STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service Commission held in the City of Albany on November 20, 2002

COMMISSIONERS PRESENT:

Maureen O. Helmer, Chairman
Thomas J. Dunleavy
James D. Bennett
Leonard A. Weiss
Neal N. Galvin

CASE 02-G-0003 – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Corning Natural Gas Corporation for Gas Service.

ORDER ADOPTING THE TERMS OF A JOINT PROPOSAL

(Issued and Effective December 23, 2002)

BY THE COMMISSION:

INTRODUCTION

On December 31, 2001, Corning Natural Gas Corporation (Corning or the company) proposed to increase its annual gas revenues by $1.8 million (7.3%) starting in 2002. We suspended Corning's rate filing and initiated this proceeding to examine the company's proposals.

In accordance with the schedule set for this proceeding, Department of Public Service Staff filed testimony in opposition to the rate filing on June 7, 2002. Thereafter, on June 28, 2002, Corning submitted rebuttal testimony in defense of its positions. An evidentiary hearing was scheduled to begin on July 22, 2002; however, the hearing was put off to provide the opposing parties an opportunity to use alternative dispute resolution.

As early as mid-March 2002, Corning and Staff had met with other parties to consider a settlement of the contested issues. Notice of their efforts was given in accordance with the requirements of 16 NYCRR 3.9 and Corning provided a month for the settlement discussions.[1] But, the parties' initial efforts did not succeed. Subsequently, they requested a mediator from the Office of Hearings and Alternative Dispute Resolution to assist them; and, on August 26, 2002, they entered into a Joint Proposal.[2]

On August 28, 2002, notice of the Joint Proposal was issued to provide the public an opportunity to submit comments. In addition, Commissioner Neal Galvin and the presiding officer conduct a public hearing in the City of Corning on September 10, 2002 to obtain local statements about the rate filing and the Joint Proposal.

Not only have Corning and Staff endorsed the Joint Proposal, it is supported by the Bath Electric, Gas and Water Systems.[3] No one either at the hearing or in the comments we have received has directly opposed the Joint Proposal. Nonetheless, a speaker and two correspondents are opposed to any gas rate increase at this time given recent price increases for gas supplies, the economic conditions that exist in the service area, and the difficulties that residential, commercial and business customers face when prices for utility services go up. No other public comments have been received in this case.

THE TERMS AND CONDITIONS CONTAINED IN THE JOINT PROPOSAL

Instead of the $1.8 million rate increase Corning originally proposed, the Joint Proposal calls for the company to obtain a $874,500 (3.5%) increase starting in 2003. It also

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[1] Consequently, the suspension period in this case extends to December 31, 2002.

[2] On October 30, 2002, Corning and Staff filed an addendum to the Joint Proposal that clarifies several of its provisions.

[3] The Bath Electric, Gas and Water Systems is the municipal local distribution company that serves the Village of Bath. As a Corning customer, it obtains gas supplies from a connection to the interstate pipeline system that Corning controls.

envisions that the company will freeze rates for the rate years beginning in 2004 and 2005.

Due to the proposed increase in minimum charges, a typical residential heating customer would experience a 4.6% increase (including gas costs and taxes) in Corning and a 5.8% increase in Hammondsport. General service class and residential customers in Corning, and non-heating residential customers in Hammondsport, would experience minimum charge increases about twice the overall percentage increase to reflect the results of the cost-of-service study provided in this case. The rate increases applicable to firm transportation service customers in Corning and Hammondsport would be tempered to reflect the cost-of-service study results. Industrial transportation customers in Corning would experience about a 13% increase net of gas costs and taxes. No opposition was filed in this case to the proposed revenue allocations and rate design proposals.

The Joint Proposal would also resolve two hotly debated issues--the allocation of common and joint costs to Corning and its affiliates; and, the steps needed to sustain the utility company's financial solvency.

Corning is affiliated to an appliance store, a strip mall, a real estate brokerage firm, a mortgage company, and a tax preparation service company, all of which have little to do with the public utility operations. Staff alleged that Corning had allocated too few of its costs to the affiliates; the company maintained that its allocations were proper. The Joint Proposal resolves this issue by allocating a greater portion of management's time to the non-utility functions and by increasing the amount of assets and plant assigned to the other businesses. It also increases the factor used to allocate operating expenses to the affiliates. Further addressing this controversy, the Joint Proposal requires Corning to hire an independent auditor to perform a cost study to be used the next time.

As to Corning's financial integrity, in recent years the company has paid large common stock dividends and has allowed its equity position to become too thin. To increase its equity capital, Corning has stopped paying cash dividends. The

Joint Proposal continues to suspend any cash dividend payments until the company achieves a 30% equity ratio. The Joint Proposal also requires management to use its best efforts over the next 30 months to obtain $1.5 million of additional equity financing when favorable market conditions exist. As long as Corning honors its commitments, the Joint Proposal will permit it to retain the additional earnings provided in rates to increase the firm's retained earnings and restore its financial health. Corning’s failure to honor its commitments would result in the additional earnings remaining in a deferred account for future Commission action.

With respect to other important matters addressed in the Joint Proposal, the parties have detailed the revenue and expense estimates they used for the three year rate plan. This ensures that the parties will have no misunderstandings about the revenue requirements and accounting conventions they used. Confusion on such matters occurred in Corning's last rate case. The parties have taken great pains to avoid any reoccurrence of such events here.

The Joint Proposal’s treatment of two expense items is also noteworthy: pension and post retirement benefit (OPEB) expenses, and rate case expenses. As of January 2001, the company had overcollected $758,000 for its pension and OPEB expenses. Of this amount, $600,000 will be used for ratemaking purposes to offset expected undercollections in upcoming years. The remainder will remain available (and not be amortized) for consideration in a future rate proceeding.

Due to the serious disputes at issue in this case, Corning incurred $260,000 in legal and rate case expenses. The company volunteered in the Joint Proposal to limit its recovery to $200,000 and to amortize this amount over three years.[4]

With respect to Corning's gas operations, the Joint Proposal requires the company to use its best efforts to release

[4] The Joint Proposal does not permit Corning to make any deferrals or amortizations except those specified in the proposal, or as permitted by express Commission policy or action.

the excess capacity it holds on the interstate pipeline system. The company will suffer the financial consequences if it continues to hold too much capacity. Corning will hire a consultant to assist its asset management and gas procurement process.

Finally of note, to promote gas system safety the Joint Proposal requires Corning to adhere to the standards and requirements of a gas safety plan. The plan specifies the amount of bare steel pipe and service lines that must be replaced each year. It also requires the company to add cathodic protection to steel pipes to protect them from corrosion. Further, the plan requires Corning to attend to pipeline leaks on a timely basis and to implement a quality assurance program.

SUPPORTING STATEMENTS

Corning

In its statement supporting the Joint Proposal, Corning acknowledges the need for proper cost allocations among affiliated companies and for action to improve its financial health. The company defends its past practices that sought to use the affiliated ventures to reduce costs that the utility company would otherwise bear. However, in recognition of its differences with Staff, the company is willing to compromise its position to ensure the utility company's solvency.

Corning also points out that it has maintained reasonable prices for its gas distribution services in recent years but, due to a lack of business growth, it now needs a rate increase. It is willing to abide by the Joint Proposal’s requirements in order to obtain the institutional financing, and secure the financial health, it requires to provide safe and reliable service.

Corning believes that the proposed $875,000 increase can be adopted because gas supply costs are expected to go down by about $895,000 over the next three years due to the release of the company's interstate pipeline capacity that is no longer needed. The Joint Proposal ensures that gas customers will obtain the benefits of the pipeline capacity releases.

The company also believes the proposed rate increase is justified by the cost increases it has experienced for insurance, pensions, depreciation, interest expense and the effects of inflation on other costs. Further, Corning points out that its officers will forgo a portion of the salary increases originally requested to gain support for the rate plan proposed here. Thus, Corning urges us to authorize a delivery rate increase in January 2003 with a rate freeze extending to 2006.

Staff

Staff believes the terms of the Joint Proposal are in the public interest, having determined that the utility company needs a rate increase to continue to provide reliable service. Staff supports the Joint Proposal because it obtains assurances from Corning's management that the company's assets and performance will improve, and gas safety will be assured. Overall, Staff states that the Joint Proposal provides a fiscally sound rate plan that can be used to preserve Corning’s financial standing.

Like Corning, Staff is concerned about the company’s financial stability and ability to provide utility service. It believes the proposed rate increase will begin to return the company to a secure financial condition over three years, with its measures to enhance retained earnings and assure continued access to equity and debt financing.

Staff also supports the Joint Proposal provisions that adjust the company's pension expense for recent stock market volatility and for management’s past practices. Staff favors the Joint Proposal’s approach to affiliated transactions and intercompany cost allocations, providing for further study and the services of an independent expert. Further, Staff supports the provisions requiring interstate pipeline capacity reductions and assuring that gas safety measures will be implemented.

DISCUSSION AND CONCLUSION

From our review of the Joint Proposal, our examination of Corning’s rate filing and our consideration of the record in this case, we find that the proposed rate plan provisions are in the public interest. To begin, we observe that the terms of the Joint Proposal are not opposed by any of the parties who actively participated in this case. Also, the few public comments we received only express general concern about the undesirability of a rate increase at this time. They do not criticize any of the Joint Proposal’s specific provisions nor do they suggest any other reasonable results for us to consider. Thus, our detailed assessment of the Joint Proposal’s terms leads us to conclude that they provide acceptable benefits for gas customers in the Corning service area.

Specifically, we find that the Joint Proposal’s treatment of the disputed intercompany cost allocation issues presents a reasonable resolution for us to adopt. The ultimate amounts supported by both parties fall within a range of results that are supported by the record and that we can accept. Most importantly, the Joint Proposal provides a framework that will use the expertise of an outside consultant to assist the company and Staff to obtain cost allocations that may not be subject to dispute in the future.

We also find that the Joint Proposal’s resolution of a troubling pension expense matter to be constructive and an aid to the other efforts being established to sustain Corning’s financial well-being. Its provisions restore pension funds that can be used to cover expected underrecoveries in the next few years. This approach helps to reduce and control the company’s need for rate relief during the three-year rate plan and it should therefore be adopted.

Turning to the Joint Proposal’s financial provisions, the portion of the rate increase that is being provided to increase the company’s retained earnings, and thereby to assist its efforts to increase its equity position, is acceptable because Corning has committed itself to earnest efforts to obtain an equity infusion from investors on reasonable terms.

We are also accepting these provisions because the company has restricted the payment of cash dividends while it achieves a more acceptable capital structure.

Further, we endorse the Joint Proposal's terms that promote the safe operation of the gas distribution system. As to the interstate pipeline capacity Corning will release, such action is expected to assist the competitive market developments we seek to establish throughout the State. Finally, we are aware that Corning and Staff are working on a gas rate restructuring plan for this company as required by the Commission in Case 97-G-1380. We expect the parties to present their efforts for our review in the near future. Accordingly, we shall adopt all the terms and provisions of the Joint Proposal and require that they be implemented.

The Commission orders:

1. The terms, conditions and provisions of the Corning Natural Gas Corporation Joint Proposal and addendum attached to this order are adopted and hereby incorporated and made a part of this order.

2. Corning Natural Gas Corporation shall submit a written statement of unconditional acceptance of this order, signed and acknowledged by a duly authorized officer of the company by no later than December 31, 2002. If an acceptance is not filed, the adoption of the terms of the Joint Proposal may be revoked. Corning's acceptance statement should be filed with the Secretary of the Commission and be served on the parties to this proceeding.

3. Corning Natural Gas Corporation is directed to file with the Secretary of the Commission, and to serve all parties, the tariff amendments necessary to implement the requirements of this order by no later than December 31, 2002, to become effective on January 1, 2003. The company is also directed to take all other action necessary to implement the requirements of this order as soon as it is reasonably possible to do so. Any comments on the proposed tariff amendments must be received at the Commission's office within ten days of

service of the tariff amendments. The amendments shall not become effective on a permanent basis until approved by the Commission.

4. The requirement of the Public Service Law that newspaper publication be completed prior to the effective date of the amendments is waived, but the company is directed to file with the Commission, not later than six weeks following the effective date of the amendments, proof that a notice of the changes set forth in the amendments and their effective date has been published for four consecutive weeks in a newspaper having general circulation in the service territory of the company.

5. Corning Natural Gas Corporation is directed to cancel, effective no later than December 31, 2002, the following tariff amendments and supplements:

Amendments to Schedule P.S.C. No. 1 – Gas

Third Revised Leaves Nos. 62, 63
Eleventh Revised Leaves Nos. 36, 59
Sixteenth Revised Leaf No. 31
Twenty-Fourth Revised Leaf No. 29
Thirty-First Revised Leaf No. 28
Thirty-Ninth Revised Leaf No. 20-A
Forty-Fifth Revised Leaf No. 21
Fiftieth Revised Leaf No. 24
Supplement No. 69
Supplement No. 70

Amendments to Schedule P.S.C. No. 2 – Gas

Seventh Revised Leaf No. 18
Eighth Revised Leaves Nos. 12, 16
Tenth Revised Leaf No. 9
Supplement No. 21
Supplement No. 22

Amendments to Schedule P.S.C. No. 3 – Gas

First Revised Leaves Nos. 113, 114
Fourth Revised Leaves Nos. 90, 91
Sixth Revised Leaf No. 71
Seventh Revised Leaf No. 110
Ninth Revised Leaf No. 94
Supplement No. 10
Supplement No. 11

6. Corning Natural Gas Corporation shall defer annually $174,124 of additional revenues with the associated federal and state income taxes. If the company annually demonstrates that it is working toward financial integrity, it will be allowed to record the $174,124 net of taxes to income and subsequently to appropriated retained earnings. These additional revenues net of the federal and state income tax effects will remain in the Appropriated Retained Earnings account until an actual regulated common equity ratio of 30% is achieved. Beginning January 1, 2006, the Corning Natural Gas Corporation will continue to defer annually $174,124 of additional revenues with the associated federal and state income taxes until base rates are changed by the Commission. The disposition of any recorded deferred revenues commencing January 1, 2006 and the associated deferred federal and state income taxes will be determined by the Commission.

7. Corning Natural Gas Corporation shall file, with the Director of the Office of Accounting and Finance, no later than forty-five (45) days after the conclusion of each of the next three rate years a detailed earnings calculation in accordance with the accounting and financial reporting requirements contained in the Joint Proposal.

8. Corning Natural Gas Corporation's annual earnings calculation used for determining the achieved return on common equity shall utilize the company's actual regulated capital structure, net operating income derived on a ratemaking basis and a rate base component derived on a ratemaking basis. The company will defer all excess earnings annually with the associated deferred federal and state income taxes.

9. Corning Natural Gas Corporation shall reconcile the annual earnings calculations at the conclusion of the three-year term of the Joint Proposal. The earnings reconciliation provides that the company may offset over-earning years with under-earning years so that the cumulative achieved return on common equity over the three year term will determine whether any level of excess earnings have occurred.

10. Corning Natural Gas Corporation is directed to use its best efforts to obtain $1.5 million of common equity capital at the first opportunity when favorable market conditions exist. The company shall report the results of its efforts and the progress it has made to the Director of the Office of Accounting and Finance at six-month, eighteen-month, and thirty-month intervals from the issuance of this order.

11. Corning Natural Gas Corporation and its parent company, Corning Corporation, are prohibited from issuing cash dividends and from buying back any corporate stock until such time as the companies achieve a capital structure consisting of seventy (70) percent debt and thirty (30) percent equity financing.

12. No later than ten (10) business days before either company issues any cash dividend or repurchases any corporate stock, Corning Natural Gas Corporation and its parent company shall notify the Director of the Office of Accounting and Finance of any such plans. In the event that the Department of Public Service Staff is unable to verify the companies' capital structure calculations in accordance with the requirements of ordering clause 11 above, the companies shall refrain from paying dividends and repurchasing stock for an additional twenty (20) days to provide them an opportunity to demonstrate their compliance.

13. No later than forty-five (45) days following the end of each fiscal quarter, Corning Natural Gas Corporation shall submit to the Director of the Office of Accounting and Finance the company's report containing the general ledger, debt, common equity, and investment activity information specified in the Joint Proposal.

14. This proceeding is continued.

By the Commission,

(SIGNED) JANET HAND DEIXLER
Secretary

STATE OF NEW YORK DEPARTMENT OF PUBLIC SERVICE

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General Counsel

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Office of Hearings and
Alternative Dispute Resolution

October 30, 2002

HAND DELIVERY

Hon. William Bouteiller
Office of Hearings and ADR
Three Empire State Plaza
Albany, New York 12223-1350

RE: Case 02-G-0003 – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Corning Natural Gas Corporation for Gas Service.

Dear Judge Bouteiller:

On August 26, 2002, Staff of the Department of Public Service (Staff) and Corning Natural Gas Corporation (the company) (Signatory Parties) entered into a Joint Proposal (JP) covering gas rates and service for the period January 1, 2003 through December 31, 2005. The Signatory Parties, upon review of the JP and consultation, believe that the JP requires further clarification on excess earnings, including a sample calculation, and revenues produced by the hypothetical capital structure.

Enclosed please find the Signatory Parties' agreement on "Clarifications to the Joint Proposal" (Clarifications Agreement). The company executed the Clarifications Agreement by fax. The fax page containing the signature of the company's counsel is attached to the enclosure.

Staff is serving the active parties with the Clarifications Agreement by e-mail and US First Class Mail. If you have any questions please feel free to contact me.

