STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

CASE 16-G-0369 – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Corning Natural Gas Corporation for Gas Service.

NEW YORK STATE DEPARTMENT OF PUBLIC SERVICE STAFF STATEMENT IN SUPPORT OF THE JOINT PROPOSAL

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INTRODUCTION

On March 7, 2017, Corning Natural Gas Corporation (Corning or Company), Staff of the New York State Department of Public Service (Staff) and Multiple Intervenors (MI) (Collectively the "Signatory Parties"), submitted a Joint Proposal (JP) recommending a comprehensive resolution of all issues raised in the above-captioned proceeding. By this Statement in Support of the Joint Proposal (Statement), Staff recommends that the Commission adopt the provisions of the JP and establish a three-year gas rate plan for Corning to begin on June 1, 2017.[1]

BACKGROUND

On June 17, 2016, Corning filed revised tariff leaves for a three-year rate plan increasing revenues by $5.928 million, $1.164 million, and $0.668 million for years one through three. The Company also proposed a potential mechanism for years four and five through which it would recover carrying costs for incremental increases in rate base over the previous

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[1] Under the proposed rate plan, Rate Year 1 is the 12 months ending May 31, 2018, Rate Year 2 is the 12 months ending May 31, 2019, and Rate Year 3 is the 12 months ending May 31, 2020.

year. On October 28, 2017, Staff and MI filed testimony, with Staff proposing a one year rate increase of $0.831 million.

Corning filed a notice of impending settlement on November 18, 2016, with talks beginning November 22, 2017. Talks continued through February 2017, with the Company agreeing, on December 22, 2016 and February 1, 2017, to extensions of the suspension period, subject to a make-whole provision, to allow more time for talks to continue. The JP, signed by Corning, Staff and MI,[2] was filed on March 7, 2017.

OVERVIEW OF THE JOINT PROPOSAL

As discussed in greater detail below, and in the various sections of this Statement, the JP contains a number of provisions designed to protect and benefit ratepayers.

In addition to setting rates at a level that ensures continued safe and adequate service, the JP proposes to levelize the rate increase over the three years of the rate plan to avoid rate shock and smooth the effects on ratepayers. Beyond rates, the JP provides incentives for Corning to continue to pursue improvements to its infrastructure, reducing leaks, leak prone pipes and lost and unaccounted for gas; and customer service, including keeping service appointments, maintaining the existing low income program, and expanding payment options.

The JP is also forward looking in its pursuit of new customers for the Company, thereby reducing fixed costs, new business opportunities related to the Commission’s REV initiative, and new sources of supply.

[2] The remaining active party, the Utility Intervention Unit of the New York Department of State (UIU), did not sign the JP, but stated that it would not oppose the JP.

STANDARD OF REVIEW

The Commission's Settlement Guidelines state that all decisions, including those to adopt the terms of settlement agreements, must be just and reasonable and in the public interest.[3] In addition to compliance with proper procedures, determining whether the terms of a joint proposal are in the public interest involves substantive consideration of the following:

1. consistency with the law and regulatory economic, social and environmental State and Commission policies;
2. whether the terms of the joint proposal compare favorably with the likely result of a fully litigated case and produce a result within the range of reasonable outcomes;
3. whether the joint proposal fairly balances the interests of ratepayers, investors and the long-term soundness of the utility; and
4. whether the joint proposal provides a rational basis for the Commission's decision.

Additional consideration is given to the completeness of the record and whether the joint proposal is contested. The Settlement Guidelines also explain that the Signatory Parties' burden to show the agreement compares favorably with a litigated result increases when the record is less developed.[4]

The JP entered into in this case resolves all outstanding issues presented in testimony and settlement negotiations. In doing so, it fully comports with the Commission's Settlement Guidelines. Given the various interests of the specific parties involved in the negotiations, it is

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[3] Cases 90-M-0225 and 92-M-0138, Settlement Procedures and Guidelines, Opinion, Order and Resolution Adopting Settlement Procedures and Guidelines (issued March 24, 1992) (Settlement Guidelines), p. 30.

[4] Settlement Guidelines, p. 31.

clear that the JP is an agreement reached between normally adversarial parties.

Comparing the litigation positions[5] of the Company, Staff and MI to the terms of the JP supports the conclusion that the JP produces a result within the range that could be expected in litigation. The non-levelized rate increases under the agreement are significantly lower than the Company's position at the time the JP was executed. For example, the Rate Year 1 non-levelized revenue requirement is much closer to the revenue requirement recommended by Staff in testimony.

The JP contains various provisions that place a strong emphasis on the Company managing its costs, and provides enhanced incentives to that end (e.g., net-plant reconciliation, the gas safety performance metrics, leak-prone pipe (LPP) productivity incentive, and customer service performance mechanism). At the same time, Corning will receive sufficient additional revenues enabling it to implement new programs, and make repairs and substantial improvements to its gas system to ensure the continued provision of safe and reliable service. Moreover, the JP continues reconciliation mechanisms and reporting requirements characteristic of Commission-adopted rate plans.

The JP's recommended allowed rate of return (ROE_ of 9.0% is a fair compromise between the Companies' position in its original filing and Staff's position in its direct testimony. Moreover, the 9.0% ROE is comparable to the ROE allowed for other major utilities operating under a Commission-approved

[5] Parties' testimonies are referenced herein only as examples of potential litigated outcomes.

multi-year rate plan.[6] Furthermore, the earnings sharing mechanism mandates ratepayer sharing if over-earning were to occur.

In sum, the JP should be adopted because it satisfies the criteria the Commission has established, pursuant to the Public Service Law (PSL), for judging the reasonableness of settlements, namely that safe and adequate service be provided at just and reasonable rates. Furthermore, the JP achieves a fair balance of interests among the Signatory Parties, and produces results that may not have been attainable except through a joint proposal.

Support Among the Parties

Signatories to the JP represent varying interests, including ratepayer protection, climate change and environmental protection, competitive retail energy markets, the provision of safe and reliable service at just and reasonable rates, and rate certainty. The support for the JP demonstrates that it addresses a number of important issues to the satisfaction of a diverse group of Signatory Parties. In addition to the Signatory Parties, UIU is not opposing the JP.

[6] Recently, the Commission adopted a 9.0% ROE, as recommended in the joint proposal, in the Consolidated Edison Company of New York, Inc. (Con Edison) rate proceeding. Cases 16-E-0060 and 16-G-0061, Order Approving Electric and Gas Rate Plans (issued January 25, 2017) (2017 Con Edison Rate Order). The Commission also approved a 9.0% ROE, as proposed by the joint proposal, in the National Grid rate proceedings. Cases 16-G-0058 and 16-G-0059, The Brooklyn Union Gas Company d/b/a National Grid NY (National Grid NY) and KeySpan Gas East Corporation d/b/a National Grid (National Grid LI), Order Adopting Terms of Joint Proposal and Establishing Gas Rate Plans (issued December 16, 2016) (2016 National Grid Rate Order).

Additionally, as part of the JP, the Company has agreed to collaborative meetings with Staff and other interested parties on a variety of issues, including the JP's Gas Infrastructure Enhancement Program and the embedded cost of service study for the Company's next rate filing. The Signatory Parties recognize the importance of an open exchange of ideas and information with respect to these topics. These collaborative processes ensure that the Company, Staff and other interested parties will have the opportunity to work together to develop mutually beneficial projects and ideas.

Adequacy of the Record

The record is adequate to justify adoption of all of the terms of the JP. These terms are based on information and data supplied by Corning, Staff and other parties in their testimony, during the course of discovery, updates and/or during negotiations. The parties had ample opportunity to review the documentation provided by the Company and to conduct extensive discovery into the content and development of those documents. The Active Parties had the opportunity to review all initial and rebuttal testimony prior to the finalization of the JP, ensuring that all parties' perspectives were given consideration during the course of settlement negotiations. Moreover, all Active Parties had the opportunity to participate in the settlement negotiations and many parties actively participated in the settlement negotiations process.[7]

The JP is a detailed proposal to the Commission submitted by the Signatory Parties as to the costs and revenues underlying the proposed base rates and mechanisms provided for in the JP. These costs and revenues, along with the other terms

[7] In addition, an evidentiary hearing will be held on May 1, 2017, at which the record may be further developed.

of the JP, provide a sound, equitable and rational evidentiary basis on which to determine that the provisions of the JP are reasonable, therefore, it should be adopted.

Public Interest

When considering whether the JP is in the public interest, the document should be considered as a whole, with each individual provision providing support and balance to the others. While Staff is aware that the Commission may accept, reject, or modify, in whole or in part, any recommendation or term of the JP, Staff believes that the JP fairly resolves the ratemaking and policy initiatives of the Commission, thereby providing improved service at an equitable and well-reasoned cost. The JP meets the public interest standard and, thus, should be approved.

