

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of
Corning Natural Gas Corporation

Case 16-G-0369

October 2016

Prepared Testimony of:
Staff Gas Rates Panel

Hieu T. Cam
Utility Engineer 2

Richard Quimby
Utility Engineer 2

State of New York
Department of Public Service
3 Empire State Plaza
Albany, New York 12223-1350

1 Introductions and Qualifications

2 Q. Please state your names, employer, and business
3 address.

4 A. Our names are Richard Quimby and Hieu T. Cam.
5 We are employed by the New York State Department
6 of Public Service (Department) and are located
7 at Three Empire State Plaza, Albany, New York
8 12223.

9 Q. Mr. Cam, what is your position with the
10 Department?

11 A. I am a Utility Engineer 2 in the Gas and Water
12 Rates Section of the Office of Electric, Gas and
13 Water.

14 Q. Mr. Cam, please state your educational
15 background and professional experience.

16 A. I received a Bachelor of Science Degree in Civil
17 Engineering from Clarkson University in 2007.
18 After graduating from Clarkson University, I
19 worked for The Whiting-Turner Contracting
20 Company where my tasks included estimating,
21 monitoring sub-contractors, drafting bid
22 documents and conducting field inspections. In
23 2008, I returned to Clarkson University where I
24 obtained a Master of Science in Civil

1 Engineering. I joined the Department in 2010 as
2 a Junior Engineer.

3 Q. Mr. Cam, what are your duties in the Gas and
4 Water Rates Section?

5 A. My duties include reviewing utility proposals,
6 conducting analyses and then drafting reports,
7 memoranda, and/or testimony of my findings. I
8 have reviewed sales forecasts, revenue price-
9 outs, operation and maintenance expenses, cost
10 of service studies, revenue allocation and rate
11 design proposals, and various tariff
12 modifications.

13 Q. Have you previously testified in proceedings
14 before the Public Service Commission
15 (Commission)?

16 A. Yes. I have previously testified in several
17 rate cases including Cases 16-G-0061 and 15-G-
18 0284.

19 Q. Mr. Quimby, what is your position with the
20 Department?

21 A. I am a Utility Engineer 2 in the Gas and Water
22 Rates Section of the Office of Electric, Gas and
23 Water.

24 Q. Mr. Quimby, please state your educational

1 background and professional experience.

2 A. I graduated from Clarkson University with a
3 Bachelor of Science Degree in Electrical
4 Engineering in 2005. In 2006, I began working at
5 Lightning Technologies, Inc. where I performed
6 high voltage testing, testing protocols and
7 prepared final reports that documented testing
8 and results. I began working for the Department
9 in 2008 in the Bulk Electric Systems Section. I
10 have participated in the New York Independent
11 System Operator committee meetings, have been
12 involved in more than five Article VII cases,
13 and have reviewed petitions filed pursuant to
14 Part 102 of the Commission's rules to analyze
15 and advise the Commission on whether proposed
16 facilities may be constructed overhead or
17 underground. I recently started a rotation in
18 the Gas and Water Rates Section.

19 Q. Have you previously testified in other
20 proceedings?

21 A. Yes. I testified in the Rochester Gas and
22 Electric Corporation and New York State Electric
23 and Gas Corporation rate case proceedings, Case
24 09-E-0715, et al. and Case 15-E-0285, et al.

1 Q. Are you training to become a licensed
2 professional engineer?

3 A. Yes, I have passed the fundamentals section of
4 the New York State Professional Engineering
5 Exam.

6 Q. Mr. Quimby, what are your duties in the Gas and
7 Water Rates Section?

8 A. My duties include reviewing utility proposals,
9 conducting analyses and then drafting reports,
10 memoranda, and/or testimony of my findings.

11

12 Scope of Testimony

13 Q. What is the scope of the Gas Rates Panel's
14 testimony?

15 A. We will present the following topics: 1) Sales
16 forecast for the twelve months ending May 31,
17 2018; 2) Base delivery revenues for all service
18 classes; 3) Revenue Imputation; 4) Cost of
19 Service Study; 5) The Merchant Function Charge
20 (MFC); 6) Interclass revenue allocation of
21 Staff's proposed delivery rate changes; 7) Rate
22 design; (8) Safety and Reliability Surcharge;
23 and 9) Lost and Unaccounted For (LAUF) Gas.

