

STATE OF NEW YORK

Public Service Commission

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GAS UTILITY DIRECTED TO COMPLY WITH AUDIT FINDINGS — Improvements Made to Strengthen Company, Provide Customer Benefits —

Albany, NY—08/15/13—The New York State Public Service Commission (Commission) today directed National Fuel Gas Distribution Corporation (NFGDC), which serves hundreds of thousands of customers in Western New York, to submit a plan to implement a series of recommendations that have been made after an independent audit of the company’s gas business. The recommendations include a specific focus on the company’s construction program planning processes and operational efficiency.

“This management and operations audit is one in a long series of audits we have conducted to proactively identify areas of improvement in the utilities construction program planning,” said Commission Chairman Garry Brown. “The recommendations here echo similar themes to prior audits — including the need for better strategic planning, project management, information systems and workforce management. I expect that, to the extent practical, these recommendations will be considered in the ongoing rate case. These efforts work together to help ensure that National Fuel Gas’ ratepayers receive utility service safely and reliably at just and reasonable rates.”

NFGDC is a local distribution company serving approximately 732,000 natural gas customers in a defined service territory in western New York State and northwestern Pennsylvania. Approximately 517,000 of these customers are in New York State. It is wholly owned by National Fuel Gas Company.

On May 17, 2012, the Commission approved the selection of an independent consultant to conduct a comprehensive management and operations audit of NFGDC, with a specific focus on the company's construction program planning processes and operational efficiency.

The scope of the audit addressed eight elements associated with the construction program planning cycle, including load forecasting, supply procurement and system planning. The independent consultant made 76 recommendations on ways NFGDC and its parent company NFG could improve construction program planning, including:

- The NFG Board should approve and monitor specific capital projects over a certain threshold (e.g., \$1 million) as an additional layer of oversight outside of the standard budget process.
- The NFG Board should be diversified by filling future vacancies with individuals who possess expertise in other industries (e.g., financial services), which will allow for broader perspectives and the application of appropriate innovations from those other industries.
- NFGDC should periodically perform a companywide organizational review, develop departmental charters and define conditions that would trigger additional organizational reviews (e.g., new technologies or significant changes in regulatory requirements).
- To encourage innovation, NFGDC should employ a zero-based budgeting approach for O&M budgeting, wherein all departments, functions, processes and staffing would be thoroughly examined for necessity, effectiveness and efficiency.
- NFGDC should more aggressively pursue technology projects as part of the capital budgeting process. NFGDC should develop and maintain a five-year reliability plan and that it be driven by and linked to the strategic plan.

In terms of direct customer benefits, the consultant projects that several recommendations regarding the reconfiguration of the company's gas supply portfolio will result in more than \$16 million in gas supply savings over a five-year period, which will reduce overall natural gas costs to customers. Other recommendations, designed to improve productivity and efficiency, will result in other customer cost savings.

The Commission expects NFGDC to make the necessary changes that will improve its performance, and to demonstrate executive-level commitment to this process. The company is directed to file an implementation plan within 30 days.

The Commission's decision today, when issued, may be obtained by going to the Commission Documents section of the Commission's Web site at www.dps.ny.gov and entering Case Number 11-G-0580 in the input box labeled "Search for Case/Matter Number". Many libraries offer free Internet access. Commission orders may also be obtained from the Commission's Files Office, 14th floor, Three Empire State Plaza, Albany, NY 12223 (518-474-2500). If you have difficulty understanding English, please call us at 1-800-342-3377 for free language assistance services regarding this press release.