Corning Natural Gas Corporation
Response to Questions in Case 12-G-0297

Barriers to Extension and Expansion of Natural Gas Facilities

1. Please explain your understanding (and for utilities, your implementation) of Commission regulations and the Natural Gas Expansion Policy including your views on whether they encourage or deter expansion of the natural gas delivery system in New York State. Do you feel that the Commission regulations and Policy should be modified and if so, how?

Response: The current policy is too restrictive as to the time limit (5yrs.) for the expansion into a new franchise to achieve the overall system rate of return. The environmental review is also restrictive and cumbersome as it relates to new franchise expansion. The main and service extension rules relating to existing franchises are reasonable since it allows for a surcharge that would be permitted for a period of up to 10 years.

The economic benefit analysis should be extended to at least ten (10) years for new franchises and the environmental process for new franchises should be streamlined.

2. Regarding the Commission's regulations of the natural gas delivery system and the system itself, do you believe that the interests of utility shareholders, ratepayers, and the State as a whole are aligned? Please explain.

Response: Generally, Yes. However, there have been instants where the Commission has deviated from normal and accepted regulatory principal that investment and revenues in between rate cases (inure)are the responsibility of the utility. There have been times when the Commission has taken the revenues from

new attachment for the benefit of ratepayers but has not provided for recovery of the investment costs. This mismatch cannot be permitted if franchise expansion is to be encouraged.

The current Commission policy on franchises (because of the mandated 5 year test) can place asymmetrical risk on the utility. The Commission has placed Company infrastructure investment at risk if cost recovery does not meet specified targets. Yet if revenue forecast exceed projections utility is not permitted to retain the incremental revenues. Clearly this policy does not encourage franchise expansion.

3. Are there provisions of current policies or regulations that appropriately incentivize the expansion of the natural gas delivery system in New York State? Are these sufficient? If not, please suggest alternatives.

Response: The current cost plus system in New York can be effective in promoting gas expansion if the rules are applied consistently (see response to question 2 above). However, New York regulation provides for overall management assessment that can be used to award an incentive rate of return in rate cases. If the Commission wanted to reward superior performance for gas expansion it could establish a policy that would provide for an allowance adder to the equity return for such achievements. The policy should be clear and benchmarks established that would determine achievement goals. The policy cannot be (subjective as it is now) incentive return in New York is currently nonexistent since any level of superior performance is categorized as ***"this is the job that you are required to do"***.

In addition, financial reviews for new franchise expansion should be expedited.

4. Identify current barriers inhibiting conversion to natural gas usage from other heating fuels - other than the cost

of replacing heating equipment. Please explain how the barrier inhibits conversion and provide suggestions for reducing or eliminating the barrier – including the cost of replacing heating equipment.

Response: Other than the cost of replacing heating equipment and possible main and service attachment surcharges the Company is not aware of any other barriers.

5. Please identify the outreach and education efforts currently employed by the utility for the purposes of gauging interest in natural gas service and/or soliciting new customers in areas where interest in the possibility of obtaining service has been expressed. Are the efforts sufficient? How can they be improved? Would expanded or improved outreach and education programs increase conversion to natural gas by customers who reside within the 100 feet zone of existing utility infrastructure (and, accordingly would not pay for the extension)? How can the utility identify, communicate and engage with such customers? When an individual customer requests service, please describe the utility's efforts to communicate with or solicit other customers in the neighborhood/area.

Response: Corning identifies customer attachment potential within its service area and then canvasses the customers to determine their interest in gas service. When customers express interest an economic analysis is prepared to determine if a surcharge is required.

6. Please identify the typical flow of communication and information between the utility and a customer requesting service that would require extension of a gas main sufficient to require a surcharge. Please provide any examples of written communication.

Response: See Customer Letter for main and Service Extension –Q6 attached

7. What issues should be given consideration prior to expansion of the natural gas delivery system? Should such considerations include protections for a group or groups of customers? If so, what should be and what types of protections should be considered?

Response: The primary consideration is that the expansion does not place undue burden on existing customers. The economic analysis captures this concern.

8. Are there existing utility specific pilot programs focused on new approaches to line extensions or new franchise expansions of the natural gas delivery system? If so, please describe the pilot program. If not, could such a pilot program be beneficial and, how would it be designed?

Response: Corning is not aware of any pilots that currently exist that are focused on line extensions or new franchise expansions. A pilot program could be developed whereby new attachments and new franchises could be accounted for separately to minimize undue burden on existing customers. New attachment in an existing franchise could be identified by a separate rate code that would pay the existing delivery rate and a surcharge to recover the incremental investment to serve. Surcharge could be revised annual to take into consideration the size of the new customer pool. New franchises could be established as “divisions” a specific surcharge (if necessary) could be assessed.

