BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

Liberty Utilities (St. Lawrence Gas) Corp.
Case 24-G-0668

April 1, 2025

Prepared Testimony of:

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Q. Please state your name, employer, and business address.

A. My name is Daniel S. Gadomski. I am employed by the New York State Department of Public Service, referred to as the Department. My business address is Three Empire State Plaza, Albany, New York 12223-1350.

Q. Mr. Gadomski, what is your position in the Department?

A. I am employed as an Associate Economist in the Office of Regulatory Economics.

Q. Please briefly state your educational background and professional experience.

A. I received a Bachelor of Arts degree in Economics from the State University of New York at Albany in 2014. I have been employed by the Department since 2014.

Q. Please briefly describe your current responsibilities at the Department.

A. My current responsibilities at the Department include analyzing inflation and sales forecasting issues in rate proceedings.

Q. Have you previously testified in proceedings before the Commission?

A. Yes. I have testified before the Commission in many rate proceedings regarding sales forecasting and inflation. Most recently, I testified in Cases 22-E-0317, 22-G-0318, 22-E-0319, and 22-G-0320 regarding New York State Electric & Gas Corporation and Rochester Gas & Electric Corporation; Case 21-G-0577 regarding Liberty Utilities (St. Lawrence Gas) Corp., referred to as the Company or Liberty SLG; Cases 20-G-0101, 21-G-0394, and 24-G-0447 regarding Corning Natural Gas Corporation; Cases 20-E-0428 and 20-G-0429, and Cases 23-E-0418 and 23-G-0419 regarding Central Hudson Gas & Electric Corporation; Case 23-G-0225 and 23-G-0226 regarding The Brooklyn Union Gas Company d/b/a National Grid NY and KeySpan Gas East Corporation d/b/a National Grid; and Case 23-G-0627 regarding National Fuel Gas Distribution Corporation.

Summary of Testimony

Q. What is the purpose of your testimony?

A. In my testimony, I will describe the Company's forecasts of natural gas sales and customer counts. I will then discuss my recommendations

for the natural gas sales and customer counts forecasts for the Rate Year, or 12-months ending October 31, 2026. Finally, I will address how the Company used the Blue Chip Economic Indicators forecast of the Gross Domestic Product Price Index, referred to as GDP-PI, to escalate various cost of service elements.

Q. In your testimony, will you refer to, or otherwise rely upon, any information produced during the discovery phase of this proceeding?

A. Yes. I will refer to, and have relied upon, several responses to information requests. These responses are provided in Exhibit__(DSG-1). I will refer to these responses by the designation assigned to them by Department of Public Service staff, referred to as Staff, for example "DPS-123."

Q. Are you sponsoring any other exhibits in support of your testimony?

A. Yes. I am sponsoring three additional exhibits. Exhibit__(DSG-2) contains a summary of my natural gas sales and customer count forecasts as compared to the Company's forecasts gas sales and customers counts. Exhibit__(DSG-3) provides

my estimated forecasting models and summary statistics. Exhibit__(DSG-4) contains my calculation of inflation for the 12-months ending June 30, 2024, referred to as the Historic Test Year, through the Rate Year; the 12-months ending October 31, 2027; and the 12-months ending October 31, 2028. I base the calculations on the latest available Blue Chip Economic Indicators forecasts of the Gross Domestic Product Price Index, or GDP-PI, inflation published March 10, 2025.

Company's Forecast and Methodology

Q. Please summarize the Company's gas sales forecast.

A. The Company forecasts total gas sales for Service Classifications, or SCs, SC-1, SC-2, SC-2A, which is also referred to as SC-2L or SC-2 Large in the Company's sales forecasting model included in the response to DPS-123, SC-3, SC-4, and SC-5 to be 75,120,305 therms for the Rate Year. The Company also forecasts total customers for the Rate Year to be 17,369.35. As described in DPS-85, the Company defines a customer as the number of bills rendered in a

month.

