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June 10, 2016

VIA ELECTRONIC AND FIRST CLASS MAIL

Administrative Law Judge Susan D. Colwell
Office of Administrative Law Judge
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor West
PO Box 3265
Harrisburg, PA 17105-3265

In re: Joint Application of Pike County Light and Power Company, Corning Natural Gas Holding Corporation and Orange and Rockland Utilities, Inc. for: a Certificate or Certificates of Public Convenience Evidencing the Pennsylvania Public Utility Commission's Approval of: the Transfer by Sale of 100% of the Issued and Outstanding Stock of Pike County Light & Power Company; Docket No. A-2015-2517111; A-2015-2517036; G-2015-2517113; G-2015-2517114; S-2015-2517115 and S-2015-2517116; **JOINT PETITION FOR FULL SETTLEMENT OF JOINT APPLICATION PROCEEDING**

Dear Judge Colwell:

Enclosed you will find the Joint Petition for Full Settlement of Joint Application Proceeding reached between Corning Natural Gas Holding Corporation, Pike County Light & Power Company and Orange & Rockland Utilities, Inc., the Office of Consumer Advocate and the Office of Small Business Advocate. The Statements in Support of Full Settlement have been attached as the following Appendices:

- Appendix A Corning Natural Gas Holding Corporation
- Appendix B Pike County Light & Power Company, Orange & Rockland Utilities, Inc.
- Appendix C Office of Consumer Advocate
- Appendix D Office of Small Business Advocate

Administrative Law Judge Susan D. Colwell

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Parties have been served in accordance with the attached Certificate of Service. If you have any questions regarding this filing, please do not hesitate to contact me.

Very truly yours,



Thomas J. Sniscak
Christopher M. Arfaa
William E. Lehman
Whitney E. Snyder

TJS/CMA/das
Enclosure

cc: Rosemary Chiavetta
Per Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true and correct copy of the foregoing document upon the parties, listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party).

BY ELECTRONIC AND FIRST CLASS MAIL

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DATED: June 10, 2016

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Joint Application of Pike County Light	:	
And Power Company, Buyer Corning Natural	:	
Gas Holding Corporation and Seller Orange	:	A-2015-2517036
And Rockland Utilities, Inc. for a Certificate	:	A-2015-2517111
Of Public Convenience Approving the Transfer	:	G-2015-2517113
By Sale of 100% of the Stock of Pike County	:	G-2015-2517114
Light And Power Company from Seller Orange	:	S-2015-2517115
And Rockland Utilities, Inc. to Buyer Corning	:	S-2015-2517116
Natural Gas Holding Corporation	:	

**JOINT PETITION FOR FULL SETTLEMENT OF
JOINT APPLICATION PROCEEDING**

TO THE HONORABLE SUSAN D. COLWELL:

NOW COME Joint Applicants Pike County Light & Power Company (“Company” or “PCL&P”), Corning Natural Gas Holding Corporation (“Buyer” or “CNGHC”), and Orange and Rockland Utilities, Inc. (“Seller,” “Orange and Rockland” or “O&R”), the Pennsylvania Office of Consumer Advocate (“OCA”), and the Pennsylvania Office of Small Business Advocate (“OSBA”) (collectively, “Parties” or “Joint Petitioners”), by their undersigned attorneys, and submit, as in the public interest, this Joint Petition for Full Settlement of Joint Application Proceeding (the “Joint Petition”) to resolve all issues among the Parties in the above-captioned proceedings on the terms and conditions set forth below (the “Settlement”):

I. HISTORY OF THE PROCEEDING

1. On December 4, 2015, PCL&P,¹ O&R and CNGHC² filed a Joint Application seeking approval to transfer O&R's control and ownership interests in PCL&P to CNGHC ("Joint Application"). The Joint Application asks for all necessary authority, approvals and certificates of public convenience pursuant to Sections 1102(a)(3), 2102(b) and 1901(a) and (c) of the Public Utility Code, 66 Pa. C.S. §§ 11102(a)(3), 2102(b) and 1901(a) and (c) regarding the transfer of all of O&R's ownership interests in PCL&P to CNGHC, the affiliated interest agreements, and the securities transactions involving PCL&P.

2. On December 23, 2015, the Office of Consumer Advocate (OCA) filed a Protest and Public Statement in response to the Joint Application.

3. Also on December 23, 2015, the Office of Small Business Advocate filed a notice of appearance and Notice of Intervention and Protest.

¹ PCL&P, a subsidiary of O&R, furnishes electric distribution and provider of last resort services to approximately 4,500 customers in a certificated service territory which includes the Boroughs of Milford and Matamoras, in northeastern Pennsylvania. PCL&P also is engaged in the retail distribution and sale of natural gas for residential, commercial and industrial purposes within the Commonwealth of Pennsylvania. PCL&P serves approximately 1,200 residential and commercial gas customers in Pike County, Pennsylvania. PCL&P has no employees and O&R provides PCL&P with the facilities and workforce required to conduct the construction, maintenance and operation of PCL&P's electric distribution system, natural gas distribution system, and commercial and general operations. (Joint Application at 1-4).