The JP should be adopted because it not only satisfies the criteria established by the Commission for judging the reasonableness of settlements, but it also provides for enhanced performance standards designed to improve the safety and reliability of the service provided by Corning while keeping rates just and reasonable. To mitigate the un-levelized increase in Rate Year 1 delivery rates, the Signatory Parties devised a rate design to moderate and levelize rates for customers over the term of the three-year rate plan, thereby minimizing the chance for rate shock.

The record is more than adequate to support the terms of the JP, which are consistent with both law and policy, have a rational basis, balance the interests of ratepayers and the Company, and compare favorably with the outcome of litigation. For these reasons, the JP should be adopted.

ELEMENTS OF THE JP[8]

III. Term and Effective Date of Rate Changes

As explained above, the JP recommends a three year rate plan for Corning. The effective date, i.e., the beginning of Rate Year 1, is June 1, 2017.

IV. Rate Plan

A. Summary of the Overall Revenue Requirement

As set forth in testimony and exhibits, Staff recommended a single year base revenue increase of $0.831 million.[9] Staff premised its recommendation on an 8.24% ROE and a 5.53% overall after-tax rate of return (ROR). On a pre-tax basis, Staff's recommendations equaled a 7.97% rate of return. In comparison, in its rebuttal filing Corning proposed a $5.554 million base rate increase, including an ROE of 10.20% and a 6.95% overall after-tax ROR.

The difference between Staff's incremental revenue requirement testimonial position of $0.831 million and the JP's $3.056 million is approximately $2.225 million. This $2.225 million difference comprises adjustments to four main areas – Operating Revenues (a decrease of $0.425 million), Operation and Maintenance (O&M) expenses (an increase of $0.982 million), ROE increased from 8.2% to 9.0% (an increase of $0.384 million), and rate base (an increase of $0.295 million).

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[8] In order to facilitate the reader's comparison of the actual provisions of the Joint Proposal with the descriptions included in this Statement in Support, the headings in this section generally correspond to the headings in the Joint Proposal. Some sections in the JP, those that were non-controversial and/or self-explanatory, are not addressed in this Statement.

[9] Staff Exhibit__(MW-1).

The difference between Staff's testimonial position and the JP reflects the benefits encompassed in the proposed three-year rate plan. In the JP, Staff accepted further increases to three main areas of expense – labor ($0.119 million), pension and OPEBs ($0.300 million) and allocations ($0.460 million). These adjustments, totaling approximately $0.880 million, are appropriate in light of the information developed in the course of these proceedings.

The JP provides for agreed upon revenue requirements for incremental gas base rate increases of $0.651 million in RY2 and $0.634 in RY3. As shown in Appendix A, Schedules 2 and 3 of the JP, the incremental revenue requirements for both RY2 and RY3 reflect changes in various expenses associated with inflation, with specific forecasts applied to some expenses, depreciation, and property taxes.

The Signatory Parties recognized the relatively large impact of RY1 increase on customers, and thus recommend levelizing the increases over the three Rate Years. The levelization is intended to approximate equal percentage increases in each of the three years, while taking into account the cessation of certain surcharges, which would be rolled into base rates at the beginning of RY1. It should be noted that other surcharges and surcredits currently being collected through the Delivery Rate Adjustment (DRA) will drop off at other times.[10]

To the extent the Commission is not able to act on the JP until after June 1, 2017, the JP includes a proposal to make Corning whole for any revenues it would have received if rates

[10] Approximately $640,000 per year will no longer be collected (surcharged) after December 31, 2018. Approximately $300,000 per year will no longer be credited as of April 30, 2018.

had gone into effect by June 1, 2017. The JP recommends that any foregone revenues be deferred for future recovery with interest calculated using the embedded cost of debt.

B. Estimated Sales and Revenues

1. Sales Forecast

The Company projected RY1 operating revenues of $24.6 million based on existing rates.[11] Staff projected total operating revenues of $25.4 million.[12] The difference was a result of Staff using 30 years of weather data to normalize the sales forecast and the Company using ten years of data. Staff's sales forecast also reflected the inclusion of the Local Production Transportation Revenue currently flowing through the DRA Mechanism.

The JP reflects a total RY1 revenue of $25.0 million at present rates which reflects Staff's 30-year weather normalized sales forecast and includes updated Local Production Transportation fees, currently flowing through the DRA mechanism, as explained below. The JP provides a reasonable revenue forecast because the use of 30 years of weather data for normalization is consistent with the Company's forecast used for reliability and system planning and is a common practice with other gas utilities in the State. Additionally, the inclusion of local production transportation revenue results in base rates more accurately reflecting the cost of service.

2. Local Production Revenues

The Company projects the total local production revenue of $0.469 million, which includes $0.286 million, for Meter and Access Revenue and $0.182 million, for Local

[11] Exhibit__(CNG-3A), p. 2.

[12] Staff Rates Panel (Rates) Testimony, p. 12.

Production Transportation Revenue (Transportation Revenue).[13] The Company proposed to continue the existing sharing mechanism associated with the local production revenues and to continue to refund the customer’s portion of the Transportation Revenue to customers via the DRA mechanism rather than including it in base rates. Currently, the difference between the actual and the imputed Meter and Access Revenue is shared 80% to customers and 20% to the Company. No Transportation Revenue is currently imputed in rates, and 80% of all Transportation Revenues are refunded to customers – the remaining 20% is retained by the Company.

Staff’s testimony accepted the Company forecast for Meter and Access Revenue, however, Staff projected the Transportation Revenue to be $0.888 million, for RY1. The projection relied on the latest 12 months of data, consistent with Staff’s firm sales forecast methodology.[14] Staff also proposed to include the Transportation Revenue in base rates, with any difference between the actual revenues and the imputed amount be shared 80%/20% between customers and the Company, respectively.

In its rebuttal testimony, the Company reaffirmed its revenue forecast citing the decline in gas throughput as a result of slowed additional gas exploration and production in the region[15] and the uncertainty with its contract with the local producer.[16]

The JP adopts a total local production revenue of $0.759 million, which includes $0.286 million in Meter and

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[13] Rates, p. 15.

[14] Rates, p. 15.

[15] Russell S. Miller (Miller) Rebuttal Testimony, p. 3.

[16] Ibid., p. 4.

Access Revenues and $0.473 million in Transportation Revenues. The forecast is reasonable because it reflects the most recently available 12 months of data. The current sharing mechanism will remain unchanged. Specifically, the difference between the actual and the imputed Meter and Access revenue target of $0.286 million would be shared 80%/20% between customers and shareholders; Transportation Revenues shall continue to be shared 80%/20% customer/shareholder. Additionally, once the shareholder's 20% portion of all local production revenue reaches $200,000, the sharing mechanism shall be reset to 90% for customers and 10% for shareholders for all revenues that exceed $200,000 annually. The targets and sharing mechanism are reasonable because they provide the Company an incentive to maximize the throughput and revenue and should be adopted.

C. Operation and Maintenance Expenses

1. Direct Labor

In the Company's filing, direct labor expense included regular hourly payroll, overtime and incentive compensation.[17] The Company also included an allowance for ten new employees: two new accountants, one engineer, one customer service representative, one human resources specialist, one training technician, one quality assurance/quality control technician, one business analyst, one billing clerk and one line maintenance position. The Company proposed an annual wage increase of 3.0% for all employees and an additional 2% equity adjustment for a group of 12 employees, which the Company determined had significantly lower wages than similar positions in the area.[18]

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[17] Firouzeh Sarhangi/L. Mario Divalentino (Sarhangi/DiValentino) Initial Testimony, p. 40.

[18] Id.

In testimony, Staff did not dispute the Company’s request for a 3% wage increase. Additionally, Staff agreed with the Company’s request for the ten new employees as these positions are necessary to support the Company’s operations. The JP therefore reflects the wage increase and the additional employees. However, Staff disagreed with the 2% equity adjustment.[19] Staff noted that the Company relied on a wage analysis of the Southern Tier to determine that the wages for these employees were significantly lower. Staff instead did a wage analysis concentrating on the Corning, NY area. Based on Staff’s analysis, the wages for the 12 employees were not significantly lower than similar positions. Additionally, Staff noted that the Company began to address this wage disparity in 2007 by granting higher wage increases and one-time bonuses to this group of employees. However the Company had not identified any difficulty in attracting or retaining employees for these positions.[20]

In rebuttal testimony, the Company agreed with Staff’s position. The JP reflects the removal of the equity adjustment. As this is a reasonable result, it should be adopted.

Staff also disagreed with the Company’s forecast of overtime expense. The Company took the historic test year overtime amount and increased it by the 3% annual wage increase. In testimony, Staff pointed out that there was a large disparity in the overtime expense for each year, and the historic test year amount appeared abnormally high. Staff recommended basing the overtime allowance on a three-year average of actual

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[19] Wright Testimony, p. 9-10.

[20] Wright Testimony, p. 9-10.

overtime expense.[21] In rebuttal testimony the Company agreed with Staff's position.[22] The JP reflects overtime expense calculated by using the three-year history of overtime hours multiplied by rate year wages. As this is a reasonable result, it should be adopted.