Rate and Ratepayer Considerations

9. The Commission’s regulations (§230.2[f]) provide that “each corporation may, in its tariff schedules, extend such

obligation [to provide certain main and service line extensions without cost to the customer], to the extent the provision of additional facilities without charge is cost-justified." Identify whether the utility ever provides residential customers with more than 100 feet of gas main or service line without surcharge. Please explain why and under what circumstances or, if never, why not. Is the utility aware of any geographic areas in its service territory where potential cost justified extensions of greater than 100 feet are currently un-served? If not, has the utility ever attempted to ascertain or develop such information? What should be the appropriate length of main and/or service provided without surcharge? Please explain.

Response: "[C]ost-justified" within the meaning of the Commission's regulations (§230.2[f]) is very narrowly interpreted by the PSC Staff in rate cases that has lead to cost disallowances. The Staff has viewed any main or service above 100 feet as requiring a surcharge. However, there are operational opportunities that can allow for attachments that are greater than 100 feet at a significant cost savings. During the systemic main and service replacement program crews and equipment maybe in an area where with little incremental cost (usually material costs) they can attach new gas customers. In the company' view where assets are in the field and do not have to be dispatched to accomplish the aforementioned attachment the customer attachment is cost-justified within the meaning of the Commission's regulations (§230.2[f]).

10. Does the utility provide programs that could assist low income customers or those on a fixed income to overcome the barriers to conversion to natural gas?

Response: If the Company were permitted a portion of the System Benefit Fund (SBC) could be used to assist low income

customers or those on a fixed income to overcome the barriers to conversion to natural gas

11. Are there potential funding mechanisms for expansion of the natural gas delivery system other than through utility rates or direct customer payments (surcharges, CIACs or other)?

Response: Funds may be available from other state agencies in the context of economic development efforts.

12. Are existing natural gas efficiency programs adequate and optimal to serve the expansion of customers within 100 feet of existing utility infrastructure? If not, what changes, including possibly the level of funding, could be made to improve the existing efficiency programs? Would efficiency programs targeted to conversion customers result in increased energy savings, and if so, how?

Response: Energy efficiency programs should equally apply to new and existing customers.

13. Do Revenue Decoupling Mechanisms (RDMs) impact expansion of the natural gas delivery system?

Response: Revenue Decoupling Mechanisms (RDMs) do not impact expansion of natural gas delivery system per se.

Economic Development

14. Does the utility have any information or estimates concerning the existence of commercial or industrial customers who may add and/or retain jobs if they could switch their process or heating fuel to natural gas? If so, how many jobs

might be added or retained?

Response: With the availability of natural gas in a new franchise a major employer keep its manufacturing operations in the area that currently employs 1200 individuals. In existing franchises the availability of natural gas allowed two asphalt plants from closing down thereby savings approx. 400 jobs.

15. Are there specific industries in the State that would benefit from an expanded natural gas delivery system? Please describe.

Response: Asphalt, manufacturing, grain drying (farming), dairy farm processing.

Public/Private Partnerships

16. Are there potential partnerships between various entities involved in the energy and heating markets in New York State that could facilitate expansion of the natural gas delivery system? If so, please provide examples and whether your organization would be willing to take part in such a partnership. Who would be best suited for encouraging and developing such partnerships? What role should the public sector play?

Response: The most important player to facilitate expansion of the natural gas delivery system is the NYPSC and the next important would be the IDA's that can provide property tax relief and debt financing

17. Are there programs currently administered by utilities or federal, state or local agencies that assist customers with heating fuel conversions? Are there roles that other agencies,

such as the New York State Energy Research and Development Authority (NYSERDA), should play in expansion of the natural gas delivery system? Should the Energy Efficiency Portfolio Standard (EEPS) programs be expanded or modified to encourage conversions to natural gas before end-of-life replacements?

Response: Yes

18. Are there opportunities to coordinate natural gas delivery system expansion projects with other available resources, such as economic development, energy efficiency, or environmental protection? Please provide specific examples, if possible.

Response: Working with local municipalities, sewer and water utilities can present opportunities to minimize construction costs by coordinating work to minimize road openings.

Environmental Impact

19. Are there changes that could be made to the environmental impact review process involved in granting or expanding gas franchise areas that could improve or streamline the process?

Response: Environmental impact review process must be streamlined. Generic set of environmental guidelines should be established that would be applicable to all new franchises.

20. Please identify, if any, areas of the State where provision of natural gas delivery service is unrealistic because of environmental constraints, construction permitting requirements or other factors and explain why service to such areas is believed to be unrealistic. Are there any areas of the State that require special consideration regarding expansion of the natural gas system?

Response: Adirondacks and other environmental sensitive areas may provide its own special challenges.

Planning

21. Please explain your utility's natural gas delivery system expansion planning process including any large-scale and or long-term plans that are in place or are being considered.

CORNING
NATURAL GAS CORPORATION

ATTCHMENT A (Main and Service Extension Procedure)

Date

Customer Name
Address
Address

Re: Natural Gas Main and Service Installation

Dear Customer,

Thank you for your application for natural gas service. As you are aware, per New York State Code Rules and Regulations we are allowed to provide a new customer one hundred feet of main and one hundred feet of service at no charge to the customer. Main or service extensions beyond that must be charged to the customer.

