

BEFORE THE PUBLIC SERVICE COMMISSION

CHAUTAUQUA UTILITIES, INC.

PSC CASE NO. _____

DIRECT TESTIMONY AND EXHIBITS OF

SCOTT SAMPSON AND HOWARD S. GORMAN

ON BEHALF OF

CHAUTAUQUA UTILITIES, INC.

APRIL 2011

1 **Q. Please introduce the members of the panel.**

2 A. The members of the panel are Scott Sampson and Howard Gorman.

3

4 **Q. Mr. Sampson, please state your name, occupation and business address.**

5 A. My name is Scott Sampson. I am the President of Chautauqua Utilities, Inc. (“CUI” or
6 “Company”), the petitioner. My business address is 8850 W. Rt. 20, Westfield, NY.

7

8 **Q. Mr. Sampson, have you previously testified before this Commission or any other
9 regulatory commission?**

10 A. No.

11

12 **Q. Mr. Gorman, please state your name, occupation and business address.**

13 A. My name is Howard Gorman. I am the President of HSG Group, Inc., a consulting firm.
14 My business address is 45 Hillpark Avenue, Great Neck, NY 11021.

15

16 **Q. Mr. Gorman, have you previously testified before this Commission or any other
17 regulatory commission?**

18 A. Yes. My educational background, professional experience and summary of testimony are
19 presented in Appendix A to this testimony.

20

21 **Q. Please state on whose behalf you are testifying and the purposes of your testimony.**

22 A. We are testifying on behalf of CUI before the New York State Public Service
23 Commission (“Commission”). The purposes of this testimony are:

- 24 • To provide historical information about CUI;
- 25 • To discuss CUI’s efforts to add customers;
- 26 • To request the Commission to amend, to the extent necessary to consider this
27 filing, its Order in Cases 04-G-0537 and 04-G-0576, effective January 12, 2005
28 (“Initial Order”), stating “CUI's future rates will be set assuming a full level of
29 conversions, or 518 customers” (Initial Order, p. 17);
- 30 • To develop and present CUI’s Revenue Requirement and Rate Base;

- 1 • To present CUI's proposed rates and revenue;
- 2 • To present CUI's proposed rates and revenue under the Revenue Adjustment; and
- 3 • To present CUI's proposed charges for Seasonal Suspensions and Customer
- 4 Terminations of Service.

5

6 **Q. Are you sponsoring any exhibits?**

7 A. Yes, we are sponsoring Exhibit CUI-1, Revenue Requirement and Proposed Rates, which

8 comprises Schedules 1-11. We will describe and discuss each of the schedules below.

9 We are also sponsoring Exhibit CUI-2, Management Agreement between CUI and

10 Chautauqua Energy Management, Inc. ("CEM"), an affiliate, and Exhibit CUI-3, Form of

11 Natural Gas Service Application (original).

12

13 **Q. Please summarize CUI's filing.**

14 A. CUI is requesting that the Commission grant an increase in rates which would increase

15 delivery revenue by an estimated \$105,353 or 76.3%, and would increase total revenue

16 by 36.3%, at the present number of customers. CUI is also proposing to implement

17 charge for Seasonal Suspensions of service and Customer Terminations of Service.

18

19 **HISTORICAL INFORMATION ABOUT CUI**

20

21 **Q. Please provide a historical background on CUI.**

22 A. CUI is a natural gas distribution company serving portions of the Town of North

23 Harmony in Chautauqua County. The Commission's Initial Order, among other things:

24 a) granted to CUI a Certificate of Public Convenience and Necessity to exercise the gas

25 franchise granted by the Town of North Harmony, and to construct the gas plant

26 necessary to render service in such Town, subject to the terms and conditions of the

27 order; b) established initial base rates for service, to be effective for the first five years of

28 operation; c) required that prior to commencing construction, CUI had to have received at

29 least 300 applications for service.

30

31 CUI began constructing the system after having complied with the provisions of the

1 Initial Order, including having 350 potential customers complete and return the Natural
2 Gas Service Application (original), the form of which is shown as Exhibit CUI-3.

3
4 Staff's projection included in the Initial Order showed CUI having 434 customers, sales
5 of 437,000 ccf ¹, \$447,000 distribution revenue, and an after-tax return on rate base of
6 approximately 7.8% in year five ².

7
8 CUI commenced service to customers on December 1, 2005.

9
10 **Q. What does the Initial Order state regarding how CUI's rates would be set in future
11 rate cases?**

12 A. The Initial Order states, "To address the concern that customers could bear the brunt of
13 CUI's inability to achieve a "critical mass" of customers, the company has agreed that
14 future rates will be set by employing an "as fully constructed" methodology. For such
15 purposes then, CUI's future rates will be set assuming a full level of conversions, or 518
16 customers" (Initial Order, pp. 16-17).

17
18 **Q. How many customers and sales does CUI have at present?**

19 A. CUI averaged 256 customers in 2010, with sales of approximately 177,677 ccf. The
20 maximum number of customers in any month was 269.

21
22 **Q. What number of customers is CUI proposing to use in setting rates?**

23 A. CUI proposes to set rates based on 300 customers, at the current average usage of
24 approximately 57.8 ccf per month. To mitigate this increase, CUI proposes a Revenue
25 Adjustment, such that in the year after it achieves an average of 350 customers in any
26 year (or Delivery revenue exceeds \$290,000) , its rates will be reset (i.e., adjusted
27 downward) to produce the rate of return approved by the Commission in this case.

28
29 Because CUI is proposing to set rates based on 300 customers, it is requesting the

¹ 1 ccf = 100 cubic feet, a measure of volume.

1 Commission to amend the Initial Order to the extent necessary to consider this filing.

2
3 **Q. Have CUI's gas operations been inspected by the New York State Department of**
4 **Public Service, Pipeline Safety?**

5 A. Yes. The most recent inspection was performed by Mr. Terry Wasielewski, Pipeline
6 Safety Engineer, in April 2011.

7
8 **Q. Has CUI ever been cited for a violation by the New York State Department of**
9 **Public Service, Pipeline Safety?**

10 A. No.

11
12 **CUI'S EFFORTS TO ADD CUSTOMERS**

13
14 **Q. Why are CUI's actual number of customers and sales different from the projections**
15 **used in setting rates in the Initial Order?**

16 A. CUI did not attain the projected number of customers due to unforeseen events and
17 circumstances beyond its control, including:

- 18
- 19 • The application by John S. McGraw to construct a Hilton Doubletree resort hotel
20 in the Town of North Harmony was unsuccessful; CUI expected to have the hotel
21 and related businesses as customers, which would have avoided this filing; and
 - 22 • Sales volumes per customer have been lower than in the projections used in the
23 Initial Order.

24 **Q. Did CUI obtain 300 applications for service, as required in the Initial Order?**

25 A. Yes, CUI obtained 350 applications for service, in the form of Exhibit CUI-3, Form of
26 Natural Gas Service Application (original). However, many of the people who
27 completed the applications for service did not actually take service from CUI.

28
29 **Q. Did CUI take deposits from the people who signed the applications for service?**

30 A. Yes. However, after taking the deposits, CUI became aware of the provisions of NYCRR

² Income Before Interest Charges for 2011 of \$117,011 (Initial Order, Appendix D, p. 1) / Net Property and

1 Title 16 Section 225, and CUI refunded the deposits pursuant to the regulations.

2
3 **Q. What recourse does CUI have against the applicants who did not take service?**

4 A. CUI believes it has no recourse against the persons who completed applications but have
5 not taken service, for the following reasons:

- 6 • CUI's counsel has informed the Company that the applications for service in
7 the form of Exhibit CUI-3 are not binding on the applicants; that is, CUI can
8 not compel the applicants to take service.
- 9 • CUI's counsel has also informed the Company that because the applications
10 had no minimum service period required, even if they were found to be
11 binding, customers could terminate service after one month, which would not
12 provide meaningful relief to CUI.
- 13 • CUI believes that taking legal action against the applicants would create bad
14 publicity, which would harm its prospects of getting additional customers.
- 15 • The costs of legal action to compel applicants to take service under the
16 applications for service could be substantial.

17
18 **Q. Please summarize your testimony regarding the applications for service.**

19 A. CUI complied with the requirements of the Initial Order and relevant New York State
20 regulations. On the advice of counsel, CUI believes it can not require the applicants to
21 take service; and that if CUI were to take legal action, it would have little chance of
22 success, and if it prevailed the relief would not likely be meaningful and the costs and
23 adverse publicity would be substantial; this would be a pyrrhic victory, at best.

24
25 In short, despite the best efforts and intentions of CUI, many of the applicants for service
26 did not wind up actually taking service, and CUI has no recourse.

27
28 **Q. Has CUI attempted to sign up any large customers?**

29 A. Yes. John S. McGraw, owner of several hotels in Pennsylvania, intended to build a
30 Hilton Doubletree resort hotel in CUI's service area and applied to the Town of North

1 Harmony for the necessary approval. The designers said the hotel project could include a
2 waste water facility and water purification facilities, but would be commercially viable
3 for the I-86 interchange only if CUI brought natural gas to the area. No form of heating
4 was commercially applicable for the project other than natural gas. CUI members had
5 numerous meetings with Mr. McGraw, Town of North Harmony and Chautauqua County
6 officials and were assured that the hotel project was wanted and needed for the area.

7
8 **Q. Was the hotel built?**

9 A. No. Many opposition groups including the Town Planning Board rejected the Project
10 Developers plans as not conforming to committee plans for the site and Chautauqua Lake
11 plans in general.

12
13 **Q. What would have been the effect on CUI had the hotel been built and become a
14 customer?**

15 A. The estimated usage of the hotel was 250,000 ccf annually. At present rates, that would
16 have represented annual delivery revenue of \$138,091. CUI would have invested an
17 estimated additional \$12,500 to serve the hotel. The overall effect would have been that
18 CUI would not need to ask for a rate increase at this time.

19
20 In addition, the hotel would have brought an estimated 30 ancillary businesses, which
21 also would likely have become CUI customers with only small investment needed.

22
23 **CUI'S REQUEST FOR COMMISSION TO AMEND INITIAL ORDER**

24
25 **Q. What is CUI's request to the Commission regarding the "as fully constructed"
26 clause in the Initial Order?**

27 A. CUI requests the Commission to amend the Initial Order to the extent necessary to
28 consider this filing, including the portion of the Initial Order stating "CUI's future rates
29 will be set assuming a full level of conversions, or 518 customers" (Initial Order, p. 17).

30
31 **Q. Why should the Commission amend the Initial Order as CUI has requested?**

32 A. The Commission should amend the Initial Order, and should allow CUI to establish rates
33 based on actual experience as set forth in this filing, for the reasons stated below. We

1 will expand on each of these reasons below.

- 2
- 3 1. The rates in the Initial Order were based on projections of the number of
- 4 customers and the sales volumes that CUI would achieve. The 518 customers
- 5 referred to as the basis for future rates is not the number of customers for
- 6 which CUI “constructed” the system; rather, 518 customers was the Staff’s
- 7 estimate of the number of customers at which no increase would be required
- 8 in 2010. That is not an appropriate basis for setting rates.
- 9
- 10 2. CUI’s filing already reflects the fact that some of the assets are not at this time
- 11 “used and useful”. In addition, CUI also proposes a Revenue Adjustment that
- 12 will reduce rates when CUI has 350 customers (or Delivery revenue exceeds
- 13 \$290,000) in any year.
- 14
- 15 3. CUI has built the system to serve 382 customers. If the Commission applies
- 16 the "as fully constructed" clause in the Initial Order, it should be applied
- 17 based on 382 customers, not the 518 customers cited in the Initial Order. If
- 18 the Commission continues to set rates based on 518 customers, the rate base
- 19 should be adjusted to add the cost of serving those additional customers.
- 20
- 21 4. Customers in CUI’s service territory are helped by being able to use gas
- 22 heating. Tables CUI-1, CUI-2 and CUI-3 show that at CUI’s proposed rates,
- 23 customers are better off using gas from CUI than using oil, propane or electric
- 24 heating. Only customers burning wood would have a cost advantage over gas.
- 25

26 **Q. Please expand on your first point, that the rates in the Initial Order are based on**

27 **projections and estimates.**

28 A. The rates in the Initial Order were based on projections of the number of customers and

29 the sales volumes that CUI would achieve. The projections, which were made both by

30 CUI and by Commission Staff, have turned out to be wrong; both the number of

31 customers used to set the initial rates (434 customers) and the sales (approximately 83 ccf

1 per month per customer) were significantly over-estimated.

