONAL PGDC RATE PROPOSAL BE DENIED?

A. There are several reasons. First, the Company's premise concerning the demand costs is false. Second, the proposal is detrimental to heating customers. Third, the proposal shifts costs within classes and between classes.

Q. PLEASE EXPLAIN HOW THE PREMISE CONCERNING DEMAND COSTS IS FALSE.

A. As proposed by the Company, the demand charge will be eliminating during eight months of the year. However, the Company does incur some demand charges every month of the year to provide service to serve the base load of customers and the heating load in the October, November and April. The Company's proposal fails to recover these costs from customers using base load and heating load during the months the rate is proposed to be zero. Therefore, the demand charge incurred during these eight months should be recovered from the customers that use gas these eight months.

Q. PLEASE EXPLAIN HOW THE PROPOSAL IS DETRIMENTAL TO HEATING CUSTOMERS.

A Since the proposed PGDC will increase already high winter gas bills for customers, I don't believe it is in the best interest of customers to increase their

winter bills further, only to reduce the bill the remaining eight months. For example, as shown on NGDC Ex No. 19, Sch. 1, the proposed PGDC will increase the January gas cost for a typical customer by $15.44 ($248.17 - $232.73 = $15.44). Finally, the Company is proposing that some of this increase will be offset by the reduction in margin (distribution charges), but as described above, I recommend that the second usage block for residential customers not be reduced, thus eliminating this potential offset.

Q. PLEASE EXPLAIN HOW THE PROPOSAL SHIFTS COST BETWEEN CLASSES AND WITHIN CLASSES.

A As described by the Company, the proposal increases the gas costs for LE250, GT250 and LC/PA classes while decreasing gas costs for the other classes. The Company has failed to explain why these increases and decreases for the various classes should occur. The proposal also shifts costs away from customers that may use gas in the months where the charge would be zero. The Company has failed to explain how this shift is reasonable and recovers the cost these customers place on the system.

F. Enhanced Energy Efficiency Program Cost Recovery Rider

Q. PLEASE DESCRIBE THE ENHANCED ENERGY EFFICIENCY PROGRAM COST RECOVERY RIDER THE COMPANY IS PROPOSING IN THIS PROCEEDING.

A. The Enhanced Energy Efficiency Program Cost Recovery (EEE) "Rider I" is a proposed surcharge that would apply to a customer's bill if the average annual usage per customer by class decreases or increases compared to the average annual usage by class used to establish base rates in this case. The Company describes the EEE Rider as a revenue decoupling mechanism (NFGD St. No. 11 p. 19, and St. No. 11-S, p. 1-7).

Q. WHY IS THE COMPANY PROPOSING AN EEE RIDER?

A. Originally the Company described the proposed EEE Rider as a means to recover some of the margin that is lost when customer use less gas because of conservation measures. As described above, the Company is experiencing loss in sales volumes as a result of conservation. This loss of sales translates into less money for the Company over time since some fixed costs are recovered on a per Mcf basis. The EEE Rider is designed to recover some of the lost margin associated with reduced consumption for residential commercial/public authority, and industrial service customers (NFGD St. 11, p. 20). In supplemental testimony provided August 8, 2006, the Company clarified that the EEE Rider is designed to incorporate the

affects of temperature and weather, thus including the affects of weather on sales. The EEE Rider will be based on actual usage by customer class (NFGD St. 11-S, p. 2).

Q. HOW WOULD THE EEE RIDER WORK?

A. One year after base rates are established in the case, the Company will re-calculate the average usage per customer class, and compare this average to the average used to determine base rates in this proceeding. If sales volumes have declined because of warmer than normal weather or conservation, the Company would establish a positive EEE Rider charge to recover the margin not recovered because of the lower sales. If sales volumes increase because of colder than normal weather, the Company will establish a negative EEE Rider charge and customers would receive a credit. The Company provided examples of both scenarios in NFGD Ex. No. 19-S, Sch.1. The Company also provided a revised tariff page that sets forth the provisions of the EEE Rider (NFGD Ex. 19-S, Sch. 1, p.1).

Q. WHAT DO YOU RECOMMEND CONCERNING THE EEE RIDER?

A. I recommend that the EEE Rider be denied.

Q. WHY DO YOU RECOMMEND THAT THIS TYPE OF MECHANISM BE REJECTED?

A. There are several reasons. First, I believe that the mechanism proposed by the Company to reconcile margin revenue is not sound ratemaking and not permitted by the Public Utility Code. Second, such a mechanism will guarantee the profitability of the Company by enabling the Company to receive the same revenue even when sales decline regardless of weather or conservation by customers. Third, I believe the mechanism proposed by the Company is unfair to individual customers who maintain the same usage or increase usage. Fourth, I believe the mechanism proposed by the Company is unfair to low income customers who maintain the same usage or increase usage. Fifth, if the goal of such a mechanism is to mitigate future rate increases, there is no guarantee that implementing such a mechanism will mitigate or slow the number of rate increases NFGD will file in the future. Sixth, the EEE Rider shifts costs to existing customers that use the same amount of gas when new customers are acquired.

Q. PLEASE EXPLAIN HOW SUCH A MECHANISM IS NOT SOUND RATEMAKING.

A. The EEE Rider is not sound ratemaking because it is a mechanism that will enable the Company to reconcile revenue without taking into consideration the other aspects of establishing rates such as expenses, rate base and rate of return. The

proposed EEE Rider would violate the long standing prohibition of single issue ratemaking, and the long standing policy that companies are granted the opportunity to earn their allowed rate of return, not guaranteed their allowed rate of return. I am advised by counsel that neither revenue nor rate of return reconciliation mechanisms are permitted under the Public Utility Code. In some limited circumstances expense such as the cost of gas through the 1307(f) mechanism are reconcilable, but not revenue or rate of return.

Q. PLEASE EXPLAIN HOW SUCH A MECHANISM WOULD GUARANTEE MORE REVENUE FOR THE COMPANY REGARDLESS OF WEATHER?

A. Under current ratemaking procedures, Company's receive a return on equity to compensate stockholders for their investment. The EEE Rider will increase the already large portion of the Company's revenue that is not subject to risk i.e. "guaranteed". For example, under the Company's present rate structure, over 90 percent of revenue is guaranteed. This includes the customer charge revenue, revenue from the first usage block, and the purchase gas costs. Under the Company's proposed rate structure, this percentage increases to 94.5 percent. This includes the customer charge revenue, revenue from the first usage block, the purchase gas costs, and the Merchant Function Charge (OTS Ex. No. 3, Sch. 8, Column F, line 6).

Q. PLEASE EXPLAIN HOW SUCH A MECHANISM IS UNFAIR TO INDIVIDUAL CUSTOMERS THAT MAY USE THE SAME OR MORE GAS AFTER THE MECHANISM IS IN PLACE.

A. Since the mechanism will be calculated on average usage by class, if a customer maintains their same usage year after year they will pay more than they otherwise would for using the same amount of gas until the Company files a new base rate case. In many cases, the use of more gas is not the result of failure to conserve gas, but is the result of additional family members in the home, additional gas appliances, room additions, or the removal of an alternative source of heat, or the switch to natural gas for all their heating needs. In each of these examples, the customer would pay NFGD more for delivering the same amount of gas than they otherwise would if the mechanism did not exist until the next rate case.

Q. PLEASE EXPLAIN HOW SUCH A MECHANISM IS UNFAIR TO LOW INCOME CUSTOMERS THAT MAY USE THE SAME OR MORE GAS AFTER THE MECHANISM IS IN PLACE.

A. As described above, customers may increase gas use for different reasons. In many cases, low income customers that may not be able to afford a new high efficiency furnace and will be forced to pay even higher rates through the EEE Rider.

Q. PLEASE EXPLAIN HOW THERE ARE NO GUARANTEES THAT SUCH A MECHANISM WILL REDUCE OR MITIGATE FUTURE BASE RATE INCREASES.

A. There is nothing in this filing that claims such a mechanism will reduce or mitigate future rate increases. The Company plans to file annual increases in the future regardless of the EEE Rider and the revenue it generates. If the Company truly intends to file annual base rate cases, there really is no need for the EEE Rider.

Q. PLEASE EXPLAIN HOW SUCH A MECHANISM WILL PENALIZE EXISTING CUSTOMERS WHEN NEW CUSTOMERS THAT USE LESS GAS ARE ADDED TO THE SYSTEM.

A. As described by the Company, when new customers are added to the system, it has been found that they typically use less gas than existing customers (NFGD St. No. 106, p. 19). Since the mechanism will be calculated on average usage by class, the addition of new customers would lower the average usage for that customer class. Assuming all existing customers maintain the same usage, the Company would receive additional revenue through the EEE Rider even though there was no margin loss from the exiting customers. In addition, the Company will retain the extra margin received from new customers since the margin from new customers and their corresponding usage was not reflected in the base rate case.

Q. FINALLY, HAS THERE BEEN SIGNIFICANT CUSTOMER OPPOSITION TO THE EEE RIDER?

A. Yes. The Commission has received over 560 formal customer complaints specifically recommending the denial of the EEE Rider.

Q. WHAT DO SOME OF THE FORMAL COMPLAINTS STATE?

A. The vast majority simply oppose the EEE Rider. Some of the more poignant complaints, including one docketed at R-00061493C0580 in which the customer stated "Stop the increase, especially the charge for using less gas", and the one docketed at R-00061493C0574 where the customer stated "This is unheard of, to raise your gas [bill] if you don't use enough". A more comprehensive review of all complaints is addressed in OTS Statement No. 4.

Q. WHAT CONDITIONS SHOULD THE COMMISSION IMPLEMENT IF IT APPROVES THE EEE RIDER?

A. If the Commission does approve the EEE Rider, I recommend that there be a reduction in the Company's return on equity and a three year stay-out exemption on filing base rate cases.

Q. WHY DO YOU RECOMMEND THERE BE CONDITIONS ATTACHED TO THE EEE RIDER?

A. As described above, the EEE Rider increases the amount of money the Company is guaranteed to receive through rates. If the EEE Rider is approved, customers should also receive something in return. Therefore, I recommend if the Commission approves the EEE Rider that; 1) the average usage by class be determined on a weather normalized basis to remove the affects of weather, 2) a three year stay-out requirement be put in place to protect the customers from near term rate increases, 3) the Commission reduce the Company's return on equity to reflect the lower risk involved with the implementation of the EEE Rider. OTS witness Deardorff will describe the corresponding reduction to the Company's return on equity if the EEE Rider is approved.

G. Scale-Back of Rates

Q. WHAT DO YOU RECOMMEND IF THE COMMISSION GRANTS THE COMPANY LESS THAN THE $25,892,000 INCREASE REQUESTED?

A. I recommend that the Company scale-back the requested increase proportional to the increase that I am recommending for each class as shown on OTS Ex. No. 3, Sch. 9, Column C.

Q. WHY DO YOU RECOMMEND A PROPORTIONAL SCALE-BACK IF THE COMMISSION GRANTS THE COMPANY LESS THAN THE $25,892,000 INCREASE REQUESTED?

A. As shown on OTS Ex. No. 3, Sch. 5, the rate of return for the residential LE250, and LC/PA classes are close to the system average. A scale-back proportional to the increase that I am proposing will move the rates of return for these classes closer to the system average rate of return than they are under present rates.

Q. SHOULD THE RESIDENTIAL CUSTOMER CHARGE THAT YOU PROPOSE ALSO BE SCALED BACK IF THE COMMISSION GRANTS LESS THAN THE FULL INCREASE?

