Exhibit ___ (AEB-R-11)
Staff Interrogatory Responses

STAFF OF THE DEPARTMENT OF PUBLIC SERVICE
INTERROGATORY RESPONSE

Corning Natural Gas Corporation
Case 16-G-0369
Gas Rates

Request No.: CNG/DPS-3
Requested By: Corning Natural Gas Corporation
Name of Respondent: Staff Finance Panel
Date of Request: November 1, 2016
Response Date: November 10, 2016
Subject: EPS Growth Rates

Question: At Page 86, the Staff Finance Panel states:

It is highly unlikely that investors would rely exclusively on the earnings per share growth rate forecasts of Wall Street analysts in determining short-term dividend projections.

At Pages 86-87, the Staff Finance Panel states:

Although we agree that all relevant information is incorporated into a company's stock price, the direct relationship of earnings to dividend growth that Company Witness Bulkley assumes is remote.

At Page 83, the Staff Finance Panel states:

The application of Company Witness Bulkley's earnings growth simply assumes that dividend growth will match earnings growth, although her testimony failed to present evidence to support such an expectation.

1. Please confirm that one of the underlying assumptions of the discounted cash flow model is that earnings per share, dividends per share, and book value per share all grow at the same rate in perpetuity.

Response: In the short-term there can be variations in the growth rates of earnings, dividends and book value but over the long-term they are assumed to grow at the same rate in perpetuity. Please review Staff's (Finance Panel) testimony on page 51 line 3 through page 62 line 2, which explains our DCF calculations.

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INTERROGATORY RESPONSE

Corning Natural Gas Corporation
Case 16-G-0369
Gas Rates

Request No.:	CNG/DPS-8
Requested By:	Corning Natural Gas Corporation
Name of Respondent:	Staff Finance Panel
Date of Request:	November 1, 2016
Response Date:	November 10, 2016
Subject:	Business Risk

Question: At Page 15, the Staff Finance Panel states:

For instance, the use of revenue decoupling mechanisms on sales greatly reduces revenue uncertainty. Additionally, the use of fully-forecasted test years and deferral and reconciliation mechanisms on a variety of significant operation expenses further diminish the business risk of our utilities.

At Page 20, the Staff Finance Panel states:

New York ratemaking includes a fully forecasted test year, revenue decoupling mechanisms, full pass through of commodity costs, true-ups of some short term debt and many reconciliations of uncontrollable costs. Many other states do not have these mechanisms in place, which adds substantial risk to their utilities ability to achieve their allowed return on equity.

At Page 21, the Staff Finance Panel states:

Investors consider ROE as only one component of their comprehensive risk evaluation in their regulatory risk evaluation.

1. Has the Staff Finance Panel compared Corning Gas to its proxy group companies on each of the risk factors identified above? If so, please provide a copy of that analysis.

Response to 1: No, Staff has not done its own analysis but has relied on a survey done by Edison Electric Institute (EEI). Refer to Staff Finance Panel Exhibit FP-9.

Question: 2. If not, what is the basis for the Staff Finance Panel's conclusion that many other states do not have these mechanisms in place, which adds substantial risk to their utilities ability to achieve their allowed ROE?

Response to 2: Refer to Staff Finance Panel Exhibit FP-9.

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INTERROGATORY RESPONSE

Corning Natural Gas Corporation
Case 16-G-0369
Gas Rates

Response to CNG-DPS-8 (continued)

Question: 3. Has the Staff Finance Panel conducted an analysis of the ability of Corning Gas and the proxy group companies to earn their authorized ROE? If so, please provide a copy of that analysis.

Response to 3: No. Staff did not conduct its own analysis but did review an analysis conducted by RRA, see the attached RRA article "Earning the Authorized Return on Equity" ("16-G-0369 - Response to CNG-DPS-008 Attachment - RRA Earning the Authorized ROE August 6 2013.pdf").

Question: 4. If not, what is the basis for the Staff Finance Panel's conclusion regarding the ability of Corning Gas and proxy group companies to earn their authorized ROE?

Response to 4: See response to question 3.

Question: 5. Does the Staff Finance Panel consider Corning Gas to have comparable business and financial risk as Consolidated Edison Company of New York? If yes, please explain in detail the underlying rationale for the Staff Finance Panel's position. If no, please explain in detail why the Staff Finance Panel's recommended ROE for Corning Gas is below any authorized ROE for a regulated electric or gas distribution utility in New York in at least the past 30 years.

Response to 5: The Staff Finance Panel believes that by virtue of their monopoly status, both companies have very low business risk because they can recover their costs and have a similar opportunity to earn an authorized return under cost of service rates that stabilize their financial performance. In addition, given that they are regulated by the same Commission and both currently have authorized 48.0% common equity ratios, their financial risks are also quite similar.