24 Q. Did you rely on any information produced during

1 the discovery phase of this proceeding?

2 A. Yes. We relied on responses to numerous
3 interrogatory requests. The responses to the
4 interrogatory requests that we relied upon are
5 found in Exhibit __ (GRP-1).

6 Q. Is the Panel sponsoring any other exhibits?

7 A. Yes. We are also sponsoring the following
8 exhibits: Exhibit __ (GRP-2) contains the
9 summary of our sales forecast;
10 Exhibit __ (GRP-3) contains our proposed revenue
11 allocation to all firm service classifications
12 at Staff's proposed revenue requirement;
13 Exhibit __ (GRP-4) contains our development of
14 the Rate Year delivery revenues at present rates
15 and proposed rates; Exhibit __ (GRP-5)
16 summarizes the MFC revenue targets;
17 Exhibit __ (GRP-6) summarizes the proposed
18 rates; Exhibit __ (GRP-7) contains a summary of
19 the bill impacts at our proposed rates; and
20 Exhibit __ (GRP-8) contains the proposed LAUF
21 target and deadband.

22 Q. Can you summarize what you are recommending in
23 this testimony?

24 A. Yes. We recommend an adjustment to the sales

1 forecast to reflect 30 years of data for weather
2 normalization. We also recommend adjusting
3 operating revenues to include all local
4 production revenue. As a result of our
5 adjustments to the sales and revenue forecast,
6 we recommend an increase of \$783,000 to the
7 total operating revenue at current rates. The
8 incremental revenue requirement resulting from
9 our adjustments and other panels' adjustments
10 are allocated to all service classes, except SC
11 8 - Hammondsport, in equal proportion. As part
12 of the rate design process, we recommend
13 maintaining the current minimum charges for all
14 customer classes except SC 3 - Bath
15 Transportation and SC 4 - Bath Transportation.
16 The minimum charge for these service classes are
17 increased by \$200 to \$800 per month in an
18 attempt to align these minimum charges with that
19 of SC 7 - Industrial. We also recommend
20 updating the Gas Commodity Uncollectible, Gas
21 Procurement, and Records and Collections of the
22 MFC revenue target. Additionally, the Safety
23 and Reliability surcharge, currently in effect,
24 should be eliminated. Finally, we recommend the

1 LAUF factor and the LAUF deadband be updated
2 using the latest five years of data.

3

4 Firm Sales Forecast

5 Q. What is the Company's customer forecast for the
6 Rate Year?

7 A. The Company's customer forecast for the Rate
8 Year is 14,952 customers which includes 13,846
9 residential customers, 1,059 small commercial
10 customers, and approximately 47 large
11 commercial/industrial customers.

12 Q. How did the Company develop its customer
13 forecast?

14 A. The Company based its customer forecast on the
15 test year, which is the twelve months ending
16 December 31, 2015. For SC 1 - Residential, the
17 Company's forecast reflects an additional 75 new
18 customers in the Rate Year, the twelve months
19 ending May 31, 2018. For all other service
20 classifications, the Company used the test year
21 customer data as the Rate Year forecast and did
22 not propose an increase in the customer counts.

23 Q. Do you agree with the Company's customer
24 forecast?

- 1 A. Yes. We believe that the Company's customer
2 forecast is reasonable. Based on our analysis,
3 the Company's projected annual customer addition
4 is consistent with the observed historic trend.
- 5 Q. What is the Company's firm gas delivery volume
6 forecast for the Rate Year?
- 7 A. The Company's firm gas delivery volume forecast
8 for the Rate Year is 6,174,000 Mcf which
9 includes volumes delivered to negotiated
10 contract customers.
- 11 Q. How did the Company develop its firm gas
12 delivery volume forecast for the Rate Year?
- 13 A. The Company based its volumetric sales forecast
14 on the test year. First, the Company divided
15 test year sales data, normalized using ten years
16 of weather data, by the historic customer count
17 to obtain a use per customer (UPC). The Company
18 then multiplied the Rate Year customer count by
19 the UPC to determine the forecasted throughput.
- 20 Q. Do you agree with the Company's volumetric
21 forecast?
- 22 A. No. Although we used a similar methodology to
23 develop our forecast, we weather normalized the
24 sales volumes using 30 years of heating degree

1 day (HDD) data to develop the UPC.