Respectfully submitted,

Kimberly A. Harriman

Kimberly A. Harriman
Assistant Counsel

Enc.
cc: Active Party List

Clarifications to the Joint Proposal

Introduction

On August 26, 2002, Corning Natural Gas Corporation (Corning Gas or the Company) and Staff of the Department of Public Service (Staff) (Signatory Parties) filed a Joint Proposal (JP) covering gas rates and service for the period January 1, 2003 through December 31, 2005. Upon subsequent review of the document the Signatory Parties to the JP agree that further clarification is necessary and hereby submits the "Clarifications to the Joint Proposal" Agreement (Clarifications Agreement). The Clarifications Agreement clarifies certain aspects of the Excess Earnings calculation, includes an example of the calculation, and clarification on use of the additional revenues produced by the hypothetical capital structure. Upon execution, the Clarification Agreement shall become a binding part of the JP filed on August 26, 2002.

Excess Earnings

The excess earnings methodology utilized for calculating the return on common equity achieved by Corning Gas for determining whether the threshold for sharing has been reached should utilize the company's actual regulated capital structure, net operating income derived on a ratemaking basis (including amortization of pension and OPEB overcollection, etc.) and a rate base component derived on a rate making basis. (See Example Attached Hereto).

The excess earnings calculation will be performed annually with all over earnings being deferred with the associated accumulated deferred federal and state income taxes. The excess earnings calculation reconciliation will occur at the conclusion of the three-year term of the joint proposal. The excess earnings reconciliation provides that the company may offset over earning years with under earning years so that the cumulative achieved return on common equity over the three year term of the joint proposal will determine the level of excess earnings. The foregoing is solely for the purpose of determining any excess earnings, not for determination of the Company's failure to reach the floor return of 5.5% referenced in the final sentence of Section VIII.A. of the JP.

Additional Revenues - Hypothetical Capital Structure

Corning Gas is being allowed earnings based on a hypothetical capital structure, which yields additional revenues of $174,124. These additional revenues are to be deferred annually with the associated federal and state income tax effect, for potential recognition to income. If Corning Gas works toward financial integrity, as described in the JP, it will be allowed to record the $174,124, net of the associated federal and state income tax effects, as revenues. This allows the company to increase its earnings by recording the net of tax amount in appropriated retained earnings. The additional revenues net of the federal and state income tax effects will remain in the appropriated retained earnings account until an actual regulated common equity ratio of 30% is achieved.

Beginning January 1, 2006, Corning Gas will continue deferral of the $174,124 additional revenues with the associated federal and state income taxes until it is granted Commission authority for new gas rates. The disposition of any recorded deferred revenues commencing January 1, 2006 and the associated accumulated deferred federal and state income taxes will be determined in a future proceeding.

Conclusion

The Clarifications Agreement is being executed in counterpart originals, and shall be binding on each Signatory Party when the counterparts have been executed.

[signature], Counsel

for Corning Natural Gas Corporation

Staff of the Department of Public Service

Dated: October 25, 2002

determining any excess earnings, not for determination of the Company's failure to reach the floor return of 5.5% referenced in the final sentence of Section VIII.A. of the JP.

Additional Revenues - Hypothetical Capital Structure

Corning Gas is being allowed earnings based on a hypothetical capital structure, which yields additional revenues of $174,124. These additional revenues are to be deferred annually with the associated federal and state income tax effect, for potential recognition to income. If Corning Gas works toward financial integrity, as described in the JP, it will be allowed to record the $174,124, net of the associated federal and state income tax effects, as revenues. This allows the company to increase its earnings by recording the net of tax amount in appropriated retained earnings. The additional revenues net of the federal and state income tax effects will remain in the appropriated retained earnings account until an actual regulated common equity ratio of 30% is achieved.

Beginning January 1, 2006, Corning Gas will continue deferral of the $174,124 additional revenues with the associated federal and state income taxes until it is granted Commission authority for new gas rates. The disposition of any recorded deferred revenues commencing January 1, 2006 and the associated accumulated deferred federal and state income taxes will be determined in a future proceeding.

Conclusion

The Clarifications Agreement is being executed in counterpart originals, and shall be binding on each Signatory Party when the counterparts have been executed.

____________________	Kimberly A. Harriman Asst. Counsel
Corning Natural Gas Corporation	Staff of the Department of Public Service
Dated: October 25, 2002	Dated: October 30, 2002

Corning Natural Gas
Excess Earnings Example

Net Operating Income, per books	1,100,000
Amortization of Pension/OPEB Overcollection, net of FIT	132,000
Adjusted Net Operating Income	1,232,000
Rate Base, per books	14,200,000
Overcollection of Pension/OPEB, net of deferred tax	(330,000)
Adjusted Rate Base	13,870,000
Rate of Return	8.88%

Actual Capital Structure				
Debt	10,510,000	75.78	8.00	6.06
Deferred Comp.	39,000	0.28	6.00	0.02
Customer Deposits	229,000	1.65	4.70	0.08
Common Equity	3,092,000	22.29	12.20	2.72
Total	13,870,000	100.00		8.88

	Equity	Rate of Return
Calculated Return on Common Equity	12.20%	2.72%
Threshold Return on Common Equity	11.50%	2.56%
Excess Return	0.70%	0.16%

Rate Base	13,870,000
Excess Earnings Factor	0.16%
Excess Earnings, post tax	22,192
Gross-up for FIT, SIT, and GRT (.66/.925/.95 =0.751)	16,666
Excess Earnings, pre tax	38,858

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LAWRENCE G. MALONE
General Counsel

JANET HAND DEIXLER
Secretary

September 17, 2002

Hon. Janet Hand Deixler
Secretary
New York State Public Service Commission
Three Empire State Plaza
Albany, New York 12223-1350

Hon. William Bouteiller
New York State Department of
Public Service
3 Empire State Plaza
Albany, New York 12223-1350

Re: Case 02-G-0003 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Corning Natural Gas Corporation for Gas Service.

Dear Secretary Deixler and Judge Bouteiller:

It has come to our attention that Appendix D of the Joint Proposal between Corning Natural Gas Corporation and Staff in the above-referenced proceeding reflects an error on pages D-3 and D-4. The second paragraphs under sections (2) and (3) were reversed. We have discussed this error with Corning's counsel. Please find attached an original and five copies of the revised pages D-3 and D-4.

Sincerely,

Steven J. Kramer
Assistant Counsel

Enclosures
cc: Active Parties to Case 02-G-0003

2. Replace Bare Steel Service Lines

Under the Commission's order in Case 00-G-0354,[1] Corning was directed to replace 150 unprotected bare steel services by rate year-end. Corning failed to comply with the Rate Order and did not meet this performance measure. Although Corning failed to meet this measure, Staff recommends the company be required to continue efforts to replace the 150 bare steel service lines. Bare steel service lines are prone to deterioration and are a major source of reported gas leaks. Leaks from bare steel service lines also present risks to both customers and the general public. The replacement level of 150 bare steel services will improve gas safety overall by further reduction of these facilities.

Corning shall replace a minimum of 150 unprotected bare steel service lines each rate year. Failure to eliminate a minimum of 150 bare steel services in any rate year shall result in an assessment of four (4) basis points.

3. Evaluate and Add Cathodic Protection to Coated Unprotected Steel Pipes Where Feasible

Corning identifies 38 miles of unprotected-coated steel mains remaining in its inventory. Coated pipe is generally more resistant to corrosion than bare pipe. Corrosion can and does occur on unprotected, localized areas where coating defects occur. Cathodic protection is a process of protecting coated gas pipelines against corrosion through the application of electric current. This increases the level of safety and reliability of the distribution system by retarding or eliminating localized corrosion and potential gas leaks. The addition of cathodic protection will also benefit the company as the life of these facilities will be extended and will defer the potential need for more immediate and expensive facility repairs or replacements.

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[1] Case 00-G-0354, Proceeding on motion of the Commission as to the Rates, Charges, Rules and Regulations of Corning Natural Gas Corp. for Gas Service (issued February 12, 2001) (Rate Order).

In each rate year, Corning shall evaluate at least eight (8) miles of this pipe and take measures to cathodically protect segments identified by the evaluation as economically feasible. Failure to evaluate and document the results for at least eight miles of coated unprotected pipe in any rate year shall result in an assessment of two (2) basis points. Failure to implement measures to cathodically protect those sections identified in the evaluation in any rate year shall result in an assessment of two (2) basis points.

4. Reduce Outstanding Un-Repaired Leak Backlog

Leaks are categorized by severity, location, and are classified as Types 1,2 2A and 3. Type 3 leaks are not considered hazardous and only monitoring is required. The other types of leaks are considered higher in risk potential and require surveillance and repair in accordance with the Commission's pipeline safety code in 16 NYCRR 255.805. In addition, Staff also utilizes the backlog of leaks scheduled for repair as a measure to assess a company's leak repair efforts.

Corning shall limit the number of outstanding repairable leaks (Types 1, 2 and 2A) to 10 or less as of December 31 of each calendar year wholly or partially included in the period covered by the rate case. Corning's failure to meet this target for any year shall result in an assessment of six (6) basis points.

5. Develop and Implement a Quality Assurance Program

Corning presently does not utilize any type of formalized Quality Assurance (QA) program to ensure its operations are performed in accordance with either pipeline safety codes or company procedures. A well-designed and implemented QA program provides oversight assurance for improving safety and system reliability by monitoring construction and maintenance activities for procedural compliance. The company is required to establish a QA program with the following components:

- a documented program which encompasses the tasks of evaluating, documenting and assessing how the company's work activities, with respect to quality control, are being implemented.

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PUBLIC SERVICE COMMISSION

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NEAL N. GALVIN

LAWRENCE G. MALONE
General Counsel

JANET HAND DEIXLER
Secretary

September 4, 2002

Hon. Janet Hand Deixler
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New York State Public Service Commission
Three Empire State Plaza
Albany, New York 12223-1350

Hon. William Bouteiller
New York State Department of
Public Service
3 Empire State Plaza
Albany, New York 12223-1350

Re: Case 02-G-0003 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Corning Natural Gas Corporation for Gas Service.

Dear Secretary Deixler and Judge Bouteiller:

Please find enclosed a replacement page (Customer Impact Page 3 of 5) to the Joint Proposal filed in the above-referenced case on August 26, 2002. The original Joint Proposal, Appendix A, Schedule F, Customer Impact, Page 3 of 5, had incorrectly listed Bath SC 2 Hammondsport-Sales for Resale in the place of Bath SC 3 Transportation For Resale. Please note that the attached version corrects this error.

The Active Parties are being served by U.S. First Class mail. Staff of the Department of Public Service contacted the representative of Bath Electric, Gas & Water Systems to explain and correct the error, as it pertains to the service classification for Corning's service to the Bath territory.

Please feel free to contact me if you have any questions.

Sincerely,

Kimberly A. Harriman

Kimberly A. Harriman
Assistant Counsel

Enclosure

cc: Active Parties to Case 02-G-0003

CORNING NATURAL GAS CORPORATION
IMPACT OF RATE INCREASE BY SERVICE CLASS - JOINT PROPOSAL VS ORIGINAL REQUEST

		RATE INCREASE ORIGINAL REQUEST ($000)		RATE INCREASE JOINT PROPOSAL ($000)	
CORNING					
SC 1	GENERAL	$ 946	8.5%	$ 467	4.2%
SC 14	AGGREGATION	$ 468	37.0%	$ 238	18.8%
SC 6	TRANSPORTATION	$ 3	0.9%	$ 3	0.9%
SC 2	FIRM INDUSTRIAL SALES	$ 19	17.9%	$ 7	6.6%
SC 7	INDUSTRIAL TRANSPORTATION	$ 216	32.0%	$ 89	13.2%
BATH					
SC 1	FIRM SALES FOR RESALE	$ 44	2.4%	$ 26	1.4%
SC 2	HAMMONDSPORT - SALES FOR RESALE	$ -		$ -	
SC 3	TRANSPORTATION FOR RESALE	$ 21	24.7%	$ 12	14.1%
SC 4	HAMMONDSPORT - TRANSPORTATION	$ 14	29.8%	$ 8	17.0%
HAMMONDSPORT					
SC 1	RESIDENTIAL	$ 13	4.9%	$ 12	4.5%
SC 7	AGGREGATION	$ 1	14.4%	$ 1	14.4%
SC 2	COMMERCIAL	$ 9	3.9%	$ 7	3.0%
SC 4	TRANSPORTATION	$ 5	5.5%	$ 5	5.5%
TOTAL		$ 1,759	8.0%	$ 875	4.0%

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

CASE 02-G-0003 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Corning Natural Gas Corporation for Gas Service.

JOINT PROPOSAL TO
NEW YORK STATE PUBLIC SERVICE COMMISSION

Between

Corning Natural Gas Corporation

and

New York State Department of Public Service Staff

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I. BACKGROUND

On December 31, 2001, Corning Natural Gas Corporation (Corning Gas or the Company) filed with the New York State Public Service Commission (Commission) a Gas Multi-year Rate Plan and a separate Restructuring Proposal (Proposal). In the Rate Plan Proposal, Corning Gas proposed a three-year rate plan with a revenue requirement increase of approximately $1.8 million in the first year (ending December 31, 2003) and a rate freeze for two additional rate years (ending December 31, 2004) and (ending December 31, 2005). In the Rate Plan proposal, Corning Gas made numerous accounting and rate change proposals and cost of service adjustments.

In accordance with Commission rules, all parties to this proceeding were notified in writing of the pendency of negotiations, prior to their commencement, and notice of the impending negotiations was duly filed with the Secretary of the Commission by letter dated February 14, 2002.

Negotiations took place over the next several months, but failed to produce an agreement between the parties. On June 7, 2002, Staff of the Department of Public Service (Staff) filed testimony in the proceeding on both the rate and restructuring proposals of Corning Gas. Corning Gas submitted rebuttal testimony on June 28, 2002. The parties, with the help of a mediator from the Department’s Office of Hearings and Alternative Dispute Resolution, reconvened negotiations on July 22, 2002. An agreement in principle was reached between Corning Gas and Staff on July 25, 2002. The Signatory Parties (Corning Gas and Staff) believe that this Joint Proposal (JP) will further the objectives of the Commission, giving fair consideration to the interests of customers and shareholders alike in assuring the provision of safe and adequate service at just and reasonable rates.

II. OVERVIEW OF THE JP

This JP covers Corning Gas’ gas rates and service for the period January 1, 2003 through December 31, 2005. It results in a gas revenue requirement increase of $874,518 for the first year and freezes the resulting delivery service rates for the second and third years of the JP.

This JP establishes certain cost allocations between utility and non-utility business operations for the Corning Corporation (Corporation), that includes the regulated gas utility and the Appliance Company, which also owns several non-utility subsidiaries.[1] The JP also includes details, timing and cost recovery for an allocation study to be performed to specify the proper cost allocations between the utility and non-utility business functions.

This JP provides a mechanism for strengthening the financial health of the Company. Economic hard times in its service territory, as well as the Company's payment of a large portion of earnings to shareholders through dividends over the last several years, have greatly deteriorated the Company's equity ratio, making acceptable coverage of its interest expense problematic. Corning Gas is dangerously close to an inability to procure institutional financing. The JP includes a financially stronger hypothetical capital structure for the Company as well as several provisions that the Company shall implement to aid it in achieving a healthy financial position.

Additionally, the JP resolves several issues concerning the deferral and amortization of certain balance sheet credits and debits. The JP also addresses issues related to the gas supply function, including capacity asset management. The issues

[1] Corning Corporation owns a 100% interest of Corning Natural Gas Appliance Corporation. Corning Natural Gas Appliance Corporation, in turn owns 100% of the following entities: Corning Realty Associates, LLC, Foodmart Plaza, LLC, Tax Center International, LLC, and Corning Mortgage, LLC (the business activities of Corning Mortgage, LLC are conducted through two joint ventures with an unrelated entity).

associated with the restructuring proposal of the Company will be addressed separate from this JP.

III. DEFINITIONS

1. “First Rate Year” means the twelve months ending December 31, 2003.

2. “Second Rate Year” means the twelve months ending December 31, 2004

3. “Third Rate Year” means the twelve months ending December 31, 2005.

4. “Corning Gas” means the regulated utility gas business.

5. “Corning Corporation” means the total corporation that provides natural gas utility services and, which owns the non-utility Appliance Company that in turn owns unregulated non-utility subsidiaries.

6. “Gas Delivery Service Rates” means all services associated with moving gas across its distribution system.

7. “Prior Rate Plan” means the Corning Gas rate plan established in Case 00-G-0354.

8. “General Allocator” means the factor used to allocate costs between utility and non-utility when there exists no direct basis for allocation.

IV. GENERAL PROVISIONS

1. It is understood that each provision of this JP is in consideration and support of all the other provisions and each provision is expressly conditioned upon acceptance by the Commission of this JP in its entirety without change. If the

Commission fails to adopt this JP according to its terms without change, then the parties to the JP shall be free to pursue their respective positions in this proceeding without prejudice.

2. The terms and conditions of the JP apply solely to, and are binding on each Signatory Party only in the context of, the purposes and results of this JP. None of the terms and provisions of this JP, nor any methodology or principle utilized herein, and none of the positions taken herein by any Signatory Party may be referred to, cited or relied upon by any other Signatory Party in any fashion as precedent or in any other proceedings before the Commission, or any other regulatory agency, or before any court of law for any purpose except in furtherance of the purposes and results of the JP.

