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national fuel

December 9, 2014

Hon. Kathleen H. Burgess
Secretary
Public Service Commission
Three Empire State Plaza
Albany, New York 12223-1350

Re: Case 11-G-0348 - National Fuel Gas Distribution Corporation Proposed Tariff Amendments

Dear Secretary Burgess:

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 25
Leaf No. 84	Revision 13
Leaf No. 148.6	Revision 11
Leaf No. 148.16	Revision 0

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 April 1, 2015.

Introduction

This filing is submitted to the New York Public Service Commission ("NYPSC" or "Commission") by the Company to extend its partnership for distributed generation ("DG") and natural gas vehicle ("NGV") programs beyond the currently effective March 31, 2015 expiration date. Distribution proposes to extend the programs for an additional three years, until March 31, 2018. This filing also seeks authorization of the partnership to revitalize the industrial manufacturing economy of western New York ("Prime-WNY"), a program with features similar to Distribution's DG and NGV programs.

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Request for Extension of Partnership for DG and NGV Programs

On November 17, 2011, the Commission Approved as Recommended and So Ordered NYPSC Staff's November 2, 2011 Recommendation (the "November 2011 Recommendation and Order") to accept Distribution's filed amendments to its gas tariff schedule extending its partnership for DG program to March 31, 2015[1] and expanding the program to include NGV applications. In the November 2011 Recommendation and Order Staff recognized that "National Fuel's DG Pilot Program has played an important role in the development of DG technologies by collecting valuable experience and data throughout the DG Pilot Program's term."[2] Because "the DG Pilot Program can continue to add value to National Fuel's customers" Staff determined that "the DG Pilot Program, with a cap of $3 million, and all associated Commission requirements should continue until March 31, 2015."[3] Noting that "National Fuel's NGV Pilot Program would provide a step toward an understanding of the role that NGVs may play in the state's energy future,"[4] the November 2011 Recommendation and Order also approved Distribution's request to add NGV applications to its DG program.

Under the current tariff leaf, Distribution's DG and NGV programs are scheduled to end on March 31, 2015. With this filing the Company requests that the programs be extended for an additional three years, until March 31, 2018. Given the historical success of Distribution's DG program and the increased emphasis on DG opportunities identified by the Commission in its recently initiated *Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision*, Case 14-M-0101,[5] Distribution believes that the extension of its DG program would be beneficial to its customers and the market in general. In the Staff Report and Proposal upon which the REV Proceeding is predicated, Commission Staff identifies as a driving force of fundamental change in the electric industry "[t]echnology developments in *distributed generation* and information systems, which challenge incumbent systems and present opportunities for

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1 The Commission first approved the Company's DG program effective March 20, 2003 (Case 02-G-0858, *National Fuel Gas Distribution Corporation – Distributed Generation Pilot Program*, Order Approving Distributed Generation Pilot Program with Modifications) and subsequently extended it for consecutive three year periods on March 20, 2006 (Case 02-G-0858, *Tariff Filing by National Fuel Gas Distribution Corporation to extend its "Partnership for Distributed Generation" pilot program for an additional three years,* Order Approving Tariff), March 12, 2009 (Case 02-G-0858, *Tariff Filing by National Fuel Gas Distribution Corporation to extend its "Partnership for Distributed Generation" pilot program for an additional three years,* Order Approving Tariff) and November 17, 2011 (November 2011 Recommendation and Order).

2 November 2011 Recommendation and Order, p. 6.

3 November 2011 Recommendation and Order, pp. 6-7.

4 November 2011 Recommendation and Order, p. 9.

5 Case 14-M-0101, *Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision, Order Instituting Proceeding* (April 24, 2014) (the "REV Proceeding").

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transformation of those systems.[6] Staff's subsequent Straw Proposal on Track One Issues discusses DG opportunities at length and lists "[i]ncreased penetration of clean distributed generation" as one of "the major categories of anticipated benefits of REV."[7]

Extension of Distribution's NGV program is also in the public interest. Since the addition of NGVs to the DG pilot program NGVs have become more popular in Distribution'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 imported oil, have caused the Company's NGV market to increase, especially among large commercial fleets. Distribution has seen several large customers convert significant portions of their fleet to NGVs. Some of these customers include Modern Disposal, Waste Management, Try-IT Distributing, Guard Contracting, Innovative Transportation, the New York State Office of Parks & Recreation, SUNY at Buffalo, Buffalo State College, Carolina Furniture and Sieck Wholesale Florist.

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. Distribution currently has seven public access stations and eleven private access stations in its service territory. The public access stations include the Company's two stations (West Seneca and Niagara Falls), Waste Management, HPW Energy, Cotton Well Drilling, Clean Energy and Try-It Distributing. The private access stations include Waste Management, Modern Disposal, NYS Office of Parks & Recreation, NYS Department of Transportation's six locations, SUNY at Buffalo and Buffalo State College. To incentivize customers to participate in this growing movement Distribution sought and received approval from the Commission for the NGV partnership pilot program that is the subject of this filing. As of November 2014, the Company has 4 customers participating in this program. These four customers utilize 133 natural gas vehicles, with an annual gas usage of 112,389 Mcf, and include a total of $442,195 in grants, approximately 15% of the $3 million Distribution is approved by the Commission to provide through this program. In addition, the Company has several other customers close to finalizing their NGV projects in the next six to twelve months, with grants totaling approximately $500,000.

In light of the success of the NGV and DG programs the Company asks that they be renewed pursuant to their existing terms for an additional three (3) year period, until March 31, 2018.