A. Yes. As described above, I am proposing that the residential customer charge be increased $2.00 per month, from $12.00 to $14.00 per month. This increase should also be scaled-back proportionally if the Commission grants an increase that is less than $25,892,000 requested. For example, if the Commission grants the Company a $12,946,000 increase, which is 50% of the requested increase, then the customer charge should only be increased $1.00 to $13.00 per month, which is 50% of the $2.00 per month increase described above.

Q. SHOULD THE COMPANY SCALE BACK ANY OTHER CUSTOMER CHARGES OR ANY RATE THAT WAS NOT INCREASED?

A. No. Since no other customer charge was increased (except for the TAF roll-in), no other customer charge should be scaled back. Also, no rate that was not increased should be reduced or scaled-back.

H. Vice Chairman Cawley's Issues

Q. DID VICE CHAIRMAN CAWLEY ISSUE A STATEMENT IN THIS PROCEEDING?

A. Yes. On July 20, 2006 Vice Chairman Cawley issued a statement requesting the parties address several issues:

Q. WHAT ISSUES DID VICE CHAIRMAN CAWLEY REQUEST THE PARTIES ADDRESS IN THIS PROCEEDING?

A. Vice Chairman Cawley requested that the Administrative Law Judge and the parties to this proceeding address the following questions:

1. Do fixed charges for residential and small commercial customer distribution services discourage conservation of energy? If so, what other revenue decoupling models can be implemented that would optimally meet the dual needs of providing incentives for consumers to conserve energy, while providing reasonably stable revenues for utilities?

2. Do declining block rate designs remove the incentive for consumers, especially large residential consumers, to conserve energy? If so, should declining block rates be phased out over time?

3. Can and should rate designs vary among customer classes. For example, larger industrial and commercial ("C&I") customers generally have a much smaller percentage of their revenues attributable to distribution services. Given this dynamic, does the commodity design of supply service rates provide adequate incentive for larger C&I customers to conserve energy?

Q. WHAT IS YOUR POSITION ON THE FIRST PARAGRAPH CONCERNING FIXED CHARES?

A. A fixed charge, typically the customer charge, is paid by each customer each month and does not vary with the amount of gas used. This charge has increased in the past, and is proposed to increase to $20.64 per month in this case. It has been my experience that the average customer is more concerned with the total bill, and not necessarily with the individual components of the bill. Any conservation efforts by customers will not change the customer charge, but will change the total bill. If rates are being increased, it is the OTS position that any increase in a customer's total bill causes customers to conserve. Therefore if rates are being increased, and if you accept that a customer will conserve when faced with a higher bill then it doesn't matter where any rate increase is applied. However, if the Commission wishes to promote conservation, rate increases should be applied to the usage rates because those customers that do conserve will receive

a larger reduction than they otherwise would if the customer charge was increased, which remains the same regardless of usage.

Q. WHAT IS THE VICE CHAIRMAN REFERRING TO IN THE SECOND PART OF THIS FIRST PARAGRAPH?

A. I believe the Vice Chairman is referring to the currently regulatory scenario where Companies recover some of there fixed costs through a customers charge, and the rest through usage rates. Under this scenario, the Company's revenue is dependent or "coupled" with customers using a certain amount of gas, giving the Company a disincentive to encourage customers to conserve.

Q. WHAT IS YOUR POSITION ON THE DECOUPLING OF REVENUE AND USAGE?

A. OTS does not support a revenue decoupling mechanism because such mechanisms are not sound ratemaking and because such a mechanism constitutes single issue ratemaking by enabling a utility to reconcile revenue without taking into consideration the other aspects of establishing rates such as expenses, rate base and rate of return. I am advised by counsel that neither revenue nor rate of return reconciliation mechanisms are permitted under the Public Utility Code. If the Commission wishes to implement a revenue decoupling mechanism there should

also be something in it for customers such as a stay-out provision and a lower return on equity as described above for NFGD.

Q. WHAT IS YOUR POSITION ON DECLINING BLOCK RATES?

A. As described above OTS believes the average customer is more concerned with the total bill. Therefore, a declining block rate structure probably does not affect the average customer's decision to conserve. Declining block rates were implemented many years ago under the theory that the more a customer uses, the less cost per unit the utility incurs in providing that service. The declining block structure was developed to match this cost causation theory. Therefore, OTS recommends that declining block rates not be phased-out at this time.

Q. WHAT IS YOUR RECOMMENDATION CONCERNING VICE CHAIRMAN CAWLEY'S THIRD QUESTION?

A. I believe there should be different rate designs among customer classes.

Q. WHY DO YOU BELIEVE THAT THERE SHOULD BE DIFFERENT RATE DESIGNS AMONG CUSTOMER CLASSES?

A. The Company incurs different costs to provide service to the various customer classes. With three types of costs components to be recovered from each class, i.e. demand, commodity and customer, the level of recovery of these costs to serve

each customer class should differ so that the Company recovers the corresponding cost of providing each cost component incurred by that customer class.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

Appendix A

JOSEPH KUBAS

PENNSYLVANIA PUBLIC UTILITY COMMISSION
PO BOX 3265
HARRISBURG, PA 17105-3265

Education: Bachelor of Science in Civil Engineering Technology, 1985, University of Pittsburgh at Johnstown, Johnstown, PA.

Continuing Education: Legal Principles and Practices of Surveying at the University of Maryland. Economics, Accounting, Lotus, at the Howard Community College. 33 Credit hours of accounting at the University of Pittsburgh at Johnstown. Managing Multiple Priorities at the Pennsylvania State University. Various PA-PUC and Utility Company Seminars.

Professional Exams: Engineer In Training, 1985,
Uniform Certified Public Accounting Exam, 1993.

Experience: **FIXED UTILITY VALUATION ENGINEER III**
December 1999 - Present

Pennsylvania Public Utility Commission
Office of Trial Staff

Duties: Perform the duties of a Fixed Utility Valuation Engineer III in the Office of Trial Staff (OTS).

Analyze and review valuation engineering, and rate structure data submitted by Water, Sewer, Telephone, Gas and Steam Heat utilities to justify utility service rates or alternative forms of regulation, by researching, analyzing, and reviewing rate case filings, tariff filings, acquisitions and investigations. Participate in on-site inspections of utility properties to determine the used and usefulness of the plant-in service and make recommendations. Prepare interrogatories in the areas of rate base, rate structure, revenue and quality of service in order to obtain additional information regarding a utility's filing. Analyze present revenue, proposed revenue, rate structure and tariff issues.

Recommend adjustments to rate base, depreciation, revenue and rate structure and other issues concerning utilities. Prepare testimony and exhibits for the purpose of establishing the OTS positions in formal and informal proceedings before the Commission. Participate in Commission consultative report proceedings and collaboratives undertaken by the Commission.

Experience: **FIXED UTILITY VALUATION ENGINEER II**
April 1996 - December 1999

Pennsylvania Public Utility Commission
Office of Trial Staff and Bureau of Fixed Utility Services

Duties: Perform the duties of a Fixed Utility Valuation Engineer II in the Office of Trail Staff (OTS) and Bureau of Fixed Utility Services.

Experience: **FIXED UTILITY VALUATION ENGINEER TRAINEE, I & II** May 1993 - March 1996

Pennsylvania Public Utility Commission
Office of Trial Staff
Telecommunications and Water Division

Duties: Perform the duties of a Fixed Utility Valuation Engineer II in the Rate Structure/Engineering Section of the Telecommunications and Water Division of the Office of Trial Staff (OTS).

Experience: **CIVIL ENGINEER**
May 1985 - January 1991

Clark Finefrock & Sackett Inc.
7135 Minstrel Way
Columbia, MD 21045

Duties: Engineering, Surveying, Computer, and Field Inspection work related to land development projects in Maryland.

Testimony Before the Pennsylvania Public Utility Commission

1.	National Utilities Inc. (Water)	R-00953416	April 1996
2.	Consumer Pennsylvania Water Company - Roaring Creek Division	R-00973869	May 1997
3.	Philadelphia Suburban Water Company	R-00973952	August 1997
4.	Bell Atlantic - Pennsylvania Inc.	P-00971307	March 1998
5.	City of Bethlehem- Bureau of Water	R-00984375	September 1998
6.	Pennsylvania Telephone Association - Chapter 30 Plan	P-00981425	December 1998
7.	GTE North Inc. Telephone Chapter 30 Plan	P-00981449	February 1999
8.	Pennsylvania American Water Co.	R-00994638	August 1999
9.	Philadelphia Suburban Water Co.	R-00994868	February 2000
10.	PG Energy (Gas)	R-00005119	June 2000
11.	Pennsylvania American Water - Coatesville Acquisition	A-212285-F07201	July 2000
12.	T. W Phillips Gas and Oil Company	R-00005459	October 2000
13.	Verizon North - Chapter 30 Plan	P-00001854	January 2001
14.	Philadelphia Gas Works	R-00006042	April 2001
15.	PFG Gas Inc. & Penn Fuels Gas Co.	R-00013679	July 2001
16.	Pennsylvania American Water Co.	R-00016339	August 2001
17.	Philadelphia Suburban Water Co.	R-00016750	February 2002
18.	Philadelphia Gas Works	R-00017034	May 2002
19.	PFG Gas Inc. & Penn Fuels Gas Co	R-00027389	July 2002
20.	Verizon - Pennsylvania, Inc.	P-00021973	September 2002
21.	Verizon - Pennsylvania, Inc.	P-00937105-F0002	January 2003
22.	Pennsylvania American Water Co.	R-00027982	April 2003
23.	Dominion Peoples 1307(f)	R-00038170	May 2003
24.	Verizon PA / Verizon North	C-20027195	July 2003
25.	National Fuel Gas Distribution, Inc.	R-00038168	July 2003
26.	Aqua Pennsylvania Inc.	R-00038805	February 2004
27.	Dominion Peoples 1307 (f)	R-00049153	May 2004
28.	PPL Electric Utilities	R-00049255	June 2004
29.	National Fuel Gas Distribution, Inc.	R-00049656	December 2004
30.	City of Lancaster - Sewer	R-00049862	March 2005
31.	Dominion Peoples 1307(f)	R-00050267	May 2005
32.	Verizon PA / Verizon North	C-20027195	June 2005
33.	PPL Gas Utilites Inc. 1307(f)	R-00050540	July 2005
34.	United Telephone	A-313200-F0007	February 2006
35.	Aqua Pa	R-00051030	February 2006
36.	T.W. Phillips 1307(f)	R-00051134	March 2006

37.	City of Dubois	R-00050671	May 2006
38.	T.W. Phillips	R-00051178	May 2006
39.	The Peoples Natural Gas Co. 1307(f)	R-00061301	June 2006
40.	Meted/Penelec	R-00061366 R-00061367	July 2006
41.	The York Water Company	R-00061322	July 2006
42.	PPL Gas Utilities Corporation	R-00061398	August 2006

ORIGINAL

OTS Exhibit No. 3
Witness: Joseph Kubas

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

NATIONAL FUEL GAS DISTRIBUTION CORPORATION

DOCKET NO. R-00061493

Exhibit to Accompany

the

Direct Testimony

of

Joseph Kubas

Office of Trial Staff

Concerning:

Rate Base Issues
Cost of Service Issues
Rate Structure
Scale-Back of Rates
Vice Chairman Cawley's Questions

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
PENNSYLVANIA DIVISION
OTS RB INTERROGATORIES

OTS-RB-12 Reference Exhibit No. 108, Schedule 1, page 1 concerning the $313,600 of 2004 FERC Compliance expenditures.

