

CORNING NATURAL GAS CORPORATION

COMMERCIAL
ENERGY EFFICIENCY
PROGRAM (“CEEP”)

Case 08-G-1010

November 16, 2010

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Introduction:

On June 23, 2008, the New York Public Service Commission (the "Commission"), in Case 07-M-0548, issued an Order Establishing Energy Efficiency Portfolio Standard and Approving Programs (the "June 23 Order"). The June 23 Order required, among other things, that each gas utility to which the Order applied, submit a plan for a residential energy efficiency program as described in the June 23 Order (the "Program"). Initially, it appeared that Corning Natural Gas Corporation ("Corning" or the "Company") was not subject to the June 23 Order because the Company was not included in Table 18 of Appendix 1, which identified the amounts each gas utility would be permitted to charge its customers. However, on July 3, 2008 an Errata Notice was issued to include Corning. The Errata Notice established a revised Table 18 and fixed the amount to be collected from customers. The June 23 Order, as corrected, authorizes Corning, effective October 1, 2008, to begin collecting a Gas System Benefit Charge ("GSBC") for each unit of natural gas on each residential customer's monthly bill. The GSBC has been collected by the Company since that time.

On August 22, 2008, the Company submitted an Energy Efficiency Portfolio Standard ("EEPS") Program which was reviewed by Department of Public Service Staff ("Staff"). The review resulted in multiple Document/Interrogatory Requests from Staff and responses to each by the Company. The statewide review of utility company programs by Staff resulted in a subsequent Order Approving "Fast Track" Utility-Administered Gas Energy Efficiency Programs with Modifications issued April 9, 2009 in Case 08-G-1004 et al. (the "April 9 Order").

The April 9 Order, at page 21, paragraph 9, directs utilities to submit Implementation Plans for their approved programs within 60 days of the date of the issuance of the April 9 Order. Each utility company is ordered to have its program effective not later than July 1, 2009.

The April 9 Order includes measures for space heating (hot water, hot air and steam units), indirect hot water heating, boiler reset controls, programmable thermostats and duct and air sealing. These appliances are all included in Corning's Program.

The April 9 Order establishes specific program budgets according to Appendix 1, Table 3, pages 4-8. These program budgets represent an approximately 50 percent reduction in the budgets that were submitted in Corning's August 22, 2008 EEPS Program which was prepared according to budgets provided by the June 23 Order and the July 3, 2008 Errata Notice. The budget items proposed in the April 9 Order severely restrict Corning's ability to administer all facets of the program. In Corning's reply comments which are summarized in Appendix 3 at pages 25 and 26, the Company had agreed to provide an Implementation Plan, as Staff recommended, with the exception of the items relating to contractor training, quality assurance plan and coordination with other New York energy efficiency programs due to the prohibitive administrative costs associated with these parameters. The Commission, at page 13 of the April 9 Order, indicates an understanding of the situation by pointing out "that the smaller utilities may need more [funds] due to lack of scale." There is also a table on page 13 indicating a maximum deferral cap of \$100,000 for the smaller utilities. To the degree that quality assurance or contractor personnel training is required to be provided, this addition would require additional personnel that the current program budget does not allow.

The Company has administered the Residential EEPS Program since July 1, 2009 and has provided incentives to customers according to the approved appliance listing provided in the original Order.

The Company was ordered, in Case 09-G-0363, to participate in a New York State Energy Research and Development Authority ("NYSERDA") administered program which the Company believed would provide minimal benefit and substantial burden on customers in Corning's service territory.

On March 19, 2010, the Company filed a Petition for Clarification or Rehearing and for Extension of Time of Compliance requesting, among other relief, to be excluded from participation in the NYSERDA administered program. The Company also requested that it be allowed to expand its current Residential EEPS Program and to develop and administer a Small Commercial Energy Efficiency Program.

In an Order issued June 21, 2010 (the "June 21 Order"), the Commission responded to Corning's March 19, 2010 Petition, relieving the Company of the obligation to collect and transfer to NYSERDA certain Gas System Benefit Charge ("GSBC") funds for NYSERDA-administered EEPS programs. The Order also directs Corning to increase its budget for the utility-administered EEPS "Fast Track" Residential Gas HVAC program for the period July 1, 2010 until December 31, 2011 as described in the Order. Corning also is directed to submit for Commission approval a proposal for a Commercial Energy Efficiency Program ("CEEP").

On July 26, 2010, Corning, to comply with the June 21 Order, filed a proposed Commercial EEPS Program. A revised version of the Program, correcting certain references in the earlier version, was filed on September 28, 2010. On the same date, the Company also filed a revised Residential EEPS Program to clarify certain provisions of the previous version dated June 25, 2009.

