

STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION

At a session of the Public Service  
Commission held in the City of  
Albany on January 24, 2001

COMMISSIONERS PRESENT:

Maureen O. Helmer, Chairman  
Thomas J. Dunleavy  
James D. Bennett  
Leonard A. Weiss  
Neal N. Galvin

CASE 00-G-0354 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Corning Natural Gas Corporation for Gas Service.

CASE 00-G-0028 - Proceeding on Motion of the Commission Regarding Whether Certain Gas Purchase Costs Charged to Customers by Corning Natural Gas Corporation During the 1997-98 Heating Season Were in the Public Interest.

ORDER CONCERNING RATES  
AND GAS PURCHASE INQUIRY

(Issued and Effective February 12, 2001)

BY THE COMMISSION:

This order generally adopts terms proposed by agreement among the active parties and set forth in a "Settlement Agreement" (joint proposal) submitted by Corning Natural Gas Corporation (Corning, the company) and staff of the Department of Public Service (Staff). We thus establish a rate and regulatory plan intended to take effect February 22, 2001 and to continue for at least a year.

As a result of today's order, Corning will reduce its delivery ("transportation and distribution") rates both for "bundled" natural gas delivery service and commodity sales to customers that purchase their natural gas from Corning, and for unbundled delivery service to transportation customers who purchase gas elsewhere and rely on Corning for delivery only.

Although the commodity portion of the bill is determined by gas prices in markets outside our regulatory jurisdiction, the parties project that the rates adopted here will produce bill decreases for customers taking bundled service from Corning. For customers using only Corning's delivery service, bills from Corning will decrease, but total payments of course will depend on gas commodity prices charged by the customer's independent supplier.

In addition to adopting the proposed rate changes, we are concluding an investigation into Corning's gas purchasing practices by instituting new procedures to ensure that the company's gas procurement practices are in the public interest (as required by Public Service Law (PSL) §66-e). We also are establishing measures to protect gas customers from being charged on the basis of excessive estimates of lost and unaccounted for (LAUF) gas volumes; protect them from paying costs properly assignable to Corning's non-utility operations; and adjust the equity return should the company fail to perform safety-related maintenance at an adequate pace.

#### BACKGROUND AND PROCEDURAL HISTORY

Corning serves about 14,000 customers, primarily residential, in Steuben County and the Elmira area of Broome County. One major customer is the Village of Bath, which (through its municipally owned Bath Electric Gas and Water Systems) purchases gas from Corning for resale within the Village. Bath also transports gas to about 400 customers in Corning's Hammondsport district, which was created through Corning's 1995 acquisition of the former Finger Lakes Gas Company's facilities.

We initiated Case 00-G-0354 to consider rates filed by Corning on February 24, 2000 and designed to increase its annual base revenues by \$384,024 (which, based on gas commodity costs prevailing at the time, would have equated to a 2.8% revenue increase). We suspended the proposed rates through January 22, 2001, and the company has waived that deadline through February 22, 2001 to allow additional time for negotiations. The

other proceeding addressed here, Case 00-G-0028, was established to examine the reasonableness of Gas Adjustment Clause charges resulting from Corning's decisions regarding gas sales and purchases during the 1997-98 heating season.<sup>1</sup>

Settlement talks in both proceedings began in July 2000, on notice to all potentially interested parties in conformance with 16 NYCRR 3.9. The discussions culminated in the proposal under review here, filed by Corning and Staff on November 16, 2000. Parties then had an opportunity to file two rounds of written statements in support or opposition. The company and Staff each filed a supporting statement on December 8, 2000; there have been no replies. To augment the record and comply with the requirements of PSL §§11 and 66(12)(f) regarding hearings on major rate increase applications, an evidentiary hearing commenced before the designated Administrative Law Judge in Bath on December 18, 2000, and reconvened before Commissioner Neal N. Galvin and the Judge in Albany on January 10, 2001. Although day and evening public statement hearings were held simultaneously with the evidentiary hearing in Bath, no member of the public sought to speak. Through newspaper advertisements and other media, we solicited comments from the general public, but received none.

#### TERMS OF THE JOINT PROPOSAL

Should we adopt the terms proposed by the parties, significant results would include the following:<sup>2</sup>

- In lieu of the company's requested increase, annual base revenues would decrease by about \$300,000 (2.6%). About \$290,000 of the revenue reduction would be achieved by reducing delivery rates. As shown in the accompanying table (Attachment B), the parties estimated that the rate reduction would decrease total bills by 1.8% to 1.9% for residential customers, even though the total bill is determined partly by gas

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<sup>1</sup> Order Instituting Proceeding and to Show Cause (issued January 7, 2000).

