

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 Infrastructure and
Operations Panel

Johanna Miller
Utility Engineer 2

Mimi Tran
Utility Engineer 1

Office of Electric, Gas and
Water
State of New York
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

1 Q. Members of the Gas Infrastructure and Operations
2 Panel please state your names, employer, and
3 business address.

4 A. Johanna Miller and Mimi Tran. Our business
5 address is Three Empire State Plaza, Albany, New
6 York 12223.

7 Q. Ms. Miller, what is your position at the
8 Department?

9 A. I am a Utility Engineer 2, currently assigned to
10 the Gas and Water Rates section in the Office of
11 Electric, Gas and Water.

12 Q. Please summarize your education and professional
13 experience.

14 A. I received a Bachelor of Science degree in
15 Mechanical Engineering from the University of
16 Delaware in 2008. I joined the Department in
17 2008 as a Junior Engineer. My responsibilities
18 at the Department involve the engineering
19 analysis of utility operations as they relate to
20 the ratemaking process, as well as reviewing
21 various other utility filings.

22 Q. Have you filed testimony before the Commission
23 in other proceedings?

24 A. Yes, I have testified in Cases 08-G-0888 and 09-

1 G-0589, Central Hudson Gas and Electric
2 Corporation rate cases, regarding various gas
3 rates matters and Case 11-G-0280, Corning
4 Natural Gas Corporation rate case, regarding
5 capital expenditure forecasting and plant in
6 service. I have also testified in Case 14-G-
7 0494, Orange and Rockland Utilities, Inc. rate
8 case, regarding gas sales and revenue
9 forecasting. Most recently, I testified in Case
10 16-G-0061, Consolidated Edison Company of New
11 York, Inc. rate case, regarding revenue
12 allocation and various rate design issues.

13 Q. Ms. Tran, what is your position at the
14 Department?

15 A. I am a Utility Engineer 1, currently assigned to
16 the Gas and Water Rates section in the Office of
17 Electric, Gas and Water.

18 Q. Please provide a summary of your educational and
19 professional experience.

20 A. I received a Bachelor of Engineering from City
21 College of New York in 2010 and a Master's
22 degree from the University of Cambridge in 2012,
23 both majored in Chemical Engineering. I joined
24 the Department in July 2012 as an engineer in

1 the Gas Policy and Supply section. In order to
2 gain a broad understanding of the gas utility
3 industry, I also had a rotational assignment in
4 the Gas Safety Section and I am now assigned
5 full time to the Gas and Water Rates section.
6 Prior to joining the Department, I finished two
7 internships at Pfizer and Schlumberger
8 Companies.

9 Q. Have you testified before the Public Service
10 Commission in other proceedings?

11 A. Yes, I testified in Consolidated Edison Company
12 of New York, Inc. Case 13-G-0031 about various
13 gas supply issues, in Orange and Rockland
14 Utilities, Inc. Case 14-G-0494 about gas capital
15 and operation and maintenance expenditures. Most
16 recently, I testified in Consolidated Edison
17 Company of New York, Inc. Case 16-G-0061
18 regarding the forecasted Gas Sales and Revenues.

19

20 **Summary of Testimony**

21 Q. What is the purpose of the Staff Gas
22 Infrastructure and Operations Panel's testimony
23 in this proceeding?

24 A. The purpose of our testimony is to address: (1)

1 Corning Natural Gas Inc.'s, Corning or the
2 Company, proposed gas capital expenditures by
3 budget category; (2) depreciation rates; (3) the
4 development of net plant and depreciation
5 expenses; (4) unit cost incentive; and (5)
6 reporting requirements. Specifically, we are
7 recommending adjustments to the spending levels
8 of the Company's proposed capital programs,
9 which will impact the net plant in service
10 balances and depreciation expenses. Our
11 adjustments reflect the level of capital
12 additions we believe the Company justified in
13 its initial and updated testimony, as well as
14 responses to requests for information during the
15 discovery phase of this proceeding.

16 Q. Did you rely on any information produced during
17 the discovery phase of this proceeding?

18 A. Yes, we relied on responses to numerous
19 interrogatory requests, or IRs, which can be
20 found in Exhibit __ (GIOP-1).

21 Q. Are you sponsoring any other exhibits?

22 A. Yes, we are also sponsoring the following
23 exhibits: Exhibit __ (GIOP-2) contains a
24 comparison of the Company vs. Staff's capital

1 expenditures; Exhibit __ (GIOP-3) contains a
2 comparison of the Company vs. Staff's net plant;
3 Exhibit __ (GIOP-4) contains an example of the
4 net plant reconciliation mechanism; and
5 Exhibit __ (GIOP-5) contains an example of a
6 white paper.

