



Department
of Public Service

Case 16-G-0257 National Fuel Gas Distribution Corp.

Commission Session

April 20, 2017

Overview

- NFG recent History
 - Base rates were last set in December 2007 (Case 07-G-0141)
 - Show Cause Order resulted in 2 year rate plan, expired 9/30/15 (Case 13-G-0136)
- Rate Case was filed on April 28, 2016
 - Rate Year – April 1, 2017 - March 31, 2018
 - Historic Test Year – Calendar year 2015
 - \$41.7 million rate increase, 15.3% delivery, 7.8% overall
 - Company Requested an ROE of 10.22% and Equity Ratio of 48%

Rate Case Milestones

- April 28, 2016 - Filing
- August 26, 2016 – Parties filed testimony
- September 16, 2016 - Rebuttal
- October 5-7, 2016 - Hearings
- October to November 2016 - Settlement discussions
- January 23, 2017 - Recommended Decision
- April 20, 2017 session – Commission Decision

Staff's Testimonial Position

- \$2.524 million rate increase, 0.91% delivery, 0.46% overall
 - Based on ROE of 8.6% and Equity Ratio of 42.3%
 - Reflected an increase of \$7.7 million in low income program costs from the historic test year to the projected rate year

Parties' Issues

- UIU – Revenue Allocation and Low Income Programs
- MI – Revenue Allocation
- PULP – Rate Design and Low Income Programs
- Richard Ford – Rate Design
- EnergyMark – Gas Transportation Service Issues

Public Comments

- Three Public Statement Hearings
 - Four in Buffalo area – well attended
 - Many low income customers spoke
 - Difficulty in affording heating bills
 - Weatherization of older housing stock
- Approximately 350 written and telephone comments
 - Mostly from residential and low income customers
 - All against any rate increase, concerned with affordability

Recommended Decision

- Recommended Revenue Requirement Increase \$8.5 million
- Key Recommendations
 - Cost of Capital – Use Staff’s 8.6% ROE and Equity Ratio 42.3%
 - ROE - Staff formula followed recent Commission precedent
 - Equity Ratio – Use Parent’s actual equity ratio
 - Productivity – Adopted Staff’s 2% proposed adjustment
 - Performance Metrics – Adopt Targets and Negative Revenue Adjustments
 - Low Income – Continue existing low income programs for one year
 - Revenue Allocation/Rate Design – NFG’s Cost of Service Study
 - No increase to minimum charge

Draft Commission Order

- Allows Revenue Requirement Increase of \$5.9 million
 - ROE of 8.7%, Equity Ratio 42.9%
 - Affirms Commission precedent
 - Establishes process for considering ring fencing
 - No Implementation of Performance Metrics for the Rate Year
 - Company has met most targets historically
 - Recognition of ROE not enhanced by a stay out premium
 - Commission can address separately if performance degrades substantially
 - Earnings Sharing Mechanism – implemented on future earnings, if NFG does not file for new rates to become effective by 4th quarter 2018

Draft Commission Order

Other Provisions

- Leak Prone Pipe
 - Funds replacement at 100 miles in 2017 and 110 miles in 2018
 - Allows surcharge for additional LPP
- 1% Productivity Adjustment
 - Recognizes NFG's position on timing of efficiency savings
- Executive Incentive Compensation
 - Adheres and reaffirms Commission precedent
- Low Income program cost
 - Consistent with recent orders in Affordability proceeding (14-M-0565)

Drivers of Rate Increase

- Increases in:
 - Low income program cost
 - Net plant and overall rate base
 - Depreciation expense
 - Recovery of site investigation and remediation costs
 - New and ongoing O&M expenses for implementation of Barcelona project
 - Materials O&M expenses

Drivers of Rate Increase

- Offsets due to:
 - Increase in Revenues
 - Lower Pension/Other Post Retirement Benefits Costs and Amortizations
 - Lower Property Tax Expense
 - Reduction in Overall Pre-Tax Rate of Return
 - Reflection of 1% productivity

Residential Bill Impacts

- Typical Residential Heating customer is estimated to have an average increase in its total annual bill of about \$13.21 or 1.4%, assuming normal weather
- No increase to Minimum Charge