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[6] Case 14-M-0101, *Reforming the Energy Vision: NYS Department of Public Service Staff Report and Proposal* (April 24, 2014), p. 2 (emphasis added).
[7] Case 14-M-0101, *Developing the REV Market in New York: DPS Staff Straw Proposal On Track One Issues* (August 22, 2014), p. 9.

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Request for Authorization of Prime - WNY

Its positive experiences with the DG and NGV programs led the Company to propose in its recent Gas Expansion Plan[8] a similar program, Prime-WNY, to help revitalize the industrial manufacturing economy of western New York. During the collaborative process associated with the Gas Expansion Plan the participating parties agreed that it would be advisable to implement the Prime-WNY proposal, as well as certain other proposals, immediately so that the benefits could begin to be realized in the Company's service territory as soon as possible. Since the Prime-WNY program has features similar to Distribution's existing DG and NGV programs, it was determined that the proposal to implement Prime-WNY be included in the filing to extend the DG and NGV programs.

Just as the availability of low cost natural gas supplies is encouraging investment in DG and NGV products, it is also reshaping the competitive environment for manufacturing in the United States. [9] According to the Manufacturing Renaissance Study recently prepared by iHS Global Insight for the U.S. Conference of Mayors and the Council on Metro Economies and the New American City:

> Recently tapped unconventional shale plays (large subterranean oil and natural gas formations, often stretching across several states), with their accessible and relatively inexpensive oil and natural gas, have boosted growth in both the manufacturing sector and the national economy. The Bakken Play in North Dakota and the Marcellus Play in Pennsylvania are the two largest and most notable of these shale formations. … From 2010 to 2012, energy intensive manufacturing sectors added over 196,000 jobs and increased real sales by $124 billion in the nation's metro areas. … These energy intensive sectors will continue to boost the US economy for years to come as exploration and extraction fuel the iron, steel, machinery and fabricated metals industries, and cheaper natural gas stimulates demand from organic chemicals, resins, and plastics. Cheaper natural gas will also benefit the housing market recovery as it lowers the costs for construction and building materials such as flat glass

[8] Case 13-G-0136, *Proceeding on Motion of the Commission as to the Rates, Charges, rules and Regulations of National Fuel Gas Distribution Corporation for Gas Service, Gas Expansion Plan Submitted in Compliance to Conditions of Joint Proposal* (August 6, 2014).

[9] See e.g., *Impact of the Manufacturing Renaissance from Energy Intensive Sectors*; Prepared by iHS Global Insight for the United States Conference of Mayors and the Council on Metro Economies and the New American City (March 2014) (the "Manufacturing Renaissance Study"). http://www.usmayors.org/pressreleases/uploads/2014/0320-report-MetroEconomiesManufacturing.pdf

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and cement.[10]

Indeed, the current regional natural gas market price indicators 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 provide the opportunity to highlight western New York as a low cost energy region for siting new manufacturing facilities. Prime-WNY is designed to help manufacturers in the Company's service territory take full advantage of these low cost energy supplies and opportunities similar to those discussed in the aforementioned study.

Customers that install incremental natural gas fired equipment on their premises would qualify for the Prime-WNY program. The cost of this equipment can vary widely based on the specific situation, however these costs are substantial and can easily range anywhere from hundreds of thousands of dollars to millions of dollars, depending on the type of business and industrial process. In addition to the cost of the equipment itself, there are engineering and design costs along with equipment installation costs associated with these projects. In some cases there are also costs associated with needed upgrades to the Company's existing gas infrastructure (mainline, serviceline and meter). All of these costs must be considered by the customer with respect to the project's associated increased efficiency, production output, product quality, etc. Under the Prime-WNY program, Distribution and the customer would enter into a contractual arrangement whereby the Company would buy down the initial capital cost of the project (e.g., Company system improvements, Customer gas house piping, equipment submetering, and gas fired equipment, etc.). As part of the agreement, the customer would for the term of the contract (which may vary by customer) use Distribution as their sole provider of natural gas delivery services. Thus, the Company would be compensated for the amount of the capital cost buy down through the incremental revenues derived from the customer's transportation service contract with the Company. Customers would take service from the Company under one of the following Service Classifications: SC 13D TC 3.0,SC 13 D TC 4.0, SC 13 D TC 4.1, SC 13M TC 3.0, SC 13 M TC 4.0, SC 13 M TC 4.1, SC 16, SC 17, SC 21, or SC 23. Metering would be installed that will permit the incremental usage of the qualifying facilities and equipment to be separately identified from other customer applications.

Under the Prime-WNY program, the Company would be permitted to enroll customers into the program for a three year test period. Depending on the success of the program the term could be extended beyond three years. The contract term with customers would be established through negotiations with the customer. The facility cost buy downs under this program would not exceed $6 million.

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[10] Manufacturing Renaissance Study, p. 1.

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Conclusion

If adopted the Prime-WNY program would serve the public interest by helping manufacturers in Distribution's service area to take full advantage of opportunities made available by the existence of low cost natural gas supplies. Similarly, extension of Distribution's DG and NGV programs would help to reduce business costs on participating western New York firms. It would also enhance the environment and energy security of New York State by reducing harmful emissions to our atmosphere, and reducing our reliability on foreign oil supplies. In addition, decreasing the downward trend in aggregate consumption on Distribution's system would benefit all rate payers by helping to spread out our fixed costs over a larger usage base. For all these reasons, Distribution respectfully requests that the Commission approve the extension of the DG and NGV programs and authorize the proposed Prime-WNY program.

Newspaper Publication

The Company will publish notice of the proposed tariff revisions in accordance with Public Service Law §66(12) and applicable regulations.

Company Contacts

For questions relating to this filing, please contact the undersigned at (716) 857-7237 or Eric Meinl at (716) 857-7805.

Respectfully submitted,

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