7

8 **Gas Capital Programs and Expenditures**

9 Q. Please state the level of gas capital
10 expenditures Corning proposes in the Rate Year.

11 A. Corning's Exhibit __ (CNG-8), Schedule 1,
12 presents proposed capital expenditure levels, in
13 Calendar Year (CY) 2017 and CY 2018, of \$7.45
14 million and \$8.25 million, respectively. The
15 Rate Year, or RY, is the 12 month period ending
16 May 31, 2018. This translates to proposed
17 capital expenditures of approximately \$7.6
18 million in the Rate Year.

19 Q. What is the level of gas capital expenditures
20 this Panel recommends in the RY?

21 A. We recommend a total gas capital budget of
22 approximately \$6.1 million for both CY 2017 and
23 2018. This corresponds to a total gas capital
24 budget of approximately \$6.1 million in the Rate

1 Year, or \$1.5 million lower than Corning's
2 proposal.

3 Q. Does the Panel recommend any modifications to
4 Corning's capital budgeting process?

5 A. Yes, we do. We have two recommendations
6 regarding Corning's gas capital budgeting
7 process. First, we recommend using a year-to-
8 year construction escalation factor of two
9 percent instead of five percent. Second, we
10 recommend that Corning prepare white papers for
11 specific projects and programs in its capital
12 planning and budgeting. We also recommend
13 Corning file updated white papers annually with
14 the Commission and include the white papers in
15 its future rate filings.

16 Q. Why does the Panel recommend using a two percent
17 year-to-year construction escalation factor?

18 A. In its capital budgeting process, Corning
19 utilizes a year-to-year construction escalation
20 factor of five percent on its unit costs. This
21 means, if the unit cost to install a foot of
22 main in CY 2017 is \$35.00, applying the five
23 percent factor, the unit cost will be \$36.75 in
24 CY 2018; \$38.60 in CY 2019 and so on. In IR

1 DPS-233, we asked Corning to justify the five
2 percent escalation factor and to provide any
3 backup work papers. The Company responded that
4 the construction escalation factor was the same
5 one that was used in the last Corning rate case,
6 11-G-0280, and has not been updated. The
7 Company did not provide any backup work papers
8 or additional justification. Therefore, we
9 recommend using a more reasonable construction
10 escalator, two percent, which is consistent with
11 the escalation factor used by other New York
12 State utilities in recent rate proceedings.

13 Q. Please provide a brief description and purpose
14 of a project's white paper in a utility
15 company's capital planning and budgeting
16 process?

17 A. A project's white paper typically contains: (i)
18 a fully detailed description of the project,
19 studies and/or alternative analysis; (ii) a
20 justification of project expenditures and
21 budgets; (iii) the current construction
22 schedule, with milestones and in-service date;
23 and (iv) cost benefit analysis and the potential
24 impact to the gas system if the work is not

1 done. The white paper should reflect how the
2 Company develops its plans to spend its capital
3 budget in the best interest of customers. The
4 forecasted cost in the white paper is later used
5 in variance reports, which will provide details
6 as to why a project is over or under budget.

7 Q. What is Corning's historical and current
8 practice regarding white papers?

9 A. In Corning's last rate proceeding, case 11-G-
10 0280, the 2011 Rate Case, the Staff Gas Rates
11 Panel expressed concern that Corning had no
12 written record of project estimations and
13 justifications, usually documented in a white
14 paper. In that case, Staff recommended and
15 provided a template for a project justification
16 sheet, or white paper, for all capital
17 expenditure projects. In the 2011 Rate Case -
18 Order Adopting the Terms of Joint Proposal and
19 Establishing a Multi-Year Rate Plan, issued
20 April 20, 2012, the Commission adopted the
21 requirement that the Company utilize the
22 practice of preparing white papers commencing
23 January 1, 2013. In this proceeding, Corning
24 did not provide any white papers in its filed

1 testimony, exhibits, or in its pre-filed
2 interrogatory responses. Specifically, in
3 response to IRs DPS-84 and DPS-10, Corning
4 states that "No written materials of the nature
5 requested [...the development of the annual
6 capital expenditure forecast] in the question
7 are employed or otherwise available".

8 Q. Why should white papers be required for all
9 capital projects?

10 A. The details of a white paper provide the basis
11 for the monetary requirements needed to meet the
12 proposed project goals and to better implement
13 cost control. We also believe developing and
14 utilizing white papers will assist the Company
15 in prioritizing work and improving its strategic
16 planning.

17 Q. What are your recommendations regarding
18 Corning's white paper preparation process?

19 A. We recommend that the Commission require Corning
20 to complete a white paper for each capital
21 project and program; to file updated white
22 papers annually with the Secretary; and to
23 provide these white papers to Staff in its next
24 rate filing as a separate exhibit. A template

1 for a white paper is provided in
2 Exhibit __ (GIOP-5). We recommend that the
3 Company be required to fully implement the
4 practice of white paper preparation and file its
5 first set of white papers by January 1, 2018.

