

PREPARED DIRECT TESTIMONY OF
JONATHAN R. GRUCHALA
ON BEHALF OF
NATIONAL FUEL GAS DISTRIBUTION CORPORATION
PENNSYLVANIA DIVISION

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

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1 Q. Please state your name and business address.

2 A. My name is Jonathan R. Gruchala. 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 General Manager - Quality Assurance.

8 Q. Summarize your educational and professional background.

9 A. I graduated from the State University of New York at
10 Buffalo (SUNYAB) in 1978 with a Bachelor of Science
11 Degree in Physics, and received a Masters Degree in
12 Business Administration from SUNYAB in 1981. I joined
13 Distribution in 1982 as a supervisor in the Research
14 and Statistical Services Department and have advanced
15 through various positions before assuming my present
16 responsibilities in the Quality Assurance Department in
17 April of 1994, initially as Assistant General Manager
18 and then, in 1998, as General Manager.

19 Q. Please describe the nature of your responsibilities
20 with Distribution.

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1 A. I am responsible for Distribution's Quality Assurance,
2 Outreach and Education, Energy Management and
3 HEAP/Welfare departments. These departments administer
4 the Company's existing programs for low-income,
5 payment-troubled customers including the Low Income
6 Residential Assistance (LIRA) program, the Low Income
7 Usage Reduction Program (LIURP), the Customer
8 Assistance and Referral Evaluation Services (CARES)
9 program, the Neighbor for Neighbor Heat Fund, Outreach
10 and Education activities, and the PUC complaint
11 response and resolution function.

12 Q. Have you previously testified before the Pennsylvania
13 or any other regulatory commissions?

14 A. I have presented testimony before the New York Public
15 Service Commission and the Federal Energy Regulatory
16 Commission.

17 Q. What is the purpose of your testimony in this
18 proceeding?

19 A. The purpose of my testimony is to sponsor and discuss
20 Schedules F and I of Exhibit 2, which are the Company's

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1 responses to Sections F & I of the Natural Gas Choice
2 and Competition Act (the "Act") filing requirements.
3 These schedules, which were prepared by me or under my
4 direct supervision, address the Company's proposed
5 Universal Services plan and Consumer Education plan.

6 Q. Please describe the Company's proposed approach to
7 universal service under the Act.

8 A. The Company presently offers an array of comprehensive
9 programs and services designed specifically to assist
10 low income, payment troubled customers. These programs,
11 (LIRA, LIURP, CARES, LIHEAP, Neighbor for Neighbor,
12 Outreach and Education, Quality Assurance) are
13 described in detail at Exhibit 2, Schedule F. It is the
14 Company's proposal that taken together, these programs
15 comprise Distribution's Universal Services Plan.

16 Q. Is Distribution proposing to maintain its Universal
17 Services programs at their existing levels?

18 A. Yes. As explained in Schedule F, Distribution's
19 programs are appropriately sized to serve its low
20 income customer population. The Company intends to

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1 maintain the LIURP program at its existing funding
2 level (0.4% of revenues). With regard to LIRA, the
3 participation target is 5,000 customers. Distribution
4 has been enrolling new customers in the LIRA program
5 since receiving Commission approval in 1997 to expand
6 customer participation.

7 Q. Does the Company intend to continue to increase
8 enrollment in its LIRA program?

9 A. Yes. Distribution is actively enrolling new customers
10 into its LIRA program. Over the past twelve months
11 ended August 1999, 1,778 new customers have been
12 enrolled which brings current participation to 3,084
13 customers.

14 Q. How is Distribution recovering the costs of the
15 expansion of the LIRA program?

16 A. Distribution and the Commission addressed this issue in
17 proceedings initiated through two petitions filed by
18 Distribution at Docket Nos. P-961054 and P-961055 on
19 May 1, 1996 ("Petitions"). In an order entered
20 February 24, 1997 ("Order"), the Commission approved

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1 Distribution's petitions as modified to meet concerns
2 expressed by certain other parties. The Order
3 permitted Distribution to expand the LIRA program from
4 about 1000 to about 5000 customers, permitted certain
5 changes in the LIRA program including the creation of
6 three tiers of rates for customers with different
7 income levels and provided a source of funding for the
8 expansion.

9 The source of funding was the take-or-pay charge. In
10 prior rate proceedings, the Commission had allowed
11 Distribution to recover charges from interstate
12 pipeline companies for buying out or down their gas
13 supply contracts with "take-or-pay" provisions.

14 Distribution recovered these take-or-pay costs through
15 a charge contained within base rates. In early 1996,
16 Distribution was about to complete recovery of its
17 take-or-pay costs.