2. Variable Pay

As a portion of the Company's direct labor expense, Corning sought to recover the full cost of Corning's incentive compensation program, $0.068 million, assuming all relevant targets were met. The Company stated the incentive program encourages performance to meet goals that provide benefits to its customers, therefore the cost of providing these benefits should be recovered. Corning also stated that the incentive compensation program is a portion of its overall compensation package used to attract and retain personnel.[23] Staff testimony outlined requirements established under the Commission's two-pronged test for incentive pay recovery in rates. A utility must either, demonstrate that its total compensation, inclusive of incentive pay, is reasonable relative to its peers for the first prong, or, under the second prong, demonstrate that its compensation program provides quantifiable benefits to its ratepayers in a financial sense, or in terms of reliability, environmental impact, or customer service.[24]

Recovery of Corning's $0.068 million incentive compensation request was not supported under the first prong, benchmarking, given the deficiencies Staff identified in

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[21] Wright Testimony, p. 8.

[22] Sarhangi/DiValentino Rebuttal Testimony, p. 11.

[23] Sarhangi/DiValentino Initial Testimony, pp. 39-42.

[24] Gadomski Testimony, pp. 3-5.

Corning's compensation benchmarking comparison study.[25] The Company failed to demonstrate that its total compensation, inclusive of incentive pay, was reasonable relative to its peers. Alternatively, recovery of incentive pay under the second prong of that test requires a clear demonstration that the incentive pay program provides quantifiable benefits to its ratepayers.

Since the JP would only allow recovery of up to the $0.028 million of Corning's $0.068 million incentive compensation program costs that are associated with goals related to safety, reliability, customer service, and environmental protection, the resolution proposed in JP is reasonable and appropriate under the second prong of the Commission's test.

3. Insurance

Corning's rate year forecast of health insurance included a 10% per year inflation rate. In testimony, Corning asserted that, as health insurance costs continue to outpace inflation by a substantial margin, the Commission should abandon its practice of using the general inflation rate to forecast future health insurance expense.[26]

Staff argued that, consistent with the Commission's treatment of health insurance expense, health insurance expense should be increased using the general inflation rate.[27]

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[25] Gadomski Testimony, pp. 6-14.

[26] Sarhanghi/DiValentino Initial Testimony, p.23.

[27] See Case 13-W-0295, United Water New York Inc. – Rates , Order Establishing Rates (issued June 26, 2014), p. 20 (stating, "a deviation between the increase in a single pooled cost item such as medical expense, relative to the average increase, does not justify removing that item from the pool in an attempt to predict it separately").

The JP reflects the following: updating health insurance to actual 2017 costs and escalating health insurance at the general inflation rate for RYs 1, 2 and 3. Staff supports these adjustments as they reflect the Company's most recent Health insurance costs and applies the current Commission practice of using the general inflation rate for future years' costs.

In testimony, Staff also proposed an adjustment related to pay as you go costs (PAYGO). Staff testimony noted that the Company's forecast of rate year health insurance expense included costs for current retirees, otherwise referred to as PAYGO.[28] Staff asserted that, per the Commission's Pension and Other Post-Employment Benefits (OPEB) Policy statement,[29] any OPEB expense should be fully accrued by the date an employee attains eligibility for the benefit. As such, including these costs in health insurance expense is a double count, as the expenses have already been recognized and recovered by the Company.[30] Staff therefore proposed an adjustment to remove $0.038 million of PAYGO costs from rate year health insurance expense. The JP adopts Staff's recommendation regarding the removal of PAYGO costs.

4. Regulatory Costs

According to the Company's filing, regulatory costs include the amortization of rate case costs, miscellaneous amortizations and Public Service Commission (PSC) assessments.[31] The rate case cost amortization reflects the amortization of

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[28] Esposito Testimony, p. 21.

[29] Case 91-M-0890, Pension Policy Statement, Statement of Policy and Order Concerning the Accounting and Ratemaking Treatment for Pensions and Postretirement Benefits Other Than Pensions (issued September 7, 1993).

[30] Esposito Testimony, p. 25.

[31] Sarhangi/DiValentino Initial Testimony, 43.

prior period rate case costs approved in Corning’s last gas rate case totaling $0.311 million expense, as well as amortization of the current rate case costs, which the Company estimates at $1.000 million.

a. Amortization of Prior Rate Case Costs

In Staff testimony, Staff disagreed with the continued amortization of prior period rate case costs.[32] The amortization period for both the 2008 and 2011 rate case costs was five years. By the start of RY1 in this case, the time periods for both amortizations would have elapsed and the amortization should cease.

In rebuttal, the Company did not agree with the Staff proposal.[33] The Company noted that it relied on the accounting treatment authorized by the Commission in the prior rate case. Staff did not dispute that in the prior rate case the Company was allowed to continue the amortization of 2008 rate case costs, as the five year amortization period had not concluded at that time. Similarly the 2011 rate case amortization would have started in May 1, 2012 and continued over the five year period. The JP adopts Staff’s position and reflects the removal of the amortization of both the 2008 rate case expense and the 2011 rate case expense.

b. Current Rate Case Costs

In testimony, the Company forecasted rate case costs of $1.000 million.[34] The rate case costs include consultant, legal and miscellaneous costs. Included in the consultant

[32] Wright Testimony, pp. 17-20.

[33] Sarhangi/DiValentino Rebuttal Testimony, pp. 11-12.

[34] Sarhangi/DiValentino Initial Testimony, pp. 43.

category are charges for Moonstone Consulting, LLC (Moonstone). The JP specifically addresses Moonstone's fees and legal fees.

i. Moonstone Fees

Moonstone's contract is a fixed monthly fee that includes all rate case costs.[35] Staff testified that the monthly fees were being included in both the rate case expense and the outside service expense.[36] In testimony, Staff argued that these fees were a double count and therefore recommended the removal of $0.297 million from rate case costs.[37] In rebuttal, the Company argued that if Staff eliminates the Moonstone costs from rate case expense, it should include the full value of the contract in outside services.[38]

The JP removes the Moonstone fee from rate case expense and makes a $0.022 million adjustment to increase Outside Services.[39] The JP treatment of rate case expense in this manner is reasonable. The JP reflects Staff's overall position, but acknowledges that the Company should be allowed to collect the full amount of the contract that is allocated to Corning Natural Gas.

ii. Legal Fees

As shown in its filing, the Company included $1.000 million of rate case expense for the instant proceeding, amortized over five years, in its rate year expense forecast.

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[35] Wright Testimony, pp. 21-22.

[36] Ibid., p. 22

[37] Wright Testimony, p. 23.

[38] Sarhangi/DiValentino Rebuttal Testimony, p. 13.

[39] JP, appendix A, Schedule 1, p. 8 of 10.

The Company based its forecast of costs on expenses incurred in prior proceedings.[40]

Staff argued that $1.000 million of rate case expense is excessive. Staff noted that St. Lawrence Gas Company, Inc. (St. Lawrence), which is a similarly-sized utility, was allowed $0.380 million of rate case expense in its 2015 rate proceeding.[41] Staff agreed with the Company that $1.000 million was consistent with the expense incurred in other Corning proceedings, however Staff pointed out that that does not mean that such cost levels are reasonable. Staff noted that the largest driver of the proposed rate case costs was legal fees, which accounted for $0.573 million of the total costs. These fees were far in excess of the approximately $0.122 million of legal fees allowed in the 2015 rate case for St Lawrence, who also uses outside legal counsel.[42] Staff went on to explain that the Company had not done any analysis comparing its rate case expense to other utilities, nor had the Company solicited bids for any of the rate case services it utilizes, such as consulting or legal, to determine if the same services could be provided at less cost. As the Company had not performed even these basic cost controls, the Company could not determine whether or not its costs were excessive. As such, Staff recommended reducing the allowed legal expense from the Company’s request of $0.573 million to $0.200 million. Staff arrived at the $0.200 million proposed an allowance by increasing the $0.120 million allowed for St Lawrence Gas by 66% as St. Lawrence is only one data point and also to acknowledge

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[40] Esposito Testimony, p. 56.

[41] Ibid., p. 54.

[42] Ibid., p. 59.

the Company's assertion that it has a long-standing relationship with its counsel and, as such, received additional benefits that could be recognized.[43]

The JP allows for $0.475 million of rate case costs, amortized over five years. This rate allowance recognizes legal costs that were already incurred by the Company at the time of negotiations. Additionally, the JP requires that the Company perform an analysis showing that its rate case costs are comparable to other market alternatives prior to its next rate proceeding.[44] This analysis will help to ensure that the Company is controlling costs and that rate payers are not paying for excessive fees.

5. Pensions and Other Post-Employment Benefits

In its filing, the Company estimated that June 1, 2017 pension and OPEB deferral balances would be $0 and -$0.128 million respectively.[45] The Company proposed to amortize its OPEB deferral balance over five years and included amortization expense in the rate year accordingly.