<sup>2</sup> For a complete statement of the joint proposal's terms, one must rely on the text of the proposal itself (Attachment C of this order).

commodity costs whose prices are determined in markets outside our jurisdiction.<sup>3</sup> S.C. 7 industrial transportation customers would receive larger bill decreases, of 7.2%, to reduce the above-average rate of return currently generated by that class.<sup>4</sup>

- Aside from the \$290,000 rate decrease, the other \$10,000 in revenue reductions would result from a change in the factors used to reflect the estimated level of lost and unaccounted for (LAUF) gas. Under the current method, all LAUF amounts are recovered from sales customers notwithstanding that some losses result from transportation customers' use of Corning's system. The new LAUF factors would be determined on the basis of total throughput on the system, so that sales customers no longer would bear an excessive share of LAUF gas costs.
- In addition to LAUF adjustments, the allocation of common costs between Corning's utility and non-utility operations is a major element of the difference between the company's original revenue increase request and the parties' eventual revenue decrease proposal. By

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<sup>3</sup> The percentage bill impacts mentioned here, as well as others shown in Attachment B, are based on the \$3.37/Mcf commodity cost of gas that prevailed when the parties filed their joint proposal. (Attachment B corresponds to the first table in Appendix A of the joint proposal, except that the former shows S.C. 2 and S.C. 7 separately from each other.) Since then, commodity prices have fluctuated dramatically. To the extent that prices increase from \$3.37/Mcf, the estimated bill decreases become smaller in percentage terms, although the dollar amount of the delivery rate reductions remains unchanged. For example, based on the average \$9.69/Mcf commodity cost experienced by Corning for January 2001, the residential bill reduction would diminish to 0.8% instead of 1.8% or 1.9%; and the \$300,000 revenue reduction would equate to 1.2% of revenues, instead of the 2.6% shown in Attachment B.

<sup>4</sup> In describing the S.C. 14 decrease, the joint proposal remarks that equalization between S.C. 14 transportation rates and the "margin portion" of S.C. 1 residential rates is "consistent with Commission policy related to competition" (Appendix A, p. A-1). More accurately, while such a rate structure is consistent with those we have established in other cases, equalization of S.C. 14 and S.C. 1 rates per se is not a policy objective or a pro-competitive measure. Rather, for the sake of promoting competition, our goal is to move transportation rates toward levels that exclude costs more properly allocable to competitive functions. In the future, for policy reasons related to competition, transportation rates redesigned in that manner might properly be set equal to S.C. 1 rates that have been adjusted to remove costs associated with services that competitors can provide.

adopting the proposed terms, not only would we adjust rates to reflect a more reasonable allocation now; we also would require the company to study this issue further between now and November so as to permit implementation, in future proceedings, of any additional rate adjustments consistent with the study results.

- Corning would become subject to safety and reliability performance measures comparable to those we have been adopting for other gas distribution companies. In the event of substandard performance, the company could be required to set aside, for customers' benefit, an amount equivalent to as much as 24 basis points of return on common equity annually.<sup>5</sup>
- We would close the review of Corning's gas procurement practices in Case 00-G-0028, on condition that Corning implement "communication protocols" designed to provide Staff timely information about the company's gas sale and purchase arrangements. Monthly and quarterly reports pursuant to the protocols would improve Staff's ability to ascertain how effectively the company is managing its supplies and capacity.

#### DISCUSSION

A source of concern in the joint proposal is the provision regarding the possibility of unanticipated revenue shortfalls upon the scheduled expiration this year of Corning's contracts with New York State Electric & Gas Corporation and Corning Incorporated, two of the utility's large transportation customers. Paragraph 8 of the joint proposal expressly reserves the utility's right to petition for deferral and recovery of such shortfalls. However, an equitable allocation of risks and potential benefits between shareholders and customers in these circumstances requires a symmetrical provision whereby the utility would defer not only revenue shortfalls, but also revenue increases, resulting from renegotiation of the expiring contracts. Accordingly, our adoption of the proposed terms is conditioned on the understanding that Paragraph 8 calls for deferral accounting for all material revenue changes associated

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<sup>5</sup> Our intention is that this remedy would be a rate adjustment, rather than a "penalty" as stated in Appendix D of the joint proposal.

with the two contracts' expiration and possible renewal. Changes resulting from contract expiration or renewal will be deemed material if, considering both contracts in combination, the overall result after expiration or renewal is an increase or decrease greater than 5% in income to shareholders.

In all other respects, we find that the company and Staff have satisfied their burden of showing that adoption of the joint proposal's terms would satisfy the PSL's requirement of safe and adequate service at just and reasonable rates. They also have shown that implementation of their proposals would achieve a fair balancing of interests among the parties and the companies' customers, and would produce constructive results that may not have been achievable except through a negotiated agreement. In particular, as noted above, adoption of the proposals would better align Corning's rates with actual costs of service, on an overall basis and by customer class; allow the company a reasonable opportunity to earn a fair rate of return; enhance our ability to ensure that the company manages its supply resources properly; and provide effective disincentives against failure to pursue essential safety programs.

#### CONCLUSION

For the reasons stated, we find that our adoption of the joint proposal's provisions subject to the understanding and condition noted above will serve the public interest and satisfy our statutory obligation to ensure safe and adequate service at just and reasonable rates pursuant to PSL §§65 and 66. We therefore will direct the company to file tariff revisions consistent with this finding.

#### The Commission orders:

1. Subject to the foregoing discussion and the determinations and understandings set forth therein, the terms of the Settlement Agreement (joint proposal) filed in this proceeding November 16, 2000 are adopted in their entirety and are incorporated as part of this order.

2. Corning Natural Gas Corporation (the company) shall submit a written statement of unconditional acceptance of this order, within seven days following its issuance date, signed and acknowledged by a duly authorized officer of the company. If an acceptance statement is not so filed, the adoption of the joint proposal's terms may be revoked. The acceptance statement should be filed with the Secretary of the Commission and served on the parties to these proceedings.