² CNGHC is a New York holding company owning 100% of the New York public utility Corning Natural Gas Corporation ("CNG") which was incorporated in 1904 and is certificated as a natural gas distribution company by the New York Public Service Commission ("NYPSC"), and presently distributes natural gas service through a 400-mile distribution and transmission network to approximately 15,000 residential, commercial, industrial and municipal customers in the Coming, Hammondsport and Virgil, New York areas, and to two other gas utilities which service the Elmira and Bath, New York areas. CNGHC also owns a 50% share of Leatherstocking Gas Company, LLC ("Leatherstocking Gas"), a Pennsylvania public utility providing natural gas service in Susquehanna and Bradford Counties, Pennsylvania to approximately 270 customers; and 50% of Leatherstocking Pipeline Company, a non-certificated pipeline serving one customer in Pennsylvania. (Joint Application at 3-4).

4. On January 12, 2016, a notice of prehearing conference was issued, scheduling the prehearing conference for Monday, February 1, 2016, before Administrative Law Judge (“ALJ”) Susan D Colwell (the “Presiding Officer”).

5. The Joint Applicants, OCA and OSBA filed prehearing memos, and the prehearing conference was held as scheduled, with the following counsel attending: on behalf of PCL&P, John J. Gallagher, Esq.; on behalf of O&R, John Carley, Esq.; on behalf of CNGHC, Thomas J. Sniscak, Esq., and William Lehman, Esq.; on behalf of OCA, Aron J. Beatty, Esq., and Brandon Pierce, Esq.; and on behalf of OSBA, Daniel Asmus, Esq.

6. During the February 1, 2016 prehearing conference, the parties agreed upon modifications to the Commission’s discovery regulations and agreed upon the following litigation schedule:

Applicants' direct testimony	February 19, 2016
Public advocates direct	April 1, 2016
Rebuttal	April 15, 2016
Surrebuttal	April 25, 2016
Oral rejoinder	May 4, 2016
Hearings	May 5-6, 2016
Main briefs	May 20, 2016
Reply briefs	June 1, 2016

7. The ALJ subsequently issued a Scheduling Order adopting the discovery procedure modifications and the litigation schedule agreed upon by the Parties at the prehearing conference.

8. On February 19, 2016, CNGHC served on the ALJ and the other parties the prepared direct testimony and exhibits of Michael I. German (CNGHC St. No. 1), Russell Miller (CNGHC St. No. 2), Matthew Cook (CNGHC St. No. 3), and Firouzeh Sarhangi and L. Mario DiValentino (presented as Financial Panel testimony) (CNGHC St. No. 4).

9. On or about February 19, 2016, PCL&P served its Statement No. Transfer Panel-I, which was the direct testimony of Francis W. Peverly, Kenneth A. Kosier, and Kate Trischitta, presented as panel testimony.

10. On March 25, 2016, the ALJ issued an Order directing PCL&P to re-serve its direct testimony with each witness sponsoring a separate, distinct statement, rather than panel testimony.

11. On April 1, 2016, OCA served the prepared direct testimony and exhibits of Matthew I. Kahal (premarked as OCA St. No. 1) on the ALJ and the other Parties.

12. On April 1, 2016, OSBA served a letter on the ALJ and the other Parties stating that it would not be submitting direct testimony.

13. On April 4, 2016, PCL&P re-served its prepared direct testimony as the direct testimony of Francis W. Peverly (PCL&P St. No. 1), Kenneth A. Kosier (PCL&P St. No. 2), and Kate Trischitta (PCL&P St. No. 3).

14. On April 15, 2016, CNGHC served the prepared rebuttal testimony and exhibits of Michael I. German (CNGHC St. No. 1-R), Russell Miller (CNGHC St. No. 2-R), and Firouzeh Sarhangi and L. Mario DiValentino (presented as Financial Panel testimony) (CNGHC St. No. 4-R).

15. On April 20, 2016, the ALJ issued an Order directing CNGHC to re-serve the direct and rebuttal testimonies submitted by its “Financial Panel” (CNGHC St. Nos. 4 and 4-R) as individual statements.

16. On May 2, 2016, CNGHC re-served its Financial Panel direct and rebuttal testimonies as the prepared direct testimony of Firouzeh Sarhangi (CNGHC St. Nos. 4) and the prepared direct and rebuttal testimonies of L. Mario DiValentino (CNGHC St. Nos. 5 and 5-R).