With regards to your proposed installation, we have taken measurements from the existing main located **(location name)** to your home. We have found that to provide service to your home would require the installation of _____' of __" main and ___' service.

To perform this main extension CNGC offers the following options:

Option #1:
CNGC provides excavation, backfill, restoration (except for service[1]), material (i.e. pipe, fittings, meter riser regulator, and meter) and installation of main from **(location name)** to dwelling and service from main to your home.

Cost of Main: ____' – 100' = ____' X $ XX.XX/Ft = $ XX,XXX.XX
Cost of Service: ___' – 100' = ____' X $ XX.XX/Ft = $ XXX.XX

Total cost to customer: $XX,XXX.XX

Option #2:
Customer provides excavation, backfill and restoration for main and service from the main located **(location name)** to dwelling at their cost. Corning Natural Gas provides material and installation (i.e. pipe, fittings, meter riser, meter, etc) and invoices customer for cost of material and labor.

Cost of main: ____' – 100' = ____' X $ XX.XX/Ft = $ XX,XXX.XX
Cost of Service: ___' – 100' = ____' X $ XX.XX/Ft = $ XXX.XX
Cost of Labor: _ Technicians X $____/Hr X 5 days = $X,XXX.XX
Cost of Inspector: $XXX per day beyond the 5 days of construction (Inspector must be present during entire backfill operation).

Total cost to customer: $X,XXX.XX plus inspector and cost to excavate, backfill and restore

If option #2 is chosen, customer must perform excavation per Corning Natural Gas Standards (CNGC Standards comply with NYS PSC code rules and regulations for installation of natural gas main and services). A copy of those Standards is attached for you to provide to your construction contractor.

CORNING
NATURAL GAS CORPORATION

[1]Customer is responsible for restoring the ground over the service line. Corning backfills and places topsoil to final grade. Customer is to rake, remove rock, seed, mulch and water (as needed).

Gas Main Extension Surcharge

The Public Service Commission allows utilities to provide customers to pay for this construction as a surcharge to their normal monthly gas bill. The following is the surcharge estimate.

A surcharge is determined by taking the main extension cost estimate less the facilities the Company provides free of charge, divided by the total number of customers to be served by the main extension. The surcharge would be included as part of the monthly gas bill and may be billed over a period of up to ten (10) years, with a minimum term of two (2) years. The customer will be offered a discounted pre-payment in lieu of f the surcharge payment. The pre-payment option is equal to the present value of a 10 year surcharge payments.

The table below is based on Option #1 on a __ year payment term. In the scenario you would be customer A. As can be seen in the table, Customer A's first annual payment is $X,XXX.XX which is calculated by project total cost, $XX,XXX.XX divided by _ years. If no other customers connect to that main, Customer A's annual payment remains $X,XXX.XX until the balance is paid. If Customer B connects to the main at a later date the $XX,XXX.XX is divided by 2 then by _, therefore Customer A and B's annual payment becomes $X,XXX.XX. The same occurs as additional customers connect to the main as can be seen with Customer C.

Because customer A paid the higher initial upfront payment his/her final three payments (years _ – _) would be adjusted so that the total payment at the end of the ___ year term is equivalent to the total project cost divided by number of customer connected. The same with Customer B. Therefore, each customer pays equal amounts.

If customer B connects after the __ year (after the project cost has been paid) then no credit will be due to customer A.

Total Project Cost: $XX,XXX.XX

Year	**A**	**B**	**C**
1	$X,XXX.XX	0	0
2	$X,XXX.XX	$X,XXX.XX	0
3	$X,XXX.XX	$X,XXX.XX	$X,XXX.XX
4	$X,XXX.XX	$X,XXX.XX	$X,XXX.XX
5	$X,XXX.XX	$X,XXX.XX	$X,XXX.XX
6	$0.00	$X,XXX.XX	$X,XXX.XX
7	$0.00	$X,XXX.XX	$X,XXX.XX
8	0	$X,XXX.XX	$X,XXX.XX
9	0	0	$X,XXX.XX

To calculate the monthly installment, divide the annual amount by 12.

If Option #2 were selected the customer would be responsible to secure a contractor to excavate the main and service trench and work with the Corning Natural Gas Technicians while the main and service is installed. Upon the completion of installation the contractor would then backfill and restore per the Standards provided.

CORNING
NATURAL GAS CORPORATION

If desired Corning Natural can surcharge the total cost determined above in Option #2. The disadvantage regarding Option #2 is that the first customer may not get reimbursed the cost of the excavation by any additional customers taking service from this main.

Regardless of option chosen, once the main and service is installed Corning Natural Gas Corporation retains ownership, maintenance and future replacement costs for these facilities. Corning Natural Gas has full rights to allow others to connect to this main or to allow extensions from the end of this main.

Attached please find the Gas Main Extension & Surcharge Agreement. Please complete and return as soon as possible.

Sincerely,

Corning Natural Gas Corporation

Attachments – CNGC Construction Standards
Cc: Matt Cook, Russ Miller, file