By its Order Approving Small Commercial Gas Energy efficiency Rebate Programs with Modification issued October 18, 2010 in Case 07-M-0548 et al. (the "October 18 Order"), the Commission approved Corning's updated Commercial EEPS Program filed September 28, 2010 with certain conditions, including: (a) permitting the Company to defer up to \$100,000, for possible recovery in rates, to administer quality assurance and evaluation activities; (b) a requirement that the Company provide participating customers the option of receiving rebates in the form of a lump sum payment or as a bill credit; (c) a \$5,000 maximum limit on payments that individual customers and/or projects may receive; (d) a requirement that the Company indicate which customer classes are eligible for participation. The October 18 Order also invites Corning to submit proposals for a set of metrics to calculate net lost revenues resulting from the expected reduction in usage associated with the Program.

This document is submitted in response to the Commission's directives in the October 18 Order.

The Company supports the efforts of New York State and its administrative agencies to improve energy efficiency and understands the important role that Corning and other New York utilities play in that regard.

Commercial Energy Efficiency Program Description:

Corning proposes that the Commercial Energy Efficiency Program be established according to the guidelines provided in the Commission's June 21, 2010 Order. The Order outlines specific eligibility requirements in terms of customer criteria and appliance criteria. The Program will be administered essentially as an extension of the Residential Energy Efficiency Program currently operating. The primary differences will be the eligibility of commercial customers who, on average, use 5,000 Mcf or less on an annual basis. The Program will also be limited to specific high efficiency appliances that are eligible for installation. The CEEP will provide incentive/rebates to eligible customers as prescribed in the June 21, 2010 Order. These rebates may be eligible as a bill credit or a lump sum payment.

The Company will ascribe a GSBC to customers which is the same for both Commercial and Residential EEPs. The GSBC amount collected per billing unit will be the result of dividing the sum of (a) the total dollars required to be collected to fund the Residential program and (b) the total dollars required to fund the Commercial program by (c) the total throughput for the eligible residential and commercial customers. Specific budgets have been established for the Residential EEP and for the CEEP. It is intended that these programs will be administered and reported on separately and that funds collected for each program will be totaled monthly and reconciled annually to assure funds collected from each customer classification are used in the appropriate program.

The purchase of eligible appliances will qualify for a CEEP rebate on or after October 18, 2010. The collection of the revised GSBC for residential and eligible commercial customers will begin on October 1, 2010.

Program Objectives:

Corning proposes that the CEEP be established as directed in the Commission's June 21, 2010 Order and as clarified in the October 18, 2010 Order. Corning understands that the New York State Executive Branch has an objective to reduce energy use by 15 percent by 2015. This Commercial program will address specific space heating and indirect-fired water heating appliances that are replaced by higher efficiency models, thereby reducing energy consumption. A maximum rebate payment to an individual customer and/or project will be \$5,000.

Proposed Commercial Energy Efficiency Program Cost Budget*

Year	Administration & Marketing Costs	Customer/Trade Ally Marketing (Admin & Mktg. Costs)	Customer Rebates (Measure Costs)	Evaluation Measurement and Verification Costs *	Total
2010	\$2,500	\$2,422	\$22,584	\$1,448*	\$28,954
2011	\$10,000	\$9,689	\$90,336	\$5,790*	\$115,815
Total	\$12,500	\$12,111	\$112,920	\$7,238*	\$144,769

*Includes costs outlined in the Order. The Company is not able to perform Evaluation and Quality Assurance services within the budgets allowed by either the Residential or Commercial EEPS Programs. The Company has prepared a Request for Proposals (“RFP”) and will seek a third-party vendor to provide the Evaluation and Quality Assurance services for both the Residential and Commercial EEPS Programs. This will require the utilization of some or all of the \$100,000 deferral allowance funding, as specified in the April 9 Order and the October 18 Order. The Company’s intention is to receive the responses to the RFP for Evaluation and Quality Assurance and to request authorization to proceed with mutually agreed upon levels of expenses for the service. This will prevent Corning from being in a position of expending funds for a program expense that is not reimbursable through the Administrative budget of the program.

Overall Energy Savings Target Budget

Below is a table showing the cumulative savings goals for the Commercial Program pursuant to the October 18 Order. These goals have not been verified as achievable by the Company. It is the Company’s expectation that it will achieve the desired savings levels and efforts will be concentrated on that goal. The individual target achievable for each unit installed will vary and those targets are being calculated based on a spreadsheet format determined by Staff. These estimated savings are submitted each month as part of the Company’s required reporting procedures. If more units are installed that have a high level of energy savings, the goals may be exceeded. The Program can only produce savings that can be elicited from the approved appliances and the Company does not have direct control over whether the intended savings level will be met.