A. Provide a schedule that shows a breakdown of this $313,600 by pipeline project/test and plant account.

B. Indicate if the amounts by accounts are estimates or actual amounts.

C. If estimated amounts, explain how the estimates were determined.

D. Indicate when the expenditure occurred or the date the expenditures will occur.

Response

a. Below is a description of the $1,000,000 as provided for in Rate Base:

SCADA Hardware and Software	$742,000
Back-up generator, UPS, costs associated with upgrading the rental space to meet dispatch needs	250,000
Total Amount to Rate Base	$992,000

b. These are estimates.

c. The estimates are based on costs expended for this type of equipment for the current dispatch system.

d. The expenditures will occur beginning approximately when Supply's compliance filing is complete.

R-00061493
OTS-RB-11
Witness: Friedrich-Alf
Page 1

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
PENNSYLVANIA DIVISION
OTS RB INTERROGATORIES

OTS-RB-11 Reference Exhibit No. 108, Schedule 1, page 1 concerning the $828,611 of Capitalized Distribution Pipeline expenditures.

A. Provide a schedule that shows a breakdown of this $828,611 by pipeline project/test and plant account.

B. Indicate if the amounts by accounts are estimates or actual amounts.

C. If estimated amounts, explain how the estimates were determined.

D. Indicate when the expenditure occurred or the date the expenditures will occur.

Response

a. Please see page 2 regarding specific details of this estimate.

b. The projected increase is an estimate applied to known costs.

c. With the implementation of higher standard thresholds, the company anticipates that there will be an increase in mainline and service line replacements. The projected increase was based on experience achieved in the New York Division where safety performance measures have been implemented by the New York Public Service Commission and knowledge of the system by the Engineering department.

d. Standard thresholds from the New York Division are already being instituted with regards to Operation and Maintenance in Pennsylvania. Thresholds from the New York Division with regards to capital work will be instituted with the beginning of the next fiscal period.

R-00061493
OTS-RB-11
Witness: Friedrich-Alf
Page 2

Pennsylvania Division
Projected Annual Increase In Expenditures
Resulting From Proposed Distribution Integrity Management Regulations

Operations Capital Activities		Current Annual Expenditures (Incl. Benefits) FY 2005	Projected Increase %	Projected Increase $
Main and Service Replacements				
Activity	Description			
415B	Main Replacement	$3,643,684	10%	$364,368
450X	Service Replacement	$4,642,427	10%	$464,243
Total Projected Increase to Operations Capital Activities				$828,611

National Fuel Gas Distribution Company
R-00061493
OTS Calculation of Customer Costs
(Based on NFGD Exhibit 111 Schedule 4)

	Cost Function	Residential Service	LE250 Service	GT250 Service	Large Comm Service	SVIS Service	IVIS Service	LVIS Service	LIS Service	TOTAL Service
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
1	Operating and Maintenance Exp	$16,907,363	$841,424	$500,181	$542,618	$48,892	$242,024	$46,022	$37,855	$19,166,379
2	Depreciation Exp	$4,009,287	$208,317	$134,070	$121,142	$10,964	$43,005	$6,880	$4,878	$4,538,543
3	Taxes Other Than Income	$0	$0	$0	$0	$0	$0	$0	$0	$0
4	Return	$8,365,701	$435,971	$275,417	$235,444	$21,473	$79,300	$12,250	$8,263	$9,433,820
5	Income Taxes	$3,471,766	$180,928	$114,298	$97,709	$8,911	$32,910	$5,084	$3,429	$3,915,035
6	Total Annual Customer Cost	$32,754,117	$1,666,641	$1,023,966	$996,913	$90,241	$397,239	$70,236	$54,425	$37,053,777
7	Monthly Customer Cost	$2,729,510	$138,887	$85,331	$83,076	$7,520	$33,103	$5,853	$4,535	$3,087,815
8	Average Annual Customers	193,982	8,974	4,144	2,270	187	366	39	13	209,975
9	Monthly Cost per Customer	$14.07	$15.48	$20.59	$36.60	$40.21	$90.45	$150.08	$348.88	$14.71

OTS Exhibit No. 3
Schedule 3
Page 1 of 9

National Fuel Gas Distribution Company
R-00061493
OTS Allocation of Plant to Customer Costs
(Based on NFGD Exhibit 111-A, Schedule 1, Page 1)

	Cost Function	Residential Service	LE250 Service	GT250 Service	Large Comm Service	SVIS Service	IVIS Service	LVIS Service	LIS Service	TOTAL Service
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
1	Services	$120,539,755	$6,352,570	$3,733,105	$2,543,281	$233,110	$627,035	$72,293	$24,008	$134,125,157
2	Meters	$9,466,538	$400,327	$621,075	$1,507,491	$124,610	$836,768	$164,480	$146,422	$13,267,711
3	House Installations	$2,255,060	$95,363	$147,949	$359,105	$29,684	$199,330	$39,181	$34,880	$3,160,552
4	House Regulators Install	$730,296	$30,883	$47,912	$0	$9,613	$0	$0	$0	$818,704
5	Other	$0	$0	$0	$0	$0	$0	$0	$0	$0
6	Total Distribution	$132,991,649	$6,879,143	$4,550,041	$4,409,877	$397,017	$1,663,133	$275,954	$205,310	$151,372,124
7	General Plant	$0	$0	$0	$0	$0	$0	$0	$0	$0
8	Intangible Plant	$0	$0	$0	$0	$0	$0	$0	$0	$0
9	TOTAL Plant In Service	$132,991,649	$6,879,143	$4,550,041	$4,409,877	$397,017	$1,663,133	$275,954	$205,310	$151,372,124

OTS Exhibit No. 3
Schedule 3
Page 2 of 9

National Fuel Gas Distribution Company
R-00061493
OTS Allocation of Accrued to Customer Costs
(Based on NFGD Exhibit 111-A, Schedule 1, Page 2)

	Cost Function	Residential Service	LE250 Service	GT250 Service	Large Comm Service	SVIS Service	IVIS Service	LVIS Service	LIS Service	TOTAL Service
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
1	Services	$39,963,678	$2,106,127	$1,237,672	$843,198	$77,285	$207,887	$23,968	$7,960	$44,467,775
2	Meters	$6,346,134	$268,369	$416,353	$1,010,585	$83,536	$560,949	$110,263	$98,158	$8,894,347
3	House Installations	$1,074,688	$45,447	$70,507	$171,138	$14,146	$94,994	$18,673	$16,623	$1,506,216
4	House Regulators Install	$335,754	$14,199	$22,028	$0	$4,420	$0	$0	$0	$376,401
5	Other	$0	$0	$0	$0	$0	$0	$0	$0	$0
6	Total Distribution	$47,720,254	$2,434,142	$1,746,560	$2,024,921	$179,387	$863,830	$152,904	$122,741	$55,244,739
7	General Plant	$0	$0	$0	$0	$0	$0	$0	$0	$0
8	Intangible Plant	$0	$0	$0	$0	$0	$0	$0	$0	$0
9	TOTAL Accrued	$47,720,254	$2,434,142	$1,746,560	$2,024,921	$179,387	$863,830	$152,904	$122,741	$55,244,739

OTS Exhibit No. 3
Schedule 3
Page 3 of 9

National Fuel Gas Distribution Company
R-00061493
OTS Allocation of Rate Base Income Taxes and Return Dollars to Customer Costs
(Based on NFGD Exhibit 111-I)

	Cost Function		Residential Service	LE250 Service	GT250 Service	Large Comm Service	SVIS Service	IVIS Service	LVIS Service	LIS Service	TOTAL Service
	(A)		(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
1	Gas Plant		$138,001,431	$7,138,278	$4,721,442	$4,575,999	$411,974	$1,725,783	$286,350	$213,042	$157,074,299
2	Accrued		-$49,755,639	-$2,539,423	-$1,816,198	-$2,092,413	-$185,464	-$889,284	-$157,128	-$125,882	-$57,561,431
3	Working Capital		$0	$0	$0	$0	$0	$0	$0	$0	$0
4	Customer Deposits		$0	$0	$0	$0	$0	$0	$0	$0	$0
5	Deferred Income Taxes		$0	$0	$0	$0	$0	$0	$0	$0	$0
6	Deferred Income Taxes ITC		$0	$0	$0	$0	$0	$0	$0	$0	$0
7	Total Rate Base		$88,245,792	$4,598,855	$2,905,244	$2,483,586	$226,510	$836,499	$129,222	$87,160	$99,512,868
8	Return Dollars	9.480%	$8,365,701	$435,971	$275,417	$235,444	$21,473	$79,300	$12,250	$8,263	$9,433,820
9	Income Taxes	41.50%	$3,471,766	$180,928	$114,298	$97,709	$8,911	$32,910	$5,084	$3,429	$3,915,035
10	Return Plus Taxes		$11,837,467	$616,900	$389,715	$333,153	$30,385	$112,210	$17,334	$11,692	$13,348,855

OTS Exhibit No. 3
Schedule 3
Page 4 of 9

National Fuel Gas Distribution Company
R-00061493
OTS Allocation of Depreciation Expense to Customer Costs
(Based on NFGD Exhibit 111-A, Schedule 1, page 3)

	Cost Function	Residential Service	LE250 Service	GT250 Service	Large Comm Service	SVIS Service	IVIS Service	LVIS Service	LIS Service	TOTAL Service
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
1	Services	$3,723,403	$196,227	$115,313	$78,560	$7,201	$19,369	$2,233	$742	$4,143,048
2	Meters	$212,119	$8,970	$13,917	$33,779	$2,792	$18,750	$3,686	$3,281	$297,294
3	House Installations	$55,281	$2,338	$3,627	$8,803	$728	$4,886	$961	$855	$77,479
4	House Regulators Install	$18,484	$782	$1,213	$0	$243	$0	$0	$0	$20,722
5	Other	$0	$0	$0	$0	$0	$0	$0	$0	$0
6	Total Distribution	$4,009,287	$208,317	$134,070	$121,142	$10,964	$43,005	$6,880	$4,878	$4,538,543
7	General Plant	$0	$0	$0	$0	$0	$0	$0	$0	$0
8	Intangible Plant	$0	$0	$0	$0	$0	$0	$0	$0	$0
9	TOTAL Depreciation Expe	$4,009,287	$208,317	$134,070	$121,142	$10,964	$43,005	$6,880	$4,878	$4,538,543

OTS Exhibit No. 3
Schedule 3
Page 5 of 9

National Fuel Gas Distribution Company
R-00061493
OTS Allocation of Operation and Maintenance Expense to Customer Costs
(Based on NFGD Exhibit 111-A, Schedule 1, Page 6)

