



National Fuel

Maureen Geary Krowicki
Deputy General Counsel

May 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 Number: M-2015-2518883

Dear Secretary Chiavetta:

Attached for filing are National Fuel Gas Distribution Corporation's 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**
:

**COMMENTS OF
NATIONAL FUEL GAS DISTRIBUTION CORPORATION
May 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 this matter inviting comments from all interested stakeholders, including five (5) questions specially designated for Natural Gas Utilities, to determine if alternatives to traditional ratemaking principles encourage energy utilities to better implement energy efficiency and conservation programs, are just and reasonable and in the public interest, and are cost effective. These comments and responses to the questions will help inform the Commission to potential alternative rate making processes, benefits, and challenges. The Commission should utilize the information it received to determine what future regulatory action, if any, is appropriate to take on this matter.

Comments were to be submitted within 45 days of entry and replies within 75 days. On March 21, 2017, the Office of Consumer Advocate filed a Motion to extend the comment period. By Secretarial Letter dated March 23, 2017 the comment period was extended to 90 days (May 31, 2017). Reply comments are now due 150 days (July 31, 2017) after the comment period.

National Fuel Gas Distribution Corporation (“National Fuel”, “Distribution” or “the Company”) submits the following Comments and Responses to the specific Natural Gas utility questions.

II. Comments

Distribution, a gas-only company, serves approximately 735,000 customers in New York and Pennsylvania. In Pennsylvania alone, Distribution serves over 214,000 customers spanning fourteen counties in the Northwest and Central areas of the state. Both divisions of Distribution have cost tracking mechanisms for fuel procurement that are prescribed by regulation(s). Accordingly, the Company’s comments will not include these mechanisms and will be specific to mechanisms that are applicable to base rate costs only.

Distribution believes that there are potential benefits to be realized by both the customer and company if Alternative Rate making methodologies were employed. Distribution has implemented some alternative rate making methods in New York such as Revenue Decoupling, Weather Normalization clause and a Lost Revenue mechanism which have positively impacted many different customer groups and could help alleviate some revenue pressure to the company for variable issues outside the control of the company. More in-depth comments to both the Utility specific questions and Vice Chairman Place questions follow below.

III. Responses to Specific Natural Gas Utility Questions

1. Identify the alternative rate making methodology (ies) each NGDC is currently using, including the number and types of automatic adjustment clauses, cost tracker and separate cost recovery mechanisms. Also identify, as a percentage of total costs or revenues, the costs or revenues each separate mechanism recovers.

Response: Distribution has several Pennsylvania Division tariff provisions that allow the Company to reflect changes in base rate costs outside of a base rate case. Specifically, the Company's tariff allows for:

- *State Tax Adjustment Surcharge (Rider B) approximately -0.43% of total normalized revenues*
- *Customer Education Charge (Rider E) approximately 0% of total normalized revenues*
- *Lira Discount Charge (Rider F) approximately 0.6% of total normalized revenues*
- *Merchant Function Charge Rider (Rider G) approximately 1.8% of total normalized revenues*
- *Pursuant to the gas cost regulations, Distribution fully reconciles its purchase gas costs.*
- *A post-retirement benefits tracker is also employed pursuant to a Commission Policy Statement regarding recovery of such costs.*
- *Distribution also has tariff provisions that provide for alternative pricing mechanisms in appropriate circumstances. There is minimal participation (less than 2% of annual revenues) in these alternative pricing mechanisms. These provisions include:*
 - o *Distribution employs the use of negotiated pricing for customers with verifiable bypass threats*
 - o *Standby and Bypass rate schedules are available to provide backup services in case of self-supply loss. The Standby and Bypass rates are designed to recover the costs of backup service so that other customers are not subsidizing standby or backup service.*
 - o *Straight fixed/variable rates are also offered by Distribution to encourage the installation of high load factor and off-peak natural gas equipment.*

2. If any, what alternative rate methodology (ies) could and should be used by NGDCs and explain why would they be beneficial? Regarding the proposed methodology (ies), please provide specific comments on:
 - a. The potential advantages;
 - b. The potential disadvantages;
 - c. The effects on all rate classes, with a specific focus on small volume, low-income, income challenged and large C&I customers, as well as a discussion regarding any potential inter- or intra-class cost shifting;
 - d. The effects on existing energy efficiency programs; and
 - e. The effects on the number and/or frequency of base rate case filings, as well as possible rate increases or decreases.

Response: Distribution's New York Division does have several of the Alternative Rate Methodologies as discussed in the Tentative Order. The Company believes the main advantage to these programs is, if implemented correctly, that all parties will receive some benefit. For example, for cost trackers, the utility receives a benefit of cost certainty of recovering all prudent expenditures whereas the ratepayer receives the benefit of payment certainty of only paying for expenditures prudently incurred. Regarding the effects on specific rate classes, rate design has historically been a contentious issue so a discussion of specific effects of the alternative ratemaking methodologies would be directly related to the design of the methodology which is yet to be determined. Distribution believes that many of the alternative ratemaking methodologies, if correctly implemented, could alleviate revenue pressures.

