BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

Corning Natural Gas

Case 16-G-0369

October 2016

Prepared Testimony of:

Margaret Wright
Senior Auditor

Office of Accounting, Audits and Finance

State of New York
Department of Public Service
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Q. Please state your name and business address?

A. My name is Margaret Wright. My business address is New York State Department of Public Service, Three Empire State Plaza, Albany, NY 12223.

Q. Ms. Wright, what is your position at the Department?

A. I am employed as a Senior Auditor in the Office of Accounting, Audits and Finance.

Q. Please describe your educational background and professional experience.

A. I received a Master’s degree in Business Administration in 2011 from Columbia College. I also received a Bachelor’s degree in Business Administration, with a concentration in accounting from Columbia College in 2004. In June 2014, I joined the Department of Public Service (Department) in the Office of Accounting, Audits & Finance. Prior to that I was employed by the New York State Office of the Medicaid Inspector General as a Senior Auditor for four years.

Q. Please describe your responsibilities with the Department.

A. My responsibilities include the examination of accounts, records, documentation, policies and procedures of regulated utilities.

Q. Ms. Wright, have you previously testified before the New York Public Service Commission (Commission)?

A. Yes. I provided testimony in the Cases 16-G-0058 and 16-G-0059, KeySpan Gas East Corporation d/b/a National Grid NY, and the Brooklyn Union Gas Company d/b/a National Grid NY rate proceedings. I also testified in the Town of Massena Electric Department rate proceeding Case 15-E-0307.

Q. What is the purpose of your testimony?

A. I will address various issues of the rate filing by Corning Natural Gas Corporation (Corning or the Company), specifically: direct labor; supervisory and indirect labor; vacation accrual; regulatory expense; building services; transportation; inventory; productivity; amortizations and payroll taxes.

Q. Are you sponsoring any exhibits?

A. Yes, I am sponsoring four exhibits; Exhibit __ (MW-1), Exhibit __ (MW-2), Exhibit __ (MW-3), and Exhibit __ (MW-4).

Q. Would you describe Exhibit __ (MW-1)?

A. Exhibit __ (MW-1) is Staff's Rate Year cost of services presentation, consisting of eight schedules. Schedule 1 summarizes Staff's projections of gas operating income, rate base and rate of return for the Rate Year ending May 31, 2018 and includes Staff's proposed base rate decrease. Schedule 1 is supported by Schedules 2 through 8. Schedule 2 is a summary of operating expense. Schedule 3 is a summary of taxes other than income tax. Schedule 4 is the computation of state income tax. Schedule 5 is the computation of federal income tax. Schedule 6 is calculation of rate base. Schedule 7 is the calculation of capital structure. Schedule 8 is the detail of Staff's adjustments.

Q. Would you describe Exhibit __ (MW-2)?

A. Exhibit __ (MW-2) includes the Information Request (IR) responses that are referenced in my testimony. I will refer to these IRs by the number assigned by Staff, e.g., DPS-100.

Q. Would you describe Exhibit __ (MW-3)?

A. Exhibit __ (MW-3) is a compilation of workpapers that were created in calculating the adjustments referenced in my testimony.

Q. Would you describe Exhibit __ (MW-4)?

A. Exhibit __ (MW-4) is a wage analysis using Indeed.com for the twelve positions that Corning is requesting an additional wage increase.

Q. Please summarize Corning’s requested revenue requirement?

A. In its June 17, 2016 filing, the Company requested a $5,927,841 increase in gas revenues for the Rate Year ending May 31, 2018. On September 8, 2016 Corning submitted a corrections and updates filings that requested a $5,846,128 increase.

Q. Please summarize Staff’s recommended revenue requirement?

A. Staff recommends a base rate increase of 831,085. Exhibit __ (MW-1), Schedule 8 lists every adjustment Staff proposes that results in the revenue requirement differential.

Operations and Maintenance Expense

Labor Expense

Q. Please describe what is included in direct labor expense.

A. Direct labor expense includes regular hourly payroll, overtime and incentive compensation.

Q. How did the Company calculate its Rate Year forecast of direct labor expense?

A. The Company began with the direct labor expense for the historic test year, the year ended December 31, 2015. After adjustments to reflect normalized wages and the elimination of non-recurring charges, the Company increased wages by 3% per year through the Rate Year for all personnel and an additional 2% for a specific group of employees. The Company also increased direct labor expense to reflect the hiring of ten new employees.

