

PREPARED DIRECT TESTIMONY OF
MICHAEL E. NOVAK
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

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1 Q. State your name and business address.

2 A. My name is Michael E. Novak and my business address
3 is 10 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 Assistant General Manager, Transportation Services.

8 Q. Summarize your educational background and experience.

9 A. I received a Bachelor of Science degree in Civil
10 Engineering in 1981 and a Masters of Business
11 Administration in 1982 from the State University of
12 New York at Buffalo. Upon graduation, I was employed
13 with an engineering consulting firm in Rochester, New
14 York. In 1984 I joined National Fuel Gas Supply
15 Corporation ("Supply") and was assigned an engineering
16 position within the Gas Control Department. As a
17 result of Supply's Order 636 restructuring in 1993, I
18 transferred to Distribution as Assistant General
19 Manager, Gas Supply Administration. At various times,
20 I was responsible for Gas Accounting, Gas Planning,
21 Transportation & Exchange, Federal Regulatory

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1 Affairs, Gas Measurement /Transportation Scheduling
2 and software selection/development.

3 In early 1999, in recognition of the increasing
4 prominence of unbundled services, Distribution
5 created a Transportation Services Department. I am
6 currently responsible for transportation scheduling
7 an billing and marketer/supplier relations.

8 I have served as National Fuel's representative to
9 the AGA Gas Transportation Supply Operations task
10 force where I was chair 1997-1998. Currently, I
11 serve as vice-chair of the Gas Industry Standards
12 Board ("GISB")Executive Committee.

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

16 A. I was responsible for the preparation of the
17 following filing requirements:

18 B. 1 a-d. Customer Choice

19 B. 3 Customer Choice

20 C.2.c. System Operations, Nominations

21 C.2.f. System Operations, Exit

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Procedures

D. Natural Gas Suppliers

E. Marketing Standards.

These deal mainly with the procedures and practices of dealing with Natural Gas Suppliers ("NGS" or "Suppliers"), including billing, communications, procedures for exit and standards of conduct for dealing with Suppliers.

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

A. Yes.

Q. With regards to billing, is Distribution proposing any revisions to its current program with regards to billing?

A. Distribution plans to continue its current policies for providing billing to customers. These policies were developed as a part of implementing its system wide customer choice program which is discussed in Eric H. Meinl's testimony. Also, see Exhibit 2, Schedule B.

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1 Distribution currently offers rate ready billing
2 service based on its incremental cost of the service
3 (\$.20/bill). Rate ready means that the rates,
4 provided by the NGS, are applied to volumes to
5 determine the NGS commodity charges. The NGS may use
6 up to 26 different rates to bill customers or groups
7 of customers. The billing program also accommodates
8 "percent off" rates relative to Distribution's sales
9 rates. The current billing program is not designed
10 to accommodate a bill ready format. In such a
11 format, the NGS would inform Distribution what dollar
12 amount to bill, usually based upon application of a
13 rate by the NGS to consumption quantities provided by
14 the distribution company.
15 Distribution is also evaluating the Tentative Order
16 issued by the Commission in Docket No. M-
17 00991249.F005, and the costs which will be associated
18 with it.
19 With regard to resolving billing disputes,
20 Distribution will continue its procedures for
21 resolving such disputes consistent with Chapter 56

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1 and will resolve issues appropriately its
2 responsibility. Distribution will expect the NGS to
3 resolve disputes relating to services provided by the
4 NGS.

5 Q. How does Distribution handle assignment of capacity
6 to Suppliers?

7 A. Distribution currently allocates mandatorily assigned
8 capacity paths on a first-come, first-served basis.
9 Capacity is then paid for on a weighted average
10 basis. Customers with capacity more expensive than
11 the system average get a credit, those with less
12 expensive capacity receive a surcharge.

13 For points into capacity that Distribution will
14 retain for operational reliability, Distribution
15 initially allocates access to those points on a
16 first-come, first-serve basis. Each April the points
17 will be reallocated. The capacity "mix" available to
18 Suppliers is described in the Direct Testimony of
19 Eric H. Meinl.

20 Q. How are communications and nominations with Suppliers
21 handled?

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1 A. Currently Distribution communicates with Suppliers
2 through its web site, providing the daily delivery
3 requirements and other system information for the
4 NGS, such as operational issues, etc. Suppliers, at
5 present, fax nominations to the Company.
6 Distribution has designed its nominations system
7 based on the availability of key assets. Most
8 importantly, there are no geographic restrictions on
9 which meters or which customers may be placed in
10 which pools. The lack of restrictions is due in
11 large part to the retention of upstream storage and
12 transportation assets, most specifically those held
13 on National Fuel Gas Supply Corporation and Tennessee
14 Gas Pipeline Company, as further detailed in the
15 Direct Testimony of Bruce D. Heine. Absent these
16 assets, many geographic restrictions would have to be
17 imposed to maintain the operational integrity of the
18 system. This would lead to a balkanized system with
19 certain load pockets exposed to a lack of supply
20 options.