Staff argued that the Company's deferral balances were incorrect. Staff noted that the Company had incorrectly accounted for capitalized pension and OPEB costs and that the Company's calculation was not consistent with the Commission's Pension and OPEB Policy Statement. Staff calculated pension and OPEB credit deferral balances at April 30, 2016 of $1.280 million and $0.218 million, respectively.[46] Consistent with the Company, Staff recommended amortizing those credit balances over five years.

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43 Esposito Testimony, p. 61.

44 JP, pp. 8-9.

45 Company Exhibit__(CNG-5), Schedule 8.

46 Esposito Testimony, pp. 8-15, 17-19

Subsequent to Staff filing testimony, the Company produced documents that raised significant questions about the pension and OPEB balances that had previously been approved by the Commission. Both Staff and the Company agreed that, due to the scope of these issues, the matter could not be resolved during the course of rate case negotiations or within the statutorily time-constrained rate case process. As such, the JP does not include any amortization of the deferral balance for either pension or OPEBs. Instead, the JP requires the Company to file a report on its pension and OPEB deferral balances and internal reserve accounts within 60 days of the issuance of a final order in this proceeding. The report should include all balances and supporting documentation for these accounts which will allow Staff to complete its audit.

This provision of the JP will ensure that the Company’s pension and OPEB balances will accurately reflect the accounts’ actual status.

6. Uncollectible Expense

Corning’s initial filing included RY1 uncollectible expense of $0.188 million, which the Company calculated using a four-year average uncollectible rate of 1.42%.[47] In testimony, Staff argued that a six year average uncollectible rate of 1.20%[48] was more suitable given a large commercial write off that occurred in one year of the four year average.[49] Staff argued that such a large write off occurred only once in the past ten years and, as such, a longer average is needed to more

[47] Malpezzi Testimony, pp. 8-9.

[48] Ibid., p. 11.

[49] Ibid., pp. 11-12.

appropriately normalize the rate. The JP reflects Staff's adjustment and should be adopted.

7. Low Income Program

Although the Company did not mention its Low Income Program in its testimony, Staff proposed to continue the current monthly bill credit of $8, as well as additional annual reporting requirements as shown in Appendix G of the JP.[50] The JP established that Corning will reclassify the $0.125 million amount for the program from regulatory costs beginning in Rate Year 1 to annual reconciliation of actual amounts and deferral of any balance. The JP provisions pertaining to Corning's Low Income Program should be adopted because assistance to customers who have difficulty paying their utility bill is a matter of health, safety and welfare.

9. Outside Services

See discussion of Moonstone Consulting Fees, Section IV.C.4.b.i, above.

11. Productivity

In its filing, the Company states that a productivity adjustment is not warranted as it has already increased its productivity by reducing its costs.[51] Staff argued that productivity is intended to capture unspecified gains and, consistent with long standing Commission precedent, Staff imputed a 1% productivity adjustment.[52] In rebuttal testimony the Company did not agree with the adjustment.[53] The JP adopts

[50] Staff Consumer Service Panel (CSP) Testimony, pp. 15-19.

[51] Sarhangi/DiValentino Initial Testimony, p. 19.

[52] Wright Testimony, pp. 25-26.

[53] Sarhangi/DiValentino Rebuttal Testimony, p. 12.

Staff's recommendation and reflects a 1% productivity imputation in Rate Year 1, Rate Year 2 and Rate Year 3.

12. Allocations

As discussed in Staff's testimony[54], Corning is owned by Corning Natural Gas Holding Corporation (Corning Holdco). Other subsidiaries of Corning Holdco include Leatherstocking Natural Gas – Pennsylvania, Leatherstocking Natural Gas – New York, which is in the development stage, and Pike Electric and Gas (Pike), which was purchased in September 2016. The Company currently only shares services and costs to its affiliates in a very limited manner, consistent with the Commission's current Order on the matter.[55] However, on November 12, 2015, Corning submitted a petition[56] requesting the ability to use any of its office personnel to provide services to affiliates. The petition is currently still under review, however, the Company expects the petition to be approved[57] and, as such, the Company believes a reduction in expenses and capital costs must be imputed to account for the additional allocation of Corning costs to its affiliates in the rate year.

In its filing, the Company included a credit of $0.470 million to Other O&M expense and a credit of $0.439 million to rate base to represent these allocations. The O&M credit included payroll, fringe benefit and accounts payable costs.

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[54] Esposito Testimony, p. 27-28.

[55] Case 12-G-0141, Corning Natural Gas Corporation – Holding Company, Order Adopting Terms of a Joint Proposal and Approving Formation of a Holding Company with Modifications and Conditions (issued May 17, 2013).

[56] Case 12-G-0141, supra, Petition of Coming Natural Gas Corporation for Modification of Affiliate Standards (filed November 12, 2015).

[57] Sarhangi/Divalentino Initial Testimony, p. 18.

The rate base credit included land, office space, furniture, computers and other equipment allocated to affiliates.[58]

Staff disagreed with the Company's calculation of both the O&M credit and the rate base credit. Staff's largest adjustment was related to a number of positions that Staff argued were incorrectly excluded from the Company's calculation of the payroll allocation credit. Staff argued that, as the Company had stated that Corning would be providing customer service work to Pike, eight additional customer service employees should be allocated from Corning to that affiliate.[59] Additionally, Staff argued that (1) the Company made a mathematical error in calculating the payroll calculation, (2) the Company used incorrect allocators for some of the positions, (3) the Company erroneously excluded payroll taxes from the allocation calculation, (4) the Company did not allocate temporary help, petty cash or life insurance expenses to affiliates, (5) the Company did not allocate property taxes to all of its affiliates and (6) the Company's rate year credit to net plant was based on an incorrect allocation of square footage of office and building space.[60] Staff's adjustments totaled $0.952 million to O&M and $0.899 million to rate base and resulted in total allocations of $1.421 million and $1.338 million to O&M and rate base respectively.

Subsequent to the filing of Staff testimony, the Company made a significant change to the business plan for Pike, which it had just acquired in September. The Company determined that Pike would be hiring its own customer service employees and would therefore not be using Corning employees for those

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[58] Exhibit__(CNG-G), Schedule 14, and Exhibit__(CNG-4) Summary.

[59] Esposito Testimony, pp. 33-35.

[60] Ibid., p. 30-51.

services. After discussions with the Company, Staff concluded that such a change in business plans was not unreasonable and, assuming that the new business plan remained in effect, the allocation credits should be modified accordingly.

The JP includes a credit of $0.961 million to O&M expense and a credit of $0.773 million to rate base to represent these allocations. The JP includes a one-way true-up which states that if customer service employees are not hired at Pike, as the Company asserts, then the Company will defer an amount equal to the fully allocated costs for services provided by those employees. The difference between the credits in Staff's direct testimony and those in the JP are primarily related to the customer service employees, as previously discussed, but also recognizes smaller adjustments in the areas of accounts payable, property taxes and the various rate base areas.

13. Amortization

The Company's 2011 Rate Plan provided an allowance for a Gas Supply Specialist. However, the labor expense associated with this employee was subject to a one-way true up. If, during the 2011 Rate Plan, the actual salary of the gas supply specialist was less than the salary expense allowed the Company was required to defer the difference, for customer benefit.[61]

In testimony, Staff identified that the actual wages were lower than what was allowed in rates.[62] Staff recommended that, per the terms of the 2011 Rate Plan, the Company should be required to defer the difference and amortize the balance over five years.[63] The JP incorporates Staff's recommendation and

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[61] Case 11-G-0280, Corning – Gas Rates, Order Establishing Rate Plan (issued April 20, 2012) (2012 Corning Rate Order).

[62] Wright Testimony, p. 27.

[63] Ibid., pp. 27-28.

includes the unamortized balance of $0.018 million in the rate year rate base, and a second adjustment of $0.004 million to amortize that balance over five years, in the O&M Schedule.

14. Conversion Rebates

See discussion of Gas Infrastructure Enhancement Program in Section IV.P.1., below.

16. Depreciation Expense

Management Applications Consulting, Inc. conducted a depreciation study for Corning. The study included an analysis of average service life, net salvage percent, and resulting depreciation accrual rates for each of the Company’s plant accounts. Based on this review and plant balances at the study date of December 31, 2015,[64] the Company proposed a decrease to depreciation expenses of $0.023 million.[65]

Staff’s testimony recommended that the Commission increase the average service life of distribution main and services.[66] As a result, new depreciation rates were developed and utilized for the associated plant accounts to calculate the plant in service.

The JP is consistent with Staff’s testimonial position. The JP reflects an appropriate and reasonable level of depreciation expenses for the Company and, therefore, the JP’s terms should be adopted by the Commission.

17. Property Tax

The Company’s rate year forecast for property taxes was derived by taking the actual property tax expense for the

[64] Normand Testimony, p. 4.

[65] Ibid., p. 10.