3. The Signatory Parties recognize that certain provisions of this JP require that actions be taken in the future to effectuate fully this JP. Accordingly, the Signatory Parties agree to cooperate with each other in good faith in taking such actions.

4. The Signatory Parties agree that Corning Gas will file tariffs in a manner consistent with the terms of this JP.

5. In the event of any disagreement over the interpretation of this JP or the implementation of any of the provisions of this JP, which cannot be resolved informally among

the parties, such disagreement shall be resolved as follows: the parties promptly shall confer and in good faith shall attempt to resolve such disagreement. If any such disagreement cannot be resolved by the parties within fifteen (15) business days from notification to a Signatory Party or a longer period if agreed to by the Signatory Parties, the matter shall be submitted to an Administrative Law Judge (ALJ) designated by the Chief ALJ for a determination on an expedited basis using alternative dispute resolution techniques or such other procedures as the ALJ decides are appropriate under the circumstances. Within fifteen (15) days from the ALJ’s decision, any party may petition the Commission for relief from the ALJ’s determination on the disputed matter.

6. This JP is being executed in counterpart originals, and shall be binding on each Signatory Party when the counterparts have been executed.

7. The term of this JP (and the effectiveness of all of its provisions) is from January 1, 2003 through December 31, 2005.

8. Except for notices or filings to the Department of Public Service for which a recipient is otherwise specified in this JP, all communications provided for herein or with reference to this JP shall be deemed to have been sufficiently

given or served for all purposes if sent by overnight courier service, by hand or by facsimile, to the following addresses:

If to the Company:

Corning Natural Gas Corporation
330 West William Street
Corning, New York 14830
Attn: K. James Robinson, Executive VP

Rich May, A Professional Corporation
176 Federal Street
Boston, MA 02110
Attn: Eric Krathwohl, Esq.

If to Staff:

Secretary Janet Deixler
NYS Department of Public Service
Three Empire State Plaza
Albany, NY 12223-1350

Kimberly A. Harriman, Esq.
NYS Department of Public Service
Three Empire State Plaza
Albany, NY 12223-1350

or such other addresses as the parties may designate from time to time by notice given in accordance with the foregoing.

V. RATE PLAN

A. Revenue Requirement

The Signatory Parties have agreed upon revenue and expense levels to be allowed as the basis for calculating revenue requirement. The revenue requirement established pursuant to this JP involves several principles such as utility/non-utility cost allocation, deferral of ratepayer debits and credits, and use of a hypothetical capital structure to strengthen the Company's financial position, all of which will be discussed more fully below.

The JP utilizes the Company's original rate filing of a revenue increase of approximately $1.8 million as a starting basis with several adjustments made by Staff, which are contained in Appendix A, Schedule A and B. The following is a description of some of the adjustments to the Company's initial filing and are requirements of this JP.

1. <u>Operating Revenues</u>

The Signatory Parties agree that the Company's initial filing estimating revenues of $22,005,708 shall be increased by $28,163. This adjustment is made to include the revenues associated with the minimum charge for Service Classification No. 2 – Large Industrial Firm Sales Service. (PSC No. 1).

2. <u>Operating Expenses</u>

An Operating Expense of $22,023,183, after correction, was filed in the rate proposal. The Signatory Parties agree to adjust the operating expenses by ($633,724). Certain adjustments were made to achieve this figure. Those adjustments, coupled with the rationale for the adjustments, are described more fully below.

a) Purchased Gas:

An adjustment of $17,182 was made to Purchased Gas, increasing the figure in the Rate Plan proposal to $15,142,580. As discussed in the adjustment made to Operating Revenues, a corresponding adjustment of $17,182 must also be made to Purchased Gas to reflect the increase in sales to Service Classification No. 2 – Large Industrial Firm Sales Service customers. (PSC No. 1)

b) Payroll:

The issue of allocating costs between the utility and non-utility business operations of Corning Corporation remains a contentious issue between the Company and Staff. In moving forward with a proposal the Signatory Parties reached a compromise on the allocation of the cost of the managerial payroll between utility and non-utility business functions that will be applied for the term of this JP. The changes to Payroll related expenses that stem from the revisions to payroll expense are: Health Insurance ($121,370), Life Insurance ($4,463) and Deferred Compensation Plan ($22,973). Additionally, Staff eliminated an accounting position requested by the Company and limited the combined forecast salary increase for employees to 3.5%. This revision in the allocation of managerial time to non-utility business functions and additional adjustments to payroll results in a net change to payroll expense of ($145,876).

c) Transportation Equipment Costs

The Signatory Parties agree to an adjustment of($2,351). In its original filing, the Company included certain insurance costs in Transportation Equipment Expense. These costs were also included in Prepaid Insurance expense.

d) Pre-Paid Insurance

The Signatory Parties agree to amend the Pre-Paid Insurance costs by $15,705. This reflects the application of Staff’s allocation of various insurance costs and an update of the latest known insurance premiums.

e) Pension & Post Retirement Benefits

The Parties have agreed to adjust the Pension expense by ($73,273) and Post Retirement Benefits expense (OPEBs) by ($126,442). Corning Gas, as of January 2001, amassed an overcollection of Pension and OPEB Expenses of roughly $758,000. Corning Gas applied this overcollection credit to offset the rate reduction agreed to in Case 00-G-0354. The Signatory Parties agree that $600,000 of Pension and OPEB expense overcollections shall be used, for ratemaking purposes, as an offset against the forecasted undercollection of Pension expense of $490,422 over the term of the JP and as more thoroughly defined in Section VII of the JP. Therefore, the Pension expense submitted by the Company in its original filing of $367,829 will be reduced by a corresponding credit of ($73,273), likewise, the OPEB Expense filed by the Company of $56,411 will be offset by ($126,442), leaving a credit of ($70,031) annually.

f) Inflation Based Expenses

Inflation Based Expenses track a set of Operation and Maintenance (O&M) costs that are not previously individually adjusted and, for the purposes of this agreement, are not easily distinguishable between utility and non-utility business functions. The Signatory Parties agree that the General Allocator of 27.06% shall be applied to the pool of Inflation Based Expenses after the removal of Director Fees.

g) Computer Lease

The costs associated with computer leases for Corning Corporation will be derived through the application of the General Allocator. By applying a General Allocation of 27.06% the Signature Parties agree to adjust this expense to the Company's filing by ($1,509).

h) Rate Case Expense

In the Company's initial filing rate case expense was estimated at $120,000. However, during the course of the procedural process, the Company updated this cost to $260,000. The Signatory Parties agree that since principle issues in the proceeding concern utility/non-utility allocations and other corporate actions, Corning Gas is limited to actual incurred current rate case expense not to exceed $200,000. Additionally, $10,848 remains in rate case expense from the previous rate case. The Company shall recover these expenses over the three-year term of this agreement. Therefore, an adjustment of $26,667 is made to the Company's initial filing for rate case expense.

i) Directors Fees

The Company's filing provided for no allocation of Corning Corporation Directors Fees to non-utility business functions (Appliance Company Directors' Fees were directly assigned in total to non-utility operations). The Signatory Parties agree to a downward adjustment of ($2,435) to Corning Corporation Directors' Fees to reflect non-utility interests.

j) Productivity Adjustment

The Company's original filing did not contain a productivity adjustment. Staff proposed a 2% productivity adjustment. The Signatory Parties agree to a 1% productivity adjustment of ($29,428).

k) Depreciation Expense

The Signatory Parties agree to a depreciation expenses adjustment of ($11,577). This adjustment reflects the effect on Depreciation Expense resulting from the net plant allocation adjustment discussed further in Section VI of the JP.

3. Taxes other than FIT

a) Revenue Taxes

An adjustment of ($88,372) was made to the Company's initial filing to reflect revised Company schedules.

b) Payroll Taxes

An adjustment of ($11,160) was made to the Company's presentation of Payroll taxes to track the adjustments to Payroll expense.

c) Excess Dividend

The Company included Excess Dividends Taxes in its calculation of Taxes Other Than Income Tax. Staff's adjustment of ($10,797) reflects the elimination of this tax as part of the budget process of 2000. This tax was eliminated as of January 1, 2000.

4. Exercise of Commission Authority

Nothing in this JP shall prohibit the Commission (upon its own motion or upon motion of a Signatory Party) from exercising its ongoing statutory authority to act on the level of Corning Gas' rates (upward or downward) in the event of unforeseen circumstances that, in the Commission's judgment, have such a substantial impact on the rate of return as to render the return on the common equity devoted to Corning Gas' operations unreasonable, unnecessary, or inadequate for the provision of safe and adequate service.

VI. ALLOCATIONS

One of the most contentious issues that Staff and the Company have negotiated concerns the allocation of costs between the utility and non-utility business functions of Corning Gas and the Appliance Corporation and its subsidiaries. There are three components to the allocation issue: the allocation of managerial time to non-utility functions, and the resulting impacts on payroll and payroll related expenses; the allocation of costs associated with net plant; and the derivation and application of the General Allocator to costs that are not directly assignable to utility or non-utility business functions.

The Signatory Parties agree that Corning Gas will allocate a certain percentage of managerial time to the non-utility business functions of Corning Corporation. The following is a list of managers and the time that Corning Gas and Corning Corporation are to allocate to non-utility business functions:

A.	Tom Roye	20%
B.	Russ Miller	0%
C.	Gary Earley	20%
D.	Jim Robinson	33%
E.	Tom Barry	35%
F.	Phyllis Groeger	22%
G.	James Davis	60%
H.	Rick Thompson	52%
I.	Deborah Beer	9%

The allocation of the managerial time for the above-listed employees impacts payroll and payroll expense as addressed in Section V of the JP. The impact of this adjustment is contained in Appendix A, Schedule C.

The Signatory Parties agree to use the allocation of costs associated with Net Plant as proposed by Staff. Appendix A, Schedule D, details the manner in which net plant costs should be allocated to the utility and non-utility business functions for the term of the JP.

A General Allocator of 22.88% was originally proposed by the Company. After extensive negotiations on the cost allocation issue, the Signatory Parties agree to use a 27.06% General Allocator. The General Allocator of 27.06% applies to a variety of costs that are cannot be directly assigned to the utility. Appendix A, Schedule D, details the General Allocator calculation. Corning Gas agrees to record and book all allocations as agreed to herein for the term of the JP.

The Signatory Parties, in reaching agreement on the three components of the Cost Allocation issue, agree that further study needs to be conducted on the issue of allocations. Specifically, the issue of properly allocating managerial time is at the heart of the dispute. The Signatory Parties agree that an independent entity shall be hired to perform a Cost Allocation Study, (Study) for which the study time period shall be approximately six months in duration. This Cost Study shall focus on the time spent on utility and non-utility business functions by managerial staff listed in Section IV of the JP. Additionally, the Study shall factor in the level of responsibility corresponding to each manager's job title for both utility and non-utility business functions. The Signatory Parties agree to meet collaboratively to discuss the requirements for contracting an independent entity to perform the Study.

The cost, both for consultants to perform the study and for reasonable company expenses in connection with the Study, for the Cost Allocations Study may not exceed $100,000. If Corning Gas, with Staff's assistance, is unable to procure an independent entity to perform the Cost Allocations Study for a total cost as noted above, then the Signatory Parties shall reconvene within thirty (30) days to discuss alternatives. If the Signatory Parties fail to reach an alternate solution in this event, the alternative dispute resolution procedures in Section IV of the JP shall be implemented.

Upon completion of the Cost Allocations Study, the Signatory Parties agree to meet within thirty (30) days collaboratively about the results of the Cost Allocations Study and to agree collectively on the final outcome of the Cost Allocations Study and its future implementation. Failure to reach agreement on the results of the Cost Allocations Study through informal negotiations will trigger the dispute resolution provisions of the JP.

Because the Signatory Parties share the goal of improving the Company's finances, the parties agree that the Company may defer in utility rates, in future anticipation of recovery, the cost of the Cost Allocations Study, including reasonable and related incremental costs of the Company.

VII. AMORTIZATIONS AND DEFERRALS

No deferrals and amortizations will be allowed during the term of the Rate Plan except as allowed by Commission Policy, as permitted by separate Commission action or as set forth in this JP. Amortizations will occur for the following items:

1. Corning Gas was previously granted permission by the Commission to defer on its books $233,960 of interest expense associated with the purchase of natural gas during the 2001 fiscal year and $30,000 of expense associated with an increase in uncollectable accounts. Rate case expense, as discussed in Section V of the JP is $210,849. Corning Gas shall amortize these costs over the three-year period of this JP. Once the amortization of interest expense, uncollectible expense and rate case expense are completed, Corning Gas shall defer the associated revenues and related federal and State income tax

effects. The disposition of these deferred credits will be addressed in a future proceeding.

2. Pension and OPEB

As of January 2001, approximately $758,000 of Pension and OPEB expense overcollections have been accumulated. Corning Gas has amortized $600,000 of these overcollections in order to mitigate a rate reduction in Case 00-G-0354 (2000 rate reduction). The Signatory Parties agree that $600,000 of the overcollection credits shall be used, for ratemaking purposes, to offset the current undercollection of Pension expenses. Corning Gas will cease amortizing the overcollection credits of Pension and OPEB expenses to offset the 2000 rate reduction prior to November 30, 2002. The remaining overcollection credit of $130,365 for OPEB expenses and $28,001 for Pension expenses are not to be amortized. These overcollection credits will be addressed in a future proceeding. Therefore, Corning Gas shall, for ratemaking purposes, amortize $200,000 of overcollection credits annually against the undercollection of Pension expenses. If new rates are not established as of January 1, 2006, the Company shall book a credit to expense equal to the amount of the previously discussed $200,000 annual amortization until such time as new rates are established.

Because the overcollection amount of $600,000 has already been amortized on Corning Gas' books for the period February

2001 to November 2002 it shall not be entitled to deferral for later recovery of the $200,000 annual offset to the undercollection of Pension expense for the period of January 1, 2003 through December 31, 2005.

Corning Gas estimates that there is an undercollection for Pension expenses of $490,4222 and Corning Gas shall amortize, for ratemaking purposes, both the Pension and OPEB overcollections as described herein, over the term of this JP.

3. Legislative, Regulatory and Related Actions

To the extent that new mandatory regulatory, legislative or accounting changes or tax law changes, not specifically addressed herein (including income, gross receipts tax, or other state or federal tax expense, but excluding local real property tax) become effective during the Rate Period covered by this JP, the revenue requirement impacts of each specific change will be quantified separately and, to the extent that each separate item exceeds 5% of gas pre-tax utility income for the year in which the change first occurs, it shall be deferred, with interest accruing at the unadjusted customers deposit rate in a manner to be determined by the Commission. This provision shall not prohibit refund or recovery of the revenue requirement impacts of such changes to the extent expressly authorized by applicable law.

4. Generic Policy Case Actions

To the extent that mandatory changes not specifically addressed herein due to generic policy decisions of the Commission become effective during the Rate Period covered by this JP, the revenue requirement impacts of each specific change will be quantified separately and, to the extent that each separate item exceeds 5% of gas pre-tax utility income annually, it shall be deferred, with interest accruing at the unadjusted customer deposit rate, for refund to or recovery from customers in a manner to be determined by the Commission. The same treatment shall be afforded non-mandatory changes adopted by Corning Gas as a result of generic policy decisions of the Commission. Consistent with the foregoing, the parties recognize that generic policy decisions of the Commission will be applicable to Corning Gas according to their terms unless stayed by the Commission or a court or provided otherwise by the Commission) during the Rate Period.

VIII. RATE OF RETURN AND CAPITAL STRUCTURE

As discussed below, Corning Gas is faced with a situation of increasing urgency as its financial condition has greatly deteriorated over the last several years. Its highly leveraged capital structure has drawn the attention of its lending institution. Corning Gas' bank is making financing terms more onerous and has indicated that if Corning Gas' financial circumstances do not improve, then the bank may not be willing to continue providing Corning Gas with additional financing. The Company can increase its equity ratio by increasing revenues, lowering costs, or accessing the equity market. This agreement provides the Company incentives to proceed on all three fronts.

A. Rate of Return

The Signatory Parties agree that the return on equity for Corning Gas shall be 10.5%. Because of the financial need to increase retained earnings, and thereby its equity ratio, Corning Gas is permitted to retain all the earnings that provide a return on equity of between 10.5% and 11.5% to be used to help increase retained earnings. Corning Gas is required to share 50% customer 50% Company any earnings above a return on equity of 11.5%. Additionally, because building up Corning Gas' retained earnings is so critical to its financial recovery, Corning Gas shall file a detailed excess earnings calculation with the Director of the Office of Accounting and Finance forty-five (45) days after the conclusion of each rate year of this JP. If the Company's actual experienced rate of return on equity falls below 5.5%, Corning Gas is permitted to petition the Commission for relief.

B. Hypothetical Capital Structure

As discussed above, the financial health of Corning Gas is important. Corning Gas currently is too leveraged to be a good credit risk. While comparable average utility businesses enjoy a 40% equity ratio, Corning Gas is presently at a 20% equity ratio. At this equity ratio it can be difficult to procure financing from lending institutions. Without ongoing financing Corning Gas' ability to provide high quality natural gas service to its customers will be adversely affected. Moreover, without financing Corning Gas' financial health could deteriorate into a financial crisis.