3. The company is directed to cancel, no later than February 21, 2001, the tariff amendments and supplements listed in Attachment A of this order. The company is directed to file on not less than one day's notice, to take effect no later than February 22, 2001 on a temporary basis, such further tariff changes as are necessary to effectuate the provisions adopted in this order. The company shall serve copies of its filing upon all parties to these proceedings. Any comments on the compliance filings must be received at the Commission's offices within ten days of service of the company's proposed amendments. The amendments specified in the compliance filing shall not become effective on a permanent basis until approved by the Commission and will be subject to refund if any showing is made that the revisions are not in compliance with this order. The requirement of §66(12)(b) of the Public Service Law that newspaper publication be completed prior to the effective date of the proposed amendments is waived, provided that the company shall file with the Commission, not later than six weeks following the amendments' effective date, proof that a notice to the public of the changes proposed by the amendments and their effective date has been published once a week for four successive weeks in newspapers having general circulation in the areas affected by the amendments.

4. These proceedings are continued.

By the Commission,

(SIGNED)

JANET HAND DEIXLER  
Secretary

SUBJECT: Filing by CORNING NATURAL GAS CORPORATION

Amendments to Schedule P.S.C. No. 1 - Gas

Seventh Revised Leaf No. 20-F  
Ninth Revised Leaf No. 59  
Thirty-Sixth Revised Leaf No. 20-A  
Forty-Second Revised Leaf No. 21  
Forty-Eighth Revised Leaf No. 24  
Supplement Nos. 65, 66 and 67

Amendments to Schedule P.S.C. No. 2 - Gas

Eighth Revised Leaf No. 9  
Fifteenth Revised Leaf No. 5  
Supplement Nos. 17, 18 and 19

Amendments to Schedule P.S.C. No. 3 - Gas

First Revised Leaf No. 72  
Second Revised Leaves Nos. 90 and 91  
Third Revised Leaf No. 71  
Supplement Nos. 6, 7, and 8

Corning Natural Gas Corporation

Case 00-G-0354

Revenues Per Class

(assuming cost of gas = \$3.37/Mcf)

	<u>Currently</u>	<u>After Reduction</u>	<u>Decrease Amount</u>	<u>Decrease Percent</u>
Corning:				
SC 1	\$7,698,508	\$7,560,725	\$137,783	1.8%
SC 5	755	742	13	1.7%
SC 6	344,048	322,417	21,631	6.3%
SC 14	952,422	893,674	58,748	6.2%
Industrial				
SC 2	82,032	82,032	0	0.0%
SC 7	532,431	493,934	38,497	7.2%
Bath	1,256,719	1,235,581	21,138	1.7%
Hammondsport:				
Res.	121,599	119,305	2,294	1.9%
Comm.	141,475	139,002	2,473	1.7%
Transp.	114,034	106,863	7,171	6.3%
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	-	-	-	
	\$11,244,023	\$10,954,275	\$289,748	2.6%

CASES 00-G-0354 and 00-G-0028

ATTACHMENT C

STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION

- CASE 00-G-0354      Proceeding on Motion of the Commission as to  
the Rates, Charges, Rules and Regulations of  
Corning Natural Gas Corporation for Gas  
Service.
- CASE 00-G-0028      Proceeding on Motion of the Commission  
Regarding Whether Certain Gas Purchase Costs  
Charged to Customers by Corning Natural Gas  
Corporation During the 1997-98 Heating  
Season Were in the Public Interest.

SETTLEMENT AGREEMENT

Dated: November 15, 2000

STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION

CASE 00-G-0354      Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Corning Natural Gas Corporation for Gas Service.

CASE 00-G-0028      Proceeding on Motion of the Commission Regarding Whether Certain Gas Purchase Costs Charged to Customers by Corning Natural Gas Corporation During the 1997-98 Heating Season Were in the Public Interest.

**SETTLEMENT AGREEMENT**

THIS SETTLEMENT AGREEMENT (Agreement) is made the 15<sup>th</sup> day of November 2000, by and among Corning Natural Gas Corporation (Corning) and the Staff of the Department of Public Service (Staff).

1.    Procedural Background

Corning filed a petition seeking a rate increase of \$384,024 with the Public Service Commission (PSC) on February 24, 2000. On July 24, 2000, Corning issued a notice pursuant to section 3.9(b) of 16 NYCRR, of its intent to commence negotiations regarding the rate increase with Staff and other interested parties.<sup>1</sup>

Corning and Staff during the course of the negotiations agreed to include two additional issues for potential

resolution: the above-referenced case regarding the gas purchase activities of Corning for the 1997-98 heating season (Order To Show Cause); and Staff's concern regarding Corning's potential over-collection from ratepayers of the lost and unaccounted for gas in 1998.<sup>2</sup>

2. Term

The Agreement covers the 12-month period of February 22, 2001 through February 21, 2002.<sup>3</sup> New rates will become effective on February 22, 2001, reflecting an updated version of the rate of return.

3. Base Rate Decrease

Corning and Staff have agreed for the above-referenced rate year, the revenue requirement of Corning will be decreased by approximately \$300,000. As a result of the decrease in revenue requirement, Corning will file tariffs, to be effective February 22, 2001, which will allocate proportionately the revenue decrease to all fixed rate classes based on the revenues net of gas cost, which is more fully described in Appendix A. The Corning rate decrease is predicated on a 10.7% return on equity for the rate year ending February 21, 2002.