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1 Further, Distribution is currently developing an
2 internet-based Transportation Scheduling System
3 ("TSS") along the lines of the interactive internet
4 standards developed by GISB. Once the TSS is in
5 place after testing, Suppliers will be required to
6 use that system to enter nominations. The system
7 will allow Distribution to provide 7 day, 24 hour
8 coverage of nominations changes, which will generally
9 cover errors in nomination from earlier cycles.

10 Exhibit 2, Schedule C 2. c.

11 Q. How does Distribution plan to handle an NGS that
12 wants to exit the system?

13 A. Distribution's current customer choice program only
14 provides for the process by which an NGS may
15 terminate its gas service to a customer and how the
16 Company may terminate the NGS. For an NGS that seeks
17 to exit the system ("Exiting Supplier") additional
18 protective processes will apply. Given that such an
19 exit would be a significant event and disruptive to
20 the system, Distribution will require additional

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1 notice from such Exiting Suppliers to assure
2 customers a smooth transition to a new NGS.

3 The procedure is as follows: an Exiting Supplier
4 must give its customers and the Company sixty (60)
5 days notice of its plans to exit the system. The
6 notice must state that the Exiting Supplier will no
7 longer be the customers' NGS, as well as provide
8 information about how the customers may select
9 another NGS, assurances that their service will be
10 provided by the SOLR, and information regarding
11 payment of their final bill for services rendered by
12 the Exiting Supplier. The Exiting Supplier will also
13 provide the Company with the opportunity to obtain
14 access to the released or separately obtained
15 capacity used by the Exiting Supplier to serve its
16 customers. Any gas in storage will be sold to the
17 Company at the Company's lowest weighted average
18 commodity cost during the last 12 months. See
19 Exhibit 2, Schedule C. 2. f.

20 Q. How does Distribution coordinate its activities with
21 Suppliers?

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- 1 A. As noted earlier, Distribution has web-based
2 communications with the Suppliers operating on its
3 system. Significant events are communicated through
4 that site as well as the communication of delivery
5 quantities required by the Company for the Suppliers'
6 customers. The SATS Tariff as well as an effective
7 SATS Agreement are the formal means of coordinating
8 and defining the responsibilities and commitments of
9 the Supplier and Company for service to customers
10 choosing an alternate supplier. The Company also
11 undertakes an extensive financial evaluation of each
12 NGS prior to allowing the NGS to offer gas services
13 on its system. See Exhibit 2, Schedule D. 2 and
14 Exhibit 2, Schedule D. 4.
- 15 Q. How does the Company determine a Supplier's credit
16 worthiness?
- 17 A. Distribution follows the same financial fitness
18 requirements that it applied to the current SATS
19 Suppliers as well as those in the Company's earlier
20 pilot. Those requirements are set forth in the

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1 Company's current tariff. See Exhibit 2, Schedule D.
2 3.

3 Q. Does the Company have proposed standards of conduct
4 for natural gas distribution company marketing
5 activities?

6 A. Yes it does. They are set forth in Exhibit 2,
7 Schedule E. These standards are developed based upon
8 the Commission's Policy Statement Addressing
9 Affiliated Interests of Natural Gas Marketers, Docket
10 M-00960838, 52 Pa. Code sec 69.191 et seq.
11 Distribution will apply these standards to any
12 marketing division, to the extent it has one.
13 Distribution notes that they are subject to change to
14 conform with any regulations issued by the Commission
15 under Section 2209 of the Act.

16 Q. Is Distribution proposing to defer and capitalize the
17 costs of implementing what you have described above,
18 as well as other restructuring expenses?

19 A. Yes. Pursuant to Section 2211 (b) (2) of the Act,
20 Distribution proposes to defer and capitalize any
21 restructuring costs until such time as the issuance

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1 of a Commission order. At that time Distribution
2 will begin amortizing approved costs over a ten-year
3 period. Categories of costs for which Distribution
4 is seeking such approval are identified in Exhibit 2,
5 Schedule J. Recovery mechanisms for customer
6 education and universal service costs are addressed
7 in the Direct Testimony of Jonathan R. Gruchala.

8 Q. Does this conclude your testimony?

9 A. Yes it does.