2 Q. Why does Staff use 30 years of data to determine
3 normal HDDs?

4 A. We believe that 30 years is an appropriate
5 historic time period. The longer term is
6 important for design day and capacity planning
7 purposes, and using a 30-year average for sales
8 forecasting provides consistency throughout the
9 Company's planning functions. As such, we
10 recommend that a 30-year average be used to
11 normalize the gas sales forecast.

12 Q. What other benefits could be achieved if gas
13 utilities were to use 30 years of weather for
14 both the sales and reliability forecasts?

15 A. It is more efficient and effective for the
16 Company to do one forecast based on 30 years
17 than to develop two separate forecasts for sales
18 and reliability. Even if a sales forecast based
19 on ten years of weather were to be utilized, a
20 reliability forecast based on 30 years of
21 weather data would still be required. In the
22 past, Staff had encountered occasions where
23 companies using a ten year sales forecast have
24 attempted to use the 10 year average as a base

1 to design winter reliability forecasts, which is
2 unacceptable. By using one forecast based on 30
3 years of weather data there is less chance this
4 will reoccur.

5 Q. Does Corning utilize 10 years or 30 years of
6 data to determine system reliability?

7 A. Corning uses 30 years of data.

8 Q. What are the results of your sales forecast?

9 A. Based on our forecast, we projected a decrease
10 of 122,000 Mcf for the Rate Year due to
11 normalizing using 30 years of weather data
12 instead of the Company's ten years.

13 Q. Did you make any additional adjustments to the
14 volumetric forecast?

15 A. Yes. The Company's forecast removed an existing
16 customer in SC 7 - Industrial. The Company
17 assumes that the customer will migrate to SC 11
18 - Negotiated Contracts and will pay a negotiated
19 rate as opposed to the current SC 7 - Industrial
20 rate. The Company stated, in response to IR
21 DPS-239, that negotiations with the customer are
22 ongoing, and it is not known when they will have
23 an agreement. We believe that the SC 7 -
24 Industrial forecast should include that customer

1 until a contract is executed. Therefore, our
2 forecast reflects an adjustment to include this
3 customer and the associated sales volume.

4 Q. What is the result of your overall sales
5 forecast for including this customer in SC 7 -
6 Industrial?

7 A. This adjustment does not affect the overall
8 sales forecast since SC 11 - Contract sales is
9 reduced by the same amount. Our overall sales
10 forecast remains approximately 6,052,000 Mcf for
11 the Rate Year. The full breakdown of the
12 results are presented in
13 Exhibit __ (GRP-2).

14

15 Rate Year Revenue Forecast

16 Q. What is the Company's operating revenue forecast
17 for the Rate Year at current rates?

18 A. Per the Company's Exhibit __ (RRP-3), Schedule
19 B, the Company's proposed operating revenue is
20 \$24.6 million.

21 Q. Does the Panel agree with the Company's
22 operating revenue forecast?

23 A. No. We recommend an increase of \$783,000 to the
24 Company's base delivery revenue and local

1 production revenue, which results in a total
2 operating revenue of \$25.4 million. The
3 increase is mainly attributed to our proposal to
4 include revenues from local production
5 Transportation Fees as well as the adjustments
6 to the sales forecast.

7 Q. Identify the other components of the Company's
8 operating revenues that you have reviewed.

9 A. We also reviewed the revenues generated from
10 customer discounts, the Merchant Function
11 Charge, reconnection fees, and the accelerated
12 recovery of plant. We find the Company's
13 forecast for these revenues to be reasonable.

14

15 Base Delivery Revenue

16 Q. What is the result of the Panel's forecast for
17 base delivery revenue at current rates?

18 A. We forecast \$12.8 million in base delivery
19 revenue at current rates, a reduction of
20 approximately \$105,000 from the Company's
21 forecast. Base delivery revenue includes all
22 revenue from firm customers as well as
23 negotiated contract customers. The adjustment
24 to the base delivery revenue is a result of the

1 difference in the sales forecast we discussed
2 earlier.

