

CORNING NATURAL GAS CORPORATION

ADDITIONAL DIRECT TESTIMONY

OF

FIROUZEH SARHANGI AND L. MARIO DIVALENTINO

ACCOUNTING AND POLICY PANEL

September 7, 2016

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1 Q. Ms. Sarhangi and Mr. DiValentino, are you the same individuals comprising the
2 Accounting and Policy Panel whose direct testimony was included in the June 17,
3 2016 initial filing of Corning Natural Gas Corporation (“Corning” or the “Company”)
4 in this proceeding?

5 A. Yes.

6 Q. What is the purpose of your additional direct testimony?

7 A. Consistent with the schedule presented at the Procedural Conference in this
8 proceeding on August 15, 2016, we are providing corrections and updates to the
9 Company’s initial filing.

10 Q. Are you distinguishing between corrections and updates?

11 A. Yes.

12 Q. Please explain.

13 A. We use the term “correction” to refer to material that was incorrect as presented in the
14 original filing on June 17, 2016. That material may be incorrect because it contains
15 the wrong data, was calculated erroneously, or was improperly labeled or formatted in
16 the initial filing. As a related matter, we have identified some items that require
17 “reclassification” in the form of transfer or reallocation to different categories or
18 accounts. In contrast, we use the term “update” to refer to situations where the
19 original presentation was correct at the time of the filing, but where more current data
20 are now available and can be appropriately substituted for the original information.
21 Also included in the category of “updates” are changes to the Company’s original
22 position on policies or other issues. In referring to corrections, reclassifications and
23 updates collectively or without distinguishing among them, we may use the term
24 “changes” or “modifications.”

ADDITIONAL DIRECT TESTIMONY OF
FIROUZEH SARHANGI/L. MARIO DIVALENTINO

1 Q. Do the changes require modification of your direct testimony or that of other Corning
2 witnesses?

3 A. With a few exceptions described later in this testimony, no. Most changes are to
4 information appearing in the Company's exhibits contained in the initial filing.

5 Q. How did you identify the need for those modifications?

6 A. In most cases, we discovered errors or identified information to be updated during the
7 course of the extensive discovery that has been conducted in this proceeding. In some
8 cases, awareness of the need to make changes occurred as a result of the specific
9 questions asked; in others it resulted from our own identification of the need to modify
10 the original presentation. As of September 6, 2016, Corning had received more than
11 300 separately numbered (including many multi-part) interrogatories from the Staff of
12 the Department of Public Service ("Staff"). When the individual parts of those
13 interrogatories are considered, the total number is closer to 800. The Company has
14 responded to all but a handful of them. In nearly all cases where the need for a change
15 to the original presentation was identified, the specific change was described and the
16 relevant new information was provided as part of the interrogatory response.

17 Q. How are you presenting those changes for purposes of this update?

18 A. We have prepared Exhibit CNG-14, which is a table containing a series of columns
19 showing, in most cases, a Staff interrogatory reference, the item subject to
20 modification, a reference to the relevant exhibit and schedule, and a brief statement of
21 the reason for the change.

22 Q. How are you reflecting the specific impact of the corrections and updates identified in
23 Exhibit CNG-14?

ADDITIONAL DIRECT TESTIMONY OF
FIROUZEH SARHANGI/L. MARIO DIVALENTINO

1 A. The affected Exhibits and Schedules have been revised and are identified with an "A"
2 following their original designation. For convenience of reference, we have also
3 highlighted in red the numbers in each Exhibit and Schedule that are affected.

4 Q. Do the corrections, reclassifications and updates you described have an impact on the
5 Company's revenue requirement?

6 A. Yes. The Rate Year ("RY") 1 revenue requirement is \$5,846,128, down from
7 \$5,927,840; the RY 2 revenue requirement is \$1,019,738, down from \$1,169,350, up
8 from \$1,163,848; and the RY 3 revenue requirement is \$490,131, down from
9 \$668,507. The three-year levelized rate increase would also decline from \$3,463,287
10 to \$3,394,536. (These revenue requirement amounts are discussed at pages 11, 29 and
11 31 of our direct testimony.)

12 Q. What are the principal reasons for the decrease in the revenue requirement?

13 A. The decrease results primarily from the lowering of the property tax forecast, off-set
14 principally by the increase in uncollectible costs and the increase in rate base that
15 results from the correction of the Earnings Base/Capitalization ("EB/Cap")
16 comparison.

17 Q. Earlier, you referred to certain modifications that would require changes to your direct
18 testimony. Would you please describe those items?

19 A. Yes. At page 38, lines 5 through 7, we reported the results of the EB/Cap comparison,
20 noting that rate base exceeded earnings base capitalization by \$301,557 and that rate
21 base must be increased by that amount. The amount to be added to rate base should be
22 \$3,294,253. At page 50, line 7, the Lost and Unaccounted for ("LAUF") factor
23 contains a typographical error and should be changed from 1.039 to 1.0039.

