Case 16-G-0257 Rebuttal Testimony of Volumetric Forecast Panel

Q. State your name and business address.

A. My name is Eric H. Meinl, and my business address is 6363 Main Street, Williamsville, New York 14221.

Q. Have you provided testimony in this proceeding?

A. Yes I have provided Direct Testimony as part of the Volumetric Forecast Panel. I have also provided direct testimony individually and on a number of other panels.

Q. State your name and business address.

A. My name is Sofia S. Cruz, and my business address is 6363 Main Street, Williamsville, New York 14221.

Q. Have you provided testimony in this proceeding?

A. Yes I have provided Direct Testimony as part of the Volumetric Forecast Panel.

Q. Did any intervening parties to this case recommend changes to the Company's customer and volumetric forecasts?

A. Yes. The Staff Gas Rates panel recommended increases in the usage per account forecasts of the residential and commercial customer classes. Staff proposes increasing the Company's forecast of the number of accounts for the residential, commercial, and public

authority customer classes. Staff agrees with the Company's industrial customer class forecast.

Q. Do you agree with Staff's proposed customer count forecast for the residential and commercial customer classes?

A. No. Staff's forecast utilizes an unreasonably short (in number of years) trend analysis that, if consistently used from year to year, could result in extreme swings in forecasted customers.

Q. Please summarize the account forecasts for the residential and commercial customer classes for the 12 months ended March 2018.

A. Table VFP Rebuttal 1, provides a summary of Staff's and the Company's forecast of actual accounts compared to the twelve months ended March 2016.

Table VFP Rebuttal 1

| Number of Accounts | Residential | Commercial |
|---|---|---|
| Staff 3 yr Trend 12 Months Ended 3/2018 | 495,422 | 33,578 |
| Company 12 Months Ended 3/2018 | 484,680 | 32,392 |
| Actual 12 Months Ended 3/2016 | 491,874 | 32,857 |
| 9 Yr Trend 12 Months Ended 3/2018 | 494,604 | 33,371 |
| | | |

Q. The Company's forecast for the twelve months ended March 2018 is

below the current number of accounts. How did the Company develop its forecasted number of accounts?

A. The Company reviewed the number of accounts on its system for the 15 years of actual data used in its usage per account forecast. Exhibit___(VFP-8) provides graphs of the residential and commercial number of accounts used in its analysis. Page 1 of Exhibit___(VFP-8) provides a summary of residential accounts and page 2 provides a summary of commercial accounts. Actual account data for the rolling 12 months average number of accounts from January 2000 through December 2014 were used in the review. As can be seen from the first seven years of the graph, the number of accounts was decreasing during this period. More recent years have seen a rebound in the number of accounts. The fifteen year trend line included on the graph demonstrates that account growth over this 15 year time period was relatively flat.

Q. Hasn't the number of accounts been growing over the past nine years?

A. Yes, the number of accounts has been growing over the past nine years. We would not be opposed to using a growth forecast for

residential and commercial accounts using a longer term trend analysis such as nine years as opposed to Staff's three year time period used in their trend analysis.

Q. Why do you oppose using Staff's three year trend period?

A. We do not believe that Staff's three year trend analysis is of reasonably significant length to reflect longer term influences on the changes in the number of accounts that can be expected on the Company's system. This can be readily seen by comparing changes in the three year trend of customer account growth from Exhibit___(VFP-8). For example, using a three year trend from January 2005 through December 2007 would have resulted in a steeply declining forecast of number of accounts. Using longer term trend analysis should temper the extreme volatility in account growth projections that would result from reliance on shorter term trend analysis that would be overly influenced by short term issues such as recent economic conditions (recessions or expansionary growth) or changes in city practices regarding demolition of older homes.

Q. Staff also projected an increase in the public authority number of accounts. Do you agree with Staff's projection?

A. Yes.

Q. Did Staff make any other adjustments to the number of accounts forecast?

A. Yes. At page 17 of the Staff Gas Policy and Supply Panel testimony Staff states that ;

> Staff included additional growth, above the observed level of current trends, to coincide with the Company's Gas Enhancement pilot programs, as well as efforts to convert other non-customers near or on existing distribution mains. Staff's Gas Rates Panel customer forecast includes an additional 2,150 customers in the residential marketing group and an additional 350 customers in the commercial marketing group.

Staff provides no apparent basis for these amounts in its testimony, exhibits, or work papers provided in response to Company data requests. Staff's trend analysis of account growth includes number of accounts through April 2016. That period includes a number of accounts already added through the Company's gas expansion program. Since the historical data used in the trend analysis already includes accounts added under the gas expansion program, it is unreasonable to potentially double count those additions

by adding a speculative and unsupported additional number of accounts. Particularly since there is no basis in this record to add 2,500 additional accounts other than an overly aggressive estimate of customer additions associated with the Company's gas expansion pilot program.

