

PREPARED DIRECT TESTIMONY OF
BRUCE D. HEINE
ON BEHALF OF
NATIONAL FUEL GAS DISTRIBUTION CORPORATION
PENNSYLVANIA DIVISION

NATURAL GAS CHOICE AND COMPETITION ACT FILING
DOCKET NO. R-00994785
RESTRUCTURING FILING

October 1, 1999

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1 Q. State your name and business address.

2 A. My name is Bruce D. Heine and my business address is 10
3 Lafayette Square, Buffalo, New York 14203.

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

5 A. I am employed by National Fuel Gas Distribution
6 Corporation ("Distribution" or the "Company")) as
7 General Manager of Gas Supply Administration.

8 Q. Summarize your educational background and experience.

9 A. I received a Bachelor of Science degree in Civil
10 Engineering from the State University of New York at
11 Buffalo in 1981. I am a member of the National Energy
12 Services Association and the Independent Oil and Gas
13 Association of New York.

14 In 1981, I joined Distribution as a Management
15 Trainee. In 1982, I was promoted to Junior Engineer in
16 the Engineering Department. In 1986, I was appointed
17 to the Construction Department at the Tonawanda Service
18 Center. In November of 1987 I was transferred from
19 Distribution to National Fuel Supply Corporation
20 ("Supply") and was promoted to Manager of Gas
21 Procurement in the Contract Administration Department.
22 In July 1989, I was transferred to Supply's Houston,

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1 Texas office as Manager of Gas Procurement. In June
2 1991, I returned to Buffalo, New York and was promoted
3 to Assistant General Manager in the Contract
4 Administration Department. In March, 1993, I was
5 promoted to General Manager of Contract Administration.
6 On August 1, 1993, I was transferred from Supply to
7 Distribution and obtained my current position of
8 General Manager of Distribution's Gas Supply
9 Administration Department.

10 My current responsibilities include the
11 supervision and responsibility of the Gas Supply
12 Administration Department personnel. I assist the
13 Senior Vice President in developing and implementing
14 the Company's procurement policies and I develop the
15 strategy to implement such policy decisions. I oversee
16 the direction of Distribution's Gas Procurement, Gas
17 Accounting and Transportation and Exchange divisions of
18 the Gas Supply Administration Department. Finally, I
19 have been responsible for the preparation of the gas
20 procurement portions of the purchase gas cost filing
21 under Section 1307(f) since 1994.

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1 Q. Which filing requirements under the Natural Gas Choice
2 and Competition Act ("Act") were prepared by you or
3 under your supervision?

4 A. I was responsible for the preparation of the following
5 filing requirements:

6 B.2. Supplier of Last Resort

7 C.1. Safety and Reliability

8 C.2.a. Safety and Reliability

9 C.2.b. Assigning Capacity

10 C.2.d. New and Renewed Capacity

11 C.2.e. Capacity Contract Mitigation

12 C.3. Balancing

13 C.4. Pennsylvania Producer Contracts

14 H. Collaborative Process

15 These deal mainly with allocation of upstream pipeline
16 capacity and the continued safety and reliability of
17 natural gas supply and distribution service to retail
18 gas customers.

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

21 A. Yes.

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1 Q. How does Distribution propose to handle the Supplier of
2 Last Resort ("SOLR") responsibility?

3 A. As in its current customer choice program, Distribution
4 intends to continue its role as the SOLR. This is
5 further discussed in Exhibit 2, Schedule B.2. To
6 continue this role Distribution proposes to continue to
7 retain the right to recall capacity and obtain gas in
8 storage from suppliers whose customers return to the
9 Company.

10 Q. In Distribution's current system-wide natural gas
11 supplier choice program which became effective on March
12 4, 1999, what provisions ensure the continued safety
13 and reliability of the natural gas supply and
14 distribution service?

15 A. Many of the provisions are explained in Exhibit 2,
16 Schedules C.1. and C.2. and further in Exhibit 3 which
17 contains the filing Distribution originally made before
18 the Commission regarding Distribution's system-wide
19 customer choice program. The major factor which
20 ensures the continued safety and reliability of service
21 on the National Fuel Gas system are the upstream
22 capacity requirements. Distribution will continue to

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1 retain capacity critical to the operations of the
2 system, as well as require release of transportation
3 capacity and storage on a mandatory basis so that
4 Natural Gas Suppliers ("NGS" or "Suppliers") have
5 access to the assets necessary to provide deliveries to
6 the system with comparable reliability to that
7 historically provided by Distribution.

8 Q. Is Distribution proposing any revisions to its current
9 program to ensure safety and reliability as part of its
10 restructuring filing?