18 The imminent completion of recovery of take-or-pay
19 costs gave rise to the question of whether a rate
20 adjustment to eliminate the charge was appropriate. In

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1 the Petitions, Distribution suggested to the Commission
2 that it would be better to use the take-or-pay
3 component of rates to fund an expansion of the LIRA
4 program than simply to reduce rates by that amount.
5 The Commission agreed. At the termination of the
6 charge, it was \$.0155 per Mcf, which produces
7 approximately \$370,000 annually.
8 It must be noted, however, that the funds from the
9 former take-or-pay charge are not expected to be
10 sufficient to fund the full expansion of the LIRA
11 program over time. As the program continues to expand,
12 the costs will exceed funds available. At that point,
13 it will be necessary for Distribution to have a
14 mechanism for recovery of LIRA costs in excess of funds
15 from the former take-or-pay charge. At the present
16 rate of LIRA enrollment, we do not expect that costs
17 will exceed funds from the former take-or-pay charge
18 prior to January 1, 2001.
19 Q. Please explain which costs arising from Distribution's
20 universal service and energy conservation programs, as

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1 you have described them, are currently recovered in
2 rates, and at what level.

3 A. "Universal Service and Energy Conservation programs" is
4 not a functional cost category identified by
5 Distribution. As I explained above, the universal
6 service plan can be identified as a comprehensive array
7 of programs spread over several functional areas of the
8 Company. Distribution's most recent base rate case
9 produced a "black box" settlement that did not
10 establish new rates based on functional cost
11 determinants. However, Schedule F sets forth the
12 Company's budgeted and actual expenditures associated
13 with universal service and energy conservation programs
14 during 1997 and 1998. Furthermore, program costs and
15 funding for LIRA and LIURP have been specifically
16 addressed by the Commission, as detailed in Exhibit 2,
17 Schedule F at 1.b.(i)(page 4).

18 Q. Has Distribution proposed a nonbypassable,
19 competitively neutral cost-recovery mechanism which is

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1 designed to recover fully the costs of universal
2 service and energy conservation programs?

3 A. Yes. Although we have identified a variety of
4 universal service and energy conservation activities,
5 we are proposing that only incremental LIURP and LIRA
6 costs be recovered through a Universal Service Charge
7 ("USC") included in rates. The USC will be calculated
8 as set forth in the Universal Service Charge Rider J.
9 We are not proposing any adjustment to base rates or
10 other current and projected universal service and
11 energy conservation funding sources. Accordingly, the
12 USC will initially be set at zero, as proposed in the
13 USC Rider. To the extent LIURP and LIRA costs exceed
14 current funding levels, such costs will be deferred
15 pursuant to Section 2211(C) and recovered through the
16 USC beginning January 1, 2001.

17 Q. Why have you limited the USC to recovery of LIURP and
18 LIRA incremental costs?

19 A. Among Distribution's various universal service and
20 energy conservation funding sources, only LIURP and

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1 LIRA are functionally identified in rates. Accordingly,
2 the USC will be used solely for recovery of LIURP and
3 LIRA costs that exceed current funding levels. If
4 there should come a time to identify other costs for
5 recovery through the USC, Distribution will petition
6 the Commission for approval to modify the USC
7 accordingly.

8 Q. Please discuss Exhibit 2, Schedule I.

9 A. Exhibit 2, Schedule I describes Distribution's Consumer
10 Education Program. The Company is proposing to build
11 upon the consumer education effort it has undertaken as
12 a result of its existing system-wide supplier choice
13 program.

14 Q. Please describe those efforts.

15 A. By Commission Order on February 11, 1999, the Company's
16 system-wide supplier choice proposal was approved.
17 Distribution issued news releases and initiated a print
18 and radio media campaign as part of its effort to
19 inform customers of the changes taking place and the
20 available options. In addition, Company personnel gave

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1 presentations to interested groups, an "800" automated
2 telephone information line was established, a bill
3 insert was issued, the Company web site was modified,
4 and a Question and Answer leaflet was made available to
5 customers desiring additional information. All customer
6 contact personnel received training on the subject of
7 natural gas competition and choice.

8 Q. What additional customer education activities is the
9 Company proposing?

10 A. The Company is proposing to replicate it's system-wide
11 consumer education activities and to issue a bill
12 insert designed to provide more information to help
13 customers make appropriate choices as to their natural
14 gas service. Given the existing high level of consumer
15 awareness regarding choice options in Distribution's
16 service territory, we believe that these additional
17 customer education efforts are more than sufficient to
18 meet the requirements of the Act. In addition, I am a
19 participant in the Customer Education Work Group
20 charged by the Commission with the responsibility of

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1 designing generally-applicable guidelines for customer
2 education under the Act.

3 Q. Please discuss the means by which Distribution proposes
4 to recover consumer education costs.

5 A. Pursuant to section 2207(d) and 2211(d) of the Act,
6 Distribution is proposing to recover consumer education
7 costs through a non-bypassable, competitively-neutral
8 cost recovery mechanism, the terms of which are
9 described in proposed Rider K, Consumer Education
10 Charge ("CEC"). Consumer education costs incurred
11 prior to January 1, 2001 will be applied to a deferral
12 account and recovered through the CEC, together with
13 then-current charges, beginning January 1, 2001.

14 Q. Does this conclude your testimony?

15 A. Yes, it does.