[66] Staff Gas Infrastructure and Operations Panel (GIOP) Testimony, p. 30.

historic test year ending December 31, 2016, and increasing it by Corning's five-year average annual property tax inflation rate of 7.5%.[67]

Staff disagreed with the Company's use of a five-year average.[68] Staff argued that the five year average was not appropriate as the increase in 2011, the fifth year in the average, was significantly higher than the other years and was therefore an outlier. Additionally, Staff noted that the property taxes' rate of increase was declining over the last three years, with a decrease in property taxes in the most recent year. As such, Staff argued that a four-year average was more appropriate to forecast rate year property taxes.[69]

Staff also made an adjustment to the rate year property tax expense forecast for economic obsolescence (EO). EO refers to the loss in value of property resulting from factors external to the property itself. EO is an award granted to a utility by the New York State Office of Real Property Tax Services, or ORPTS, if the utility can show that it has not been achieving its modified required rate of return. This award reduces a company's assessed value on special franchise property, which results in lower special franchise property taxes. Staff noted that the Company's historic test year property tax expense only included a small amount of EO. As the Company was expected to receive EO awards in the rate year and beyond, Staff made an adjustment to impute a full year of EO, which reduced property tax expense by $0.100 million.[70]

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[67] Esposito Testimony, p. 64.

[68] Ibid., p. 68.

[69] Ibid., 69.

[70] Ibid., 64-67.

The JP adopts Staff’s position on the property tax forecast for both the property tax inflation rate and the imputation of economic obsolescence. Additionally, the JP includes a property tax reconciliation mechanism. The reconciliation includes 86%/14% sharing of costs between customers and shareholders respectively, thereby providing an incentive for the Company to minimize costs where possible. This mechanism is similar to the reconciliation that was approved in the 2015 Extension Order.[71] Additionally, Con Edison[72], Central Hudson Gas & Electric Corporation[73], New York State Electric & Gas Corporation (NYSEG) and Rochester Gas and Electric Corporation (RG&E)[74], and Niagara Mohawk Power Corporation d/b/a National Grid[75], all have reconciliations with sharing mechanisms which range from 80/20 to 90/10.

[71] Case 11-G-0280, Corning Natural Gas Corporation –Rates, Order Adopting Terms of a Joint Proposal (issued October 19, 2015)(2015 Corning Extension Order).

[72] 2017 Con Edison Rate Order.

[73] Case 14-E-0318 & 14-G-0319, Central Hudson Gas & Electric Corporation - Rates, Order Approving Rate Plan (issued June 17, 2015).

[74] Case 15-E-0283, et al., New York State Electric & Gas Corporation NYSEG and Rochester Gas and Electric Corporation - Rates, Order Approving Electric and Gas Rate Plans in Accord With Joint Proposal (issued June 15, 2016)(2016 NYSEG/RG&E Rate Order).

[75] Cases 12-E-0201 & 12-G-0202, Niagara Mohawk Power Corporation d/b/a National Grid - Rates, Order Approving Electric and Gas Rate Plans in Accord with Joint Proposal (issued March 15, 2013).

D. Rate Base

1. Plant in Service

The Company developed its plant in service figure by beginning with the actual balances as of December 31, 2015.[76] In its initial testimony, Staff also used the actual balances as of December 31, 2015.[77] In rebuttal testimony, Corning stated that it has updated its plant-in-service to reflect actual capital expenditures from January to August 2016.[78] The Company also stated that the actual plant balance for September 2016 would be available for Staff's review during the negotiation process.

The JP's use of the most recent actual balance to begin forecasting the RYs' net plant in service is reasonable for two reasons. First, updating actual plant in service through September 30, 2016 would, if the case were litigated, likely have been allowed under the Commission's Statement of Policy on Test Periods.[79] Second, Staff reviewed the Company's actual plant balance as of September 30, 2016 and found that it accurately reflected the actual capital spending in fiscal year (FY) 2016, the 12 months, which ended on that date.

The plant in service adopted in the JP reflects (1) the plant additions and retirements associated with the level of capital expenditures recommended in the JP, (2) modifications for depreciation rates, (3) corrections to account for plant write downs recorded by the Company in both the plant in service and depreciation reserve and (4) the associated deferred State

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[76] Sarhangi/DiValentino Initial Testimony, p. 34.

[77] Staff GIOP Testimony, p. 32.

[78] Sarhangi/DiValentino Rebuttal Testimony, p. 17.

[79] Case 26821, Test Periods, Statement of Policy on Test Periods in Major Rate Proceedings (issued November 23, 1977).

and federal Income Tax consequences and (5) modifications to the level of Construction Work in Progress (CWIP) balance.

2. Depreciation Reserve

The depreciation reserve adopted in the JP reflects the forecasted reserve balance giving effect to the JP's agreed upon capital Expenditures and modifications to the depreciation rates.

3. Non-Interest Bearing Construction Work In Progress

The non-interest bearing CWIP balance was not discussed in testimony, however, the Signatory Parties recognized the need to modify the CWIP balance while developing the JP. Corning's level of capital expenditures has gradually increased in recent years to accommodate the accelerated LPP replacement program and other capital investments. Non-Interest Bearing CWIP, which correlates with the level of capital expenditures, should be updated accordingly. Therefore, the level of CWIP, at approximately $1.8 million in each RY, in the JP is reasonable as it reflects the increase in capital investments.

6. Bonus Depreciation

During discovery, the Company asserted that it will not take bonus depreciation. As such, the three RY revenue requirements assume that bonus depreciation will not be taken. However, if the Company elects to take bonus depreciation in any of the Rate Years, the cash flow impact will be captured in the net plant true up, which will ensure that ratepayers receive the benefits of any such action election by the Company.

E. Cost of Money

1. Return on Equity

In its direct case, the Company proposed that its revenue requirement be based upon a projection of its standalone capital structure whose principal components consisted of a 50.03% common equity ratio[80] at a cost rate of 10.2%[81] and a debt component of 49.61% at a cost rate of 3.71%.

Staff recommended a hypothetical capital structure predicated upon a 48.0% common equity ratio[82] with an 8.2% cost rate.[83] Staff also recommended a reduction in the cost rate of the debt component, resulting in an overall rate of return of 5.53%, versus the Company's requested overall rate of return of 6.95%.[84] The JP reflects a 48.0% common equity ratio with a 9.0% ROE and a debt ratio of 51.06% with a cost rate of 3.25%, for an overall rate of return of 5.99%.

The agreed-upon compromises on the ROE and overall rate of return are consistent with the balancing of these same interests in recent Commission-approved joint proposals. ROE and rate of return provisions represent a reasonable outcome and a compromise of the litigated positions. The JP reflects current capital market conditions, and acknowledges that the relatively low current interest rate environment may not necessarily continue into the future; accordingly the proposed ROE adequately compensates investors for the additional business and financial risk assumed by the Company as a result of being locked into the multi-year rate plan.

The JP is consistent with the Commission's preferred methodology regarding the cost of common equity and is reflective of the methodology proposed by Staff in it testimony. At the time of signing the JP, an update of Staff's ROE

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[80] Bulkley Direct Testimony, p. 95.

[81] Bulkley Direct Testimony, p. 90.

[82] Staff Finance Panel Testimony, p. 38.

[83] Ibid., p. 42

[84] Ibid., p 7.

methodology was 8.45%. Accordingly, the 9.0% proposed ROE includes additional adjustments to Staff's litigated ROE position to account for the higher risk inherent in a multi-year rate plan. As a multi-year rate proposal, the rate plan proposed in the JP inherently poses more financial risk to the Company than would a one-year rate plan, and as such investors reasonably require higher returns for locking up their investment for an extended period of time. In particular, a higher ROE is warranted for a three-year rate plan because the Company is subject to additional financial risk that economic conditions will change and its actual cost of capital will increase during the three-year interim. Furthermore, by locking in expense forecasts over three rate years, the Company has additional business risk in light of the potential for higher operating costs than those forecasted.

The return on equity reflects a balancing of all the concessions made by the signatory parties. The proposed 9.0% ROE is 120 basis points lower than the Company's requested 10.20%, and reasonably and equitably reflects the current economic conditions as well as the additional business and financial risks inherent in a three-year rate plan.

At 9.0%, the ROE is equal to the allowed ROEs in JPs recently approved by the Commission for NYSEG and RG&E,[85] National Grid NY and National Grid LI,[86] and Con Edison.[87] This

[85] Case 15-E-0283, et al., supra, Order Approving Electric and Gas Rate Plans in Accord with Joint Proposal (issued June 15, 2016).

[86] Cases 16-G-0058 and 16-G-0059, supra, Order Adopting Terms of Joint Proposal and Establishing Gas Rate Plans (issued December 16, 2016).

[87] Cases 16-E-0060 and 16-G-0061, supra, Order Approving Electric and Gas Rate Plans (issued January 25, 2017).

is a reasonable outcome, given the similar levels of risk faced by distribution utilities in the state.