11 A. Yes, as discussed in the testimony of Eric H. Meinel,
12 Distribution has modified the amount of capacity
13 retained by Distribution in order to meet customer
14 daily requirements associated with the difference
15 between forecasted requirements reflected in the
16 Aggregated Daily Delivery Quantity ("ADDQ") and the
17 actual requirements experienced on the system. As
18 well, this capacity will provide the means to provide
19 deliverability on peak days and to serve customers
20 whose Suppliers have failed to deliver.

21 Q. How do these modifications impact the safety and
22 reliability of the system?

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- 1 A. Each day Suppliers under the Rate Schedule Small
2 Aggregation Transportation Supplier Service ("SATS
3 Service") receive an ADDQ for their respective customer
4 groups. Suppliers are required to deliver to
5 Distribution's city gate each day a quantity of gas
6 equivalent to their customers' ADDQ. The ADDQ is
7 calculated using forecasted weather information so it
8 will not be exactly equivalent to the Suppliers'
9 customer groups actual usage, since weather changes and
10 other factors will cause a variance. For this reason,
11 in order to ensure that the proper amount of gas is
12 delivered to the system each day and to preserve safety
13 and reliability of the system, it is necessary for
14 Distribution to retain a portion of its no-notice
15 service on Supply (storage and associated
16 transportation) to balance the difference between the
17 Suppliers' city gate deliveries and the actual
18 requirements on the system. This concept is explained
19 in more detail in Exhibit 2, Schedule C. 3.
- 20 Q. What are the other assets Distribution proposes to
21 retain to further assure peak day deliveries and
22 security for non deliveries?

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1 A. Distribution will retain .09 Bcf of capacity on its 10-
2 day storage contract with Engage and .17 Bcf of
3 capacity on its 30-day storage contract with Columbia
4 as described in Exhibit 2, Schedule C. 3. This
5 capacity will be retained to meet the requirements on
6 the system during extreme days as well as to provide
7 backup deliverability to the system when Suppliers fail
8 to deliver. It will be very important for Distribution
9 to control storage deliveries associated with extreme
10 peak days so that the system can handle operational
11 requirements efficiently such as extreme peak hourly
12 demand.

13 Q. If the Company retains this storage capacity, will
14 Suppliers need to find additional capacity to meet
15 their peak-day obligations?

16 A. No, Suppliers will be assigned capacity and storage
17 pursuant to Rate Schedule SATS, Special Provisions,
18 Section C and as described in Exhibit 2, Schedule C.3.
19 This capacity allocation will provide Suppliers
20 sufficient deliverability to meet a 59 Degree Day day.
21 Suppliers will never be issued an ADDQ based on weather
22 conditions above a 59 Degree Day day. The

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1 deliverability required to meet the requirements above
2 a 59 Degree Day day will be provided by the Company
3 using the retained storage.

4 Q. Will this retained storage provide all the necessary
5 backup deliverability if Suppliers fail to deliver?

6 A. By retaining the proposed level of storage in this
7 filing, Distribution will be able to provide a level of
8 backup deliverability on days that are warmer than a 59
9 Degree Day day. For days colder than a 59 Degree Day
10 day the level of backup deliverability available
11 declines as the days get colder and becomes 0 at a 72
12 Degree Day day. This is because the deliverability
13 associated with the retained capacity will be used to
14 meet the requirements of the SATS Supplier's customer
15 groups on those days.

16 In order to assure that reliability of gas
17 deliveries on the system is maintained in the future as
18 more and more customers switch to SATC service, it will
19 be necessary to contract for additional backup
20 deliverability to cover Suppliers on extreme days
21 colder than 59 Degree Days. The Company is currently
22 evaluating 10-day storage service options which could

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1 provide the deliverability to backup 10% of the
2 Suppliers extreme-day market.

3 Q. How does Distribution propose to handle capacity
4 decisions for the future?

5 A. Distribution, as part of its current customer choice
6 program, has developed procedures by which it advises
7 Suppliers operating on its system of capacity to be
8 renewed or obtained prior to any notice dates in the
9 contract or other such dates critical to obtaining such
10 capacity. Distribution, as part of this restructuring
11 filing, has formalized these procedures and they will
12 apply following the grace period set out in the Act.
13 Specifically, dates are set out to allow sufficient
14 time for decision making prior to contract notice dates
15 or other critical dates. These procedures are included
16 in Exhibit 2, Schedule C. 2. d. The material portions
17 of these procedures are also included in the proposed
18 SATS Tariff at page 83 AL, in Exhibit 5.

19 Q. How does Distribution plan to mitigate its capacity
20 costs?

21 A. Distribution plans to continue to manage its current
22 capacity in a least cost manner. Distribution

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1 however, for the longer term, will use those procedures
2 identified above to address capacity needs on the
3 system. This will assure it contracts for the
4 capacity that it must. To the extent Suppliers seek to
5 provide capacity which is comparable they will be
6 allowed to do so.

7 Q. Does this conclude your testimony?

8 A. Yes it does.

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