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<sup>1</sup> Only three parties filed for intervention: Multiple Intervenors, Bath Electric Gas and Water Systems, and Amarada Hess, none of whom took an active role in the negotiations.

<sup>2</sup> Corning is entitled to collect for lost and unaccounted for gas each year as described in Appendix C.

<sup>3</sup> Certain provisions of this Agreement will extend beyond one rate year and will be more fully described herein.

4. Utility/Non-Utility Allocation Study

Corning agrees to provide within one year from the date of this Agreement, and file with Staff, an allocation study recording the functions and costs associated with both the utility and non-utility components of Corning. This allocation study will be implemented by Corning upon completion and will be updated as the nature and the functions of both Corning's utility and non-utility component changes.

5. Gas Purchasing Practices of 1997-98

Corning and Staff during the course of the negotiations discussed the circumstances and facts surrounding the gas purchasing practices of Corning for the 1997-98 heating season. Corning has agreed to implement a set of Communication Protocols (Appendix B attached hereto). The Communication Protocols will help to insure that Staff has all necessary information regarding the gas purchasing practices of Corning on a timely basis. Staff agrees not to further pursue the Order To Show Cause<sup>4</sup> on this matter in consideration of Corning's commitment to follow the Communications Protocols until Corning and Staff, or the PSC determines otherwise.

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<sup>4</sup> Case 00-G-0028 - Proceeding on Motion to the Commission Regarding Whether Certain Gas Purchase Costs Charged to Customers by Corning Natural Gas Corporation During the 1997-98 Heating Season Were in the Public Interest.

6. Lost and Unaccounted for Gas

Staff has raised concerns with Corning regarding the methodology it uses to calculate lost and unaccounted for gas. Corning is entitled to certain recoveries from ratepayers to reflect lost and unaccounted for gas during the course of the year.<sup>5</sup> Staff and Corning agree not to revisit the methodology used by Corning for the calculation of lost and unaccounted for gas in 1998. In consideration, Staff and Corning have detailed in Appendix C the proper methodology that Corning will use to calculate lost and unaccounted for gas starting March 1, 2001, adjusted for the effect of the individually negotiated contracts through the current expiration dates of March 31, 2001 and October 31, 2001.<sup>6</sup> This methodology will be utilized by Corning until the PSC determines otherwise.

7. Gas Safety Performance Measures

Corning and Staff agree that operation of Corning's gas system must be conducted in a safe manner in order to protect the public. Corning and Staff have agreed to safety performance Standards, which are further described in Appendix D. These

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<sup>5</sup> To be calculated on an annual twelve-month period ending August 31.

<sup>6</sup> New tariff loss factors will be filed and become effective the date of the filing.

standards are designed to increase the safety of Corning's system by specifying certain levels of minimum performance necessary in the areas of damage prevention, leak backlogs, unprotected steel pipe replacement, and gas leak response time. The performance standards include, for each area, charges that Corning will have to pay to ratepayers for failure to meet the standards. These standards will apply to Corning until Corning and Staff, or the PSC decide otherwise.

8. Deferral of Revenues

Corning is free, prior to the expiration of this agreement, to petition the PSC for a deferral of a shortfall in revenues if its transportation contracts with the New York State Electric and Gas Corporation, due to expire on March 31, 2001, and Corning Incorporated, due to expire on October 31, 2001, are not renewed or are renewed with different terms.

9. Nonseverability and Nonprecedential Value of Provisions

Each provision of this Agreement is in consideration of and supports all other provisions, and each provision is expressly conditioned upon acceptance by the Commission of the Agreement in its entirety. In the event the Commission fails to adopt the Agreement in its entirety and according to its terms, the parties will be free to pursue their respective positions in this proceeding without prejudice.

10. Dispute Resolution

In the event of any disagreement over the interpretation of this Agreement or the implementation of any of the provisions of this Agreement, which cannot be resolved informally among the parties, such disagreement shall be resolved as follows: the parties promptly shall confer and in good faith shall attempt to resolve such disagreement. If any such disagreement cannot be resolved by the parties, the matter shall be submitted to an ALJ designated by the Chief ALJ for a determination on an expedited basis using alternative dispute resolution techniques or such other procedures as the ALJ decides are appropriate under the circumstances. Within fifteen (15) days from the ALJ's decision, any party may petition the Commission for relief from the ALJ's determination on the disputed matter.

Corning Natural Gas Corporation

November 15, 2000

By: s/Eric J. Krathwohl, Counsel  
for Corning Natural Gas Corporation

Staff of the Department of  
Public Service

November 15, 2000

By: s/Kimberly A. Johnson  
Kimberly A. Johnson, ESQ.  
Staff Counsel

## APPENDIX A

## Appendix A

### Revenue Allocation and Rate Design

The parties have employed the following guidelines to develop revenue allocation and rate design as a result of the revenue decrease included in the settlement:

#### Revenue Allocation

1. All fixed rate customers will receive a reduction.
2. The revenue decrease will be allocated proportionately to all fixed rate classes on a net of gas cost basis with the exception of SC 7 Industrial Service, which will receive a larger percentage allocation share, as identified below, in some recognition of the relative relationship of returns among classes from the latest cost of service study.