2. Cost of Debt

With respect to the cost rate of debt proposed by the JP, an important consideration is that the interest rate assumed for Corning's projected rate year debt financing with M&T Bank is primarily based upon a spread above the benchmark London Interbank Offer Rate (LIBOR).[88] In addition, the Company's debt amortizes at a rate faster than the depreciation rates of its assets and requires Corning to obtain outside financing to replace its maturing debt.[89] The increase in the cost of debt from Staff's litigated position of 3.11% to the 3.25% contained in the JP reflects increases in LIBOR since Staff's filing. The JP contains no true-up to the Company's total debt, which is variable rate debt, and the actual interest expense during the term of the rate plan. As an incentive for Corning to procure longer-term fixed-rate debt to replace its existing M&T Bank financing, the interest costs of new fixed rate debt that replaces the projected variable rate financing will be trued-up to the interest rate used in the JP.

The true-up is subject to the following conditions: the debt cost must be equivalent to the cost of BBB-rated, or above, debt; the true-up will apply to no more than 75% of the Company's variable rate debt, even if the Company converts a greater percentage; the "new" fixed rate debt must have at least a five-year average life; and no more than $5.0 million of such "new" debt may come due in any one year.[90] The true-up will provide the Company incentive to refinance its existing variable

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[88] Staff Finance Panel Testimony, p. 28.

[89] Id.

[90] JP, pp. 14-15.

rate debt with longer-term fixed rate financing. This is a reasonable provision, and should be adopted, because if the Company secures fixed-rate, long-term debt, it will remove significant interest rate and re-financing risk during and after the term of this rate plan. While the absence of a variable rate true-up mechanism during the rate plan protects customers from an increase in interest rates during its term, fixed-rate, long-term financing will provide customers with less interest rate risk when Corning files its next rate case.

3. Earnings Sharing Mechanism

In order to protect customers, while still providing Corning with an incentive to find and employ efficiencies in its operations, the proposed earnings sharing mechanism (ESM) allows customers and shareholders to share earnings attributable to achieved ROEs in excess of 9.5%. Accordingly, the JP proposes an earnings sharing threshold set at 50 basis points above the recommended ROE of 9.0%, or 9.5%. Earnings above 9.5% but less than 10.0% would be shared equally (50%/50%) between customers and the Company. Earnings equal to or in excess of 10.0% but less than 10.5% would be shared 75%/25% between customers and the Company, respectively. Finally, earnings equal to or in excess of 10.5% would be shared 90%/10% between customers and the Company.[91]

The use of ESMs is beneficial to customers because it provides the Company with a financial incentive to control costs, while simultaneously ensuring that customers have an opportunity to share in those efficiency gains. Additionally, by providing that 90% of all earnings equal to or in excess of 10.5% are credited to customers, the ESM provides a significant

[91] Ibid., p. 15.

safeguard against any potential for excess earning by the Company due primarily to forecasting errors in the Company's favor or to unforeseen windfalls.

It is important to note that while the Company's rates are predicated upon providing it with a reasonable opportunity to achieve a 9.0% ROE based upon the best available forecasts available at the time, actual cost and revenue variances are inevitable. The JP does not provide similar protections for the Company in the event of forecasting errors and unforeseen circumstances that diminish Corning's ability to achieve its authorized ROE.

The use of ESMs is consistent with prior multi-year rate plans approved by the Commission. In addition, the actual threshold level and the widths of the various sharing bands are generally consistent with past practices. The ESM will be calculated on a cumulative basis for the three rate years. If the Company fails to file for a rate case after the third rate year, the ESM will be calculated annually until new rates are set by the Commission.

G. Gas Safety – Regulatory Goals

1. Leak Backlog

The JP's leak backlog performance metric maintains the current plan's metric for year-end total of Types 1, 2, and 2A leaks awaiting successful repair at five for the duration of the proposed rate plan and provides for continued performance improvement for the year-end total of Types 1, 2, 2A, and 3 leaks awaiting successful repair at 65 for calendar year (CY) 2018, 55 for CY 2019, and 50 for CY 2020.[92] The proposed targets are reasonable as they require Corning to continually reduce its

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[92] JP, pp. 17-18.

Type 3 leak backlog which can be left unrepaired but require continued monitoring.

2. Leak-Prone Distribution Pipe Replacement

The proposed leak-prone distribution pipe replacement performance metric maintains the current plan's metric at 10.6 miles annually for the duration of the rate plan, but increases the annual regulatory liability for failure to exceed the target from six to eight basis points by eliminating the current rate plan's leak-prone services metric and adding the regulatory liability of that metric of two basis points to the pipe metric.[93]

The proposed target is reasonable in maintaining the pipe metric and eliminating the services metric in that the current rate of replacement will eliminate leak-prone pipe in ten years and leak-prone services in three years. The services metric elimination acknowledges that the risk-ranking of pipe will include leak-prone services and that leak-prone services replacement is best accomplished as part of the replacement of leak-prone mains.

3. Emergency Response

The emergency response performance metrics maintains the current rate plan's metric. The proposed targets are reasonable as this metric has remained unchanged since initially adopted for rate plans throughout New York.

4. High Risk and Other Risk Level Safety Requirements

The safety requirements performance metric related to violations of gas safety regulations maintains the current rate plan's metric. The proposed metric is reasonable as it is consistent with the metric adopted for St. Lawrence Gas Company

[93] Ibid., pp. 18-19.

for CY 2018[94], a gas-only local distribution company of similar size. The JP also clearly addresses where the current rate plan metric ends, with the CY 2017 record audit conducted at the start of CY 2018, and where the proposed rate plan metric starts, with the CY 2018 field audit conducted throughout CY 2018.

5. Damage Prevention

The damage prevention performance metrics provide for continued performance improvement for total damages per 1,000 one-call tickets by reducing the target to 2.3 for CY 2018, 2.1 for CY 2019, and 1.9 for CY 2020, for mismark damage per 1,000 call tickets to 0.28 for CY 2018, 0.27 for CY 2019, and 0.26 for CY 2020, and for company or company contractor damage per 1,000 call tickets to 0.26 for CY 2018, 0.23 for CY 2019, and 0.20 for CY 2020.[95] The metric adjusts the regulatory liability for mismark damage from ten to seven basis points and company or company contractor damage from four to seven basis points. The metric maintains the three-year look-back period as an additional criteria before any regulatory liability is incurred.

The proposed targets are reasonable because they provide for the same regulatory liability for mismark and company and company contractor damages, since there is no technical reason for different treatment. The JP's retention of the current plan’s three-year look-back criteria is also reasonable in that the low number of annual one-call tickets can distort performance in a single year.

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[94] See Case 15-G-0382, St. Lawrence Gas Company, Inc. – Rates, Order Establishing Multi-Year Rate Plan (issued July 15, 2016).

[95] JP, pp. 22-23.

H. Customer Service

1. Customer Service Performance Incentive

Customer Service Performance Incentive (CSPI) programs are designed to help align shareholder and ratepayer interests by providing earnings consequences to shareholders for the quality of service provided by the utility to its customers. In its initial testimony, Corning did not propose any changes it its existing CSPI.

Staff proposed in testimony to tighten the targets for the Company's PSC complaints and to increase the total penalty amounts for a missed metric — PSC complaints or Customer Satisfaction Survey (CSS) — from $36,000 to a total of $60,000.[96] Under Staff's proposal, Corning would be subject to a negative revenue adjustment (NRA) of $10,000 if the Company incurs a total of four escalated PSC complaints, a change from its current NRA and target of $6,000 for seven complaints; $20,000 for five escalated complaints, a change from eight complaints; and $30,000 for six or more complaints in each rate year a change from nine complaints. Staff also proposed to increase the NRAs associated with the existing CSS targets: $10,000 for results equal to or less than 83%, $20,000 for results equal to or less than 81%, and $30,000 for results equal to or less than 79%.

In rebuttal, Corning opposed Staff's recommendation and proposed that the CSPI be a monitoring-only program so that no NRAs would impact the Company if performance of each metric was below the targets.[97]

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[96] CSP Initial Testimony, pp. 6-12.

[97] Sleve Rebuttal Testimony, pp. 2-7.

The JP adopts Staff's proposal to tighten the PSC complaints target and increase the total amount at risk from $36,000 to $60,000. This mechanism will ensure the Company continues to provide satisfactory customer service.

2. Keeping Scheduled Appointments

The JP establishes a service guarantee in the form of a $25 bill credit to any affected customer whenever the Company misses a scheduled appointment, but not when the customer is at fault.[98] This guarantee provides customers with compensation for the loss of their time.

3. Residential Service Terminations and Uncollectibles

The Company did not raise this issue in its initial testimony. Staff's testimony recommended a positive incentive for reducing residential terminations for non-payment and uncollectibles, and an NRA if the level rose above the upper targets.[99] Staff's recommended targets were based on the Company's three-year averages for residential terminations and uncollectibles. Staff's positive incentive equals seven basis points if both lower targets are met, or three basis points if one target is met and a three-year average is maintained; or an NRA equal to seven basis points if the Company exceeds both upper targets, or a partial NRA of three basis points if the three-year average is maintained but one upper target is exceeded.

