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**CORNING NATURAL GAS CORPORATION**

**REBUTTAL TESTIMONY**

**OF**

**RUSSELL S. MILLER**

**VICE PRESIDENT – ENERGY SUPPLY & BUSINESS DEVELOPMENT**

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**November 15, 2016**

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1 Q. Please state your name and business address.

2 A. My name is Russell S. Miller. My business address is 330 West William Street,  
3 Corning, NY 14830.

4 Q. Are you the same Russell S. Miller who presented direct testimony on behalf of  
5 Corning Natural Gas Corporation (“Corning” or the “Company”) in this proceeding?

6 A. Yes, I am.

7 Q. Mr. Miller, what is the purpose of your rebuttal testimony?

8 A. I am addressing the Staff Gas Rates Panel’s (“GRP”) revenue imputation for local  
9 production revenues. More specifically, I will explain why it is unreasonable for Staff  
10 to propose increasing the local production revenue imputation when we anticipate that  
11 those revenues will decline. The focus of my rebuttal testimony is on the factors that  
12 are causing this decline. The ratemaking implications of these circumstances are  
13 addressed in the rebuttal testimony of Corning’s Accounting and Policy Panel.

14 Q. Please begin by describing how local production revenues are forecasted.

15 A. Forecasting local production requires an in-depth knowledge of several variables. The  
16 forecast also takes a snapshot of the current production model and attempts to project  
17 the current model data into the future. I will identify several key variables utilized to  
18 develop the current production model and how the actual result has differed from the  
19 forecast. This will provide a basis for the subsequent discussion regarding the  
20 Company’s local production forecast.

21 Forecast variables can be divided into two basic groups: (1) operational and  
22 (2) market-based. Operational variables include delivery pressure, gas quality,  
23 delivery volume, production location, interconnect cost, decline curve, etc.

24 Operational variables impact the deliverability of existing interconnects and determine

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1 if existing and future deliveries continue or occur. Market-based variables include gas  
2 cost, production overhead, margin on production, regulatory expense, etc. The  
3 Company's ability to purchase economical gas supplies is a primary factor in  
4 determining if a local production asset is utilized. The producer must have the ability  
5 to sell gas to the Company at a profit and ensure that overhead in operating the asset is  
6 limited.

7 Q. Please describe the sources of local production that are relevant to Corning.

8 A. Local production physically available to Corning is divided into two distinct sources:  
9 (1) Trenton Black River ("TBR") and (2) Marcellus Shale ("MS"). The Company is  
10 connected to TBR wells at three locations in New York State. The Company has one  
11 cross-border MS interconnect into Pennsylvania. These two supply assets are  
12 currently in very different stages within their respective production lifetimes. TBR  
13 assets continue to decline slowly over time, as the data I discuss below indicate. The  
14 Company is unlikely to connect new TBR assets during the term of the proposed rate  
15 plan in this case, for reasons identified later in this testimony.

16 Corning currently receives approximately 85% of its annual production delivery from  
17 its MS interconnect. For FY 2013, this amounted to 9.049 Bcf; but for FY 2016, the  
18 volume declined to 6.330 Bcf. The average daily volumes associated with these two  
19 annual volumes are 24,793 Mcf and 17,344 Mcf, respectively. The Company's TBR  
20 interconnects have declined as well, from 1.51 Bcf to 1.33 Bcf over the same period.  
21 The associated daily average for these TBR annual volumes has declined from 4,138  
22 Mcf to 3,665 Mcf. The data demonstrate that, over time, production is declining.

23 Q. Please describe the features of the Corning system that make local production an  
24 important part of the Company's operations.

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1 A. The Corning system is unique regarding system design and its ability to deliver  
2 otherwise unutilized local production supply into the interstate pipeline system. Local  
3 production deliveries are impacted by system demand minimally because of this  
4 capability. The identified decline in local production deliveries has very little to do  
5 with the reduced system demand because of warmer than historically normal winters  
6 experienced in the last few years.

7 Q. What particular factors affect local production volumes received on the Corning  
8 system?

9 A. Several market-based variables have impacted, and are likely to continue to reduce,  
10 local production deliveries to the Corning system beyond the normal natural decline  
11 identified earlier. Lower gas prices have slowed additional exploration and production  
12 (“E&P”) to a standstill in both New York and Pennsylvania. New York State’s  
13 prohibition on high volume hydraulic fracturing has stifled any new production in the  
14 State and prevents producers from re-investing in and re-drilling existing vertical  
15 wells.