#### Rate Design

1. The revenue decrease to each fixed rate class will be applied on a per unit of consumption basis to the existing block rates except that:
  - a. Minimum charges will remain at their existing levels in order to keep pace with the minimum costs to serve, and
  - b. An initial portion of the revenue decrease will be used to equalize the SC No. 14 Aggregate Group Firm Transportation rates with the margin portion of SC1 Residential Sales Service rates. This is consistent with Commission policy related to competition.

Below are tables showing: 1) the impact of the above revenue allocation and rate design by service class, 2) monthly bill impact tables for residential and commercial classes, and 3) annual bill impact for an average residential customer.

Corning Natural Gas Corp.

Case 00-G-0354

Revenues Per Class

	<u>Currently</u>	<u>After Reduction</u>	<u>Decrease Amount</u>	<u>Decrease Percent</u>
Corning:				
SC 1	\$7,698,508	\$7,560,725	\$137,783	1.8%
SC 5	755	742	13	1.7%
SC 6	344,048	322,417	21,631	6.3%
SC 14	952,422	893,674	58,748	6.2%
Industrial				
SC 2& 7	614,463	575,966	38,497	6.3%
Bath	1,256,719	1,235,581	21,138	1.7%
Hammondsport:				
Res.	121,599	119,305	2,294	1.9%
Comm.	141,475	139,002	2,473	1.7%
Transp.	114,034	106,863	7,171	6.3%
	-----	-----	-----	
	\$11,244,023	\$10,954,275	\$289,748	2.6%

Corning Natural Gas Corp.  
 Comparison of Monthly Bills  
 Service Classification No. 1

Case 00-G-0354

Including Imputed GAC of \$0.04908 and GRT Factor of .9487

	Present -----	Proposed -----
First 3 Ccf or less	\$7.42	\$7.42
Next 47 Ccf	\$0.64614	\$0.63175
Over 50 Ccf	\$0.56212	\$0.55301

Ccf -----	Present -----	Proposed -----	Difference	
			Amount -----	Percent -----
3	7.42	7.42	0.00	0.00%
10	11.94	11.84	(0.10)	-0.84%
25	21.64	21.32	(0.32)	-1.48%
50	37.79	37.11	(0.68)	-1.80%
75	51.84	50.94	(0.90)	-1.74%
100	65.90	64.76	(1.14)	-1.73%
200	122.10	120.06	(2.04)	-1.67%
300	178.32	175.36	(2.96)	-1.66%
400	234.53	230.66	(3.87)	-1.65%

Corning Natural Gas Corp.  
 Comparison of Monthly Bills  
 Hammondsport SC 1

Case 00-G-0354

Including Imputed GAC of \$0.09230 and GRT Factor of .9487

	Present -----	Proposed -----
First 3 Ccf or less	\$6.56	\$6.56
Next 47 Ccf	\$0.72265	\$0.70784
Over 50 Ccf	\$0.62496	\$0.61630

Ccf	Present -----	Proposed -----	Difference	
			Amount -----	Percent -----
3	6.56	6.56	0.00	0.00%
10	11.62	11.51	(0.11)	-0.95%
25	22.46	22.13	(0.33)	-1.47%
50	40.52	39.83	(0.69)	-1.70%
75	56.14	55.24	(0.90)	-1.60%
100	71.77	70.65	(1.12)	-1.56%
200	134.26	132.28	(1.98)	-1.47%
300	196.76	193.91	(2.85)	-1.45%
400	259.26	255.54	(3.72)	-1.43%

Corning Natural Gas Corp.  
 Comparison of Monthly Bills  
 Hammondsport SC 2

Case 00-G-0354

Including Imputed GAC of \$0.09230 and GRT Factor of .9487

	Present -----	Proposed -----
First 3 Ccf or less	\$6.56	\$6.56
Next 497 Ccf	\$0.63582	\$0.62647
Next 14,500 Ccf	\$0.59134	\$0.59134
Over 15,000 Ccf	\$0.58585	\$0.58585

Ccf -----	Present -----	Proposed -----	Difference	
			Amount -----	Percent -----
3	6.56	6.56	0.00	0.00%
25	20.55	20.34	(0.21)	-1.02%
50	36.44	36.00	(0.44)	-1.21%
75	52.34	51.66	(0.68)	-1.30%
100	68.23	67.32	(0.91)	-1.33%
200	131.81	129.97	(1.84)	-1.40%
300	195.40	192.62	(2.78)	-1.42%
400	258.98	255.26	(3.72)	-1.44%
500	322.56	317.91	(4.65)	-1.44%

Corning Natural Gas Corp.  
 Comparison of Monthly Bills  
 Service Classification No. 1

Case 00-G-0354

Including Imputed GAC of \$0.04908 and GRT Factor of .9487

At Average Monthly Residential Consumption

	Present	Proposed
	-----	-----
First 3 Ccf or less	\$7.42	\$7.42
Next 47 Ccf	\$0.64614	\$0.63175
Over 50 Ccf	\$0.56212	\$0.55301

