

**CORNING NATURAL GAS CORPORATION**

**BEFORE THE**

**STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION**

**CASE NO. 16-G-0369**

**REBUTTAL TESTIMONY OF  
PAUL M. NORMAND**

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## **REBUTTAL EXHIBITS**

Exhibit ___ (PMN-R-1)	NARUC Cost Allocation Manual, Page 95 – “The Minimum-System vs. Minimum Intercept Approach”
Exhibit ___ PMN-R-2)	Department of Transportation (DOT) Gas Distribution System, Corning – 2015
Exhibit ___ PMN-R-3)	Cost of Service Study Allocation Factors – Design Day – Customers

**REBUTTAL TESTIMONY OF**

**PAUL M. NORMAND**

**I. INTRODUCTION**

**Q. Please state your name and business address.**

A. My name is Paul M. Normand. My business address is Management Applications Consulting, Inc., 1103 Rocky Drive, Suite 201, Reading, PA 19609.

**Q. Are you the same Paul M. Normand who presented direct testimony on behalf of Corning Natural Gas Corporation (“Corning,” “CNG” or “Company”)?**

A. Yes, I am.

**Q. What is the purpose of your rebuttal testimony?**

A. The purpose of my rebuttal testimony is to comment on Staff’s two average service life depreciation adjustments, cost of service recommendations, and rate design proposals.

In addition, I have included several comments relating to Multiple Intervenors’ Witness Michael P. Gorman with respect to an assumed curtailability of certain large customers in order to escape any assignable cost responsibility relating to CNG’s mains costs and also comments regarding Mr. Gorman’s assignment of design day demands to selected rate classes with an arbitrary customer component level selected for distribution main costs.

## **II. REBUTTAL**

### **A. Depreciation – Staff**

**Q. Do you agree with Staff's average service life changes for two plant accounts?**

A. No. I do not agree with Staff's recommendations.

**Q. Would you please discuss your concerns?**

A. Yes. The primary point to be made is that of objectivity, a primary element of any depreciation proposal. It is obvious to me that the Staff proposal is not objective. The recommendations have no basis other than to reference other utilities and ignore the Company's analyses and results. In addition, the Company's mandatory replacement program will continue to support little change in average service life for the foreseeable future.

**Q. Why do you not agree with Staff's two recommended changes to your proposed accrual rates?**

A. Staff's first recommended change is to Account 376 – Distribution Mains where Staff increases my proposed average service life (ASL) from 66 years to a 70-year level. Staff's rationale was simply to propose this adjustment based on other utilities in the state while totally ignoring the results of the Company's analyses for this specific account which were provided in some detail on Response DPS-310. In all of these analyses prepared for this account, the range for the ASL was best represented with a range from 62 years to 68 years based on the conformance and retirement indices. To ignore these results which represent this Company's installed plant data and analyses while accepting

a casual level from other Companies is certainly questionable at best. There can be no better support than the Company's own data and analyses.

Future studies and continued mandatory replacement of mains may well increase the ASL, but the current and foreseeable data and analyses for CNG simply does not support a 70-year ASL for this account.

**Q. Do you agree with Staff's second recommendation with respect to Services, Account 380?**

A. No, I do not for the same reason I just discussed for Account 376 Mains, above. All of my analyses for this Account 380 Services showed that the average service life should be below the current 52-year level. My experience suggests that the results for the conformance and retirement indices are very high at all levels where the ASL is lower than 52 years which is the current level. My recommendation and experience suggested that the Company's replacement of existing services will continue along with mains, and future studies will undoubtedly increase the ASL at some point in time. However, the increase in replacement level requirements and the data do not support their recommendation for this account for some time to come.

**Q. Finally, do you have any recommendations with respect to Staff's proposed accrual rate revisions?**

A. Yes, I do. First, the only credible evidence is the Company's study and its statistical results. Second, the proposed depreciation parameters from Staff relating to ASL are not

supported by any Corning data or analyses and are simply an arbitrary result-oriented recommendation.

**B. Cost of Service – Staff**

**Q. Mr. Normand, did you use a minimum system approach to cost allocations of mains as mentioned on Page 21 of Staff Gas Rate Panel direct testimony?**

A. No, I did not. My approach was to simply isolate all mains for distribution that are 2” and below and recognize that these facilities are primarily used for smaller customers and would not provide any delivery capability to larger gas use customers.