16 These two developments have been a major factor in significantly altering the local  
17 production playing field for Corning. The most significant local producer was put on  
18 the market in 2014. As we understand it, that was due to loss of revenue associated  
19 with New York State production assets. The producer was acquired by Repsol, which  
20 appears to have put much greater emphasis on overall profitability of assets, which  
21 does not bode well for New York State assets. **[BEGIN CONFIDENTIAL**

22 **CONTENT]** [REDACTED]

23 [REDACTED]

24 [REDACTED]

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[REDACTED] [END CONFIDENTIAL CONTENT]

Q. How have you reflected, or how do you plan to reflect, these developments in this proceeding?

A. The information I have provided with regard to future local production deliveries has been factored into our annual winter review filed on July 15, 2016 in Case 16-M-0263, on Table 1 (reproduced for convenience below). Historically, the Company has had access to local production on a daily basis at a level far above the 11,000 Mcf/d shown in that Table. However, the Company believed that it was prudent to identify a conservative level of local production (*i.e.*, below the maximum local production delivery capability) to anticipate future declines in local production. As a consequence, Corning, since 2010, has been identifying a local production supply capability of between 10,000 and 11,000 Mcf/d in its annual winter review reports. Although the Company is unlikely to lose all access to economical local production supplies over the next five years, current market conditions indicate that the level of access and the revenue generated by transportation of excess supplies into the interstate market will be greatly diminished.

Case 16-M-0263 - Winter Supply 2016-17 Forms  
**Table 1 - Total System Firm Peak Day Capacity (DT)**

Company: Corning Natural Gas Corp  
 Submission Date: 30-Jun  
 Version #: 1

	2015-16 Winter	2016-17 Winter
	30-Jun	
<b>Flowing Supplies</b>	9,590	11,421
<b>Storage Withdrawals</b>	11,850	11,850
<b>Winter Peaking Service *</b>	-	-
<b>LNG</b>	-	-
<b>CNG</b>	-	-
<b>Cogen Supplies</b>	-	-
<b>Local Production*</b>	11,000	11,000
<b>Marketer Provided Supplies**</b>	3,401	1,570
<b>Total</b>	<b>35,841</b>	<b>35,841</b>

\* Local Production, landfill gas, renewables, etc. delivered directly into the LDC distribution system.  
 \*\* Capacity released to or held by the marketers. Add additional rows for non-mandatory released capacity, grandfathered capacity and capacity associated with non-core customers if

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Q. Do you have any specific indications that Corning’s local production volumes and revenues will indeed be affected by the conditions you discussed?

A. Yes. Repsol has been in conversation with the Company regarding possible modification of the existing MS interconnect agreement. We understand that Repsol has determined that its MS local production interconnect with Corning is less profitable than its interconnects with other transporters. Repsol indicated that, after the winter of 2016-17, it would enter into discussions with Corning to renegotiate the interconnect agreement. The intent of the renegotiation would likely be to decommission the Maxwell Compressor Station and to reconfigure the MS interconnect station (Stateline Station) by installing flow control equipment to limit deliveries above 10,000 Mcf/d to the Corning system. This will affect the availability of local production to Corning and NYSEG at Bradley Farm. Assuming that these changes occur, additional gas will need to be delivered via the DTI interstate system to ensure that adequate supply is available.

Q. What conclusions do you draw from the foregoing circumstances?

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1 A. Based on the scenario I have described, it is highly likely that the Company's  
2 production deliveries and associated revenues will be significantly reduced from their  
3 former levels and it would be inappropriate to impute revenues at the level proposed  
4 by the GRP in its testimony in this proceeding. Given the uncertainties inherent in  
5 these circumstances, the most reasonable and appropriate approach to dealing with  
6 local production revenues is to avoid Staff's excessive imputation of revenues, as  
7 further discussed in the rebuttal testimony of Corning's Accounting and Policy Panel.

8 Q. Does that conclude your rebuttal testimony at this time?

9 A. Yes, it does.