3 Q. Please describe how you priced out your sales
4 forecast.

5 A. We allocated our Rate Year sales volumes to the
6 different rate blocks using the test year block
7 allocation percentages. This is similar to the
8 Company's methodology. We then priced out those
9 volumes and the forecasted number of customer
10 bills at the existing rates. Our base delivery
11 revenue resulted in an reduction of \$105,000
12 from the Company's forecast. Exhibit __ (GRP-2)
13 presents the result of our price out.

14

15 Merchant Function Charge Revenue

16 Q. What is Merchant Function Charge (MFC) Revenue?

17 A. MFC Revenue is collected from all full service
18 sales customers to offset the Company's
19 administrative costs associated with procuring
20 gas. The costs include records and collections,
21 carrying costs from gas in storage, commodity
22 uncollectible expense, and gas supply
23 procurement.

24 Q. What is the Company's forecast for the revenue

1 associated with the MFC?

2 A. The Company forecasts the MFC revenue to be
3 approximately \$402,000 for the Rate Year.

4 Q. Does the panel have any adjustments associated
5 with this revenue?

6 A. No. We find the revenue to be in line with what
7 was collected historically.

8

9 Local Production

10 Q. What is local production revenue?

11 A. Local production revenue is the revenue that the
12 Company collects from local producers for
13 transporting gas through Corning's distribution
14 system. This revenue consists of revenues from
15 Daily Access Fees, Monthly Meter Charges, and
16 Transportation Fees.

17 Q. Can you explain the difference between these
18 fees?

19 A. The Monthly Meter Charge is a fixed fee charged
20 to the local producer for each meter used. The
21 Daily Access Fee is a fee based on the average
22 daily total flow rate into Corning's system.
23 The Transportation Fee is similar to the Daily
24 Access Fee, however, the rate is only applied to

1 gas flowing through Stateline station and the
2 Ryers Creek station.

3 Q. What is the Company's forecast for Local
4 Production Revenue?

5 A. The Company forecasts local production revenues
6 of approximately \$286,000 for the Rate Year.

7 Q. Do you agree with the Company's forecast?

8 A. No. We forecast local production revenue of
9 approximately \$1.2 million, an increase of
10 \$888,000.

11 Q. Please explain why your forecast is
12 significantly higher than the Company's.

13 A. The Company's forecast included only the
14 revenues from the Daily Access Fees and Monthly
15 Meter Charges. It excluded the revenues from
16 Transportation Fees. The revenues associated
17 with Transportation Fees are currently shared
18 between the Company and customers, with
19 customers receiving 80% of the revenue. The
20 customer's portion of this revenue is credited
21 via the delivery rate adjustment (DRA). The
22 Company proposes to continue to credit this
23 revenue through the DRA and exclude it from base
24 rates.

1 Q. Why does the Panel believe the revenue from
2 Transportation Fees should be included in base
3 rates?

4 A. The revenue from Transportation Fees is no
5 different than the revenues from Daily Access
6 Fees, Meter Charge, negotiated rates or firm
7 delivery rates. Therefore, there is no reason
8 to exclude this revenue from base rates.
9 Additionally, the customer's share of this
10 revenue is approximately \$1.0 million based on
11 the historic test year; excluding this revenue
12 would artificially increase the revenue
13 requirement and base delivery rates. Finally,
14 because this revenue is not reflected in base
15 rates, the results of the cost of service study,
16 which excluded this revenue, may be inaccurate
17 and could lead to incorrect revenue allocation
18 and rate design proposals. To ensure the rates
19 are reflective of the cost to serve, we propose
20 to include this revenue in base rates as well as
21 reset the revenue imputation to reflect this
22 revenue.

23

24

1 forecast.

2 Q. What is the Panel's recommendation?

3 A. We recommend the imputation be set at \$1,651,432
4 for contract revenue and \$1,174,239 for local
5 production revenue. We also recommend that the
6 sharing mechanism remain unchanged.

