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

Commission Session
Overview

• NFG recent History
  o Base rates were last set in December 2007 (Case 07-G-0141)
  o 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
    o 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
  o Based on ROE of 8.6% and Equity Ratio of 42.3%
  o 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
  o Cost of Capital – Use Staff’s 8.6% ROE and Equity Ratio 42.3%
    o ROE - Staff formula followed recent Commission precedent
    o Equity Ratio – Use Parent’s actual equity ratio
  o Productivity – Adopted Staff’s 2% proposed adjustment
  o Performance Metrics – Adopt Targets and Negative Revenue Adjustments
  o Low Income – Continue existing low income programs for one year
  o Revenue Allocation/Rate Design – NFG’s Cost of Service Study
    o 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:
  o Low income program cost
  o Net plant and overall rate base
  o Depreciation expense
  o Recovery of site investigation and remediation costs
  o New and ongoing O&M expenses for implementation of Barcelona project
  o Materials O&M expenses
Drivers of Rate Increase

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