	Cost Function	Residential Service	LE250 Service	GT250 Service	Large Comm Service	SVIS Service	IVIS Service	LVIS Service	LIS Service	TOTAL Service
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
1	Distribution O and M									
2	Mains and Services	$0	$0	$0	$0	$0	$0	$0	$0	$0
3	Customer Installations	$1,031,401	$53,350	$35,288	$34,201	$3,079	$12,898	$2,140	$1,592	$1,173,949
4	Meters and House Regulators	$1,721,933	$72,817	$112,972	$258,124	$22,667	$143,278	$28,165	$25,071	$2,385,027
5	Services Maintenance	$480,625	$25,329	$14,885	$10,141	$929	$2,500	$288	$96	$534,793
6	Supervision and Engineering	$1,504,860	$73,101	$67,251	$108,522	$9,603	$54,322	$10,293	$8,859	$1,836,811
7	Rents	$0	$0	$0	$0	$0	$0	$0	$0	$0
8	Other Distribution Exp	$0	$0	$0	$0	$0	$0	$0	$0	$0
9	Total Distribution O and M	$4,738,819	$224,597	$230,396	$410,988	$36,278	$212,998	$40,886	$35,618	$5,930,580
10	Customer Account									
11	Meter Reading	$2,368,315	$120,051	$52,507	$25,619	$2,455	$5,649	$1,000	$435	$2,576,031
12	Customer Records and Collection	$8,337,564	$422,634	$184,850	$90,189	$8,643	$19,888	$3,519	$1,533	$9,068,820
13	Uncollectible Accounts	$0	$0	$0	$0	$0	$0	$0	$0	$0
14	Miscellaneous Customer Account	$453,352	$22,980	$10,051	$4,904	$470	$1,081	$191	$83	$493,112
15	Supervision	$1,009,313	$51,162	$22,377	$10,918	$1,046	$2,408	$426	$186	$1,097,836
16	Total Customer Account O and M	$12,168,544	$616,827	$269,785	$131,630	$12,614	$29,026	$5,136	$2,237	$13,235,799
17	Customer Service									
18	Customer Service	$0	$0	$0	$0	$0	$0	$0	$0	$0
19	Transportation Administration	$0	$0	$0	$0	$0	$0	$0	$0	$0
20	Total Customer Service O and M	$0	$0	$0	$0	$0	$0	$0	$0	$0
21	Sales Promotion									
22	Sales Promotion	$0	$0	$0	$0	$0	$0	$0	$0	$0
23	TOTAL O and M Expense	$16,907,363	$841,424	$500,181	$542,618	$48,892	$242,024	$46,022	$37,855	$19,166,379

OTS Exhibit No. 3
Schedule 3
Page 6 of 9

National Fuel Gas Distribution Company
R-00061493
OTS Allocation of Administrative and General Expense to Customer Costs
(Based on NFGD Exhibit 111-A-page 7-8)

	Cost Function	Residential Service	LE250 Service	GT250 Service	Large Comm Service	SVIS Service	IVIS Service	LVIS Service	LIS Service	TOTAL Service
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
1	A & G Salaries									
2	Corporate Management Non O & M	$0	$0	$0	$0	$0	$0	$0	$0	$0
3	Corporate Management O & M	$0	$0	$0	$0	$0	$0	$0	$0	$0
4	Customer Services	$0	$0	$0	$0	$0	$0	$0	$0	$0
5	Operations Engineering & Mechanical	$0	$0	$0	$0	$0	$0	$0	$0	$0
6	Total A & G Salaries	$0	$0	$0	$0	$0	$0	$0	$0	$0
7	Office Supplies and Expense									
8	Corporate Management Non O & M	$0	$0	$0	$0	$0	$0	$0	$0	$0
9	Corporate Management O & M	$0	$0	$0	$0	$0	$0	$0	$0	$0
10	Customer Services	$0	$0	$0	$0	$0	$0	$0	$0	$0
11	Operations Engineering & Mechanical	$0	$0	$0	$0	$0	$0	$0	$0	$0
12	Total Office Supply and Expense	$0	$0	$0	$0	$0	$0	$0	$0	$0
13	Adm. Exp. Transferred - Credit									
14	Corporate Management O & M	$0	$0	$0	$0	$0	$0	$0	$0	$0
15	Operations Engineering & Mechanical	$0	$0	$0	$0	$0	$0	$0	$0	$0
16	Total Adm. Exp. Transferred - Credit	$0	$0	$0	$0	$0	$0	$0	$0	$0
17	Outside Services Employed									
18	Corporate Management Non O & M	$0	$0	$0	$0	$0	$0	$0	$0	$0
19	Corporate Management O & M	$0	$0	$0	$0	$0	$0	$0	$0	$0
20	Operations Engineering & Mechanical	$0	$0	$0	$0	$0	$0	$0	$0	$0
21	Total Outside Services	$0	$0	$0	$0	$0	$0	$0	$0	$0
22	Property Insurance									
23	Operations Engineering & Mechanical	$0	$0	$0	$0	$0	$0	$0	$0	$0
24	Total Property Insurance	$0	$0	$0	$0	$0	$0	$0	$0	$0
25	Injuries and Damages									
26	Corporate Management Non O & M	$0	$0	$0	$0	$0	$0	$0	$0	$0
27	Corporate Management O & M	$0	$0	$0	$0	$0	$0	$0	$0	$0
28	Customer Services	$0	$0	$0	$0	$0	$0	$0	$0	$0
29	Operations Engineering & Mechanical	$0	$0	$0	$0	$0	$0	$0	$0	$0
30	Total Injuries and Damages	$0	$0	$0	$0	$0	$0	$0	$0	$0

OTS Exhibit No. 3
Schedule 3
Page 7 of 9

National Fuel Gas Distribution Company
R-00061493
OTS Allocation of Administrative and General Expense to Customer Costs
(Based on NFGD Exhibit 111-B-page 8-9)

	Cost Function	Residential Service	LE250 Service	GT250 Service	Large Comm Service	SVIS Service	IVIS Service	LVIS Service	LIS Service	TOTAL Service
	(A)	(B)	(C)	(D)	(F)	(G)	(H)	(I)	(J)	(K)
1	Employee Pension and Benefits									
2	Corporate Management Non O & M	$0	$0	$0	$0	$0	$0	$0	$0	$0
3	Corporate Management O & M	$0	$0	$0	$0	$0	$0	$0	$0	$0
4	Customer Services	$0	$0	$0	$0	$0	$0	$0	$0	$0
5	Operations Engineering & Mechanical	$0	$0	$0	$0	$0	$0	$0	$0	$0
6	Total Employee Pension and Benefits	$0	$0	$0	$0	$0	$0	$0	$0	$0
7	Franchise Requirement									
8	Corporate Management Non O & M	$0	$0	$0	$0	$0	$0	$0	$0	$0
9	Corporate Management O & M	$0	$0	$0	$0	$0	$0	$0	$0	$0
10	Total Franchise Requirement	$0	$0	$0	$0	$0	$0	$0	$0	$0
11	Regulatory Commission Expense									
12	Corporate Management Non O & M	$0	$0	$0	$0	$0	$0	$0	$0	$0
13	Corporate Management O & M	$0	$0	$0	$0	$0	$0	$0	$0	$0
14	Customer Service	$0	$0	$0	$0	$0	$0	$0	$0	$0
15	Total Regulatory Commission Expense	$0	$0	$0	$0	$0	$0	$0	$0	$0
14	Miscellaneous General Expense									
15	Corporate Management Non O & M	$0	$0	$0	$0	$0	$0	$0	$0	$0
16	Corporate Management O & M	$0	$0	$0	$0	$0	$0	$0	$0	$0
17	Customer Services	$0	$0	$0	$0	$0	$0	$0	$0	$0
18	Operations Engineering & Mechanical	$0	$0	$0	$0	$0	$0	$0	$0	$0
19	Total Miscellaneous General Expense	$0	$0	$0	$0	$0	$0	$0	$0	$0
20	Rents									
21	Corporate Management Non O & M	$0	$0	$0	$0	$0	$0	$0	$0	$0
22	Corporate Management O & M	$0	$0	$0	$0	$0	$0	$0	$0	$0
23	Customer Services	$0	$0	$0	$0	$0	$0	$0	$0	$0
24	Operations Engineering & Mechanical	$0	$0	$0	$0	$0	$0	$0	$0	$0
25	Total Rents	$0	$0	$0	$0	$0	$0	$0	$0	$0
26	Maintenance and General Plant	$0	$0	$0	$0	$0	$0	$0	$0	$0
27	TOTAL A & G Expense	$0	$0	$0	$0	$0	$0	$0	$0	$0
28	Customer Deposits	$0	$0	$0	$0	$0	$0	$0	$0	$0
29	TOTAL A&G and O&M Expense	$16,907,363	$841,424	$500,181	$542,618	$48,892	$242,024	$46,022	$37,855	$19,166,379

OTS Exhibit No. 3
Schedule 3
Page 8 of 9

National Fuel Gas Distribution Company
R-00061493
OTS Allocation of Taxes Other Than Income to Customer Costs
(Based on NFGD Exhibit 111-A, Schedule 1, Pages 9-10)

	Cost Function	Residential Service	LE250 Service	GT250 Service	Large Comm Service	SVIS Service	IVIS Service	LVIS Service	LIS Service	TOTAL Service
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
1	Taxes Other Than Income									
2	FICA	$0	$0	$0	$0	$0	$0	$0	$0	$0
3	Federal Unemployment	$0	$0	$0	$0	$0	$0	$0	$0	$0
4	State Unemployment	$0	$0	$0	$0	$0	$0	$0	$0	$0
5	Capital Stock	$0	$0	$0	$0	$0	$0	$0	$0	$0
6	Property and PURTA	$0	$0	$0	$0	$0	$0	$0	$0	$0
7	Sales Tax	$0	$0	$0	$0	$0	$0	$0	$0	$0
8	Total Taxes Other Than Income	$0	$0	$0	$0	$0	$0	$0	$0	$0