Question: 6. In developing recommendations for authorized returns on equity and authorized equity ratios, please state whether the Staff Finance Panel believes the authorized ROE and the authorized equity ratio for a regulated utility in New York should be the same regardless of:

a. the size of the utility (large vs. small)
b. the type of utility service provided (electric utility vs. gas distribution)
c. the nature of the service territory (urban vs. rural)

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Gas Rates

Response to CNG-DPS-8 (continued)

d. the period during which rates will be in effect (one year vs. multi-year rate plan)

Response to 6: The above mentioned factors are risks that a typical utility in New York might face. For instance, Consolidated Edison arguably faces some additional risk when compared with Corning since it operates in New York City (urban service territory). In addition, according to the attached Moody's article *"U.S Local Gas Distribution Companies: Lower risks and unique growth opportunities versus electric utility peers"* ("16-G-0369 - Response to CNG-DPS-008 Attachment - LDC lower risk.pdf") local gas distribution companies are less risky than vertically integrated electric companies. In short, however, utilities in New York are far more similar than different since their rates and services are regulated by the same entity, the New York State Public Service Commission.

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Corning Natural Gas Corporation
Case 16-G-0369
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Request No.:	CNG/DPS-10
Requested By:	Corning Natural Gas Corporation
Name of Respondent:	Staff Finance Panel
Date of Request:	November 1, 2016
Response Date:	November 10, 2016
Subject:	Small Size

Question: At Page 30, the Staff Finance Panel states:

The Company has informed Staff that its relatively small size prevents it from obtaining alternative financing.

We agree that Corning is smaller than a typical utility, and as a result, its access to the capital markets may be more limited than larger utilities.

At Page 44, the Staff Finance Panel states:

First, the proxy group is necessary because Corning's common stock is very thinly traded.

1. Given the above statements, please explain in detail why the Staff Finance Panel did not recommend an adjustment to the return on equity for Corning Gas based on the small size of the company relative to the proxy group companies?

Response to 1: Staff is recommending a higher common equity ratio (48%) than the 45.9% median common equity ratio of our proxy group. This lowers Corning's financial risk in comparison to the companies in the proxy group.

Question: 2. Please provide copies of any academic articles or research demonstrating that, all else being equal, investors do not expect higher returns from smaller companies than from larger companies.

Response to 2: Staff does not have any such academic articles or research available.

Question: 3. Please confirm that the average daily trading volume for Corning Natural Gas Holding Corporation over the past three months has been less than 400 shares.

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Corning Natural Gas Corporation
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Gas Rates

Response to CNG-DPS-10 (continued)

Response to 3: Staff objects to this request as it seeks information that is readily available to Corning. It is therefore outside the scope of discovery as set forth in 16 NYCRR §5.8. Without waiving Staff's objection, Staff notes that the average trading volume for Corning for the last three months according to Yahoo Finance has been 451 shares (see attached file "16-G-0369 - Response to CNG-DPS-010 q3 - Attachment to Response.pdf").

Question: 4. Does the Staff Finance Panel believe that there is liquidity risk associated with the thin trading volume of Corning Natural Gas Holding Corporation?

Response to 4: Yes. Refer to response to CNG-DPS 8, questions 5 and 6.

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Corning Natural Gas Corporation
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Request No.:	CNG/DPS-12
Requested By:	Corning Natural Gas Corporation
Name of Respondent:	Staff Finance Panel
Date of Request:	November 1, 2016
Response Date:	November 10, 2016
Subject:	Ring Fencing

Question: At Page 24, the Staff Finance Panel states:

Ring-fencing is defined as legally separating assets, or liabilities, in a subsidiary to protect them from creditors and is intended to insulate assets in a subsidiary from the risks and liabilities of the holding company and other subsidiaries in a holding company.

1. Please identify the other subsidiaries under the Corning Gas Holding Company structure.

Response to 1: This information is available in Corning's response to DPS-197.

Question: 2. Does the Staff Finance Panel believe that it is necessary for Corning Natural Gas to have ring-fencing provisions in place to mitigate risks at the Holding Company or other subsidiaries? If so, please explain what specific risks are of concern?

Response to 2: At this time there is little concern, however the implementation of ring fencing is important to protect ratepayers from future eventualities, such as acquisitions or creations of, or other relationships with, non-regulated entities and businesses.

Question: 3. Absent suitable ring-fencing, do rating agencies, in whole or in part base their utility ratings on the parent company's capital structure?

Response to 3: With respect to the rating of a utility when suitable ring-fencing provisions are not employed, the ratings agencies would generally look to the capitalization and financing policies of the holding company. In addition, ratings agencies would also likely reflect anticipated regulatory policies with respect to the utility capitalization.