2
3 In addition, the “as fully constructed” clause states that future rates would be based on at
4 least 518 customers, on the assumption that 518 customers would have 517,000 ccf of
5 sales. The 518 customers is not the number of customers for which CUI “constructed”
6 the system; rather, it was the Staff’s estimate, prepared in 2005, of the number of
7 customers at which no increase would be required in 2010.

8
9 It is inappropriate to set rates based on a six-year old projection that has turned out to be
10 wrong; and it is also inappropriate to set rates based on the number of customers that
11 produces no rate increase.

12
13 **Q. Are utilities typically permitted to adjust their rates to reflect changes in the
14 number of customers or their customers’ usage?**

15 A. Yes. If a utility is experiencing a decline in the number of customers, the Commission,
16 as do other state commissions, permits the utility (upon the filing of a rate case) to set
17 rates based on the present number of customers, even if the system was constructed for a
18 greater number of customers. Similarly, if a utility is experiencing a decline in usage, the
19 Commission permits the utility to set rates based on the present or forecast usage, even if
20 the system was constructed for greater usage.

21
22 For example, utilities with demand conservation programs are often permitted to recover
23 the lost revenue, and utilities with weather normalization and other decoupling are more
24 or less indifferent to volumes. In general, utilities reflect recent or forecast usage in their
25 rates, not hypothetical usage patterns with no experiential basis.

26
27 Therefore, it is inappropriate for CUI to have to set rates on the basis of projections when
28 other utilities set rates based on actual experience.

29
30 **Q. Does your second point, that CUI’s filing already reflects only “used and useful”
31 assets, and includes a Revenue Adjustment, address the Commission’s concern that
32 CUI’s initial customers should not pay for the entire system?**

33 A. Yes, it does. Although CUI has built the system to serve 382 customers, the proposed

1 rates are set on the basis of 300 customers, and the cost of services and meters that are
2 not “used and useful” (i.e., the excess of 382 over 300, or 82, meters and services) has
3 been removed from rate base and depreciation expense for setting rates.

4
5 In addition, CUI also proposes a Revenue Adjustment that will reduce rates when CUI
6 has 350 customers (or Delivery revenue exceeds \$290,000) in any year.

7
8 CUI believes the “used and useful” adjustment ensures customers do not pay for parts of
9 the system they do not need, and the Revenue Adjustment ensures rates are adjusted to
10 reflect actual number of customers and usage.

11
12 **Q. Please expand on your third point, regarding the application of the “as fully
13 constructed” clause in the Initial Order.**

14 A. If the Commission applies the "as fully constructed" clause in the Initial Order, it should
15 be applied based on 382 customers, the current system capacity, and not 518 customers
16 as cited in the Initial Order. The 518 customers merely represents a six-year old estimate
17 of the number at which rates would not need to change; it has no basis in experience.

18
19 In addition, if the Commission determines to set rates based on 518 customers, the rate
20 base should be adjusted to add the cost of serving those additional customers, because the
21 cost of the system reflect in the revenue requirement would not be sufficient for 518
22 customers at present usage levels.

23
24 Exhibit CUI-1, Schedule 3 presents CUI distribution revenue using the “as fully
25 constructed” method at 382 customers (column H) and 518 customers (column I).

26
27 **Q. Please summarize the bill impacts of the different methodologies for setting rates.**

28 A. Table CUI-1 below summarizes the bill impacts of the different methodologies. Columns
29 B and C show percent increase in Delivery revenue per customer and Total revenue per
30 customer, if the Commission sets rates based on the number of customers shown in
31 column A. Columns D and E show Return on rate base and Return on equity if the
32 Commission sets rates based on the numbers of customers shown in column A, but CUI
33 has only 300 customers.

1
2 For example, if the Commission sets rates based on 300 customers (as the CUI proposes)
3 and CUI achieves 300 customers, Delivery revenue per customer will increase 76.3% and
4 Total revenue per customer will increase 36.3%. If CUI has 300 customers, it will earn
5 6.63% on rate base and 9.60% on equity.

6
7 However, if the Commission sets rates based on 518 customers and CUI achieves 300
8 customers, Delivery revenue per customer will increase 21.13% and Total revenue per
9 customer will increase 9.8%, regardless of the number of customers. However if CUI has
10 only 300 customers, it will earn on 2.13% on base and a loss of 1.65% on equity.

11
12

Table CUI-1				
Bill Impacts for Different Rate-Setting Methodologies				
If rates are set based on	Delivery revenue per customer increases	Total revenue per customer increases	Return on rate base if 300 customers	Return on equity if 300 customers
(A)	(B)	(C)	(D)	(E)
300 customers (Proposed)	76.3%	36.3%	6.63%	9.60%
350 customers (Revenue Adjustment)	53.6%	25.4%	4.98%	5.49%
382 customers	47.5%	22.5%	4.25%	3.65%
518 customers	21.1%	9.8%	2.13%	(1.65%)
Source: Exhibit CUI-1, Schedule 3				

13
14 **Q. Please expand on your fourth point, that customers in CUI's service territory are**
15 **helped by being able to use gas heating.**

16 A. Tables CUI-2 and CUI-3 below compare the cost of gas heating for CUI customers with
17 the cost for other fuels. Table CUI-2, which is based on CUI's proposed rates, shows
18 that year-round customers are better off using CUI gas heating than oil, propane or
19 electric heating, and the cost for second-home customers is approximately the same for
20 CUI gas as for oil, propane and electric heating. Only customers burning wood would
21 have a cost advantage over gas.

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Table CUI-3 shows that the cost savings for CUI customers under the proposed Revenue Adjustment rates is even greater.

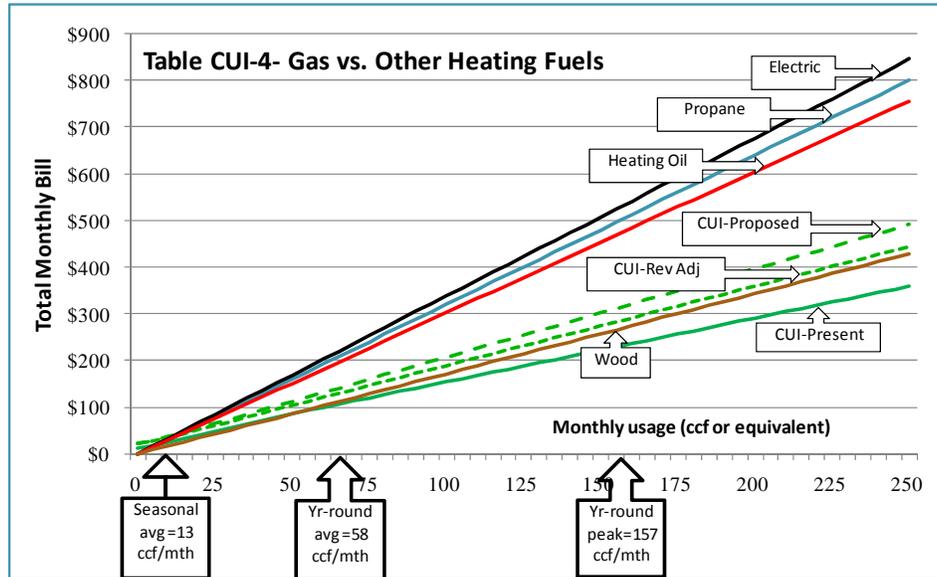
Table CUI-4 shows the same information as Tables CUI-2 and CUI-3, in graphic form.

Table CUI-2						
Gas at CUI Proposed Rates vs. Other Heating Fuels						
	Year-Round Customer			Second-Home Customer		
Fuel	Cost	Savings (Cost)	%	Cost	Savings (Cost)	%
Gas (CUI Proposed)	\$1,526			\$515		
Oil	\$2,097	\$571	37%	\$482	(\$33)	(6%)
Propane	\$2,221	\$695	46%	\$511	(\$4)	(1%)
Electric	\$2,345	\$819	54%	\$539	\$24	5%
Wood	\$1,190	(\$336)	(22%)	\$274	(\$241)	(47%)
Source for fuels other than gas- NYSERDA						

7

Table CUI-3						
Gas at CUI Revenue Adjustment Rates vs. Other Heating Fuels						
	Year-Round Customer			Second-Home Customer		
Fuel	Cost	Savings (Cost)	%	Cost	Savings (Cost)	%
Gas (CUI Revenue Adj.)	\$1,404			\$494		
Oil	\$2,097	\$693	49%	\$482	(\$12)	(2%)
Propane	\$2,221	\$817	58%	\$511	\$17	3%
Electric	\$2,345	\$941	67%	\$539	\$45	9%
Wood	\$1,190	(\$214)	(15%)	\$274	(\$222)	(45%)

8

1
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Therefore, even with CUI's cost-based proposed increase, customers in CUI's service territory are helped by being able to use gas heating.

5

6 **Q. Would existing customers incur any penalty if they terminated service from CUI?**

7 A. No, existing customers can terminate the service at any time with no penalty.

8

9 **Q. If the Commission does not permit CUI to increase its rates to provide it the opportunity to earn a reasonable return, what might be the outcome?**

10 A. In that case, CUI will likely not be able to operate as at present. The system might be closed, in which case customers would have to switch to a higher cost fuel; if another utility took over the system, there is no assurance that another utility could operate the system as inexpensively as CUI. That is, even if rates for CUI customers decrease, the higher cost incurred by another utility would be absorbed by all of its customers.

16

17 **Q. Please summarize your testimony regarding CUI's request to the Commission regarding the "as fully constructed" clause in the Initial Order.**

18 A. The "as fully constructed" clause would continue rates at the level set in the Initial Order in 2005. Those rates were based on projections which have turned out to be wrong. The 518 customers referred to as the basis for future rates does not reflect either a projection of future numbers of customers or the "as fully constructed" basis of the system.

22

1
2 Setting rates for CUI based on 518 customers (or even 434 customers) would ignore the
3 actual number of customers and actual usage. That would be different from the
4 methodology used for other utilities and would be inappropriate.

5
6 If rates are not set on a basis that allows CUI to recover its costs, it would likely lead to
7 the collapse of the utility, which could deprive customers of the choice to use the
8 cheapest heating fuel in the service territory, natural gas.

9
10 **Q. Please summarize the steps CUI has taken in this filing to address the Commission's**
11 **concerns expressed in the Initial Order.**

12 A. To address the Commission's concerns, CUI's filing includes the following:

- 13
14 1. CUI's rates are set based on 300 customers, which is somewhat higher than
15 the utility has at present.
16 2. CUI's filing reduces the rate base and depreciation expense to reflect the fact
17 that some of the assets are not at this time "used and useful".
18 3. CUI is proposing a Revenue Adjustment rates that will reduce rates when CUI
19 has 350 customers (or Delivery revenue exceeds \$290,000) in any year.

20
21 **Q. What do you request the Commission do?**

22 A. CUI requests the Commission do the following, for the reasons set forth in this
23 testimony:

- 24 1. The Commission should amend the "as fully constructed" clause in the Initial
25 Order to the extent necessary to consider CUI's filing. The Commission
26 should accept the rates CUI has proposed in this filing.
27 2. If the Commission applies the "as fully constructed" clause in the Initial
28 Order, it should be applied based on 382 customers, not the 518 customers
29 cited in the Initial Order. The Delivery revenue is shown on Exhibit CUI-1,
30 Schedule 3, column H.

1 3. If the Commission continues to set rates based on 518 customers, the rate base
2 should be adjusted to add the cost of serving those additional customers. The
3 Delivery revenue is shown on Exhibit CUI-1, Schedule 3, column I.