OTS Exhibit No. 3
Schedule 3
Page 9 of 9

National Fuel Gas Distribution Corporation
R - 00061493

OTS Proposed Rates and Revenue
Test Year Ending January 31, 2007

	Residential	Company Present	Increase	OTS Proposed	Percent Increase	Units	Present Revenue	Difference	OTS Proposed Revenue	Percent Increase
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
	Total Residential Sales Non-LIRA									
1	Customer Charge	$12.00	$2.00	$14.00	16.7%	2,209,152	$26,509,824	$4,418,304	$30,928,128	
2	0-5	$2.7673	$1.2160	$3.9833	43.9%	8,088,651	$22,384,277	$9,835,949	$32,220,226	
3	Over 5	$1.9456	$0.0000	$1.9456	0.0%	10,498,509	$20,425,900	$0	$20,425,900	
4	LIRA Rider	$0.4557	$0.1249	$0.5806	27.4%	18,587,360	$8,470,260	$2,321,561	$10,791,821	
5	*Merchant Function*	*$0.0000*	*$0.3909*	*$0.39085*	-	*18,587,360*	*$0*	*$7,264,870*	*$7,264,870*	
6	Gas Revenue						$242,438,654	-$116,849	$242,321,805	
7	Revenue Adjustment						$50,782	$3,401	$54,183	
8	Total Residential Sales Non-LIRA						$320,279,697	$23,727,236	$344,006,933	7.4%
9	Total Residential Sales LIRA									
10	Customer Charge	$12.00	$2.00	$14.00	16.7%	117,848	$1,414,176	$235,696	$1,649,872	
11										
	0-5	*$2.7673*	*$1.2160*	*$3.9833*	*43.9%*	*449,619*	*$1,244,232*	*$546,732*	*$1,790,964*	
12	Over 5	$1.9456	$0.0000	$1.9456	0.0%	689,751	$1,341,980	$0	$1,341,980	
13	Merchant Function	$0.0000	$0.3908	$0.39077	-	1,139,371	$0	$445,233	$445,233	
14	LIRA Discount						-$8,504,630	-$2,330,981	-$10,835,611	
15	Gas Revenue						$14,861,044	-$10,728	$14,850,316	
16	Revenue Adjustment						-$4,103	$575	-$3,528	
17	Total Residential Sales LIRA						$10,352,699	-$1,113,473	$9,239,226	-10.8%
18	Total Residential Sales					19,726,731	$330,632,396	$22,613,763	$353,246,159	
19	Residential Transportation									
20	Customer Charge	$12.00	$2.00	$14.00	16.7%	468	$5,616	$936	$6,552	
21	Administrative Fee	$12.10	-$12.10	$0.00	-100.0%	468	$5,663	-$5,663	$0	
22	All Volumes	$2.2700	$0.2000	$2.4700	8.8%	50,153	$113,847	$10,031	$123,878	
23	LIRA Rider	$0.4557	$0.1249	$0.5806	27.4%	50,154	$22,855	$6,264	$29,119	
24	Gas Revenue						$7,523	$0	$7,523	
25	Revenue Adjustment						$0	$0	$0	
26	Total Residential Transportation						$155,504	$11,568	$167,072	7.4%
27	Residential SACT									
28	Customer Charge	$12.00	$2.00	$14.00	16.7%	312	$3,744	$624	$4,368	
29	0-5	$2.7673	$1.2160	$3.9833	43.9%	1,377	$3,811	$1,675	$5,486	
30	Over 5	$1.9456	$0.0000	$1.9456	0.0%	23,891	$46,482	$0	$46,482	
31	LIRA Rider	$0.4557	$0.1249	$0.5806	27.4%		$11,515	$3,156	$14,671	
32	*Gas Revenue*						*$7,777*	*-$99*	*$7,678*	
32	Total Residential SACT						$73,329	$5,356	$78,685	
33	Total Residential Transportation						$228,833	$16,923	$245,756	7.4%
34	**TOTAL RESIDENTIAL**						**$330,861,229**	**$22,630,686**	**$353,491,915**	**6.8%**

National Fuel Gas Distribution Corporation
R - 00061493

OTS Proposed Rates and Revenue
Test Year Ending January 31, 2007

	SMALL COMMERCIAL / PUBLIC LESS THAN 250 (A)	Company Present (B)	Increase (C)	OTS Proposed (D)	Percent Increase (E)	Units (F)	Present Revenue (G)	Difference (H)	OTS Revenue (I)	Percent Increase (J)
1	LE250 Commercial / PA									
2	Customer Charge	$17.00	$0.00	$17.00	0.0%	107,612	$1,829,404	$0	$1,829,404	
3	0-5	$2.6041	$1.0364	$3.6405	39.8%	350,136	$911,790	$362,893	$1,274,683	
4	Over 5	$2.2994	$0.0000	$2.2994	0.0%	616,589	$1,417,784	$0	$1,417,784	
5	Merchant Function Charge	$0.0000	$0.1028	$0.1028	-	966,725	$0	$99,379	$99,379	
6	Gas Revenue						$12,609,187	$29,793	$12,638,980	
7	Revenue Adjustment						-$319	-$22	-$341	
8	LE250 Commercial / PA Sales						$16,767,846	$492,043	$17,259,889	2.9%
9	LE250 Commercial Transport									
10	Customer Charge	$17.00	$0.00	$17.00	0.0%	0	$0	$0	$0	
11	Administrative Fee	$70.00	-$70.00	$0.00	-100.0%		$0	$0	$0	
12	All Volumes	$2.5435	$0.4565	$3.0000	17.9%	0	$0	$0	$0	
13	Total LE250 Commercial / PA Transport						$0	$0	$0	
14	LE250 Commercial SATC									
15	Customer Charge	$17.00	$0.00	$17.00	0.0%	72	$1,224	$0	$1,224	
16	0-5	$2.6041	$1.0364	$3.6405	39.8%	265	$690	$275	$965	
17	Over 5	$2.2994	$0.0000	$2.2994	0.0%	256	$588	$0	$588	
18	Gas Revenue						$160	-$26	$134	
19	Total LE250 Commercial SATC						$2,662	$249	$2,911	9.3%
20	TOTAL SMALL COMMERCIAL /PA LE250					8,974	$16,770,508	$492,292	$17,262,800	2.9%

National Fuel Gas Distribution Corporation
R - 00061493

OTS Proposed Rates and Revenue
Test Year Ending January 31, 2007

	SMALL COMMERCIAL / PUBLIC GT 250	Company Present	Increase	OTS Proposed	Percent Increase	Units	Present Revenue	Difference	OTS Revenue	Percent Increase
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
1	Small Commercial GT250 and No E									
2	Customer Charge	$26.50	$0.00	$26.50	0.0%	48,854	$1,294,631	$0	$1,294,631	
3	0-5	$1.9583	$0.0000	$1.9583	0.0%	698,530	$1,367,932	-$1	$1,367,931	
4	Over 5	$1.8271	$0.0000	$1.8271	0.0%	1,097,471	$2,005,189	$0	$2,005,189	
5	Merchant Function Charge	$0.0000	$0.1028	$0.1028		1,796,001	$0	$184,629	$184,629	
6	Gas Revenue						$23,425,601	$54,167	$23,479,768	
7	Revenue Adjustment						-$6,967	-$343	-$7,310	
8	Total Small Commercial GT250 and No E						$28,086,386	$238,452	$28,324,838	0.8%
9	LE250 Commercial and PA Transport E									
10	Customer Charge	$26.50	$0.00	$26.50	0.0%	636	$16,854	$0	$16,854	
11	Administrative Fee	$70.00	-$70.00	$0.00		636	$44,520	-$44,520	$0	
12	All Volumes	$1.9873	$0.0000	$1.9873	0.0%	41,000	$81,110	$369	$81,479	
13	Gas Revenue						$6,150	$0	$6,150	
14	Total LE250 Commercial / PA Transport E						$148,634	-$44,151	$104,483	-29.7%
15	Small Commercial GT 250 SATC and SATC E									
16	Customer Charge	$26.50	$0.00	$26.50	0.0%	240	$6,360	$0	$6,360	
17	0-5	$1.9583	$0.0000	$1.9583	0.0%	3,930	$7,696	$0	$7,696	
18	Over 5	$1.8271	$0.0000	$1.8271	0.0%	8,624	$15,757	$0	$15,757	
19	Gas Revenue						$3,864	-$573	$3,291	
20	Total Small Commercial GT 250 SATC and SATC E						$33,677	-$573	$33,104	-1.7%
21	Total GT250 Transportation						$182,311	-$44,723	$137,588	
22	**TOTAL SMALL COMMERCIAL / PA GT250**						**$28,268,697**	**$193,729**	**$28,462,426**	**0.7%**

National Fuel Gas Distribution Corporation
R - 00061493

OTS Proposed Rates and Revenue
Test Year Ending January 31, 2007

		Company		OTS	Percent		Present		OTS	Increase
1	LARGE COMMERCIAL PUBLIC AUTHORITY	Present	Increase	Proposed	Increase	Units	Revenue	Difference	Revenue	
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
2	Large Commercial									
3	Customer Charge	$121.01	$22.74	$143.75	18.79%	18,084	$2,188,345	$411,230	$2,599,575	
4	0-300	$1.2753	$0.1760	$1.4513	13.80%	1,294,598	$1,651,001	$227,838	$1,878,839	
5	300-2000	$1.1802	$0.1629	$1.3431	13.80%	366,481	$432,521	$59,699	$492,220	
6	2000 and Over	$1.0059	$0.1388	$1.1447	13.80%	19,193	$19,306	$2,664	$21,970	
7	Merchant Function Charge	$0.0000	$0.1025	$0.1025	-	1,680,272	$0	$172,676	$172,676	
8	Gas Revenue						$21,916,110	$42,461	$21,958,571	
9	Total Large Commercial P/A and No E						$26,207,283	$916,569	$27,123,852	3.5%
10	Large Commercial Load Balancing									
11	Retail	$0.4441	$0.0613	$0.5054	13.80%	0	$0	$0	$0	
12	Transportation	$0.4441	$0.0613	$0.5054	13.80%	4,976	$2,210	$305	$2,515	
13	Gas Revenue						$746	$0	$746	
14	Total Small Public Authority GT250 and No E						$2,956	$305	$3,261	10.3%
15	Large Commercial Trans MMT and MMT E Transportation									
16	Customer Charge	$121.01	$22.74	$143.75	18.79%	5,664	$685,401	$128,799	$814,200	
17	Administrative Fee	$70.00	-$70.00	$0.00		5,664	$396,480	-$396,480	$0	
18	All Volumes Intra	$1.1876	$0.1639	$1.3515	13.80%	2,126,472	$2,525,399	$348,529	$2,873,927	
19	All Volumes Inter	$1.2757	$0.1760	$1.4517	13.80%	309,021	$394,218	$54,388	$448,606	
20	Gas Revenue						$296,162	$0	$296,162	
21	Total Large Commercial Transportation MMT and MMT E						$4,297,660	$135,236	$4,432,896	3.1%
22	Large Public Authority MMT E									
23	Customer Charge	$121.01	$22.74	$143.75	18.79%	3,180	$384,812	$72,313	$457,125	
24	Administrative Fee	$70.00	-$70.00	$0.00		3,180	$222,600	-$222,600	$0	
25	All Volumes Intra	$1.1876	$0.1639	$1.3515	13.80%	1,767,558	$2,099,152	$289,703	$2,388,855	
26	All Volumes Inter	$1.2757	$0.1760	$1.4517	13.80%	366,779	$467,900	$64,553	$532,453	
27	Gas Revenue						$320,152	$0	$320,152	
28	Total Large PA MMT E						$3,494,616	$203,969	$3,698,585	5.8%
29	Large Commercial SATC									
30	Customer Charge	$121.01	$22.74	$143.75	18.79%	312	$37,755	$7,095	$44,850	
31	0-300	$1.2753	$0.1760	$1.4513	13.80%	36,557	$46,622	$6,434	$53,056	
32	300-2000	$1.1802	$0.1629	$1.3431	13.80%	4,226	$4,988	$688	$5,676	
33	2000 and Over	$1.0059	$0.1388	$1.1447	13.80%	27	$27	$4	$31	
34	Gas Revenue						$12,558	-$1,820	$10,738	
35	Total Large Commercial SATC						$101,950	$12,401	$114,351	12.2%
36	Total Large Commercial and PA Transportation						$7,894,226	$351,607	$8,245,832	4.5%
37	TOTAL LARGE COMMERCIAL / PA						$34,104,465	$1,268,480	$35,372,944	3.7%

National Fuel Gas Distribution Corporation
R - 00061493

OTS Proposed Rates and Revenue
Test Year Ending January 31, 2007

	SMALL VOLUME INDUSTRIAL SERVICE	Company Present	Increase	OTS Proposed	Percent Increase	Units	Present Revenue	Difference	OTS Revenue	Percent Increase
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
1	SVIS									
2	Customer Charge	$65.60	$0.00	$65.60	0.0%	2,235	$146,616	$0	$146,616	
3	All Volumes	$1.9760	$0.0000	$1.9760	0.0%	77,572	$153,282	$0	$153,282	
4	Merchant Function Charge	$0.0000	$0.1025	$0.1025	-	77,572	$0	$7,951	$7,951	
5	Gas Revenue						$1,011,787	$19,661	$1,031,448	
6	Revenue Adjustment						-$1,193	-$19	-$1,212	
7	Total SVIS						**$1,310,492**	**$27,594**	**$1,338,086**	2.1%
8	SVIS Transportation									
9	Customer Charge	$65.60	$0.00	$65.60	0.0%	12	$788	$0	$788	
10	Administrative Fee	$70.00	-$70.00	$0.00	-100.0%	12	$840	-$840	$0	
11	All Volumes	$2.0731	$0.0000	$2.0731	0.0%	2,045	$4,239	$0	$4,239	
12	Gas Revenue						$307		$307	
13	Total SVIS Transportation						**$6,174**	**-$840**	**$5,334**	-13.6%
14	TOTAL SVIS						**$1,316,666**	**$26,754**	**$1,343,420**	2.0%

