CORNING
NATURAL GAS CORPORATION
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June 25, 2018

Honorable Kathleen H. Burgess, Secretary
New York State Public Service Commission
Three Empire State Plaza
Albany, NY 12223-1350

RE: Case 17-M-0815 – Proceeding on Motion of the Commission on Changes in Law that May Affect Rates

Dear Secretary Burgess:

The Commission on March 29, 2018 issued a Staff Proposal to Address the Accounting and Ratemaking of the Tax Cuts and Jobs Act of 2017 ("Staff Proposal" or "Staff Recommendation") and invited utilities to comment on Staff's recommendation. Corning Natural Gas Corporation comments and calculation of the impacts of the Tax Cuts and Jobs Act of 2017 on its operations follows.

Calculation of Tax Cuts and Jobs Act of 2017 Impacts

The Staff proposal recommends the use of the latest rate case to measure the benefit of the Tax Cuts and Jobs Act of 2017. The Company agrees with the Staff approach as how to measure the tax benefits on current Base Rates. However, there are tax reserves (other book tax timing differences) that are not reflected in base rates. The Company believes the impact of the lower corporate tax rate on these tax reserves should be measured as of 9/30/17.[1]

The results of the Company's analysis is detailed on the Summary schedule attached. After taking into consideration the tax impact on all items and the appropriate amortization period on prior period reserves, the Company estimates a surcharge credit of $69,993 at 10/1/2018 and a surcharge of $96,180 at 10/1/2019. These amounts, over the two-year period, have minimal impact on customer bills. It is estimated the customer overall bill impact beginning on 10/1/2018 would decrease -.27% and an increase of .36% beginning 10/1/2019. The overall increase would for the two-year period would amount to an increase of $26,167 or .09%.

In addition, Section F of the Joint Proposal approved by the Commission in Case 16-G-0369 requires deferral of "any externally imposed accounting change; any change in federal, state or local rates, regulation, or precedent governing income, revenue sales or franchise taxes; or any legislative, court, or regulatory change, which imposes or modifies existing obligations or duties."

The Company because of the minimal impact on customer bills and the provision of the Joint Proposal, recommends that no surcharge credit or surcharge be implemented on 10/1/2018 or 10/1/2019,

[1] The Company fiscal year is the twelve months September. Per Commission directive the Company is currently deferring the tax benefit between 34% and 21%. The changes in these other book tax timing differences from 10/1/2017 are captured in that deferral.

respectively. All Federal Income Tax implications should be deferred and disposed of in the Company's next base rate.

Amortization Periods

As noted by Staff the tax depreciation subject to IRS Normalization rules (Protected) must be passed back no faster than the book life of the underlying asset. The Company estimates that the remaining book life of the underlying assets is 52 years.

All other tax items (Unprotected) can be passed back or collected over any period deemed appropriate by the Commission. Traditionally prior period costs or benefits have been amortized over a five-year period for ratemaking purposes. Corning proposes to amortize all unprotected items, but for the Compressor Station amounts over a five-year period consistent with past practice. The Compressor amounts should be amortized over 10 years. The amortization over five years of the Compressor amount would cause a incremental rate increase of 1.5% over the two year period. The Company suggested amortization moderates the rate impacts.

Amounts Not Subject to Staff Recommendation

Attachment C details several amounts that are non-utility costs or are GAAP requirements that are not reflected in rates and, therefore, have not been paid by customers. The Unfunded Pension and OPEB have been in the past presented as Other Comprehensive Income ("OCI") and excluded from the ratemaking. For these reasons these items have been excluded from the calculation of customer benefits.

Conclusion

For all the reasons stated above the Company recommends that no surcharge credit or surcharge be implemented on 10/1/2018 or 10/1/2019 respectively. All Federal Income Tax implications should be deferred and disposed of in the Company's next base rate.

If you have any questions regarding this filing, please contact the undersigned.

Very truly yours,

Firouzeh Sarhangi
Chief Financial Officer

The attachments:

- Summary — Final Customer impacts
- Attachment A — Revenue Requirement Case 16-G-0369
- Attachment B — Deferred Tax Reserve Not Subject to Base Rates
- Attachment C — Net Operating Loss and Other