		Difference			
	Ccf	Present	Proposed	Amount	Percent
	-----	-----	-----	-----	-----
January	217	131.66	129.46	(2.20)	-1.67%
February	188	115.36	113.43	(1.93)	-1.67%
March	180	110.87	109.00	(1.87)	-1.69%
April	135	85.57	84.12	(1.45)	-1.69%
May	70	49.03	48.17	(0.86)	-1.75%
June	34	27.45	27.00	(0.45)	-1.64%
July	27	22.93	22.58	(0.35)	-1.53%
August	23	20.34	20.06	(0.28)	-1.38%
September	25	21.64	21.32	(0.32)	-1.48%
October	49	37.14	36.48	(0.66)	-1.78%
November	100	65.90	64.76	(1.14)	-1.73%
December	127	81.07	79.69	(1.38)	-1.70%
	-----	-----	-----	-----	-----
Total	1,175	\$768.96	\$756.07	(\$12.89)	-1.68%

Corning Natural Gas Corp.  
 Comparison of Monthly Bills  
 Hammondsport SC 1

Case 00-G-0354

Including Imputed GAC of \$0.09230 and GRT Factor of .9487

At Average Monthly Residential Consumption

		Present	Proposed	Difference	
		-----	-----		
First 3 Ccf or less		\$6.56	\$6.56		
Next 47 Ccf		\$0.72265	\$0.70784		
Over 50 Ccf		\$0.62496	\$0.61630		
	Ccf	Present	Proposed	Amount	Percent
	-----	-----	-----	-----	-----
January	211	141.14	139.05	(2.09)	-1.48%
February	146	100.52	98.99	(1.53)	-1.52%
March	172	116.77	115.02	(1.75)	-1.50%
April	106	75.52	74.34	(1.18)	-1.56%
May	40	33.30	32.75	(0.55)	-1.65%
June	27	23.90	23.55	(0.35)	-1.46%
July	20	18.85	18.59	(0.26)	-1.38%
August	19	18.12	17.89	(0.23)	-1.27%
September	28	24.63	24.26	(0.37)	-1.50%
October	50	40.52	39.83	(0.69)	-1.70%
November	100	71.77	70.65	(1.12)	-1.56%
December	141	97.39	95.91	(1.48)	-1.52%
Total	1,060	\$762.43	\$750.83	(\$11.60)	-1.52%

Corning Natural Gas Corp.  
 Comparison of Monthly Bills  
 Hammondsport SC 2

Case 00-G-0354

Including Imputed GAC of \$0.09230 and GRT Factor of .9487

At Average Monthly Commercial Consumption

	Present	Proposed
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First 3 Ccf or less	\$6.56	\$6.56
Next 497 Ccf	\$0.63582	\$0.62647
Next 14,500 Ccf	\$0.59134	\$0.59134
Over 15,000 Ccf	\$0.58585	\$0.58585

			Difference		
	Ccf	Present	Proposed	Amount	Percent
	-----	-----	-----	-----	-----
January	486	313.66	309.15	(4.51)	-1.44%
February	365	236.73	233.34	(3.39)	-1.43%
March	369	239.27	235.85	(3.42)	-1.43%
April	166	110.20	108.67	(1.53)	-1.39%
May	166	110.20	108.67	(1.53)	-1.39%
June	115	77.77	76.72	(1.05)	-1.35%
July	69	48.52	47.91	(0.61)	-1.26%
August	147	98.12	96.77	(1.35)	-1.38%
September	130	87.31	86.12	(1.19)	-1.36%
October	145	96.85	95.52	(1.33)	-1.37%
November	315	204.94	202.02	(2.92)	-1.42%
December	361	234.18	230.84	(3.34)	-1.43%
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Total	2,834	\$1,857.75	\$1,831.58	(\$26.17)	-1.41%

## APPENDIX B

## Appendix B

### Communication Protocols Information To be Routinely Supplied to DPS Staff

Corning Natural Gas Corporation ("Corning" or "Company") will provide to the Staff of the Office of Gas and Water, Department of Public Service ("DPS"), the following information during the first week of each calendar month and/or quarter. Follow-up discussions /meetings may ensue if necessary.

Items may be added to, or deleted from, this list during the term of the Settlement after discussion and agreement between Corning and DPS Staff.

#### Monthly Basis

- 1) The status of storage injections and withdrawals as of the first of the month (i.e., actual versus optimal target figures), for DTI and TCO storage contracts. If the DTI actual figure is 12.77% or more lower than the optimal target figure, the reason(s) for such difference will be provided, along with the Company's plan to reduce the difference (if appropriate). If Corning has excess storage capacity (e.g., due to the migration of large customers from sales to transportation service), it will describe how it currently is, or plans to, mitigate the cost of such excess.
- 2) A detailed description (i.e., a discussion with sufficient specificity to convey all material points and such other facts as may be reasonably viewed as necessary to understanding the transaction in question) of any transportation or storage capacity assignments. A detailed account of gas portfolio-related agreements that the Company has executed, with other parties.

- 3) A detailed description of any agency or asset management agreements the Company is contemplating (for purposes of this Agreement contemplating means giving such a degree of consideration that a substantial possibility exists that the Company would enter such an Agreement) entering into, with other parties, or has executed since the last monthly report.
  
- 4) A list of issues of concern to the Company regarding its Customers and/or the natural gas industry.

Quarterly Basis

- 1) The status of the Company's capacity (transportation and storage) and long-term gas supply contracts, along with a description of all portfolio changes that the company has executed and/or is contemplating.