17. On May 5, 2015, the OCA served the prepared surrebuttal testimony of Matthew I. Kahal (OCA St. No. 1-S).

18. On May 4, 2016, CNGHC served its Outline of Oral Rejoinder Testimony.

19. Prior to the hearings, the Joint Applicants responded to approximately 65 discovery requests (not including subparts) propounded by the protestants and provided numerous pages of documents in response to these requests.³

20. The Parties initiated settlement discussions prior to the commencement of evidentiary hearings.

21. At the request of the Parties for the purpose of facilitating settlement discussions, the Presiding Officer canceled May 5, 2016 as a hearing day and scheduled the hearing to commence at 9:00 a.m. on May 6, 2016.

22. On May 6, 2016, the evidentiary hearing was held in this matter pursuant to notice with counsel for CNGHC, O&R and PCL&P, OCA and OSBA attending. OCA's and CNGHC's witnesses appeared in person at the hearing and O&R and PCL&P's were granted leave to testify by telephone subject to agreement by the parties and permission from the Presiding Officer.

23. In a preliminary matter at the hearing, the Presiding Officer presented the Parties with a list of questions from members of the Commission's staff regarding the Joint Application and instructed the Joint Applicants to have their witnesses address the questions.

24. Upon commencement of the hearing, the direct statements of the Company witnesses, Mr. Peverly, Mr. Kosior and Ms. Trischitta, were marked, authenticated and admitted as PCL&P Statements No. 1, 2 and 3, respectively. (Tr. 26-27.) Mr. Peverly's testimony summarized the proposed transaction and discussed Orange & Rockland's reasons for selling the

³ CNGHC itself produced over 250 pages of documents in response to discovery requests.

Company. Mr. Kosior's testimony discussed the background to the proposed transaction, the impact of the proposed transaction upon retail competition and the employees of PCL&P, and the services to be provided by Orange and Rockland to PCL&P under a proposed Transition Services Agreement ("TSA") and the pricing of such services. Ms. Trischita's testimony discussed the services to be provided by Orange and Rockland to PCL&P under a proposed Electric Supply Agreement ("ESA") and a proposed Gas Supply and Gas Transportation Agreement ("GSGTA") and the pricing of such services.

25. The direct and rebuttal statements of CNGHC's witnesses were marked, authenticated and admitted at hearing as follows: CNGHC St. Nos. 1 and 1-R (direct and rebuttal testimony of Michael I. German), CNGHC St. Nos. 2 and 2-R (direct and rebuttal testimony of Russell Miller), CNGHC St. No. 3 (direct testimony of Matthew Cook), CNGHC St. No. 4 (direct testimony of Firouzeh Sarhangi), and CNGHC St. Nos. 5 and 5-R (direct and rebuttal testimony of L. Mario DiValentino).

26. The exhibits sponsored by CNGHC's witnesses were marked, authenticated and admitted at hearing as follows: Joint Applicant Ex. No. 1 (Joint Application and attachments); CNGHC Ex. No. 1 (Handouts from 1/1/2015 Pike Co. Chamber of Commerce meeting); CNGHC Ex. No. 2 (Corning Natural Gas customer survey results); CNGHC Ex. No. 3 (Statement of Commissioner Pamela Witmer regarding Leatherstocking Gas Company); CNGHC Ex. No. 4 (Statement of then-Chairman Robert Powelson regarding Leatherstocking Gas Company); CNGHC Ex. No. 5 (letters of support from Pike Co. Economic Development Authority, Pike Co. Chamber of Commerce, Pike Co. Commissioners' Office, State Representative Rosemary M. Brown, State Senator Gene Yaw and Rep. Mike Peifer); CNGHC Ex. No. 6 (CNGHC consolidated balance sheets for 12 months ending Sept. 30, 2015); CNGHC Ex. No. 7 (CNGHC pro forma

balance sheet); CNGHC Ex. No. 8 (CNGHC income statement for 12 months ending Sept. 30, 2015); CNGHC Ex. No. 9 (CNGHC pro forma balance sheet); CNGHC Ex. No. 10 (PCL&P pro forma pre- and post-acquisition balance sheet at December 31, 2014, with revision for PCL&P 2015 data); CNGHC Ex. No. 11 (PCL&P pro forma pre- and post-acquisition income statement at December 31, 2014, with revision for PCL&P 2015 data); and CNGHC Ex. No. 12 (M&T Bank e-mail regarding fixed rate swap). After the hearing, CNGHC Ex. No. 13 (M&T Bank extended financing commitment letter) was also admitted.

