



National Fuel

Maureen Geary Krowicki
Deputy General Counsel

July 31, 2017

VIA ELECTRONIC FILING

Ms. Rosemary Chiavetta, Secretary
PA Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

Re: Tentative Order regarding
Alternative Ratemaking Methodologies
Docket No. M-2015-2518883

Dear Secretary Chiavetta:

Attached for filing are National Fuel Gas Distribution Corporation's reply comments in the above-referenced matter.

Very truly yours,

Maureen Geary Krowicki

MGK/cjc

Attachment

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Tentative Order regarding Alternative
Ratemaking Methodologies** :
: **COMMENTS**
:
:
:
: **Docket Number: M-2015-2518883**
:

**REPLY COMMENTS OF
NATIONAL FUEL GAS DISTRIBUTION CORPORATION
July 31, 2017**

TO THE PENNSYLVANIA PUBLIC UTILITY COMMISSION:

I. Introduction.

On March 2, 2017 the Pennsylvania Public Utility Commission (the “Commission”) entered a Tentative Order in the above-captioned matter inviting comments from all interested stakeholders, including questions specifically addressed to natural gas distribution companies (“NGDC”). National Fuel Gas Distribution Corporation (“National Fuel,” “Distribution,” or “the Company”) was one of the NGDCs that submitted comments to the Tentative Order on May 31, 2017.

National Fuel now submits the following Reply Comments to address issues raised in the comments of other commenters. National Fuel is an active member of the Energy Association of Pennsylvania (“EAP”) and supports the reply comments filed by the EAP. National Fuel’s Reply Comments will refrain from repeating the comments reflected in the EAP reply, however,

it will provide some specific incites regarding the National Fuel service territory in northwest Pennsylvania.

While National Fuel sees value in alternative ratemaking programs, it would also caution against a uniform application, or a “one size fits all” policy. These are issues that should be addressed individually for each utility in utility specific rate proceedings, which are initiated by the utilities. Since the market characteristics of each service territory are likely to be unique, flexibility is essential. Additionally, National Fuel rejects the contention that alternative ratemaking mechanisms would harm low-income customers or negatively impact consumer programs and protections. In fact, higher customer charges and a shift away from higher usage based payments directly benefits low-income customers that utilize natural gas at levels greater than the average customer. National Fuel also believes alternative ratemaking would not decrease the incentive to conserve since customers will always receive the benefit of reduced natural gas supply charges. It is also important to recognize the circumstances which might require a customer to use more gas as opposed to less and to recognize there may be specific health, safety, or other compelling economic reasons to do so.

National Fuel hereby incorporates its initial set of Comments filed to the Tentative Order and submits the following Reply Comments in support of its position.

II. Reply Comments

A. National Fuel emphasizes the need for flexibility in regards to implementing Alternative Ratemaking Mechanisms.

NGDCs in Pennsylvania have utilized various forms of alternative ratemaking which are appropriate for its system and customer base. National Fuel supports maintaining the current process of allowing utilities who wish to implement alternative ratemaking methodologies the opportunity to file a petition with the Commission and then enabling the Commission to have the authority to weigh the mechanism in the context of the evidence that is presented. This process helps ensure that any alternative ratemaking mechanism is truly appropriate for the utility and its customer base.

While some commenters are advocating for a forced application of certain alternative ratemaking procedures, this approach is likely to cause harm to consumers. Each different facet of alternative ratemaking serves different functions. Utilities should be able to weigh all the factors and select programs that will truly benefit both the company and its customers. Additionally, by forcing utilities to adopt certain mechanisms, the utility and its interested stakeholders are deprived of the opportunity to truly analyze the issue, thus hurting the public interest.

Additionally, it is worth noting that alternative ratemaking is just one of many facets that utilities must consider in trying to establish how to structure its service to ensure robust customer protection and allow for utilities to fairly recover the revenue requirement they are entitled to. The most efficient and effective way to address alternative ratemaking is through utility initiated proceedings. These proceedings allow for a consideration of numerous interconnected issues, and allows the Commission, the Company, and the stakeholders to address these issues in a larger context. This approach ensures the necessary flexibility to consider the various utility

specific factors including customer household demographics, needs, usage information, and taking into consideration the capabilities of the utility to implement these programs.