7

8 Cost of Service Study

9 Q. Did the Company file a gas cost of service (COS)
10 study in this proceeding?

11 A. Yes. The Company filed an embedded historic COS
12 study based on the 12 month period ended
13 December 31, 2015. The study incorporates
14 several normalizing and pro-forma adjustments.

15 Q. Provide examples of the normalizing and pro-
16 forma adjustments.

17 A. The Company made several normalization
18 adjustments such as normalizing taxes,
19 eliminating revenue items that are reconciled,
20 and adjusting revenues to reflect "normal"
21 weather. The Company also made one pro-forma
22 adjustment to reflect the Rate Year customer
23 forecast.

24 Q. How is the COS utilized by the Company?

1 A. The Company's COS study functionalizes and
2 classifies various costs. The results show the
3 unitized rate of returns of each customer class
4 and provide insight to the level of costs that
5 should be recovered from fixed charges, which
6 the Company used as a guide for rate design.
7 The COS study also functionalized costs
8 associated with various merchant function
9 charges including gas supply procurement and
10 credit and collections, which we will discuss
11 later in our testimony.

12 Q. What were the results of the COS Study?

13 A. As can be seen in the Company's
14 Exhibit __ (PMN-4), of Paul Normand's Testimony,
15 industrial and Bath customers have a unitized
16 rate of return (ROR) of 0.323 and 0.095, while
17 the small commercial sales customers and
18 commercial transportation customers have
19 unitized RORs of 1.3 and 1.7, respectively. The
20 ROR for residential customers is in line with
21 the system average unitized ROR of 1.037.

22 Q. What do the results of the COS Study mean?

23 A. The unitized ROR is calculated by dividing the
24 ROR of a particular service class by the system

1 wide ROR. A unitized ROR above 1.0 indicates
2 that rates for that particular service class are
3 too high based on the cost to serve that
4 customer class, and vice versa. A unitized ROR
5 of 1.0 indicates that the rates for that
6 particular service class are fairly reasonable
7 based on the cost to serve those customers. The
8 results from the Company's COS indicate the RORs
9 for industrial and Bath customers are deficient
10 - meaning their rates are too low while the ROR
11 for small commercial customers is excessive.

12 Q. Please explain how the Company developed the COS
13 study.

14 A. The Company used a computerized cost model to
15 assign and allocate the costs, rate base, and
16 revenues to each customer class. Allocators
17 were developed separately to assign the various
18 costs to each customer class depending on the
19 nature of their demands on the system and the
20 facilities required to serve them.

21 Q. How did the Company allocate gas distribution
22 mains and associated expenses to each customer
23 class?

24 A. The Company's cost allocation uses the "minimum

1 system" approach. The rate base costs and
2 expenses associated with gas distribution mains
3 were classified into two categories: mains with
4 a diameter greater than two inches and mains
5 with a diameter of two inches and smaller. All
6 mains with a diameter greater than two inches
7 are allocated to all customers based on design
8 day demand, while mains with a diameter of two
9 inches or smaller are allocated only to
10 residential and small commercial customers based
11 on the design day demands. The Company
12 rationalized that mains with a diameter of two
13 inches and smaller are primarily used to provide
14 local service and are related to the backbone
15 local distribution system. For this reason, the
16 Company classified these costs as customer costs
17 and proposed to recover these costs in the fixed
18 minimum monthly charge. The Company also
19 proposed that mains with a diameter greater than
20 two inches should be classified as demand costs
21 and should be recovered in the volumetric
22 charge.

23 Q. Do you find the Company's proposed allocation
24 for mains to be reasonable?

1 A. No. We disagree with the Company's methodology
2 for allocating and classifying mains. First, as
3 explained in the NARUC Utility Cost Allocation
4 Manual, main that is two inches or smaller
5 diameter still has a certain load carrying
6 capability, thus the entire cost should not be
7 classified as customer costs. Second, the
8 Company's proposed allocation is inconsistent
9 with how it classified this cost. Although the
10 Company classified mains with two inches and
11 smaller diameters as customer costs, the Company
12 proposed to allocate this cost using design day
13 demands. This is inconsistent with cost of
14 service studies done by other utilities where
15 customer costs are allocated to different
16 customer classes using the number of customers
17 and demand costs are allocated using design day
18 demands.