National Fuel Gas Distribution Corporation
R - 00061493

OTS Proposed Rates and Revenue
Test Year Ending January 31, 2007

	INTERMEDIATE VOLUME INDUSTRIAL SERVICE (A)	Company *Present* (B)	*Increase* (C)	OTS *Proposed* (D)	Percent *Increase* (E)	*Units* (F)	Present *Revenue* (G)	*Difference* (H)	OTS *Revenue* (I)	Percent *Increase* (J)
1	IVIS									
2	Customer Charge	$149.00	$26.00	$175.00	17.45%	1,034	$154,066	$26,884	$180,950	
3	0-300	$1.4737	$0.3095	$1.7832	21.0%	17,666	$26,034	$5,467	$31,501	
4	300-2000	$1.0917	$0.2293	$1.3210	21.0%	130,432	$142,393	$29,908	$172,301	
5	2000 and Over	$0.7927	$0.1665	$0.9592	21.0%	77,736	$61,621	$12,944	$74,565	
6	Merchant Function Charge	$0.0000	$0.1021	$0.1021	-	225,834	$0	$23,067	$23,067	
7	Gas Revenue						$2,945,599	-$15,652	$2,929,947	
7	Total Ivis						$3,329,713	$82,618	$3,412,331	2.5%
8	IVIS Balancing									
9	Retail	$0.3565	$0.0749	$0.4314	21.0%	0	$0	$0	$0	
10	Transportation	$0.3565	$0.0749	$0.4314	21.0%	53,728	$19,154	$4,024	$23,178	
11	Gas Revenue						$8,059	$1	$8,060	
12	Total IVIS Balancing						$27,213	$4,025	$31,238	14.8%
13	IVIS Transportation MMT									
14	Customer Charge	$149.00	$26.00	$175.00	17.4%	3,096	$461,304	$80,496	$541,800	
15	Administrative Fee	$70.00	-$70.00	$0.00		3,096	$216,720	-$216,720	$0	
16	All Volumes Intra	$1.0375	$0.2179	$1.2554	21.0%	1,914,518	$1,986,312	$417,174	$2,403,486	
17	All Volumes Inter	$1.1224	$0.2357	$1.3581	21.0%	494,741	$555,297	$116,611	$671,908	
18	Gas Revenue						$361,389	$0	$361,389	
19	Total IVIS Transportation MMT						$3,581,022	$397,560	$3,978,582	11.1%
20	IVIS Transportation DMT									
21	Customer Charge	$149.00	$26.00	$175.00	17.4%	216	$32,184	$5,616	$37,800	
22	Administrative Fee	$70.00	-$70.00	$0.00		216	$15,120	-$15,120	$0	
23	All Volumes Intra	$1.0375	$0.2179	$1.2554	21.0%	465,904	$483,375	$101,521	$584,896	
24	All Volumes Inter	$1.1224	$0.2357	$1.3581	21.0%	31,650	$35,524	$7,460	$42,984	
25	Gas Revenue						$0	$0	$0	
26	*Total IVIS Transportation DMT*						*$568,203*	*$99,477*	*$685,680*	17.6%
27	IVIS SATC									
28	Customer Charge	*$149.00*	*$26.00*	*$175.00*	17.4%	*36*	*$5,364*	*$936*	*$6,300*	
29	0-300	$1.4737	$0.3095	$1.7832	21.0%	2,201	$3,243	$681	$3,924	
30	300-2000	$1.0917	$0.2293	$1.3210	21.0%	2,970	$3,243	$681	$3,924	
31	2000 and Over	$0.7927	$0.1665	$0.9592	21.0%	0	$0	$0	$0	
32	Gas Revenue						$1,595	-$460	$1,135	
33	Total IVIS SATC						$13,445	$1,838	$15,283	13.7%
34	Total IVIS Transportation						$4,160,670	$498,875	$4,659,545	
35	TOTAL INTERMEDIATE INDUSTRIAL SERVICE						$7,517,596	$585,518	$8,103,114	7.8%

National Fuel Gas Distribution Corporation
R - 00061493

OTS Proposed Rates and Revenue
Test Year Ending January 31, 2007

	LARGE VOLUME INDUSTRIAL SERVICE (A)	Company Present (B)	OTS Increase (C)	OTS Proposed (D)	Percent Increase (E)	Units (F)	Present Revenue (G)	OTS Increase (H)	OTS Revenue (I)	Percent Increase (J)
1	LVIS Balancing									
2	Retail	$0.2444	$0.0513	$0.2957	21.0%	0	$0	$0	$0	
3	Transportation	$0.2444	$0.0513	$0.2957	21.0%	49,894	$12,194	$2,561	$14,755	
4	Gas Revenue						$7,484	$0	$7,484	
5	Total LVIS Balancing						$19,678	$2,561	$22,239	13.0%
6	LVIS Transportation MMT									
7	Customer Charge	$404.50	$70.00	$474.50		120	$48,540	$8,400	$56,940	
8	Administrative Fee	$70.00	-$70.00	$0.00		120	$8,400	-$8,400	$0	
9	All Volumes Intra	$0.7740	$0.1625	$0.9365	21.0%	592,739	$458,782	$96,342	$555,124	
10	All Volumes Inter	$0.8990	$0.1888	$1.0878	21.0%	189,415	$170,266	$35,778	$206,044	
11	Gas Revenue						$117,323	$0	$117,323	
12	Total LVIS Transportation MMT						$803,311	$132,120	$935,431	16.4%
13	LVIS Transportation DMT									
14	Customer Charge	$404.50	$70.00	$474.50		348	$140,766	$24,360	$165,126	
15	Administrative Fee	$70.00	-$70.00	$0.00		348	$24,360	-$24,360	$0	
16	All Volumes Intra	$0.7689	$0.1615	$0.9304	21.0%	2,637,579	$2,028,040	$425,882	$2,453,922	
17	All Volumes Inter	$0.8346	$0.1753	$1.0099	21.0%	200,634	$167,462	$35,152	$202,614	
18	Gas Revenue						$0	$0	$0	
19	Total LVIS Transportation DMT						$2,360,628	$461,034	$2,821,662	19.5%
20	Total LVIS Transportation						$3,163,939	$593,154	$3,757,093	
21	TOTAL LARGE VOLUME INDUSTRIAL SERVICE						$3,183,617	$595,715	$3,779,332	18.7%

National Fuel Gas Distribution Corporation
R - 00061493

OTS Proposed Rates and Revenue
Test Year Ending January 31, 2007

	LARGE INDUSTRIAL SERVICE	Company Present	Increase	OTS Proposed	Percent Increase	Units	Present Revenue	Difference	OTS Revenue
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
1	LARGE Transportation MMT								
2	Customer Charge	$514.50	$70.00	$584.50	13.6%	12	$6,174	$840	$7,014
3	Administrative Fee	$70.00	-$70.00	$0.00		12	$840	-$840	$0
4	All Volumes Intra	$0.4978	$0.0000	$0.4978	0.0%	245,402	$122,161	$0	$122,161
5	All Volumes Inter	$0.4978	$0.0000	$0.4978	0.0%	10,223	$5,089	$0	$5,089
6	Gas Revenue						$38,343	$0	$38,343
7	Total LARGE Transportation MMT						**$172,607**	**$0**	**$172,607**
8	LARGE Transportation DMT								
9	Customer Charge	$514.50	$70.00	$584.50	13.6%	144	$74,088	$10,080	$84,168
10	Administrative Fee	$70.00	-$70.00	$0.00		144	$10,080	-$10,080	$0
11	All Volumes Intra	$0.2870	$0.0000	$0.2870	0.0%	5,487,735	$1,574,980	$0	$1,574,980
12	All Volumes Inter	$0.2927	$0.0000	$0.2927	0.0%	961,852	$281,534	$0	$281,534
13	Gas Revenue						$0	$0	$0
14	Total LARGE Transportation DMT						**$1,940,682**	**$0**	**$1,940,682**
15	**TOTAL LARGE VOLUME INDUSTRIAL SERVICE**						**$2,113,289**	**$0**	**$2,113,289**

OTS Exhibit No. 3
Schedule 5

National Fuel Gas Distribution Corporation
R-00061493

OTS Revenue and Rate of Return at Full Request - Peak and Average Method
Test Year Ending January 31, 2007
Based on NFG Exhibit 111-B, Schedule 1, page 11

	(A)		Total Service (B)	Residential (C)	LE250 (D)	GT250 (E)	Large Comm. (F)	SVIS (G)	IVIS (H)	LVIS (I)	LIS (J)
1	Company Revenues from Sales		$449,929,240	$353,491,915	$17,262,800	$28,462,426	$35,372,944	$1,343,420	$8,103,114	$3,779,332	$2,113,289
2	Other Revenues		$1,998,317	$1,570,000	$76,671	$126,413	$157,105	$5,967	$35,989	$16,786	$9,386
3	Total Revenues		$451,927,557	$355,061,915	$17,339,471	$28,588,839	$35,530,050	$1,349,386	$8,139,103	$3,796,117	$2,122,675
4	O and M		$395,521,575	$314,893,304	$15,367,209	$25,898,763	$28,568,715	$1,157,149	$5,750,335	$2,312,950	$1,573,150
5	Depreciation Expense		$11,913,067	$8,183,988	$418,731	$507,821	$1,470,515	$24,325	$591,531	$492,985	$223,171
6	Amortization		$1,354,000	$902,707	$45,991	$60,202	$180,358	$2,795	$73,308	$62,361	$26,278
7	Less: Operating Expenses		$408,788,642	$323,979,999	$15,831,931	$26,466,786	$30,219,588	$1,184,269	$6,415,174	$2,868,296	$1,822,599
8	Income		$43,138,915	$31,081,916	$1,507,540	$2,122,053	$5,310,462	$165,117	$1,723,929	$927,821	$300,076
9	Taxes other than Income		$1,974,001	$1,396,173	$80,806	$80,364	$206,497	$4,317	$83,575	$79,767	$42,502
10	Taxable Income		$41,164,914	$29,685,743	$1,426,734	$2,041,689	$5,103,965	$160,800	$1,640,354	$848,054	$257,574
11	Less: Taxes	31.46%	$12,948,766	$9,562,039	$449,549	$659,521	$1,563,517	$57,997	$460,789	$166,944	$28,410
12	Net Return		$28,216,147	**$20,123,704**	**$977,185**	**$1,382,168**	**$3,540,448**	**$102,803**	**$1,179,565**	**$681,110**	**$229,164**
13	Measure of Value		$296,952,979	$206,039,123	$10,004,650	$13,718,932	$36,245,622	$554,900	$13,758,268	$11,845,363	$4,786,121
14	Rate of Return Percent		9.50%	9.77%	9.77%	10.07%	9.77%	18.53%	8.57%	5.75%	4.79%
15	Relative Rate of Return		1.000	1.028	1.028	1.060	1.028	1.950	0.902	0.605	0.504
16	Subsidy		$0	($546,092)	($26,554)	($78,610)	($96,429)	($50,077)	$127,730	$444,424	$225,608
17	Res/Com vs Industrial Subsidy			($747,685)				$747,685			