Therefore, the Signatory Parties agree that, to be financially stronger, Corning Gas shall be allowed earning based upon a hypothetical capital structure, with a debt equity ratio of 70% debt 30% equity, Appendix A, Schedule E. By using a hypothetical capital structure instead of its actual capital structure, Corning Gas shall receive, contained in the rate increase discussed in Section II of the JP, an amount of $174,124 of additional revenues to be deferred by Corning Gas annually with the associated federal and State income tax effects, for potential recognition to income. If Corning Gas works towards financial integrity by taking the steps described below, it will be allowed to record the $174,124 as revenues and the associated federal and State income tax effects, thus increasing its retained earnings and reducing its leverage. Corning Gas, however, is free to pursue actions, other than the ones listed below, to improve its financial health. Use of the hypothetical capital structure for ratemaking purposes is solely premised upon several Company actions:

1. Corning Gas shall in good faith endeavor to issue $1.5 million of common stock at such time Corning Gas reasonably determines favorable market conditions for issuance at a reasonable price exists, and shall consult with Staff on its progress to issue the stock at the 6-month, 18-month and 30-month point following implementation of the JP.

2. Corning Gas and Corning Corporation will not issue cash dividends or buy back stock, thereby reducing its retained earnings and negatively impacting its equity ratio, until its actual regulated capital structure supports an equity ratio of 70% debt-30% equity. If Corning Gas believes that it has reached an actual regulated capital structure of 70% debt-30% equity and plans to issue cash dividends or repurchase stock, it must notify the Director of the Office of Accounting and Finance and provide ten (10) business days for Staff to reply to the Company’s position. If Staff and Corning Gas disagree as to the actual debt-equity ratio of the Company, Corning Gas must further refrain from issuing cash dividends and/or repurchasing

stock for twenty (20) business days after it notifies the Director of Accounting and Finance.

3. Because Corning Gas is receiving a rate increase, derived in part from the artificial capital structure, the officers will be held to a combined annual salary increase, including bonuses, of 3.5% of the previous year's salary and bonus during the terms of the JP. The 3.5% limit shall be calculated on an aggregate basis for all officers, so if the total salary and bonus for year one for the group of officers were $100,000, the year two salary and bonus amount could be up to $103,500. Notwithstanding the foregoing, bonuses to be paid out of earnings of the Appliance Corporation or its subsidiaries, which have already been approved by the Board of Directors, may be paid according to their terms. The payment of bonuses, however, by the Appliance Corporation or any of its subsidiaries shall not be included in meeting the allocations of cost to non-utility business functions.

4. Corning Gas is not permitted to record the $174,124 to revenues until it reaches several milestones in working towards strengthening its financial position. The $174,124 shall be deferred annually by Corning Gas until it demonstrates that actual average common equity has increased to the forecasted average balance of $2,906,190 in rate year one, $3,533,788 in rate year two, and $3,783,386 in rate year three. Appendix A,

Schedule E, page 6. These amounts are predicated upon the issuance of $1.5 million in common stock. If the annual average actual common equity balances are not achieved due to circumstances beyond the Company's control, such as the inability to issue $1.5 Million in common stock, the threshold for booking the $174,124 of deferred revenues may be modified. Upon a demonstration by the Company that circumstances beyond its control prevent it from reaching the average actual common equity balances, as stated herein, Staff and the Company will meet to discuss the extent and scope of the modification to the actual average common equity balances. If Staff and the Company do not reach agreement on such modification within fifteen (15) business days after the Company's presentation as described above, than the matter shall be subject to the dispute resolution provisions contained herein.

5. Corning Gas will file the following quarterly reports (submitted 45 days following the end of the quarter) to the Director of the Office of Accounting and Finance:

a) The General Ledger detailing the activity for each account. The General Ledger will be cumulative from the beginning of each rate year and include balance sheet and income statement accounts.

b) A report on all long and short-term debt for both regulated and non-regulated entities of Corning Gas.

c) A report on common equity balances by component for both regulated and non-regulated activities.

d) A report detailing investment activity, including buying and selling a non-utility business, in non-utility activities by the Corning Corporation.

IX. REVENUE ALLOCATION AND RATE DESIGN

A. Allocation of Rate Increase

The Signatory Parties agree that the rate increase of $874,518 shall be allocated to all service classifications in Corning Gas' three operating areas, Corning (PSC No. 1), Bath (PSC No. 2), and Hammondsport (PSC No. 3).

The Signatory Parties further agree that most of the Company's service classes should be allocated the overall percentage increase (net of gas costs and taxes). However, certain classes should be afforded alternate treatment based on the guidance provided by the results of the embedded cost of service study (ECOS) filed by the Company.

Accordingly, the Signatory Parties agree to allocate larger increases (1.75 and 2 times the overall percentage increase, respectively) to the minimum charges of Service Classification No. 1 General (PSC No. 1 Corning) and Service Classification No. 1 Residential (PSC No. 3 Hammondsport). The results of the ECOS study indicate that the minimum charges of both these classes (as well as the equivalent aggregation service) recovered well under the minimum costs to serve including a portion of the main component.

The Signatory Parties also agree that the increases to the rates of Service Classification No. 6 Firm Transportation (PSC No. 1 Corning) and Service Classification No. 4 Firm Transportation (PSC No. 3 Hammondsport) should be limited to the increases proposed by the Company in the original filing. The results of the ECOS study indicated that both these classes are currently providing a class rate of return which exceeds the system wide return by three to four times.

The resulting rates and impacts of the proposed revenue allocation and rate design is shown in Appendix A, Schedule F. The impact of the proposed increase on a typical Corning residential heating customer is approximately 4.6% annually, and approximately 5.8% annually on a typical Hammondsport residential heating customer. The impact on Corning Gas' Service Classification No. 7, industrial transportation customers, is approximately 13.2%, net of gas costs and taxes.

B. Weather Normalization

Corning Gas shall modify its existing weather normalization clause by operating the clause during the months of October through May, instead of October through June. Further, this clause will only apply during that time period when actual degree-days vary from the normal degree-days by more than 2.2%, instead of 2% which is currently used by the Company.

X. GAS OPERATIONS

A. Lost and Unaccounted For Gas

The Signatory Parties agree that the Lost and Unaccounted For Gas Factor (LAUF), which reflects the amount of gas that a system loses or is unable to account for, for the Hammondsport system is 1.0083% and for the Bath system is 1.0000% for the term of the JP. The Signatory Parties agree, in recognition of the need to reduce system losses of gas, to a progressively declining LAUF for the Corning Gas system. Corning Gas shall apply a LAUF of 1.02041% effective September 1, 2002, 1.01833% effective September 1, 2003 and 1.01626% effective September 1, 2004, for the Corning system. Additionally, Corning Gas shall employ the methodology for calculating LAUF as set forth in Appendix C and adopt the changes to the rules and regulations regarding operation of the gas adjustment clause (GAC) established in the April 13, 1999 Memorandum and Resolution by the Commission revising 16 NYCRR §270.55 in Case 97-G1178.

B. Gas Capacity

The Signatory Parties agree that Corning Gas is holding 3 Mdt of excess Firm Transportation Capacity on the Dominion Pipeline. Corning shall make all efforts to release the excess capacity and shall be subject to an imputation of revenue from the sale of the excess capacity regardless of Corning Gas' success in making said sale.

For the period September 1, 2002 through August 31, 2003 an imputation of $200,000 shall be made at the time of the GAC reconciliation. For the periods of September 1, 2003 through August 1, 2004 and September 1, 2004 through August 31, 2005 an imputation of $250,000 shall be made at the time of each GAC reconciliation. For the period of September 1, 2005 through March 31, 2006 an imputation of $195,000 shall be made at the time of the GAC reconciliation. Appendix A, Schedule G.

To the extent Corning Gas is able to release additional capacity, in excess of the previously identified annual imputations, the Signatory Parties agree that the Company should be allowed to retain 15% of revenues achieved from release of capacity in excess of the annual imputations contained in Appendix A, Schedule G. Because a portion of Corning Gas' existing capacity portfolio relates to customers who migrated to transportation service after April 1, 1996 (post-aggregation), revenue from release of that specific capacity is not subject to sharing pursuant to previous Commission Policy[2]. Since it could

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[2] Cases 97-G-1380, et al., In the Matter of Issues Associated with the Future of the Natural Gas Industry and the Role of Local Gas Distribution Companies, Order Concerning Assignment of Capacity, at p. 3 (issued and effective March 24, 1999).

become arguable which specific capacity was released in order to meet the annual imputations and which was in excess, the Signatory Parties agree that Corning be granted waiver of the above noted Commission Policy on sharing for capacity release revenues for the term of this agreement.

The Signatory Parties also agree that Corning Gas will hire a consultant, in consultation with Staff and Bath Electric Gas & Water Systems, to assist it in its asset management and gas procurement functions, as described below and at a cost not greater than $30,000. The consultant's primary focus will be to evaluate the Company's current asset management and gas procurement functions, make recommendations for internal changes, and to assist in the training of Corning Gas personnel involved in these functions. The consultant will also be involved in making recommendations for future outsourcing of these functions, if deemed necessary. Corning Gas will be allowed to recoup fees up to but not exceeding $30,000 (on a one time basis) against its GAC imputation for the time period September 1, 2002 through August 31, 2003.

The Signatory Parties agree that ongoing communication between Staff and the Company on asset management and gas procurement issues is important. Therefore, Corning Gas agrees to continue to follow the Communication Protocol established in Case 00-G-0354 as modified in Appendix B.

C. Gas Safety

The Signatory Parties agree that gas safety is an important issue. To further Corning Gas’ efforts to maintain a safe system, Corning Gas agrees to follow the provisions of the Gas Safety Plan established in Appendix D.

In the first rate year, the Company shall develop a written Quality Assurance (QA) Program, acceptable to both Staff and Corning Gas that outlines the assessment standards and process and the reporting requirements. In the second rate year, Corning Gas shall implement the program and specify and complete a scheduled number of focused QA assessments. This time frame will be extended by the amount of time used in any mediation or deferral petition described below.

It is the intent of Corning Gas and Staff that the QA Program will not require significant additional financial or staffing resources, but is a formalization of Corning Gas’ present QA program. Should Corning Gas, after agreement on the details of the QA Program and prior to the implementation of the QA Program, find that the QA Program would result in it incurring incremental costs not provided for in this JP, Staff and Corning Gas shall meet to determine whether the QA Program may be modified to mitigate such incremental impacts. Any party may request mediation on this issue.

If Corning Gas and Staff cannot agree on modifications to the QA Program to mitigate incremental impacts, Corning Gas may petition the Commission for deferral of its incremental costs incurred in implementing the QA Program that are not provided for in this Joint Proposal. The QA Program will commence following the Signatory Parties’ agreement and/or approval of a deferral petition.

Corning Natural Gas Corporation

By:

Staff of the Department of Public Service

By:

August 26, 2002

APPENDIX A

APPENDIX A

SCHEDULE A

REVENUE REQUIREMENT

Corning Natural Gas Corp
Income Statement and Rate of Return Calculation
For the Rate Year ended November 30, 2003

	1	2	3	4	5	6	7	8
	Rate Year Per Company	Adj #	Filing Correction	As Corrected	Staff Adjustments	As Adjusted By Staff	Revenue Requirement	As Finally Adjusted
Operating Revenues	$22,005,708	5		$ 22,005,708	$28,163	$ 22,033,871	$874,518	$22,908,389
Operating Expenses								
Purchased Gas	15,125,398	7	0	15,125,398	17,182	15,142,580	0	15,142,580
Operating & Maintenance Expense	4,903,550	8-21	0	4,903,550	(617,372)	4,286,178	0	4,286,178
Depreciation Expense	532,224	6		532,224	(11,577)	520,647		520,647
Taxes Other Than FIT	1,550,383	1,30,31	(88,372)	1,462,011	(21,957)	1,440,054	43,953	1,484,007
Total Operating Expenses	22,111,555		(88,372)	22,023,183	(633,724)	21,389,459	43,953	21,433,412
Operating Income Before SIT	(105,847)		88,372	(17,475)	661,887	644,412	830,565	1,474,977
State Income Taxes								
Current	(38,994)		3,555	(35,440)	51,326	15,886	62,292	78,179
Deferred	(64,335)		4,399	(59,936)	27,030	(32,906)		(32,906)
Total State Income Taxes	(103,329)		7,954	(95,376)	78,355	(17,020)	62,292	45,272
Operating Income Before FIT	(2,518)		80,418	77,901	583,532	661,432	768,272	1,429,705
Federal Income Taxes								
Current	(112,181)		10,725	(101,456)	200,542	99,086	261,213	360,299
Deferred	(243,042)		16,615	(226,427)	73,973	(152,454)	0	(152,454)
Total Federal Income Taxes	(355,223)		27,340	(327,883)	274,515	(53,368)	261,213	207,845
Operating Income	$352,705		$53,079	$405,784	$309,016	$714,800	$507,060	$1,221,860
Rate Base	$17,033,190	4,22-29	$7,983	$17,041,173	($3,078,329)	$13,962,844	$0	$13,962,844
Rate of Return	2.07%			2.38%		5.12%		8.75%

Corning Natural Gas Corp
Detail of Operating and Maintenance Expenses
For the Rate Year ended November 30, 2003

	As Adjusted by Company	Adj #	Filing Correction	As Corrected	Staff Adjustments	As Adjusted by Staff
Purchased Gas	$ 15,125,398	7		$ 15,125,398	$ 17,182	$ 15,142,580
Purchased Gas - Other	24,124			24,124		24,124
Payroll	1,993,406	8		1,993,406	(145,876)	1,847,530
Vacation Accrual	196,049			196,049		196,049
Building Service Clearing - Office	52,094			52,094		52,094
Building Service - Clearing Shop	43,075			43,075		43,075
Transportation Equipment Costs	230,925	18		230,925	(2,351)	228,574
Tools and Work Equipment Clearing	0			0		0
Backhoe Expense Clearing	3,697			3,697		3,697
Auditing Expense	62,293			62,293		62,293
Legal Expense	34,812			34,812		34,812
Regulatory Expense	58,880			58,880		58,880
Prepaid Insurance	337,741	9		337,741	15,705	353,446
NY Disability Insurance	4,750			4,750		4,750
Health Insurance	278,953	10		278,953	(121,370)	157,583
Life Insurance	31,188	11		31,188	(4,463)	26,725
Bargaining Unit	248,631			248,631		248,631
Employee Welfare Expense	51,351			51,351		51,351
Pension Expense	367,829	19		367,829	(73,273)	294,556
Uncollectible Accounts	45,891			45,891		45,891
EDP Clearing	14,848			14,848		14,848
Employees 401K Plan	45,119			45,119		45,119
Inflation Based Expenses	326,836	14		326,836	(129,624)	197,212
Deferred Comp Plan	191,340	13		191,340	(22,973)	168,367
Computer Lease	30,225	12		30,225	(1,509)	28,716
Rate Case Expense	43,616	16		43,616	26,667	70,283
Directors Fees	9,000	15		9,000	(2,435)	6,565
Post Retirement Benefits	56,411	20		56,411	(126,442)	(70,031)
Amortization Deferred Expenses	87,987	17		87,987	0	87,987
Commercial Ins Consultant	4,608			4,608		4,608
Restructuring Market Costs	15,000			15,000		15,000
Gas Restructuring Case	12,871			12,871		12,871
Productivity Adjustment		21			(29,428)	(29,428)
Total Operating and Maintenance Expenses	$ 20,028,948		$ -	$ 20,028,948	$ (600,190)	$ 19,428,758

Corning Natural Gas Corp
Detail of Taxes Other Than Income Tax
For the Rate Year ended November 30, 2003

	As Adjusted by Company	Adj #	Filing Correction	As Corrected	Staff Adjustments	As Adjusted by Staff	Revenue Requirement	As Finally Adjusted
Property Taxes	$ 805,539			$ 805,539		$ 805,539		$ 805,539
Payroll Taxes	184,247	30		184,247	(11,160)	173,087		173,087
Revenue Taxes	549,800	1	(88,372)	461,428		461,428	43,953	505,381
Other Taxes	10,797	31		10,797	(10,797)	0		0
Total Taxes Other Than Income Taxes	$1,550,383		($88,372)	$1,462,011	($21,957)	$1,440,054	$43,953	$1,484,007

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Corning Natural Gas Corp
New York State Income Taxes
For the Rate Year ended November 30, 2003

	As Adjusted by Company	Adjustment #	Filing Correction	As Corrected	Staff Adjustments	As Adjusted by Staff	Revenue Requirement	Finally Adjusted
Book Operating Income Before FIT	$ (105,847)		$ 88,372	$ (17,475)	$ 661,887	$ 644,412	$ 830,565	$ 1,474,977
Add (Deduct)								
Deferred Comp Plan	(6,360)			(6,360)		(6,360)		(6,360)
Disallowed Meal allowance	2,000			2,000		2,000		2,000
CLS Flow-Thru Depreciation	(33,990)			(33,990)		(33,990)		(33,990)
Employees Life Insurance	(792)			(792)		(792)		(792)
Equipment Maintenance Reserve	4,480			4,480		4,480		4,480
Inventory Shrinkage Reserve	(1,694)			(1,694)		(1,694)		(1,694)
Tax Depreciation over Book	(100,638)	32A		(100,638)	100,638	0		0
Tax Dep New York - Flow Thru		32B		0	(415,013)	(415,013)		(415,013)
Tax Dep New York - Acc Depreciation		32C		0	(170,173)	(170,173)		(170,173)
Tax Dep New York - Def Items		32D		0	(110,272)	(110,272)		(110,272)
Book Depreciation		32E		0	532,224	532,224		532,224
Fixed Charges	(1,005,898)	33		(1,005,898)	223,868	(782,030)		(782,030)
Timing Difference -Rateable Pension Expense	367,828	34A		367,828	(73,273)	294,555		294,555
Timing Difference - Supplemental Pension Expens	235,464	2A,34E	(44,124)	191,340	(44,718)	146,622		146,622
Timing Difference - Deferred Int & Uncoll	97,738	2B,34B	(9,751)	87,987	0	87,987		87,987
				0		0		0
Timing Difference - FAS 106 Expense	56,214	34C		56,214	(126,245)	(70,031)		(70,031)
Timing Difference - Regulatory Costs	11,168	2C	3,832	15,000		15,000		15,000
Timing Difference - Insurance Consultant	421	2D	4,187	4,608		4,608		4,608
Timing difference - Rate Case Expense 815,468	46,635	2E,34D	(3,019)	43,616	26,667	70,283		70,283
Total Additions(Deductions)	(327,424)		(48,875)	(376,299)	(56,297)	(432,596)	0	(432,596)
Total NYS Taxable Income	(433,271)		39,497	(393,774)	605,590	211,816	830,565	1,042,381
9.00% 7.50%								
NYS Income Tax	(38,994)		3,555	(35,440)	51,326	15,886	62,292	78,179
Deferred SIT	(64,335)	3F	4,399	(59,936)	27,030	(32,906)	0	(32,906)
Total NYS Income Tax	(103,329)		7,954	(95,376)	78,355	(17,020)	62,292	45,272

