PREPARED DIRECT TESTIMONY OF
ERIC H. MEINL
ON BEHALF OF
NATIONAL FUEL GAS DISTRIBUTION CORPORATION
PENNSYLVANIA DIVISION

NATURAL GAS CHOICE AND COMPETITION ACT FILING
DOCKET NO. R-009944785
RESTRUCTURING FILING

October 1, 1999

Exhibit No. 1

Statement No. 1

DIRECT TESTIMONY OF ERIC H. MEINL

Q. State your name and business address.

A. My name is Eric H. Meinl. My business address is 10 Lafayette Square, Buffalo, New York 14203.

Q. By whom are you employed and in what capacity?

A. I am employed by National Fuel Gas Distribution Corporation ("Distribution" or the “Company”) as Assistant General Manager in Distribution's Rates and Regulatory Affairs Department.

Q. Describe briefly your educational background and experience.

A. In 1981, I graduated from the State University of New York at Buffalo, New York with my Bachelor of Business Management degree and with a concentration in Finance. In 1984, I received my Master of Business Administration degree from the State University of New York at Buffalo, and began my employment with Distribution as a Management Trainee. Later in 1984, I was promoted to the position of Supervisor. In 1988 I was promoted to the position of Assistant Manager, and in 1990 I was promoted to Director in Distribution's Market Planning and Analysis Department. In June of 1992, I was transferred to the Contract Administration

Department and in August of 1994 I was promoted to the position of Manager of Regulatory Affairs. In January of 1995 I was transferred to Distribution’s Market Planning Department and in August 1996 I was promoted to Senior Manager of the Market Planning Department. In September of 1998, I was promoted to my current position as Assistant General Manager of the Rates and Regulatory Affairs Department.

Q. Have you previously testified before the Pennsylvania Public Utility Commission?

A. Yes, I testified before this Commission on behalf of Distribution in Docket Nos. R-870719, R-891218, R-901670, R-911912, R-922499, R-932548, R-932885, R-943207, R-953487, R-963779, R-974167, and R-984497.

Q. Have you presented testimony before any other regulatory commissions?

A. Yes. In addition to the expert testimony I have presented to this Commission, I have presented testimony before the New York Public Service Commission and the Federal Energy Regulatory Commission.

Q. Are you familiar with Distribution's filing, on October 1, 1999, entitled National Fuel Gas Distribution

Corporation, Pennsylvania Division, Filing in Compliance with the Natural Gas Choice and Competition Act.

A. Yes, I am. The filing sets forth the data required by the Pennsylvania Public Utility Commission's ("Commission") Order setting forth Filing Requirements for the restructuring plans that must be filed by natural gas distribution companies pursuant to the Natural Gas Choice and Competition Act (“Act”). 66 Pa. C.S. §§ 2201-12. The filing contains five exhibits responding to filing requirements set forth by the Commission and providing other relevant data.

Q. Is the information in these exhibits true and correct to the best of your knowledge, information, and belief?

A. Yes.

Q. What is the purpose of your testimony?

A. I will provide a general description of Distribution’s existing customer choice program, how it evolved into its current form, and how it has been revised in this filing to comply with the Act. I am also available to answer questions, where necessary, relating to the filing requirements that were prepared by me or under my supervision. These filing requirements are:

A. Restructuring of Services

B.1.b. Customer Choice

D.1. Natural Gas Suppliers

G. Obligation to Employees

Q. Do Distribution’s customers currently have the opportunity to purchase gas supply service from the natural gas supplier (“NGS”) of their choice?

A. Yes. Initially choice was made available to a select group of Distribution’s customers in 1997, when a pilot aggregation program was approved; choice was made available for all customers on March 4, 1999.

Q. Please provide a brief overview of the pilot aggregation program.

A. Distribution’s pilot aggregation program operated from October 1, 1997 to March 31, 1999. The pilot program tested, among other things, whether the utility could exit completely, or at least significantly limit, its role as supplier of last resort. Under the pilot program Distribution was not a natural gas supplier for customers for a specified geographic area of

Distribution's service territory[1]. Based on the results of the pilot, Distribution determined that, at least in the short term, the utility must remain the provider of last resort.