Q. Please discuss how the Company developed its gas sales forecast.

A. As presented in the Company's response to DPS-123, "Attachment DPS-123 Revenue and Gas Cost RY1.xlsx," for each rate group, the Company calculated the average total number of bills for each month in the past five year time period. The Company then took the differences between each month's average number of total bills and the prior month's average number of total bills to calculate an average change per month. The Company then applied the average change per month to the latest actual count of bills to forecast the total number of bills for the Rate Year. The Company's response to DPS-127 states that it did not anticipate any significant changes in customer counts, as measured in total bills, to occur during the linking period, the period between the Historic Test Year and the Rate Year. Finally, the Company forecast overall sales by multiplying weather normalized average use per customer by the forecast number of customers to arrive at a forecast of total

sales volume, which is measured in therms.

Q. What is weather normalization?

A. Weather normalization is a process used to adjust the actual historical sales for any variations due to warmer or colder than normal weather.

Q. What is the Company's definition of normal weather?

A. The Company defines normal weather as the 30-year average of heating degree days. The Company provided its calculation of normal weather in response to DPS-123.

Q. Did the Company make any other adjustments?

A. Yes. In response to DPS-135, the Company states that it decreased the average customer growth rate by 10.78 percent for residential customers and 8.03 percent for commercial customers to account for the All-Electric Buildings Act, which will prohibit fossil fuel equipment in certain new buildings starting in 2026.

Q. How did the Company determine these adjustments?

A. In response to DPS-541, the Company explained that it analyzed historical data on residential and commercial customer additions, categorized

by new construction and fuel conversions, to determine the necessary percentage reductions in customer forecasts for each class.

Staff Forecast

Q. Did you develop your own forecast for gas sales volume and the number of customers for the Rate Year?

A. Yes. A summary of my forecast and a comparison to the Company's forecast are provided in Exhibit__(DSG-2).

Q. Like the Company, do you also define a customer as the number of bills rendered in a month?

A. Yes.

Q. Please summarize your sales forecast recommendations.

A. I recommend that the Commission adopt my forecast of Liberty SLG's combined gas sales for SC-1, SC-2, and SC-2A of 37,002,271 for the Rate Year.

Q. To what degree does your forecast differ from the Company's in the Rate Year?

A. My forecast for total bills is 132 customers above the Company's forecast and my forecast for total sales volume is 145,644 therms below the

Company's forecast.

Q. What methodology did you use to develop your forecasts for the Residential and Commercial SCs?

A. I used econometric models to generate my forecasts.

Q. Please describe the basic functioning of your econometric models.

A. My econometric models relate gas sales and the number of customers to a set of explanatory or independent variables. These explanatory variables include weather variables, and other seasonal and cyclic variables. Weather variables are represented by heating degree days. The relationship between these explanatory variables and gas sales or customer counts over time constitutes the structural components of the forecasting models. Also, because gas customer and usage data are time series data, the models may also include a non-structural component to explain variations over time that are not explained by the structural components of the model. For example, seasonal and monthly dummy variables are included to

adjust for calendar month or other billing cycle related variations. Other non-structural components are represented by a procedure that relates the present time series values and model estimation errors to the historical time series values and model estimation errors. This is performed through the inclusion of moving average and autoregressive variables to the model specification. I include these non-structural components to capture the remaining variations, including time trends and seasonality in gas sales or number of customers, which are not explained by the structural explanatory variables.

Q. Did you notice any anomalies in the historical data the company provided?

A. Yes. In response to DPS-115, the Company provided historical actual sales and customer data from January 2013 through October 2024. However, as described in the Company's response to DPS-326, there were large fluctuations in the data primarily due to changes in the Company's billing systems. The Company states, "Liberty SLG converted systems from READI to Cogsdale in

September 2020, and Liberty SLG converted systems in May 2022 from Cogsdale to SAP. Both these conversions caused billing irregularities that were corrected in subsequent months." As described in response to DPS-559, the Company adjusted its historical data based on the historical average changes by month to account for billing fluctuations in its data.

Q. Did you apply these adjustments to the historical data before you used it to estimate your econometric models?

A. Yes. I used the same adjustments the Company applied to correct for the billing fluctuations.

Q. Please discuss your residential and commercial forecasting models.

A. I use econometric models to forecast sales for three service classes, SC-1, SC-2, and SC-2A Large. These sales models include monthly billed therm sales as the dependent variable. The explanatory variables in the three models include the heating degree days. I also developed two customer bill forecasting models for SC-1 and SC-2. For the SC-1 Residential model, I use monthly historical data from

January 2013 through October 2024. For the SC-2, I use monthly historical data from September 2020 through September 2024, given that the SC-2A Large classification was established in September 2020. The historical sales and bill data was provided by the Company in the responses to DPS-115 and DPS-123.