4
5 **DEVELOPMENT OF REVENUE REQUIREMENT AND RATE BASE**
6

7 **Q. What Historic Year was used to develop the revenue requirement?**

8 A. The Historic Year (“HY”) is CUI’s results for the year ended December 31, 2010. The
9 HY data is based on unaudited results for the year 2010 and pro forma adjustments; CUI
10 expects no significant audit adjustments.

11
12 **Q. When does CUI propose that the new rates will become effective?**

13 A. CUI proposes that the new rates become effective May 1, 2011, or such later date as the
14 Commission orders.

15
16 **Q. Please summarize CUI’s revenue requirement and proposed revenue and rates.**

17 A. Under present rates, CUI had delivery revenue of \$138,166 in the HY, a return on rate
18 base of 0.53% and a return on equity of (minus 5.63%) on a pro forma basis. CUI
19 averaged 256 customers in the HY, with sales of approximately 177,677 ccf (1 ccf = 100
20 cubic feet, a measure of volume).

21
22 CUI’s proposes a target return on rate base of 6.63%, and that its rates be set at a level
23 that will achieve that return if CUI has 300 customers. If CUI stays at an average of 256
24 customers, Delivery revenue will increase by an estimated \$105,353 or 76.3%, and CUI’s
25 return on rate base will be 4.97%. If CUI has 300 customers, Delivery revenue will
26 increase by an estimated \$146,929 or 106.3%, and CUI’s return will be 6.63%. In either
27 case, on average, each customer will see an increase of 76.3% in Delivery rates and
28 36.3% on a total bill basis. The computations are shown on Exhibit CUI-1, Schedule 3.
29 The proposed rates are shown on Exhibit CUI-1, Schedule 2.

30
31 CUI proposes to increase the customer charge, and to collect the balance of the revenue

1 requirement through a single (not blocked) volumetric charge. The proposed rates are
2 discussed later in this testimony.

3
4 **Q. Please summarize CUI's proposed Revenue Adjustment.**

5 A. CUI proposes a Revenue Adjustment, such that in the year after it achieves an average of
6 350 customers in any year (or Delivery revenue exceeds \$290,000), its rates will be reset
7 (i.e., adjusted downward) to produce the rate of return approved by the Commission in
8 this case. The computations and proposed rates based on the Revenue Adjustment are
9 shown on Exhibit CUI-1, Schedule 8.

10
11 **Q. What service classifications does CUI have?**

12 A. CUI has one class of service, Service Classification No. 1 ("SC-1"), applicable to
13 customers with consumption less than 5,000 ccf per year, when the gas is used for
14 residential, non-residential, religious, community or governmental purposes. CUI does
15 not propose to make any changes to SC-1 or to add any service classifications.

16
17 **Q. Please identify and describe the schedules that Exhibit CUI-1 comprises.**

18 A. Exhibit CUI-1, Schedule 1 summarizes the numbers of customers, sales volumes and
19 revenue for HY 2010. Schedule 2 presents monthly numbers of customers, sales volumes
20 and revenue at present rates for 2010 and proposed rates for 2011.

21
22 Schedule 3 presents revenue, expenses, rate base and return on rate base for 2010, and at
23 proposed rates for 2011 assuming different numbers of customers.

24
25 Schedule 4 presents the computation of the rate base. Schedule 5 presents Utility plant in
26 service, Accumulated depreciation, Depreciation expense and Tax Depreciation, from the
27 start of operations through 2010.

28
29 Schedule 6 presents the development of the required rate of return, 6.63%.

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31 Schedule 7 presents the balance sheet at December 31, 2010.

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Schedule 8 presents the proposed rates under the Revenue Adjustment.

Schedule 9 shows the amounts to be paid by customers with different usage levels under present rates, proposed rates and Revenue Adjustment rates.

Schedule 10 presents the computation of the monthly customer charge.

Schedule 11 presents the computation weather normal usage.

Q. Please discuss Exhibit CUI-1, Schedule 2.

A. Schedule 2, columns A and B show monthly numbers of customers and sales volumes, respectively, for 2010. Revenue at present rates is shown in column C; revenue at proposed rates is shown for 256 customers (column D) and 300 customers (column E). Sales by rate block are shown for 256 customers (columns F through H) and 300 customers (columns I through K).

Q. Do the volumes on Exhibit CUI-1, Schedule 2 reflect normal weather?

A. Yes, the volumes on Exhibit CUI-1, Schedule 2, are very close to the weather normal volumes for the territory. Schedule 11 computes the ccf per customer per heating degree day (0.0917 ccf per customer per HDD, line 52), and monthly base ccf per customer (3.939 per customer per month, line 51), using actual data for 2007-2009. Data for 2006 were excluded because this was CUI's first year of operations and the data do not appear to be representative. Data for 2010 were excluded because actual data available from NOAA for six months (March, May, June, August, November and December) were not complete. The actual HDD were obtained from NOAA for the Jamestown ENE station³.

Applying these values to the 10-year, 20-year and 30-year HDD averages indicates that

³ The Town of North Harmony is at 42° 8' 3" N / 79° 26' 16" W / 1473' elevation. The Jamestown ENE station is at 42° 6' N / 79° 9' W / 1250' elevation.

1 the 2010 values (177,677 ccf) used in developing the revenue requirement and in setting
2 rates are very close to the weather normal values (Schedule 11, lines 55-57).

3
4 **Q. Please discuss Exhibit CUI-1, Schedule 3.**

5 A. Schedule 3 presents revenue, expenses, rate base and return on rate base for 2010,
6 including historical results (column A), pro forma adjustments (column B) and pro forma
7 results (column C). The pro forma adjustments are to eliminate wages and other costs
8 and to add the cost of services provided by CEM pursuant to the Management Agreement
9 (Exhibit CUI-2).

10
11 Schedule 3 also presents revenue, expenses, rate base and return on rate base for 2011,
12 based on 256 customers (column D), 300 customers (column E) and 350 customers
13 (column F). The rate base is computed on schedule 4. Revenue is set at rates that
14 produce a return on rate base of 6.63% with 300 customers.

15
16 Schedule 3 presents revenue, expenses, rate base and return on rate base, based on 350
17 customers, after the rates are reset based on the Revenue Adjustment (column G).

18
19 Finally, Schedule 3 presents revenue, expenses, rate base and return on rate base, if the
20 Commission determines to set rates based on the system capacity of 382 customers
21 (column H), or on 518 customers (column I), as discussed above in this testimony.

22
23 **Q. Please discuss the expenses shown on Exhibit CUI-1, Schedule 3.**

24 A. Costs that vary with the number of customers (lines 16-19) are as follows:

- 25 4. *Gas commodity cost* is a pass-through and revenue is equal to the cost.
26 5. *Meter reading* is performed by a third party and charged to CUI based on the
27 number of hours incurred.
28 6. *Line locate / repair* is performed by a third party and charged to CUI on a per-
29 case basis.
30 7. *Meter repair / supplies* are related to the number of customers.

1 Costs for services provided by CEM to CUI pursuant to a Management Agreement
2 between the parties (lines 20-24) are as follows:

- 3 8. *System operations* includes soliciting customers, arranging for the purchase of
4 natural gas, performing system dispatch, performing leak surveys, performing
5 valve inspections, providing first response to trouble calls, billing customers,
6 processing receipts, paying invoices and financial management. CEM personnel
7 spend approximately 55 hours per month on these activities, and CUI is charged
8 \$3,833 per month, equivalent to \$69.70 per hour, which includes payroll taxes
9 and benefits. That is less than the cost of a recently terminated employee who
10 had been responsible only for office activities.
- 11 9. *Office rent* reflects the cost of approximately 300 square feet of space used by
12 CUI on the premises of CEM. The cost of \$1,000 per month is reasonable based
13 on the fact that CEM leases a similar size space to another party for the same
14 monthly rate.
- 15 10. *Vehicles expense* reflects reimbursement to CEM personnel for travel between the
16 office and the field. Estimated travel is 12 round trips per month at 30 miles
17 round trip, times the rate of \$0.51 per mile, or \$2,203 annually.
- 18 11. *Utilities* reflects the estimated cost of electric and other services at the office
19 space leased to by CEM to CUI.
- 20 12. *Postage, Office supplies* includes costs incurred by CEM directly on behalf of
21 CUI. Although postage costs will increase as the number of customers increases,
22 no increase is shown on the schedule.

23
24 Costs eliminated in pro form adjustments (lines 25-28) are as follows:

- 25 13. *Wages, payroll taxes and benefits* for CUI's only employee, who was terminated
26 in November 2010, have been eliminated.
- 27 14. *Office supplies* which are included in the Management Agreement.

28
29 Other costs (lines 29-36) are as follows:

- 30 15. *Property taxes* include School Tax for the year ending June 30, 2011 and Town
31 Tax for 2011.

1 16. *Insurance expense* is the annual cost of casualty and liability insurance.

2 17. *Telephone expense* includes answering service performed by a third party and
3 charged to CUI on a per-case basis and phone service for individuals. Although
4 answering service costs may increase as the number of customers increases, no
5 increase is shown on the schedule.

6 18. *Bank credit fees* are incurred by CUI for customers who pay by credit card.
7 Although this cost may increase as the number of customers increases, no
8 increase is shown on the schedule.

9 19. *Corporate taxes, Other* represent 2010 costs, which are expected to continue.

10 20. *Depreciation expense* is from Schedule 5. Depreciation expense for Meters and
11 house regulators varies with the number of customers.

12 21. *Rate case expense amortization* reflects the estimated cost of \$12,500 over a five-
13 year filing interval.

14
15 Income tax expense (line 39) is equal to the pretax return on equity (pretax income minus
16 interest expense) times the combined Federal / state rate of 39.6%. The computations are
17 shown on lines 46-49. CUI is authorized as a subchapter S corporation and its tax results
18 are distributed to its shareholders. However, because the form of ownership does not
19 affect the revenue requirement (i.e., the shareholders should receive the same after-tax
20 return regardless of the form ownership), income taxes are provided at the statutory rates.

21
22 **Q. Please discuss the revenue on Exhibit CUI-1, Schedule 3, columns D, E and F.**

23 A. Schedule 3 presents information for 2011 based on 256 customers (column D), 300
24 customers (column E) and 350 customers (column F). The revenue is set at a level that
25 produces a return of 6.63% based on 300 customers. Revenue varies directly (i.e.,
26 linearly) with the number of customers.

27
28 **Q. Please discuss the revenue on Exhibit CUI-1, Schedule 3, column G.**

29 A. Schedule 3, column G presents revenue, expenses, rate base and return on rate base,
30 based on 350 customers, after the rates are reset based on the Revenue Adjustment.

31

1 **Q. Please discuss the revenue on Exhibit CUI-1, Schedule 3, columns H and I.**

2 A. Schedule 3, column H presents revenue, expenses, rate base and return on rate base, if the
3 Commission determines to set rates based on the system capacity of 382 customers
4 (column H), or on 518 customers (column I), as discussed above in this testimony.

5

6 **Q. Please discuss the computation of the rate base on Exhibit CUI-1, Schedule 4.**

7 A. Schedule presents the computation of the rate base at Dec. 31, 2010, based on utility
8 plant in service, accumulated depreciation, accumulated deferred income taxes and cash
9 working capital.

10

11 Utility plant in service and accumulated depreciation are shown on Schedule 5.
12 Accumulated deferred income taxes are the difference between accumulated depreciation
13 for ratemaking and tax accumulated depreciation, times the effective tax rate; the result is
14 deducted from the rate base.

15

16 The cash working capital allowance is equal to a) one-eighth times operating expenses
17 less purchased gas costs and non-cash items plus b) one-twelfth purchased gas costs.

18

19 **Q. Please discuss the computation of utility plant in service, accumulated depreciation
20 and depreciation expense on Exhibit CUI-1, Schedule 5.**

21 A. Schedule 5 presents Utility plant in service; Accumulated depreciation and Depreciation
22 expense; and Tax Depreciation; annually from the start of operations through 2010. Each
23 year, plant additions are added to the rate base, and depreciation expense is computed.
24 Depreciable lives for ratemaking are 60 years for Transmission and distribution lines; 60
25 years for Mains; 35 years for Meters and house regulators; and three years for Computer
26 software. Depreciable lives for tax are 20 years for Transmission and distribution lines,
27 Mains and Meters and house regulators; and three years for Computer software.