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Corning Natural Gas Corp
Federal Income Taxes
For the Rate Year ended November 30, 2003

		As Adjusted by Company	Adjustment #	Filing Correction	As Corrected	Staff Adjustments	As Adjusted by Staff	Revenue Requirement	As Finally Adjusted
Book Operating Income Before FIT		$ (105,847)		$ 88,372	$ (17,475)	$ 661,887	$ 644,412	$ 830,565	$ 1,474,977
Add (Deduct)									
NYS Income Tax		103,329		(7,954)	95,376	(78,355)	17,020	(62,292)	(45,272)
Deferred Comp Plan		(6,360)			(6,360)		(6,360)		(6,360)
Disallowed Meal allowance		2,000			2,000		2,000		2,000
CLS Flow-Thru Depreciation		(33,990)			(33,990)		(33,990)		(33,990)
Employees Life Insurance		(792)			(792)		(792)		(792)
Equipment Maintenance Reserve		4,480			4,480		4,480		4,480
Inventory Shrinkage Reserve		(1,694)			(1,694)		(1,694)		(1,694)
Tax Depreciation over Book		(100,638)			(100,638)		(100,638)		(100,638)
Fixed Charges		(1,005,898)	33		(1,005,898)	223,868	(782,030)		(782,030)
Timing Difference -Rateable Pension Expense		367,826	34A		367,826	(73,273)	294,553		294,553
Timing Difference - Supplemental Pension Expension		235,464	2A,34E	(44,124)	191,340	(44,718)	146,622		146,622
Timing Difference - Deferred Int & Uncoll		97,738	2B,34B	(9,751)	87,987	0	87,987		87,987
					0		0		0
Timing Difference - FAS 106 Expense		56,214	34C		56,214	(126,245)	(70,031)		(70,031)
Timing Difference - Regulatory Costs		11,168	2C	3,832	15,000		15,000		15,000
Timing Difference - Insurance Consultant		421	2D	4,187	4,608		4,608		4,608
Timing difference - Rate Case Expense	815,466	46,635	2E,34D	(3,019)	43,616	26,667	70,283		70,283
Total Additions(Deductions)		(224,097)		(56,829)	(280,925)	(72,057)	(352,982)	(62,292)	(415,274)
Taxable Income		(329,944)		31,543	(298,400)	589,830	291,430	768,272	1,059,702
	34%								
Federal Income Tax		(112,181)		10,725	(101,456)	200,542	99,086	261,213	360,299
Deferred Credits/Debits									
Service Line Installation Fees		0			0		0		0
Rateable Pension Expense		(125,061)	35A		(125,061)	24,912	(100,149)		(100,149)
Supplematal Pension Expense		(80,058)	3A,35E	15,001	(65,057)	15,204	(49,853)		(49,853)
Def In Uncoll & Rate Case Expense		(33,231)	3B,35B	3,315	(29,916)	0	(29,916)		(29,916)
FAS 106 Expense		(19,113)	35C		(19,113)	42,924	23,811		23,811
Regulatory Costs		(3,797)	3C	(1,303)	(5,100)		(5,100)		(5,100)
ADR		(4,312)			(4,312)		(4,312)		(4,312)
ACRS		38,529			38,529		38,529		38,529
Insurance Consultant		(143)	3D	(1,424)	(1,567)		(1,567)		(1,567)
Rate Case Expense		(15,856)	3E,35D	1,026	(14,830)	(9,067)	(23,897)		(23,897)
Federal Income Tax Deferred		(243,042)		16,615	(226,427)	73,973	(152,454)	0	(152,454)
Federal Income Tax		$ (355,223)		$ 27,340	$ (327,883)	$ 274,515	$ (53,368)	$ 261,213	$ 207,845

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Corning Natural Gas Corp
Calculation of Interest Deduction
For the Rate Year ended November 30, 2003

	As Adjusted by Company	Adj #	Filing Correction	As Corrected	Staff Adjustments	As Adjusted by Staff
Rate Base				17,041,173	(3,078,329)	13,962,844
Add:Interest Bearing CWIP					0	0
Total Debt Base				17,041,173	(3,078,329)	13,962,844
Debt Component of Capitalization						5.60%
Total Interest (A + B)	(1,005,898)	33	0	(1,005,898)	223,868	(782,030)

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Corning Natural Gas Corp
Rate Base
For the Rate Year ended November 30, 2003

	As Adjusted by Company	Adj #	Filing Correction	As Corrected	Staff Adjustments	As Adjusted by Staff	As Finally Adjusted
Plant in Service	$ 24,116,815			$ 24,116,815		$ 24,116,815	$ 24,116,815
Accumulated Depreciation	(9,262,837)			(9,262,837)		(9,262,837)	(9,262,837)
Net Plant Dedicated to Appliance co.	(1,078,361)	22		(1,078,361)	(512,241)	(1,590,602)	(1,590,602)
Net Plant	13,775,617		0	13,775,617	(512,241)	13,263,376	13,263,376
Non Interest Bearing CWIP	57,839			57,839		57,839	57,839
Misc. Deferred Debits	2,482,339	25		2,482,339	(1,053,778)	1,428,561	1,428,561
Current & Accrued Liabilities	(1,276,632)			(1,276,632)		(1,276,632)	(1,276,632)
Cash Working Capital	596,209	4,27	7,983	604,192	(77,172)	527,020	527,020
Gas Stored Underground	1,622,197	24		1,622,197	(635,335)	986,862	986,862
Material & Supplies	229,228			229,228		229,228	229,228
Prepaid Income Taxes	202,858			202,858		202,858	202,858
Prepayments	521,982			521,982		521,982	521,982
Accumulated Deferred ITC	(1,585)			(1,585)		(1,585)	(1,585)
Accumulated Deferred FIT ADR & ACRS	(1,304,880)			(1,304,880)		(1,304,880)	(1,304,880)
Accumulated Deferred FIT Other	(123,859)	26		(123,859)	11,941	(111,918)	(111,918)
Gain on Trust Agreement	247,980	23		247,980	(247,980)	0	0
Earnings Base Over Capitalization	3,897		0	3,897	(563,764)	(559,867)	(559,867)
RATE BASE	$ 17,033,190		$ 7,983	$ 17,041,173	$ (3,078,329)	$ 13,962,844	$ 13,962,844

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Corning Natural Gas Corp
Earnings Base Over Capitalization Calculation
For the Rate Year ended November 30, 2003

		As Adjusted by Company	Adj #	Filing Correction	As Corrected	Staff Adjustments	As Adjusted by Staff
Earnings Base							
Gas Plant in Service		$ 22,480,512			$ 22,480,512		$ 22,480,512
CWIP		148,810			148,810		148,810
RWIP		31,798			31,798		31,798
Accum. Provision for Depreciation		(8,216,734)			(8,216,734)		(8,216,734)
Interest Bearing CWIP		0			0		0
Net Plant Dedicated to Appliance Corp.		(857,234)			(857,234)		(857,234)
Net Plant in Service		13,587,152		0	13,587,152		13,587,152
Non Interest Bearing CWIP		0			0		0
Misc. Deferred Debits		1,659,152	28		1,659,152	(451,498)	1,207,654
Current & Accrued Liabilities		(890,335)			(890,335)		(890,335)
Accum. Deferred ITC		(4,552)			(4,552)		(4,552)
Accum. Deferred Income Taxes Depr.		(1,203,734)			(1,203,734)		(1,203,734)
Accum. Deferred Income Taxes Other		(139,727)			(139,727)	0	(139,727)
TRA 86 -Excess Reserves		0			0		0
Gain on Trust Agreement		247,980			247,980		247,980
Working Capital							
Gas Stored Underground	1,179,443				1,179,443		1,179,443
Materials & Supplies	219,778				219,778		219,778
Prepaid Income Tax	202,858				202,858		202,858
Prepayments	500,462				500,462		500,462
Cash Working Capital	442,521				442,521		442,521
Total working Capital		2,545,062		0	2,545,062	0	2,545,062
Average Earnings Base		$15,800,998		$0	$15,800,998	($451,498)	$15,349,500
Capitalization							
Common Stock	$2,878,346		29D		$2,878,346	$75,000	$2,953,346
Retained Earnings	2,170,673				2,170,673	0	2,170,673
Total Common Equity		5,049,019		0	5,049,019	75,000	5,124,019
Bonds	9,400,000				9,400,000		9,400,000
Deferred Compensation of Officers	50,297		29B		50,297	(28,358)	21,939
Short Term Notes Payable	4,686,986				4,686,986		4,686,986
Customer Deposits	220,458				220,458		220,458
Average GAC Overcollection	(680,533)		29A		(680,533)	(350,577)	(1,031,110)
Customer Allowances for Construction	106,949				106,949		106,949
FAS 106	305,692				305,692		305,692
LAUF Award			29C		0	(259,829)	(259,829)
Supplier Refunds	152,449				152,449		152,449
Total Debt		14,242,298		0	14,242,298	(638,764)	13,603,534
Subtotal		19,291,317		0	19,291,317	(563,764)	18,727,553
Less:							
Investment in Associated Companies		2,520,069			2,520,069		2,520,069
Accounts Receivable from Assoc Co.		109,119			109,119		109,119
Net Plant Dedicated to Appl. Co.		857,234			857,234		857,234
Pension Appliance Company			29E			451,498	451,498
Average Capitalization		$15,804,895		$0	$15,804,895	($1,015,262)	$14,789,633
Earnings Base over Capitalization		$ (3,897)		$ -	$ (3,897)	$ 563,764	$ 559,867

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Corning Natural Gas Corp
Calculation of Cash Working Capital
For the Rate Year ended November 30, 2003

	As Adjusted by Company	Adj #	Filing Correction	As Corrected	Staff Adjustments	As Adjusted by Staff
Operating & Maintenance Expenses	21,764,657			20,028,948	(600,190)	19,428,758
Deduct						
Cost of Purchased Gas	16,949,094			15,125,398	17,182	15,142,580
Cost of Purchased Gas - Other				24,124	0	24,124
Uncollectibles	45,891			45,891	0	45,891
Balance	4,769,672			4,833,535	(617,372)	4,216,163
Cash Working Capital Allowance @ 1/8	0.125		0.125	0.125	0.125	0.125
Cash Working Capital Allowance	596,209	4,27	7,983	604,192	(77,172)	527,020

Case 02-G-0003

Corning Natural Gas Corp
Capitalization Matrix
For the Rate Year ended November 30, 2003

	Amount	Percent	Cost Rate	Weighted Cost
Total Debt	11,611,679	82.37%	8.20%	6.75%
Deferred Comp. Plan	39,049	0.28%	6.00%	0.02%
Customer Deposits	232,142	1.65%	4.70%	0.08%
Common Equity	2,214,250	15.71%	10.50%	1.65%
	14,097,120	100.00%		8.50%

Staff Capitalization

Corning Natural Gas Corp
Staff Capitalization Matrix
For the Rate Year ended November 30, 2003

	Amount	Percent	Cost Rate	Weighted Cost
Total Debt	9,502,800	68.06%	8.09%	5.51%
Deferred Comp. Plan	39,049	0.28%	6.00%	0.02%
Customer Deposits	232,142	1.66%	4.70%	0.08%
Common Equity	4,188,853	30.00%	10.50%	3.15%
	13,962,844	100.00%		8.75%

APPENDIX A

SCHEDULE B

STAFF ADJUSTMENTS

Corning Natural Gas Corp
Staff Adjustments
For the Rate Year ended November 30, 2003

		Witness			Amount
Filing Corrections					
1	**Taxes Other Than Income Tax**				
	A. Revenue Taxes - To correct the company presentation of Revenue Taxes to reflect revised Sch 12	Palmerino		$	(88,372)
2	**Schedule M Corrections**				
	A. Supplemental Pension	Calkins		$	(44,124)
	B. Def Int & Uncoll	Calkins		$	(9,751)
	C. Regulatory Expense	Calkins		$	3,832
	D. Insurance Consultant	Calkins		$	4,187
	E. Rate Case Expense	Calkins		$	(3,019)
3	**Deferred Tax**				
	A. Supplemental Pension	Calkins		$	15,001
	B. Def Int & Uncoll	Calkins		$	3,315
	C. Regulatory Expense	Calkins		$	(1,303)
	D. Insurance Consultant	Calkins		$	(1,424)
	E. Rate Case Expense	Calkins		$	1,026
	F. Deferred SIT	Calkins		$	4,399
4	**Cash Working Capital**			$	7,983
Adjustments					
Revenues					
5	A. Tariff Revenues	Mostek	21,066		
	B. GAC Revenues	Mostek	7,097	$	28,163
Operation & Maintenance Expenses					
6	Depreciation Expense - Tracking Staff Plant Appliance Compay Allocation	Bush		$	(11,577)
7	Purchsed Gas Expense	Mostek		$	17,182
8	Payroll				
	A. Eliminate Accountant Position	Palmerino	(25,210)		
	B Limit Raises		(11,486)		
	C. Track Allocations		(109,180)	$	(145,876)
9	Prepaid Insurance - Update and Tracking Nonutility Allocation	Palmerino		$	15,705
10	Health Insurance - Tracking Nonutility Allocation	Palmerino		$	(121,370)
11	Life Insurance - Tracking Nonutility Allocation	Palmerino		$	(4,463)
12	Computer Lease Agreement	Bush		$	(1,509)
13	Deferred Comp Plan - Tracking Non-Utility Allocation	Palmerino		$	(22,973)
14	Inflation Adjustment - To Track Staff Affiliate allocation and adjust inflation Pool	Bush		$	(129,624)
15	Directors Fees - Allocation to Non-utility	Palmerino		$	(2,435)
16	Rate Case Expense Update and Three Year Allocation	Palmerino		$	26,667
17	Deferred Interest & Uncollectable Expense - Three Year Amort.	Palmerino			
18	Transportation Equipment Expense- Correct Double Count of Insurance Costs	Palmerino		$	(2,351)

Case 02-G-0003

Corning Natural Gas Corp
Staff Adjustments
For the Rate Year ended November 30, 2003

		Witness		Amount
19	Pension Expense A. Rate Year Pension	Calkins		$ (73,273)
20	FAS 106 Expense A. Rate Year FAS 106	Calkins		$ (126,442)
21	Productivity Adjustment	Palmerino		$ (29,428)
	Total O&M Adjustments			$ (611,767)
	Rate Base			
22	**Net Plant Dedicated to Appliance Corp** A. To reflect Staff's allocation of Plant to affiliates	Bush		(512,241)
23	**Remove Gain on Trust From Rate Base**	Calkins		(247,980)
24	**Gas Stored Under Ground**	Bush		(635,335)
25	**Miscellaneous Deferred Debits**			
	A. Correct FAS 106	Calkins	(419,518)	
	B. Pension - Adjust for Appliance Allocation		(548,152)	
	C. Pension Correction Account 1186.09		(144,724)	
	D. Pension Current Account 1186.09		(8,051)	
	E. Rate Case		66,667	
	F. Deferred Int & Uncoll			(1,053,778)
26	**Accumulated Deferred FIT Other**			
	A. Track Gain on Trust Adjustment	Calkins	(12,449)	
	B. Track FAS 106 Adjustment		5,850	
	C. Track Pension Account 1186.09		49,207	
	D. Track Pension Account 1186.09		2,737	
	E. Track Schedule M Correction (16615/2)		(8,308)	
	F. Track Staff Sch M (73973-24912-42924/2)		(3,069)	
	G. Track Staff's allocation of Plant to Affilitates		10,655	
	H Def Tax Rate Case Update		(22,667)	
	I. New York State Deferred SIT		(10,015)	$ 11,941
27	**Cash Working Capital** Tracking staff Adjustments to O&M Expense	Palmerino		$ (77,172)

Case 02-G-0003

Corning Natural Gas Corp
Staff Adjustments
For the Rate Year ended November 30, 2003

	Witness			Amount
Earnings Base Capitalization Calculation				
28 **Earnings Base**				
A. Pension Cummulative Balance - Appliance		(451,498)		
			$	(451,498)
29 **Capitalization**				
A. Ave GAC Undercollection Def FIT already in EB	Calkins		$	(350,577)
B. Deferred Comp Gross up (502867-21939)			$	(28,358)
C. LAUF Award - Corning		299,578		
Bath		(36,905)		
Hammondsport		(2,844)	$	(259,829)
D. Common Stock Issued			$	75,000
E. Pension Allocation			$	(451,498)
				1,015,262
Earnings Base Over Capitalization				
Total Rate Base				(3,529,827)