As my direct testimony mentions on Pages 11 and 12, I have classified these as “local facilities” since they are not on the customers’ premises, are closest to the customer and fixed in nature, and should be recovered on a fixed monthly basis similar to customer-related (service and meters) costs. As a result, they were totaled with the customer-related costs to better reflect fixed monthly cost recovery for smaller gas use customers since the capability of recovery through a separate demand charge is not realistic for the foreseeable future.

**Q. Do you agree with staff that the minimum monthly charge should not be increased?**

A. Certainly not, as the cost study supports an increase in these charges as detailed on Schedule PMN-7, Unbundled Summary of Results, Pages 3 and 4 (Exhibit CNG-10).

The costs outlined below show these revenue requirements at the Company's proposed rate of return for all cost components. I have summarized these results for the SC-1 (largest class residential) to present the calculated costs, with and without including the 2" main (local facility) costs category, to show that the existing minimum charges are somewhat deficient.

<u>SC-1</u>		
<u>Existing</u>	<u>Proposed</u>	<u>Costs</u>
\$19.75	\$25.00	\$40.77 (with 2" mains)
		\$30.07 (without 2" mains)

*(above includes 3 CCF of gas costs)*

As the costs results show, the proposed level of recovery is well below the costs of service without any consideration for the 2" mains cost category and certainly above the existing minimum level. When factoring in the 3 CCF inclusion, the cost deficiency is even more pronounced. In fact, even adding only a portion of the 2" main costs as customer related and recommended in Staff's testimony increases the \$30.07 (without 2" mains) calculated to somewhere toward the \$40.77 depending on the percentage but certainly well above the existing \$19.75 per month minimum. This obviously indicates that maintaining the current minimum charge as recommended by Staff is totally inadequate and promotes continued subsidies for these fixed costs.

**Q. Does including a 2" cost category impact your other cost categories in your cost of service results as shown on Schedule PMN-7?**

A. No, it does not as all costs are unbundled and segregated to show the total cost requirements associated with each customer cost category.

**Q. Do you agree with Staff's approach of using a zero intercept analysis to determine a customer component of mains costs?**

A. I agree that the concept of identifying a very small no-load-related cost component for these facilities is desirable. However, the same NARUC Manual referenced by Staff in its direct testimony also identifies the shortcomings (Exhibit \_\_\_ (PMN-R-1), Page 95) of such an approach as to data requirements, interpretation, and data adjustment in order to yield a reasonable result which has also been my experience over the last 35 years.

**C. Cost of Service – Multiple Intervenors (MI)**

**Q. Do you agree with Mr. Gorman's characterization of certain very high use customers as curtailable?**

A. No, I do not. This is simply an end-result-oriented scheme that conveniently attempts to ignore the very important aspects of CNG's planning process in order to benefit MI's larger consumption rate classes. To begin with, firm service entails the planning of all firm customers' loads on CNG's delivery system based on design day requirements. This process considers all firm sales and transportation customers and their maximum design day loads to ensure that adequate facilities are installed and capable to deliver gas on a peak design day basis.

**Q. Does CNG plan its delivery system with the assumption of its large customers being curtailed or interrupted?**

A. Of course not. That would be irresponsible, shortsighted, and lack the very basic tenet of the Company's firm service obligations. CNG has no interruptible or curtailable loads and thus plans for all its customers' firm maximum loads which include all SC-6, SC-7, and SC-8 rate classes being represented by Mr. Gorman.

**Q. Do you agree with MI gross assumptions with respect to curtailment and resulting cost avoidance?**

A. No, I do not. All gas utilities have a list of customers to potentially call on to reduce their take on any one day in order to maintain pressure and system integrity. In the event of a "Force Majeure," hundreds of customers, if not thousands, would be impacted, not just Mr. Gorman's selective SC-7 customers, if any. The potential curtailable sequence is simply an ordered approach to maximizing the efficient isolation and control of an event(s) that would mandate a reduction in gas use in order to maintain a reliable and stable system. This could occur at any time for a whole host of events on the hundreds of miles of mains in the Company's service territory.

**Q. Does the identification of customer types indicate any consideration with respect to cost responsibility?**

A. Certainly not. MI's attempt to escape planned and installed main-related costs to serve all firm sales and transportation customers including SC-7 is irrational and self-serving. The Company plans its facilities based on all firm sales and transportation load requirements which include SC-6, 7, and 8 customers as there are no identifiable interruptible or curtailable customers or tariffs for CNG. The system is planned for all firm loads.