6 Q. What are the four budget categories in Corning's
7 gas capital program?

8 A. Corning's four budget categories are: (1)
9 Commission mandated work; (2) System expansion;
10 (3) Infrastructure improvements; and (4)
11 Administrative and Facilities. The response to
12 IR DPS-226 shows that Corning tracks its
13 historic expenditures under these four
14 categories. Exhibit __ (GIOP-2), Schedules 1
15 and 2, contain a comparison of Company vs.
16 Staff's capital expenditures for CY 2017 and CY
17 2018. Exhibit __ (GIOP-2), Schedule 1, is a
18 side-by-side comparison of the Company's
19 proposed and Staff's recommended gas capital
20 expenditures for each of the four budget
21 categories. Exhibit __ (GIOP-2), Schedule 2, is
22 a side-by-side comparison of the specific
23 adjustment to each project or sub-project, under
24 the four categories. The formatting presented

1 is similar to that in Corning's
2 Exhibit __ (CNG-8).

3

4 **Commission Mandated Work**

5 Q. Which projects does Corning include in the
6 "Commission mandated" category?

7 A. This category encompasses projects that address
8 the systematic replacement of leak prone pipe in
9 distribution low pressure and high pressure
10 mains and services. The Company was directed by
11 the Commission to meet specific pipe replacement
12 targets in Corning's last rate case and in the
13 most recent Commission Order Adopting Terms of
14 Joint Proposal, issued October 19, 2015, in
15 which the Commission adopted an extension of the
16 Company's current rate plan, referred to as the
17 Extension Order. In this rate filing, Corning
18 proposes a total capital budget of \$5.1 million
19 in CY 2017 and \$6.2 million in CY 2018 for this
20 category.

21 Q. What is the Panel's recommended budget to this
22 category?

23 A. We recommend a budget of \$4.3 million in both CY
24 2017 and 2018 for this category. Our budget

1 reflects two adjustments: a \$300,000 reduction
2 to project 3.2 - low pressure main replacement;
3 and a \$500,000 reduction to the group of
4 projects 4.1 through 4.5 - high pressure main
5 replacement.

6 Q. How much footage is included in project 3.2 -
7 low pressure distribution main replacement?

8 A. In response to IR DPS-278, Corning states that
9 it plans to replace approximately 53,000 feet,
10 or 10.06 miles, of low pressure leak prone pipe
11 and install approximately 15,800 feet (3.0
12 miles) of "dual main". This results in a total
13 of 69,000 feet (13.0 miles) of new main
14 installation each year.

15 Q. How does Corning estimate the cost associated
16 with this level of low pressure main
17 replacement/installation?

18 A. The Company forecasts a unit cost of \$35 per
19 foot of main. Multiplying the unit cost with
20 the total 69,000 feet of new main installation,
21 the Company arrives at the budget of \$2.5
22 million in CY 2017.

23 Q. What does "dual main" installation mean?

24 A. In response to IR DPS-278, Corning explains that

1 it has been installing main on both sides of
2 certain roads, known as "dual main," because of
3 permitting requirements imposed by some
4 municipalities. Corning is not allowed to
5 excavate any portion of certain municipalities'
6 blacktop streets. Therefore, Corning cannot
7 install main in the street nor can it cross the
8 street to install services to customers on the
9 opposite side of the road from the new gas main.
10 The Company states that its only solution is to
11 install dual mains.

12 Q. Did the Company provide any work papers to
13 justify the forecast of 15,800 feet (3.0 miles)
14 of dual main installation?

15 A. No, Corning did not. In the same response to IR
16 DPS-278, the Company states that it installed
17 approximately three miles of dual main in 2015,
18 and used the same quantity to forecast the
19 footage for 2017 through 2021. The Company
20 further states that no work paper is available.

21 Q. Does the Panel agree with Corning's forecast of
22 15,800 feet (3.0 miles) of dual main
23 installation?

24 A. No, we do not. First, we reviewed Corning's

1 history of actual dual main installation from
2 2012 through 2015. The Company installed 3,700
3 feet, 2,300 feet, 5,700 feet, and 12,300 feet of
4 dual mains from 2012 through 2015, respectively.
5 The only year in which the amount of dual main
6 installed is close to the forecast of 15,800
7 feet was 2015, when the Company installed 12,300
8 feet. Because the Company cannot provide
9 concrete analysis and work papers to justify its
10 proposal, we find that it is unreasonable to
11 forecast such a high estimate for dual main
12 installation in the future.

13 Q. What level of dual main footage does the Panel
14 recommend?

15 A. We recommend using a three year average of
16 actual dual main footage installation as a more
17 reasonable forecast. We calculate an average of
18 6,800 feet of dual main from 2013 through 2015.

19 Q. Adopting this Panel's recommended footage for
20 dual main footage, what is the appropriate level
21 of capital expenditures for project 3.2 - Low
22 Pressure main replacement?

