Hearing Exhibit No. 13, Rebuttal
Testimony Paul M. Normand

Case No. 11-G-0280

CORNING NATURAL GAS CORPORATION

REBUTTAL TESTIMONY

OF

PAUL M. NORMAND

PRINCIPAL
MANAGEMENT APPLICATIONS CONSULTING, INC.

October 17, 2011

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Paul M. Normand. My business address is Management Applications Consulting, Inc., 1103 Rocky Drive, Suite 201, Reading, PA 19609.

Q. Are you the same Paul M. Normand who presented direct testimony on behalf of Corning Natural Gas Corporation ("Corning" or "Company")?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to comment on Staff's depreciation proposals and Staff's forecast of sales summarized in Exhibit ____ (GRP-2) and forecast of adjustments to delivery revenues in Exhibit ____ (GRP-4) and present the Company's recalculation of Staff's forecast.

In addition, I have included brief comments relating to Multiple Interveners Witness Richard A. Baudino with respect to appropriate customer component costs in distribution rates.

II. REBUTTAL

A. <u>Depreciation</u>

Q. Do you agree with Staff's depreciation parameters for three accounts only?

A. No. I do not agree with any of the Staff recommendations.

Q. Would you please discuss your concerns?

A. Yes. The primary point to be made is that of objectivity, a primary element of any depreciation proposal. It is obvious to me that the Staff proposal is not objective. The recommendations have no basis. The first Corning depreciation study was done based on a Staff recommendation in Case 05-G-1359. Staff determined that the depreciation rates used by Corning, prior to the study, were based on rates of other gas utilities in New York. Staff proposed, and the Company agreed, that a Corning-specific depreciation study be completed to properly match the operational and investment profile of the Corning system. Pursuant to Case 08-G-1137, a second study was required within five years of the first study to reflect the impact of Corning's aggressive Commission-mandated infrastructure replacement program on depreciation rates. That second study is underway and will be completed by year end. Staff's proposal in this case, a limited review of only three accounts, contradicts Staff positions taken in the prior rate cases, and, if adopted by the Commission, would reverse the previous determinations that full studies are required to support any changes.

The results from cases involving other utilities, with their individual practices and unique Commission approvals on these issues are certainly not generic, easily transferable, or even directly applicable to Corning.

Staff assumes that the Company is "average", i.e., the average service lives of these three plant accounts are equal to the average of the group presented. They are not. The average service lives are unique to each Company through individual reviews and settlement processes with Commission approval. In addition, Staff's assumptions with respect to net salvage are totally inaccurate.

The following data were obtained from Staff:

Staff's Workpaper Data

Account	Net Salvage %	ASL	Rate %
367	2.00	73	1.340
376	1.82	73	1.341
380	2.00	55	1.796

The net salvage proposed is all positive and does not remotely represent any Corning data. Staff's attempt to represent a positive net salvage for these accounts is grossly misplaced as these accounts have net salvage values of −10% (367), −10% (376), and −20% (380) from the Company's last depreciation study in Case 05-G-1359. In fact, Corning's net salvage is far lower than industry results for these accounts.

Q. Do you have any recommendations with respect to Staff's proposed accrual rate revisions?

A. Yes, I do. First, the only credible evidence is the Company's last study, and the Commission's final approval in Case 08-G-1137 with some modification of those results which Corning is currently utilizing. Second, the proposed depreciation parameters relating to ASL and net salvage are not supported by any Corning data. In that decision, the Commission ordered that Corning undertake a new study to be submitted based on the Company's data and experience. It is my recommendation that the currently approved depreciation parameters, as approved, be maintained until such a study is prepared and presented to the Commission. Adjusting previously approved parameters, unsupported by any data, is extremely questionable.

To summarize, Staff's depreciation rate proposal for these three plant accounts does not constitute a proper, reasonable, or thorough depreciation study and should therefore be rejected.

Q. Do you have any concerns with respect to the Company's use of FIFO with respect to your depreciation studies?

A. No, I do not. The use of FIFO (first in, first out) in asset retirement is primarily driven by the lack of vintage information, and the retired unit is assumed the oldest. For mains and services, this approach is often used and results in a price differential from actual that will be impacted by the inflation rate over time. Since we are retiring, for the most part, long-lived assets, the impact may be minimal given the many other parameters estimated in preparing a detailed depreciation study.

Q. Does the Company have vintage (aged) data for its retirements?

A. No, it does not. The last depreciation study was prepared using Simulated Plant Record – Balance (SPR-Bal) analysis where no aged retirements were utilized as assumed incorrectly by Staff in its testimony.

B. <u>Sales Forecast</u>

Q. Do you agree with Staff's forecast?

A. No. We recalculated the forecasts for the rate years using the same methodology as Staff, but made adjustments to the forecast that we deemed appropriate.

Q. Were adjustments made to the test period sales data?

A. Yes. In Staff's forecast, monthly customers and sales data for 2007 were used in the calculation of the 12-month rolling average of customers and sales. We do not believe data from 2007 is representative of the current and future economic conditions and should be excluded from the analysis.