19 Q. What is the Panel's recommendation regarding the
20 Company's COS study?

21 A. We recommend that, in its next rate case, the
22 Company be required to utilize the minimum-
23 intercept method where customer costs are
24 derived based upon the zero-load intercept. The

1 resulting customer costs should be allocated
2 based on customers rather than design day
3 demand.

4 Q. Did the Panel use the results of the Company's
5 COS study for rate design or revenue allocation
6 purposes?

7 A. No. We do not agree with how the cost of mains
8 were classified and allocated, and therefore, we
9 did not use the results of the Company's COS
10 study for rate design or revenue allocation
11 purposes. However, we did use the Company's
12 functionalized merchant function costs to
13 develop the MFC targets since these costs are
14 unaffected by the classification and allocation
15 of the cost of mains. We will discuss the
16 details regarding our rate design proposals
17 later in our testimony.

18

19

MFC

20 Q. What is the Company's proposal for the MFC?

21 A. The Company proposes to update the MFC targets
22 to reflect the updated gas supply procurement
23 and the records and collection costs as
24 determined by the COS study. The methods for

1 determining the gas commodity uncollectible
2 expense and carrying costs on storage remain
3 unchanged. As a result, the MFC charge should
4 be updated to reflect the gas supply procurement
5 cost of \$70,234, and records and collection cost
6 of \$145,188.

7 Q. Does the Panel agree with the Company's
8 proposal?

9 A. Yes. The gas supply procurement and the records
10 and collection components of the MFC should be
11 updated to reflect the costs shown in the COS
12 Study. In addition to updating these
13 components, we propose to update the gas
14 commodity uncollectible expense component to
15 reflect the uncollectible rate of 1.2% proposed
16 in Staff witness Sean Malpezzi's testimony.

17

18 Revenue Allocation

19 Q. How does the Company allocate the revenue
20 increase to each customer class?

21 A. Per Company Exhibit __ (PMN-5) of Paul Normand's
22 testimony, the Company proposes to allocate the
23 incremental revenue by an equal percentage to
24 all service classes, approximately 30%.

1 Q. Did the Company's revenue allocation attempt to
2 correct the revenue deficiencies or surpluses as
3 indicated by the COS study?

4 A. No. Per the Company's COS study summary as
5 shown in Company Exhibit __ (PMN-4), the SC 1 -
6 Residential customer class has a unitized ROR of
7 1.037 while SC 7 industrial customers
8 significantly under contribute with a unitized
9 ROR of 0.323. Instead of allocating more of the
10 revenue requirement increase to SC 7 -
11 Industrial to correct for the deficiency, the
12 Company allocated the same percentage increase
13 to both customer classes, approximately 31% of
14 current delivery revenues.

15 Q. Do you agree with the Company's proposal?

16 A. Normally we would not agree with the Company's
17 proposal to increase the revenue by an equal
18 percentage for all customer classes because the
19 proposed allocation does not appear to correct
20 for the ROR discrepancies between the customer
21 classes. However, because we do not agree with
22 the Company's allocation of mains in its COS
23 study, we cannot rely on the results of the
24 Company's COS study for revenue allocation

1 purposes. Consequently, we partially agree with
2 the Company's proposal to allocate the revenue
3 increase proportionally by an equal percentage
4 to all customer classes to ensure that the
5 deficiencies or excess rates of return do not go
6 further out of alignment.

7 Q. Describe your revenue allocation proposal.

8 A. Staff witness Margaret Wright provided us with a
9 revenue requirement increase of \$831,000 or
10 7.23% of firm delivery revenues. The
11 incremental revenue requirement was allocated to
12 each service class in equal percentages as
13 described above, with the exception of SC 8 -
14 Hammondsport. We recommend using an allocation
15 factor of 1.2 for SC 8 - Hammondsport and 1.0
16 for all other SCs. The resulting allocated
17 incremental revenue requirement was then used to
18 design the Rate Year's delivery rates.

