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NATIONAL FUEL GAS DISTRIBUTION CORPORATION
10 Lafayette Square
Buffalo, NY 14203

June 21, 2002

Hon. Janet H. Deixler
Secretary
Public Service Commission
Three Empire State Plaza
Albany, NY 12223-1350

Re: Proposed Tariff Amendments

Dear Secretary Deixler:

National Fuel Gas Distribution Corporation ("Distribution" or the "Company") submits the following amendments to its tariff, P.S.C. No. 8 - GAS:

Leaf No. 3	Revision 10
Leaf No. 84	Revision 3
Leaf No. 148.6	Revision 0
Leaf No. 208	Revision 5
Leaf No. 220	Revision 1
Leaf No. 240	Revision 2
Leaf No. 249	Revision 3

For the reasons that follow, Distribution respectfully requests that the above tariff revisions be approved, together with changes described below, for an effective date of September 23, 2002.

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Introduction

This filing is submitted to the New York Public Service Commission ("NYPSC" or "Commission") by the Company to foster the development of Distributed Generation ("DG") in Western New York. Over the past several weeks the Company and Staff of the NYPSC ("Staff") have held discussions on Distribution's proposed "Partnership for DG" pilot program. Based, in part, on those discussions and Staff's feedback the Company has developed the following proposal.

Background

Promoting development of DG would benefit Distribution and its rate payers due to the high load factor and incremental volumes generated by DG customers. This type of increased load helps Distribution spread out system fixed costs over larger throughput, and improves utilization of the system during the off-peak shoulder and summer months.

DG also benefits the commercial and industrial customers it serves by reducing energy costs to levels experienced in most other parts of the nation. DG would promote the state's ongoing efforts to reduce the cost of doing business in New York to maintain and attract employers.

The Commission has recognized the potential benefits to New York State from the development of DG applications. The Draft New York State Energy Plan and Draft Environmental Impact Statement ("Draft SEP"), released by the New York State Planning Board in December 2001 sets an ambitious goal to make New York State the leader in the nation in DG applications at customer sites. "The State should encourage the development and use of distributed generation ("DG") and combined heat and power ("CHP") technologies at customer sites, with **the goal of becoming a national leader in the deployment of distributed generation technology**" (Draft SEP p. 1-33, emphasis added).

Program Need

Currently, the customer paybacks in several target market segments are at best in the 4-8 year range, which in many cases is just beyond the required range of the customer.
A need exists for financial consideration for some of these customers in order to make project economics meet customer expectations.

Through Distribution's involvement in the attempted development of DG projects within its service territory, it has also become clear that both customers and Energy Service Companies ("ESCOs") would prefer a more direct Company involvement in developing DG projects.

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1. Customers prefer that Distribution become more involved in the development of DG projects because they believe that a more direct participation by Distribution lends credibility to the claims of long term energy savings by DG installations.

2. ESCOs prefer that Distribution become involved because they recognize the customer's increased comfort with installing DG units if Distribution is involved in the process.

3. Distribution, for its part, recognizes that DG is at a critical crossroads in the practical development of projects within its service territory. There is a large market potential, and a number of opportunities for new DG applications in our New York service territory, given that the required customer payback can be achieved. These applications, when successfully installed, will provide evidence to other customers of the viability of DG applications within the Distribution service territory. In order to take advantage of the current opportunity to encourage DG within its service territory, Distribution has designed its Partnership for DG program.

Program Overview

Partnership for DG is a pilot program developed by Distribution, with input provided by customers, ESCOs and Staff, to encourage the installation of DG facilities in Distribution's service territory.

The program has been developed at the request of customers and ESCOs that are actively involved in the installation and operation of DG units for customers. Customers and ESCOs have requested that the Company become directly involved in improving the marketability of DG. Distribution's Partnership for DG program is designed to accommodate their request. Staff suggested modifications to the pilot program in order to improve the quality and applicability of information to be gathered from the pilot. Those modifications have been incorporated into the program.

The objectives of the Partnership for DG program include the following:

1. Improve project economics to meet the customer's payback requirements.
2. Develop flexible rates designed to meet project requirements.
3. Provide one-time facilities cost buydown.
4. Develop a set of measurable deliverables to evaluate the effectiveness of the pilot program and report back to the Commission.
5. Costs to be borne entirely by each project.

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Program Design

Simply stated, Distribution's Partnership for DG program is designed to improve the customer's DG project economics by reducing the payback requirements of the customer through a one-time facility cost buydown of the DG installation. The cost of the one-time facility cost buydown would be recovered from the customer through the future incremental transportation or sales service charges paid to Distribution by the customer. This method assures that buydown costs will be borne by the DG customers on a project-by-project basis.

