

National Fuel Gas Distribution Corporation
Pennsylvania Division
Natural Gas Choice and Competition Filing Requirement
Docket R-00994785

D. Natural Gas Suppliers

1. Set forth any penalties to be imposed upon the natural gas suppliers for failure to deliver natural gas as required or for other violations of the natural gas distribution company's tariffs, if applicable. Section 2203(12)

Response:

Distribution's current customer choice program contains a series of penalties to be applied to Suppliers for the failure to deliver natural gas supplies. The penalties are included in the SATS rate schedule. The penalties included in the SATS rate schedule are set forth below.

1. Requirement to maintain ESS storage inventory levels (SATS tariff page 83AK).

Suppliers must follow a schedule set out by the Company such that the particular storage levels are obtained throughout the year, to assure the Supplier's SATC customers' needs are met by the NGS. Any deficiency in inventory requirements will be automatically adjusted by the Company to meet the required level. The NGS is charged per Mcf for such automatic adjustment at the higher \$7.00 per Mcf or the Market Price of gas for that day which shall be determined by reference to The Gas Daily Index, "Daily Price Survey" for "Appalachia", "CNG North Point", plus all transportation costs to the Company's City Gate. See Exhibit 4, Rate Schedule SATS, at page 83AK.

2. Requirement to provide deliveries at the city gate (SATS tariff pages 83AN and 83 AO).

The Company requires Suppliers to deliver sufficient supplies to meet the Supplier's aggregated daily demand quantity ("ADDQ"). For City Gate deliveries by the NGS that differ from the applicable ADDQ, the NGS will incur the following charges:

For Daily City Gate underdeliveries in excess of two(2) percent of the applicable ADDQ during the Summer Period (April through October), the charge for the gas supplied by the Company to make up for the underdeliveries shall be equal to the higher of \$7.00 per Dth or 110% of the Market Price of gas for that day which shall be determined by references in The Gas Daily Index, "Daily Price Survey"

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for "Appalachia", "CNG North Point". See Exhibit 4, Rate Schedule SATS at page 83 AO.

For Daily City Gate underdeliveries in excess of two (2) percent of the applicable ADDQ during the Winter Period (November through March), the charge for the gas supplied by the Company to make up for the underdeliveries shall be equal to the higher of \$10.00 per Dth or 110% of the Market Price of gas for that day which shall be determined by references in The Gas Daily Index, "Daily Price Survey" for "Appalachia", "CNG North Point". See Exhibit 4, Rate Schedule SATS at page 83 AO.

3. Penalties for deliveries in contravention of OFOs. (SATS Tariff at 83 AQ)

During OFO periods, to the extent Suppliers violate such OFOs, Suppliers will be charged penalties which are assessed in addition to any other applicable charges. See Exhibit 3, Rate Schedule SATS at page 83 AQ.

4. Burner tip imbalance resolution (SATS tariff pages 83AO and 83AP)

Imbalances are resolved through either a rollover to subsequent months or a cash-out. Unless the NGS elects the rollover option, the default method of burnertip imbalances resolution will be cash-out. See Exhibit 3, Rate Schedule SATS at 83 AO and 83AP.

Overdeliveries:

The Company has the right to purchase the amount of overdelivery at a rate equal to the lowest commodity price the Company offers to pay for monthly spot purchases of gas produced directly into the Company's system.

Underdeliveries:

The Company shall charge the NGS for the gas supplied by the Company to make up for underdeliveries the higher of \$7.00 per Dth or 110% of the Market Price of gas for that day which shall be determined by references in The Gas Daily Index, "Daily Price Survey" for Appalachia", "CNG North Point".

5. Termination of SATS service to Suppliers for failure to deliver (SATS tariff page 83AQ and 83AR).

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The Company may terminate any NGS that fails for any three (3) days to deliver at least ninety (90) percent of the applicable ADDQ for the Supplier's customer group, measured during a single thirty-day period. Such NGS, at the Company's option, may be prohibited from receiving service under this rate schedule for the greater of 6 months or until such time as another Enrollment Period established by the Company. See Exhibit 4, at Rate Schedule SATS, pages 83AQ and 83 AR.