OTS Exhibit No. 3
Schedule 5

National Fuel Gas Distribution Corporation
R - 00061493

OTS Customer Charge and Equal Percentage Increase In Usage Rates

Test Year Ending January 31, 2007

	Residential	Company Present	Increase	OTS Proposed	Percent Increase	Units	Present Revenue	Difference	OTS Proposed Revenue
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
	Total Residential Sales Non-LIRA								
1	Customer Charge	$12.00	$2.00	$14.00	16.7%	2,209,152	$26,509,824	$4,418,304	$30,928,128
2	0-5	$2.7673	$0.6358	$3.4031	23.0%	8,088,851	$22,384,277	$5,142,950	$27,527,227
3	Over 5	$1.9456	$0.4470	$2.3926	23.0%	10,498,509	$20,425,900	$4,692,999	$25,118,899
4	Total Residential Sales Non-LIRA			MCF Per Year 100.97		18,587,360	$69,320,001	$14,254,253	$83,574,254

National Fuel Gas Distribution Corporation
R - 00061493

ADDITIONAL MARGIN RECOVERY WITH OTS PROPOSED USAGE RATES

Test Year Ending January 31, 2007

	Residential	Company Present	Increase	OTS Comparison Rates	Percent Increase	Units	Revenue	OTS Proposed Revenue	Difference In Margin
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I = H-G)
	REVENUE WITH EQAUL USAGE RATE INCREASE AND TWO PERCENT DROP IN USAGE								
	Total Residential Sales Non-LIRA								
1	*Customer Charge*	*$12.00*	*$2.00*	*$14.00*	*16.7%*	*2,209,152*	*$30,928,128*		
2	0-5	$2.7673	$0.6358	$3.4031	23.0%	8,088,851	$27,527,227		
3	Over 5	$1.9456	$0.4470	$2.3926	23.0%	10,125,000	$24,225,234		
4	Total Residential Sales Non-LIRA			MCF Per Year	98.9	18,213,851	$82,680,589	$83,574,254	$893,665
	REVENUE WITH OTS PROPOSED USAGE RATE INCREASE AND TWO PERCENT DROP IN USAGE								
	Total Residential Sales Non-LIRA								
5	Customer Charge	$12.00	$2.00	$14.00	16.7%	2,209,152	$30,928,128		
6	0-5	$2.7673	$1.2160	$3.9833	43.9%	8,088,851	$32,220,226		
7	Over 5	$1.9456	$0.0000	$1.9456	0.0%	10,125,000	$19,699,200		
8	Total Residential Sales Non-LIRA			MCF Per Year	98.9	18,213,851	$82,847,554	$83,574,254	$726,700
9				**ADDITIONAL MARGIN RECOVERY WITH OTS PROPOSED USAGE RATES**					**$166,965**

OTS Exhibit No. 3
Schedule 7

National Fuel Gas Distribution Corporation
R-00061493

Company Proposed Revenue
Test Year Ending January 31, 2007
Based on NFG Exhibit 111-B, Schedule 1, page 11

	(A)	Total Service (B)	Residential (C)	LE250 (D)	GT250 (E)	Large Comm. (F)	SVIS (G)	IVIS (H)	LVIS (I)	LIS (J)
1	Company Revenues from Sales	$449,929,232	$350,891,818	$17,941,328	$29,647,652	$37,313,417	$1,336,429	$7,501,734	$3,183,565	$2,113,289
2	Other Revenues	$1,886,684	$1,467,886	$75,124	$118,611	$156,812	$5,376	$34,621	$17,602	$10,652
3	Total Revenues	$451,815,916	$352,359,703	$18,016,452	$29,766,263	$37,470,229	$1,341,805	$7,536,355	$3,201,167	$2,123,941
4	O and M	$395,521,575	$314,893,304	$15,367,209	$25,898,763	$28,568,715	$1,157,149	$5,750,335	$2,312,950	$1,573,150
5	Depreciation Expense	$11,913,067	$8,183,988	$418,731	$507,821	$1,470,515	$24,325	$591,531	$492,985	$223,171
6	Amortization	$1,354,000	$902,707	$45,991	$60,202	$180,358	$2,795	$73,308	$62,361	$26,278
7	Less: Operating Expenses	$408,788,642	$323,979,999	$15,831,931	$26,466,786	$30,219,588	$1,184,269	$6,415,174	$2,868,296	$1,822,599
8	Income	$43,027,274	$28,379,704	$2,184,521	$3,299,477	$7,250,641	$157,536	$1,121,181	$332,871	$301,342
9	Taxes other than Income	$1,974,001	$1,396,173	$80,806	$80,364	$206,497	$4,317	$83,575	$79,767	$42,502
10	Taxable Income	$41,053,273	$26,983,531	$2,103,715	$3,219,113	$7,044,144	$153,219	$1,037,606	$253,104	$258,840
11	Less: Taxes 31.42854%	$12,902,443	$8,440,797	$730,452	$1,148,076	$2,368,565	$54,852	$210,687	($79,921)	$28,935
12	Net Return	$28,150,830	**$18,542,735**	**$1,373,263**	**$2,071,037**	**$4,675,579**	**$98,368**	**$826,918**	**$333,025**	**$229,905**
13	Measure of Value	$296,952,979	$206,039,123	$10,004,650	$13,718,932	$36,245,622	$554,900	$13,758,268	$11,845,363	$4,786,121
14	Rate of Return Percent	9.48%	9.00%	13.73%	15.10%	12.90%	17.73%	6.01%	2.81%	4.80%
15	Relative Rate of Return	1.000	0.949	1.448	1.592	1.361	1.870	0.634	0.297	0.507
16	Subsidy	$0	$989,558	($424,833)	($770,497)	($1,239,532)	($45,764)	$477,351	$789,903	$223,815
17	Res/Com vs Industrial Subsidy		($1,445,304)				$1,445,304			

OTS Exhibit No. 3
Schedule 7

OTS Exhibit No. 3
Schedule 8

National Fuel Gas Distribution Corporation
R - 00061493

Based on NFGD Exhibit No. 103, Schedule 1
Test Year Ending January 31, 2007

Company Present and Proposed Revenue

	(A)	*Percent of* Present (B)	*Present* Revenue (C)	Increase (D)	*Proposed* Revenue (E)	*Percent of* Proposed (F)
	GUARANTEED REVENUE					
1	Customer Charge	8.4%	$35,448,035	$21,966,636	$57,414,671	12.8%
2	Administrative Fee	0.2%	$945,623	-$945,623	$0	0.0%
3	0-5	6.1%	$25,920,428	$13,401,550	$39,321,978	8.7%
4	Merchant Function Charge	0.0%	$0	$8,197,946	$8,197,946	1.8%
5	Gas Revenue	75.5%	$320,397,574	-$123	$320,397,451	71.2%
6	TOTAL GUARANTEED REVENUE	90.2%	$382,711,660	$42,620,386	$425,332,046	94.5%
	REVENUE AT RISK					
7	Over 5	6.0%	$25,253,680	-$20,460,932	$4,792,748	1.1%
8	Load Balancing	0.0%	$33,558		$34,146	0.0%
9	All Volumes	3.8%	$16,098,967		$19,728,500	4.4%
10	*Revenue Adjustment*	*0.0%*	*$38,200*	*$3,592*	*$41,792*	*0.0%*
11	TOTAL REVENUE AT RISK	9.8%	$41,424,405	-$20,457,340	$24,597,186	5.5%
12	TOTALS	100.0%	$424,136,065	$1,705,706	$449,929,232	100.0%

OTS Present and Proposed Revenue at Full Increase

	(A)	Percent of Present (B)	Present Revenue (C)	Increase (D)	Proposed Revenue (E)	Percent of Proposed (F)
	GUARANTEED REVENUE					
13	Customer Charge	8.4%	$35,448,036	$5,432,610	$40,880,646	9.1%
14	Administrative Fee	0.2%	$945,623	-$945,623	$0	0.0%
15	0-5	6.1%	$25,920,428	$10,747,522	$36,667,950	8.1%
16	Merchant Function Charge	0.0%	$0	$8,197,805	$8,197,805	1.8%
17	Gas Revenue	75.5%	$320,397,574	-$124	$320,397,450	71.2%
18	*TOTAL GUARANTEED REVENUE*	*90.2%*	*$382,711,661*	*$23,432,190*	*$406,143,851*	90.3%
	REVENUE AT RISK					
19	Over 5	6.0%	$25,253,680	$1	$25,253,681	5.6%
20	Load Balancing	0.0%	$33,558		$40,448	0.0%
21	All Volumes	3.8%	$16,098,968		$18,449,468	4.1%
22	Revenue Adjustment	0.0%	$38,200	$3,592	$41,792	0.0%
23	TOTAL REVENUE AT RISK	9.8%	$41,424,406	$3,593	$43,785,389	9.7%
24	TOTALS	100.0%	$424,136,067	$23,439,375	$449,929,239	100.0%

OTS Exhibit No. 3
Schedule 9

National Fuel Gas Distribution Corporation
R-00061493

OTS Present and Proposed Revenue
Test Year Ending January 31, 2007
Based on NFG Exhibit 103 Page 1

		Present 12 Months Ending January 31, 2007	OTS Increase	OTS Total Proposed Base Rates	Percent Increase
	(A)	(B)	(C)	(D)	(E)
	Gas Service				
1	Residential	$320,279,697	$23,727,236	$344,006,933	7.4%
2	LIRA	$10,352,699	-$1,113,473	$9,239,226	-10.8%
3	Small Comm / Public LE250	$16,767,846	$492,043	$17,259,889	2.9%
4	Small Comm / Public GT250	$28,086,386	$238,452	$28,324,838	0.8%
5	Large Comm / Public	$26,207,283	$916,569	$27,123,852	3.5%
6	SVIS	$1,310,492	$27,594	$1,338,086	2.1%
7	IVIS	$3,329,713	$82,618	$3,412,331	2.5%
8	LVIS - Sales	$0	$0	$0	
9	LIS - Sales	$0	$0	$0	
10	Load Balance Service	$49,847	$6,891	$56,738	13.8%
11	Transportation	$17,752,102	$1,415,245	$19,167,347	8.0%
12	Total Gas Service Revenue	$424,136,065	$25,793,175	$449,929,240	6.1%
13	Other Operating Revenue				
14	Late Payment Revenue	$1,601,774	$97,613	$1,699,387	6.1%
15	Offsystem Sales	$0	$0	$0	
16	Capacity Release Revenue	$0	$0	$0	
17	Bill Insert Revenue	$200,623	$0	$200,623	0.0%
18	Sales Tax	$53,905	$0	$53,905	0.0%
19	Customer Service Billing Charges	$40,421	$0	$40,421	0.0%
20	Sale of Inventory Materials	$3,981	$0	$3,981	0.0%
21	Total Other Operating Revenue	$1,900,704	$97,613	$1,998,317	5.1%
22	**Total Operating Revenue**	**$426,036,769**	**$25,890,788**	**$451,927,557**	6.1%

ORIGINAL

OTS Statement No. 4
Witness: James Farley

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

NATIONAL FUEL GAS DISTRIBUTION CORPORATION

Docket No. R-00061493

Direct Testimony

of

James Farley

Office of Trial Staff

Concerning:

National Fuel Gas General Rate Filing

Q. WOULD YOU STATE YOUR NAME, CURRENT EMPLOYER AND BUSINESS ADDRESS?

A. My name is James F Farley. I currently work for the Public Utility Commission in the Bureau of Consumer Services. My business address is P. O. Box 3265, Harrisburg, PA, 17105-3265.

