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National Fuel

December 20, 2017

Honorable Kathleen H. Burgess
Secretary
New York State Department of Public Service
Three Empire State Plaza, 19th Floor
Albany, NY 12223

Re: Case 14-G-0551 – Tariff filing by National Fuel Gas Distribution Corporation for approval to extend its Distribution Generation and Natural Gas Vehicle Programs and for authorization of the Partnership to Revitalize the Industrial Manufacturing Economy of Western New York (Prime-WNY) – **Proposed Tariff Amendments**

Dear Secretary Burgess,

National Fuel Gas Distribution Corporation ("Distribution" or the "Company") hereby submits the following amendments to its tariff, P.S.C. No. 9 – GAS:

Leaf No. 3 – Revision 2
Leaf No. 116 – Revision 2
Leaf No. 117 – Revision 2
Leaf No. 142 – Revision 2

For the reasons that follow, Distribution respectfully requests that the above tariff revisions be approved, together with the changes described below, with an effective date of May 1, 2018.

Introduction

This filing is submitted to the New York State Public Service Commission ("Commission") by the Company to seek a Commission authorization to: (1) make the Distributed Generation ("DG") Pilot Program and the Natural Gas Vehicle ("NGV") Pilot Program "permanent" programs in Distribution's tariff, and (2) continue the Partnership to Revitalize the Industrial Manufacturing Economy of Western New York ("PRIME-WNY") as a pilot, with certain modifications described herein.

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Background

Distribution's natural gas system was designed for significantly higher throughput than the Company is currently experiencing, which is one of several reasons why the Company is unique in comparison to other natural gas utilities in New York State. The Company is uniquely positioned to offer targeted programs that are directed at increasing load, which in turn allows the fixed costs of the system to be spread over a larger base, providing benefit to all of the Company's ratepayers. Three of these targeted programs (i.e., DG Pilot Program, NGV Pilot Program, and PRIME-WNY) are currently set to expire on March 31, 2018, in accordance with the Commission's May 15, 2015 Order in Case 14-G-0551. A brief summary of each of these programs is as follows:

- Under the DG Pilot Program (first approved by the Commission on March 20, 2003 in Case 02-G-0858, and re-authorized by the Commission four times), Distribution utilizes shareholder funds to help customers buy down the cost of installing DG or combined heat and power ("CHP") equipment, which in turn lowers customer payback periods. Customers sign performance contracts with the Company and may be required to provide security. Funding for customer buy downs is recovered through incremental transportation revenues. New developments in this program, including a summary of customer participation, is regularly reported to the Commission publicly, with reports that are filed in Case 02-G-0858.

- Under the NGV Pilot Program (first approved by the Commission on November 18, 2011 in Case 11-G-0348, and reauthorized by the Commission one time), Distribution utilizes shareholder funds to help customers buy down the cost of installing NGV refueling stations, procuring NGV-related equipment, and/or procuring NGV vehicles, which in turn lowers customer payback periods. Customers sign performance contracts with the Company and may be required to provide security. Funding for customer buy downs is recovered through incremental transportation revenues. The most recent report for this program, including a summary of customer participation, was filed on August 9, 2017, in Case 16-G-0257.

- Under PRIME-WNY (first approved by the Commission on May 15, 2015 in Case 14-G-0551), Distribution utilizes shareholder funds to incent large commercial and industrial customers to install incremental natural gas fired equipment at their existing facilities (e.g., system improvements, associated piping, and/or customer equipment). Customers sign performance contracts with the Company and may be required to provide security. Funding for customer buy downs is recovered through incremental transportation revenues. The most recent report for this program, including a summary of customer participation, was filed on June 2, 2017, in Case 16-G-0257.