Q. Does Staff have any adjustments to the Company's Rate Year labor expense forecast?

A. Yes, we have three adjustments to Rate Year labor expense. The first adjustment relates to the overtime expense, the second relates to the additional wage increase for a certain group of employees and the third relates to the Company's incentive compensation plan. I will testify to the overtime and additional wage increase adjustment, while Staff witness Daniel Gadomski will testify to the incentive compensation adjustment.

Q. What information did you rely upon to derive the recommended adjustments?

A. I used the information provided by Corning in response to IRs DPS-191, DPS-207, DPS-276 and DPS-336.

<u>Overtime</u>

Q. How did the Company calculate the proposed Rate Year forecast of overtime costs?

A. The Company took the historic test year overtime amount and increased it by the 3% annual wage increase.

Q. Do you agree with the Company’s forecast of overtime?

A. No. As shown in the Company’s response to IR DPS-191, the Company had 5,001, 5,644 and 9,580 of overtime hours for the years 2013, 2014 and 2015, respectively. As the 2015 hours were 80% higher than the average of the previous two years, it does not seem appropriate to use the 2015 hours as the sole basis for the Rate Year forecast because it implies, without support, that the Rate Year will be consistent with the historic test year.

Q. Did the Company explain why the 2015 overtime hours were so much higher than those in prior periods?

A. Yes. In the response to IR DPS-276, the Company stated that the significant amount of overtime in the historic test year was due to the extreme cold and harsh winter. This explanation further supports my conclusion that the historic test year overtime hours are not representative of a normal year and should not be used as a basis for the Rate Year forecast.

Q. How did you forecast the Company’s overtime expense for the Rate Year?

A. I calculated a three-year average of overtime hours for 2013 through 2015 of 6,741 and multiplied these hours by the average overtime pay rate for 2015. I then inflated this average by a 3% wage increase in 2016 and 2017 to arrive at $201,191 of overtime expense for the Rate Year, which is a decrease of $67,010 from the Company’s forecast of $268,201. Using a multi-year average of overtime hours provides a more realistic estimate of what the cost will be during the Rate Year, assuming ‘typical’ weather.

<u>Equity Adjustment</u>

Q. Explain the additional 2% wage increase the Company requested for twelve of its employees.

A. Page 40 of the direct testimony of Company Witnesses Firouzeh Sarhangi and L. Mario DiValentino states, “The Company has determined that wages for a group of employees have been significantly below the prevailing wages for similar positions in the area. Therefore for these positions, we have indicated a wage increase of 5% (3% base and 2% equity adjustment).”

Q. For which positions does Corning seek this additional 2% wage increase?

A. The twelve employees are a junior billing clerk, a gas supply specialist, a gas analyst, a senior billing clerk, two cashiers, and six customer service representatives.

Q. Do you agree with the additional wage increase?

A. No, I do not agree with the additional wage increase.

Q. Please explain.

A. In response to IRs DPS-207 and DPS-336, the Company provided a wage analysis from the New York State Department of Labor for the positions in question in the Southern Tier. Based on the Company's analysis, the wages for the twelve identified employees are lower than the mean wages for these positions for the Southern Tier.

Q. Do you agree with the analysis that the Company provided?

A. No, using the mean wages for the whole Southern Tier region is misleading. The Southern Tier stretches across eight counties. It is highly unlikely that someone that lives in Corning would commute three hours to Chautauqua County, 1.5 hours to Broome County, or 1.5 hours to Cattaraugus County. Instead of using the whole Southern Tier region, a more appropriate analysis would be focusing on the general area around Corning. I did a similar analysis using Indeed.com data for the specific Corning area. My analysis is included in Exhibit __ (MW-4). My analysis shows that Corning's wages for the identified positions are consistent with the wages for similar positions in the area. For example, according to Indeed.com, the mean annual wage for a cashier in the Corning area is $22,000, as compared to the $34,850 that the Company’s analysis shows for the Southern Tier. The Company’s actual average annual wage for a cashier is $27,040, which is actually higher than the $22,000 average wage for the area. As such, an additional 2% increase is not warranted.

Q. Is there any other reason why you do not agree with the additional wage increase?

A. Yes, according to the Company’s response to IR DPS-207, Corning has been believed that there was a wage disparity for nine years. The Company began to address this perceived wage disparity in 2007 by granting higher wage increases and one-time bonuses to the employees in the affected positions. The Company has had nine years to rectify the alleged wage disparity. However, despite this purported underpayment, the Company has not identified any difficulty in attracting or retaining employees for these positions.

Q. Explain your adjustment.

A. My adjustment removes the additional wage increase for the twelve employees, which results in a decrease to labor expense of $7,629.