27. Mr. German, President and CEO of CNGHC, described the proposed acquisition and related transactions and approvals sought by the Joint Application, including the acquisition itself, an affiliated interest agreement between PCL&P and Corning Natural Gas Corp. (CNG), and registration of a securities certificate. Mr. German then addressed whether the proposed acquisition would promote the service, accommodation and safety of the public, and described the deliberate approach CNGHC would take to study and employ the best practices of CNGHC and PCL&P when integrating operations following the acquisition. (CNGHC St. Nos. 1 and 1-R.) Mr. German also addressed certain of the staff questions presented by the Presiding Officer. (Tr. 34-35, 90-95.)

28. Mr. Miller, CHGHC's Vice President of Energy Supply and Business Development, testified regarding the three proposed transitional agreements that are part of the Joint Application – the TSA, the ESA and the GTGSA. Mr. Miller also addressed CNGHC's plans to hire a General Manager and Customer Service Manager for PCL&P, how CNGHC would work with Orange and Rockland and other vendors during the terms of the transitional agreements, and how CNGHC may utilize local supply in the future. Mr. Miller also discussed CNGHC's approach to business expansion, its community outreach, its focus on bringing local utility services to local

people in rural territories and small cities and villages, and the potential benefits of that focus for PCL&P. (CNGHC St. Nos. 2 and 2-R.) Mr. Miller also answered certain of the staff questions presented by the Presiding Officer. (Tr. 68-71.)

29. Mr. Cook, CNGHC's Vice President – Operations, testified regarding the technical fitness of CNGHC to operate both the electric and gas distribution functions of PCL&P and CNGHC's staffing plans for PCL&P. (CNGHC St. No. 3.) Mr. Miller also answered certain of the staff questions presented by the Presiding Officer. (Tr. 75-85.)

30. Ms. Sarhangi, CNGHC's Chief Financial Officer, and Mr. DiValentino, President of Moonstone Consulting LLC, each testified about the financial aspects and effects of the proposed acquisition, CNGHC's financial fitness to acquire PCL&P, the request by CNGHC and PCL&P for approval of an affiliated interest agreement between PCL&P and CNG; and PCL&P's request for registration of a securities certificate in the form of a Term Loan in the amount of \$12,000,000 from Manufacturers and Traders Trust Company ("M&T Bank"). (CNGHC St. Nos. 4, 5 and 5-R.) Ms. Sarhangi also provided oral rejoinder testimony regarding the availability and terms of a fixed interest rate swap from M&T Bank. (Tr. 64-65.) Mr. DiValentino also answered certain of the staff questions presented by the Presiding Officer. (Tr. 48-55.)

31. The direct and surrebuttal statements of OCA witness Matthew I. Kahal were marked, authenticated and admitted at hearing as OCA St. No. 1 and OCA St. No. 1-S. Mr. Kahal testified regarding the transaction and Joint Applicants' testimony and exhibits, including concerns he had regarding the proposed acquisition's impact on customers' service and rates, and CNGHC's fitness relative to electric operations and service. Regarding those concerns, Mr. Kahal discussed and proposed safeguards or conditions he recommended be imposed should the Joint Application

be approved. Absent sufficient conditions or safeguards, he recommended that the Joint Application not be granted. (OCA St. Nos. 1. and 1-S.)

32. The Parties engaged in multiple and extensive settlement discussions before, during, and after the evidentiary hearing. On May 13, 2016, the Parties requested a one-week extension of the briefing schedule. The presiding officer granted this request by order dated May 16, 2016.

33. On or about May 25, 2016, the Parties informed the Presiding Officer they had reached a settlement of all issues in this proceeding, stated that a joint petition for settlement would be filed no later than June 10, 2016, and requested that the briefing schedule be stayed due to the settlement. The Presiding Officer granted this request.

II. THE SETTLEMENT

34. The parties agree that “affirmative benefits” are necessary under applicable law for the application to be approved. The Joint Applicants and OCA and OSBA disagreed as to what constituted affirmative benefits relative to the application, proposed transaction, testimony and exhibits presented.

35. In order to resolve these competing positions, the parties through extensive and comprehensive negotiation have agreed to terms and conditions to the Application which, taken together with the evidentiary record, warrant granting the approvals requested in the Joint Application as in the public interest. It also represents an outcome Joint Petitioners agree is preferable to the time, expense and uncertainty of litigation before the Commission and potentially, appellate courts. Indeed, Joint Petitioners note it is the policy of this Commission to encourage settlements. *See* 52 Pa. Code §§ 5.231, 69.391, 69.401.