Through the Company's experience with customers evaluating DG projects, it has become apparent that customers predominantly evaluate the economics of DG projects through a payback analysis. Distribution can affect the payback of certain projects in a cost-effective manner to both the customer and Distribution through a one-time facility cost buydown. The cost of the one-time buydown would be recovered through the future transportation charges paid to Distribution by the customer. The Partnership for DG program would permit the Company to enter into negotiated agreements with customers where, a one-time DG facility cost buydown would be provided in return for a long term transportation service contract at rates sufficient to recover the costs of the one-time buydown over the term of the transportation service contract. We expect the buydown would typically be recovered over a period of 3-7 years, depending on the economics of the project.

Distribution proposes to implement this program on a pilot basis with an initial program term of five years. The Company also proposes an average annual facility buydown cap of $2 million per year over the 5-year period, (total buydown costs for the 5-year term would be $10 million) with an estimated average buydown per customer anticipated in the range of $50,000 to $150,000.

Program Regulatory Requirements

For the Partnership for DG program to work as planned, the Company requests that the Commission approve the following, such that:

1. Distribution would be permitted to expense the one-time facility cost buydowns in the year that they are incurred. The expenses shall be included for purposes of calculating the earnings sharing requirements of Distribution's most recent base rate settlement;

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2. Negotiated transportation rates related to the Partnership for DG projects would be permitted to exceed the current tariff rate ceilings for the term of any negotiated transportation agreement so as to enable recovery of buydown costs; and

3. Incremental transportation revenues related to the Partnership for DG projects would be excluded from the 90/10 transportation rate sharing provisions currently in place in the Distribution's tariff since the revenues would be applied towards recovering the one-time facility cost buydown. The incremental revenues will be included in revenues for purposes of calculating the earnings sharing requirements of the Company's most recent base rate settlement.

Program Deliverables

The proposed pilot program will utilize a facility cost buydown to reduce start-up costs for DG. As part of this pilot program, Distribution proposes that it will generate for each of the projects successfully installed as a part of this program:

1.
Document/Verify Project Economics
Distribution will collect data on equipment installed costs, O&M costs and displaced electric/thermal costs to calculate the actual customer payback achieved. These actual costs will be compared to the estimated pro-forma costs and the results will be used to further refine our analysis on future projects.

2. Evaluate Performance/Impact of DG System on Electric Utility
Distribution will analyze the impact of the electric standby tariffs on the DG project economics. The Company will also evaluate the

interconnection interface process with the electric utility, and identify any issues or problems encountered during installation and startup. The results will be used to streamline the interconnection process with the utility, and optimize the paralleling configurations in future systems.

3. Demonstrate the Reliability of DG Systems
Distribution will monitor the performance of the DG systems to develop a profile of the availability of DG systems, as well as frequency of planned vs. unplanned outages. This will be used to develop a better understanding of DG reliability and proof statements for future

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customers questioning DG reliability.

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4. Develop DG equipment "best practice" procedures
   Distribution will monitor the installation of the DG systems to document the installation process and establish the "best practice" procedures. The results will be shared with installation contractors to improve the installation procedures for future installations.

5. Introduction of DG to the Key Specifier Support Network
   Through Distribution's installations, the Company will introduce the DG concept and associated technologies to design engineers, mechanical/electrical contractors, ESCOs, service companies, etc. Educating the Key Specifiers on the features and benefits of DG will further encourage the advancement of DG in western New York.

6. Measure Customer Acceptance and Awareness
   Distribution will survey key personnel from each customer installation to determine customer satisfaction with the DG project and identify any area of concern or weaknesses in the design/installation/operation process. This will be used to "fine tune" future installations, as well as increase the awareness of these issues to prospective customers.

Distribution will share the results of these deliverables with the NYPSC during the term of the pilot program.

Conclusion

If adopted as proposed, Partnership for DG would serve the public interest at multiple levels. By promoting installation of DG, it would help to reduce business costs on participating western New York firms. DG is being promoted by the state for the reasons explained in the Draft SEP. Decreasing the downward trend in aggregate consumption on Distribution's system would benefit rate payers. For all these reasons, Distribution respectfully requests that the Commission approve Partnership for DG and the enclosed tariff amendments as filed.

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Company Contacts

For questions relating to this filing, please contact the undersigned at (716) 857-7805.

Respectfully submitted,

NATIONAL FUEL GAS DISTRIBUTION CORPORATION

Eric H. Meinl

Enclosures