28

29 **Q. Did you adjust the rate base for assets not considered used and useful at present?**

30 A. Yes CUI constructed services and meters to serve 382 customers. At December 2010,
31 102 of the installations had not been turned on. The balance were either customers taking

1 service and being billed, or seasonally turned off. The amounts on line 47 represent the
2 cost, accumulated depreciation and depreciation expense for the 382 customers for which
3 the system has been built.

4
5 In this filing, CUII proposes to set rates based on 300 customers. Therefore, 300 of 382
6 installations (78.5%) of services and meters are considered used and useful. The
7 amounts on line 50 reflect the removal of the cost, accumulated depreciation and
8 depreciation expense relating to 21.5% of services and meters from the rate base and
9 revenue requirement, as shown on Exhibit CUI-1, Schedule 5.

10
11 The amounts on line 53 represent the additional cost, accumulated depreciation and
12 depreciation expense if the system were expanded to handle 518 customers.

13
14 **Q. Please discuss the target rate of return on Exhibit CUI-1, Schedule 6.**

15 A. Schedule 6 computes the target rate of return, which is the weighted average cost of
16 capital, based on 300 customers. CUI's outstanding long term debt issues are a loan from
17 the Chautauqua County Industrial Development Authority ("IDA") and a loan from a
18 savings bank. Additional deemed debt is the amount of debt to arrive at a debt / equity
19 ratio of 60% / 40%, as discussed in the Initial Order. The cost of Additional deemed debt
20 is assumed to be the weighted average of the two outstanding debt issues.

21
22 Equity is assumed to be 40% of total capital. The cost of equity is 9.6%, which is the
23 average of the returns on equity authorized by the Commission in four recent rate cases,
24 rounded up the nearest tenth of a percent, as shown on lines 10-16. The resulting
25 weighted average cost of capital is 6.63%.

26
27 A more in-depth analysis, using cost of capital methodologies such as discounted cash
28 flow, comparable companies or capital asset pricing model, might produce different
29 somewhat results, however the time and cost of obtaining the necessary information and
30 performing the analysis are not justified given the small size of CUI.

31

1 **Q. Please discuss the balance sheet on Exhibit CUI-1, Schedule 7.**

2 A. Schedule 7 presents the balance sheets at December 31, 2009 and 2010, based on
3 unaudited results for 2010, with certain accounts restated to reflect the regulatory basis.
4 CUI ownership informed me that they expect no significant audit adjustments.

5

6 **Q. Please discuss Exhibit CUI-1, Schedule 8.**

7 A. CUI proposes that in the year after it achieves an average of 350 customers (or Delivery
8 revenue exceeds \$290,000), its rates will be reset (i.e., adjusted downward) to produce
9 the rate of return approved by the Commission in this case. The computations and the
10 proposed rates are shown on Exhibit CUI-1, Schedule 8.

11

12

PROPOSED RATES

13

14 **Q. Please summarize CUI's proposed rates.**

15 A. To achieve the revenue requirement based on 300 customers, CUI proposes the following
16 rates and charges:

17 22. To increase the customer charge from \$12 per month to \$22 per month, as
18 computed on Exhibit CUI-1, schedule 10. Customer charge revenue will remain
19 approximately 25% of total delivery revenue. The customer charge continues to
20 include 4 ccf of usage.

21 23. To consolidate the present two-block structure into a single volumetric charge.
22 This represents an increase of 50% (from \$0.7050 / ccf to \$1.0596 / ccf) for the
23 first block (46 ccf after the 4 ccf included in the customer charge) and an increase
24 of 99.9% (from \$0.5300 / ccf to \$1.0596 / ccf) for all other usage.

25

26 **Q. How does the proposed customer charge compare to that for other gas distribution
27 utilities?**

28 A. Niagara Mohawk residential customers pay an estimated \$18.47 per month for the first

1 four therms⁴; the rates are subject to a Revenue Decoupling Adjustment. National Fuel
2 Gas residential customers pay an estimated \$16.79 for the first four therms. New York
3 State Electric & Gas residential customers pay an estimated \$17.44 for the first four
4 therms; the rates are subject to a Weather Adjustment and a Transition Surcharge. The
5 proposed CUI customer charge is somewhat higher than for the other utilities, however
6 two of the three have adjustment clauses that could mean higher costs for customers.

7
8 **Q. Do the proposed changes to the rate structure produce any benefits?**

9 A. Yes. The change from the current declining block rate structure to a flat volumetric rate
10 is expected to encourage conservation. In addition, the higher customer charge is
11 expected to stabilize revenues for CUI.

12
13 **Q. Do the proposed rates produce the required revenue?**

14 A. Yes. Exhibit CUI-1, Schedule 2, lines 17-18 compare the total revenue produced by the
15 proposed rates to the target revenue from Schedule 3, line 11.

16
17 **Q. Please summarize CUI's proposed under the Revenue Adjustment.**

18 A. The proposed rates under the Revenue Adjustment are on Exhibit CUI-1, Schedule 8.
19 The customer charge will remain at \$22 per month, including 4 ccf of usage. The
20 volumetric charge will decrease to \$0.8703 / ccf) for all usage, representing an increase
21 of 23% over current first block rates and 64% for all other usage.

22
23 The proposed volumetric rates under the Revenue Adjustment reflect a decrease of 17.9%
24 from the rates that are proposed to be in effect immediately prior.

25
26 Schedule 8, lines 17-18 compare the total revenue produced by the proposed rates to the
27 target revenue from Schedule 3, line 11.

28

⁴ A therm is a unit of energy content and one ccf typically has approximately one therm of energy; therefore the charges for other utilities were computed based on four therms, to be comparable to the 4 ccf included in CUI's

1 **Q. Did you compare the amounts that typical customers would pay under the present**
2 **and proposed rates?**

3 A. Yes. Exhibit CUI-1, Schedule 9 shows the amounts to be paid by customers with
4 different usage levels under present rates, proposed rates and Revenue Adjustment rates.
5 Page 1 shows Delivery rates only and excludes Gas commodity costs; Page 2 includes
6 gas commodity costs.

7
8 **Q. Please discuss the proposed Seasonal Suspension Charge.**

9 A. Under the present tariff, a CUI customer can request turn-off and turn-on service as often
10 as they like, at no charge. During the time that service is turned off, CUI receives no
11 revenue. This is unfair to CUI, because almost all of CUI's costs are fixed, including
12 depreciation on the assets used to serve the customer. It is also unfair to other customers.
13 In addition, CUI incurs additional costs in turning service off and turning service on.

14
15 Therefore, CUI is proposing to permit each customer to request one Seasonal Suspension
16 per year, of up to four months. The charges for the Seasonal Suspension are a one-time
17 charge of \$25, representing the estimated cost of turn-off, and a monthly charge of \$16,
18 to recover ongoing costs. The computation of the proposed Seasonal Suspension Charge
19 and related revenue are shown on Exhibit CUI-1, Schedule 10, lines 28-34.

20
21 **Q. Please discuss the proposed Customer Termination Charge.**

22 A. CUI is proposing that customers that commence service on or after May 1, 2011, and
23 who terminate less than 60 months after commencing service, be liable for the costs of
24 termination and for ongoing costs. The proposed charges are the same as for Seasonal
25 Suspension- a one-time charge of \$25, representing the cost of estimated turn-off, and a
26 monthly charge of \$16, to recover ongoing costs. This is necessary to prevent customers
27 from avoiding the Seasonal Suspension charges by simply terminating and re-starting
28 service, it is also appropriate because CUI incurs costs that need to be recovered over an
29 extended service period.

customer charge.

1

2 **Q. Does this conclude your Direct Testimony?**

3 A. Yes.

4

HOWARD S. GORMAN**SUMMARY**

Mr. Gorman has more than 20 years of experience in the energy industry, and more than 30 years of professional experience in accounting, finance and rate and regulatory matters.

Mr. Gorman has testified as an expert witness on revenue requirements, class cost of service, revenue allocation and rate design. He has testified as an expert witness before the Massachusetts Department of Public Utilities, New Jersey Board of Public Utilities, New York State Public Service Commission, Ontario Energy Board, Pennsylvania Public Utility Commission, Philadelphia Gas Commission and Rhode Island Public Utilities Commission.

Mr. Gorman also has experience in financial modeling, financial analysis and forecasting, developing accounting systems, competitive service, and treasury and financial management.

PROFESSIONAL EMPLOYMENT

2010 - Present	HSG Group, Inc. <i>President</i>
1997 - 2010	Black & Veatch Corporation (R.J. Rudden Associates, Inc. before 2005) <i>Principal Consultant</i>
1995 - 1997	<i>Independent Consultant</i>
1987 - 1995	Trigen Energy Corporation 1987-1993 <i>Corporate Controller</i> ; Trigen was formed in 1987 1993-1995 <i>Treasurer</i> ; Trigen had IPO with NYSE listing in 1994
1982 - 1987	Coleco Industries, Inc. <i>Director, Treasury</i>
1976 - 1979	Touche Ross & Co. <i>Staff Accountant</i>

PROFESSIONAL EXPERIENCE**Utility Accounting and Costing**

Mr. Gorman has performed numerous class cost of service studies for electric and gas utilities, and has also developed and supported revenue requirements, revenue allocation proposals and rate designs. These assignments included development of test year data, establishment of cost causality, selection of

allocation bases, development of allocators, and analysis of customer impacts and policy considerations. A list of representative projects is provided on pages 5-7.

Mr. Gorman also has extensive experience in financial accounting. As controller of Trigen Energy Corporation, he founded and built the finance and accounting function; developed reports, procedures and management tools; and managed subsidiary controllers across North America, including an IPO with NYSE listing.

Energy Project Analysis

Mr. Gorman has performed financial analyses of energy-related assets, including electric and gas distribution companies, power plants and transmission operators. These valuations included development of cash flows and financial statements based on both regulatory and accounting presentations, and included review of assumptions, analysis of data, modeling and forecasting, sensitivity testing and stress testing. Among these analyses are:

- Valuations of power plants, combined heat and power plants and energy companies for the purpose of acquisition;
- Valuation and assessment of alternatives for the waste-to-energy assets and other energy assets of a diversified company on behalf of an interested acquiror;
- Valuation of the common stock of a publicly traded multi-jurisdiction utility for the purpose of investment;
- Assessment of strategic fit and valuation for a utility seeking to diversify into energy-related services; and

In connection with his work in asset valuations and acquisitions, Mr. Gorman successfully completed the financial integration of several acquisitions, including development of accounting, reporting and control systems, consolidation of functions and procurement.

Energy Project Financing

Mr. Gorman has negotiated and completed transactions including construction and term loans, tax-exempt bonds, taxable bonds, subordinated debt and asset-backed (receivables and inventory) revolving credit facilities. He has worked successfully with lenders and borrowers to source and structure transactions, and was instrumental in negotiating loan documents and in designing power sale and supply procurement contracts to be financeable.

Mr. Gorman has supported energy projects in connection with due diligence for financing, including contract review, financial modeling, supply analysis, forward price projections, and economic valuation

with cash flow forecasting, and the identification, assessment and mitigation of financial and operating risks for the project and its investors.

Financial Management and Related Areas

Mr. Gorman has developed, sourced and procured competitive contracts for loans as well as for energy, both as principal and on behalf of clients. He has bought and sold interest rate and currency forward contracts for the purpose of managing risk. He managed the corporate insurance portfolios and the benefit plans for Trigen Energy Corporation and for Coleco Industries.

Computer Modeling and Decision Support

Mr. Gorman is an accomplished modeler with expertise in spreadsheet and database applications, as well as the use of programming tools. He has developed analytical tools to perform valuations, projections and simulations. These models have been applied to financial analysis, cost allocations, rate design, forecasting revenue requirements and numerous tax and accounting matters. Several of these models have contained interactive modules for scenario testing and sensitivity analysis.

