



STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION

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

Rebuttal Testimony of Michael P. Gorman

1 **I. Introduction and Summary**

2 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A Michael P. Gorman. My business address is 16690 Swingley Ridge Road,  
4 Suite 140, Chesterfield, MO 63017.

5 **Q ARE YOU THE SAME MICHAEL P. GORMAN WHO PREVIOUS FILED**  
6 **TESTIMONY IN THIS PROCEEDING?**

7 A Yes. On October 28, 2016, I filed direct testimony on behalf of Multiple  
8 Intervenors.

9 **Q WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

10 A I will respond to the testimony of the Staff Gas Rates Panel – Richard Quimby  
11 and Hieu T. Cam, employees of the New York State Department of Public  
12 Service.

1 **Q WHAT PORTIONS OF THE DEPARTMENT OF PUBLIC SERVICE STAFF**  
2 **(“STAFF”) GAS RATES PANEL PRE-FILED DIRECT TESTIMONY WILL**  
3 **YOUR REBUTTAL RESPOND TO?**

4 A I will respond to the Staff Gas Rates Panel’s cost of service study testimony, and  
5 their proposed spread of the approved revenue deficiency in this proceeding.

6 **Q PLEASE SUMMARIZE YOUR RECOMMENDATIONS AND FINDINGS.**

7 A I take issue with the Staff’s comments concerning an appropriate embedded cost  
8 of service study to use to adjust current rates to cost of service. More  
9 specifically, I disagree with the Staff’s comments concerning a customer  
10 classification component of distribution main costs. Also, similar to testimony  
11 responding to Corning Natural Gas Corporation (“CNG” or “Company”), I note  
12 again here that Staff also did not recognize the difference in priority of service  
13 during periods of CNG constrained capacity in allocating design day costs across  
14 Service Classifications (“SC”). Because of this explicit tariff difference in priority  
15 of service, design day demand costs should not be uniformly allocated across all  
16 SCs based on only peak day demand. CNG’s tariff has an explicit distinction on  
17 which SCs will be curtailed first when CNG distribution capacity is not adequate  
18 to deliver gas to its SCs. Therefore, high curtailment risk customers should not  
19 pay the same costs as low curtailment risk customers for design day demand  
20 costs because high curtailment risk customers do not have the same service  
21 priority rights on days of constrained CNG delivery capacity.

1   **Q     PLEASE SUMMARIZE YOUR PROPOSED RESPONSE TO STAFF BASED**  
2       **ON REVENUE SPREAD AND RATE DESIGN.**

3   A     Staff supports the Company's proposed spread of an equal percent, across-the-  
4       board increase to all SCs. I do not support a uniform spread. In its pre-filed  
5       direct testimony, Staff states that a uniform spread is appropriate in this case  
6       because it disagrees with the accuracy of the Company's cost of service study. It  
7       appears that Staff did not make an effort to correct the Company's class cost of  
8       service study in order to have a cost basis to equitably spread the revenue  
9       deficiency across SCs.

10   **Q     PLEASE RESPOND.**

11   A     I disagree that a uniform spread is the most balanced method to adjust rates.  
12       Further, I believe there is a reliable cost basis to use to spread the revenue  
13       deficiency in this case. I believe the Company's class cost of service study is a  
14       reasonable start, and with my modifications to: (1) reflect the differences in  
15       priority of service during periods where CNG's capacity is not adequate to serve  
16       all customers, and (2) classify a portion of large distribution mains as customer  
17       related, produces a balanced cost of service basis that can be used to spread the  
18       revenue deficiency.

1 **Class Cost of Service Study**

2 **Q DOES STAFF TAKE ISSUE WITH CERTAIN ASPECTS OF THE COMPANY'S**  
3 **CLASS COST OF SERVICE STUDY?**

4 A Yes. At pages 20-22 of its pre-filed direct testimony, the Staff Gas Rates Panel  
5 takes issue with the Company's proposal to allocate distribution mains smaller  
6 than two inches to only Residential and Small Commercial customers. Staff also  
7 disagrees with the Company's classification of these costs on a customer basis,  
8 and cites to the National Association of Regulatory Utility Commissioners  
9 ("NARUC") *Utility Costs Allocation Manual*. Based on the NARUC Manual, Staff  
10 asserts that mains two inches or smaller diameter still have a certain load  
11 carrying capability, thus the entire cost should not be classified as a customer  
12 cost.

13 Staff's second argument is that while the Company has classified these  
14 smaller mains as a customer component, it allocates them using design day  
15 demands.

16 **Q DO YOU AGREE WITH STAFF THAT THE COMPANY'S PROPOSED**  
17 **ALLOCATION OF SMALL DISTRIBUTION MAINS IS NOT REASONABLE?**

18 A I do not. CNG witness Paul Normand states that the Company chose to  
19 separately allocate distribution mains smaller than two inches because those  
20 mains are primarily used to provide local service and are related to the backbone  
21 local distribution system, which he believes is properly recovered in a fixed  
22 monthly service charge. While Mr. Normand does state that these costs were

1 classified as customer related and allocated to only Residential and Small  
2 Residential rate classes, I do not believe this distinction is the same as  
3 classifying a portion of total distribution mains on a customer component.  
4 Rather, it appears clear that Mr. Normand's intent is to allocate these small main  
5 costs to only Residential and Small Commercial customers, because these  
6 mains are predominantly used to serve only these two SCs. (Normand Pre-filed  
7 Direct Testimony at 11-12).