Energy Savings Goals (Dth)

Category	2010	2011	Total
Commercial EEPS - October 18, 2010 Commission Order	1,265	5,601	6,326

Program Components:

Overview

Corning will administer the CEEP in-house with the exception of the Evaluation and Quality Assurance portion. The limited budgets that are available for each phase of the Program preclude the Company from performing the Evaluation and Quality Assurance services. Through the RFP process, the Company is prepared to solicit proposals from contractors for the Evaluation and Quality Assurance process. Once the proposals have been reviewed, the Company expects to discuss the results with Staff. Assuming an acceptable proposal is received and it is determined that the proposed funding for this phase of the Program is reasonable, Corning will award the work. It is clear that the budget of \$7,238, set forth in Appendix A to the October 18 Order, will not permit adequate evaluation procedures and reports to be prepared. The Company will undertake all reasonable review to determine that any proposal that is considered for acceptance will provide the desired outcomes at a cost which does not burden the program budget with unnecessary administrative cost.

Only measures listed in the eligible measures table will be authorized in Corning's CEEP. All applications and incentives (rebates) will be processed by the Company. No incentive (rebate) may be issued until all documentation required for the particular appliance has been received and verified for compliance with Program guidelines. In addition, there will be a \$5,000 maximum limit on payments that individual customers and/or projects may receive.

Planning and Administration

Planning and Administration of the Commercial EEPS Program will include initial setup of all program administrative requirements. This includes, but is not limited to: personnel costs plus overhead to obtain approval of the CEEP, all required supplies to administer the Program, application processing, reporting, responses to customer and trade ally inquiries, customer tracking, integration of the CEEP into the Company CIS program and financial accounting requirements for the Program. The budget for this portion of the Program is limited and the Company will evaluate whether the services can be performed within the budget set forth in the October 18 Order. Due to the small size of the Program and corresponding lack of opportunities for economies of scale, it is difficult to perform all services required within the budgets established for this Program or the Residential EEP. While every attempt will be made to remain with the budget, the Company, consistent with the terms of the October 18 Order, respectfully reserves the right to utilize a portion of the additional Commission-authorized funds to supplement the budget.

Customer/Trade Ally Marketing

Customer marketing of the CEEP will include, but is not limited to, the promotion of all aspects of the Program on Corning's website, bill inserts, print media, a kiosk in the Company's office lobby, trade ally meetings and program-specific literature. The Company, due to the extremely limited funds available, will attempt to do as much promotion as possible in conjunction with other printed material that is in existence, such as the monthly bill. An additional reminder or promotional piece may be added to the already scheduled bill. The Company also expects to utilize its website as much as possible to encourage customers and trade allies to obtain Program information. Once the site has been set up the incremental cost of posting this information will be minimal. The Company also expects that there will be some synergies from customer and trade ally marketing that will be conducted in Corning's gas service territory by New York State Electric & Gas Corporation which serves many of the Company's gas customers' electric needs. The Company recently held a trade ally meeting where contractors were invited to attend. The Company provided material that was available based on the preliminary implementation plan.

Corning will conduct additional educational programs for contractors and suppliers, as needed to provide reminders of the Program. The Commercial EEPS Program is one of several energy efficiency programs that exist in New York. The Company will provide contact information, provided by NYSERDA, to customers whose needs are not met by this program so they may seek information regarding other potential energy saving programs that may be available through NYSERDA.

Customer Rebates

Customer rebates (either account credits or lump sum payments) for specific appliances will apply upon satisfactory completion of a program-qualified appliance installation. The qualifying customer incentive amount, from \$140 to \$2,000, depending on the specific appliance installed, will be credited to the customer's account at the property address where the unit is installed or a lump sum payment may be made to the customer. In the event of a landlord-owned, rather than owner-occupied property, a rebate check may be issued to the property owner of record when the appliance is installed. This will require the landlord/owner to supply additional verifying information. In no case can two individuals claim a rebate for the same installation.