36. The Settlement consists of the following terms and conditions:

a. PCL&P shall commence a natural gas system cast iron and bare steel (CIBS) study within six (6) months of closing, and within eighteen (18) months of closing start implementation of a replacement program.

b. Six (6) months after closing, PCL&P shall start a study of alternative supply options for its gas and electric divisions. For the electric division, the options studied shall include, but are not limited to, the inclusion of bilateral contracts as defined in 66 Pa.C.S. § 2803, which “may include the EEI Master Agreement for physical energy purchases and sales and the ISDA Master Agreement for financial energy purchases and sales.” The study shall also include, but not be limited to, other flexible options such as purchases of financial (or physical) hedges in small quantities from brokers. PCL&P shall consult with OCA and OSBA before the study begins with respect to its scope and the options to be studied. PCL&P, OCA and OSBA shall meet to discuss the results of the study within twelve (12) months of closing.

c. PCL&P shall not file for a general rate increase under 1308(d) of the Public Utility Code, 66 Pa. C.S. § 1308(d) prior to a March 1, 2018. However, if a legislative body, the judiciary, or an administrative agency, including the Commission, enacts or orders any fundamental changes in policy or statutes that directly and substantially affect the Company’s cost of service, the Settlement shall not prevent the Company from filing a tariff or tariff supplement to the extent necessitated by such action. In addition, this provision shall not preclude the Company from seeking extraordinary rate relief under Section 1308(e) of the Public Utility Code, 66 Pa, C.S. § 1308(e).

d. PCL&P will hold no fewer than four (4) quarterly meetings during the three (3) years following the date of closing with local officials, economic development councils and/or agencies, to discuss any need for expansion of service or any service issues.

e. PCLP and O&R will modify the Transition Services Agreement (TSA) to allow PCLP to extend the 12 month term of the TSA, on a month to month basis, for a maximum of an additional six (6) months. During the term of the Transitional Service Agreement, PCL&P will meet or have a quarterly conference with OCA and OSBA to (a) explain in sufficient detail what services PCL&P is continuing to take under the TSA and what services it no longer requires and (b) to provide sufficient detail of what substitute services from the CNGHC or other vendors has or will occur. OCA and OSBA shall keep such information confidential during the term of the Transitional Service Agreement.

f. O&R and CNGHC agree that the TSA is intended to provide PCLP/CNGHC with the ability to procure all of the services listed in TSA Exhibit A during the full term of the agreement. O&R and CNGHC further agree that the TSA "Hours Limitation" provision will not be applicable to emergency or extraordinary circumstances (see Transcript at 44).

g. CNGHC shall provide monthly updates to OCA and OSBA of its General Manager hiring initiative until the General Manager is hired. OCA and OSBA shall keep confidential the identity of, and any information which could identify, candidates who request that their interest in the position be kept confidential.

h. CNGHC fully acknowledges its responsibility to promptly implement a staffing plan for PCL&P after closing that will provide safe, reliable, and responsive gas and electric utility service at reasonable cost to PCL&P customers. To that end,

PCL&P/CNGHC's staffing plan will include approximately twelve (12) full time equivalent employees (FTEs) of PCL&P. PCL&P will hire, by no later than three (3) months after closing, as PCL&P employees the following five (5) full time positions: two (2) gas fitter/meter readers, one general manager, one (1) customer service manager/public affairs manager, and one (1) customer service representative. If additional time is required to secure qualified persons for these five (5) positions, PCL&P/CNGHC may take up to nine (9) additional months (for a total of one year from closing) to fill these positions, provided it shows cause for doing so and has exercised its best cost-effective and expeditious efforts to obtain qualified personnel. For the remaining positions in the areas of billing, IT, accounting, and HR/insurance, within 18 months of closing, these positions will be filled, or service provided, by hired PCL&P employees, CNGHC employees, contractors or a combination thereof. For the areas of electric crew persons, electric engineering support, and supply analyst/procurement, the Company will staff these positions within 18 months with PCL&P or CNGHC employees unless the Company demonstrates that staffing some or all of these positions through contractor employees is cost-effective and fulfills PCL&P's obligation to provide service in accordance with the requirements of the Public Utility Code. If PCL&P determines to use contractors for any of the above positions, it shall provide its demonstration to the Commission for review and approval, which shall occur within 10 days of filing. This review and approval requirement shall expire 18 months after the date of closing.

i. PCL&P/CNGHC shall provide OCA, OSBA, and the Commission with sufficiently detailed quarterly status reports on the progress of retaining an electric and gas

utility staff for PCL&P. Each report shall contain information regarding the number of permanent staff retained and the number of contractors still in use.

j. PCL&P will continue its Electric Division Reliability Plan.

k. Transaction costs and costs incurred as a result of this acquisition will not be claimed by PCL&P in any rate case. Such costs shall include the costs incurred to effect and gain regulatory approvals for the purchase of PCL&P, the costs of recruiting a new staff, the cost of training a new staff, the costs of bringing PCL&P into compliance with PUC regulations due to the change in ownership, except to the extent PCL&P can demonstrate that such costs result in cost savings for PCL&P customers.

l. No goodwill or acquisition premium, if any, will be claimed by PCL&P in any rate case (including goodwill-related equity in capital structure).