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Corning Natural Gas Corporation
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Response to CNG-DPS-12 (continued)

Question: 4. Does Staff believe that Corning Natural Gas Company is subsidizing the parent company's higher risk investments?

Response to 4: No.

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Corning Natural Gas Corporation
Case 16-G-0369
Gas Rates

Request No.:	CNG/DPS-14
Requested By:	Corning Natural Gas Corporation
Name of Respondent:	Staff Finance Panel
Date of Request:	November 1, 2016
Response Date:	November 10, 2016
Subject:	Capital Structure

Question: At Pages 33-34, the Staff Finance Panel states:

The subsidiary common equity balance may not, in fact, be financed by common equity at the holding company level. Rather some of the utility common equity balance may instead be proceeds from debt issued at the holding company level and classified on the utility subsidiary's books as common equity at the time the proceeds were invested in the utility subsidiary.

1. Please describe the corporate structure of Corning Natural Gas Holding Corporation, including all subsidiaries as of April 29, 2016 and as of June 17, 2016.

Response to 1: Please see Staff's answer to CNG-12, which explains that this information is available in the response that Corning provided to DPS-197. Furthermore, this request seeks information that is readily available to Corning and is therefore outside the scope of discovery as set forth in 16 NYCRR §5.8.

Question: 2. Did Corning Natural Gas Holding Corporation have any non-utility subsidiaries as of the time that the Company filed in this proceeding? If so, please identify those companies. If so, has Staff conducted any analysis as to the financing of these subsidiaries by Corning Natural Gas Holding Corporation? If so, please provide all analysis and supporting work papers.

Response to 2: From information provided by Corning, there are two non-utility subsidiaries, Corning Pipeline LLC and Corning Appliance. Staff understands that both of these subsidiaries apparently exist in name only and have no assets.

Question: 3. Please provide Staff's analysis of the financing of Corning Natural Gas Holding Corporation and Corning Natural Gas Corporation. Please explain whether or not Staff has determined that the equity in Corning Natural Gas

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Corning Natural Gas Corporation
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Response to CNG-DPS-14 (continued)

Corporation is derived from debt issuances from the Holding Company. Please provide all analysis and supporting work papers.

Response to 3: In Staff's review of the 2015 year end financials it was readily apparent that equity in Corning Natural Gas is not derived from debt issuances from the Holding Company.

Question: 4. Please identify the affiliates of Corning Natural Gas Corporation, indicating the date that the affiliate was acquired by Corning Natural Gas Holding Corporation. Please also indicate whether the affiliate is regulated or unregulated.

Response to 4: Please see Staff's answer to question 1, above and to CNG-12, which explains that much of this information is available in the response that Corning provided to DPS-197. Furthermore, this request seeks information that is readily available to Corning and is therefore outside the scope of discovery as set forth in 16 NYCRR §5.8.

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<u>INTERROGATORY RESPONSE</u>

Corning Natural Gas Corporation
Case 16-G-0369
Gas Rates

Request No.:	CNG/DPS-51
Requested By:	Corning Natural Gas Corporation
Name of Respondent:	Staff Finance Panel
Date of Request:	November 3, 2016
Response Date:	November 14, 2016
Subject:	Return on Equity - (National ROE for Small Gas Utilities)

Question: Staff's testimony appears to acknowledge that New York ROEs are below the national average. How does the recommended 8.2% ROE compare to authorized ROEs for small, publicly traded gas utilities around the country?

Response: Staff acknowledges that the recommended 8.2% ROE is below the national average. The national averages are generally published quarterly by Regulatory Research Associates (RRA). Neither RRA nor any other source to our knowledge publishes ROEs specifically for "small, publicly traded gas utilities." In any event, as we have mentioned repeatedly, New York State ROEs should not be viewed in isolation. Given that New York State has implemented various ratemaking measures like fully forecasted test year, deferrals, revenue decoupling mechanisms, etc., that help a utility achieve the authorized ROE unlike other states in the country, it is not surprising that investors would require a lower return in light of these many risk-reducing attributes.

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INTERROGATORY RESPONSE

Corning Natural Gas Corporation
Case 16-G-0369
Gas Rates

Request No.:	CNG/DPS-53
Requested By:	Corning Natural Gas Corporation
Name of Respondent:	Staff Finance Panel
Date of Request:	November 3, 2016
Response Date:	November 14, 2016
Subject:	Return on Equity – (Capital Budget)

Question: Given the size of the mandated capital budget relative to earnings and depreciation, does Staff acknowledge that the Company will need to raise capital?