Q. What is the impact of all your adjustments on direct labor?

A. The labor adjustments referenced above and the adjustment recommended by Staff witness Gadomski total $142,994. After capitalization the impact on direct labor is a reduction of $91,674.

Q. Do you have any other adjustments which result from your adjustments to direct labor?

A. Yes. The Company allocates labor into direct labor expense, capitalized labor, and clearing accounts. The labor allocated into the clearing accounts is included in the supervisory indirect labor, building services, inventory, transportation and accrued vacation expenses. The labor allocated to those clearing accounts is then broken down further into an expense and a capital piece. Since the Company allocates labor to the different clearing accounts, any adjustment made to labor will have flow through adjustments to supervisory indirect labor, building services, inventory, transportation and accrued vacation expenses.

Supervisory and Indirect Labor

Q. Have you reviewed Corning's calculation of supervisory and indirect labor?

A. Yes. The Company allocated 11.79% of direct labor into supervisory and indirect labor expense. As such, the adjustments made to direct labor will also decrease the overall supervisory and indirect labor expense.

Q. What is the flow through impact on supervisory and indirect labor?

A. The impact of the direct labor adjustments is a reduction of $11,806 to supervisory and indirect labor.

Vacation Accrual

Q. Have you reviewed Corning's calculation of vacation accrual?

A. Yes. The Company allocated 4.04% from direct labor into vacation accrual expense. As such, the adjustments made to direct labor will also decrease vacation accrual expense.

Q. What is the flow through impact on vacation accrual expense?

A. The impact of the direct labor adjustments is a reduction of $4,338 to the vacation accrual.

Building Services

Q. Have you reviewed Corning’s calculation of building services expense?

A. I reviewed the direct labor that is allocated to building services expense. The Company allocated .27% from direct labor into building services expense. The adjustments to Rate Year direct labor require that a flow through adjustment to the direct labor charged to building services must also be made.

Q. What is your flow through adjustment to building services?

A. My adjustment reduces building services expense by $283.

Transportation

Q. Have you reviewed Corning’s calculation of transportation expense?

A. Yes, I reviewed the transportation expense. The Company allocated 1.94% from direct labor into transportation expense. The adjustments to Rate Year direct labor require that a flow through adjustment to the direct labor charged to transportation must also be made.

Q. What is your flow through adjustment to transportation?

A. My adjustment reduces transportation expense by $1,912.

Inventory

Q. Have you reviewed Corning’s calculation of inventory expense?

A. Yes, I reviewed the inventory expense. The Company allocated 1.27% from direct labor into inventory expense. The adjustments to Rate Year direct labor require that a flow through adjustment to the direct labor charged to inventory must also be made.

Q. What is your flow through adjustment to inventory?

A. My adjustment reduces inventory expense by $327.

Payroll Tax Flow Adjustment

Q. Does the Company’s Rate Year forecast of payroll tax expense need to be adjusted to account for the recommended labor adjustments you discussed?

A. Yes. I recommend an adjustment of $10,939 to reduce the Company’s payroll tax expense forecast, tracking Staff’s proposed adjustments to labor expense.

Q. Do you recommend that your adjustments to labor expense reduce all the components of payroll taxes?

A. No. I only recommend an adjustment to the FICA component. Due to the immaterial amounts at issue, I do not recommend reducing the federal and state unemployment tax or the excess Medicare tax expenses.

Regulatory Expense

Q. Explain what is included in the Company’s regulatory expense.

A. The Company’s regulatory expense is comprised of the following: amortization of PSC assessment, amortization of 2008 rate case expense, amortization of 2011 rate case expense, amortization of 2016 rate case expense, the HEAP allowance, the net plant reconciliation, and amortization of the matrix incentive.

Q. Do you have any adjustments to the Company’s Rate Year regulatory expense forecast?

A. Yes, I have four adjustments to Rate Year regulatory expense. The first adjustment relates to the HEAP Allowance, the second relates to the amortization of the 2008 rate case expense, the third relates to the amortization of the 2011 rate case expense and the fourth relates to the amortization of 2016 rate case expense.

Q. What information did you rely upon to derive your adjustments?

A. I used the information provided by Corning in response to IRs DPS-191, DPS-255, DPS-312, DPS-320 and DPS-338.

Q. Explain your first adjustment, which relates to the HEAP allowance.

A. My first adjustment reclassifies the Rate Year HEAP allowance of $125,000 from the regulatory expense category to its own line item in the O&M Schedule. This will provide transparency for the total allowed cost of the program. As I do not propose an adjustment to the Rate Year expense amount, this presentation change has no revenue requirement effect.