New York Division's tariff allows for:

- *Revenue Decoupling*
- *Weather Normalization*
- *Lost Revenue Adjustment*
- *Cost Trackers (Surcharges or Riders)*
 - o *Pensions and OPEBs*
 - o *Site Remediation*

- *Research Development & Demonstration*
- *Low Income Program*
- *Merchant Function Charge*
- *Fully Forecasted Rate Year (FPFTY equivalent)*
- *Conservation Incentive Program (Energy Efficiency)*
- *Each of these mechanisms have been in operation in the Distribution's New York jurisdiction for approximately ten years or more.*

3. How would the particular alternative rate methodology (ies) interact with existing mechanisms or traditional ratemaking principles currently in use or available to NGDCs (e.g. DSIC, FPFTY, etc.)?

Response: Distribution believes that the alternative ratemaking methodologies would work in concert with currently available ratemaking principles.

Distribution does not have a DSIC and has not filed a base rate case using the FPFTY and therefore does not opine.

4. Address the efficacy of weather normalization adjustments currently in use, what changes should be made to the adjustments to improve them and whether they should be expanded to other NGDCs.

Response: Distribution does not have a weather normalization adjustment in the Pennsylvania Division and cannot speak to weather normalizations for other Pennsylvania NGDCs. Distribution does have a weather normalization clause in its New York Division and believes it reasonably protects both the Company and the ratepayer for the unpredictable variable of weather. The weather normalization clause (WNC) in New York has been in place for 28 years. Weather normalization clauses tend to temper the impact of volatile natural gas prices on customer bills. During colder than normal periods, when the market price of natural gas is likely to spike due to increased market demands, a customer receives a credit to their bill from the WNC mechanism. In warmer than normal periods, when the market price of natural gas is likely to be lower due to decreased market demands, a customer will receive an increase to their bill from the WNC mechanism.

5. How would such a methodology be implemented? Specifically, in what timeframe? Is there a need for gradual implementation or phasing-in process?

Response: Distribution believes that implementation of a weather normalization adjustment does not necessarily need to be phased-in however, it is important to allow flexibility between the NGDCs in the implementation of the mechanism. This will allow for the best application for each specific NGDC.

IV. Responses to Vice Chairman Place

1. Provide overall supportive or critical comments to the outlined NGDC decoupling structure.

- The outlined NGDC decoupling structure is a workable structure. NFGDC has direct experience with a similar volumetric usage per account decoupling structure in its New York Division. Other New York LDC's utilize the revenue per customer model referenced in the outline. Both methods have been operating in New York State without issue for nearly ten years.

2. Has this proposal been successfully or unsuccessfully implemented in other jurisdictions?

- As mentioned in the previous response, the proposed decoupling outline has been successfully implemented in New York.

3. Are there any statutory and regulatory barriers in Pennsylvania to a revenue-per customer decoupling for NGDC's?

- NFGDC is not aware of any statutory or regulatory barriers in implementing revenue decoupling for NGDC's.

4. What are the general potential bill impacts associated with this form of decoupling?

It is NFGDC's experience in New York that bill impacts associated with revenue decoupling are minimal. The attached table summarizes NFGDC's experience in operating its volumetric usage per account decoupling mechanism.

Decoupling Impact

Effective Date	Rate
1/2017	(\$0.0077)/Mcf
1/2016	(\$0.0398)/Mcf
3/2015	(\$0.0451)/Mcf
3/2014	\$0.0187/Mcf
3/2013	\$0.0736/Mcf
3/2012	\$0.0326/Mcf
3/2011	\$0.0840/Mcf
3/2010	\$0.0354/Mcf
3/2009	(\$0.0082)/Mcf

5. Should the use of decoupling be limited to NGDC's that are offering conservation and efficiency programs and, if so, what should be the required types and scope of such programs?

- Revenue decoupling can be employed regardless as to whether a utility implements conservation or energy efficiency programs, however, it has been the Company's experience that revenue decoupling is employed in association with conservation and energy efficiency programs. Revenue decoupling breaks the link between utility earnings and customer usage thereby removing any economic disincentive to a NGDC implementing successful conservation and energy efficiency programs. The scope of programs can vary from simple messaging emphasizing the importance to conserve to detailed appliance rebate and home/business energy efficiency audits, insulation and sealing rebate programs.

6. Should measures of success be included in the implementation and how should the Commission ensure that incremental conservation and efficiency program benefits exceed costs?

- Standard cost benefit analysis of energy efficiency programs such as the total resource cost benefit tests or societal resource cost benefit tests can be used to determine the cost/benefit of comprehensive energy efficiency programs.