8 **Q IS IT APPROPRIATE TO SEPARATELY IDENTIFY FACILITIES OF CNG THAT**  
9 **ARE PROVIDING SERVICE TO ONLY A LIMITED NUMBER OF CUSTOMERS**  
10 **ON THE SYSTEM?**

11 A Yes. CNG's testimony clearly describes that there is design pressure for various  
12 sizes of distribution mains (see Pre-Filed Direct Testimony of Matt Cook at MJC-  
13 2). Main pressure design helps to maintain safe operation of distribution  
14 equipment. Because of pressure limits, it is not possible to use smaller  
15 distribution mains to deliver the daily capacity needed to serve large SC  
16 customers. In order to increase the throughput of gas needed to serve large  
17 customers using a small distribution main, the pressure on the small mains would  
18 potentially need to be increased above a safe operating pressure. Therefore, the  
19 smaller distribution mains are safely used to serve CNG's smaller customers –  
20 Residential and Commercial customers.

21 For these reasons, I do not agree that CNG's treatment of these mains is  
22 the same as classifying them as a customer component. Rather, I believe CNG's

1 proposed treatment of these small main costs is a more direct allocation of the  
2 cost of small mains to the customer classes that actually receive service from  
3 them.

4 The customer classification of distribution main costs, in contrast to the  
5 Company's direct assignment of small main costs to small customers, is an  
6 allocation methodology that recognizes that distribution main costs are designed  
7 to both be adequate in length to connect customers to the system, and to have  
8 adequate capacity to meet the customer design day demands. The length of  
9 main needed to connect the customers of the system is irrespective of the  
10 demands that customers place on the distribution system. In contrast, the peak  
11 day demand or design day demand capability of the distribution system is  
12 specifically designed to ensure that customers that cannot be curtailed can  
13 receive service every day of the year including the peak demand day of the year  
14 – or design day demand.

15 **Q DID THE STAFF GAS RATES PANEL RECOMMEND A MINIMUM INTERCEPT**  
16 **METHOD BE PERFORMED BY THE COMPANY FOR USE IN ITS NEXT RATE**  
17 **CASE?**

18 **A** Yes. At pages 22-23, the Gas Rates Panel recommended that a customer  
19 component of minimum distribution mains be used within its cost of service study  
20 in its next rate case.

1    **Q     DO YOU AGREE WITH THE STAFF PANEL'S RECOMMENDATION FOR**  
2       **CNG'S NEXT RATE CASE?**

3    A     I agree with Staff's recommendation for CNG's *next* rate case.  However, that  
4       should not distract from the testimony submitted by CNG in the present rate case  
5       and CNG's proper recognition that smaller mains can only safely be used to  
6       serve smaller customers.  To the extent smaller mains simply are not available to  
7       serve larger customers for safety purposes, there is no cost justification for  
8       allocating small main costs to larger customers.  However, I do agree with the  
9       Staff Gas Rates Panel that distribution mains have a customer component, costs  
10      incurred simply to connect customers to the system, and they have a peak day  
11      demand load-carrying capability cost component.  Allocating large distribution  
12      mains across all rate classes using a customer and design day demand basis is  
13      consistent with my recommendation in this proceeding.  Developing a minimum  
14      distribution system in CNG's next rate case will support a more accurate cost of  
15      service study.

16    **Proposed Spread**

17    **Q     PLEASE DESCRIBE STAFF'S PROPOSED SPREAD OF ITS REVENUE**  
18       **DEFICIENCY IN THIS CASE.**

19    A     Staff recommends the Company's class cost of service study not be used to  
20       determine an appropriate revenue allocation of the revenue deficiency in this  
21       proceeding.  (Page 23).  Staff states that it does not agree with CNG's cost  
22       allocation of main costs and therefore does not support the accuracy of the

1 Company's cost of service study results. Therefore, Staff proposes a uniform  
2 percent revenue change to all SCs in this case.

3 **Q DO YOU AGREE WITH STAFF'S PROPOSED REVENUE SPREAD?**

4 A No. I believe it is appropriate to make every effort to move rates closer to cost of  
5 service in this proceeding limited by gradualistic restraint. Staff's concerns with  
6 the Company's class cost of service study would largely shift more costs to  
7 customers that would receive more than a 1.5 times system average increase to  
8 bring them in line with cost of service. Further, recognizing the priority of service  
9 on constrained day demands on CNG's load carrying capacity, would further  
10 move costs to customer classes whose increase would be minimized by a 1.5  
11 times system average parameter.

12 I believe it is fair and balanced to use the modified class cost of service  
13 study proposed in my pre-filed direct testimony to spread the increase in this  
14 proceeding. I believe the Company's class cost of service study is a reasonable  
15 starting point for measuring its service classification cost of service, but with two  
16 important modifications I proposed: (i) accurately reflecting the priority of service  
17 on constrained demand days; and (ii) use of a customer component for large  
18 distribution mains. Therefore, I believe that my revisions to the Company's class  
19 cost of service study should be used as a basis for spreading the revenue  
20 increase in this proceeding.

1    **Q     HOW DO YOU PROPOSE SPREADING THE STAFF PANEL'S CLAIMED**  
2       **REVENUE DEFICIENCY OF \$831,000 IN THIS PROCEEDING?**

3    A     Using my class cost of service study, and the Staff Panel's proposed non-gas  
4       revenue deficiency of \$831,000, or 7.18%, my proposed revenue spread across  
5       SCs is shown in Exhibit MPG-2. Exhibit MPG-2 illustrates that no class would  
6       receive more than 1.5 times the system average increase. Using the Staff  
7       Panel's recommended revenue deficiency and my proposed gradual movement  
8       to cost of service, I recommend that no class would receive less than a 0.3%  
9       increase or more than a 10.77% increase.

10   **Q     DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

11   A     Yes.