## APPENDIX C

Appendix C

Computation of Allowable Annual  
Gas Cost Recoveries

Total gas cost recoveries shall be computed by multiplying total sales times the approved loss factor times the weighted average cost of gas (WACOG). Following are definitions of the components used in computing the annual gas cost:

- 1) Total Sales - This represents total metered gas consumption except for transportation customers. Gas for use by company facilities and free by contract is included in total sales.
- 2) Loss Factor - The loss factor is the mathematical complement of total system losses as determined in a rate proceeding. This factor must be approved by the Commission in a rate proceeding and continues unchanged until the next rate proceeding.
  - a) It is agreed that the loss factors in this proceeding will be 1.0152 for the Corning system, 1.0000 for the Bath system and 1.0131 for the Hammondsport system
  - b) Total System Loss Percent - The total system loss is computed on a throughput basis where the difference between the total gas metered into the system less the total metered consumption (including transportation and sales customers) is divided by the total gas metered into the system.
- 3) WACOG - The method for calculating the WACOG is as follows:

$$\text{WACOG} = \frac{\text{Company's own customers}}{\text{Quantities of gas taken for delivery to the Company's own customers. This includes transportation customer's LAUF gas, specifically quantities of gas related to the difference between the overall actual system loss rate and the fixed loss rate}}$$

that transportation customers are required to bring to the city gate.

Computation of the Annual Gas Cost Reconciliation is the difference between the previously described allowable annual gas cost recoveries and the revenue collected through the base cost of gas, which is included in the rates, and GAC recoveries.

## APPENDIX D

## Appendix D

### Proposed Corning Natural Gas Safety Related Performance Measures

The Gas Safety Section is dedicated to improving both the safe operation and the system integrity of gas distribution systems in New York State. Performance measurement standards have been developed as a method to ensure that the New York State utilities focus attention on the critical operational areas associated with the safe delivery of natural gas.

The Corning Natural Gas Company ("CNG or the "Company") has one of the smallest distribution systems operating in New York State based upon the total number of miles for distribution mains and the total number of services. As part of the pending rate case settlement, CNG and Staff agree to the implementation of the following performance measures. These performance measures were selected to influence the Company's focus on these specific areas to provide improvements in the current levels of performance and system integrity.

#### Performance Measures

The following safety and reliability performance measures should be established effective on the date of the agreement. The proposed performance measures will help to provide Corning Natural Gas with the economic incentives to maintain gas safety and reliability at certain levels of quality or suffer economic penalties.

Staff believes, and CNG has agreed, to the following four items that CNG should focus on in order to increase gas safety: Damage Prevention, Leak Backlog, Unprotected Steel Pipe Replacements and Gas Leak Response Time. Each of these items has specific performance standards and resulting penalties for failure to meet the performance standards. The total maximum penalty is 24 basis points per year, with the individual items broken down as follows: six basis points for Damage Prevention; seven basis points for Leak Backlog; nine basis points for Unprotected Steel Pipe Replacements; and two basis points for Gas Leak Response Time.

For each basis point assessed during a given calendar year, beginning with the effective date of the rates established by the Settlement Agreement, CNG shall credit customers \$640. However, in cases where the Company has a reasonable basis for asserting that its failure to satisfy a specific recommendation is due to factors outside its reasonable control, Staff and the Company shall discuss the matter and seek in good faith to reach agreement. If after such good faith efforts the Company and Staff do not reach an agreement, the Company may invoke the dispute resolutions procedures set forth in Section 10 of the Settlement Agreement.

1. Damage Prevention

Damage to pipelines is one of the major problems facing the industry today. According to national and state statistics, the leading cause of pipeline failures and accidents is third party construction damage. Third party damage is often due to excavator failure to notify underground facility operators of their intent to excavate. However, even when pipelines have been marked, damages can still happen, with the major causes being either the excavator not taking proper care to dig safely or when the location of the pipe is mis-marked by the operator. The mis-marks occur from inaccurate records of the facilities or improper marking in the field.

Therefore, having an effective Damage Prevention Program is a major concern for all parties and should be addressed. Ensuring that marked facilities are accurate and marked in a timely manner, and that the UFPO data base is accurate are a few ways to reduce pipeline damages. Staff reviewed CNG's results in the Department of Public Service's Underground Facility Operator Rip-up Algorithm (UFORiA) index, and proposes the following recommendations.

Recommendations:

In order to reduce CNG's excavator damages to gas pipeline facilities the following should be implemented:

1. CNG must respond to one-call ticket within the time frame specified in Part 753 of 16 NYCRR, however, it will be allowed a maximum of three failures per year to respond by the requested commencement date, with short notice requests

excluded. The total will be derived from actual citations issued by field Staff.

2. Based on the results of the UFORiA report, the Company will cap its number of mis-marks per one hundred call tickets at 5 through the rate year. A root cause analysis will be done for any mis-marks, and will produce recommendations on how to avoid the situation in the future, to be implemented immediately. A more detailed Damage Prevention Program will be updated and incorporated into the Company's Operation and Maintenance Manual by 4/01/01. This updated program will include details identifying roles and expectations for personnel involved with locating facilities, root cause analysis and recommendations and training requirements as part of the U.S. Department of Transportation Operator Qualification rules.
3. The Company should update the UFPO database with additions and corrections as necessary, not later than the in-service date of new facilities or within one working day from the discovery of incorrect information in the data base so that future calls to UFPO will include markouts of those facilities.