Case 02-G-0003

Corning Natural Gas Corp
Staff Adjustments
For the Rate Year ended November 30, 2003

		Witness		Amount
	Taxes Other Than FIT			(11,160)
30	**Payroll Taxes**			
	To reflect Staff Payroll Adjustments	Palmenno		
31	**Other Taxes**			
	To reflect the elimination of Excess Dividend Taxes	Palmenno		(10,797)
	NYSIT and FIT Calculations			
32	**New York Tax Depreciation**			
	A. Tax Depreciation over Book	Calkins		100,638
	B. Tax Depr New York - Flow Thru			(415,013)
	C. Tax Dep New York - Acc Depreciation			(170,173)
	D. Tax Dep New York - Def Items			(110,272)
	E. Book Depreciation			532,224
33	**Fixed Charges**			
	A. Fixed Charges	Palmerino	$	223,868
34	**Timing Differences**			
	A. Rateable Pension Expense	Calkins	$	(73,273)
	B. Deferred Int & Uncoll			
	C. FAS 106 Expense		$	(126,245)
	D. Rate Case Expense		$	26,667
	E. Supplemental Pension Expense		$	(44,718)
35	**Deferred Credits/Debits**			
	A. Rateable Pension Expense	Calkins	$	24,912
	B. Def Int and Uncoll			
	C. FAS 106		$	42,924
	D. Rate Case Expense		$	(9,067)
	E. Supplemental Pension Expense		$	15,204
36	NYS Deferrec Tax			
	A. Tracking Timing Differences	Calkins	$	27,030

APPENDIX A

SCHEDULE C

ALLOCATION OF MANAGERIAL TIME

Corning Natural Gas Corporation
Subsidiary Allocation Adjustment

Payroll	109,180
Insurance	111,740
Health Insurance	121,370
Life Insurance	4,463
Deferred Compensation	22,973
Inflation Adjustment	88,425
Pension	9,456
OPEB	3,003
Total	470,610

This Worksheet reflects the portion of staff adjustment due to allocations

<u>APPENDIX A</u>

<u>SCHEDULE D</u>

<u>ALLOCATION OF NET PLANT</u>

Corning Natural Gas Corporation
Appliance Corp. Common Allocation Factor
Based On Test Year Data (9/30/01)

Total Assets

		Intercompany		Net	
Gas Corp	24,083,205				
Less:Net Plant Dedicated	(1,750,764)				
Net Gas Corp	22,332,441	(2,817,082)	497,991	20,013,350	74.48%
Appliance Corp	3,489,746				
Add:Net Plant Dedicated	1,750,764				
Net Appliance Corp	5,240,510	(1,512,843)		3,727,667	13.87%
Corning Realty	1,815,100	0		1,815,100	6.76%
Corning Mortgage	187,533	(187,533)		0	0.00%
Foodmart Plaza	1,175,903	0		1,175,903	4.38%
Tax Center Int'l	317,104	(178,879)		138,225	0.51%
	31,068,591	(4,696,337)		26,870,245	100.00%

Total Revenues

Gas Corp	24,121,238	0	(5,862,857)	18,258,381	71.40%
Appliance Corp	2,391,141	0		2,391,141	9.35%
Corning Realty	4,195,535	0		4,195,535	16.41%
Corning Mortgage	0	0		0	0.00%
Foodmart Plaza	244,811	0		244,811	0.96%
Tax Center Int'l	483,320	0		483,320	1.89%
	31,436,045	0		25,573,188	100.00%

Average

Gas Corp	72.94%
Appliance Corp	11.61%
Corning Realty	11.58%
Corning Mortgage	0.00%
Foodmart Plaza	2.67%
Tax Center Int'l	1.20%
	100.00%

Non-Utility	27.06%
Utility	72.94%
	100.00%

CORNING NATURAL GAS CORP.
PLANT DEDICATED TO APPL. CORP.
TEST YEAR ENDING 9/30/01
Bash - Calculation

TEST YEAR

	ORIGINAL COST	DEPREC. RESERVE	NET PLANT	% APPL. TO APPL. CORP.	NET PLANT DEDICATED
LAND	389,465	0	389,465	29.48%	114,814
W. WILLIAM ST. OFFICE	2,318,482	753,569	1,564,913	47.82%	748,295
OPERATIONS FACILITY	1,804,270	483,079	1,321,191	41.53%	548,728
COMPUTER EQUIPMENT	526,681	131,494	395,187	43.28%	171,023
FURNITURE	250,858	148,293	102,565	43.28%	44,386
MACHINES	58,078	8,183	49,895	43.28%	21,593
CARS & TRUCKS	867,242	357,749	509,493	20.01%	101,924
	6,215,076	1,882,367	4,332,709		1,750,764
AVERAGE					40.41%

RATE YEAR

	ORIGINAL COST	DEPREC. RESERVE	NET PLANT	% APPL. TO APPL. CORP.	NET PLANT DEDICATED
LAND	389,465	0	389,465	29.48%	114,814
W. WILLIAM ST. OFFICE	2,318,482	882,561	1,435,921	47.82%	686,615
OPERATIONS FACILITY	1,814,270	568,712	1,245,558	41.53%	517,316
COMPUTER EQUIPMENT	577,781	273,935	303,846	43.28%	131,494
FURNITURE	250,858	170,034	80,824	43.28%	34,978
MACHINES	58,078	15,733	42,345	43.28%	18,325
CARS & TRUCKS	960,313	509,707	450,606	20.01%	90,144
	6,369,247	2,420,682	3,948,565		1,593,685
AVERAGE					40.36%

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CORNING NATURAL GAS CORP.

Main Office
Comman Area
Allocator 43.28%

ALLOC. OF OFFICE BLDG. TO
APPL. CORP.
TEST YEAR ENDING 9/30/01

Busn - Calculation

	TOTAL SQ. FEET	% ALLOC TO APPL CORP	SQ. FEET ALLOC. TO APPL. CORP.
1 ST FLOOR - 1 STORY			
DISPLAY AREA	1,734	98.56%	1,709
CUST. SVC. REPS.	128	21.00%	27
CASHIER AREA	112	43.28%	48
ENTRY AREA	104	43.28%	45
CUST. WAITING AREA	120	43.28%	52
COMMON AREA	556	43.28%	241
MORSE	150	19.00%	29
BEER	156	15.63%	24
SARHANGI	144	100.00%	144
ROYE	144	22.94%	33
UTILITY ROOM	90	43.28%	39
CUSTOMER CONF. ROOM	126	100.00%	126
CARPENTER	126	100.00%	126
OPEN OFFICE AREA	1,053	100.00%	1,053
M CARPENTER	120	47.00%	56
COMPUTER ROOM	203	43.28%	88
MAIL ROOM	225	43.28%	97
RESTROOMS	105	43.28%	45
COMMON AREA	597	43.28%	258
	5,993		4,241
SUMMARY			
1 ST FLOOR - OPERATIONS	6,374		2,381
1ST FLOOR - 1 STORY	5,993		4,241
2 ND FLOOR	5,909		2,117
	18,276	47.82%	8,739

CORNING NATURAL GAS CORP.
ALLOC. OF OFFICE BLDG. TO
APPL. CORP.
TEST YEAR ENDING 9/30/01

Bush - Calculation

	TOTAL SQ. FEET	% ALLOC TO APPL CORP	SQ. FEET ALLOC. TO APPL. CORP.
2 ND FLOOR			
OPEN OFFICE AREA			
TELEPHONE OPERATOR	123	12.00%	15
ROUNDS	123	6.00%	7
ELLIOTT	123	23.00%	28
BLENCOWE	135	16.00%	22
FOSTER	90	26.00%	23
HAYNES	90	0.00%	0
VANZILE	171	15.00%	26
MAYO	108	30.00%	32
HALLWAY	91	43.28%	39
FILE/PRINTER AREA	135	43.28%	58
	1,189		251
HORNING	170	0.00%	0
SLEVE	185	65.00%	120
KITCHEN	170	43.28%	74
GROEGER	170	20.00%	34
CHURCH	154	24.00%	37
BARRY	310	42.79%	133
BOARD ROOM	262	43.28%	113
RICHTMYER	139	100.00%	139
CHANDLER	154	16.00%	25
EARLEY	154	21.75%	33
ROBINSON	200	48.23%	96
MILLER	200	0.00%	0
	2,268		804
CONFERENCE ROOM	324	43.28%	140
VISITOR WAITING AREA	440	43.28%	190
CORRIDORS & MISC.	693	43.28%	300
COPIER ROOM	173	43.28%	75
RESTROOMS	245	43.28%	106
JANITOR'S CLOSET	33	43.28%	14
ELEVATOR & STAIRWELL	544	43.28%	235
	2,452		1,061
TOTAL 2 ND FLOOR	5,909		2,117

CORNING NATURAL GAS CORP.
ALLOC. OF OFFICE BLDG. TO
APPL. CORP.
TEST YEAR ENDING 9/30/01

Bush - Calculation

	TOTAL SQ. FEET	% ALLOC TO APPL CORP	SQ. FEET ALLOC. TO APPL. CORP.
1 ST FLOOR - OPERATIONS			
KITCHEN	280	43.28%	121
OFFICE AREAS			
SPEAR	228	0.00%	0
DAVIS	228	86.54%	197
THOMPSON	228	36.97%	84
DISPATCHER	228	11.19%	26
STETLER	263	50.00%	132
PHILLIPS	166	0.00%	0
COMMUNITY MEETING ROOM	1,230	43.28%	532
MAP ROOM	451	0.00%	0
RESTROOMS	192	43.28%	83
LOCKER ROOM	174	20.01%	35
CORRIDORS, ETC.	834	43.28%	361
,MECHANICAL ROOM & STAIRWELL	836	43.28%	362
ELEVATOR & CONNECTING LINK	682	43.28%	295
ENTRY AREA	180	43.28%	78
RESTROOMS	174	43.28%	75
	6,374		2,381

Hourly Emp. Factor	By hour	0.2059
	By $	0.1942
		0.20005

CORNING NATURAL GAS CORP.
ALLOC. OF OPERATIONS CENTER TO
APPL. CORP.
TEST YEAR ENDING 9/30/01

Bush - Calculation

	TOTAL SQ. FEET	% ALLOC TO APPL CORP	SQ. FEET ALLOC. TO APPL. CORP.
PARKING GARAGE	7,665	20.01%	1,533
VEHICLE REPAIR GARAGE	1,332	20.01%	266
MAIN WAREHOUSE	7,128	60.00%	4,277
WELDING SHOP	754	0.00%	0
METER SHOP	754	0.00%	0
DOCUMENT STORAGE AREA	784	43.28%	339
PARTS ROOM	625	100.00%	625
EMP. CONF/ WRITEUP AREA	497	20.01%	99
RESTROOM	135	20.01%	27
PSC INSPECTOR OFFICE	143	0.00%	0
RECEIVING AREA	1,708	82.50%	1,409
WORK SHOP	962	75.00%	722
PARKING/WORK AREA	1,332	50.00%	666
MECHANICAL ROOM	331	20.01%	66
	24,150	41.53%	10,030

Warehouse Allocation

My Position

Warehouse

Section	Length	Width	Sq Ft.	% Appl.	Ft Appl
A	64	8	512	0%	0
B	50	24	1200	100%	1200
C	15	24	360	25%	90
D	8	38	304	100%	304
E	8	26	208	33%	69
F-1	11	20	220	0%	0
F-2	16	37.5	600	0%	0
G	20	4	80	50%	40
Mezzanine	12	77	924	100%	924
Total			4408		2627
Halls	170	12	2040		1216
Halls	80	6	480		286
Halls	Odd Spaces		200		119
Total			7128		4249
Allocation					60%
Allocated Space			7128		4249

Counting the Mezzanine as 2 levels

Warehouse

Section	Length	Width	Sq. Ft.	% Appl	Ft Appl
A	64	8	512	0%	0
B	50	24	1200	100%	1200
C	15	24	360	25%	90
D	8	38	304	100%	304
E	8	26	208	33%	69
F-1	11	20	220	0%	0
F-2	16	37.5	600	0%	0
G	20	4	80	50%	40
Mezzanine	12	154	1848	100%	1848
Total			5332		3551
Halls	170	12	2040		1359
Halls	80	6	480		320
Halls	Odd Spaces		200		133
Total			8052		5363
Allocation					67%
Allocated Space			7128		4748

Receiving Area Allocation

			Appliance	Utility
Appliance Staging Area	30%		30.0%	
Receiving Area	70%			
Appliance Usage Allocation		75%	52.5%	
Utility Usage Allocation		25%		17.5%
Total Allocation of Receiving Area			**82.5%**	**17.5%**

Bush Calculation Worksheet

Operations Center Common Area Allocator

Allocation Based on Employee Allocations

Based on Hourly	10.52%
K. Jordan	0.00%
G. Vine	0.00%
R. Haynes	0.33%
J. Kosty	31.96%
R. Hitchcock	0.00%
J. Van Gorden	74.05%
G. Johnson	0.37%
R. Foster	0.00%
M. Balcer	0.00%
M. Colgrove	30.74%
J. Bixby	0.00%
D. McChesney	50.38%
A. Brown	29.56%
F. Stull	0.02%
D. Smith	30.15%
J. Rice	0.00%
H. Luckner	39.87%
C. Lewis	1.28%
R. Towsley	35.62%
T. Low	64.50%
R. Peterson	0.00%
F. Rinker	0.20%
M. Clarkson	0.29%
S. Miles	8.44%
G. Teeter	0.39%
R. Bush	16.38%
M. Benjamin	72.05%
P. Haggerty	63.99%
J. Kemp	13.73%
R. Lewis	0.99%
D. Loucks	0.00%
J. Morse	40.72%
J. Clarkson	2.74%
S. Cady	81.21%
B. Conklin	40.72%
Laborer	
	20.59%

Allocation Based on Salary Allocation

Amount Charged to Appl. Corp.	$	274,390
Total Hourly Payroll	$	1,413,078
Allocation to Appl. Corp.		**19.42%**

Average Allocation

Allocation Based on Employee Allocations	20.59%
Allocation Based on Salary Allocation	19.42%
Average	**20.01%**

Cost of Purchased Gas

2001	$17,100,057
2000	$9,445,982
1999	$9,378,104
1998	$9,656,439
1997	$10,605,417
5-Year Average	$11,237,200
Used in Company Calculation	$17,100,057
Used in Staff Calculation	$11,237,200
Adjustment	-$5,862,857

CORNING NATURAL GAS CORP
GAS STORED UNDERGROUND

Average Of The Monthly Averages

	98 - 99	99 - 00	00 - 01	3-Year Average
SEPTEMBER	$1,539,727	$134,650	$2,194,436	$1,289,604
OCTOBER	$1,416,113	$44,278	$2,470,672	$1,310,354
NOVEMBER	$1,257,046	$1,518,384	$2,440,743	$1,738,724
DECEMBER	$1,102,253	$1,148,874	$1,765,812	$1,338,980
JANUARY	$799,729	$683,074	$1,600,454	$1,027,752
FEBRUARY	$891,308	$543,772	$1,064,316	$833,132
MARCH	$577,192	$610,944	$453,136	$547,091
APRIL	$359,760	$472,165	$1,079,546	$637,157
MAY	$399,450	$775,933	$476,633	$550,672
JUNE	$796,382	$1,046,785	$484,476	$775,881
JULY	$912,265	$1,352,554	$486,658	$917,159
AUGUST	$860,395	$1,803,329	$489,221	$1,050,982
SEPTEMBER	$134,650	$2,194,436	$488,871	$939,319
=(SUM(A7:A17)+(0.5*(A6+A18)))/12	$850,757	$930,386	$1,179,443	$986,862

APPENDIX A

SCHEDULE E

CAPITAL STRUCTURE

Corning Natural Gas Corporation
Consolidated Capital Structure

Long Term Debt	Total	Deregulated	Regulated
Corning	9,400,000	1,746,057	7,653,943
Subsidiary	1,351,156	250,978	1,100,178
	10,751,156	1,997,035	8,754,121
Short Term Debt	2,494,742	463,400	2,031,342
Total Debt	13,245,898	2,460,435	10,785,463
Deferred Compensation	39,049		39,049
Customer Deposits	232,142		232,142
Common Equity	6,596,843	3,690,653	2,906,190
Total	20,113,932	6,151,088	13,962,844

	Amount	Structure	Cost Rate	Weighted Cost	
Long Term Debt	10,785,463	77.25%	7.64	5.90	
Deferred Compensation	39,049	0.28%	6.00	0.02	
Customer Deposits	232,142	1.66%	4.70	0.08	
Common Equity	2,906,190	20.81%	10.50	2.19	
Total	13,962,844	100.01%		8.19	%

Debt Cost Regulated					
Long Term Debt	7,653,943	87.43%	8.57	7.49	
Subsidiary	1,100,178	12.57%	7.39	0.93	
	8,754,121	100.00%		8.42	%

Regulated					
Long Term Debt	8,754,121	81.17%	8.42	6.84	
Short Term Debt	2,031,342	18.83%	4.25	0.80	
	10,785,463	100.00%		7.64	%

Corning Natural Gas Corporation

Regulated Capital Structure 70% - 30%

Long Term Debt	10,785,463
Deferred Compensation	39,049
Customer Deposits	232,142
Common Equity	2,906,190
Total	13,962,844