Q. Explain your second adjustment, which relates to the amortization of the 2008 rate case expense.

A. In the Commission Order setting rates in Case 08-G-1137, the Company was allowed to recover rate case expense of $650,000. This rate case expense was amortized over a five year period ending on June 30, 2014. Similar to other expenses, this amount was a forecasted amount that the Commission authorized and allowed recovery of in that case.

Q. If the rate case costs were fully amortized as of June 30, 2014, why is the Company including amortization expense for these costs in this rate proceeding?

A. In response to IR DPS-255, the Company states that the actual rate case costs were greater than the forecast of $650,000 and that it should be allowed to continue the amortization until the actual costs have been fully recovered.

Q. Do you agree that the Company should continue the amortization until the actual costs have been fully recovered?

A. No, I do not believe that the amortization should be continued past the five years the Commission adopted in Case 08-G-1137. The joint proposal adopted by the Commission in that case included a projection for rate case expense. As with any projection, there was the possibility that the allowed amount could be higher or lower than actual costs incurred. Neither the joint proposal nor the Commission's order adopting it established a true-up mechanism associated with rate case expense and, therefore, the Company is limited to the parameters set out in that case, $650,000 included in revenue requirement over five years.

Q. What is your adjustment related to the amortization of the 2008 rate case expense?

A. As the five year amortization period ended June 30, 2014, the 2008 rate case costs have been fully amortized. As such, my adjustment removes the Rate Year amortization of these costs, which reduces Rate Year regulatory expense by $150,996.

Q. Explain your third adjustment related to the amortization of the 2011 rate case expense.

A. In the Commission Order in Case 11-G-0280, the Company was allowed to recover rate case expense of $800,000 amortized over a five year period ending on April 30, 2017. As with other expenses, this amount was a forecasted amount that the Commission authorized and allowed recovery of in that case.

Q. What does Corning seek with regard to 2011 rate case expense?

A. As with the Company’s request regarding the 2008 rate case amortization expense, in the response to IR DPS-255, the Company states that the actual 2011 rate case costs were greater than the $800,000 forecast and that the Company should be allowed to continue the amortization until the actual costs have been fully recovered.

Q. Do you agree that the Company should continue the amortization until the actual costs have been fully recovered?

A. No, I do not believe that the amortization should be continued past the five years that was adopted by the Commission in the Case 11-G-0280. The same logic that applies to the rate case expense for Case 08-G-1137 applies to the rate case expense for Case 11-G-0280. This allowance was a projection, and the rate plan did not include a true up mechanism associated with rate case expense.

Q. What is your adjustment related to the amortization of the 2011 rate case expense?

A. As the five year amortization period ends April 30, 2017, the 2011 rate case costs will have been fully amortized prior to the start of the Rate Year. As such, my adjustment removes $160,000 of the amortization expense that the Company included in the Rate Year.

Q. Explain your fourth adjustment related to the amortization of the 2016 rate case expense.

A. According to page 43 of the direct testimony of Firouzeh Sarhangi and L. Mario DiValentino, the current rate case costs are estimated to be $1,000,000. The Company would like to amortize this balance over a five year period at the rate of $200,000 per year.

Q. How does the Company breakdown the costs that are included in the rate case expense?

A. In response to IR DPS-191, the Company breaks down rate case expense into consultant, legal and miscellaneous costs.

Q. What charges are included in the consultant category?

A. The Company has charges for Management Application Consulting Inc., Concentric Energy Advisors, Inc. and Moonstone Consulting LLC.

Q. Do you agree that any charges for Moonstone Consulting should be included in rate case expense?

A. No, I do not believe the charges for Moonstone Consulting should be included in rate case expense.

Q. Please explain.

A. Moonstone Consulting has an annual contract with Corning and provides services on an ongoing basis. According to the contract received in response to IR DPS-338 between Moonstone Consulting and Corning, Moonstone Consulting is paid a fixed monthly fee for these services.

Q. Does this contract include work related to a rate case such as this proceeding?

A. Yes. Based on the terms of the contract, this fixed monthly fee includes costs that are associated with “reviewing, analyzing, preparing and making recommendations regarding the management and preparation of rate case data for Corning. This shall include preparation of testimony, responding to data request, analysis of historical costs and preparation of litigation strategy.” Any costs associated with Moonstone Consulting should be included in the fixed monthly fee agreed to in the contract.

Q. Are the costs of the contract between Corning and Moonstone Consulting reflected elsewhere in Corning’s revenue requirement?

A. Yes. According to the response to IR DPS-330, in the historic test year, $162,500 of Moonstone Consulting’s monthly fees were charged to outside services expense. Furthermore, $165,430 of Moonstone Consulting fees were included in the Rate Year forecast of O&M expense as well.