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Making the DG and NGV Pilot Programs "Permanent"

The Commission's May 15, 2015 Order in Case 14-G-0551, at page 12, states "[w]e [the Commission] also require National Fuel to request these programs become permanent if it seeks to extend the DG and NGV Programs in the future." In compliance with the Commission's Order, the Company is proposing to make the DG Pilot Program and the NGV Pilot Program "permanent" programs in its tariff. Distribution agrees with the Commission, solely from a tariff management perspective, that making these programs "permanent" will eliminate the need to request further extensions and approvals.

While these programs, and their associated term durations may potentially become "permanent" in this proceeding with a Commission approval, it is important to note that these carefully targeted programs necessitate flexibility with respect to their market offerings and operational design. The Company has worked with Department of Public Service Staff ("Staff") and interested parties to propose programmatic enhancements and modifications, as necessary for the benefit of the Company's ratepayers, and Distribution looks forward to continuing such collaboration efforts in the future. In summary, the Company understands that the "permanent" nature of programs is only associated with term duration, and is not intended to force Distribution to operate programs with a rigid program design. Continuing the DG and NGV programs, as "permanent" tariff programs, are in the public interest.

In April 2014, the Commission initiated the Reforming the Energy Vision ("REV") Proceeding in Case 14-M-0101, in which the Commission continues to reconsider the traditional electric utility model, which primarily relies on centralized electric generators and bulk power systems to serve customer load, and as an alternative, deploy greater distributed energy resources, energy efficiency, and renewable energy generation. As envisioned by the Commission, distributed energy resources, including clean natural gas-fired DG units supported by Distribution's DG Program, could become a primary tool in the planning and operation of the electric grid. To date, participants in the Company's DG Program have typically utilized natural gas-fired reciprocating engines, although participants are not precluded from employing other natural gas-fired technologies, including micro-turbines and fuel cells. It should also be noted that the Company's DG Program has helped stimulate market activity relating to the installation, operation and maintenance of DG units. Continuing Distribution's DG Program directly supports the following Commission and New York State REV goals:[1]

- Improve New York's existing energy infrastructure;
- Build a more resilient energy system;
- Support the growth of clean energy innovation;
- Cut greenhouse gas emissions by 80% by 2050; and
- Grow New York's energy efficiency.

[1] REV goals are publicly available electronically on New York State's website: https://rev.ny.gov/about/.

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Since the inception of the NGV Program, NGVs have become more popular in the Company's service territory. The escalation in prices of diesel and gasoline, combined with record low natural gas prices, has increased the demand for natural gas to fuel vehicles. These factors, along with growing environmental concerns and the need to reduce dependence on foreign oil, have caused the Company's NGV market to prosper, with popularity especially prominent among large commercial fleets. Several NGV options are now more commonly available than in prior years, including light, medium, and heavy duty vehicles. As more vehicles enter the market, NGV refueling stations are being constructed to satisfy this market.

The 2015 New York State Energy Plan, at page 105 of Volume I, also specifically addresses alternative fueled vehicles, including NGVs:

> "A cleaner transportation system will include more vehicles using clean transportation fuels on the road, public transportation systems that use less energy per passenger mile and provide enhanced service to a broader customer base, transportation management infrastructure that integrates the latest communications technologies to enhance traffic flow, and clean fuel infrastructure that supports and scales the use of these new technologies. The build-out of this infrastructure and technology will be complemented by policies and programs that encourage the use of alternative transportation modes and better trip planning to reduce GHG emissions."

Distribution's NGV Program directly supports and makes meaningful contributions to the New York State Energy Plan goal to achieve a 40% reduction in GHG emissions from 1990 levels. In addition, the NGV Program directly supports the following Commission and New York State REV goals:

- Support cleaner transportation;
- Make energy affordable for all New Yorkers;
- Improve New York's existing energy infrastructure;
- Create new jobs and business opportunities;
- Support the growth of clean energy innovation;
- Cut greenhouse gas emissions by 80% by 2050; and
- Grow New York's energy efficiency.

Distribution is seeking a Commission authorization to continue the DG and NGV Programs as "permanent" tariff programs, as described above.