**D. Customer Component Costs**

**Q. Do you agree with Mr. Gorman's attempts to introduce a random minimum system concept for the Company's distribution plant costs as filed in this case?**

A. No, I do not. There is no theoretical support for introducing such an arbitrary concept without fully recognizing the capabilities of these facilities as an offset or reduction in demand allocation (design day) that will be utilized for the remaining account balances once the customer component has been identified and separated.

**Q. What is the result of attempting to introduce this concept as described in Mr. Gorman's direct testimony?**

A. Contrary to Mr. Gorman's assertion that the Company's filed cost of service results in misallocations, the simplistic process outlined by Mr. Gorman truly magnifies major levels of cost misallocation to smaller customer classes, primarily Residential customers. Simply put, his approach would "double dip" and load up the allocation of costs to the smaller Residential customers.

**Q. Has the NARUC manual ever cautioned analysts about incorporating these concepts in cost of service studies?**

A. Yes it has, as indicated on Page 95 of its "Electric Utility Cost Allocation Manual", Page 95, (Exhibit \_\_\_ (PMN-R-1)) speaks directly to this "double dip" allocation concern that I previously mentioned.

**Q. Does your filed cost of service study represent the most accurate and equitable allocation of distribution costs in this case?**

A. Yes, it does. I do not believe in the use of customer component (slice) methods to allocate mains costs, especially for larger (8", 10", 10") mains, since this approach would be inconsistent with any peak or design day bases which underlie a gas utility investment. Furthermore, I have always recognized the many weaknesses of various methods proposed by Mr. Gorman where these attempts would not withstand critical review. I have in fact presented my most accurate assessment of true customer costs by assigning all of the costs of meters and services as customer related. Customer components should only reflect those investments closest to customers, such as services and meters which were 100% considered in the study. In addition, I have added to this argument by proposing that the next portion of a distribution system closest to the customer is the smaller mains connecting customers' service, which I have identified as 2" and below mains, and called these "local facilities." (Normand Direct, Pages 11, 12.)

**Q. Is Mr. Gorman's attempt to manipulate the allocation of main costs reasonable from a technical point of view?**

A. Mr. Gorman's arbitrary assignment of 25% of the larger main costs as customer related is not only arbitrary, but it fails in even the simplest of logic. CNG has approximately 61 miles of mains that are greater than 8" in diameter representing 14% of its total miles of mains (Exhibit \_\_\_ (PMN-R-2)). His attempt to even remotely argue that these miles of costs are based on CNG's customer count is absurd to say the least as most customers are somewhat remote from these much larger and costly facilities and their planning and

design have nothing to do with customer counts but all to do with system design day requirements.

**Q. Does CNG extend its large mains when new customers are added as alleged in Mr. Gorman's testimony on Pages 15 and 16?**

A. Mr. Gorman's argument that adding 100 or 200 customers which would have a direct influence on adding or extending 8" or 12" mains is without merit. His argument is only remotely valid for the Company's primary mains of 2" which I have identified in my filed cost of service study, discussed in my testimony (Pages 11 and 12), and Mr. Gorman has recognized as acceptable.

**Q. Is Mr. Gorman's attempt to identify main costs partly on a customer basis as an industry practice reasonable?**

A. No, it is not. I have been presenting cost studies for over 35 years and have submitted numerous testimonies discussing the misallocation that results from such a scheme. Contrary to Mr. Gorman's attempt to discuss his process as having little impact, the end result is that labeling a very large portion of mains as customer-related has no engineering rationale since the number of customers is not a primary driver of large 8", 10", or 12" main investments, but Design Day demand is. The more obvious impact of this convenient scheme is that Design Day allocates 12.31% to SC-7 while the customer allocator that has no bearing on design assigns 0.01% for CNG large mains.

**Q. Does the use of a customer component for CNG's large mains have any impact in the allocated cost study?**

A. Of course it does and quite significantly as this is the driver for other indirect costs throughout the study and has a material impact on rate of return, revenue requirements, and rate design. This can be evidenced by a simple cursory review of Mr. Gorman's Table 1 and Table 2 with respect to each service class, especially SC-6 and SC-7 which he is representing. Exhibit \_\_\_ (PMN-R-3) clearly shows the individual class percent impact that introducing a customer component versus a design day allocation would have (lines 9-12).

**Q. Are Mr. Gorman's recommendations relating to class revenue allocations and rate design of any value in this case?**

A. Of course not since his results are based on extreme and unsupportable assumptions as I have discussed in this rebuttal testimony. His results should be dismissed in their entirety as without merit.

### **III. CONCLUSION**

**Q. Does this complete your rebuttal testimony?**

A. Yes, it does.