The total weather normalized sales for the following 12-month periods show that the largest decline in sales was from 2007 to 2008:

Total Firm Sales Including Bath
and Adjusted for Contract 6 Migration

12 Months Ended 12/31/07	–	34,164,952 CCF
12 Months Ended 12/31/08	–	32,314,393 CCF
12 Months Ended 12/31/09	–	31,305,047 CCF
12 Months Ended 12/31/10	–	30,386,963 CCF
12 Months Ended 6/30/11	–	30,534,677 CCF
12 Months Ended 8/31/11	–	30,530,034 CCF

In addition, the number of Corning residential customers added in 2007 greatly exceeded those added in the following years:

	Year	Number Increase
Corning Residential Customer Increase	2007	330
Corning Residential Customer Increase	2008	47
Corning Residential Customer Increase	2009	25
Corning Residential Customer Increase	2010	38

The National Bureau of Economic Research mentioned that the recession began in December 2007. Due to this flattening of sales and customer additions after the start of the recession in December 2007 and the current lack of a defined economic recovery, we correctly excluded all the test year 2007 customers and sales data in our analysis.

Q. Were there any other adjustments you made to the sales forecast?

A. Yes. We made other adjustments to sales and revenues. The adjustments fall into the following categories:

1. Company average number of customers and annual CCF/CUS data in Exhibit ____ (GRP-2) was adjusted to produce sales that correspond to the Company's filing.

2. Regressions were used where data now produced an R^2 higher than 0.8.

3. In the absence of a regression that produced an R^2 higher than 0.8, the latest 12 months' data were used for customers and use per customer ("UPC").

4. Staff did not adjust the results of the regression formulas when calculating customers and sales for 7/30/11. This resulted in large differences in the incremental change when comparing the change from 6/30/11 to 7/30/11 to the incremental changes in the months following 7/30/11. In the Company's recalculation, the incremental change in customers and UPC from 6/30/11 to 7/30/11 was changed to correspond to the calculated change for the month of July. The remaining months' incremental changes were then added to or subtracted from the adjusted 7/30/11 amount and rolled forward.

5. Errors in calculations and cell references were corrected.

6. Errors in pricing revenues were corrected.

Q. Please summarize your results as they relate to Exhibit ____ (GRP-2).

A. Excluding the differences in Sales for Resale, the following is a summary of Staff's proposed adjustment in Exhibit ____ (GRP-2) and our recalculation using Staff's method:

Rate Year 1

	----- CCF -----	
	Staff	**Company Recalculation**
Increase in Sales Excluding Sales for Resale	1,647,693	1,131,293
Increase in Sales Contracts	1,158,703	1,110,067
Increase in Firm Sales Including Bath & Excluding Contracts	488,990	21,227
Increase in Bath Sales	<96,916>	<83,269>
Increase in Firm Sales Excluding Bath & Excluding Contracts	585,906	104,496
Increase in Residential Sales	115,112	42,201
Increase in Other C&I Firm Sales	470,794	62,295

Rate Year 2

	CCF Staff	CCF Company Recalculation
Increase in Sales Excluding Sales for Resale	1,761,862	1,042,536
Increase in Sales Contracts	1,158,703	1,110,067
Increase in Firm Sales Including Bath & Excluding Contracts	603,159	<67,531>
Increase in Bath Sales	<96,916>	<83,269>
Increase in Firm Sales Excluding Bath & Excluding Contracts	700,075	15,738
Increase in Residential Sales	154,282	33,285
Increase in Other C&I Firm Sales	545,793	<17,547>

Rate Year 3

	CCF Staff	CCF Company Recalculation
Increase in Sales Excluding Sales for Resale	1,870,140	953,778
Increase in Sales Contracts	1,158,703	1,110,067
Increase in Firm Sales Including Bath & Excluding Contracts	711,437	<156,288>
Increase in Bath Sales	<96,916>	<83,269>
Increase in Firm Sales Excluding Bath & Excluding Contracts	808,353	<73,019>
Increase in Residential Sales	198,990	24,369
Increase in Other C&I Firm Sales	609,363	<97,388>

Exhibit ____ (CNG Rebuttal Exhibit 7) shows the details of the recalculated forecasts for all three Rate Years.

Q. How do the results of the Company's Recalculation of the Sales Forecast compare to prior years and Staff's forecast?

A. Below is a summary of the Total Firm Sales Including Bath from 2007 to Rate Year 3:

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Total Firm Sales Including Bath and Adjusted for Contract 6 Migration