PUBLICATIONS AND PRESENTATIONS

“What Wall Street Needs From FERC,” published in R. J. Rudden Financial, LLC’s *Energy Capital Markets Report*, September 2002

“A Balanced Look at Balance Sheets,” published in R.J. Rudden Financial, LLC’s *Energy Capital Markets Report*, June 2002

“From Wires To Riches: Shareholder Value Creation In The T&D Business,” April 2002 (co-authored).

“Assessment of Retail Choice Programs,” presented at the American Gas Association Rate and Strategic Issues Committee Conference, March 2002

“Value Creation With Transmission Assets,” quoted in *Electrical World’s Special Edition Quarter 1, 2002*, March 2002

“The Remarkable Story on Enron,” published in Scudder’s *Annual End of Year Issue*, December 2001

EDUCATION

New York University, B.S., Accounting, 1976

Harvard Business School, MBA, 1981

SUMMARY OF TESTIMONY

JURISDICTION	DOCKET	CLIENT	DATE	SUBJECT MATTER
Pennsylvania	R-2010-2179103	Kellogg Company (intervenor)	Dec. 2010	Water class cost of service; revenue allocation
Pennsylvania	R-2010-2179522	Duquesne Light Company	July 2010	Electric class cost of service; revenue allocation; rate design
Pennsylvania	R-2010-2172662	Wellsboro Electric Company	June 2010	Electric revenue requirements, class cost of service, revenue allocation, rate design
Pennsylvania	R-2010-2172665	Citizens' Electric Company of Lewisburg, PA	June 2010	Electric revenue requirements, class cost of service, revenue allocation, rate design
Pennsylvania	R-2010-2174470	Valley Energy, Inc.	April 2010	Gas revenue requirements, rate design
Pennsylvania	R-2010-2161592	PECO Energy Company (Gas)	March 2010	Gas class cost of service; revenue allocation; rate design
Pennsylvania	R-2010-2161575	PECO Energy Company (Electric)	March 2010	Electric class cost of service; revenue allocation; rate design
New York	10-E-0050	Niagara Mohawk Power Corporation	Jan. 2010	Electric class cost of service
New York	09-E-0862	Jamestown Board of Public Utilities	Dec. 2009	Electric revenue requirements
Pennsylvania	R-2009 2139884	Philadelphia Gas Works	Dec. 2009	Gas class cost of service; revenue allocation
Rhode Island	RIPUC 4065	Narragansett Electric Company dba National Grid	June 2009	Electric class cost of service; revenue allocation; rate design
Massachusetts	DPU 09-39	Massachusetts Electric Company and Nantucket Electric Company dba National Grid	May 2009	Electric revenue requirements; adjustment mechanisms; class cost of service; revenue allocation; rate design
Pennsylvania	R-2008-2028394	PECO Energy Company (Gas)	March 2008	Gas class cost of service; revenue allocation; rate design
Pennsylvania	R-00072350	Wellsboro Electric Company	April 2007	Electric revenue requirements; rate design

SUMMARY OF TESTIMONY				
JURISDICTION	DOCKET	CLIENT	DATE	SUBJECT MATTER
Pennsylvania	R-00072348	Citizens' Electric Company of Lewisburg, PA	April 2007	Electric revenue requirements; rate design
Pennsylvania	R-00072349	Valley Energy, Inc.	April 2007	Gas revenue requirements; rate design
Pennsylvania	R-00061931	Philadelphia Gas Works	Dec. 2006	Gas class cost of service; revenue allocation; rate design
New York	06-E-0911	Village of Freeport	July 2006	Electric cost of service; rate design
Ontario	EB-2007-0905 et al	Ontario Power Generation Inc.	April 2006, March 2010	Electric Cost allocation methodology
Pennsylvania	R-00061346	Duquesne Light Company	March 2006	Electric class cost of service; revenue allocation; rate design
Ontario	EB-2005-0378 et al	Hydro One Networks Inc.	May 2005, May 2006, Sep. 2008, June 2009, Feb. 2010	Electric Transmission and Distribution Cost allocation; OH capitalization rates
New York	03-E-1568	Village of Rockville Centre	Oct. 2003	Electric class cost of service; rate design; sales forecast
New Jersey	ER0208050 6 et al	Gerdau AmeriSteel aka Co-Steel (intervenor)	Dec. 2002	Electric cost allocation and rate design; industrial rates
New Jersey	ER0205030 3 et al	Gerdau AmeriSteel aka Co-Steel (intervenor)	Oct. 2002	Electric cost allocation and rate design; industrial rates
Pennsylvania	M-00021612	Philadelphia Gas Works	July 2002	Gas rate unbundling
Pennsylvania	R-00017034	Philadelphia Gas Works	Feb. 2002	Gas class cost of service
Pennsylvania	R-00006042	Philadelphia Gas Works	Jan. 2001	Gas class cost of service; recovery of fixed costs

Chautauqua Utilities, Inc.
INDEX TO EXHIBITS
Historic Year Ended December 31, 2010
Rate Year Ended December 31, 2011

Line	Reference	Title
1	CUI-1, Sch 1	<u>Summary of Gas Sales, Customers and Revenue</u>
2	CUI-1, Sch 2	<u>Sales, Customers And Revenue</u>
3	CUI-1, Sch 3	<u>Revenue, Expenses and Return on Rate Base</u>
4	CUI-1, Sch 4	<u>Computation of Rate Base</u>
5	CUI-1, Sch 5	<u>Utility Plant, Accumulated Depreciation and Depreciation Expense</u>
6	CUI-1, Sch 6	<u>Rate of Return</u>
7	CUI-1, Sch 7	<u>Balance Sheets</u>
8	CUI-1, Sch 8	<u>Revenue Adjustment</u>
9	CUI-1, Sch 9	<u>Bill Impacts</u>
10	CUI-1, Sch 10	<u>Customer Charge</u>
11	CUI-1, Sch 11	<u>Weather Normalization Analysis</u>
12	CUI-2	Management Agreement

Rev_Sum
CUI-1, Sch 1

Chautauqua Utilities, Inc.
Summary of Gas Sales, Customers and Revenue
Historic Year Ended December 31, 2010

	Sales (ccf)	Average Customers	Revenue - Present Rates <u>Delivery Revenue</u>	Revenue per Customer <u>Present Rates</u>	Revenue per ccf <u>Present Rates</u>
SC 1- Residential	177,677	256	138,166	\$539	\$0.7776
TOTAL	<u>177,677</u>	<u>256</u>	<u>138,166</u>	\$539	\$0.7776

Sales_Rev
CUI-1, Sch 2

Chautauqua Utilities, Inc.
Sales, Customers And Revenue
Historic Year Ended December 31, 2010- Present Rates
Rate Year Ended December 31, 2011- Proposed Rates

Line	Residential- SC-1					256 Customers			300 Customers				
	Sales (ccf)	Customers	Delivery Revenue- Present Rates	Delivery Revenue- Proposed Rates, 256 Customers	Delivery Revenue- Proposed Rates, 300 Customers	Sales (ccf)			Sales (ccf)				
						Block 1 ccf	Block 2 ccf	Block 3 ccf	Block 1 ccf	Block 2 ccf	Block 3 ccf		
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)		
1	Present rates					\$12.00	\$0.7050	\$0.5300					
2	Proposed rates					\$22.00	\$1.0596	\$1.0596	\$22.00	\$1.0596	\$1.0596		
3	Increase over present rates					83.3%	50.3%	99.9%					
4													
5	January 2010	30,480	243	20,485	36,613	42,854	972	11,025	18,483	1,138	12,907	21,639	
6	February 2010	35,550	248	22,920	42,074	49,250	992	9,304	25,254	1,161	10,892	29,566	
7	March 2010	19,410	252	14,325	25,043	29,318	1,008	8,845	9,557	1,180	10,355	11,189	
8	April 2010	10,320	248	9,110	15,340	17,952	992	6,800	2,528	1,161	7,961	2,960	
9	May 2010	6,260	258	6,667	11,215	13,128	1,033	4,575	652	1,209	5,356	763	
10	June 2010	3,750	259	5,139	8,751	10,240	869	2,881	0	1,017	3,373	0	
11	July 2010	3,500	258	4,884	8,363	9,790	964	2,536	0	1,129	2,969	0	
12	August 2010	2,920	258	4,673	8,046	9,419	683	2,237	0	800	2,619	0	
13	#####	3,730	264	5,088	8,693	10,176	1,007	2,723	0	1,179	3,188	0	
14	October 2010	9,560	269	8,798	14,908	17,455	1,076	6,135	2,349	1,260	7,182	2,750	
15	November 2010	18,490	259	13,888	24,193	28,318	1,036	8,740	8,714	1,213	10,232	10,202	
16	December 2010	33,707	259	22,189	40,317	47,195	1,036	10,090	22,581	1,213	11,813	26,436	
17	Total	177,677	3,075	138,166	243,556	285,095	11,668	75,891	90,118	13,660	88,848	105,504	
18	Average=>		256			Target=>		285,095		Total=>	177,677	Total=>	208,012

Expenses
CUI-1, Sch 3Chautauqua Utilities, Inc.
Revenue, Expenses and Return on Rate Base

		ROR=>			4.97%	6.63%	8.44%	6.63%	6.63%	6.63%
		Historic Year 2010 Present Rates			Rate Year 2011 Proposed Rates			Revenue Adj.	"As Fully Constructed"	"As Fully Constructed"
Line	Ref.	Historical	Adjustments	Pro Forma	256 Customers	300 Customers	350 Customers	350 Customers	382 Customers	518 Customers
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
1	Customers			256	256	300	350	350	382	518
2	ccf sold			177,677	177,677	208,012	242,681	242,681	264,869	359,168
3	Increase in delivery revenue				\$105,353	\$146,929	\$194,445	\$151,572	\$165,685	\$200,074
4	Increase in delivery revenue- %				76.3%	106.3%	140.7%	109.7%	119.9%	144.8%
5	Delivery revenue per customer-month			\$44.93	\$79.19	\$79.19	\$79.19	\$68.99	\$66.29	\$54.41
6	Increase in delivery revenue per customer-month- %				76.3%	76.3%	76.3%	53.5%	47.5%	21.1%
7	Total revenue per customer-month			\$93.48	\$127.44	\$127.44	\$127.44	\$117.23	\$114.53	\$102.66
8	Increase in total revenue per customer-month- %				36.3%	36.3%	36.3%	25.4%	22.5%	9.8%
9	Revenue									
10	Gas Delivery revenue	Variable		\$138,166	\$243,519	\$285,095	\$332,611	\$289,738	\$303,851	\$338,240
11	Gas Commodity revenue	Variable		148,277	145,838	170,737	199,193	199,193	217,405	294,806
12	Seasonal Suspension	Variable		0	1,513	1,771	2,067	2,067	2,255	3,058
13	Finance charge revenue	Variable		1,017	1,017	1,191	1,389	1,389	1,516	2,056
14				287,460	391,887	458,794	535,260	492,387	525,027	638,161

RB
CUI-1, Sch 4

Chautauqua Utilities, Inc.
Computation of Rate Base
Historic Year Ended December 31, 2010

Line	Historic Year 2010 Present Rates	Rate Year 2011 Proposed Rates			"As Fully Constructed"	
		256 Customers	300 Customers	350 Customers	382 Customers	518 Customers
1						
2	Utility Plant in Service					
3	Assets	\$1,659,187	\$1,659,187	\$1,659,187	\$1,659,187	\$2,006,350
4	Less: Accumulated Depreciation	(156,595)	(156,595)	(156,595)	(170,930)	(194,705)
5		1,502,591	1,502,591	1,502,591	1,618,841	1,811,645
6	Accumulated Deferred Income Tax	(113,989)	(113,989)	(113,989)	(108,319)	(98,916)
7	Cash Working Capital Allowance	35,917	35,917	39,349	46,158	57,856
8	Rate Base	\$1,424,520	\$1,424,520	\$1,427,952	\$1,556,679	\$1,770,584
9						
10	Accumulated Deferred Income Tax:					
11	Accumulated Depreciation, books	\$156,595	\$156,595	\$156,595	\$170,930	\$194,705
12	Accumulated Depreciation, tax	(444,810)	(444,810)	(444,810)	(444,810)	(444,810)
13		(288,215)	(288,215)	(288,215)	(273,880)	(250,105)
14	Tax rate	39.6%	39.6%	39.6%	39.6%	39.6%
15		(\$113,989)	(\$113,989)	(\$113,989)	(\$108,319)	(\$98,916)
16						
17	Cash Working Capital Allowance:					
18	Operating Expenses, Test Year	\$300,845	\$300,845	\$328,301	\$382,770	\$476,356
19						
20	Deductions:					
21	Purchased Gas	145,838	145,838	170,737	217,405	294,806
22	Depreciation expense	11,010	11,010	11,010	11,010	11,010
23	Rate case expense amortization	2,500	2,500	2,500	2,500	2,500
24	Total Deductions	159,348	159,348	184,247	230,915	308,316
25	Cash Operating Expenses	141,497	141,497	144,054	151,855	168,039
26	Cash Operating Expenses ratio	1/8	1/8	1/8	1/8	1/8
27	Cash Operating Expenses allowance (a)	17,687	17,687	18,007	18,982	21,005
28						
29	Purchased Gas	145,838	145,838	170,737	217,405	294,806
30	Purchased Gas ratio	1/12	1/12	1/12	1/12	1/12
31	Purchased Gas allowance (b)	18,230	18,230	21,342	27,176	36,851
32	Cash Working Capital Allowance (a plus b)	\$35,917	\$35,917	\$39,349	\$46,158	\$57,856

Plant
CUI-1, Sch 5 Utility Plant, Accumulated Depreciation and Depreciation Expense

Chautauqua Utilities, Inc.