19 Q. Why do you use a higher allocation factor to
20 allocate the revenue increase to SC 8 -
21 Hammondsport?

22 A. Prior to its last rate case, Corning had
23 separate tariffs and different rates for similar
24 customers in different jurisdictions - Corning,

1 Bath, and Hammondsport. The Commission's rate
2 order issued on April 20, 2012 in Case 11-G-0280
3 initiated the tariff consolidation process, in
4 which similar customers from various
5 jurisdictions were consolidated under one
6 customer class with the same rates. Although
7 the customers in SC 8 - Hammondsport are similar
8 to customers in SC 6 - Commercial
9 Transportation, the rates were substantially
10 different. To mitigate the impact to SC 8 -
11 Hammondsport customers' bills, these customers
12 were not fully consolidated into SC 6 -
13 Commercial Transportation. In this proceeding,
14 we propose to continue the consolidation process
15 by increasing SC 8 - Hammondsport rates to
16 gradually align with SC 6 - Commercial
17 Transportation rates with the goal of eventually
18 consolidating the tariffs of these two service
19 classes.

20

21 Rate Design

22 Q. What is the Company's rate design proposal for
23 residential and small commercial customers?

24 A. The Company proposes to increase the minimum

1 charges by approximately 25% to 50% for all
2 customer classes. Notably, Corning proposed to
3 increase the minimum charges for SC 1 and SC 14
4 residential customers from \$19.75 to \$25.00 for
5 the Rate Year. The Company proposed to increase
6 the minimum charge for SC 3 Commercial customers
7 from \$30.25 to \$38.00 in the Rate Year. The
8 remaining balance of the revenue increase is
9 allocated to the usage rate blocks; therefore,
10 each volumetric block rate is increased by
11 approximately 30% for these service classes.

12 Q. Does the Panel agree with the Company's proposed
13 minimum charge increases?

14 A. No. We do not agree with the Company's proposed
15 increase to the residential customers' minimum
16 charges. While we understand that rate
17 structures should be designed to permit the
18 Company to recover the allowed revenue
19 requirement at a fair rate of return, it is
20 important to note that rate design is not an
21 exact science. Page 9 of the NARUC Gas
22 Distribution Rate Design Manual highlights this
23 sentiment and states that, "...While cost is an
24 important factor in ratemaking, actual rates are

1 often designed to incorporate numerous other
2 factors, including technological, economic,
3 regulatory, political, promotional and social."

4 Q. What does the Panel recommend for designing
5 rates for residential customers?

6 A. We would ordinarily recommend rate increases to
7 all rate blocks when there is a revenue
8 increase. However, in this instance, we
9 recommend that the residential minimum charge
10 remained unchanged. Further, we recommend
11 allocating the revenue increase to all
12 volumetric blocks at an equal percentage. With
13 the implementation of several different policy
14 initiatives in energy efficiency, Reforming the
15 Energy Vision, clean energy and renewables,
16 etc., we believe it is appropriate to maintain
17 the current residential customer charge and take
18 time to better determine the appropriate rate
19 design to further those public policies in the
20 future.

21 Q. What does the Panel propose for rate design for
22 all other customer classes?

23 A. Similar to our rate design proposal for
24 residential customers and for the same reason,

1 we propose to keep the minimum charge the same
2 for all customers except for SC 3 - Bath
3 Transportation (Bath SC 3) and SC 4 - Bath
4 Transportation (Bath SC 4) customers. The
5 balance of the incremental revenue increase is
6 allocated to all volumetric block rates. The
7 results of our rate design proposal is presented
8 in Exhibit __ (GRP-6).

9 Q. What is your recommended rate design for Bath SC
10 3 and Bath SC 4?

11 A. Similar to the Company's proposal, we recommend
12 an increase to the minimum charges for these
13 customers by \$200 to begin to align these rates
14 with SC 7 - Industrial rates. As previously
15 discussed, the rate order issued in Case 11-G-
16 0280 initiated the tariff consolidation process
17 which consolidated similar customers into one
18 service class with the same rates. However,
19 because the Bath SC 3 and Bath SC 4 minimum
20 charges were substantially different from the
21 minimum charge for SC 7 - Industrial, all of the
22 customers were not fully consolidated. Our
23 proposal will eventually align the Bath SC 3 and
24 Bath SC 4 rates with SC 7 - Industrial rates.

