Summary of Modifications to National Fuel Gas Distribution Corporation's Transportation Service Rates

A) Background

Since August 1, 1993, National Fuel Gas Distribution Corporation ("Distribution") has included gas costs associated with providing imbalance services to its transportation customers within the transportation service rates that Distribution charges. Over the last twenty-two Distribution 1307(f) proceedings (R-922499, R-932885, R-943207, R-953487, R-963779, R-974167, R-984497, R-994898, R-005832, R-016789, R-038101, R-049108, R-050216, R-061246 R-072043, R-2008-2012502, R-2009-2083181, R-2010-2150861, R-2011-2218386, R-2012-2281465, R-2013-2341534 and R-2014-2399610), the Commission has consistently recognized that transportation customers should be responsible for paying the costs of service which can be fairly determined as having been incurred for the benefit of transportation customers.

The Commission has determined that transportation customers cause Distribution to incur costs associated with storage and transportation service contracted by Distribution with National Fuel Gas Supply Corporation ("Supply"). Such costs have
been recovered from transportation customers through a number of services offered to transportation customers including: (1) Monthly Metered Transportation ("MMT") charges, (2) overdelivery charges for Daily Metered Transportation ("DMT") customers, (3) sales service to MMT and DMT customers, and (4) the release of firm capacity on Supply to transportation customers.

The allocation of purchased gas costs to transportation customers, as well as the design of transportation rates, are explained in greater detail below.

B) Purchased Gas Costs Associated with Transportation Service

Purchased gas costs associated with transportation service relate to the costs incurred by Distribution in order to support the differences between what transportation customers use on a daily basis and what the transportation customers deliver to Distribution's system on a daily basis.

In the previous 1307(f) proceedings addressing the issue, the Commission recognized that the Federal Energy Regulatory Commission's ("FERC") Order 636 imposed additional costs on Distribution in order to provide MMT and DMT transportation services. Distribution determined the level of additional costs
after a review of Distribution's design peak day requirements and supply sources. The term "design peak day" refers to the practice that is standard in the natural gas industry under which pipeline capacity, storage capacity and natural gas supply planning are based upon customers' requirements on the coldest winter day reasonably expected to be experienced. For this proceeding, Distribution has updated this review for the design peak day requirements forecasted during the twelve months ending July 2016. This updated review has lead to the conclusion that Distribution requires that 152,597 Mcf of gas be delivered into its system to meet MMT and DMT transportation service customers' design peak day (at 74 heating degree days) requirements, but only 115,313 Mcf are delivered on that day. This difference, 37,284 Mcf (152,597 Mcf less 115,313 Mcf), must come from somewhere. In fact, this difference is made up by increased withdrawals of gas from Supply's storage facilities, in excess of volumes required for sales service customers. This conclusion is inescapable irrespective of whether the transportation service customer moves gas supplies only on Distribution's system or whether it moves gas supplies on both Distribution's system and Supply's system. Based on the foregoing, in order for
Distribution's rates to be fair to all customers,
Distribution must recover from transportation service
customers costs associated with use of Supply's storage
facilities, including costs for injection and
withdrawal of gas into and from storage, storage
capacity costs, storage deliverability costs and
shrinkage.

In designing an appropriate form of
transportation rate which will include a provision for
recovery of costs associated with use of Supply's
storage and deliverability capacity to meet design peak
day requirements of transportation service customers,
realities of measurement of customer's gas use and gas
delivered to Distribution for customer's accounts must
be recognized. Presently, it is impossible to
determine the extent to which all transportation
customers individually place demands on Supply's
storage capacity. In order to make such determination
for an individual transportation service customer, it
would be necessary to have daily metering facilities
both at the premises where the customer receives
service from Distribution and at the point of delivery
of the customer's gas supplies to Distribution for
transportation to the customer. Only by having daily
data concerning amounts delivered to Distribution for
the customer’s account and amounts used by the customer
could the actual shortfall, which must be made up on
peak day utilizing Supply’s storage services, be
quantified.