The pilot program also tested many of the operational and information systems required to support a large-scale natural gas customer choice program. Distribution used the lessons learned over the one and a half year life of the pilot program in developing the system wide customer choice program that it operates currently.

Q. Please describe the system wide customer choice program.

A. The Commission permitted Distribution's system wide natural gas supplier choice program for all customers to become effective on March 4, 1999. Distribution has been providing all customers with the opportunity to choose an alternative NGS since April 1, 1999. The system wide choice program approved by the Commission replaced and expanded the pilot described above. Under

[1] The pilot program operated in the cities of Sharon, Farrell, and Hermitage; boroughs of Sharpsville, West Middlesex, and Wheatland; and the township of Shenango.

Distribution’s system wide choice program qualified NGSs other than Distribution are able to serve the aggregated gas supply requirements of their customers. Retail customers receive transportation service under Distribution’s Small Aggregation Transportation Customer Service (“Rate Schedule SATC"). NGSs are required to qualify for service under Distribution’s Small Aggregation Transportation Supplier Service (“Rate Schedule SATS”).

NGSs are allowed to enroll customers under Rate Schedule SATS from April through September 15 annually. Two billing options are available for the NGS: the two-bill model, where the NGS invoices the retail customer for its natural gas supply service and Distribution invoices the same customer for natural gas distribution service, and the utility single-bill model where supply and distribution charges are consolidated in one invoice issued and processed by the Company. Billing, customer information disclosure and NGS transaction protocols are discussed in more detail in the Direct Testimony of Michael E. Novak.

Under the SATS tariff, Distribution is the Supplier of Last Resort ("SOLR"). In order to promote competition without compromising reliability and system operational integrity, the Company retains upstream capacity necessary for operational purposes. Capacity not retained by the Company is allocated to NGSs to meet customer needs. More specifically, upstream capacity which forms a SATS NGS's capacity portfolio is broken down as follows:

	Percent of Peak Day Met by Upstream Capacity	Capacity
1.	52%	National Fuel Gas Supply Corporation ("NFGSC") storage and associated transmission released to NGS
2.	23%	Mandatory release of upstream capacity
3.	25%	upstream transmission capacity retained by Distribution but available for use by NGS
4.	0%	NGS-supplied capacity

As more fully described in the Direct Testimony of Bruce D. Heine, the above-outlined "mix" of released capacity and capacity retained by Distribution is critical to the maintenance of reliability throughout the Company's distribution network. Over time, as capacity contracts are available for termination, there is a procedure by which NGSs will have the opportunity to replace such terminated capacity with their own contracts. Although modified, the same general capacity plan is proposed in the instant filing to comply with section 2204(D) of the Act.

Exhibit 3 of this filing provides the filings Distribution has made before the Commission regarding Distribution's system wide customer choice program. These filings provide a thorough background in the development, goals, rates, and operation of Distribution's system wide customer choice program. The rates and charges associated with Distribution's original issuance of the system wide choice tariffs have been modified pursuant to Distribution's most recently concluded 1307(f) gas cost proceeding (R-984497).

Q. Does this filing propose any modifications to the system wide customer choice program in order to comply with the Act?

A. Yes. The most significant change is in the allocation scheme outlined above. In the instant filing, the percentages are adjusted as follows:

Percent of Peak Day Met by Upstream Capacity		Capacity
1.	43%	National Fuel Gas Supply Corporation ("NFGSC") storage and associated transmission released to NGS
2.	27%	Mandatory release of upstream capacity
3.	30%	Capacity retained by Distribution and included in SATC rates

The calculation of the total capacity requirements of the NGS is proposed to be reduced from 72 degree days to 59 degree days. The change in the allocation is the result of Distribution retaining an increment of NFGSC storage and other peak supply assets needed for peaking requirements and to account for the differences between forecasted daily temperatures utilized in developing the daily delivery quantities required of NGSs and the actual daily temperatures experienced on the system as well as variations in estimated and actual usage per degree day. A more thorough description of the peaking requirements and temperature variance between forecasted and actual temperatures and its impact on system operations is provided in response to the filing requirements found in Exhibit 2, Schedule A.2, and Schedule C.3.