Line	Accou	Description	Asset Cost			Rate	Accumulated Depreciation			Rate	Tax Depreciation		
			Balance	Additions	Balance		Balance	Additions	Balance		Balance	Additions	Balance
			01/01/09	FYE 12/31/2009		01/01/09	FYE 12/31/2009		01/01/09	FYE 12/31/2009		01/01/09	FYE 12/31/2009
33													
34	367	Distribution lines	622,398		622,398	1.67%	31,096	10,373	41,470	5.00%	93,289	31,120	124,409
35	376	Mains	533,300	7,148	540,448	1.67%	26,809	8,948	35,757	5.00%	80,427	26,844	107,271
36	378	Services	282,375		282,375	1.67%	14,903	4,706	19,609	5.00%	44,709	14,119	58,828
37	381	Meters and house regulators	325,457	500	325,957	2.86%	23,845	9,306	33,151	5.00%	41,729	16,285	58,015
38	374	Computer software	7,450		7,450	33.33%	7,450	0	7,450	33.33%	7,450	0	7,450
39		Utility Plant	1,770,980	7,648	1,778,628		104,104	33,333	137,437		267,605	88,368	355,972
40													
41			01/01/10	FYE 12/31/2010		01/01/10	FYE 12/31/2010		01/01/10	FYE 12/31/2010		01/01/10	FYE 12/31/2010
42	367	Distribution lines	622,398	11,143	633,541	1.67%	41,470	10,466	51,936	5.00%	124,409	31,398	155,807
43	376	Mains	540,448		540,448	1.67%	35,757	9,007	44,764	5.00%	107,271	27,022	134,293
44	378	Services	282,375		282,375	1.67%	19,609	4,706	24,316	5.00%	58,828	14,119	72,947
45	381	Meters and house regulators	325,957		325,957	2.86%	33,151	9,313	42,464	5.00%	58,015	16,298	74,312
46	374	Computer software	7,450		7,450	33.33%	7,450	0	7,450	33.33%	7,450	0	7,450
47		Utility Plant- 382 Customers	1,778,628	11,143	1,789,771		137,437	33,493	170,930		355,972	88,837	444,810
48													
49		Less: Not Used		(130,584)			(3,009)	(14,335)					
50		Utility Plant- 300 Customers		1,659,187			30,484	156,595					444,810
51													
52		Add: Additional Customers		216,579			4,991	23,775					
53		Utility Plant- 518 Customers		2,006,350			38,484	194,705					

ROR
CUI-1, Sch 6

Chautauqua Utilities, Inc.
Rate of Return
Historic Year Ended December 31, 2010

Line	Description	Original Amount	Final Maturity	Balance at 12/31/2010	% of Capital	Interest Rate	Annual Interest
1	IDA Note	\$680,000	April 2022	\$605,245	42.5%	4.00%	\$24,210
2	Savings Bank Loan	300,000	May 2014	165,306	11.6%	7.00%	11,571
3	Additional deemed debt			84,161	5.9%	4.64%	3,908
4				854,712	60.0%	4.64%	39,689
5	Common Equity			569,808	40.0%	9.60%	54,702
6	Total			\$1,424,520	100.0%	6.63%	\$94,391
7							

BalSheet
CUI-1, Sch 7Chautauqua Utilities, Inc.
Balance Sheets

Line		December 31, 2009	December 31, 2010
1	ASSETS		
2	Fixed Assets		
3	Assets	\$1,778,628	\$ 1,659,187
4	Less: Accumulated Depreciation	(137,437)	(156,595)
5		<u>1,641,191</u>	<u>1,502,591</u>
6			
7	Current Assets		
8	Cash and Investments	14	85
9	Accounts Receivable	39,242	46,082
10		<u>39,256</u>	<u>46,167</u>
11			
12	TOTAL ASSETS	<u><u>\$1,680,447</u></u>	<u><u>\$ 1,548,758</u></u>
13			
14	LIABILITIES AND CAPITAL		
15	Long Term Debt		
16	IDA Note	\$605,245	\$605,245
17	Savings Bank Loan	202,041	159,184
18		<u>807,286</u>	<u>764,429</u>
19			
20	Current and Deferred Liabilities		
21	Accounts payable	55,720	47,944
22	Taxes payable	5,897	2,095
23	Management fee payable		85,200
24		<u>61,617</u>	<u>135,239</u>
25			
26	TOTAL LIABILITIES	868,903	899,668
27			
28	Capital		
29	Capital Stock	1,000	1,000
30	Additional Paid-in Capital	950,568	1,035,427
31	Converted from Debt	159,980	159,980
32	Retained (Losses)	(300,004)	(547,317)
33	TOTAL CAPITAL	<u>811,544</u>	<u>649,090</u>
34			
35	TOTAL LIABILITIES AND CAPITAL	<u><u>\$1,680,447</u></u>	<u><u>\$ 1,548,758</u></u>
36			

RevAdjust
CUI-1, Sch 8

Chautauqua Utilities, Inc.
Revenue Adjustment
Historic Year Ended December 31, 2010- Present Rates
Rate Year Ended December 31, 2011- Proposed Rates

Line	Residential- SC-1			350 Customers			
	Sales (ccf)	Customers	Delivery Revenue- Proposed Rates, 350 Customers	Sales (ccf)			
				Block 1 ccf	Block 2 ccf	Block 3 ccf	
	(A)	(B)	(C)	(D)	(E)	(F)	
1							
2	Proposed rates- Revenue Adjustment			\$22.00	\$0.8703	\$0.8703	
3							
4							
5	January 2010	41,631	332	42,381	1,328	15,059	25,245
6	February 2010	48,556	339	48,538	1,355	12,708	34,493
7	March 2010	26,511	344	29,443	1,377	12,081	13,053
8	April 2010	14,096	339	18,546	1,355	9,288	3,453
9	May 2010	8,550	352	13,957	1,411	6,249	891
10	June 2010	5,122	354	11,213	1,187	3,935	0
11	July 2010	4,780	352	10,759	1,317	3,464	0
12	August 2010	3,988	352	10,403	933	3,055	0
13	September 2010	5,095	361	11,179	1,375	3,719	0
14	October 2010	13,058	367	18,159	1,470	8,380	3,208
15	November 2010	25,255	354	28,536	1,415	11,938	11,902
16	December 2010	46,039	354	46,625	1,415	13,781	30,842
17	Total	242,681	4,200	289,738	15,937	103,656	123,088
18	Average=>		350	289,738		Total=>	242,681

BillImpacts
CUI-1, Sch 9

Chautauqua Utilities, Inc.
Bill Impacts

DELIVERY RATES ONLY (EXCLUDING GAS COMMODITY)

Line	Sales (ccf)	Present Rates		Proposed Rates				Revenue Adjustment Rates			
		Monthly Bill	Per ccf	Monthly Bill		Increase over Present		Monthly Bill		Increase over Present	
				Monthly Bill	Per ccf	\$ per Month	%	Monthly Bill	Per ccf	\$ per Month	%
1	0	\$12.00		\$22.00		\$10.00	83.3%	\$22.00		\$10.00	83.3%
2	4	\$12.00	\$3.0000	\$22.00	\$5.5000	\$10.00	83.3%	\$22.00	\$5.5000	\$10.00	83.3%
3	10	\$16.23	\$1.6230	\$28.36	\$2.8358	\$12.13	74.7%	\$27.22	\$2.7222	\$10.99	67.7%
4	15	\$19.76	\$1.3170	\$33.66	\$2.2437	\$13.90	70.4%	\$31.57	\$2.1049	\$11.82	59.8%
5	20	\$23.28	\$1.1640	\$38.95	\$1.9477	\$15.67	67.3%	\$35.92	\$1.7962	\$12.64	54.3%
6	Average, Apr-Oct	\$24.69	\$1.1223	\$41.07	\$1.8670	\$16.38	66.4%	\$37.67	\$1.7121	\$12.98	52.6%
7	25	\$26.81	\$1.0722	\$44.25	\$1.7701	\$17.45	65.1%	\$40.28	\$1.6111	\$13.47	50.3%
8	30	\$30.33	\$1.0110	\$49.55	\$1.6517	\$19.22	63.4%	\$44.63	\$1.4876	\$14.30	47.1%
9	35	\$33.86	\$0.9673	\$54.85	\$1.5671	\$20.99	62.0%	\$48.98	\$1.3994	\$15.12	44.7%
10	40	\$37.38	\$0.9345	\$60.15	\$1.5037	\$22.77	60.9%	\$53.33	\$1.3333	\$15.95	42.7%
11	45	\$40.91	\$0.9090	\$65.44	\$1.4543	\$24.54	60.0%	\$57.68	\$1.2818	\$16.78	41.0%
12	50	\$44.43	\$0.8886	\$70.74	\$1.4148	\$26.31	59.2%	\$62.03	\$1.2407	\$17.60	39.6%
13	Average, Annual	\$48.14	\$0.8446	\$78.16	\$1.3712	\$30.02	62.4%	\$68.13	\$1.1952	\$19.99	41.5%
14	60	\$49.73	\$0.8288	\$81.34	\$1.3556	\$31.61	63.6%	\$70.74	\$1.1790	\$21.01	42.2%
15	70	\$55.03	\$0.7861	\$91.93	\$1.3134	\$36.90	67.1%	\$79.44	\$1.1349	\$24.41	44.4%
16	80	\$60.33	\$0.7541	\$102.53	\$1.2816	\$42.20	70.0%	\$88.14	\$1.1018	\$27.81	46.1%
17	90	\$65.63	\$0.7292	\$113.13	\$1.2570	\$47.50	72.4%	\$96.85	\$1.0761	\$31.22	47.6%
18	100	\$70.93	\$0.7093	\$123.72	\$1.2372	\$52.79	74.4%	\$105.55	\$1.0555	\$34.62	48.8%
19	Average, Nov-Mar	\$74.11	\$0.6992	\$130.08	\$1.2272	\$55.97	75.5%	\$110.77	\$1.0450	\$36.66	49.5%
20	125	\$84.18	\$0.6734	\$150.21	\$1.2017	\$66.03	78.4%	\$127.31	\$1.0185	\$43.13	51.2%
21	150	\$97.43	\$0.6495	\$176.70	\$1.1780	\$79.27	81.4%	\$149.07	\$0.9938	\$51.64	53.0%
22	175	\$110.68	\$0.6325	\$203.19	\$1.1611	\$92.51	83.6%	\$170.82	\$0.9761	\$60.14	54.3%
23	200	\$123.93	\$0.6197	\$229.69	\$1.1484	\$105.76	85.3%	\$192.58	\$0.9629	\$68.65	55.4%
24	225	\$137.18	\$0.6097	\$256.18	\$1.1386	\$119.00	86.7%	\$214.34	\$0.9526	\$77.16	56.3%
25	250	\$150.43	\$0.6017	\$282.67	\$1.1307	\$132.24	87.9%	\$236.10	\$0.9444	\$85.67	57.0%
26	275	\$163.68	\$0.5952	\$309.16	\$1.1242	\$145.48	88.9%	\$257.85	\$0.9377	\$94.17	57.5%
27	300	\$176.93	\$0.5898	\$335.65	\$1.1188	\$158.72	89.7%	\$279.61	\$0.9320	\$102.68	58.0%
28	325	\$190.18	\$0.5852	\$362.14	\$1.1143	\$171.96	90.4%	\$301.37	\$0.9273	\$111.19	58.5%
29	350	\$203.43	\$0.5812	\$388.63	\$1.1104	\$185.20	91.0%	\$323.13	\$0.9232	\$119.70	58.8%
30	375	\$216.68	\$0.5778	\$415.12	\$1.1070	\$198.44	91.6%	\$344.89	\$0.9197	\$128.21	59.2%
31	400	\$229.93	\$0.5748	\$441.61	\$1.1040	\$211.68	92.1%	\$366.64	\$0.9166	\$136.71	59.5%
32	500	\$282.93	\$0.5659	\$547.57	\$1.0951	\$264.64	93.5%	\$453.67	\$0.9073	\$170.74	60.4%
33	600	\$335.93	\$0.5599	\$653.53	\$1.0892	\$317.60	94.5%	\$540.70	\$0.9012	\$204.77	61.0%
34	700	\$388.93	\$0.5556	\$759.49	\$1.0850	\$370.56	95.3%	\$627.74	\$0.8968	\$238.81	61.4%
35	800	\$441.93	\$0.5524	\$865.46	\$1.0818	\$423.53	95.8%	\$714.77	\$0.8935	\$272.84	61.7%
36	900	\$494.93	\$0.5499	\$971.42	\$1.0794	\$476.49	96.3%	\$801.80	\$0.8909	\$306.87	62.0%
37	1,000	\$547.93	\$0.5479	\$1,077.38	\$1.0774	\$529.45	96.6%	\$888.83	\$0.8888	\$340.90	62.2%