Q. WOULD YOU PROVIDE A BRIEF DESCRIPTION OF YOUR EMPLOYMENT HISTORY WITH THE PUBLIC UTILITY COMMISSION?

A. Yes. I began working for the PUC Bureau of Consumer Services in March of 1984 as a Utility Termination Interviewer, answering calls made by consumers to the PUC toll free complaint line. In 1987 I became a Telecommunications Complaint Investigator in BCS and investigated informal consumer complaints filed against telecommunications companies. In 1989 I became a Utility Complaint Investigator in BCS and investigated informal consumer complaints filed against Electric and Gas companies. In 1992 I became a Water Complaint Specialist in BCS and investigated informal consumer complaints filed against water and sewer companies. In 2000 I became the Supervisor of the Competition Complaint Unit in BCS. In this position I supervised Utility Complaint Investigators handling informal billing and service complaints which included complaints from consumers that involved electric or gas retail competition related matters. Another one of my primary responsibilities with this position was the day

to day management of the PUC outsourced call center that answered the PUC termination and competition hotlines. In 2005 I became the Supervisor of the PUC in house Harrisburg Call Center that is located in BCS. In this position I manage the day to day operations of the PUC BCS call centers located in Harrisburg and Philadelphia. I am also an Administrator of the Customer Account Information (CAI) complaint database that BCS uses to record a record of all consumer complaints and contacts. All my employment positions have resulted in my having direct contact with the general public about PUC regulated utility matters. During my employment history at the Public Utility Commission I have spoken to thousands and thousands of consumers about utility related matters both as an interviewer, investigator and supervisor in BCS.

Q. WOULD YOU PLEASE IDENTIFY THE VARIOUS WAYS CONSUMERS CONTACT THE PUBLIC UTILITY COMMISSION ABOUT A UTILITY RELATED MATTER?

A. Consumers can contact the PUC by calling one of three toll free telephone numbers that are answered by BCS staff. Consumers can also send letters to the PUC or email the PUC website. Consumers can also directly visit the PUC offices located in various parts of the state.

Q. WOULD YOU PLEASE EXPLAIN THE TYPE OF COMPLAINTS A CONSUMER CAN FILE WITH THE PUBLIC UTILITY COMMISSION BUREAU OF CONSUMER SERVICES AND WHERE THAT DATA IS RECORDED?

A. Yes. Consumers can file Informal termination complaints and billing or service related complaints with the PUC Bureau of Consumer Services, the consumers complaint is then investigated by a BCS investigator. Once staff completes their investigation an informal determination is then issued by the BCS investigator to the parties involved in the complaint. Consumers can also file informal protests against utility rate filings or proposals by contacting the PUC. The informal complaints and rate protests are recorded and tracked by BCS through the use of the Customer Information System or CAI. The CAI database contains the records of all informal consumer contacts received by BCS, information about these contacts is then forwarded to various members of PUC staff.

Q. REGARDING CONSUMERS WHO CONTACTED THE PUC ABOUT THE CURRENT NFG RATE PROCEEDING, HOW IS THIS INFORMATION RECEIVED, HANDLED AND DOCUMENTED BY BCS STAFF?

A. Consumers who contact the PUC by telephone or who directly visit the PUC offices in Philadelphia or Harrisburg about this current proceeding have their information about this matter immediately documented and recorded into the BCS CAI database by a utility complaint interviewer. When a consumer contacts the PUC by letter or email, letters are received by the Secretary's Bureau who then forwards non-formal complaint consumer contacts to BCS staff where the information is entered into the CAI database. Website contacts are received by BCS management and entered by BCS staff in the CAI database.

Q. WOULD YOU PROVIDE INFORMATION ON THE TOTAL NUMBER OF INFORMAL RATE PROTESTS THAT CONSUMERS HAVE FILED AGAINST THIS RATE REQUEST THAT HAVE BEEN RECORDED IN THE BCS CAI DATABASE?

A. Yes. As of August 18, 2006 consumers have filed 2,559 informal rate protests against this NFG rate request.

Q. WOULD YOU SUMMARIZE HOW THE RATE PROTESTS THAT THE PUC RECEIVED ABOUT THE NFG RATE FILINGS COMPARED TO ANY RECENT RATE PROTESTS THAT HAVE BEEN RECEIVED ABOUT OTHER CLASS A UTILITIES WHO HAVE FILED FOR A RATE INCREASE?

A. The recent class A utility rate filings include PPL and PG Energy. The PUC received 9 informal rate protests against the PPL rate filing. The PUC received 56 informal rate protests against the PG Energy rate filing.

Q. HAVE YOU REVIEWED ANY OF THE CONSUMER CONTACT RECORDS PROTESTING THE NFG RATE REQUEST?

A. Yes.

Q. HOW MANY OF THE CONSUMER CONTACTS HAVE YOU REVIEWED?

A. I have personally reviewed 334 of the rate protests that consumers have filed with the PUC and that have been recorded in the BCS CAI database.

Q. HOW DID YOU DECIDE TO REVIEW 334 NFG RATE PROTEST RECORDS?

A. In order to provide an accurate summary of all the NFG rate protests received by the PUC a random sampling was chosen that would provide a 95% confidence level in the information secured with a +/-5% error rate. Based on this confidence level and error rate 334 of rate protests had to be reviewed to provide an accurate overall summary based on the above parameters.

Q. WOULD YOU PROVIDE A GENERAL SUMMARY OF DEMOGRAPHIC INFORMATION FOR THE CONSUMERS WHO FILED INFORMAL RATE PROTESTS AGAINST THE NFG FILING?

A. Yes. In general a large number of the protests that I reviewed were from elderly or retired individuals and couples. Many of these consumers were on a fixed income. The other significant identification provided by the consumers was that they had low to middle incomes. Based on a review of the consumers zip codes who filed rate protests the average household income, per 2003 income tax statistic data for the consumer protests that I reviewed varied from a low of $31,848, a national ranking of 38%, to a high of $41,747, a national ranking of 70%.

Q. WOULD YOU SUMMARIZE WHAT PART OF THE NFG RATE FILING THE CONSUMERS PROTESTED WHEN THEY CONTACTED THE PUC?

A. Yes. In general all the consumers protested the overall general rate request and a majority of these consumers also specifically protested the Enhanced Energy Efficiency Program Cost Recovery (EEE) Rider on low usage consumers that has been proposed by NFG.

Q. WOULD YOU SUMMARIZE THE GENERAL PERCEPTION OF THE CONSUMERS TOWARDS THE NFG REQUESTED RATE INCREASE?

A. Yes. Several consumers believed the increase would only worsen the NFG uncollectible rate. Several other consumers felt that the increase would have a detrimental affect on the local economy. A majority of the consumers who protested the NFG surcharge request stated that they did not believe the surcharge made sense. Many consumers used words like "ridiculous" and "absurd" when describing the surcharge. A large number of these consumers stated that NFG had always encouraged customers to conserve usage and many of these customers had taken conservation measures to lower there usage. Now it appeared to these customers as if NFG was attempting to penalize them for there conservation efforts.

Q. WOULD YOU PROVIDE ANY EXAMPLES THAT NFG CONSUMERS PROVIDED CONCERNING THE SPECIFIC STEPS THEY HAVE TAKEN TO CONSERVE ON THERE GAS USAGE?

A. Yes. The consumers provided the following examples of steps used to conserve usage:

- A 74 year old consumer stated he conserves gas usage by supplementing his heating costs by cutting and burning wood.
- A consumer stated she lowers her thermostat and wears extra clothing in her home to lower her gas usage

- A consumer states he lowers his thermostat to 60 degrees to lower his gas usage.
- A consumer stated over the course of 36 years he had made many weatherization improvements to his home to lower gas usage.
- A fixed income consumer stated he spent a large amount of money to completely weatherize his home to lower gas usage.
- A consumer stated she keeps her thermostat at 60 degrees, wears extra clothing in her residence over the winter months to lower her gas usage.
- A consumer stated she keeps her thermostat at 64 degrees to lower her gas usage.
- A 70 year old consumer stated over the years has completed numerous conservation measures to lower his usage – installing a new heating system, keeping the thermostat at 63 degrees and replacing the windows in his home to lower gas usage.

Q. WOULD YOU PROVIDE A SUMMARY OF THE SPECIFIC REASONS THAT CONSUMERS PROVIDED FOR PROTESTING THE NFG RATE REQUEST?

A. Yes. Consumers provided numerous reasons for disputing the company rate request. These included:

- That the proposed surcharge attempts to penalize consumers who conserve on there utility usage through the use of weatherization, conservation and the use of alternate fuel sources. This is occurring after the company and the government for many years has encouraged consumers to conserve on there gas usage. Now the utility is attempting to penalize these same consumers.
- That NFG's revenues, profits and rate of return for the last year all increased over prior years.
- That NFG has a history of compensating its executives in a lavish manner
- That NFG is one of the biggest landowners in Pennsylvania and they secure additional income by selling timber from this land.
- That NFG has tremendous profits due to the huge demand for natural gas.
- That NFG should consider the detrimental affect the requested increase will have on its fixed income and low income consumers. An increase could result in consumers having to choose between paying for heat, food or medicine.
- The consumer and his wife are retired and living on a fixed income. In his area many big industries have either closed or cut back on employees. Many of the workers who had these jobs found job at a lesser wage below

$10.00 an hour. There are many other consumers working for minimum wage. The customer had lowered his thermostat to 66 degrees and wears extra clothing in there home. The customer is confused why NFG now wants to place an additional surcharge on customers who conserve on usage and can least afford and increase in rates.

- The customer believes the increase is detrimental to ongoing efforts for economic recovery in the area.
- Another increase in gas will result in the consumer making lifestyle changes such as heating with wood instead of gas, boiling water on her stove.
- The customer lowers her thermostat to 60 degrees and she and her husband wear jackets in there home and use blankets to keep warm. An increase in gas costs will result in the consumer choosing between paying for her medication or paying the gas bill.
- The consumer is 80 years old and believes if the increase in rates is granted she will have to choose between being warm and paying for her medication.
- The consumers are senior citizens whose income is social security. Last years – January and February gas bill payments required ½ the consumer's monthly income. They do not believe they can afford another increase in rates.

- The consumer believes he will have to convert from natural gas to another heating source if the NFG rate increase is granted.
- The customer believes the surcharge proposed by NFG is discriminatory.
- That NFG needs to control its operating costs, an example was provided of an NFG executive who was given a lump sum payment of $23 million dollars and an annual pension of 2.347 million dollars. The consumer believes that this is an example of obscene compensation provided by NFG.
- The consumer believed the increase is unfair to low income families, the elderly with high health costs and the general working public.
- The consumer stated one of the reasons the company provided for the increase was employee salary increases. The same company spokesman who provided this information also indicated the company staffing had been cut. Another reason given was the company uncollectible rate; the consumer believes another increase in rates will only make the NFG uncollectible rate worse.

Q. DOES THIS CONCLUDE YOUR TESTIMONY ON THIS MATTER?

A. Yes.