Q Did Staff provide you with the basis for its 2,500 additional accounts to be added to the number of accounts forecasted based on Staff's trend analysis?

A. Staff appears to have used an aggressive forecasting approach equating conversion potential in the GEP pilot areas with conversions. Exhibit___(VFP-10) is a pending data request submitted to Staff. The Company is waiting on this outstanding data request response from Staff and the Company reserves the right to address this topic further in testimony or at hearings. While the Company does have a gas expansion pilot program in place and it is extending mainline to reach and attach pockets of potential customers, the actual conversion of customers takes time.

For example, Exhibit__(ESP-2 ) of the Company's Energy Services Panel's rebuttal testimony identifies a number of pilot areas including those in Wilson and Richmond, New York that were part of Phase I of the gas expansion pilot program that was started in 2015. As can be seen from this exhibit, the actual number of conversions to date is a fraction of the total potential number of homes. This is to be expected, since it takes time for customers to determine when the appropriate time is for them to replace their existing heating systems with natural gas.

Q. Staff's Gas Policy and Supply Panel proposes an incentive of one basis point for each 250 firm customers that are added above Staff's forecasted customer count. Do you agree with this proposal?

A. The Company would be agreeable to such an incentive provided that the customer growth target was reasonable. As explained in the Company's Cost of Service Study and Rate Design panel, there is a tremendous benefit available to households in the state that have access to natural gas.

It is reasonable to provide the Company with a positive incentive to attach as many customers as is practical on its system. The problem with Staff's proposal is that it sets an unreasonable threshold for customer growth since it adds 2,500 additional accounts to its rate year forecast of number of accounts which, as was demonstrated previously, is overly aggressive since it uses a three year trend analysis,

Q. Do you agree with Staff's recommended increase in the usage per account forecasts of the residential and commercial customer classes?

A. No. Similar to the customer account forecast, Staff uses an unreasonably short time period for developing their usage per account forecasts. Also, Staff ignores the important price variable in explaining changes in customer usage behavior over the past 15 years.

Q. Please summarize the usage per account forecasts for the residential and commercial classes of customer for the 12 months ended March 2018.

A Table VFP Rebuttal 2 provides a summary of Staff's and the Company's usage per account forecast compared to the twelve months ended March 2016.

Table VFP Rebuttal 2

| Usage per Account (Mcf) | Residential | Commercial |
|---|---|---|
| Staff 12 Months Ended 3/2018 | 106.8 | 558.5 |
| Company 12 Months Ended 3/2018 | 106.6 | 557.7 |
| Actual 12 Months Ended 3/2016 | 103.6 | 549.0 |
| | | |

Q. Please provide general description of the differences between the Company and Staff's forecasts?

A. Staff's forecast used 3 years of usage data while the Company's forecast used 15 years worth of data. Staff used a regression model that used monthly consumption and actual degree days over a three year time period. Staff's model assumes that changes in customer usage are solely due to changes in heating degree days. The Company's forecast used a regression model that included heating degree days as well as a price variable to explain changes in customer usage. Exhibit VFP-9 provides a graphical summary of actual weather normalized consumption per account compared to the

average price of gas experienced from January 2000 through December 2014. The graphs also provide Staff and the Company's usage per account forecast as well as actual usage per account information through April 2016.

Q. What can be concluded from the graphs presented in Exhibit VFP-9?

A Both the Company and Staff's forecast appear overly aggressive in projecting usage per account growth, compared to current actual usage per account for the residential and commercial customer classes, although the Company's forecast is slightly less aggressive in forecasting account usage growth compared to Staff. What is also apparent from the graphs is the importance of the changes in price in explaining changes in usage per account over time. As can be seen from the graph, from January 2000 through approximately January 2011 there was a steady decline in customer usage per account. However, more recent years experienced a rebound in usage per account. The explanation for this rebound was the dramatic drop in the real price of gas paid by customers for natural gas service. This is consistent with economic supply and demand theory where the consumption of any good or service will move inversely with the

change in price. As the price of gas has declined, usage has increased. By ignoring the price variable, and only using the changes in actual heating degree days experienced over the past three years, Staff's forecast completely ignores how price will affect customer usage.

Staff's usage per account forecast is greater than both the current actual usage per account for residential and commercial customer classes and the Company's forecasted usage per account. Staff's overly aggressive forecasted increases for usage per account should be rejected. Indeed, given that current usage per account consumption for the residential and commercial class of customers is significantly less than even the Company's forecast, and because major declines in natural gas prices are not likely to occur, it would be more reasonable to use current actual normalized usage per account than either the Company's or Staff's forecast to estimate the consumption of residential and commercial customers in this case.

Q. Does this conclude your rebuttal testimony?

A. Yes, at this time.