



national fuel

March 31, 2006

Hon. Jaclyn A. Brillling
Secretary
Public Service Commission
Three Empire State Plaza
Albany, NY 12123-1350

Re: Case No. 04-G-1047 National Fuel Gas Distribution Corporation

Dear Secretary Brillling:

National Fuel Gas Distribution Corporation (“Distribution” or “the Company”) submits the following amendment to its tariff, P.S.C. No. 8 – GAS:

Leaf No. 37

Revision 2

This leaf is filed to implement the results of the Cost of Service Study (“COS”) completed as required by the Commission’s Order in Case 04-G-1047. The effective date of the proposed revisions is June 24, 2006.

The Order approved a Joint Proposal (“JP”) submitted in Case 04-G-1047 which included the following requirement:

The Meter Maintenance Fee (the “Fee”) is a fee charged to producers to recover the Company’s cost of maintaining meters and appurtenant facilities required to enable and measure the flow of local production at interconnection points on the Company’s system. The Fee will be reviewed to determine the appropriate cost of service. The Company will complete its study of the Fee and report the results to the Commission by April 1, 2006. Comments of the Producers Committee will be included in the report, along with the approval of the Committee, if obtained. JP at 40.

Accordingly, Distribution is submitting its report and requesting a change in the current Fee to reflect the appropriate cost.

The COS has been performed and is attached. The COS was presented at the Company’s Producer meeting on February 8, 2006. The last time the Fee was calculated through a cost of service study was in 2000 using information from the twelve months ended September 1999. At that time the representative cost of natural gas produced in the Appalachian region was \$2.43 per Dth. This

Hon. Jaclyn A. Brillling

March 31, 2006

Page 2

information was used in discussions that culminated in a negotiated Fee¹ of \$40 in a Joint Proposal in Case 00-G-1858. Currently Appalachian natural gas prices are \$9.03 per Dth. This represents a price increase in locally produced natural gas supplies of 372%. Distribution notes that the fee currently pays only part of the incurred expense; Distribution's rate payers fund the balance, constituting a direct subsidy in favor of the producers.

Distribution has production meters in both its New York jurisdiction and its Pennsylvania jurisdiction. The Distribution employees that perform maintenance on the meters and the other necessary work in order to measure the flow of local production, work on both New York and Pennsylvania meters. The COS recognizes this work distribution and allocates the costs to both the New York meters and to the Pennsylvania meters.

As an accommodation to producers, Distribution is proposing a change in the Fee by applying a different Fee for orifice meters versus non-orifice meters. Orifice meters require a larger time expenditure in order to chart and integrate the charts and to maintain the meters. This is recognized by the allocation between the orifice and non-orifice meters of Field Work and the Gas Measurement Administration Costs. Costs allocated based upon the number of meters were the remaining administration costs.

Comments by the Producers are attached.

Notice of the Company's filing will be published in newspapers of general circulation as required by the Public Service Law.

For questions relating to this filing, please contact the undersigned at (716) 857-7805 or Regina Truitt at (716) 857-7590.

Respectfully submitted,

Eric H. Meinel

¹ Also referred to as a Receipt Facility Maintenance Fee.

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
NEW YORK DIVISION
Monthly Meter Maintenance Fee for Local Producers
Fiscal 2005 Data

	<u>Total</u>	<u>Rotary</u>	<u>Orifice</u>
Meter Maintenance Cost	\$846,452.07	\$318,798.55	\$527,653.51
Number of Meters	829	405	424
Fee Per Meter/Per Month		<u>\$65.60</u>	<u>\$103.71</u>

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
Monthly Meter Maintenance Fee for Local Producers
Fiscal 2005 Data

	Hours	Labor Cost/Hour	Total
Gas Measurement - Note 2			
Grade G (Clerical)	4073	\$37.21	\$151,547.04
Gas Measurement Administration			<u>\$151,547.04</u>
Local Production Administration			
Grade D (Supervisory)	520	\$69.23	\$35,999.60
Grade E (Supervisory)	312	\$60.67	18,929.04
Grade G (Clerical)	5200	\$37.21	193,480.14
MRC Technical - Note 3			
Supervisory	800	\$69.83	55,864.00
Grade 6 (2154)	800	\$49.79	39,835.37
Remaining Administration Costs			<u>\$344,108.15</u>
Total Administration			<u><u>\$495,655.19</u></u>
Operations Field Work - Note 4			
Grade F (NY Supervisory)	1400	\$52.26	\$73,164.00
Grade F (PA Supervisory)	700	\$68.00	47,600.00
Grade G (PA Clerical)	700	\$37.21	26,045.40
Grade 8 (2154)	9400	\$56.04	526,761.90
Transportation (Class E vehicle)	9400	\$4.40	41,360.00
Material			<u>28,740.42</u>
Total Field Work			<u><u>\$743,671.72</u></u>
Total Administration			\$495,655.19
Total Field Work			<u>743,671.72</u>
			<u><u>\$1,239,326.91</u></u>

Note 1: Supervisor workload represents daily operational activities (e.g. gas quality problems, pressure problems, regulator pressure changes and sampling). The clerical activities represent the workload associated with maintaining the Contract Administration Producer Entity system which tracks meter maintenance activities performed by NFGDC personnel for local producers.

Note 2: Includes chart integration, chart censoring, special reads, volume data entry and payment system data entry.

Note 3: Includes training of Field employees, answering technical issues by Field Employees, and in house repairs.

Note 4: Includes the following activities: Internal Inspections, performance checks, check/adjust pressure, repair relief or regulator, inspect/test equipment, gas quality check, repair/maintain equipment, process gas sample, and calibrate moisture analysis.