23 A. First, we reflect the Staff Gas Safety Panel's
24 target to replace 55,960 feet (10.6 miles) of

1 main each year instead of the Company's proposed
2 53,000 feet (10 miles). Then, we add our
3 forecast of 6,800 feet of dual main, which
4 results in a total of 62,700 feet of new main to
5 be installed each year. We reviewed and accept
6 the Company's forecasted unit cost of \$35 per
7 foot. Multiplying the unit cost per foot and
8 the total 62,700 feet of main to be installed
9 each year, we arrive at a budget of \$2.2 million
10 in both CY 2017 and 2018 for the low pressure
11 main replacement project, or \$300,000 lower than
12 Corning's proposal.

13 Q. What does the Company propose for project number
14 four -High Pressure main?

15 A. Corning proposes to continue the high pressure
16 main replacement target established in the
17 Extension Order: project 4.4 - replacement of
18 approximately one mile of Line 15 at a cost of
19 \$1.1 million; project 4.2 and 4.3 - replacement
20 of approximately half a mile of Line 6 and/or
21 Line 11 at a total cost of \$500,000 each
22 calendar year.

23 Q. Does the Panel agree with the Company's proposed
24 expenditures for the high pressure main

1 replacement projects?

2 A. No, we do not. While we agree that Corning
3 should continue the target of replacing one mile
4 of line 15 and a half mile of line 6 and/or line
5 11, we find it unrealistic to assume that a
6 project's unit cost would stay at the same level
7 since 2011, without reviewing and investigating
8 the actual, recently incurred costs. This ties
9 in with our general recommendation that Corning
10 prepares project white papers to better control
11 its costs. Therefore, we recommend using a
12 historic average of the actual unit cost
13 observed over the past three years to set the
14 level of capital expenditures going forward.

15 Q. Adopting the Panel's recommendation of using a
16 three year historic average to develop the unit
17 cost, what is the appropriate level of capital
18 expenditures for project 4.5 - Line 15
19 replacement?

20 A. We obtained all actual unit costs from 2013
21 through 2015 from the response to IR DPS-226.
22 We calculated an average of actual unit costs at
23 \$170 per foot. Multiplying the unit cost by the
24 5,280 feet (1.0 mile) target, we arrive at a

1 capital budget of \$900,000.

2 Q. What capital budget do you recommend for project
3 4.2 and 4.3 - Line 6 and/or Line 11 replacement?

4 A. Using the same IR responses, we calculated a
5 unit cost of \$80 per foot using an average of
6 historic actual unit costs. Multiplying the
7 unit cost by the 2,640 feet (0.5 mile) target,
8 results in a capital budget of \$215,000.

9 Q. What other recommendations does the Panel have
10 for the "Commission mandated" category?

11 A. While reviewing Corning's historical
12 expenditures for the "Commission mandated" work,
13 we observed that Corning does not have a good
14 system for tracking costs in its low pressure
15 and high pressure projects. In the second
16 update to IR DPS-226, Corning performed multiple
17 re-classifications between years or between
18 projects (i.e., manually moving or splitting
19 total budgets into different line items). We
20 believe that it is important to track unit costs
21 for each project separately for two reasons.
22 First, Staff will use these unit costs to
23 evaluate the Company's performance in our
24 recommended Unit Cost Incentive, which we

1 discuss later in our testimony. Second, we use
2 these unit costs to audit the Company's
3 performance on managing and controlling costs.
4 Thus, we recommend Corning establish a procedure
5 to track unit costs for each project in an
6 accurate manner. This procedure should be
7 implemented no later than January 1, 2018.

8

9 **System Expansion**

10 Q. Which projects does Corning include in the
11 "System expansion" category?

12 A. The system expansion category covers projects
13 supporting Corning's work in adding new
14 customers to its gas system. In CY 2017 and CY
15 2018, Corning forecasts total capital
16 expenditures of \$470,000 to connect an
17 additional 75 customers. This total cost covers
18 project 1.1 - new services installation (meters
19 and regulators) at a cost of \$190,000 and
20 project 3.1 - low pressure main extension at a
21 cost of \$280,000.

22 Q. Does the Panel agree with the Company's proposed
23 level of capital expenditures for these
24 projects?

1 A. No, we do not. We adopt the Staff Gas Rates
2 Panel's forecast of 75 new customers per year.
3 However, we disagree with the Company's
4 forecasted unit cost.

5 Q. Why does the Panel disagree with the Company's
6 forecasted unit cost?

7 A. For project 1.1, Corning estimates a unit cost
8 of \$2,500 to install one new service. The
9 Company did not provide any justification for
10 this estimate. From the response to IR DPS-226,
11 we calculated an actual average unit cost, from
12 2012 through 2015, of \$1,056 per service. For
13 project 3.1, the actual average expenditure,
14 from 2012 through 2015, to install main for 75
15 customers was only \$190,000, in comparison to
16 Corning's forecast of \$280,000. Again, Corning
17 provided no support of its cost estimate.
18 Therefore, similar to our recommendation in the
19 "Commission mandated" category, we believe it is
20 more reasonable to use historic unit cost to
21 estimate the budget going forward.