Failure of CNG to achieve any of these proposed levels will result in a penalty of 2 basis points for each recommendation not attained.

## 2. Leak Backlog

All incidents relating to pipelines are, directly or indirectly, a result of leaks. Leaks can be the catalyst for fires and/or explosions. In order to reduce the potential for incidents the number of leaks should be minimized.

Leaks are categorized by their severity and location and are classified as Type 1, 2, 2A and 3. Type 3 leaks are deemed as the least risk and have only to be monitored. The other types are deemed at higher risk and require repair. CNG repairs leaks in accordance with safety code requirements [255.805]. At the end of July 2000, CNG's total backlog for type 1, 2 and 2A leaks was at 2, 7 and 41 respectively.

At year-end, Staff uses the backlog of the leaks scheduled for repair compared with the number of leaks repaired during the year as a measure to assess the company's efforts in minimizing its backlog of unrepaired leaks. CNG's 1999 backlog of unrepaired leaks was 43, with the total repaired for the year of 169, which resulted in backlog percentage of 25%.

Recommendation:

1. CNG should reduce its backlog of unrepaired Type 1, 2 and 2A's leaks to a maximum total of 35 for calendar year ending December 31, 2000 and 25 for calendar year ending December 31, 2001. The Company will make every effort to repair Type 2 and 2A leaks reported subsequent to December 31, 2000 as quickly as possible and will monitor Type 2A leaks on a weekly basis and Type 2 leaks on a monthly basis while adverse soil conditions exist, i.e., frost.
2. CNG will develop, in consultation with Staff, a target for backlog leaks for the year ending December 31, 2002. CNG's backlog acceptance rate should be based on CNG's analysis of the condition of the distribution mains and associated services, and leak history for the previous two years. In any event, CNG must decrease the number of backlog of repairable leaks to 10% of the leaks repaired during calendar year 2002.

Failure to meet these performance levels will result in a penalty of 7 basis points.

### 3. Unprotected Steel Pipe Replacement

Unprotected steel pipe is more vulnerable to leakage and failure than protected steel or plastic pipe due to corrosion. Unprotected steel mains and services represents 31.8 percent of Corning's distribution system, a pipe material that is nearing the end of its useful life. A plan to replace this type of pipe will have a positive effect in the reduction of all types of gas leaks system wide.

Based on its annual reports to the U.S. Department of Transportation, CNG has not been significantly reducing its level of unprotected steel pipe. Corning's current records indicate that 139 miles of unprotected steel distribution pipe remains. CNG reduced the number of unprotected steel services from 6533 at year-end 1996 to 6275 at year-end 1999.

At the current levels of replacement for unprotected steel distribution mains and service lines, CNG experienced an upward trend in the number of corrosion leaks over the period from 1996 through 1999. To address this problem, CNG must evaluate its gas distribution system and specifically target segments of unprotected steel distribution mains, and steel services, for elimination or replacement in order to accomplish a reduction in the level of corrosion related leaks.

#### Recommendation:

1. Corning will set up and complete a Risk Evaluation Program for all mains and service lines. The program will use a modeling approach to provide a uniform process for replacements looking at issues such as risk identification, reliability and economics. The program will require the following:
  - A. Any software and equipment necessary for the program will be obtained by June 01, 2001.
  - B. Reconciliation of Continuing Property Records to Operations records will be completed by June 30, 2001.

- C. Mapping system conversion to this format will be completed by September 30, 2001.
  - D. Database necessary to conduct the evaluation will be loaded by September 30, 2001.
  - E. Risk Evaluation program will be implemented by December 31, 2001.
2. Corning will complete an evaluation of its 8 miles of coated and unprotected steel distribution by June 30, 2001. By the end of the rate year ending February 22, 2002, the Company will take measures to cathodically protect segments that have been identified by the evaluation as are economically feasible within the current budget.
  3. Corning agrees to replace 1 mile of discretionary unprotected bare distribution pipe by the rate year-end.
  4. Corning agrees to replace 150 discretionary unprotected bare steel service lines by rate year-end.

Failure to meet these performance levels will result in a penalty of 9 basis points.

#### 4. Gas Leak Response Time

Leaks on house piping and improperly operated or installed appliances presents risks to the general public. Homeowners or business operators are responsible for repairs to these appliances. However, explosions can occur when leaking gas migrates into a building or accumulates in a confined space, reaches its explosive limit and ignites. Operators are required to provide information to the public on how to recognize and report emergencies such as gas odors. When calls related to gas odors are received by a utility, service personnel are supposed to be dispatched on a priority basis. The utility operators are required to maintain a log of these calls which tracks the elapsed time between the receipt of the call and the time of arrival of the service personnel on the scene. The potential for an

incident increases with a longer response time. Therefore it is important to minimize response times to calls of gas odors.

Staff has identified the following as acceptable response time standards: 75% of calls within 30 minutes, 90% of calls within 45 minutes, and 95% of calls within 60 minutes. Every call taking more than 60 minutes must be investigated to determine the circumstances and how this can be prevented in the future.

Recommendation:

1. CNG will respond to Gas Leak and Odor Calls within the following parameters: 90% of the calls within 45 minutes and 95% of the calls within 60 minutes.

Failure to meet the requirement will result in a penalty of 2 basis points.