Q. What tariff changes were required in order to reflect the accommodation of peaking requirements and the variance between forecasted and actual usage?

A. The following tariff changes were made to accommodate peaking requirements and the variance between forecasted and actual temperature:

1) SATC transportation rates were increased by $0.1830/Mcf to reflect the increase in storage capacity retained by the Company to provide reliable service to SATC customers.

2) Storage capacity assigned to NGSs was reduced under the SATS tariff on a

corresponding basis to reflect the increase in retained capacity. The reduction in capacity assigned to NGSs will largely offset the increase in SATC transportation rates mentioned previously.

3) Changes to tariff Rider A gas costs applicable to SATC service were made that reflect the changes in capacity retained by the Company.

The calculation of the changes in SATC rates brought about by the temperature swing capacity/peaking requirement is provided in response to Exhibit 2, Schedule A.2.

Q. Section 2203(3) of the Act requires that a natural gas distribution company unbundle natural gas supply services from its rates. In its filing requirements (A.1. Restructuring of Services) the Commission requires natural gas distribution companies to address how existing tariffs are unbundled with respect to commodity, capacity, storage, balancing, and aggregator services. Has Distribution unbundled these services from its rates for small volume transportation customers and NGSs?

A. Yes, in developing Rate Schedules SATC and SATS Distribution has unbundled from sales service the cost components associated with commodity, capacity, storage, balancing, and aggregator services.

A demonstration of how SATC rates are unbundled is provided in Workpaper, Exhibit 2, Schedule A.2. Page 1 of Workpaper, Exhibit 2, Schedule A.2. provides for the calculation of base rate non-gas costs included in SATC rates. As can be seen from this workpaper, base rate non-gas costs are determined by deducting total commodity costs of gas, total storage and pipeline capacity costs, and gross receipt taxes from sales rates.

Page 2 of Workpaper, Exhibit 2, Schedule A.2. demonstrates the final development of SATC rates. Added to the base rate non-gas costs are the costs associated with retained capacity, temperature swing/peaking capacity, and the current storage and capacity ‘DE’ factor. As explained in Distribution’s October 30, 1998 system wide choice filing (included as

Exhibit 3 in this filing), Distribution requires the retained capacity included in SATC rates to support: (1) reliability, (2) operational and flexibility requirements of the system, and (3) to serve the isolated load pockets in Distribution’s service territory. Temperature swing/peaking capacity is required to support the system during periods when actual daily temperatures and associated customer usage vary from projections. This capacity will also be used to meet demand when the average temperatures are below 6°F. Mr. Heine addresses the reliability issues in greater detail in his direct testimony. Column P of Workpaper, Exhibit 2, Schedule A.2., Page 2 provides the total proposed SATC tariff rate.

Column S of Workpaper, Exhibit 2, Schedule A.2., Page 2 provides the total SATC rates for customers transferring from sales service to SATC service. The current commodity ‘E’ factor will be charged to customers converting from sales service to transportation service for twelve months. This is consistent with Section 1307(f)(6) of the Act.

Q As demonstrated in Workpaper, Exhibit 2, Schedule A.2, Distribution has retained a portion of capacity for reliability purposes. Can an NGS utilize this capacity?

A. Yes, as explained by Mr. Heine and Mr. Novak an NGS has the ability to use this capacity to deliver gas supplies to the system to meet the requirements of customers.