22 Q. Adopting the Panel's recommendation of using a
23 three year historical average unit cost, what is
24 the appropriate level of capital expenditures

1 for project 1.1 - new services and 3.1 - new
2 main extension?

3 A. For project 1.1 - new service, we first
4 calculated the average unit cost based on the
5 historic actual unit costs from 2012 through
6 2015. We then multiplied the average unit cost
7 of \$1,056 per service by 75 new customers, which
8 results in a capital budget of \$80,000. For
9 project 3.1 - new main extension, we recommend
10 expenditures in line with the historic three
11 year average to install main for 75 new
12 customers at a cost of \$190,000. This results
13 in a total budget for new main and services of
14 \$270,000, or \$200,000 lower than Corning's
15 proposed budget, to support the projects in the
16 category "System expansion".

17

18 **Infrastructure Improvements**

19 Q. Which projects are categorized as
20 "Infrastructure Improvements"?

21 A. This category includes a variety of routine
22 projects, which are performed to ensure
23 continued safe and reliable gas service to
24 customers. Examples of projects included in

1 this category are gas meters and regulators,
2 tools, safety equipment, corrosion control and
3 transportation equipment. Corning's direct
4 testimony of Matt J. Cook, pages 11 through 13,
5 provides a general description for these
6 projects. A complete list of Corning's proposed
7 projects in this category can be found in
8 Exhibit __ (GIOP-2), Schedule 2.

9 Q. What is the level of capital expenditures that
10 Corning proposes for the "Infrastructure
11 Improvements" category?

12 A. Corning proposes a capital budget of \$1.2
13 million in CY 2017 and \$939,000 in CY 2018.
14 There are three main drivers for the capital
15 increase in this category: (1) the proposed
16 purchases of software, materials or equipment;
17 (2) the need for Corning to replace and upgrade
18 its existing vehicles; and (3) Corning's plan
19 for specific improvement to its meters and
20 district regulator stations.

21 Q. Does the Panel have any adjustments to Corning's
22 proposed budget for the "Infrastructure
23 Improvements" category?

24 A. Yes, we have two adjustments to Corning's

1 proposal. First, we eliminate the budget for
2 one specific line item: 8.5 - Odorizer removal
3 cost. Second, we recommend that the budget be
4 adjusted to reflect the purchase of only two
5 passenger/pickup truck vehicles per calendar
6 year.

7 Q. Why does the Panel recommend to remove the
8 budget of \$40,000 for line item 8.5 - Odorizer
9 removal?

10 A. As stated in Mr. Cook's testimony, this budget
11 is for "the planned removal of an outdated
12 natural gas odorizer equipment". Therefore, it
13 is a cost of removal and should not be
14 capitalized in the Company's plant in service.

15 Q. Why does the Panel recommend the replacement of
16 two vehicles each calendar year?

17 A. In response to IR DPS-230, Corning provided an
18 inventory of all Company vehicles. Corning
19 currently has 22 passenger vehicles/pickup
20 trucks. The inventory also shows each vehicle's
21 model, the date it was acquired and total
22 mileage. Upon review of the inventory list, we
23 conclude that it is unnecessary to replace four
24 vehicles each calendar year. Replacement of two

1 vehicles per year will continuously maintain
2 Corning's fleet in good operating condition.

3 Q. How does the Panel define "good operating
4 condition" for a vehicle?

5 A. We define "good operating condition" for a
6 vehicle as less than 11 years in age or less
7 than 150,000 miles on the vehicle. We reviewed
8 the Department of Transportation's statistics
9 and other recent reports on the performance of
10 vehicles purchased after the year 2000 to arrive
11 at this definition.

12 Q. In summary, what is the level of capital
13 expenditures the Panel recommends for the
14 "Infrastructure Improvements" budget category?

15 A. We recommend a budget of approximately \$900,000
16 for both CY 2017 and 2018, reflecting the two
17 adjustments we just discussed.

18

19 **Administrative and Facilities**

20 Q. What projects are included in the
21 "Administrative and Facilities" category?

22 A. This category is broken down into two sub-
23 categories: (1) all projects from 12.1 through
24 12.6, related to upgrading Corning's physical

1 offices; and (2) all projects 13.1 through 13.9,
2 related to informational technology, or IT,
3 equipment and software purchases.

4 Q. What level of capital expenditures does Corning
5 propose for projects 12.1 through 12.6, related
6 to Corning's physical office upgrade?

7 A. Corning proposes total capital expenditures of
8 \$302,000 in 2017 and \$200,000 in 2018 to upgrade
9 its general offices.

10 Q. What specific projects make up these forecasts?

11 A. For both CY 2017 and 2018, the Company proposes
12 \$30,000 be spent on re-carpeting the office
13 floors and \$40,000 to refurbish its three
14 parking lots. The cost to repair the roof is
15 estimated at \$90,000 and \$120,000 in CY 2017 and
16 CY 2018, respectively. Corning proposes to
17 repurpose several workspace areas formerly
18 occupied by a tenant, at a cost of \$110,000 in
19 CY 2017 and a recurring cost of \$10,500 in each
20 subsequent CY. In addition, Corning plans to
21 spend approximately \$27,500 in CY 2017 to
22 purchase work stations for its new employees.