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- D. Natural Gas Suppliers
2. Explain in detail all tariffs and or procedures for operation of the natural gas distribution company's system in coordination with licensed natural gas suppliers. Section 2205(a)

Response:

Under Distribution's current customer choice program Distribution relationship with Suppliers is governed by the tariff service "SATS" or Small Aggregation Transportation Supplier service as well as by an agreement entered into between Distribution and the NGS. See attached.

SATS Tariff.

Distribution communicates with Suppliers through its web site to provide daily delivery quantities and other information applicable to Suppliers serving their group of small transportation customers. Information regarding system issues and operational constraints are provided on the website as well. Distribution will issue "system maintenance orders" in order to attempt to correct any system conditions which develop, i.e. to assure sufficient gas is being delivered into the system where needed. To the extent necessary, operational flow orders will be issued, non-compliance with which will be penalized. See Exhibit 4, Rate Schedule SATS at 83 AP, 83AQ.

One change to the SATS tariff Distribution proposes is to allow SATS Suppliers as part of the enrollment process to retain oral or written evidence of customer agreement, consistent with the Act. See Exhibit 5 Rate Schedule SATS at page 83AS.

SATS Agreement.

The Supplier agreement entered into between the NGS and the Company requires the NGS to first meet creditworthiness standards which are further discussed at Exhibit 2, Schedule D. 3. In addition the NGS must apply for qualification and describe for the Company that it has operational capability to meet the requirements of its customers. As well, the NGS must describe its means for meeting applicable marketing standards and if it will bill its customers for gas supplies, it must describe its means for billing for its customers. Copies

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of the NGS pro forma contracts with customers is necessary as well (minus confidential pricing information). Exhibit 4, SATS tariff at page 83AS.

To meet the operational needs the NGS must affirm that it will adhere to particular practices which assure customer protections.

The NGS must assure that it has a dispute resolution process in place.

Bills rendered by the NGS must be clear and in plain language and include a statement regarding the need to register question about the bill prior to the due date, as well as the Distribution phone number to initiate an inquiry. Minimum payment periods must be as per the Commission's regulations. To the extent bills are not paid by that date the NGS shall notify the customer that failure to pay will result in transfer to Distribution within 15 days. Procedures are in place to ensure SATC customers receive adequate prior notice of termination of gas supply services. Notice must be sent to the customer and Distribution at least 15 days prior to discontinuing service. See Exhibit 3, SATS Tariff at page 83AT.

Capacity Allocation to Suppliers.

See Exhibit 2, Schedule C 2b.

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D. Natural Gas Suppliers

3. Set forth the criteria used to establish the amount and type of bond or other security to be required of licensed natural gas suppliers. Section 2208(c)(1)(i)

Response:

Distribution will continue to apply the same financial fitness requirements under restructuring as those applied to previous PTA and current SATS Suppliers. See attached Pa. PUC Tariff at Fourth Revised Pages No. 30, 30A and 30B.

More specifically, Distribution uses the following criteria to determine the risk exposure for any licensed NGS in order to determine the amount and type of bond required for each NGS.

1. The financial fitness of the NGS.
2. The reliability of deliveries from the NGS.
3. The projected total consumption of endusers to be served by the NGS.

Security may be provided in the form of a surety bond, letter of credit, parent company or third party guaranty. In each case Distribution will consider the creditworthiness of the issuing financial institution, insurer, parent company or third party guarantor before accepting security on behalf of the NGS.

Financial Fitness of the Natural Gas Supplier

Financial fitness is determined by review of the Supplier's payment history with the Company, compilation of creditor reports, and a request for financial statements.

Reliability of Deliveries

For NGS applicants approved to move gas on Distribution's system, Distribution reviews historical delivery records. For applicants without established or with limited delivery records, Distribution will require references with other entities to establish a reliability of delivery history.

Projected Total Consumption of Endusers

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The number of customers projected to be served by the NGS is a factor in determining the amount and form of the security required from the NGS.

Using this criteria, the amount of security required is then determined by the formula set forth in Distribution's Tariff. See attached Pa. PUC No. 8 Fourth Revised Page 30B.

Review of the calculation is at least annually and more frequently as determined by Distribution in response to the increase or decrease in the number of customers and/or total monthly consumption

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- D. Natural Gas Suppliers
4. Provide a proposed supplier tariff or a tariff addressing the interaction between the natural gas distribution company and licensed natural gas suppliers.

Response:

The SATS tariff governs the interaction between Distribution and NGS. See Exhibit 4, SATS Tariff pages 83AG - 83AV.