BillImpacts
CUI-1, Sch 9

Chautauqua Utilities, Inc.
Bill Impacts

TOTAL RATES (INCLUDING GAS COMMODITY)

Line	Sales (ccf)	Present Rates		Proposed Rates				Revenue Adjustment Rates			
		Monthly Bill	Per ccf	Monthly Bill		Increase over Present		Monthly Bill		Increase over Present	
				Monthly Bill	Per ccf	\$ per Month	%	Monthly Bill	Per ccf	\$ per Month	%
38	0	\$12.00		\$22.00		\$10.00	83.3%	\$22.00		\$10.00	83.3%
39	4	\$15.34	\$3.8345	\$25.34	\$6.3345	\$10.00	65.2%	\$25.34	\$6.3345	\$10.00	65.2%
40	10	\$24.58	\$2.4575	\$36.70	\$3.6703	\$12.13	49.4%	\$35.57	\$3.5567	\$10.99	44.7%
41	15	\$32.27	\$2.1515	\$46.17	\$3.0783	\$13.90	43.1%	\$44.09	\$2.9394	\$11.82	36.6%
42	20	\$39.97	\$1.9985	\$55.64	\$2.7822	\$15.67	39.2%	\$52.62	\$2.6308	\$12.64	31.6%
43	Average, Apr-Oct	\$43.05	\$1.9568	\$59.43	\$2.7015	\$16.38	38.1%	\$56.03	\$2.5466	\$12.98	30.1%
44		\$47.67	\$1.9067	\$65.12	\$2.6046	\$17.45	36.6%	\$61.14	\$2.4456	\$13.47	28.3%
45		\$55.37	\$1.8455	\$74.59	\$2.4862	\$19.22	34.7%	\$69.66	\$2.3221	\$14.30	25.8%
46		\$63.06	\$1.8018	\$84.06	\$2.4016	\$20.99	33.3%	\$78.19	\$2.2339	\$15.12	24.0%
47		\$70.76	\$1.7690	\$93.53	\$2.3382	\$22.77	32.2%	\$86.71	\$2.1678	\$15.95	22.5%
48		\$78.46	\$1.7435	\$103.00	\$2.2889	\$24.54	31.3%	\$95.24	\$2.1164	\$16.78	21.4%
49		\$86.16	\$1.7231	\$112.47	\$2.2494	\$26.31	30.5%	\$103.76	\$2.0752	\$17.60	20.4%
50	Average, Annual	\$95.71	\$1.6791	\$125.73	\$2.2058	\$30.02	31.4%	\$115.69	\$2.0297	\$19.99	20.9%
51		\$99.80	\$1.6634	\$131.41	\$2.1902	\$31.61	31.7%	\$120.81	\$2.0135	\$21.01	21.1%
52		\$113.45	\$1.6207	\$150.35	\$2.1479	\$36.90	32.5%	\$137.86	\$1.9694	\$24.41	21.5%
53		\$127.09	\$1.5887	\$169.29	\$2.1162	\$42.20	33.2%	\$154.91	\$1.9363	\$27.81	21.9%
54		\$140.74	\$1.5638	\$188.24	\$2.0915	\$47.50	33.8%	\$171.95	\$1.9106	\$31.22	22.2%
55		\$154.38	\$1.5438	\$207.18	\$2.0718	\$52.79	34.2%	\$189.00	\$1.8900	\$34.62	22.4%
56	Average, Nov-Mar	\$162.57	\$1.5337	\$218.54	\$2.0617	\$55.97	34.4%	\$199.23	\$1.8795	\$36.66	22.6%
57		\$188.50	\$1.5080	\$254.53	\$2.0362	\$66.03	35.0%	\$231.62	\$1.8530	\$43.13	22.9%
58		\$222.61	\$1.4841	\$301.88	\$2.0126	\$79.27	35.6%	\$274.24	\$1.8283	\$51.64	23.2%
59		\$256.72	\$1.4670	\$349.24	\$1.9956	\$92.51	36.0%	\$316.87	\$1.8107	\$60.14	23.4%
60		\$290.84	\$1.4542	\$396.59	\$1.9830	\$105.76	36.4%	\$359.49	\$1.7974	\$68.65	23.6%
61		\$324.95	\$1.4442	\$443.95	\$1.9731	\$119.00	36.6%	\$402.11	\$1.7871	\$77.16	23.7%
62		\$359.06	\$1.4363	\$491.30	\$1.9652	\$132.24	36.8%	\$444.73	\$1.7789	\$85.67	23.9%
63		\$393.18	\$1.4297	\$538.65	\$1.9587	\$145.48	37.0%	\$487.35	\$1.7722	\$94.17	24.0%
64		\$427.29	\$1.4243	\$586.01	\$1.9534	\$158.72	37.2%	\$529.97	\$1.7666	\$102.68	24.0%
65		\$461.40	\$1.4197	\$633.36	\$1.9488	\$171.96	37.3%	\$572.59	\$1.7618	\$111.19	24.1%
66		\$495.52	\$1.4158	\$680.71	\$1.9449	\$185.20	37.4%	\$615.21	\$1.7578	\$119.70	24.2%
67		\$529.63	\$1.4123	\$728.07	\$1.9415	\$198.44	37.5%	\$657.83	\$1.7542	\$128.21	24.2%
68		\$563.74	\$1.4094	\$775.42	\$1.9386	\$211.68	37.6%	\$700.46	\$1.7511	\$136.71	24.3%
69		\$700.20	\$1.4004	\$964.84	\$1.9297	\$264.64	37.8%	\$870.94	\$1.7419	\$170.74	24.4%
70		\$836.65	\$1.3944	\$1,154.25	\$1.9238	\$317.60	38.0%	\$1,041.42	\$1.7357	\$204.77	24.5%
71		\$973.10	\$1.3901	\$1,343.67	\$1.9195	\$370.56	38.1%	\$1,211.91	\$1.7313	\$238.81	24.5%
72		\$1,109.55	\$1.3869	\$1,533.08	\$1.9164	\$423.53	38.2%	\$1,382.39	\$1.7280	\$272.84	24.6%
73		\$1,246.01	\$1.3845	\$1,722.50	\$1.9139	\$476.49	38.2%	\$1,552.88	\$1.7254	\$306.87	24.6%
74		\$1,382.46	\$1.3825	\$1,911.91	\$1.9119	\$529.45	38.3%	\$1,723.36	\$1.7234	\$340.90	24.7%

CustChge
CUI-1, Sch 10Chautauqua Utilities, Inc.
Customer Charge

Line	Ref.	300 Customers	350 Customers
1	Customers	300	350
2			
3	Operating Expenses		
4	Meter reading Variable	\$8,008	\$9,342
5	Line Locate / Repair Variable	9,360	10,920
6	Meter Repair / Supplies Variable	164	191
7	Depreciation expense- Meters / Services	11,010	12,845
8	Cost Component	28,542	33,299
9			
10	Rate Base		
11	Utility plant- Meters / Services	608,332	709,721
12	Accumulated depreciation- Meters	(66,780)	(77,910)
13		541,552	631,811
14	Target Return	6.63%	6.63%
15		35,884	41,865
16	Income tax gross-up	165%	165%
17	Return Component	59,362	69,255
18	Total Customer charge components	87,903	102,554
19	Monthly fixed customer charge	\$24.42	\$24.42
20			
21	Balance of revenue requirement, less commodity	197,192	230,057
22	per ccf	\$0.9480	\$0.9480
23	Cost of 4 ccf included	\$3.79	\$3.79
24			
25	Monthly customer charge- costs	\$28.00	\$28.00
26	Monthly customer charge- proposed	\$22.00	\$22.00
27			
28	<u>Seasonal Suspension of Service</u>		
29	Ongoing monthly costs	\$19.55	\$19.55
30			
31	Initial charge- proposed	\$25.00	\$25.00
32	Monthly charge- proposed	\$16.00	\$16.00
33	Number of months	4	4
34	Annual revenue per Suspension	\$89.00	\$89.00

Sales
CUI-1, Sch 11**Chautauqua Utilities, Inc.**
Weather Normalization AnalysisLine

32						
33	Normal Heating Degree Days (base 65)		10 years	20 years	30 years	
34	January		1,251	1,270	1,280	
35	February		1,154	1,128	1,121	
36	March		987	988	993	
37	April		555	580	591	
38	May		312	326	333	
39	June		83	83	92	
40	July		31	28	29	
41	August		29	35	40	
42	September		137	166	172	
43	October		490	498	517	
44	November		714	764	757	
45	December		1,111	1,132	1,132	
46			<u>6,855</u>	<u>6,998</u>	<u>7,056</u>	
47	Actual 2010 HDD		6,922	6,922	6,922	
48	Difference Actual / Normal		1.0%	(1.1%)	(1.9%)	
49						
50	Weather Normal Usage					
51	Annual Base usage per customer	Monthly ccf	3.939	47.27	47.27	47.27
52	Annual Thermal usage per customer	ccf per HDD	0.0917	628.67	641.79	647.13
53	Total	Total ccf		<u>675.94</u>	<u>689.06</u>	<u>694.41</u>
54	Number of customers			<u>256</u>	<u>256</u>	<u>256</u>
55	Total weather normal system usage			<u>173,040</u>	<u>176,400</u>	<u>177,768</u>
56	Actual 2010 usage			177,677	177,677	177,677
57	Difference Actual / Normal			2.7%	0.7%	(0.1%)
58						