23 Q. Do you agree with Corning's proposed capital
24 expenditures for project 12.2 - Parking Lot

1 refurbishment and project 12.6 - Roof?

2 A. We reviewed responses to IR DPS-281, which
3 contains contractor quotes for project 12.2 -
4 Parking Lot refurbishment and project 12.6 -
5 Roof. Based upon our review, we agree with
6 Corning's proposed budgets for these projects.

7 Q. Does the Panel have adjustments to any of the
8 Company's proposed projects?

9 A. Yes. We believe that the budgets for project
10 12.3 - Office furniture/equipment and project
11 12.5 - Work stations are already included in
12 project 12.4 - Office Repurposing. Therefore,
13 to avoid duplication, we eliminated the line
14 item budgets for the two projects 12.3 and 12.5.

15 Q. Moving on to the second sub-category, IT
16 equipment and software, what level of capital
17 expenditures does Corning propose?

18 A. Corning proposes a total budget of \$367,000 in
19 CY 2017 to cover all costs associated with
20 projects 13.1 through 13.9. A list of all
21 projects and descriptions can be found in
22 Exhibit __ (GIOP-2), Schedule 2.

23 Q. What review did the Panel perform of Corning's
24 proposal for these IT equipment and software

1 projects?

2 A. We asked Corning to provide contractor quotes
3 for these projects and backup cost calculations
4 to justify its proposal. In addition, we
5 ensured that all IT software maintenance, annual
6 computer software update and software license
7 renewal fees are not capitalized, but instead
8 are included in operating and maintenance (O&M)
9 costs.

10 Q. Which adjustments do you have to these projects?

11 A. We made two adjustments to Corning's proposal.
12 First, we recommend a reduction to the Company's
13 proposed budget for project 13.7 - Accounting
14 and Billing system upgrade from \$250,000 to
15 \$130,000. Second, we recommend eliminating the
16 line item budgets for project 13.4 - CADD
17 software license renewal fees at \$6,000 and 13.8
18 - Enterprise software upgrades at \$14,000
19 annually.

20 Q. Why did the Panel reduce the budget for project
21 13.7 Accounting and Billing system upgrade from
22 \$250,000 to \$130,000?

23 A. For two reasons. The first reason is that the
24 Company budgeted \$100,000 of the \$250,000, or

1 40%, as a contingency. This is extremely high
2 in comparison to the normal practice of 10% to
3 15% contingency for capital projects. Again,
4 there was no white paper to explain this high
5 contingency percentage. Therefore, we recommend
6 a 15% contingency, at a cost of \$37,000, as a
7 more reasonable forecast. The specific cost
8 breakdown for this project can be found in
9 response to IR DPS-294.

10 Q. Please explain your second reason.

11 A. The only two projects scheduled to occur in 2017
12 are the purchase of "Cognos Café" at \$23,000 and
13 the upgrade of the current accounting system to
14 the latest version, at a cost of \$88,000.
15 According to the work order supplied by Corning,
16 all other projects have already started in June
17 2016, which means these projects are already
18 included in the 2016 budget. Therefore, to
19 avoid redundancy, we eliminate the budgets for
20 these items.

21 Q. Why does the Panel eliminate the budget of
22 project 13.4 - CADD software license renewal fee
23 at \$6,000 and 13.8 - Enterprise software upgrade
24 at \$14,000, annually?

1 A. We follow the Code of Federal Regulations'
2 Uniform System of Accounts prescribed for public
3 utilities, which states that the cost of labor,
4 materials used and expenses incurred for annual
5 computer software license renewals, annual
6 software update services and the costs of on-
7 going support for software products shall be
8 included in the account for maintenance of
9 computer software. Therefore, these projects
10 should not be capitalized, but instead be
11 recovered as an O&M cost.

12 Q. In summary, what is the Panel's recommended
13 level of capital expenditure for the
14 "Administrative and Facilities category?"

15 A. We recommend a level of capital expenditures of
16 \$500,000 for CY 2017, or \$170,000 lower than
17 Corning's proposal.

18

19

Depreciation

20 Q. Did the Panel review Corning's testimony on
21 depreciation?

22 A. Yes. We reviewed the projected gas deprecation
23 rates that were included in Corning's
24 depreciation study. We also reviewed the

1 specific recommendations made by Company witness
2 Paul Normand. The study includes an analysis of
3 average service life, net salvage percent, and
4 resulting depreciation accrual rates based on Gas
5 plant in service as of December 31, 2015.

6 Q. How were the Company's depreciation rates
7 calculated?

8 A. Depreciation rates are calculated using a
9 method, a procedure, and a technique. Corning
10 used the straight line method, broad group
11 procedure, and whole life technique, which is
12 consistent with other utilities in the State.