1 Q. What is the resulting impact to customers'
2 bills?

3 A. As shown in Exhibit __ (GRP-7), a typical
4 residential customer would experience a small
5 bill increase of \$2.77 or 0.3%. Small
6 commercial customers would experience a bill
7 decrease of \$33.01 or 1.6%.

8 Q. Explain why residential customers bill increase
9 by only 0.3% and small commercial customers bill
10 decrease by 1.6%

11 A. Although the customers' delivery rates are
12 increased by over 7%, this increase is offset by
13 two surcharges that will be eliminated or
14 significantly reduced during the Rate Year. The
15 Safety and Reliability Surcharge, which will be
16 discussed next, should be eliminated during the
17 Rate Year. The Delivery Rate Adjustment should
18 be substantially reduced because several
19 deferrals currently being recovered in this
20 mechanism will be eliminated.

21

22 Safety and Reliability Surcharge

23 Q. What is the Safety and Reliability Surcharge?

24 A. The Safety and Reliability Surcharge (Surcharge)

1 was implemented in accordance with the rate
2 extension order issued on October 19, 2015 in
3 Case 11-G-0280. The Surcharge allows the
4 Company to collect the carrying costs associated
5 with Leak-Prone Pipe replacement and ancillary
6 costs incurred during the extension period from
7 May 1, 2015 to April 30, 2017.

8 Q. Why was the Surcharge needed?

9 A. Delivery rates in the extension case were not
10 adjusted to recover these costs, therefore the
11 Surcharge was established to do so.

12 Q. Should the Surcharge continue beyond April 30,
13 2017?

14 A. No. The Surcharge should be eliminated since
15 the projected Rate Year revenue requirement
16 already reflects these costs.

17

18 Lost and Unaccounted for Gas

19 Q. Do you have any other rate-related proposals?

20 A. Yes. Although we propose no changes to the LAUF
21 mechanism itself, we propose to update the
22 Company's LAUF fixed factor and the LAUF
23 deadband using the latest five years of data.

24 Q. What is LAUF?

1 A. LAUF stands for Lost and Unaccounted For, and is
2 the difference in the amount of measured gas
3 flowing into the system and the amount of gas
4 sold. The difference can be attributed to
5 leaks, timing of meter reads, unmeasured company
6 use, theft, etc.

7 Q. Please explain the Company's current methodology
8 for calculating LAUF gas.

9 A. In accordance with the Commission's rate order
10 issued in Case 11-G-0280, the Company uses a
11 simplified method that calculates unaccounted
12 for gas by subtracting metered deliveries to
13 customers from metered supplies into the
14 system. The current LAUF fixed factor was
15 determined using the average of five years of
16 data.

17 Q. How was the deadband calculated?

18 A. The top of the deadband is two standard
19 deviations above the fixed factor and the bottom
20 of the deadband is two standard deviations below
21 the fixed factor. Should the bottom of the
22 deadband fall below 1.0, then the top of the
23 deadband will be set at 1.0 plus four standard
24 deviations.

- 1 Q. Why do you propose to update the LAUF fixed
2 factor and the LAUF deadband?
- 3 A. The current LAUF fixed factor is 1.0081 which
4 was determined based on data available when the
5 Commission issued its rate order in 2012. We
6 recommend that the LAUF fixed factor and the
7 LAUF deadband be updated using the latest five
8 years of data which better reflects the current
9 performance of the system.
- 10 Q. Does the Company receive an incentive if the
11 actual LAUF falls below the LAUF fixed factor?
- 12 A. Not necessarily. Currently, as long as the
13 actual LAUF is within the deadband which is from
14 1.0 to 1.0194, the benefits are refunded to
15 customers. The deadband was established to
16 recognize that the system performance has
17 reached an equilibrium where further reduction
18 in LAUF gas is difficult. The deadband also
19 incentivizes the Company to maintain the system
20 performance since the Company would be
21 financially responsible should its actual LAUF
22 exceed the top of the deadband.
- 23 Q. What LAUF fixed factor and deadband do you
24 recommend?

1 A. We recommend the LAUF fixed factor be set at
2 1.0037, and the deadband be set from 1.0000 to
3 1.0160.

4 Q. Does this conclude your testimony at this time?

5 A. Yes.

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24