Q. Has Distribution unbundled balancing services?

A. Yes, balancing and aggregation services are separately identified in Distribution's SATS tariff.

Distribution provides two balancing services for the NGS: (1) city gate balancing, and (2) burner tip balancing. City gate balancing refers to the delivery of sufficient supplies to meet the NGS`s aggregated daily delivery quantity (ADDQ). The NGS is required to provide deliveries within a 2% tolerance of the ADDQ. Failure to meet the ADDQ requirements within 2% will result in additional charges for underdeliveries or rejection of nominations for overdeliveries.

Burner tip imbalances result from the differences between what a NGS's aggregated customer group uses and what an NGS delivers to the system. Burner tip imbalances are calculated for each NGS monthly. The Company provides the NGS with the option of resolving burner tip imbalances through a cash out procedure or a roll over procedure.

Under the cash out procedure burner tip imbalances resulting in a net overdelivery are purchased by Distribution. Distribution will sell gas to an NGS for burner tip imbalances resulting in a net underdelivery.

Under the roll over procedure for burner tip imbalances Distribution resolves the imbalance by adjusting the ADDQ delivery requirement of the NGS in subsequent months.

Q. Has Distribution unbundled aggregation services?

A. Yes, Distribution has developed separate unbundled aggregation charges under its Rate Schedule SATS. The separate charges include an aggregation charge billed to the NGS based on the burner tip consumption for the NGS’s customer group and a billing service charge applied to an NGS that chooses Distribution to provide billing services.

Q. Section 2211(A) of the Act requires that for a period from the effective date of the Act until January 1, 2001, the total non-gas cost charges of a natural gas distribution company for service to any retail natural gas customer shall not exceed the maximum non-gas cost charges that are contained in the natural gas distribution company’s tariff as of the effective date of the Act. Has Distribution increased any of the non-gas cost charges in Distribution’s tariff since the effective date of the Act?

A. No, Distribution has not increased any of its non-gas cost charges since the effective date of the Act. The only rate change proposed by Distribution at this time as a result of the Act is the previously identified change in SATC rates associated with capacity costs related to peaking requirements and temperature swings. The change in SATC rates associated with peaking requirements and temperature swings is a gas cost related rate change, and, as mentioned previously, Distribution has made a corresponding reduction in the amount of storage capacity required to be released to NGSs under Distribution’s SATS tariff.

The summary of revenues at current and proposed rates applied to volumes for Distribution's most recently concluded fiscal year (the 12 months ended September 1998) is provided in Exhibit 2, Schedule A.3.

Q. Are there any additional tariff changes related to the Act?

A. Yes, Distribution has added two additional rate riders to its tariff: (1) Rider J – Universal Service Charge and (2) Rider K – Customer Education Charge. These riders relate to additional costs associated with the Act as explained by Mr. Gruchala and Mr. Novak in their testimony. Rider J is designed to recover the incremental universal service costs brought about by the Act. Rider K is designed to recover the customer education costs, which the Act will cause Distribution to incur.

Distribution has also made the following modifications to Rate Schedule SATS: (1) procedures for NGSs replacing Company contracted upstream pipeline capacity were updated, (2) NGSs are permitted to maintain oral evidence or written evidence of customer enrollment, and (3) notice procedures for NGSs exiting the choice program were added.

Q. Section 1307(f) (6) of the Act requires that customers transferring from transportation service to sales service not be subject to the over or under collection adjustment in gas cost rates for an appropriate period following such a transfer. Has Distribution modified its tariff to exclude customers transferring from transportation service to sales service from paying such over or under collections?

A. Not at this time. Distribution believes the appropriate time to address this issue would be in Distribution's next 1307(f) proceeding. Since the customers that this provision would apply to are current participants in Distribution's customer choice program, and those customers had no notice that the 'CE' factor would not apply, it would be appropriate to implement this provision in Distribution's next 1307(f) proceeding with rates effective August 1, 2000. Under this proposal customers would have had the opportunity to return to Distribution sales service when their contracts expire prior to August 1, 2000, and could make no claim to being charged a different sales rate due to their participation in the current program.

Q. Does this complete your testimony?

A. Yes, at this time.