Evaluation and Quality Assurance

Corning proposes to retain a vendor to perform Evaluation and Quality Assurance duties under the Program. The Company is in the process of developing a request for proposals ("RFP") to be sent to prospective vendors and anticipates receiving responsive proposals before the end of 2010, with selection to be concluded in mid-January 2011. To enable this process to be conducted and concluded in a deliberate and orderly fashion, Corning has requested the Secretary of the Commission to extend the deadline in the October 18 Order, as it pertains to Evaluation and Quality Assurance only, until January 28, 2011. In selection of a vendor and development of the detailed plans for Evaluation and Quality Assurance, Corning will work to ensure that those plans meet the requirements of the Commission Guidelines, dated August 7, 2008, entitled "Evaluation Plan Guidance for EEPS Program Administrators." In addition, the Company will work with Staff and, as necessary, the Commission to ensure that the cost of this proposed course of action is reasonable and thereby eligible for recovery as part of the \$100,000 deferral allowance established in the April 9 Order for the performance of these two functions.

Eligible Measures and Incentives:

Specific Equipment (Measures) Eligible for the Commercial Energy Efficiency Program

Included below is a chart which outlines the eligible appliances for the Corning Commercial EEPS Program. Each measure has been allocated an incentive according to the June 21 Order. The amount of each rebate listed will be credited to the account or property owner after all required documentation is provided to the Company to show compliance with the Program.

Eligible Measures and Incentives

Measure	Rebate	Eligibility
Furnace (< 300 MBH) \geq 92 AFUE	\$140	Eligible
Furnace (< 300 MBH) \geq 92 AFUE & ECM (electronically controlled motor)	\$280	Eligible
Condensing Unit Heater (151 to 400 MBH) $>$ 90thermal efficiency	\$500	Eligible
Infrared heaters (all sizes) Low Intensity	\$500	Eligible
Steam Boiler (< 300 MBH) \geq 82AFUE	\$350	Eligible
Hydronic Boiler (300-499 MBH) \geq 85% Thermal Efficiency	\$2,000	Eligible
Condensing Boiler (<300 MBH) \geq 90 AFUE	\$1,400	Eligible
Condensing Boiler (301 to 499 MBH) \geq 90% AFUE	\$1,400	Eligible
Condensing Boiler (500 to 999 MBH) \geq 90% AFUE	\$1,700	Eligible
Indirect-fired Water Heater (>50 gallon storage)**	\$210	Eligible

**Must be installed with qualifying boiler.

Each eligible measure will require certain documentation as part of the customer enrollment procedures for the Program. This will include, but is not limited to, items specific to the device being removed and the device that is installed. In all instances, the application for a rebate must include the invoice and proof of purchase, the make and model, serial number, energy rating and pertinent appliance information for both the removed and the newly installed appliance, and such information must indicate Program compliance. The application must also include specific contract/purchase data for each item installed along with the contractor name, Federal Tax ID Number, business address and telephone number. Other items necessary for a specific appliance may include AFUE rating certification, documentation that the appliance is installed with a qualifying boiler, as in the case of an indirect-fired water heater, or other relevant data to assure compliance as a Program-allowed appliance.

Program Procedures:

Application Process

The Program will be made available to all commercial customers with usage of 5,000 Mcf or less in annual volume, with the exception of public authority customers served by Corning. Application materials will be available through the Company website and in printed form at the Company's office. Eligible participants must qualify under Corning's current tariff guidelines as a commercial customer and have a current account with the Company. The rebates are available for new construction and existing structures. The customer will be responsible for completing the program application with all necessary supporting documentation. All documentation must be on file prior to any rebate issuance.

Company personnel will process the application and determine whether the application is complete and that all required supporting paperwork is included. The Company will approve or reject the application based on the information provided by the customer. The Company will accept and process applications until such time as the budget for customer incentives under the Commercial Program has been exhausted. At that time, the Company will contact Staff and/or the Commission and request that additional funding be allocated through the GSBC. To the degree that additional funding is allowed by the Commission, additional applications will be processed by the Company.

The Company will provide a checklist to the customer that indicates all documentation that is required to qualify for the particular rebate. The application for the measure will be component-specific in its requirements. Each item of data required will be determined by the measure (appliance) that is being installed. The information required will include, but not be limited to: name, address and phone number of the owner/operator requesting the rebate; Company account number of customer; date of application; rebate requested; all available information on the unit being removed such as make, model, Btu rating, latest burner efficiency test (in the absence of a test, information must be provided as to the estimated date of original installation and the Btu rating of the unit removed); date contracted with a contractor to perform new installation work, date installation to begin, expected date of completion, name, address and tax ID number for contractor; project work order number, detailed invoice of measure being installed including model, serial number, AFUE rating or any other energy use and efficiency information, estimated annualized energy savings comparison data; and a detailed invoice showing cost of each component of the installation.