13 Q. Have you reviewed the Company's depreciation
14 study?

15 A. Yes. We have examined the results of the study
16 using the data supplied.

17 Q. Please summarize the depreciation study's
18 proposals.

19 A. The study proposes updates to the current
20 average service lives, salvage rates and
21 resulting depreciation rates, as shown in
22 Company Exhibit __ (CNG-11).

23 Q. Do you recommend any modifications?

24 A. Yes, we recommend two modifications. First, we

1 recommend an increase to the average service
2 life of Account 376, distribution main, from 66
3 years to 70 years. According to annual reports
4 the Company files with the U.S. Department of
5 Transportation Pipeline and Hazardous Materials
6 Safety Administration, provided in response to
7 IR DPS-310, since 2011, Corning has increased
8 the amount of plastic distribution main on its
9 system by an average of three percent per year.
10 This type of main has a longer service life than
11 other material. Our recommended change brings
12 the average service life for Corning's
13 distribution mains closer to that of other
14 utilities in the state. The adjustment is also
15 in line with the Company's proposed change to
16 the average service life for Account 367,
17 transportation mains, in which the Company
18 proposed an increase in the average service life
19 from 66 to 70 years. Second, we recommend an
20 increase to the average service life of Account
21 380, services, from 52 years to 55 years.
22 Corning has been systematically replacing its
23 leak prone services, which has increased the
24 number of plastic services on the Company's

1 system. Our recommendation is a gradual
2 increase that will bring the average service
3 life more in line with that of other utilities
4 in the state and recognizes the increase of
5 plastic services on the system.

6 Q. Do you have any additional recommendations in
7 regards to the Company's depreciation study?

8 A. Yes, we recommend that Account 367,
9 transportation main, Account 376, distribution
10 main, and Account 380, services, be further
11 broken down into sub-accounts based on the
12 material type of the pipe, such as steel, cast-
13 iron, or plastic. Each of these main types
14 exhibit different actual average service lives
15 and, therefore, separate accounts will allow the
16 Company to reflect different accrual rates in
17 accordance with those varied average service
18 lives.

19

20 **Gas Utility Plant-in-Service**

21 Q. What does the Panel recommend with respect to
22 the net plant targets?

23 A. We recommend that the Commission adopt the net
24 plant balances and associated components, from

1 our net plant model, which we present in
2 Exhibit __ (GIOP-3). These balances reflect the
3 capital expenditure adjustments we have
4 recommended in this testimony.

5 Exhibit __ (GIOP-3) presents a side-by-side
6 comparison of the Company's and Staff's net
7 plant targets.

8 Q. Does the Panel recommend any adjustments
9 relating to the elimination of the Virgil
10 surcharge, as discussed in the testimony of the
11 Staff Policy Panel?

12 A. Yes, we recommend an adjustment to the
13 depreciation reserve as a result of ending
14 Virgil's surcharge collection in November 2016.

15 Q. What will happen to Virgil's depreciation
16 reserve at the end of November 2016?

17 A. Starting in December 2016, in our net plant
18 model, the depreciation reserve of Virgil will
19 be adjusted to \$1.0 million, in accord with the
20 Order Amending Certificate of Public Convenience
21 and Necessity, issued on June 14, 2012.

22 Q. What level of depreciation expenses does the
23 Panel recommend?

24 A. We recommend a level of depreciation expenses of

1 \$1.72 million, or \$210,000 lower than Corning's
2 proposal.

3 Q. Please explain why the Panel recommends a lower
4 level of depreciation expense than the Company.

5 A. There are two reasons. First, we recommend a
6 lower level of capital expenditures, which
7 results in a lower net growth of plant dollars.
8 Since depreciation expense is calculated as the
9 product of depreciation rates and the net growth
10 of plant dollars, our depreciation expense is
11 reduced as well. Second, in calculating our
12 depreciation expense, we do not include the Root
13 Well pipeline contribution in aid of
14 construction (CIAC), valued at \$649,900, as part
15 of our net plant growth, because the Company
16 should not earn depreciation expense on a
17 project that was fully paid for through a CIAC.

18

19 **Capital Investment Reconciliation Mechanism**

20 Q. Does the Panel propose a Capital Investment
21 Reconciliation Mechanism?

22 A. Yes, we do. We propose the Capital Investment
23 Reconciliation Mechanism to protect ratepayers
24 from paying delivery rates that are too high

1 because the Company is not able to implement the
2 entire capital plan.

3 Q. Please describe what the Panel proposes for the
4 Capital Investment Reconciliation Mechanism in
5 the Rate Year.

6 A. We recommend that the actual net plant-in-
7 service in the Rate Year be compared with the
8 net plant-in-service approved by the Commission.
9 The mechanism is to be downward adjusting only.
10 Any balance owed to customers would be deferred,
11 with carrying charges as calculated using the
12 pre-tax rate of return approved by the
13 Commission in this proceeding. An example of
14 the plant-in-service reconciliation is provided
15 in Exhibit __ (GIOP-4).