<u>Continuing PRIME-WNY as a Pilot with Modifications</u>

The concept of PRIME-WNY arose from on-going Gas Network Enhancement Pilot Program ("GNEP") collaborative meetings with Staff and interested parties, in accordance with the Company's Joint Proposal in Case 13-G-0136. As part of the collaborative meetings, the parties agreed that it would be advisable to implement PRIME-WNY immediately, so that the benefits could begin to be realized in the Company's service territory as soon as possible. Based

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on this agreement, PRIME-WNY was first proposed by the Company, as an initiative to help revitalize the industrial manufacturing economy of western New York. PRIME-WNY was included in the Company's December 9, 2014 filing in Case 14-G-0551, since it had programmatic features similar to Distribution's DG Pilot Program and NGV Pilot Program. The overall goal of PRIME-WNY is to promote the installation of incremental natural gas-fired equipment to increase system throughput and utilize available pipeline capacity, which produces long-term benefits for all ratepayers.

The Commission's May 15, 2015 Order in Case 14-G-0551, at page 12, approved PRIME-WNY as a three-year pilot program. As a condition of approving this pilot program, the Commission required the Company to collect a $0.10 per Mcf surcharge from program participants (page 10 of the Order), as a contribution to overall system costs, benefitting all ratepayers. It is important to note that the Commission's Order, at pages 10 and 11, did recognize that a $0.10 per Mcf surcharge "can be a significant portion of some customer class delivery rates."

Distribution's experience in operating PRIME-WNY and prospecting customers during the three-year term, has confirmed the Commission's premonition regarding the $0.10 per Mcf surcharge. The Company has found the $0.10 per Mcf surcharge to serve as a barrier to potential customer participation in the program, from both a ratemaking and marketing perspective, as described herein.

Exhibit 1 - PRIME-WNY Rate Impacts

Tariff Service Classification	Transportation Charge	Surcharge	Percentage Impact of PRIME-WNY Surcharge
SC 13 TC-1.1	$1.26530	$0.10000	7.9%
SC 13 TC-2.0	$0.92588	$0.10000	10.8%
SC 13 TC-3.0	$0.61572	$0.10000	16.2%
SC 13 TC-4.0	$0.27739	$0.10000	36.1%
SC 13 TC-4.1	$0.37044	$0.10000	27.0%
SC 18 TC-1.1	$1.43969	$0.10000	6.9%
SC 18 TC-2.0	$1.10027	$0.10000	9.1%
SC 18 TC-3.0	$0.79011	$0.10000	12.7%
SC 18 TC-4.0	$0.30547	$0.10000	32.7%
SC 18 TC-4.1	$0.54483	$0.10000	18.4%

Exhibit 1 summarizes the rate impacts associated with the $0.10 per Mcf system cost contribution, for customers potentially considering participating in PRIME-WNY. The rate increase, expressed as a percentage of the transportation charge from the Company's tariff, ranges from 6.9% to 36.1%. From a ratemaking perspective, it could be argued that the industrial customer classes are not receiving equitable treatment. For example, a SC 13 TC-4.0 customer would experience a 36.1% rate increase by potentially participating in PRIME-WNY, while a SC 13 TC-1.1 customer would only experience a 7.9% rate increase by potentially participating in the same program. Separately from a marketing perspective, when the Company

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explains to a customer that they would experience a volumetric rate increase in order to access the benefits of PRIME-WNY, the conversations have largely been non-starters.

Distribution has also received market feedback from potential customers, about the delicate and intricate interplay between capital expenditures and operations and maintenance ("O&M") expenditures, from a customer perspective. On one hand, the "buy down" envisioned as part of PRIME-WNY is perceived by customers as a positive incentive, which can improve the economics associated with evaluating a significant capital expenditure. On the other hand, the increased surcharge is a volumetric rate, included in monthly customer bills. As such, these expenditures are typically paid out of customer O&M budgets. This interplay has led to dual decision making for customers (viz., a potential PRIME-WNY project would only be a "go" when the economics make sense from a capital budgeting perspective and the increased O&M costs can also be "absorbed" within already established O&M budgets).