Upon notification from the Company that the application is complete, the Company will provide information to the customer as to the amount of the rebate the applicant is eligible to receive. Once the project is verified as complete by the owner/operator, the Company will apply the appropriate credit to the customer's account or, if the customer chooses, provide a lump sum payment to the customer. No rebate will be credited or paid until all required documents have been provided. For a landlord-owned property, the credit will be granted to the property owner and not the tenant.

Customer Education and Outreach:

The Commercial Program will be promoted through bill inserts, information posted on the Company's website and general advertisements. Program brochures will be distributed at a kiosk in the Company's main lobby. The kiosk will have information and educational material provided. In addition to the kiosk, customer personnel will be trained to familiarize customers with Corning's commercial energy efficiency and conservation programs should they visit the Company's offices. The Education and Outreach Program will be administered by Company personnel.

Customers will be directed as often as possible to the Company's website, since the budget is limited and the website has lower incremental costs to update with new information. The website will provide links to other energy agencies, such as the USEPA, NYSEDA and the Energy Star Program. The site will be focused on increasing customers' understanding of the need to curb energy consumption. It is an objective of this Program to further emphasize that necessity.

USEPA – The Company has entered into a voluntary partnership with the USEPA as a member of the Natural Gas STAR Program. The commitment on the Company's part is to increase the availability of educational material to customers.

NYSEDA – Through links to the NYSEDA website and collaboration with NYSEDA personnel, Corning will make available NYSEDA conservation material and programs to the Company's customers who may not qualify for the Company's Commercial Program.

Contractor/Trade Ally Education:

A Program summary will be available for contractors and vendors. The Company has and will continue to set up trade ally meetings and provide information about the CEEP. The Company is a member of a local homebuilders association and will provide material through that organization to contractors in the Company's service territory. Corning will also use the homebuilders' association and contractor meetings to promote the Company's website so up-to-date information can be provided to them by a cost effective means.

The Company will provide, at a meeting of contractors who are interested in the CEEP, a session to train/educate their personnel on the requirements of this energy efficiency program. This session could include information on what appliances are eligible and what documentation must be provided for the customer to obtain the rebate. The Company will also utilize this meeting to stress the importance of installing energy-efficient appliances and how contractors can assess the energy savings over the long term compared to the additional initial cost of the appliance.

Evaluation and Quality Assurance:

As described above under "Program Components," Comring expects to conduct Evaluation and Quality Assurance functions through the use of a contractor and will address the cost of that approach in the context of the Commission's prior orders dealing with such costs. Also, as noted above, the Company has submitted a request to the Secretary for an extension of the time for compliance with the October 18 Order, as it pertains to Evaluation and Quality Assurance, to permit the Company to complete an RFP process for selection of a contractor for this purpose before submitting the final, detailed plan to address these two elements of the CEEP.

Net Lost Revenue Metrics:

The Company proposes to utilize the Staff-provided spreadsheet as the beginning point for calculating lost revenues resulting from the Program. This spreadsheet calculates an estimated therm savings based on the efficiency and size of the unit that is removed and the efficiency and size of the unit that is installed. Upon determination of the energy savings attributed to a specific customer, a calculation would be made based on any volumetric charges that are attributable to that customer account along with current gas charges at the appropriate billing rate. The savings multiplied by the rate would determine the lost revenue for the period. The proposed calculation would prorate the volume across any block rate billing increments based on the appliance (e.g., space heating would be winter months) and the volume of a typical bill (e.g., does the usage far exceed the second block billing such that all of the loss of revenue would be estimated to be in the third block rate).

In the alternative, the Company believes that the Commission could allow small commercial customers, specifically those with annual consumption of less than 5,000 Mcf, to be included in the Company's already approved Revenue Decoupling Mechanism ("RDM"), which would alleviate the need for a revenue loss metrics calculation.

Program Administration and Reporting:

The Company will submit monthly, quarterly and annual reports similar in format to the current Residential EEPS Program reports. This would include the monthly scorecard report that includes the number of customer rebates, estimated therm savings from each appliance (using the Staff-provided spreadsheet calculations) and the overall anticipated level of energy savings and dollars expended through rebates. The Program would also be reconciled annually to document that the appropriate level of GSBC funds are being collected from the eligible customers. Any adjustments that are needed would be made during that reconciliation.

The monthly reports would be submitted by the 15th of the following month, quarterly reports would be submitted 45 days after the end of the reporting period and the annual reports would be submitted 90 days after the end of the calendar year. In addition, information that is necessary for the Company to provide to the Evaluation and Quality Assurance vendor would be provided in a timely manner in order for the vendor's reports to be submitted in a timely manner.