16 Q. Why does the Panel recommend that the mechanism
17 be a one-way downward-only true up mechanism?

18 A. Customers are providing a return on a forecasted
19 level of capital expenditures. The one-way
20 mechanism protects customers if the Company were
21 to under-spend its capital budget or if there is
22 significant slippage, or delay, in closing
23 projects to plant-in-service. Since the Company
24 has full control over capital expenditures,

1 there is no need to protect the Company from
2 over-spending.

3 Q. Has the Commission adopted a one-way downward
4 only true up mechanism before?

5 A. Yes, in Corning last rate case 11-G-0280, the
6 Commission adopted a one-way downward only
7 reconciliation mechanism.

8

9

Unit Cost Incentive

10 Q. Under the current regulatory framework, does the
11 Company have a strong incentive to control O&M
12 expenses?

13 A. Yes. When the Commission sets delivery rates,
14 it forecasts O&M expenses in the Rate Year.
15 Unless there is a specific true-up mechanism,
16 the Company keeps the savings generated by
17 controlling their O&M expenses.

18 Q. Under the current regulatory framework, does the
19 Company have a strong incentive to control
20 capital expenditures?

21 A. Not entirely. As discussed earlier, while there
22 is regulatory oversight and review of capital
23 programs and projects to try and prevent
24 inefficient investment, the Company earns a

1 return on its investments. Moreover, the
2 Commission has established net plant true up
3 mechanisms to protect customers from paying
4 delivery rates that are too high because of
5 slippage in project in-service dates or overall
6 inflated cost estimates. The Company may manage
7 the investment plans to the targets and make
8 investments at higher levels to avoid a deferral
9 for customers.

10 Q. Does the net plant true up have any unintended
11 consequences?

12 A. Yes. The net plant true up does not recognize
13 innovation or good cost control measures. If a
14 company is able to deliver a better solution at
15 a lower cost, there is no adjustment to the
16 mechanism. If a company is able to deliver
17 projects more efficiently, there is also no
18 adjustment to the net plant mechanism.

19 Therefore, there seems to be an opportunity for
20 the Commission to modify the mechanism to
21 account for these weaknesses, allowing for
22 innovation and rewarding efficiency.

23 Q. How could the net plant true up mechanism be
24 modified to provide the incentive to the

- 1 Company?
- 2 A. One option is to develop specific unit cost
3 trackers for budgets that have specific
4 benchmark costs and deliverables such as miles
5 of main, number of services or number of meters.
6 A unit cost for such categories as service line
7 installation, foot of leak prone pipe replaced,
8 or meter installation or change-out, can be
9 established based on historical data, as long as
10 there is consistency with how the data has been
11 and will be tracked in the future. If the
12 Company completes the work in the chosen
13 category at an average cost which is lower than
14 the established unit cost, a maximum 10 basis
15 point incentive may be provided to the Company.
- 16 Q. Does the Panel have any concerns that should be
17 considered when developing a change to the net
18 plant true up mechanism?
- 19 A. Yes. It is important that the measurement of
20 forecast capital expenditures, versus the actual
21 capital spent for a given period, is properly
22 analyzed, tracked, and reported on an annual
23 basis. In addition, the outcome of each
24 completed mechanism period should provide a

1 basis for the goals set for the next mechanism
2 period to establish a continuation of
3 performance improvement. Careful consideration
4 should be given so that incentives are not the
5 result of poor estimation, but actual innovation
6 and cost control.

7 Q. How should this mechanism be developed?

8 A. The Commission should require the Company to
9 collaborate with Staff and other parties to
10 develop a mechanism once unit cost data is
11 available. As we are testifying to a one year
12 case, the Company should propose to implement
13 this mechanism in its next rate filing.

14

15 **Reporting Requirements**

16 Q. What does the Panel recommend regarding capital
17 expenditure and variance reporting requirements?

18 A. It is important for Staff and the Commission to
19 monitor the Company's capital work. To that
20 end, the Company should be required to make
21 regular filings. We recommend that the
22 Commission require Corning to file an annual
23 report within 45 days after the end of each
24 calendar year.

1 Q. What information should be filed annually?

2 A. We recommend that the Commission require that
3 these reports include: (1) a final variance
4 summary of capital expenditures for all capital
5 projects and programs including all on-going and
6 active construction projects and programs; (2) a
7 narrative explaining any cost or timeline
8 differences from estimated costs in the
9 project's white paper; (3) a narrative on
10 project design, permitting and or construction
11 status, including a detailed construction
12 schedule for each project, for any ongoing
13 projects; (4) a description of any new projects
14 or programs; and (5) unit costs for specified
15 projects.

16 Q. Does this conclude the Panel's testimony at this
17 time?

18 A. Yes, it does.

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