m. For the next general gas and electric rate cases, PCL&P shall not request inclusion of risk premium in the authorized return on equity for small size or for any other aspect of parent company (CNGHC) risk attributes. While this provision does not prohibit PCL&P from requesting such a risk premium in future rate cases beyond the first post-Closing cases, all parties retain all rights to oppose such a request for a risk premium.

n. PCL&P customers shall be held harmless from adverse rate effects associated with tax and accounting changes associated with this transaction. This would include but not be limited to the loss of the PCL&P balance of accumulated deferred taxes to the extent they are includable in rate base as a deduction. PCL&P would have the burden of demonstrating an absence of harm from the loss of PCL&P's pre-Closing deferred tax balance at the time of its next rate case to the extent they are includable in rate base as a deduction.

o. PCL&P/CNGHC shall study the feasibility and cost implications of an interest rate swap, or similar switch to fixed rate debt, to hedge variable rate debt and shall provide its findings in one of its quarterly status reports filed within six months after closing of the transaction.

p. PCL&P shall establish a service center/office in PCL&P's service territory.

Additional Settlement Terms

37. The Commission's approval of the Settlement shall not be construed as approval of any Joint Petitioner's position on any issue, except to the extent required to effectuate the terms and agreements of the Settlement. Accordingly, this Settlement may not be cited as precedent in any future proceeding, except to the extent required to implement or to enforce this Settlement.

38. It is understood and agreed among the Joint Petitioners that the Settlement is the result of compromise and does not necessarily represent the position(s) that would be advanced by any Joint Petitioner in this or any other proceeding, if it were fully litigated.

39. This Settlement is being presented only in the context of this proceeding in an effort to resolve the issues presented in this proceeding in a manner that is fair and reasonable. The Settlement is the product of compromise. This Settlement is presented without prejudice to any position which any of the Joint Petitioners may have advanced and without prejudice to the position any of the Joint Petitioners may advance on the merits of the issues in future proceedings, except to the extent necessary to effectuate or enforce the terms and conditions of this Settlement.

40. This Settlement is conditioned upon the Commission's approval of the terms and conditions contained herein without modification. In reaching this Settlement, the Joint Petitioners thoroughly considered all issues and give and take of positions. As a result of that consideration, the Joint Petitioners believe that the settlement agreement meaningfully addresses all such issues

raised and therefore should be approved without modification. If the Commission should disapprove the Settlement or modify any terms and conditions herein, this Settlement may be withdrawn upon written notice to the Commission and all active parties within five (5) business days following entry of the Commission's Order by any of the Joint Petitioners and, in such event, shall be of no force and effect. In the event that the Commission disapproves the Settlement or the Company or any other Joint Petitioner elects to withdraw the Settlement as provided above, the Joint Petitioners reserve their respective rights to fully litigate this case, including, but not limited to, presentation of witnesses, cross-examination and legal argument through submission of Briefs, Exceptions and Replies to Exceptions.

41. All Joint Petitioners shall support the Settlement and make reasonable and good faith efforts to obtain approval of the Settlement by the Presiding Officer and the Commission without modification. If the Presiding Officer, in her Recommended Decision, recommends that the Commission adopt the Settlement as herein proposed without modification, the Joint Petitioners agree to waive the filing of Exceptions. However, to the extent any terms and conditions of the Settlement are modified, or additional matters are proposed by the Presiding Officer in her Recommended Decision, the Joint Petitioners do not waive their rights to file Exceptions in support of the Settlement. The Joint Petitioners also reserve the right to file Replies to any Exceptions that may be filed provided such Replies support the Settlement.

42. The Joint Petitioners agree that this document may be signed or executed in separate counterparts which shall be binding upon the Joint Petitioners and such counterparts shall be considered as one document.

III. THE SETTLEMENT IS IN THE PUBLIC INTEREST

43. CNGHC, PCL&P, OCA and OSBA have each prepared and attached to this Joint Petition their respective Statements in Support as Appendices A, B, C and D, respectively, setting forth the bases upon which they believe that the Settlement, and the approval of the Joint Application on the terms and conditions of the Settlement, are fair, just, reasonable, non-discriminatory and in the public interest.

44. The Joint Petitioners submit that the Settlement is in the public interest for the reasons stated above and for the following reasons:

- a. The Settlement amicably and expeditiously resolves a number of important and potentially contentious issues. The administrative burden and costs to litigate these matters to conclusion, including possible appeal of any Final Order, would be significant. Rate case costs permitted by the Commission are borne by ratepayers of the Company. Thus, the Settlement will not only conserve the time, effort and expense of all parties as well as those of the Commission and the Presiding Officer, it serves to lower allowable rate case costs and therefore rates.
- b. The Joint Petitioners arrived at the Settlement terms after review of the Joint Applicants' responses to discovery by the statutory advocates, review and analysis of the Parties' prepared direct, rebuttal and surrebuttal testimony, the cross examination of witnesses, and in-depth discussions. The Settlement terms and conditions constitute a carefully crafted package representing reasonable negotiated compromises on the issues raised by the Joint Application. Thus, the Settlement is consistent with the Commission's

rules, practices and procedures promoting and encouraging negotiated settlements. *See* 52 Pa. Code §§ 5.231, 69.391, 69.401.