The JP adopts Staff's proposal. Excessive use of service terminations as a credit and collections tool may jeopardize the health, safety and welfare of New Yorkers and high uncollectibles contribute to higher ratepayer costs; this

[98] JP, p. 24.

[99] CSP initial Testimony, pp. 19-24.

incentive will alleviate such risks and expense. Accordingly, this provision is reasonable and should be adopted.

4. Credit/Debit Card Payments

The Company stated in testimony that it will begin to allow electronic payments, including credit/debit card payments, through a third-party vendor at a cost to customers of $2.40 per transaction.[100] Staff recommended the Commission require Corning to submit an annual report to the Secretary within 90 days of the end of each rate year providing the number of transactions, the cumulative amount customers spent on transaction fees, and any associated expenditures compared to the costs of the Company’s other payment methods.[101]

Customers are increasingly using credit cards to pay their bills, as credit cards are more convenient than other forms of payment. The JP adopts this payment method and Staff’s reporting requirement, which will help to ensure customers are not spending an exorbitant amount on transaction fees to pay their Corning bills with a credit card. This provision is reasonable and should be adopted.

I. Capital Expenditures

1. Projected Amounts

In its initial testimony, Corning requested a total capital expenditure budget for the FY ended September 30, 2017, 2018, 2019 and 2020 of $7.458 million, $8.255 million, $7.108 million, and $6.940 million, respectively.[102] In testimony, Staff recommended a total investment of $6,068,085 for capital programs in FY 2017, $6.025 million in FY 2018, $5.409 million

[100] Sleve Initial Testimony, p. 10.

[101] CSP Initial Testimony, p. 25.

[102] Exhibit__(CNG-8), Schedule 1, pp. 4-6.

in FY 2019 and $5.442 million in FY 2020.[103] In its rebuttal testimony, Corning accepted most of Staff's adjustments to the capital expenditures. The JP recommends the capital expenditures for the FY ended September 30, 2017, 2018, 2019 and 2020 at $6,308,377, $6.240 million, $5.506 million, and $5.542 million, respectively.

Staff made its initial recommendations after reviewing the Company's filed testimony, exhibits and historical budgets, however, during the proceeding, Staff's understanding of the Company's proposals and needs also evolved. For example, while Staff agreed with the Company's request to install main on both sides of certain roads (dual main) to accommodate permitting requirements imposed by some municipalities, Staff recommended that it was more reasonable to forecast the dual main's footage using a three-year average of actual main installation instead of using data from only one year. The usage of a historic multi-year average reflects the year-to-year variation of the Company's actual spending.

The JP's proposed capital expenditure levels are reasonable considering the capital investments needed to maintain a safe and adequate service to all customers. The JP provisions are also important tools to measure and track the Company's construction expenditures and performance. Accordingly, they should be adopted.

2. True-Up Procedure

The Commission has adopted a one-way downward only mechanism in Corning's previous rate proceedings.[104] The JP

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[103] Exhibit__(GIOP-2), Schedule 2, pp. 1-10.

[104] Case 08-G-1137, Corning – Rates, Order to Show Cause Regarding Revenue Requirement and Rate Design and Further Suspending Rate Filing (issued July 17, 2009); and Case 08-G-1137,

recommends continuing this one-way downward only mechanism to protect customers if the Company under-spends its capital budget or if there are significant slippage, or delays in closing projects to plant in service. Therefore, if the actual net plant in service is under the targeted net plant in service for a particular Rate Year, the Company will defer carrying costs for customers' benefit equal to the shortfall multiplied by the authorized pre-tax rate of return, as well as depreciation associated with the shortfall. There will be a cumulative test at the end of Rate Year 3 to determine the final carrying charges owed to customers. If the sum of the carrying costs and accumulated interest over the three Rate Years results in a shortfall, the amount is owed to customers. If there is a net excess over the three Rate Years, no adjustment (i.e., no surcharge to customers) shall be made.

3. Capital Expenditure Justification

In Corning's last rate proceeding[105], the Commission required the Company to prepare annual capital expenditure project justification sheets (white papers) commencing January 1, 2013. A project's white paper typically contains a detailed description of the project, alternative analysis, justification of project expenditure, construction schedule, forecasted in service date, cost benefit analysis, and the impact to the gas system if the work is not done. In addition, the white paper is later used in variance reports, which will provide details as to why a project is over or under budget. In this proceeding,

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supra, Order Establishing Rate Plan (issued August 20, 2009)(together, the 2009 Corning Rate Orders); Case 11-G-0280, supra, Order Adopting Terms of Joint Proposal and Establishing a Multi-Year Rate Plan (issued April 20, 2012)(2012 Corning Rate Order).

[105] 2012 Corning Rate Order, p. 10.

Corning did not provide any white papers in its filed testimony, exhibits, or in its interrogatory responses.

Staff recommended that the Commission require Corning to complete a white paper for each capital project and program; to file updated white papers annually with the Secretary; and to provide these white papers to Staff in its next rate filing as a separate exhibit.[106] Staff also recommended that the Company be required to fully implement the practice of white paper preparation and file its first set of annual white papers by January 1, 2018.[107]

The JP adopts Staff's recommendation. The details of a white paper provide the basis for the monetary requirements needed to meet the proposed project goals and to better implement cost control. Developing and utilizing white papers in planning for capital project or program will assist the Company in prioritizing work and improving its strategic planning and, therefore, the JP is reasonable.

5. Capital Expenditure Unit Cost Tracking

In testimony, Staff explained that there are some unintended consequences to the net plant true-up mechanism, notably that it does not recognize innovation or reward good cost control measures.[108] In order to address this deficiency in an otherwise meritorious mechanism, Staff proposed an option to modify the net plant true-up mechanism; specific unit cost trackers for budgets that have specific benchmark costs and deliverables such as mile of main can be developed.

If the Company is able to complete the work at a lower unit cost, the savings could be shared between customers and

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[106] Staff GIOP Testimony, p. 9.

[107] Ibid., p. 10.

[108] Ibid., p. 36.

shareholders. Since Corning does not currently track unit costs, Staff stated that the Commission should require the Company to collaborate with Staff and other parties to develop a mechanism once unit cost data is available and the Company should propose to implement this mechanism in its next rate filing. The JP includes a provision that Corning will implement the tracking of unit costs for capital expenditures, which includes main replacement projects, no later than January 1, 2018.

J. Lost and Unaccounted for (LAUF) Gas

Neither Staff nor the Company proposed changes to the current LAUF incentive mechanism. The JP adopts new LAUF targets and continues the current existing mechanism. This is reasonable because the updated LAUF targets will better reflect the current performance of the distribution system.

K. Revenue Decoupling Mechanism (RDM)

Neither Staff nor the Company proposed changes to the Company's current RDM mechanism. The JP adopts updated RDM targets and continues the current existing mechanism. This is reasonable because the new RDM targets will accurately reflect the sales imputed in rates.

L. Off-System Sales and Capacity Release Revenues

The JP permits the Company to retain 15% of any off-system and/or capacity release revenues generated via assets it does not released to an asset manager. The JP is reasonable because it incents the Company to maximize the utilization of its system by third parties, which helps decrease the amount of costs that need to be recovered from ratepayers, and it continues the provisions adopted in the 2011 Rate Order.

M. Treatment of Contract Customer Revenues

The sharing of contract customer revenue is a continuation of the mechanism established in the Company's last rate proceeding. The JP adopts the continuation of the 90% customer/10% shareholder sharing mechanism which encourages the Company to maximize its negotiated contract revenue, protects firm customers from the Company under-forecasting these large loads and incents the Company to fairly price its negotiated contracts. All parties agreed to include the revenue associated with Contract 8 in the sharing mechanism, due to the uncertainty of the future revenue stream associated with this industrial facility. The inclusion of Contract 8 revenues in the sharing mechanism is reasonable because it limits the Company's financial harm while also providing Corning an incentive to maximize revenues for the benefit of customers. A loss of Contract 8 revenues, absent this sharing mechanism, could result in detrimental financial harm to the Company due to the magnitude of the revenues associated with this customer. Therefore, the agreed upon treatment of contract customer revenues in the JP should be adopted by the Commission.

N. Rate Issues

1. Revenue Allocation

In its direct testimony, the Company proposed to allocate the revenue increases uniformly to all service classes.[109] Staff filed testimony partially agreeing with the Company's proposal, except S.C.8 which was assigned an allocation factor of 1.2.[110] MI proposed to use various different revenue allocation factors to gradually move toward

[109] Normand Testimony, p. 17.