7. Should the Commission undertake periodic evaluations as a means for establishing the overall impacts, as well as the effectiveness of design and administration?

- Periodic impact evaluations may be undertaken to measure the effectiveness of programs. Such evaluations can be done whenever a significant change in the program is implemented and/or on a periodic basis, for example, every 3 to 5 years. Since NGDC energy efficiency programs are rather straight forward and consistent, it is not necessary nor cost effective to implement more frequent impact analysis.

8. How should the Commission design the mechanism to true-up forecast and actual utility delivery service revenues?

- The mechanism to true-up forecasts and actual delivery service revenues should be calculated annually. Per customer variance calculations should be designed on either: 1) to calculate the variance between the forecasted to actual revenue per customer or 2) a variance between the forecasted volume to actual volume per customer multiplied by the appropriate delivery rate. Base revenue variances per customer should then be multiplied by the number of customers to determine the total amount of revenue to be refunded or surcharged to customers. A revenue or volume variance calculated on a per customer basis maintains an NGDC's incentive to attach new customers to the system.

9. To what rate classes should decoupling apply?

- Revenue decoupling should, at a minimum, be applied to residential and small non-residential customer classes. Consistent conservation

messaging and energy efficiency programs can be designed for residential and small non-residential customers. Revenue decoupling for larger customer classes can be more complicated in design since large customer usage can be significantly impacted by factors outside the control or influence of utility energy efficiency program such as large facility shut-downs or expansions, changes, business cycle, etc.

10. What revenues streams should be excluded (e.g. § 1307 automatic adjustment revenues)?

- Purchased gas cost 1307(f) revenue streams should be excluded from revenue decoupling mechanisms since these revenues are matched to purchased gas costs and do not influence a utility's disincentive to promote efficient use of natural gas. Revenue streams associated with incremental or decremental customer growth should also be excluded from revenue decoupling so that a utility maintains its incentive to provide and expand natural gas service to homes and businesses within the utility's service territory.

11. How should a "usage-per-customer" parameter be developed during the implementation of a revenue-per customer decoupling mechanism, and how should this parameter be used to adjust future rates? Should there be separate usage per customer values for new and existing customers?

- The usage per customer parameter should equal the average weather normalized usage per customer at the time the revenue decoupling mechanism is implemented. See the response to question 8 for the

adjustment calculation. There is no need to develop separate usage per customer values for new and existing customers since such a separation would add undue complexity to the mechanism with no foreseeable benefit.

12. What should be the frequency of the rate adjustment?

- An annual rate adjustment would be a reasonable frequency for rate adjustments.

13. Should the Commission incorporate caps on rate adjustments?

- There is no need to incorporate caps on rate adjustments since any such cap would add a disincentive to promote energy efficiency and customer conservation initiatives.

14. How soon after the conclusion of the future test year should the Commission allow adjustments?

- Adjustments calculations should be made at the conclusion of the rate year. Adjustments should compare the imputed values in the rate year with actual experienced values beginning with the rate year. Adjustments should be calculated on an annual basis.

15. Should the Commission periodically require a complete review of costs, sales, and revenues (i.e., a general rate case or equivalent)? Please describe the suggested review process and necessary time period.

- Complete reviews of costs, sales, and revenues need only to be made in a general rate case. Reviews of annual decoupling filings and implementations of requirements of decoupling orders could be added to

the once every two year gas cost and low income program cost recovery rate audits.

16. Should there be carrying charges (interest) calculated on rate adjustments, both upward and downward? If so, how should these carrying charges be calculated?

- There is no compelling need to charge interest on rate adjustments since the revenue decoupling revenues are tied base rate costs.

17. What would the range of cost impacts be, if any, for low income customers? Under a given model, what modifications should be made to Low Income/Customer Assistance Program participants to maintain affordability and ratepayer equity?

- As identified above the customer impacts of potential surcharges or credits is not likely to be significant. There is no need 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.

18. What type of consumer education programs should be provided to customers when implementing a decoupling methodology?

- Customers can be notified through the typical rate change notification methods such as bill inserts or press releases. As mentioned previously the per customer impact of a revenue decoupling mechanism is not likely to be significant and well within the variability of rate changes experienced from other routine cost tracking mechanisms such as low income program cost trackers and quarterly purchased gas cost rate changes.

V. Conclusion

National Fuel Gas Distribution Corporation again appreciates the opportunity to provide comment on these ideas.

Respectfully submitted,

Dated: 5/31/17

A handwritten signature in blue ink, appearing to read 'M Krowicki', is written over a horizontal line.

Maureen Krowicki
Pa. I.D. No. 89350
Attorney for National Fuel Gas
Distribution Corporation
P.O. Box 2081
Erie, PA 16512
(814) 871-8060
(814) 871-8061 fax