WHEREFORE, for all of the foregoing reasons, the Parties request that the Presiding Officer and the Commission:

1. Grant this Joint Petition for Full Settlement of Joint Application Proceeding;
2. Approve this Settlement without modification;
3. Grant the Joint Application as modified by this Settlement;
4. Grant as applicable all necessary and customary approvals under the Public Utility Code and issue certificates of public convenience evidencing the Commission's approval, subject to the terms of the Settlement, of:

- a. The transfer of control and ownership interests in PCL&P from Orange and Rockland to CNGHC;
 - b. The Affiliated Interest Agreement contained in the Joint Application; and
 - c. The PCL&P securities transaction explained in the Joint Application; and,
5. Grant such further relief as may be necessary or appropriate.

Corning Natural Gas Holding Corporation

Thomas J. Sniscak

(Dated) June 10, 2016

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**Pike County Light & Power Company,
Orange & Rockland Utilities, Inc.**

John J. Gallagher

(Dated) 6/10/16

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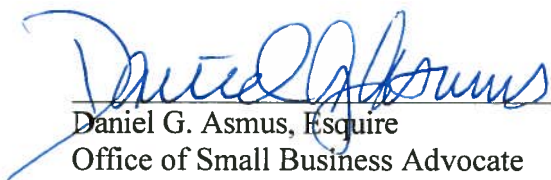
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APPENDIX A

Corning Natural Gas Holding Corporation

Statement in Support of Full Settlement

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Joint Application of Pike County Light	:	
And Power Company, Buyer Corning Natural	:	
Gas Holding Corporation and Seller Orange	:	A-2015-2517036
And Rockland Utilities, Inc. for a Certificate	:	A-2015-2517111
Of Public Convenience Approving the Transfer	:	G-2015-2517113
By Sale of 100% of the Stock of Pike County	:	G-2015-2517114
Light And Power Company from Seller Orange	:	S-2015-2517115
And Rockland Utilities, Inc. to Buyer Corning	:	S-2015-2517116
Natural Gas Holding Corporation	:	

**CORNING NATURAL GAS HOLDING CORPORATION
STATEMENT IN SUPPORT OF JOINT PETITION FOR FULL SETTLEMENT OF
JOINT APPLICATION PROCEEDING**

Pursuant to 52 Pa. Code §§ 5.231-5.232 Corning Natural Gas Holding Corporation (“CNGHC”) submits this Statement in Support of the Joint Petition for Full Settlement of Joint Application Proceeding (“Settlement or Joint Petition for Settlement”)¹ of Joint Applicants Pike County Light & Power Company (“Company” or “PCL&P”), among CNGHC, and Orange and Rockland Utilities, Inc. (“Seller,” “Orange and Rockland” or “O&R”), the Office of Consumer Advocate (“OCA”), and the Office of Small Business Advocate (“OSBA”) (collectively, “Parties” or “Joint Petitioners”) in the above-captioned matter. The Settlement is in the public interest, and CNGHC requests the Presiding Officer and the Commission approve the Settlement as submitted and without modification or delay, for the following reasons.

¹ Simultaneous with this Statement in Support, the Parties have filed a Joint Petition for Full Settlement of Joint Application Proceeding. This Statement in Support is included in and made a part of the Joint Petition for Settlement as **Appendix A**.

I. INTRODUCTION

1. This Statement in Support first discusses the parties to the proposed acquisition of PCL&P by CNGHC (the “Acquisition”) (Section I.A.), the details of the Acquisition, (Section I.B.), the affiliated interest agreement and securities certificate for which approval is requested in conjunction with the Acquisition (Section I.C), and post-Acquisition operations (Section I.D.). Second, this Statement in Support demonstrates that the Acquisition satisfies the applicable standards for Commission approval: it will produce affirmative public benefits (Section II.A); CNGHC possesses the requisite technical and financial fitness (Section II.B); and the transaction will not adversely affect competition (Section II.C.). Section III demonstrates why approval of the Settlement is in the public interest. The procedural history of this proceeding is presented in the Settlement at 2-9, which is incorporated by this reference.