[110] Rates Testimony, p. 26.

the cost of service.[111] Because Staff disagreed with the Company's Cost of Service (COS) Study that allocates mains using only demand, Staff recommended all firm customer classes, except SC 8, receive uniform increases.[112] S.C. 8 will receive higher than average revenue increase to gradually align with S.C. 6 furthering the tariff consolidation process started in the 2012 Corning Rate Order. MI proposed changes to the ECOS study, which showed different unitized rates of return for each service class. MI proposed to allocate the revenue increase based on the result of the COS study reflecting those proposed changes.[113]

The JP recommends that all firm classes should receive the same percentage increase, except for S.C. 8. This is reasonable and should be adopted by the Commission because it reflects a compromise between the Company's and Staff's positions. Because of differences in the actual COS study, it is appropriate to allocate the revenue increase using this methodology until the new COS as agreed upon is filed in the next rate case. The JP also requires the Company to prepare a new COS study that allocates main using both customer and demand in its next rate filing.

2. Embedded Cost of Service (ECOS) Study

The Company has agreed to modify the ECOS study allocating mains using both Demand and Customer components. The Company also agrees to include the results of a variation of the COS that allocates mains using 100 percent Demand. This provision is reasonable because it provides additional information to parties in the Company's next rate proceeding,

[111] Gorman Testimony, pp. 25-26.

[112] Staff Gas Rates Panel, pp. 25-26.

[113] Gorman Testimony, pp. 25-26.

while not binding any party to particular positions in that future proceeding.

3. Rate Design

The Company proposed to increase the minimum charges with the goal of at least achieving the recovery of the majority of the customer components of the fixed costs by the third year for majority of the customers.[114] This results in a minimum charge increase of approximately 30% for each customer class. Staff recommended that the Commission freeze the minimum charges for all service classes, except Bath SC 3 and Bath SC 4, and proposed to allocate an equal percentage revenue increase to each of the rate blocks.[115] The JP would freeze minimum charges for each firm service class and the revenue increase is allocated to each rate block to ensure the revenue increase for similar customers are proportional. This is a reasonable result because it would produce more even bill impacts within each service class and is consistent with the recent rate orders for Con Edison,[116] National Grid LI and National Grid NY,[117] in which the minimum charges were held constant.

4. Miscellaneous Rate Matters

a. Elimination of Safety and Reliability Surcharge

Staff proposed to eliminate the existing Safety and Reliability Surcharge, which was adopted in the Corning Extension Order, allowing the Company to recover the carrying costs associated with LPP replacement during the extension period.[118] The JP adopted Staff’s proposal to eliminate this

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[114] Normand Testimony, p. 19.

[115] Rates Testimony, p. 29.

[116] 2017 Con Edison Rate Order.

[117] 2016 National Grid Rate Order

[118] Rates Testimony, p. 32.

surcharge. It is appropriate to eliminate this surcharge because new rates will incorporate the carrying costs associated with this plant.

b. Modification of Delivery Rate Adjustment (DRA) Mechanism

Though no changes to the current DRA mechanism were proposed in our direct testimony, during the negotiation process, Staff proposed to modify the existing mechanism which the JP adopts. Under the revised DRA mechanism, the credits or surcharges would be allocated to customer classes using revenues rather than volumes.

This is reasonable because the allocation better reflects the cost of service and is consistent with how the credits would be allocated if the credits are rolled into base rates. Using volume allocators would also result in over-allocating to large commercial and industrial customers.

P. Gas Programs and Supply

1. Gas Infrastructure Enhancement Program

In testimony, Staff recommended that Corning develop a Gas Infrastructure Program to focus the Company's efforts to acquire new customers and expand service to non-heating customers.[119] Staff's proposed program is a multi-pronged approach that included: the aggregation of customer entitlements; a neighborhood main extension pilot; a conversion rebate program; a gas enhancement performance incentive; and gas infrastructure enhancement reporting requirements.

The aggregation of customer entitlements is the practice of aggregating each customer's entitlement of 100 feet

[119] Staff Gas Programs & Supply Panel (GPSP) Testimony, pp. 5-17.

of gas main and 100 feet of gas service to minimize potential customers' upfront costs of converting to natural gas.
The proposed neighborhood main extension pilot would test the advantages of an alternative minimum requirement for the number of participants for constructing a main without a contribution in aid of construction.

Staff's proposed conversion rebates of $500 for all new heating customers, an additional $500 for Home Energy Assistance Program (HEAP) eligible customers, and a non-heat gas appliance rebate of $500 would incent more conversions to natural gas by minimizing upfront costs.

With regard to a mechanism to incent the Company to pursue additional customers, the Company recommended that the Commission "adopt the outcome based Earning Adjustment presented in this testimony" or, alternately "develop safety, reliability, and customer service incentive metrics that offer both penalties and reward."[120] In response, Staff proposed a gas enhancement performance incentive where the Company would receive a positive rate adjustment of one basis point for each 25 additional customers the Company is able to achieve relative to the customer growth forecast targets to incent Corning to pursue additional conversions.[121]

Finally, Staff's proposed gas infrastructure enhancement program reporting would provide the Commission with valuable data regarding the Company's customer conversion performance. The JP includes Staff's gas infrastructure enhancement program. This is reasonable and should be adopted as it encourages future conversion to natural gas.

[120] Stewart Initial Testimony, p. 2.

[121] GPSP Testimony, pp. 15-16.

2. Workforce Development Program

Staff recommended that Corning expand its workforce development program to include a written succession management plan to develop employees to be ready for advancement into key leadership roles.[122] The JP includes Staff's proposed expansion of the Company's workforce development program. This is reasonable and should be adopted, as a succession management plan will prepare and the Company and its employees for the future retirement of key personnel.

3. Sources of Renewable Gas

Staff recommended that Corning be required to evaluate its service territory to quantify the number and location of landfills and shut-in natural gas wells and to determine the costs and benefits of integrating these supply sources into Corning's transmission and distribution systems.[123] The JP incorporates Staff's proposed evaluation of local landfills and shut-in natural gas wells. This is reasonable and should be adopted, as the inclusion of these supply sources have the potential to minimize greenhouse gas emissions.

7. Positive Revenue Adjustment Mechanism

In testimony, Staff proposed an incentive for Corning to develop a ranking methodology to determine and eliminate its highest methane emitting Type 3 leaks.[124] As defined by 16 NYCRR Part 255, a Type 3 leak is a leak that is not immediately hazardous at the time of detection and can be reasonably expected to remain that way. The JP includes Staff's Type 3 leak management incentive. This is reasonable and should be

[122] Ibid., pp. 17-20.

[123] GPSP Testimony, pp. 21-24.

[124] Ibid., pp. 25-29.

adopted, as it incents the Company to minimize Type 3 leaks which has the potential to minimize greenhouse gas emissions.

8. Evaluation of Natural Gas Vehicles

In testimony, Staff recommended that Corning evaluate the potential for natural gas vehicle development, with a focus on fleet and other high utilization vehicles, in its service territory.[125] The JP incorporates Staff's proposed evaluation of the natural gas vehicle potential in Corning's service territory. This provision is reasonable and should be adopted, as natural gas vehicles provide environmental benefits through the displacement of diesel emissions.

9. Reforming the Energy Vision – Demonstration Projects

In testimony, Staff recommended that Corning evaluate the potential opportunities regarding joint development programs relating to the Commission's ongoing Reforming the Energy Vision REV) proceeding.[126] Specifically, the Company should meet with NYSEG, the electric utility operating in the same service territory, to determine any synergistic benefits.

The JP adopts Staff's proposal for Corning to evaluate the potential joint REV opportunities with NYSEG in their common service territory. This provision is reasonable and should be adopted, as Corning and its ratepayers should be able to develop the benefits of REV, but Corning is relatively small and undertaking such projects alone could be difficult financially.

V. General Provisions

The JP contains a number of provisions that provide general terms for the agreement. These provisions, contained in Section V, General Provisions, of the JP, represent matters that

[125] Ibid., pp. 29-31.

[126] GPSP Testimony, pp. 31-33. See Case 14-M-0101, Reforming the Energy Vision (commenced April 24, 2014).

were not disputed by any parties and are uncontroversial in nature. Additionally, these terms and conditions are in general conformance with those typically seen in rate plans of this type.[127] These provisions are reasonable and should be adopted.

CONCLUSION

The terms of the JP entered into in this case fully satisfy the Commission's Settlement Guidelines. Taken as a whole, the Commission can reasonably conclude that the terms of the JP would fall within the potential result of a litigated case. As noted above, the fact that Corning, Staff and MI have signed on to the JP, and that UIU, the only other participating party, is not opposing the JP, testifies to the proper balancing of the interests of ratepayers and Corning contained in its terms. The JP significantly continues and advances the Commission's goals and policies, while minimizing the potential economic impact of the recommended rate increases on ratepayers. Corning, meanwhile, will receive sufficient funds to operate and manage its electric and gas businesses, and maintain safe and reliable service.

For all of the above reasons, Staff respectfully recommends that the terms of the JP be found to be in the public interest and adopted by the Commission in their entirety.

Respectfully submitted,

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[127] See Cases 16-G-0058 & 16-G-0059, supra, Joint Proposal (filed September 7, 2016), Section VII.

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