NATIONAL FUEL GAS DISTRIBUTION CORPORATION
Monthly Meter Maintenance Fee for Local Producers
Fiscal 2005 Data

<u>Number of Meters</u>	<u>NY</u>	<u>PA</u>	<u>Total</u>
Rotary and Other Meters	405	292	697
Orifice Meters	424	131	555
	<u>829</u>	<u>423</u>	<u>1,252</u>

<u>Weighted Meters (Orifice 1.5 times Rotary)</u>	<u>NY</u>	<u>PA</u>	<u>Total</u>
Rotary and Other Meters	405	292	697
Orifice Meters	636	197	833
	<u>1,041</u>	<u>489</u>	<u>1,530</u>

	<u>Rotary</u>	<u>Orifice</u>	<u>Total</u>
Gas Measurement Administration Allocation	12.00%	88.00%	100.00%
Remaining Administration Costs	55.67%	44.33%	100.00%

Administration Costs (allocated between states based on Number of Meters)		<u>NY</u>	<u>PA</u>
Rotary Allocation	12.00%	18,185.64	10,566.98
Orifice Allocation	88.00%	133,361.40	101,883.30
Gas Measurement Costs	100.00%	<u>\$151,547.04</u>	<u>\$112,450.28</u>
			<u>\$39,096.76</u>

Administration Costs (allocated between states based on Number of Meters)		<u>NY</u>	<u>PA</u>
Rotary Allocation (697/1252)	55.67%	191,568.20	111,312.94
Orifice Allocation (555/1252)	44.33%	152,539.95	116,535.03
Remaining Administration Costs	100.00%	<u>\$344,108.15</u>	<u>\$227,847.97</u>
			<u>\$116,260.18</u>

Field Work (Allocated between states based on Weighted Meters)		<u>NY</u>	<u>PA</u>
Total Field Work			
Rotary Allocation (697/1530)	45.57%	338,894.53	196,918.63
Orifice Allocation (833/1530)	54.43%	404,777.19	309,235.18
		<u>\$743,671.72</u>	<u>\$506,153.82</u>
			<u>\$237,517.90</u>

Summary

<u>NY</u>	<u>Rotary</u>	<u>Orifice</u>	<u>Total</u>
Administration - Gas Measurement	10,566.98	101,883.30	112,450.28
Administration - Remaining	111,312.94	116,535.03	227,847.97
Field Work	196,918.63	309,235.18	506,153.82
	<u>\$318,798.55</u>	<u>\$527,653.51</u>	<u>\$846,452.07</u>

Number of Meters	405	424
Base Fee - Per Meter/Per Month	<u>\$65.60</u>	<u>\$103.71</u>

Notes to NFG Presentations at Large Group Meeting in Dunkirk, NY
By: John Holko

Consolidation of Meters:

1. It would seem that NFG could review their database to analyze areas on their system that have multiple production meters and distribution customers. In these areas, either multiple producers could work together to take over NFG lines or possible single producer with multiple connection points could be notified of available consolidation ideas.
2. It may be necessary to create an expedited program for abandonment that would allow lower cost transfer with simplified regulatory approval
3. NFG may need to play a more active role in finding these opportunities since they are more familiar with their system

Rotary VS Orifice

1. Is there a possible way for NFG to provide meters without the producer paying costs, which could allow for NFG to recoup costs by purchasing the gas for its low-income heating fund from the new rotary meter for a period of 3 to 5 years. If this gas replaces what would have been otherwise higher price long line transport with upstream allocation of demand costs and other costs, the incremental savings of buying gas closer to market could offset the cost of rotary meter installation. This idea could be combined with options provided to producers that would help offset meter costs.
2. NFGD should look at the program provided by Great Lakes that is offered in Ohio to producers.

Cell phone Program

1. I have no idea why there is any cost associated with this program. With the need for communication a necessity in today's work environment, the utilization of cellular technology could probably improve other areas of NFGD's field work force. This to me seems like a safety issue that can assist in preventing any problems arising from poor communication and should be covered in the rate base. I would think that the cell phones could actually improve all communications and maybe they could get rid of any other systems used for locating workers or data entry and incorporate that with modern cell phones. Maybe the system could incorporate more data transfer using cell technology.

Recalculation of Meter Maintenance Fee

1. Does the allocation of costs incorporate the concept that certain checks and maintenance would be provided by NFGD as a part of maintaining its system. It

- seemed that all costs were assessed against the producer. Even if the costs are correct, how much if any should be included in rates. I am sure that NFGD provides services similar to those supplied at producer meters at other gas supply taps into their system that are covered in the rate base. If not, I would like to see the charges assessed on and paid by NFGSupply and other pipelines for NFGD's personnel and equipment as a comparison.
2. It is very difficult to separate time specific to producer meters when some costs are actually blended. The example is the allocation of travel time as it relates to production meters near other distribution work.
 3. Some of the services should also be reviewed for outsourcing prior to saying that these are the costs. I am not saying that NFGD's costs are higher, it would just be prudent to review outsourcing. This could encompass work such as:
 - a. Meter Integration
 - b. Dew Point Testing
 - c. Regulator Testing
 - d. Meter Calibration
 4. Considering that the more varied the locations that NFG has for gas supply into their system, the easier it is to stabilize gas supplied to the remote reaches of the system. Most production meters flow more volume when pressures fall, they provide a simple means of no notice peaking supply when the system pressure falls due to low supply and high takes. This adds value to the system and in my mind provides enough value to incorporate some if not all of the costs associated with production meters into system supply/transport costs. If these costs are allocated over the entire system volume, the cost per mcf becomes negligible while providing a valuable service stabilizing remote sections of the system.