B. Higher customer charges are not unreasonable on their face, and could provide a benefit to customers including low income customers.

While there are some commenters who contend that higher customer charges brought about by alternative ratemaking should be deemed on their face to be unreasonable, this contention should be rejected. By shifting some costs to non-gas customer charges, low-income customers may receive the benefit of lower bills and avoid being effectively penalized for their less efficient housing stock.¹

Studies of National Fuel's northwestern Pennsylvania and western New York service territories have demonstrated that individuals who reside in lower income areas tend to live in older homes with less efficient insulation and appliances. Many of these homes were constructed prior to housing code requirements that were implemented to increase efficiency. Compounding this issue, is the fact that these houses may not receive all the necessary updates. Not surprisingly, these older housing units are less efficient than newer homes. There is data that suggests individuals in higher-income areas, often living in newer homes with energy-efficient appliances, consume less natural gas on average than individuals in low income areas. Customers with a large household size living in poor housing stock will likely consume more gas and pay higher bills than the average household. This shows the inequity that would occur if customer

¹ It is also worth noting that implementing alternative ratemaking approached would not require National Fuel to modify low-income rate programs since the discounting mechanism of current low-income rate programs should be capable of reflecting the impact of any revenue decoupling surcharge or credit on low-income customer bills.

charges were lowered in favor of higher usage rates. Low-Income customers may have to utilize more gas to meet their heating needs. By tying bills more directly to consumption, low-income customers consuming more gas than average customers would face an increased burden. While National Fuel does have programs in place such as the Low Income Usage Reduction Program (“LIURP”) that assists customers in making energy efficiency improvements to their homes, there are practical limits to just how well an old home can be insulated.

The need to send proper price signals to conserve by shifting fixed cost recovery into usage rates expressed by some parties ignores many of the realities faced by customers in National Fuel’s service territory. It needs to be recognized that customers face many other price signals not least of which is the “plumbing repair” price signal. An article published in the Erie Times during the 2014 polar vortex best articulates this point regarding price signals.² Mr. Winston, a local plumber, states “if you have the thermostat set at 62 or 65 right now, you’re crazy.” He further states “you’ll save \$5 on gas and spend \$500 on plumbing repairs.” Simply put, there is a practical limit even when it comes to employing conservation in practice. The Erie Times article confirms this: “when it gets as cold as this [January], a lot of furnaces won’t keep up with it. They might only get to 68 degrees even though they’re set to 72 [degrees].” These customers have very few options available, even with a usage rate structure that is supposed to “motivate conservation,” especially if it is economically rational for low income customers to recognize the “plumbing repair” price signal and choose the lower cost alternative, consuming more natural gas to keep their house warm, rather than frozen pipe repairs.

² <http://www.hjacks.com/h-jacks-cold-weather-tips/>

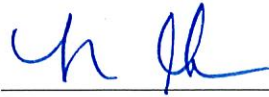
Additionally, by relying more on usage rates, the system would provide a greater benefit to consumers who likely need it less- individuals who own seasonal properties. Seasonal homes, which are vacant for part of the year, on average, have lower usage rates than homes which are occupied throughout the year. There are parts of National Fuel's service territory where the number of seasonal homes are not insignificant. By recovering higher non-gas costs, the Company will be able to achieve greater cost recovery from seasonal accounts, thus reducing the burden on low-income customers who likely use more gas. Accordingly, recovering fixed costs through higher customer charges thereby lowering the recovery of fixed charges through usage rates, cannot be considered unreasonable as they confer a substantial benefit to customers that need to use natural gas for health or safety reasons including low income customers.

V. Conclusion

National Fuel Gas Distribution Corporation again appreciates the opportunity to provide Reply Comments on these ideas. Distribution reemphasizes that it believes there can be substantial benefits to alternative ratemaking mechanisms which could help alleviate some revenue pressure for the Company and its customers. These programs are also important as they can help address payment issues for low-income individuals and promote efficiency and conservation. While National Fuel believes there are benefits to these programs, it cautions against a uniform mechanism being forced upon utilities. Rather there should be flexibility in application based on the unique circumstances of each utility, and any changes in alternative ratemaking programs should be initiated by the utilities themselves.

Respectfully submitted,

Dated: July 31, 2017



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