24 Q. How do you intend to reflect the changes you described in the preceding response?

ADDITIONAL DIRECT TESTIMONY OF
FIROUZEH SARHANGI/L. MARIO DIVALENTINO

1 A. The correction to the EB/Cap comparison is reflected in the correction to original
2 Exhibit CNG-4, Schedule 9, that appears in Exhibit CNG-4A, Schedule 9 (Revised).
3 Since the typographical error in the LAUF factor only appears in our direct testimony
4 and does not appear in the Exhibits, no correction, other than to the testimony, is
5 required. We intend to make both of these changes to our direct testimony before we
6 adopt it in this proceeding.

7 Q. Are there any additional matters that you believe should be addressed at this time?

8 A. Yes. We have two policy matters that warrant consideration: a possible reduction to
9 the scope and cost of the Commission-mandated pipe repair and replacement program;
10 and an extension to the time frame for recovery of the cost of the Company's service
11 expansion in the Town of Virgil.

12 Q. Please explain why the Company is suggesting a reduction in the pipe repair and
13 replacement program.

14 A. Corning has acted aggressively to meet the Commission's goals for the replacement of
15 leak-prone pipe and has continuously met or exceeded those goals. As the
16 Commission is aware, year in and year out, this program represents the single largest
17 expenditure the Company makes. The Company estimates that, at the current rate of
18 repair and replacement, all leak-prone pipe will have been fully addressed within
19 approximately 10 years. To our knowledge, this pace is faster than that of most gas
20 companies in the State. It would be reasonable, in this proceeding, for the parties and
21 the Commission to consider whether it would be appropriate to make a modest
22 reduction to the annual required expenditures to reduce the burden this program
23 imposes on Corning's customers – particularly at a time when a number of other
24 factors combine to require a substantial rate increase. The Company suggests that the

ADDITIONAL DIRECT TESTIMONY OF
FIROUZEH SARHANGI/L. MARIO DIVALENTINO

1 annual targets set in Case 11-G-0280 for the removal of leak-prone pipe (7.5 miles)
2 and services (350) should be used going forward. The Company estimates that such a
3 reduction in the annual targets would extend completion of the replacement program
4 by approximately five years, which would still be near the lower end of what the
5 Company understands to be current ranges of replacement by gas utilities in the State.

6 Q. Please explain why the Company is suggesting an extension in the time frame for
7 recovery of the cost of expanding service expansion to and in the Town of Virgil.

8 A. The “pay-back” period for the Virgil franchise expansion was originally evaluated
9 under the Commission’s 1989 Statement of Policy Regarding Rate Treatment to be
10 Afforded to the Expansion of Gas Service into New Franchise Areas (Case 89-G-078)
11 that set a general guideline of five years for utilities to realize a target return on
12 investment in new service areas. In considering the Virgil expansion in Case 09-G-
13 0252, the Commission, in keeping with more recent State and Commission policies
14 favoring expansion of the availability of natural gas in unserved and underserved areas
15 of New York, ultimately evaluated the Virgil proposal on a seven-year basis. This
16 fall, as Corning approaches the end of the seven-year recovery period, the Company
17 will remain approximately \$533,000 short of full cost recovery, as permitted under the
18 Commission’s Orders in Case 09-G-0252. In commencing a proceeding to examine
19 its policies regarding expansion of natural gas service (Case 12-G-0297), the
20 Commission suggested that there should be greater flexibility in assessing cost
21 recovery for system expansion, noting that the Commission’s own regulations allow
22 up to 10 years for cost recovery for equipment in main and service line extensions.
23 Although the Commission has not issued a revised Statement of Policy or similar
24 generic guidance, we believe that the Commission’s expansion policy has evolved to

ADDITIONAL DIRECT TESTIMONY OF
FIROUZEH SARHANGI/L. MARIO DIVALENTINO

1 the point where 10 years is a reasonable time frame for analyzing the economics of
2 franchise expansions. Applying a 10-year recovery period in this instance would
3 assure that the franchise would achieve the system rate of return and would be entirely
4 consistent with the policy of introducing natural gas into areas where it would not be
5 considered economically viable under the older policies pertaining to expansion.

6 Q. Are you aware of any other corrections or updates that should be presented at this
7 time?

8 A. No. We believe that the discovery process to date has been sufficiently thorough to
9 identify any significant errors in our original presentation and any data therein that
10 require updating. We also believe that our own review of the Company's responses to
11 Staff's interrogatories has resulted in a complete inventory of any items requiring
12 modification, as summarized in Exhibit CNG-14. To the extent that the Company
13 becomes aware of any further need for changes, those changes will be presented as
14 soon as feasible, consistent with the Commission's 1977 *Statement of Policy on Test*
15 *Periods in Major Rate Proceedings*.

16 Q. Does this complete your additional direct testimony?

17 A. Yes, it does.