Q. Is it appropriate to recover costs associated with Moonstone Consulting in both outside services expense and rate case expense?

A. No. Since the contract with Moonstone

Consulting is all inclusive of services provided, including these charges in both outside services expense and in rate case expense results in a double count.

Q. Explain your proposed adjustment.

A. The Company's response to IR DPS-312 shows that the forecast of rate case costs includes $297,100 for Moonstone Consulting. My adjustment reduces total rate case costs by this amount. Amortized over five years, this results in a decrease to regulatory expense of $59,420 in the Rate Year.

Q. Do you have any other adjustments to Regulatory Expense?

A. No. However, in her testimony, Staff witness Allison Esposito will also address a component of regulatory expense.

Productivity

Q. Describe the Commission's standard productivity adjustment.

A. The Commission has a long-standing policy of imputing a 1% productivity adjustment, which is intended to capture unquantifiable and unidentified efficiencies and cost savings. By its nature, the traditional 1% productivity adjustment is intended to reflect gains from unidentified sources and is necessary to recognize the impossibility of specifying all Rate Year productivity improvements in advance.

Q. Did the Company reflect a productivity adjustment in its revenue requirement?

A. No. On page 19 of the direct testimony of Firouzeh Sarhangi and L. Mario DiValentino, they stated that a productivity adjustment was not warranted in this case.

Q. Why does the Company believe the productivity adjustment is not warranted?

A. According to the testimony of Firouzeh Sarhangi and L. Mario DiValentino, the Company believes that it has clearly increased its productivity by expanding the business of transporting locally produced natural gas into their system, expanding into new service territories, aggressively pursuing the refinancing of the Company’s debt, performing gas supply management in house and actively taking advantage of opportunities to increase pipe replacement activities. Given these actions, the Company believes that a 1% productivity adjustment is not necessary.

Q. Do you agree with the Company that the standard 1% productivity adjustment is not necessary?

A. No. While the Company may have made the efforts described in Firouzeh Sarhangi and L. Mario DiValentino’s testimony, those efforts are reflected in the revenues and expenses used to develop the Rate Year revenue requirement. Such actions stand apart from the standard 1% productivity adjustment, which is imputed to reflect gains from unidentified sources, such as the implementation of enhancements in the Rate Year. The Commission has recognized the impossibility of specifying all Rate Year productivity improvements in advance.

Q. Please explain your recommended productivity adjustment.

A. Consistent with the Commission’s long standing policy, I have made an adjustment to reflect a 1% productivity adjustment. This adjustment is based on Staff’s recommended direct labor expense, employee fringe benefits expense, and payroll taxes. This results in a downward adjustment of $54,888, which I calculated by taking 1% of the labor expenses I just identified, totaling $5,488,803, and applying the Commission's traditional 1% adjustment.

Amortizations

Q. Do you propose any additional adjustments?

A. Yes. I recommend that the Company make additional adjustments to reflect the deferral of costs from the last rate case.

Q. Please explain.

A. In Case 11-G-0280, the Company was allowed to add a Gas Supply Specialist. The labor expense associated with that employee was subject to a one-way true up.

Q. Explain the one-way true up.

A. If, in any of the rate years, the actual salary of the gas supply specialist was less than the salary expense allowed in Case 11-G-0280, the Company was required to defer the difference.

Q. Were the actual wages lower than what was allowed in Case 11-G-0280?

A. Yes, according to the Company's response to IR

DPS-181, in the year ended April 30, 2013 the actual salary was $30,810 and the wage allowance was $35,851, resulting in a difference of $5,041. In the year ended April 30, 2014 the actual salary was $31,888 and the wage allowance was $36,568, resulting in a difference of $4,680. In the year ended April 30, 2015 the actual salary was $33,163 and the actual salary was $37,299, resulting in a difference of $4,136. According to the response to IR DPS-339, the actual salary for the year ended April 30, 2016 was $33,719 while the wage allowance was $37,999, resulting in a difference of $3,580 and the estimated salary for the year ending April 30, 2017 was $34,750 while the wage allowance was $37,999, resulting in a difference of $2,549. The total difference between actual versus what was allowed is $19,986.

Q. How do you propose to reflect this deferral in the rate case?

A. I recommend two adjustments for this deferral. The first adjustment is to include the unamortized balance of $17,987 in the Rate Year rate base. The second adjustment is to reflect the amortization of this deferral, at $3,997 per year over five years, in the O&M schedule.

Q. Does this conclude your testimony at this time?

A. Yes it does.