To address the customer barrier associated with the $0.10 per Mcf surcharge, as well as the imminent fact that this pilot program is set to expire on March 31, 2018, Distribution is proposing the following:

- Eliminate the $0.10 per Mcf surcharge from PRIME-WNY to test how the programmatic change impacts potential customer uptake;
- Continue PRIME-WNY as a flexible pilot program for a new three-year term, extending the pilot period through March 31, 2021; and
- Depending on the overall results of the program, from inception through the conclusion of the second pilot term, consider extending PRIME-WNY beyond the second pilot term, at a later date.

With respect to the Commission's concern that PRIME-WNY program participants contribute financially to overall system costs, it is important to note that PRIME-WNY is aimed at existing customers installing incremental natural gas-fired equipment. These existing customers already provide a contribution to costs, such as the Company's O&M, through the delivery rates associated with their existing load. In addition, it is important to note that once an approved buy down is fully recovered through incremental transportation revenues, these existing customers would provide a contribution to costs, such as the Company's O&M, through the delivery rates associated with their incremental load.

Just as the availability of low cost natural gas supplies is encouraging investment in DG and NGV applications, it is also invigorating a manufacturing renaissance across the United States.[2] According to the Economic Benefits of Natural Gas Pipeline Development on the Manufacturing Sector Study, recently prepared by IHS Economics:

> "The benefits of higher NG supply to the economy, which lowers and stabilizes energy prices and electricity prices in particular, can be summarized by the three main macroeconomic aggregates that impact households: real GDP, employment, and real disposable

[2] See, for example, *The Economic Benefits of Natural Gas Pipeline Development on the Manufacturing Sector*, prepared by IHS Economics for the National Association of Manufacturers in May 2016. Available electronically at: http://www.nam.org/Data-and-Reports/Reports/Natural-Gas-Study/Energizing-Manufacturing-Full-Report/.

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> income. The gains in 2015 alone are significant. IHS estimates that, as a result of the increase in domestic shale gas production, real GDP (goods and services) is $190 billion greater and there are 1.4 million more jobs, contributing up to $156 billion more dollars of real disposable income in 2015. Over the five-year period of 2013 to 2018, IHS forecasts, on average, $101 billion more dollars in real GDP each year. This is produced with an average 730,000 more jobs in the economy each year contributing to $87 billion more dollars in real disposable income per year."

The current regional natural gas market price indicators continue to have western New York poised to be a significantly lower cost region for natural gas supplies relative to the vast majority of the rest of the nation. Coupled with low cost hydropower, the Company believes that low cost natural gas supplies continue to provide the opportunity to highlight western New York as a low cost energy region for siting incremental manufacturing. PRIME-WNY is designed to help manufacturers in the Company's service territory take full advantage of these low cost energy supplies and economic opportunities similar to those discussed in the aforementioned study. Continuing Distribution's PRIME-WNY directly supports the following Commission and New York State REV goals:

- Create new jobs and business opportunities;
- Support the growth of clean energy innovation;
- Empower New Yorkers to make more informed energy choices;
- Make energy affordable for all New Yorkers;
- Improve New York's existing energy infrastructure; and
- Grow New York's energy efficiency.

Distribution is seeking a Commission authorization to continue PRIME-WNY as a pilot program, with the modifications described above.

Newspaper Publication

Concurrent with this filing, Distribution respectfully requests a waiver from the requirements of Public Service Law §66(12) and 16 NYCRR §720-8.1, pertaining to newspaper publication. Ordering clause four from the Commission's May 15, 2015 Order in Case 14-G-0551 previously waived newspaper publication requirements for the reauthorization of these programs, and the proposed tariff changes are being made for consistency and clarification purposes, with respect to existing programs previously approved by the Commission.

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Company Contacts

If you have any questions regarding the Company's tariff filing, please contact us at your convenience.

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