Response: Yes, Staff is fully aware that the Company, like nearly every other utility in the country will have a need to raise capital as a result of the highly capital-intensive nature of the utility industry. In fact with respect to the specific need for Corning, the Commission found that the Company would need to raise an additional $13.1 million in 2016 and 2017 in the Commission's most recent order addressing Corning's financing request in Case 15-G-0460. In that order, the Commission also noted that much of the Company's financing requirements are a result of the structure of its bank loans which require substantial debt amortization payments, a requirement that is not typical for most utilities.

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INTERROGATORY RESPONSE

Corning Natural Gas Corporation
Case 16-G-0369
Gas Rates

Request No.:	CNG/DPS-65
Requested By:	Corning Natural Gas Corporation
Name of Respondent:	Staff Finance Panel
Date of Request:	November 3, 2016
Response Date:	November 14, 2016
Subject:	Return on Equity – (Regulatory Risk)

Question: Does Staff agree that if, regulatory risk in New York is average, ROE should also be average?

Response: No, Staff believes that a given utility's ROE should reflect the actual return requirements of its investors for the period that rates are being set. The fact that all of the attributes of New York regulation collectively are considered to be average with respect to investor concerns does not imply that New York's ROEs, which are but one of many facets, should also be average.. As Staff has pointed out repeatedly, New York utilities in general face lower risks than other utilities in other jurisdictions. Many of the reasons why New York utilities face lower risks than their peers are explained in the Staff Finance Panel Testimony beginning on page 14 line 23.

STAFF OF THE DEPARTMENT OF PUBLIC SERVICE
INTERROGATORY RESPONSE

Corning Natural Gas Corporation
Case 16-G-0369
Gas Rates

Request No.:	CNG/DPS-68
Requested By:	Corning Natural Gas Corporation
Name of Respondent:	Staff Finance Panel
Date of Request:	November 3, 2016
Response Date:	November 14, 2016
Subject:	Return on Equity – (Financial Risk)

Question: At page 30, Staff states: "We agree that Corning is smaller than a typical utility, and as a result, its access to the capital markets may be more limited than larger utilities." Does Staff agree that such limited access produces greater financial risk for Corning? If not, please explain in detail.

Response: The statement quoted on page 30 of Staff's testimony referred to Corning's access to debt financing versus a larger utility. That is, the size of debt financings undertaken by Corning are smaller than larger utilities and, as a result, the market for debt financing may be more limited. Staff would agree that, all else being the same, Corning may be modestly riskier as compared with the companies in Staff's proxy group due to its smaller size. This was a factor in Staff opting not to recommend using the 45.9% median common equity ratio of our proxy group companies and instead recommended a 48.0% equity ratio.

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INTERROGATORY RESPONSE

Corning Natural Gas Corporation
Case 16-G-0369
Gas Rates

Request No.:	CNG/DPS-71
Requested By:	Corning Natural Gas Corporation
Name of Respondent:	Staff Finance Panel
Date of Request:	November 4, 2016
Response Date:	November 14, 2016
Subject:	Return on Equity – (Ring Fencing)

Question: At page 24, Staff cites Corning's response to DPS-265 as an acknowledgement that Corning is not ring fenced. To conclude that Corning is effectively ring-fenced, what specific additional ring-fencing measures would Staff advocate beyond those outlined in the Company's response to DPS-265?

Response: Appropriate ring-fencing provisions depend on an individual company. Staff is not proposing any additional ring-fencing provisions at this time for Corning. See the attachment for a list of ring-fencing provisions in place for different companies in New York State.

STAFF OF THE DEPARTMENT OF PUBLIC SERVICE
INTERROGATORY RESPONSE

Corning Natural Gas Corporation
Case 16-G-0369
Gas Rates

Request No.:	CNG/DPS-75
Requested By:	Corning Natural Gas Corporation
Name of Respondent:	Finance Panel
Date of Request:	November 4, 2016
Response Date:	November 14, 2016
Subject:	Return on Equity – (Business and Financial Risk)

Question: 1. Does Staff believe that the Company's need to regularly go to capital markets to fund Commission-mandated programs increases business and financial risk?

Response to question 1: Staff believes that the ongoing need for external financing is a very common aspect of the utility industry due to the capital intensive nature of the business. Staff does note, however, that Corning, unlike most utilities, is faced with substantial debt amortization payments due to the terms of its existing loan agreements. We have acknowledged that the structure of these loan agreements adds an increment of financial risk to the Company in comparison to our proxy group companies, and we have recommended a higher common equity ratio than the median of our proxy group in order to offset this risk. We have also encouraged the Company to continue the pursuit of a more traditional utility financing program.

Question: 2. Do other companies in Staff's peer financial group regularly raise new capital (debt and equity)?

Response to question 2: Staff has not performed such an analysis. Due to the capital intensive nature of the utility industry, and its penchant for paying out a high percentage of its net income in the form of dividends, however, Staff expects that most of the companies in its proxy group and/or their subsidiaries, are relatively frequent security issuers.