12 Months Ended 12/31/07 – Actual Weather Normalized	34,164,952 CCF
12 Months Ended 12/31/08 – Actual Weather Normalized	32,314,393 CCF
12 Months Ended 12/31/09 – Actual Weather Normalized	31,305,047 CCF
12 Months Ended 12/31/10 – Actual Weather Normalized	30,386,963 CCF
12 Months Ended 6/30/11 – Actual Weather Normalized	30,534,677 CCF
12 Months Ended 8/31/11 – Actual Weather Normalized	30,530,034 CCF
	Company Recalculation
Rate Year 1 Forecast 12 Months Ended 4/30/13	30,408,190 CCF
Rate Year 2 Forecast 12 Months Ended 4/30/14	30,319,432 CCF
Rate Year 3 Forecast 12 Months Ended 4/30/15	30,230,675 CCF
	Staff Forecast
Rate Year 1 Forecast 12 Months Ended 4/30/13	30,875,953 CCF
Rate Year 2 Forecast 12 Months Ended 4/30/14	30,990,122 CCF
Rate Year 3 Forecast 12 Months Ended 4/30/15	31,098,400 CCF

Q. Please summarize your results as they relate to GRP-4.

A. Below is a summary of Exhibit ____ (GRP-4) showing a comparison of Staff's proposed delivery rate increase of $215,028 from their sales forecast in Exhibit ____ (GRP-4) for Rate Year 1 to the Company recalculation of the sales forecast which shows a $46,646 increase. All comparisons are at current rates. The details of the calculation are shown in Exhibit ____ (CNG Rebuttal Exhibit 8).

	------ Revenues ------	
Corning	**Staff**	**Company Recalculation**
SC-1 Residential & Gas Lights	$154,100	$101,046
SC-1 Commercial	39,170	<34,405>
SC-1 Public Authority	976	<3,316>
SC-6 Transportation	14,019	5,070
SC-7 Industrial Transportation	32,234	17,594
SC-14 Residential Aggregation	<167,925>	<146,271>
SC-14 Commercial Aggregation	23,040	29,720
SC-14 Public Authority Aggregation	<6,248>	<15,750>
Contract 1	61,751	61,751
Contract 2	<8,000>	<8,000>
Contract 3	4,128	4,128
Contract 4	<4,739>	<4,739>
Contract 5	63,670	63,670
Contract 6	<766>	<25,659>
Hammondsport	**Staff**	**Company Recalculation**
SC-1 Residential	$15,169	$14,217
SC-2 Commercial	<4,628>	<5,326>
SC-4 Transportation	<1,548>	<1,846>
SC-7 Residential Aggregation	469	176
SC-7 Commercial Aggregation	135	316
Transportation Flex	8,235	849
Bath	**Staff**	**Company Recalculation**
SC-1	$<8,744>	$<8,744>
SC-3	189	189
SC-4	987	1,975
Total Increase in Delivery Rates	$215,678*	$46,646

**Per Staff's supporting worksheet provided in responses to CNG/DPS-13 and CNG/DPS-8.*

For Rate Year 2, the Company's recalculation of Staff's forecast produces a Total Increase in Delivery Rates of $30,262, and Rate Year 3 produces a Total Increase in Delivery Rates of $12,879, all at current rates.

Q. Please summarize your testimony regarding Staff's sales forecast and related adjustments to delivery revenues.

A. After correcting and recalculating Staff's forecast and accounting for changes, the resulting rate year sales are lower than Staff's estimated forecast. The effect of this reduction in sales is a reduction in the adjustment on Staff's Exhibit ____ (GRP-4) for Rate Year 1 from Staff's $215,028 to our $46,646 for a reduction in revenues of $168,382. This recalculation also shows a reduction in sales in Rate Years 2 and 3 as compared to the increase Staff is showing in those Rate Years. Rate Year 2 produces an additional reduction in revenues at current rates of $16,384, and Rate Year 3 produces an additional $17,383 reduction in revenues.

C. Customer Component Costs

Q. Do you agree with Mr. Baudino's attempts to introduce a minimum system or zero intercept concept for the Company's distribution plant costs as filed in this case?

A. No, I do not. There is no theoretical support for introducing such a concept without fully recognizing the capabilities of these facilities as an offset or reduction in allocation that will be utilized for the remaining account balances once the customer component has been identified.

Q. What is the result of attempting to introduce this concept as described in Mr. Baudino's direct testimony?

A. Contrary to Mr. Baudino's assertion that the Company's filed cost of service results in misallocations, the process outlined by Mr. Baudino truly magnifies major levels of misallocation to customer classes, primarily smaller Residential customers. Simply put, his approach would "double dip" the allocation of each account to the smaller Residential customers.

Q. Has the NARUC manual ever cautioned analysts about incorporating these concepts in cost of service studies?

A. Yes it has, as indicated on Page 95 of its "Electric Utility Cost Allocation Manual", Exhibit ____ (CNG Rebuttal Exhibit 9).

Q. Does your filed cost of service study represent the most accurate and equitable allocation of distribution costs in this case?

A. Yes, it does. I do not believe in the use of any customer methods to allocate mains costs since this approach would be inconsistent with any peak or design day bases which underlie a gas utility investment. Furthermore, I have always recognized the many weaknesses of various methods proposed by Mr. Baudino where these attempts would not withstand critical review. I have in fact presented my most accurate assessment of true customer costs by assigning all of the costs of meters and services as customer related. Customer components should only reflect those investments closest to customers, such as services and meters which were 100% considered in the study.

III. CONCLUSION

Q. Does this complete your rebuttal testimony?

A. Yes, it does.

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