Sales
CUI-1, Sch 11Chautauqua Utilities, Inc.
Weather Normalization Analysis

<u>Line</u>		<u>HDD</u>	<u>ccf / cust</u>
59			
60	Jan-2007	1,096	125
61	Feb-2007	1,393	132
62	Mar-2007	971	94
63	Apr-2007	701	75
64	May-2007	261	24
65	Jun-2007	76	14
66	Jul-2007	59	15
67	Aug-2007	33	12
68	Sep-2007	133	13
69	Oct-2007	283	22
70	Nov-2007	802	70
71	Dec-2007	1,111	93
72	Jan-2008	1,157	129
73	Feb-2008	1,193	105
74	Mar-2008	1,080	113
75	Apr-2008	474	48
76	May-2008	446	30
77	Jun-2008	57	14
78	Jul-2008	14	16
79	Aug-2008	51	12
80	Sep-2008	146	15
81	Oct-2008	561	36
82	Nov-2008	847	86
83	Dec-2008	1,095	97
84	Jan-2009	1,478	126
85	Feb-2009	1,116	146
86	Mar-2009	922	68
87	Apr-2009	568	60
88	May-2009	275	24
89	Jun-2009	110	18
90	Jul-2009	69	19
91	Aug-2009	31	13
92	Sep-2009	154	11
93	Oct-2009	567	47
94	Nov-2009	655	49
95	Dec-2009	1,167	113
96	Jan-2010	1,310	125
97	Feb-2010	1,201	143
98	Mar-2010	879	77
99	Apr-2010	474	42
100	May-2010	243	24
101	Jun-2010	30	14
102	Jul-2010	27	14
103	Aug-2010	11	11
104	Sep-2010	190	14
105	Oct-2010	494	36
106	Nov-2010	758	71
107	Dec-2010	1,305	130
108	Correlation	Thru 12-09	96.42%
109			

Management Agreement

This Agreement is made this 30th day of August, 2005, by and between:

CHAUTAUQUA UTILITIES, INC., 8850 West Route 20,
Westfield, New York 14787 (hereinafter referred to as *Chautauqua Utilities*)

and

CHAUTAUQUA ENERGY MANAGEMENT, INC., 8850 W.
Route 20, Westfield, New York 14787 (hereinafter referred to as *Chautauqua Energy*).

Witnesseth:

Whereas, Chautauqua Utilities owns the natural gas pipeline and distribution facilities and provides natural gas services to customers within service territories granted by the New York State Public Service Commission; and

Whereas, Chautauqua Utilities desires to obtain management services for the operation of Chautauqua Utilities; and

Whereas, Chautauqua Energy is willing to provide management services to Chautauqua Utilities.

Now, therefore, in consideration of the premises and covenants herein provided, Chautauqua Utilities and Chautauqua Energy hereby agree as follows:

1. Rendering of Management Services. Subject at all times to the supervision and direction of Chautauqua Utilities, Chautauqua Energy will render to Chautauqua Utilities for a period of five (5) years from the date of this Agreement such management services relating to the operation of Chautauqua Utilities as Chautauqua Utilities may reasonably request. Such services shall include, without limitation, soliciting customers, the purchase of natural gas, the sale of natural gas to customers of Chautauqua Utilities, the billing of customers for the natural gas service, and receipt of payment from the customers. Unless notified by Chautauqua Utilities in writing not more than one hundred

eighty (180) days and at least sixty (60) days prior to the expiration of the term, at its discretion, Chautauqua Energy may automatically extend this Agreement for an additional five (5) year term. The same shall apply to all succeeding terms.

2. Payment. As full payment for such services as may be rendered hereunder, Chautauqua Utilities shall pay to Chautauqua Energy, on a monthly basis \$7,100.00.

3. Covenant Not to Compete. During the term of this Agreement, Chautauqua Utilities shall not, either directly or indirectly, contract with any other entity for the services provided by Chautauqua Energy.

During the term of this Agreement, Chautauqua Energy shall not, directly or indirectly, provide management services to any other company providing natural gas service in any franchise territory of Chautauqua Utilities.

Both Chautauqua Utilities and Chautauqua Energy agree that the remedy at law for any breach of any of the above provisions of this section will be inadequate and the non-breaching party shall be entitled to injunctive relief.

4. Merger or Sale. Nothing herein shall prevent Chautauqua Utilities from merging with any other corporation, disposing of all or substantially all of its assets, or selling all or substantially all of its stock. In the event of any such merger or sale, Chautauqua Utilities, at its option, may discharge itself from all further liability hereunder either by (a) causing the corporation or entity resulting from such merger or the corporation or entity acquiring substantially all of the assets of Chautauqua Utilities, or the corporation or entity acquiring the stock of Chautauqua Utilities to expressly assume in writing all of Chautauqua Utilities' obligations hereunder, or (b) by erminating this Agreement and paying to Chautauqua Energy the compensation owed to it for services rendered hereunder up to and including the effective date of such merger or disposition, and an amount to be mutually agreed upon in respect of the remaining term of this Agreement.

5. General. This Agreement shall inure to the benefit of the successors and assigns of Chautauqua Utilities and/or Chautauqua Energy. Neither company may assign this Agreement or the rights and obligations hereunder without the other company's prior written consent. For the purposes of this Agreement, Chautauqua Energy shall be deemed to be an independent contractor

and not an agent or partner of Chautauqua Utilities. This Agreement shall be construed in accordance with the laws of the State of New York, and any action hereunder shall be venued in Chautauqua County, New York.

6. Notice. All notice and other communications hereunder shall be in writing and shall be deemed to be duly given if delivered or mailed by certified mail, return receipt requested, to the address set forth above.

In Witness Whereof, the parties have duly executed this Agreement on the date first above written.

CHATAUQUA UTILITIES, INC.

By *[Signature]* **PRESIDENT**

CHATAUQUA ENERGY MANAGEMENT, INC.

By *[Signature]* **(VP)**

**CHAUTAUQUA ENERGY MANAGEMENT
Proposed Management Fee Schedule**

**Exhibit CUI-2
Page 4**

Description	\$\$\$\$
Managers Time:	
Scott Sampson	\$40,000.00
Jackie Kucharski	\$6,000.00
Vehicles/Gas:	
15000 Miles @ .43	\$6,450.00
Office Rent/Office Equip Rent:	
\$1000/month	\$12,000.00
Postage:	
400@.37/month	\$1,800.00
Utilities/Office Supplies:	\$1,800.00
Total Estimated Costs:	\$68,050.00
+25% Contingency	\$17,000.00
Yearly Management Fee:	\$85,050.00
Monthly Management Fee:	\$7,100.00

P.S.C. No. 1 GAS
CHAUTAUQUA UTILITIES, INC.
INITIAL EFFECTIVE DATE: XX/XX/XXXX

LEAF: 74
REVISION: 0
SUPERSEDING REVISION

Exhibit CUI-3
Page 1

Form A. Form Application for Residential Service

CHAUTAUQUA UTILITIES, INC.
Natural Gas Service Application

Please read thoroughly

I/We the undersigned, hereby apply to Chautauqua Utilities, Inc. ("the Company") for the natural gas service at the below address. I/We hereby authorize Chautauqua Utilities, Inc to verify my past and present employment to process my service application. I/We hereby apply for such service in my/our joint name(s). Under a joint service application, each applicant agrees to be JOINTLY AND SEVERALLY LIABLE for such service. (Note: The term "Jointly and Severally Liable" means each applicant is personally responsible for payment of the entire bill). Chautauqua Utilities, Inc.'s tariff and policies comply with the residential consumer protections contained in New York State's Home Energy Fair Practices Act and other applicable residential and non-residential protections contained in the regulations of the New York State Department of Public Service. I/We understand that acceptance of service constitutes an agreement to accept service under the rules and regulations of the New York State Department of Public Service, the tariff provisions of Chautauqua Utilities, Inc. and the sales policies set forth below.

Item I. Subject to the conditions in Rule V (D) (a) of the Company's tariff, the Company will furnish all facilities necessary to provide gas service to the applicant. Some facilities may become the property of Customer and Customer shall keep the same in good repair. The Company shall inform Customer of such equipment. If the conditions in Rule V (D) (a) of the Company's tariff are met, the Company shall be responsible to install, at its' cost, the original first 100 feet of service line, meter and regulators. The Customer shall be responsible to pay for any service line and fixtures including installation greater than 100 feet from the distribution system main line whether installed by the Company or the Customer. If the Company and the Customer agree that the Customer will install the service line and fixtures beyond 100 feet, such attachments, service lines, etc., of the Customer shall be subject to the inspection of the Company and its agents for which purpose the Company shall have the right of entry to and through the premises of the consumer, at all reasonable hours. The Customer service line consists of the pipe from the outlet of the curb cock or the Company main line if a curb cock is not present. The Company shall have the right to prescribe the specifications, size, location, and termination points of the Customer's service line.

Item II. If the conditions of Rule V (D)(a) of the Company's tariff are met, at the time of application, the Customer may be required to post reasonable security towards the material and installation costs relating to any portion of the service line, service connections and appurtenant facilities located on Customer's property that exceeds the portion which Chautauqua Utilities, Inc. is required to install without charge ("Additional Facilities"). If Customer requires Additional Facilities, the deposit shall be applied to the material and installation costs of the Additional Facilities. If the Customer does not require any Additional Facilities, or if the cost of the Additional Facilities does not exceed the deposit, the deposit, or that which remains, shall be returned within thirty (30) days after initialization of gas service. When the Additional Facilities greatly exceed the 100 feet of service line provided at no cost by the Company, the Company may require additional reasonable security.

Item III. Customers are prohibited from making any changes in the meters or in connections between the meters and the Company's mains.

Issued by: _____

P.S.C. No. 1 GAS
CHAUTAUQUA UTILITIES, INC.
INITIAL EFFECTIVE DATE: XX/XX/XXXX

LEAF: 75
REVISION: 0
SUPERSEDING REVISION

Applicant takes service pursuant to all terms and provisions of the Company's tariff, on file with the NYS Public Service Commission, as may be amended from time to time.

NOTICE TO CUSTOMERS

MAINTENANCE OF CUSTOMER OWNED GAS LINES

Natural gas is delivered to your home or business through an underground pipeline. Customer is responsible for maintaining all gas piping which you own, including any that extends beyond the meter to the appliances in your home or business.

If buried piping is not maintained, over a time it may be subject to the hazards of corrosion and leakage. For your safety, we inspect service lines for leakage on a regular basis, and if the line is metallic, it is the customer's responsibility to have an inspection of customer owned equipment. However, we do not maintain or repair Customer-owned piping.

If our inspection detects a problem in any portion of the piping that you own, the gas piping will need to be repaired promptly. A plumber or excavation contractor can assist you in repairing the line. Excavation around gas pipelines should be done by hand. Before digging, contact your local utilities locate service to learn where gas lines are located on your property. PLEASE, FOR SAFETY'S SAKE, CALL BEFORE YOU DIG 800-962-7962.

I/We have read this application prior to signing it, and agree to its terms and conditions.

Signature (resident)Date

()
Service Address (street)Phone # Billing Address (street)

()
Service Address (city, state & zip code)Emergency Phone #Billing Address (city, state & zip code)

**CHAUTAUQUA UTILITIES, INC.
Natural Gas Service Application**

Responsible Party:Date Responsible for Service: _____

Telephone Number (daytime): _____ Telephone Number (evening): _____

Do you: (circle)Own/Rent

RentLease Terms from/to _____

Name and Address of Property OwnerTelephone No. of Property Owner

Issued by: _____

P.S.C. No. 1 GAS
CHAUTAUQUA UTILITIES, INC.
INITIAL EFFECTIVE DATE: XX/XX/XXXX

LEAF: 76
REVISION: 0
SUPERSEDING REVISION

Have you ever had gas service with Chautauqua Utilities, Inc. in the past? _____

If yes, list service address: _____
Street addresscitystatezip

If no, list previous address: _____
Street addresscitystatezip

Mailing address if different from new service address:

Street addresscitystatezip

FOR OFFICE USE ONLY

Date Application Received _____ Account # _____

Date Field Notified _____ Amount of Deposit _____

Section ___ Block ___ Lot ___

Issued by: _____