	Amount	Structure	Cost Rate	Weighted Cost	
Long Term Debt	9,502,800	68.06%	8.09	5.50	
Deferred Compensation	39,049	0.28%	6.00	0.02	
Customer Deposits	232,142	1.66%	4.70	0.08	
Common Equity	4,188,853	30.00%	10.50	3.15	
Total	13,962,844	100.00%		8.75	%

Debt Cost					
Long Term Debt	8,754,121	92.12%	8.42	7.76	
Short Term Debt	748,679	7.88%	4.25	0.33	
	9,502,800	100.00%		8.09	%

Debt Cost					
Subsidiary Long Term Debt					
CRA	413,836	30.63%	8.02	2.46	
FDMT *	846,498	62.65%	6.88	4.31	
Appliance Company	90,822	6.72%	9.24	0.62	
	1,351,156	100.00%		7.39	%

*	Debt	Cost	Interest
	108,507	6.50%	7,053
	287,942	6.50%	18,716
	363,936	7.75%	28,205
	125,000	6.00%	7,500
	70,000	6.00%	4,200
	955,385		65,674

65,674 / 955,385 = 6.88

Corning Natural Gas Corporation
Forecast Common Equity Calculation

9/30/01 Balance	4,929,290	
Estimated Earnings	700,000	
Dividend	(298,500)	
11/30/02 Balance	5,330,790	
Estimated Earnings		
* Regulated	384,597	
** Deregulated	29,508	
Amortization of Pension/OPEB (net of tax)	(132,000)	
11/30/03 Balance	5,612,895	
Average Common Equity	5,471,843	
Average Common Stock Issue First Quarter	1,125,000	
Average Common Equity	6,596,843	
* Earnings	1,221,860	
Interest Expense	(837,263)	
	384,597	
** Earnings	384,000	($32,000 * 12 months)
Allocations	(310,603)	($470,610 * .66)
Net Plant Return	(43,889)	($501,586 * 8.75%)
	29,508	

Corning Natural Gas Corporation
Subsidiary Capitalization

Rate Year	Per Company	Staff Adjustments		As Adjustments
Long Term Debt	1,351,156			1,351,156
Accounts Payable	108,526			108,526
Common Stock	50,000			50,000
Retained Earnings	3,288,368	(199,190)	*	3,089,178
Plant	1,050,642	501,586	**	1,552,228
	5,848,692	302,396		6,151,088

*	Staff Expense Allocations	470,610 * .66 / 2 =	(155,301)
	Return on Net Plant	501,586 * 8.75% =	(43,889)
			(199,190)

**	Plant Allocated to Appliance	512,241
	Deferred FIT	(10,655)
		501,586

Corning Natural Gas Corporation
Interest Coverage

Equity Ratio	30%	
Debt Ratio	70%	
ROE	10.50%	
Pre-Tax Operating Income		
Regulated	1,474,977	
Pension Amortization	(68,733)	
OPEB Amortization	(131,267)	
	1,274,977	
* Deregulated	791,988	
Allocations - Expense	(470,610)	
Allocations - Plant/Return	(52,014)	
	269,364	
Combined Pre-Tax	1,544,341	
Interest Expense		
Regulated	837,263	
Deregulated	187,977	
	1,025,240	
Regulated Coverage	1.52	
Deregulated Coverage	1.43	
Combined Coverage	1.51	
* Net Operating Income	384,000	(12 mos @ $32,000/mo)
Interest Expense	187,977	
	571,977	
FIT	220,011	(Used 2001 NOI to FIT ratio)
	791,988	

Corning Natural Gas Corporation
Forcasted Common Equity

Rate Year Average Common Equity	2,906,190
Activity	
Rate Year:	
Earnings	192,299
Amortization of Pensions/OPEBs	(66,000)
Stock Issue	375,000
Second Year:	
Earnings	192,299
Amortization of Pensions/OPEBs	(66,000)
Second Year Average Common Equity	3,533,788
Activity	
Second Year:	
Earnings	192,299
Amortization of Pensions/OPEBs	(66,000)
Third Year:	
Earnings	192,299
Amortization of Pensions/OPEBs	(66,000)
Third Year Average Common Equity	3,786,386

APPENDIX A

SCHEDULE F

CUSTOMER IMPACT

CORNING SC 1 GENERAL SERVICE
BILL IMPACT ON AVERAGE RESIDENTIAL HEATING CUSTOMER

ANNUAL BILLS

MONTH	CCF USAGE	CURRENT RATES	PROPOSED RATES	$ INCREASE	% INCREASE
JAN	236	$ 179.65	$ 186.07	$ 6.42	3.6%
FEB	204	$ 156.55	$ 162.36	$ 5.81	3.7%
MAR	195	$ 150.05	$ 155.69	$ 5.64	3.8%
APR	145	$ 113.94	$ 118.65	$ 4.71	4.1%
MAY	70	$ 59.77	$ 63.09	$ 3.32	5.6%
JUN	34	$ 32.55	$ 34.98	$ 2.43	7.5%
JUL	27	$ 26.95	$ 29.16	$ 2.21	8.2%
AUG	23	$ 23.76	$ 25.83	$ 2.07	8.7%
SEP	25	$ 25.36	$ 27.50	$ 2.14	8.4%
OCT	49	$ 44.53	$ 47.45	$ 2.92	6.6%
NOV	106	$ 85.77	$ 89.76	$ 3.99	4.7%
DEC	136	$ 107.44	$ 111.99	$ 4.55	4.2%
TOTAL	1250	$ 1,006.32	$ 1,052.53	$ 46.21	4.6%

MONTHLY BILL TABLE

BILL USAGE	CURRENT RATES	PROPOSED RATES	$ INCREASE	% INCREASE
3	$ 7.78	$ 9.21	$ 1.43	18.4%
5	$ 9.38	$ 10.87	$ 1.49	15.9%
10	$ 13.37	$ 15.03	$ 1.66	12.4%
20	$ 21.36	$ 23.34	$ 1.98	9.3%
40	$ 37.34	$ 39.97	$ 2.63	7.0%
47	$ 42.93	$ 45.79	$ 2.86	6.7%
50	$ 45.33	$ 48.28	$ 2.95	6.5%
75	$ 63.38	$ 66.80	$ 3.42	5.4%
100	$ 81.44	$ 85.32	$ 3.88	4.8%
150	$ 117.55	$ 122.36	$ 4.81	4.1%
200	$ 153.66	$ 159.40	$ 5.74	3.7%
250	$ 189.77	$ 196.44	$ 6.67	3.5%
300	$ 225.88	$ 233.48	$ 7.60	3.4%
400	$ 298.10	$ 307.56	$ 9.46	3.2%
500	$ 370.32	$ 381.64	$ 11.32	3.1%
750	$ 550.87	$ 566.83	$ 15.96	2.9%
1000	$ 731.42	$ 752.03	$ 20.61	2.8%

RATES

	BLOCK	CURRENT RATES	PROPOSED RATES
FIRST	3 CCF	$ 6.89	$ 7.25
NEXT	47 CCF	$ 0.55026	$ 0.23932
OVER	50 CCF	$ 0.47556	$ 0.15122
GAC		$ 0.22750	$ 0.56994
TAX FACTOR		0.9735	0.9735

HAMMONDSPORT SC 1 RESIDENTIAL SERVICE
BILL IMPACT ON AVERAGE RESIDENTIAL HEATING CUSTOMER

ANNUAL BILLS

MONTH	THM USAGE	CURRENT RATES	PROPOSED RATES	$ INCREASE	% INCREASE
JAN	236	$ 169.98	$ 178.34	$ 8.36	4.9%
FEB	204	$ 148.10	$ 155.57	$ 7.47	5.0%
MAR	195	$ 141.95	$ 149.17	$ 7.22	5.1%
APR	145	$ 107.77	$ 113.59	$ 5.82	5.4%
MAY	70	$ 56.50	$ 60.22	$ 3.72	6.6%
JUN	34	$ 30.51	$ 33.05	$ 2.54	8.3%
JUL	27	$ 25.12	$ 27.39	$ 2.27	9.0%
AUG	23	$ 22.03	$ 24.15	$ 2.12	9.6%
SEP	25	$ 23.57	$ 25.77	$ 2.20	9.3%
OCT	49	$ 42.05	$ 45.18	$ 3.13	7.4%
NOV	106	$ 81.11	$ 85.84	$ 4.73	5.8%
DEC	136	$ 101.62	$ 107.18	$ 5.56	5.5%
TOTAL	1250	$ 950.31	$ 1,005.45	$ 55.14	5.8%

MONTHLY BILL TABLE

BILL USAGE	CURRENT RATES	PROPOSED RATES	$ INCREASE	% INCREASE
3	$ 6.64	$ 7.98	$ 1.34	20.2%
5	$ 8.18	$ 9.60	$ 1.42	17.4%
10	$ 12.03	$ 13.64	$ 1.61	13.4%
20	$ 19.73	$ 21.73	$ 2.00	10.1%
40	$ 35.13	$ 37.90	$ 2.77	7.9%
47	$ 40.52	$ 43.56	$ 3.04	7.5%
50	$ 42.83	$ 45.99	$ 3.16	7.4%
75	$ 59.92	$ 63.78	$ 3.86	6.4%
100	$ 77.01	$ 81.57	$ 4.56	5.9%
150	$ 111.19	$ 117.15	$ 5.96	5.4%
200	$ 145.37	$ 152.73	$ 7.36	5.1%
250	$ 179.56	$ 188.31	$ 8.75	4.9%
300	$ 213.74	$ 223.89	$ 10.15	4.7%
400	$ 282.11	$ 295.05	$ 12.94	4.6%
500	$ 350.47	$ 366.21	$ 15.74	4.5%
750	$ 521.39	$ 544.11	$ 22.72	4.4%
1000	$ 692.30	$ 722.01	$ 29.71	4.3%

RATES

	BLOCK	CURRENT RATES	PROPOSED RATES
FIRST	3 THM	$ 5.90	$ 6.11
NEXT	47 THM	$ 0.56200	$ 0.23235
OVER	50 THM	$ 0.47800	$ 0.13794
GAC		$ 0.18754	$ 0.55481
TAX FACTOR		0.9735	0.9735

		RATE INCREASE REQUESTED ($000)		RATE INCREASE JOINT PROPOSAL ($000)	
CORNING					
SC 1	GENERAL	$ 946	8.5%	$ 467	4.2%
SC 14	AGGREGATION	$ 468	37.0%	$ 238	18.8%
SC 6	TRANSPORTATION	$ 3	0.9%	$ 3	0.9%
SC 2	FIRM INDUSTRIAL SALES	$ 19	17.9%	$ 7	6.6%
SC 7	INDUSTRIAL TRANSPORTATION	$ 216	32.0%	$ 89	13.2%
BATH					
SC 1	FIRM SALES FOR RESALE	$ 44	2.4%	$ 26	1.4%
SC 2	TRANSPORTATION FOR RESALE	$ -		$ -	
SC 3	HAMMONDSPORT - SALES FOR RESALE	$ 21	24.7%	$ 12	14.1%
SC 4	HAMMONDSPORT - TRANSPORTATION	$ 14	29.8%	$ 8	17.0%
HAMMONDSPORT					
SC 1	RESIDENTIAL	$ 13	4.9%	$ 12	4.5%
SC 7	AGGREGATION	$ 1	14.4%	$ 1	14.4%
SC 2	COMMERCIAL	$ 9	3.9%	$ 7	3.0%
SC 4	TRANSPORTATION	$ 5	5.5%	$ 5	5.5%
TOTAL		$ 1,759	8.0%	$ 875	4.0%

PROPOSED RATE DESIGN - CALCULATION OF RATE INCREASE BY BLOCK

	RATE YEAR REVENUES	RATE YEAR GAS COSTS	RATE YEAR GRT	RATE YEAR NET OF GAS COSTS AND GRT	RATE INCREASE	% OVERALL	% NET OF GAS COSTS AND GRT
REV SCH 12 (Incl. Staff Adjustments)	$22,033,671	$15,142,580	$ 449,383	$6,441,908	$874,518	3.97%	13.60%

SC 1 CORNING

BLOCK	TARIFF RATE	BASE COST OF GAS	LAUF FACTOR	UNBUNDLED MARGIN RATE	UNBUNDLED PROPOSED RATE	PROPOSED INCREASE	PROPOSED % INCREASE	OVERALL % INCREASE NET OF GAS & GRT	MULTIPLE OF OVERALL % INCREASE	BILLING DETERMINANTS	INCREASED REVENUES
FIRST 3 CCF	$ 6.89	$ 1.01193	1.0152	$ 5.86	$ 7.25	$ 1.39	23.8%	13.6%	1.75	114,810	$ 160,123
NEXT 47 CCF	$ 0.55026	$ 0.33731	1.0152	$ 0.20782	$ 0.23932	$ 0.03150	15.2%	13.6%	1.00	4,361,130	$ 137,380
OVER 50 CCF	$ 0.47556	$ 0.33731	1.0152	$ 0.13312	$ 0.15122	$ 0.01810	13.6%	13.6%	1.00	9,338,090	$ 169,024
										TOTAL	$ 466,527
GAC	$ 0.22750				$ 0.58994						
TAX FACTOR	0.9735										

SC 14 CORNING AGGREGATION

BLOCK	TARIFF RATE	BASE COST OF GAS	LAUF FACTOR	UNBUNDLED MARGIN RATE	UNBUNDLED PROPOSED RATE	PROPOSED INCREASE	PROPOSED % INCREASE	OVERALL % INCREASE NET OF GAS & GRT	BILLING DETERMINANTS	INCREASED REVENUES
FIRST 3 CCF	$ 5.65	$ -	0	$ 5.85	$ 7.25	$ 1.40	24.0%	13.6%	57,252	$ 80,421
NEXT 47 CCF	$ 0.20344	$ -	0	$ 0.20344	$ 0.23932	$ 0.03588	17.6%	13.6%	1,611,630	$ 57,827
OVER 50 CCF	$ 0.12874	$ -	0	$ 0.12874	$ 0.15122	$ 0.02248	17.5%	13.6%	4,442,170	$ 99,879
									TOTAL	$ 238,127
GAC	$ -				$ -					
TAX FACTOR	0.9735									

SC 6 CORNING TRANSPORTATION

BLOCK	TARIFF RATE	BASE COST OF GAS	LAUF FACTOR	UNBUNDLED MARGIN RATE	UNBUNDLED PROPOSED RATE	PROPOSED INCREASE	PROPOSED % INCREASE	OVERALL % INCREASE NET OF GAS & GRT		BILLING DETERMINANTS	INCREASED REVENUES
All CCF	$ 0.12874	$ -	0	$ 0.12874	$ 0.13000	$ 0.00126	1.0%	13.6%	0.07	2,525,190	$ 3,182
TAX FACTOR	0.9735										

SC 2 CORNING FIRM INDUSTRIAL SALES

BLOCK	TARIFF RATE	BASE COST OF GAS	LAUF FACTOR	UNBUNDLED MARGIN RATE	UNBUNDLED PROPOSED RATE	PROPOSED INCREASE	PROPOSED % INCREASE	OVERALL % INCREASE NET OF GAS & GRT		BILLING DETERMINANTS	INCREASED REVENUES
FIRST 2,500 CCF	$ 1,708.98	$ 843.28	1.0152	$ 852.88	$ 968.87	$ 115.99	13.6%	13.6%	1.00	60	$ 6,960
NEXT 12,500 CCF	$ 0.428004	$ 0.33731	1.0152	$ 0.08557	$ 0.09721	$ 0.01164	13.6%	13.6%	1.00	-	$ -
NEXT 25,000 CCF	$ 0.419697	$ 0.33731	1.0152	$ 0.07726	$ 0.08777	$ 0.01051	13.6%	13.6%	1.00	-	$ -
OVER 40,000 CCF	$ 0.397788	$ 0.33731	1.0152	$ 0.05535	$ 0.06288	$ 0.00753	13.6%	13.6%	1.00	-	$ -
										TOTAL	$ 6,960
GAC	$ 0.23031				$ 0.57275						
TAX FACTOR	0.9735										

SC 7 CORNING INDUSTRIAL TRANSPORTATION

BLOCK	TARIFF RATE	BASE COST OF GAS	LAUF FACTOR	UNBUNDLED MARGIN RATE	UNBUNDLED PROPOSED RATE	PROPOSED INCREASE	PROPOSED % INCREASE	OVERALL % INCREASE NET OF GAS & GRT		BILLING DETERMINANTS	INCREASED REVENUES
CORNING INC - WEST END	$ 0.04639	$ -	0	$ 0.04639	$ 0.05270	$ 0.00631	13.6%	13.6%	1.00	9,750,380	$ 61,516
DRESSER RAND	$ 0.04639	$ -	0	$ 0.04639	$ 0.05270	$ 0.00631	13.6%	13.6%		777,000	$ 4,902
POLIO DAIRY CORP	$ 0.04639	$ -	0	$ 0.04639	$ 0.05270	$ 0.00631	13.6%	13.6%		3,590,000	$ 22,649
TAX FACTOR	0.9735										