Installation of such metering facilities,
together with communication facilities to transmit
daily metering information to Distribution for
analysis, for all transportation service customers
would be exceedingly expensive, since Distribution
presently has approximately 3,100 MMT and DMT
transportation service customers in Pennsylvania and
receives gas supplies for customers' accounts at
hundreds of points of delivery.

The total purchased gas costs associated with
transportation customer imbalances are provided on PGC
Exhibit No.24A. Tables I through V on PGC Exhibit
No.24A present the calculation of purchased gas costs
associated with transportation customer imbalances.
Purchased gas costs associated with transportation
imbalances can be segregated into two general
components: (1) costs associated with storage
requirements (Tables I through IV), and (2)
transportation costs associated with moving such gas
from storage (Table V).
The storage costs associated with
transportation customer imbalances (Tables I through
IV) were calculated using Supply’s Enhanced Storage
Service ("ESS") rates. Four rate components are
included in Supply’s ESS Rate Schedule: (1)
deliverability, (2) capacity, (3) injection and
withdrawal, and (4) shrinkage.

The deliverability cost component is
summarized in Table I of PGC Exhibit No. 24A. The
storage deliverability requirement in Table I of 31,436
Mcf is equal to the MMT design peak day deficiency of
26,670 Mcf calculated in PGC Exhibit No. 26-B. A local
production amount of 2,322 Mcf which is a balancing
requirement for monthly metered local production
deliveries that MMNGS customers rely on during a winter
period. Also, an amount of 2,444 Mcf of contingency
capacity is allocated. Contingency capacity assures
reliability in the event a marketer fails to deliver
its required supplies, as well as to protect the sales
customers should there be a capacity or supplier
failure, or should the system experience load
requirements that exceed current peak day projections.
The total deliverability requirement is 31,436 Mcf
(26,670 Mcf + 2,322 Mcf + 2,444 Mcf).
The design peak day deficiency requirements of DMT customers are excluded from the MMT storage deliverability calculation, because, in a previous Distribution 1307(f) proceeding (R-953487), the Commission modified the DMT service so that, during critical supply situations, a DMT customer’s access to overdelivered gas supplies is extremely limited. In effect, a DMT customer’s access to peak day storage deliverability is interruptible. Since such access is interruptible, it is not appropriate to allocate such costs to transportation customers.

Table II of PGC Exhibit No.24A calculates the ESS capacity costs associated with total overdeliveries of transportation customers. The capacity charged to transportation customers is equal to 10% of projected average monthly requirements of MMT customers for the 12 months ended July 2016.

The storage injection and withdrawal costs associated with balancing transportation customers’ usage and deliveries are provided in Table III of PGC Exhibit No.24A.

Supply’s ESS rate is also subject to a shrinkage factor of 1.58%. The cost of shrinkage for storage services related to transportation customers is the average storage capacity reserved for
transportation service multiplied by the shrinkage factor times Distribution's average commodity cost of purchased gas. Table IV of PGC Exhibit No.24A shows the shrinkage cost calculation.

In addition to storage service, it is necessary for such gas to be moved from storage fields. In order to move gas from ESS storage, Enhanced Firm Transportation ("EFT") is required also. Supply's ESS service does not include the associated costs of transportation service. Table V of PGC Exhibit No.24A summarizes costs of Supply's EFT capacity which must be used by Distribution in order to move gas from storage to meet monthly metered transportation customers' design peak day deficiency requirements.

The total purchased gas costs associated with transportation customer imbalances is the sum of the costs identified on Tables I through V of PGC Exhibit No.24A.

C) MMT Rate Proposed By Distribution

The unit MMT rate resulting from the costs incurred to support transportation imbalances is $0.2925/Mcf ($0.2925/Mcf = $2,696,436 divided by 9,218,575 Mcf). The current MMT rate is $0.25/Mcf. The Company is proposing to increase the rate to $.29/Mcf.