Q. Do the summary statistics of your estimated forecasting models indicate that your models perform well?

A. Yes. As shown in Exhibit__(DSG-3), all of my models have high adjusted R-squared with values. The R-squared statistic is the proportion of the total sample variation in the dependent variable that is explained by the independent variable. The R-squared statistic, ranging from zero to one, measures the degree of goodness-of-fit of the regression model, with zero being the least fit and one being the best fit. The adjusted R squared of the 5 models ranges from 0.78 to 0.97, suggesting that more than 78 to 97 percent of the variations in sales and customer counts are explained by the explanatory variables included in the models. The Durbin-Watson

statistics are between 1.65 and 2.12, indicating that none of the models have serial correlation in their residual errors which would bias the models' results.

Q. Why do you recommend using a 10-year heating degree day average instead of the Company's use of a 30-year heating degree day average to forecast gas sales under the assumption of normal weather?

A. A 10-year average weather normalization more reasonably reflects anticipated weather trends relevant to forecasting monthly billed sales for rate setting purposes.

Q. Has the Commission previously relied on a 10-year heating degree day average in developing a gas sales forecast?

A. Yes. On page 15 of its Order Adopting Recommended Decision with Modifications, issued on June 22, 2009, in Cases 08-E-0887, 08-G-0888, and 09-M-0004, the Commission adopted the most recent 10-year averages as the appropriate normal heating and cooling degree day inputs to use for rate case sales forecasts, and noted its expectation that a 10-year average for weather

normalization would be used for forecasting purposes in future rate proceedings.

Q. Why is the proper modelling of weather conditions important in developing gas sales forecasts for rate design purposes?

A. The purpose of a sales forecast is to predict sales with the highest degree of accuracy in order to develop reasonable retail delivery rates for ratepayers. Weather is often the significant driver of retail sales. Thus, using the most accurate forecast of normal weather is essential to making the most accurate and unbiased forecast of future sales.

Q. Did you incorporate any adjustments to reflect the All-Electric Buildings Act?

A. Yes. I applied the 10.78 percent residential and 8.03 percent for commercial factors the Company provided in its response to DPS-135, and as described in the Company's response to DPS-541.

Q. Please summarize your recommended forecast.

A. I recommend the Commission adopt my forecast of total gas sales for SC-1, SC-2, and SC-2A of 37,002,271 therms for the Rate Year. Thus, I

recommend the Commission adopt a total combined gas sales forecast for SC-1, SC-2, SC-2A, SC-3, SC-4, and SC-5 of 74,974,661 therms and 17,501 average bills for the Rate Year.

Q. Why do you contend your forecasts are more reasonable than the Company's?

A. My econometric forecasts are superior in that they follow a recognized methodology for statistical modeling which allows for the robustness of the drivers included in the forecasting models to be individually tested, and for the statistical significance of the models to be assessed. As previously discussed, my forecasts are also based on the Commission's expectation of using a 10-year average weather normalization rather than the 30-year average weather normalization used by the Company.

Inflation

Q. Please describe how the Company escalated costs due to inflation.

A. As discussed on page 19 of the Company's Direct Testimony of Revenue Requirement Panel and presented in Company Exhibit__(RR-1), Schedule 6-4-1, the Company used an inflation rate of

4.85 percent to escalate costs from the Historic Test Year through the Rate Year. The Company based this inflation rate on the Blue Chip Financial Forecast of GDP-PI, issued November 1, 2024.

Q. How do you recommend the Commission calculate inflation?

A. I recommend that inflation be calculated based on the latest available inflation forecasts in the Blue Chip Economic Indicators issue published March 10, 2025. Based on these latest available forecasts, I recommend that inflation be projected as an increase of 5.877 percent from the Historic Test Year to the Rate Year, an increase of 2.399 percent for the 12-months ending October 31, 2027, and an increase of 2.233 percent for the 12-months ending October 31, 2028. This calculation is presented in Exhibit__(DSG-4). However, I recommend the Commission update the estimate of inflation prior to the conclusion of this proceeding using the latest Blue Chip Consensus forecasts.

Q. Does this conclude your testimony at this time?

A. Yes, it does.