BATH

BLOCK	TARIFF RATE	BASE COST OF GAS	LAUF FACTOR	UNBUNDLED MARGIN RATE	UNBUNDLED PROPOSED RATE	PROPOSED INCREASE	PROPOSED % INCREASE	OVERALL % INCREASE NET OF GAS & GRT		BILLING DETERMINANTS	INCREASED REVENUES
SC 1 FIRM SALES FOR RESALE	$ 0.33116	$ 0.27446	1.0000	$ 0.05670	$ 0.06441	$ 0.00771	13.6%	13.6%	1.00	3,306,000	$ 25,493
SC 3 TRANSPORTATION FOR RESALE	$ 0.05644	$ -	0	$ 0.05644	$ 0.06441	$ 0.00797	14.1%	13.6%		1,546,000	$ 12,323
SC 2 HAMMONDSPORT - SALES FOR RESALE	$ 0.32885	$ 0.27446	1.0000	$ 0.05439	$ 0.05941	$ 0.00502	9.2%	13.6%		-	$ -
SC 4 HAMMONDSPORT - TRANSPORTATION	$ 0.05059	$ -	0	$ 0.05059	$ 0.05941	$ 0.00882	17.4%	13.6%		948,000	$ 8,362
TAX FACTOR	0.9991										
TAX FACTOR	0.9735										

SC 1 HAMMONDSPORT

BLOCK	TARIFF RATE	BASE COST OF GAS	LAUF FACTOR	UNBUNDLED MARGIN RATE	UNBUNDLED PROPOSED RATE	PROPOSED INCREASE	PROPOSED % INCREASE	OVERALL % INCREASE NET OF GAS & GRT		BILLING DETERMINANTS	INCREASED REVENUES
(VOLUMES IN CCF, RATES CONVERTED)											
FIRST 3 THM	$ 5.90	$ 1.08756	1.0131	$ 4.80	$ 6.11	$ 1.31	27.2%	13.6%	2.00	3,612	$ 4,716
NEXT 47 THM	$ 0.57886	$ 0.36252	1.0131	$ 0.21159	$ 0.23932	$ 0.02773	13.1%	13.6%	0.96	127,323	$ 3,531
OVER 50 THM	$ 0.49234	$ 0.36252	1.0131	$ 0.12507	$ 0.14208	$ 0.01701	13.6%	13.6%	1.00	187,481	$ 3,189
										TOTAL	$ 11,436
GAC	$ 0.18754				$ 0.55481						
TAX FACTOR	0.9735										

SC 2 HAMMONDSPORT

BLOCK	TARIFF RATE	BASE COST OF GAS	LAUF FACTOR	UNBUNDLED MARGIN RATE	UNBUNDLED PROPOSED RATE	PROPOSED INCREASE	PROPOSED % INCREASE	OVERALL % INCREASE NET OF GAS & GRT		BILLING DETERMINANTS	INCREASED REVENUES
(VOLUMES IN CCF, RATES CONVERTED)											
FIRST 3 THM	$ 5.90	$ 1.08756	1.0131	$ 4.80	$ 6.11	$ 1.31	27.2%	13.6%	2.00	924	$ 1,206
NEXT 47 THM	$ 0.50161	$ 0.36252	1.0131	$ 0.13434	$ 0.15261	$ 0.01827	13.6%	13.6%	1.00	333,288	$ 6,089
OVER 14,500 THM	$ 0.46865	$ 0.36252	1.0131	$ 0.10138	$ 0.11517	$ 0.01379	13.6%	13.6%	1.00	-	$ -
OVER 15,000 THM	$ 0.46350	$ 0.36252	1.0131	$ 0.09623	$ 0.10932	$ 0.01309	13.6%	13.6%	1.00	-	$ -
										TOTAL	$ 7,296
GAC	$ 0.18754				$ 0.55481						
TAX FACTOR	0.9735										

SC 4 HAMMONDSPORT TRANSPORTATION
(VOLUMES IN CCF, RATES CONVERTED)

BLOCK	TARIFF RATE	BASE COST OF GAS	LAUF FACTOR	UNBUNDLED MARGIN RATE	UNBUNDLED PROPOSED RATE	PROPOSED INCREASE	PROPOSED % INCREASE	OVERALL % INCREASE NET OF GAS & GRT		BILLING DETERMINANTS	INCREASED REVENUES
All THM	$ 0.09463	$ -	0	$ 0.09463	$ 0.10000	$ 0.00537	5.7%	13.6%	0.42	998,670	$ 5,363
TAX FACTOR	0.9735										

SC 7 HAMMONDSPORT AGGREGATION

BLOCK	TARIFF RATE	BASE COST OF GAS	LAUF FACTOR	UNBUNDLED MARGIN RATE	UNBUNDLED PROPOSED RATE	PROPOSED INCREASE	PROPOSED % INCREASE	OVERALL % INCREASE NET OF GAS & GRT		BILLING DETERMINANTS	INCREASED REVENUES
(VOLUMES IN CCF, RATES CONVERTED)											
FIRST 3 THM	$ 4.82	$ -	0	$ 4.82	$ 6.11	$ 1.29	26.7%	13.6%		168	$ 216
NEXT 47 THM	$ 0.22352	$ -	0	$ 0.22352	$ 0.23932	$ 0.01580	7.1%	13.6%		5,922	$ 94
OVER 50 THM	$ 0.12258	$ -	0	$ 0.12258	$ 0.14208	$ 0.01950	15.9%	13.6%		3,754	$ 73
TAX FACTOR	0.9735										
										TOTAL	$ 383
										GRAND TOTAL	$ 874,518
										DIFFERENCE	$0

APPENDIX A

SCHEDULE G

GAS CAPACITY

Corning Natural Gas
Capacity Asset Cost Mitigation

Mitigation of 3 Mdt of DTI FTNN Capacity on a 12 month, max rate basis.
Approximate annual capacity cost is $200,000.

Contract Periods		Imputations *			
		Annual Imputation	9/01 - 8/02 Distribution	Total Imputed	
01-Apr-01	31-Aug-01	$ -	$ -	$ -	
01-Sep-01	31-Aug-02	$ -	$ -	$ -	
01-Sep-02	31-Aug-03	$ 200,000	$ -	$ 200,000	**
01-Sep-03	31-Aug-04	$ 200,000	$ 50,000	$ 250,000	
01-Sep-04	31-Aug-05	$ 200,000	$ 50,000	$ 250,000	
01-Sep-05	31-Mar-06	$ 115,000	$ 80,000	$ 195,000	
				$ 895,000	

* **Recovery of costs for the 01-Sep-01 thru 31-Aug-02 contract period is moved forward and distributed as indicated.**

** **Fees for Asset Management and Gas Supply Purchasing Consultant may be included in the first year's imputation up to $30,000.**

APPENDIX B

COMMUNICATION PROTOCOLS

Communication Protocols Information
To be Routinely Supplied to DPS Staff

Corning Natural Gas Corporation ("Corning" or "Company") will continue to provide to the Staff of the Office of Gas and Water, Department of Public Service ("DPS"), the following information by the end of the first week of each calendar month and/or quarter, as specified below. A negative rate adjustment of $2,000 per month for any late or incomplete report may be assessed after the 20th of each month. Follow-up discussions /meetings may ensue if necessary.

Items may be added to, or deleted from, this list during the term of the Agreement after discussion and agreement between Corning and DPS Staff.

Monthly Basis

1) The status of storage injections and withdrawals as of the first of the month (i.e., actual versus optimal target figures), for DTI and TCO storage contracts. If the DTI actual figure is 12.77% or more lower than the optimal target figure, the reason(s) for such difference will be provided, along with the Company's plan to reduce the difference (if appropriate). If Corning has excess storage capacity (e.g., due to the migration of large customers from sales to transportation service), it will describe how it currently is, or plans to, mitigate the cost of such excess.

2) A detailed description (i.e., a discussion with sufficient specificity to convey all material points and such other facts as may be reasonably viewed as necessary to understanding the transaction in question) of any transportation or storage capacity assignments, off-system sales and packaged & streaming sales. A detailed account of gas portfolio-related agreements that the Company has executed, with other parties.

3) A detailed description of any agency or asset management agreements the Company is contemplating (for purposes of this Agreement contemplating means giving such a degree of consideration that a substantial possibility exists that the Company would enter such an Agreement) entering into, with other parties, or has executed since the last monthly report.

4) The status and related data of transportation balancing performance at both the city-gate and burner-tip for all transportation customers, where possible. This should include but not be limited to nominations actual city-gate receipts, and actual usage.

5) A list of issues of concern to the Company regarding its Customers and/or the natural gas industry.

<u>Quarterly Basis</u>

1) The status of the Company's capacity (transportation and storage) and long-term gas supply contracts, along with a description of all portfolio changes that the company has executed and/or is contemplating.

APPENDIX C

LAUF CALCULATION

Computation of Allowable Annual Gas Cost Recoveries

Total gas cost recoveries shall be computed by multiplying total sales times the approved loss factor times the weighted average cost of gas (WACOG). Following are definitions of the components used in computing the annual gas cost:

1) Total Sales - This represents total metered gas consumption except for transportation customers. Gas for use by company facilities and free by contract is included in total sales.

2) Loss and Unaccounted for Factor (LAUF or loss factor) - The loss factor is the mathematical complement of total system losses as determined in a rate proceeding. This factor must be approved by the Commission in a rate proceeding and continues unchanged until the next rate proceeding.

   a) It is agreed that the loss factors in this proceeding will be 1.0000 for the Bath system and 1.00083 for the Hammondsport system. These will become effective September 1, 2002. It is agreed that the loss factor for the Corning system will be set at the following 3 progressively declining factors:

      1.02041 to become effective September 1, 2002,
      1.01833 to become effective September 1, 2003,and
      1.01626 to become effective September 1, 2004.

   b) Total System Loss Percent - The total system loss is computed on a throughput basis where the difference between the total gas metered into the system less the total metered consumption (including transportation and sales customers) is divided by the total gas metered into the system.

3) WACOG - The method for calculating the WACOG is as follows:

WACOG = <u>Company's own customers (divided by)</u>

Quantities of gas taken for delivery to the Company's own customers. This includes transportation customer's LAUF gas, specifically quantities of gas related to the difference between the overall actual system loss rate and the fixed loss rate that transportation customers are required to bring to the city gate.

Computation of the Annual Gas Cost Reconciliation is the difference between the previously described allowable annual gas cost recoveries and the revenue collected through the base cost of gas, which is included in the rates, and GAC recoveries.

APPENDIX D

GAS SAFETY

Appendix D

Proposed Corning Natural Gas Corporation
Safety Related Performance Measures

The Gas Safety Section is dedicated to improving both the safe operation and the system integrity of gas distribution systems in New York State. Performance measurement standards have been developed as a method to ensure that the New York State utilities focus attention on the critical operational areas associated with the safe delivery of natural gas.

The Corning Natural Gas Company (Corning or the company) has one of the smallest distribution systems operating in New York State based upon the total number of miles for distribution mains and the total number of services. As part of the pending Joint Proposal, Corning and Staff agree to the implementation of the following performance measures. These performance measures were selected to influence the company's focus on these specific areas to provide improvements in the current levels of performance and system integrity.

Performance Measures

The following safety and reliability performance measures should be established effective on the date of the Joint Proposal. The proposed performance measures will help to provide Corning with the economic incentives to maintain gas safety and reliability at certain levels of quality or suffer rate adjustments.

Staff believes, and Corning has agreed, to the following five items that the company should focus on in order to increase gas safety: replacement of bare unprotected steel pipe; addition of cathodic protection to coated unprotected steel pipe where feasible; replace bare steel service lines; reduce outstanding leak backlog; and develop and implement a Quality Assurance (QA) Program. Each of these items has specific performance standards and resulting rate adjustments for failure to meet the performance standards. The total maximum rate adjustment is 24 basis points per year, with the individual items broken down as follows: 6 basis points for failure to meet the required replacement of bare unprotected steel pipe; 2

basis points for failure to evaluate and document the results for coated unprotected pipe in any rate year and an additional two basis points adjustment for failure to implement measures to cathodically protect those sections identified in the evaluation in any rate year; 4 basis points for failure to meet the required replacement of bare steel services; 6 basis points for failure to reduce outstanding unrepaired leak backlog; and a 4 basis point penalty for failure to develop and implement a QF Program.

For each basis point assessed during a given calendar year, beginning with the effective date of the rates established by the Joint Proposal, Corning shall credit customers $723. However, in cases where the company has a reasonable basis for asserting that its failure to satisfy a specific recommendation is due to factors outside its reasonable control, Staff and the company shall discuss the matter and seek in good faith to reach agreement. If after such good faith efforts the company and Staff do not reach an agreement, the company may invoke the dispute resolutions procedures set forth in **Section __** of the Joint Proposal.

1. Replacement of Bare Steel Pipe

Bare steel pipe is vulnerable to leakage and failure. The replacement of this pipe will have a positive effect in reducing the rate of system wide corrosion to improve safety. Based on its annual reports to the United States Department of Transportation for the years ending 2000-2001, Corning has replaced one (1) mile of bare steel pipe in calendar year 2001 by reducing its inventory from 89 to 88 miles. Despite the one (1) mile reduction, Corning experienced an increase in the number of reported corrosion leaks from 56 in 2000 to 62 in calendar year 2001. Therefore, Corning is required to evaluate its gas system and prioritize segments of bare steel pipe for elimination or replacement in order to accomplish a reduction of corrosion related leaks.

In each rate year, Corning shall reduce its unprotected bare steel inventory by a minimum of three (3) miles. In any rate year that Corning fails to achieve the three-mile reduction, an assessment of six (6) basis points shall be made.

2. Replace Bare Steel Service Lines

Under the Commission's order in Case 00-G-0354,[1] Corning was directed to replace 150 unprotected bare steel services by rate year-end. Corning failed to comply with the Rate Order and did not meet this performance measure. Although Corning failed to meet this measure, Staff recommends the company be required to continue efforts to replace the 150 bare steel service lines. Bare steel service lines are prone to deterioration and are a major source of reported gas leaks. Leaks from bare steel service lines also present risks to both customers and the general public. The replacement level of 150 bare steel services will improve gas safety overall by further reduction of these facilities.

In each rate year, Corning shall evaluate at least eight (8) miles of this pipe and take measures to cathodically protect segments identified by the evaluation as economically feasible. Failure to evaluate and document the results for at least eight miles of coated unprotected pipe in any rate year shall result in an assessment of two (2) basis points. Failure to implement measures to cathodically protect those sections identified in the evaluation in any rate year shall result in an assessment of two (2) basis points.

3. Evaluate and Add Cathodic Protection to Coated Unprotected Steel Pipes Where Feasible

Corning identifies 38 miles of unprotected-coated steel mains remaining in its inventory. Coated pipe is generally more resistant to corrosion than bare pipe. Corrosion can and does occur on unprotected, localized areas where coating defects occur. Cathodic protection is a process of protecting coated gas pipelines against corrosion through the application of electric current. This increases the level of safety and reliability of the distribution system by retarding or eliminating localized corrosion and potential gas leaks. The addition of cathodic protection will also benefit the company as the

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[1] Case 00-G-0354, Proceeding on motion of the Commission as to the Rates, Charges, Rules and Regulations of Corning Natural Gas Corp. for Gas Service (issued February 12, 2001) (Rate Order).

life of these facilities will be extended and will defer the potential need for more immediate and expensive facility repairs or replacements.

Corning shall replace a minimum of 150 unprotected bare steel service lines each rate year. Failure to eliminate a minimum of 150 bare steel services in any rate year shall result in an assessment of four (4) basis points.

4. Reduce Outstanding Un-Repaired Leak Backlog

Leaks are categorized by severity, location, and are classified as Types 1,2 2A and 3. Type 3 leaks are not considered hazardous and only monitoring is required. The other types of leaks are considered higher in risk potential and require surveillance and repair in accordance with the Commission's pipeline safety code in 16 NYCRR 255.805. In addition, Staff also utilizes the backlog of leaks scheduled for repair as a measure to assess a company's leak repair efforts.

Corning shall limit the number of outstanding repairable leaks (Types 1, 2 and 2A) to 10 or less as of December 31 of each calendar year wholly or partially included in the period covered by the rate case. Corning's failure to meet this target for any year shall result in an assessment of six (6) basis points.

5. Develop and Implement a Quality Assurance Program

Corning presently does not utilize any type of formalized Quality Assurance (QA) program to ensure its operations are performed in accordance with either pipeline safety codes or company procedures. A well-designed and implemented QA program provides oversight assurance for improving safety and system reliability by monitoring construction and maintenance activities for procedural compliance. The company is required to establish a QA program with the following components:

- a documented program which encompasses the tasks of evaluating, documenting and assessing how the company's work activities, with respect to quality control, are being implemented.

- an annual schedule identifying the amount and types of assessments to be performed.

- process for conducting operational record reviews and employee field observations for both Corning and contractor employees as appropriate.

- develop and generate periodic reports of QA program findings to Senior Management. These reports will detail specific activities, actual and potential problem areas. The reports will also provide recommendations for operational improvements.

In the **first rate year**, the company shall develop a written Quality Assurance (QA) Program, acceptable to both Staff and Corning that outlines the assessment standards and process and the reporting requirements.

In the **second rate year**, Corning shall implement the program and specify and complete a scheduled number of focused QA assessments. The QA program shall also contain a procedure addressing operational deficiencies that are found with the measures required to rectify adverse conditions and minimize reoccurrence.

In the **second and subsequent rate years**, the Corning Quality Assurance program shall provide for a year-end report that identifies QA program assessment findings for that rate year and recommends corrective action. This report shall be provided to Senior Management within 30 days after the end of the rate year.

In the **third and subsequent rate years**, Corning shall maintain and utilize the quality assurance program as identified above. Failure to perform any of these additional performance measure requirements shall result in an assessment of four (4) basis points.