D) Charges for Transportation
Overdeliveries and Underdeliveries for
Daily Metered Transportation Customers

Distribution established its DMT rate schedule in the first 1307(f) proceeding affected by Order 636. Distribution implemented substantial changes to its banking/balancing services for transportation customers in that proceeding. These changes were due to the fact that, following Supply's restructuring proceeding under FERC Order 636, Distribution in fact provided banking/balancing service by use of Supply's storage facilities and upstream pipeline capacity - not by changes in levels of gas purchases from Supply at different times. Following restructuring, Distribution scheduled deliveries of gas to it and for its account into storage. All differences between the volume of gas scheduled by Distribution from gas producers and the volume of gas delivered to Distribution's customers, including transportation imbalances, other than shrinkage, will cause increases or decreases in the volumes of gas injected into or withdrawn from storage facilities. Therefore, banking and balancing charges were based on costs incurred to provide the service, primarily storage-related costs and costs of upstream pipeline capacity on Supply.
DMT service includes a 2% tolerance level for imbalance charges to recognize the potential for measurement errors of the DMT customer’s consumption. A balancing tolerance of 2% is reasonable and should be achievable by most DMT customers. Therefore, so long as a customer has a banked balance which does not exceed 2% of the volume of gas transported by Distribution to it in the billing month, there will be no additional charge for banking/balancing service.

If, however, the customer has an overdelivery imbalance in excess of 2% of the volume of gas transported to the customer by Distribution during the billing month, but less than 37% of the volume transported, the customer will incur an additional charge. The amount of the additional charge is currently $0.6351 per Mcf. Distribution is not proposing to change this rate at this time.

A greater charge will be applied to transportation service customers using Distribution's banking/balancing service when volumes in storage exceed 37% of the volume of gas Distribution delivered to the customer during the billing month. Historically, approximately thirty-seven percent of sales customers' normal winter requirements are met with gas from storage. The remainder of sales customers'
requirements are met by gas transported on upstream pipelines. Therefore, to the extent that a transportation customer has banked more than 37% of its requirements, it is using storage to a greater degree than are sales customers. The transportation customer is, therefore, preventing the use of storage for sales customers and requiring the use of upstream capacity. It is only fair that when a transportation customer meets more than 37% of its requirements through storage it should contribute to recovery of the costs of upstream capacity. The additional rate for use of banking/balancing service in excess of 37% of volumes delivered to transportation service customers during a billing month is designed to provide a contribution to recovery of costs of upstream pipeline capacity and to provide a further incentive for transportation customers and their suppliers to match customer usage with deliveries. All banked volumes exceeding 37% of monthly transportation deliveries are currently billed at a $0.7624 per Mcf rate. Distribution is not proposing to change this rate at this time.

It is important to recognize that Distribution did not design its charges for overdeliveries to be a gas storage service. Distribution has designed the overdelivery rates to
provide an incentive to its transportation customers and their marketers to match as closely as possible a customer's gas usage with the customer's transportation deliveries. Distribution believes its overdelivery charge achieves this incentive while at the same time providing a mechanism that recovers the costs of overdelivery services.

When a DMT customer on any day uses gas supplies in excess of current deliveries and prior "banked" volumes, the customer is using Distribution's gas supplies for which it must, under the restructuring procedures pursuant to FERC Order 636, contract directly with producers or other gas suppliers. When a DMT service customer is truly drawing upon Distribution's gas supplies, it is only fair that the customer compensate Distribution, and Distribution's sales customers, for use of such gas supply.

Therefore, in its first 1307(f) proceeding affected by Order 636, Distribution proposed, and the Commission accepted (with the exception of a 2% daily delivery tolerance for DMT underdeliveries), that transportation customer's use of Distribution's gas supplies be considered a sale of gas by Distribution to the customer, which cannot be eliminated by subsequent overdeliveries. Distribution is not proposing to
change this requirement for DMT customers in this proceeding.