A. Parties to the Transaction

1. CNGHC

2. CNGHC is the purchaser in this transaction. CNGHC owns and operates Corning Natural Gas Corporation (“CNG”), which was incorporated in 1904 and currently distributes natural gas through a 430-mile distribution and transmission network to approximately 15,000 residential, commercial, industrial and municipal customers in the Corning, Hammondsport and Virgil, New York areas, and to two other gas utilities which service the Elmira and Bath, New York areas. CNGHC also owns a 50% share of Leatherstocking Gas Company, LLC (“Leatherstocking Gas”), which is a Pennsylvania public utility that provides natural gas service in Susquehanna and Bradford Counties, Pennsylvania to approximately 280 customers, and 50% of Leatherstocking Pipeline Company, which serves one customer in Pennsylvania. (CNGHC St. 1 (German Direct) at 3).

3. CNGHC's executive team and supervisory personnel have extensive utility experience. Mr. German, CNGHC's President and CEO, was formerly President of NYSEG, a large combination gas and electric utility company, and has managed several utilities around the country. He was a senior Vice President of Southern Union and was responsible for the Pennsylvania utility, PG Energy. (Tr. at 35:2-8). In particular, he is familiar with setting up processes and managerial lines of direction for regulatory compliance in Pennsylvania from his experience at Leatherstocking Gas and PG Energy. (Tr. at 35:9-15). He has vast experience managing utilities including as a senior VP and President at NYSEG for approximately 6 years, an electric and gas utility that served during his tenure approximately 1 million (approximately 817,000 of which were electric) customers in New York State. Mr. German will serve on the PCL&P Board of Directors and be its CEO. (CNGHC St. 1 at 1; Tr. at 129-130).

4. Russell Miller, CNGHC's Vice President of Energy Supply and Business Development, has over 25 years of experience in the natural gas industry and strong management experience. Mr. Miller is responsible for, among other things, natural gas procurement activities, corporate pipeline and storage assets, gas supply, and asset management reporting functions. Mr. Miller will serve on the PCL&P Board of Directors and oversee the transition from O&R ownership to CNGHC ownership and be responsible for the General Manager position until one is hired. (CNGHC St. 2 at 1-2.).

5. Mathew J. Cook, CNGHC's Vice President – Operations, has over 27 years of experience working with gas distribution companies and currently manages the Operations and Maintenance (“O&M”) of CNG and Leatherstocking Gas. His responsibilities as Vice President – Operations with CNG and Leatherstocking Gas include managing the engineering, construction,

safety, training, and compliance with state and federal safety regulations. Mr. Cook will serve on the PCL&P Board of Directors. (CNGHC St. 3 at 1-3).

6. Firouzeh Sarhangi is CNGHC's CFO and Treasurer. She is responsible for the financial management operations of CNGHC, CNG, Leatherstocking Gas, and Leatherstocking Pipeline. She has 32 years of public accounting experience. Ms. Sarhangi will serve on the PCL&P Board of Directors and be CFO of PCL&P. (CNGHC St. 4 at 1-2).

7. For the past 10 years, the regulatory and rate consultant for the CNGHC family of utilities has been L. Mario DiValentino – and he will do so in the future, including for PCL&P. Mr. DiValentino was an O&R employee for 22 years and held various positions including Vice President, Accounting, Finance and Controller. He has vast knowledge about PCL&P and will be a great resource in making the transition and on an ongoing basis. (CNGHC St. 5 at 1-2; CNGHC St. 1 at 11).

8. CNGHC is financially fit to acquire, own, and operate PCL&P. CNGHC has internal cash flow and access to capital that supports the PCL&P acquisition, as well as an aggressive pipe replacement program in its Local Distribution Company ("LDC") subsidiary. For example, in 2015 CNGHC invested approximately \$5.8 million in system improvement and projects, repairing 292 leaks and replacing 492 services and 6.9 miles of main. In 2014, it invested \$8.4 million in system improvement and projects, repairing 301 leaks and replacing 411 services and 8.2 miles of main. These expenditures favorably impact CNGHC's performance in the area of leak repair and main and service replacements. As noted in the Joint Application, CNGHC has the financial resources to successfully complete this transaction and to own and operate PCL&P. As shown by the financial metrics discussed above and as confirmed by Mr. DiValentino in his direct testimony (CNGHC St. No. 4), CNGHC is financially healthy and has the resources (or

access to the resources) required to acquire and operate PCL&P. CNGHC's financial condition both before and after the acquisition is demonstrated by the actual and pro forma income statements and balance sheets submitted as CNGHC Exhibits No. 6, 7, 8 and 9. (CNGHC St. 4 at 5-6; CNGHC St. 5 at 10).

9. CNGHC's current capital structure is 34% long-term debt and 66% equity. After the transaction, CNGHC's capital structure is expected to be 42% long-term debt and 58% equity. This is very close to a standard or recommended utility capital structure of 45% debt to 55% equity. (CNGHC St. 5 at 6).

2. **Orange and Rockland**

10. O&R is the seller in this transaction. O&R is a corporation organized and existing under the laws of the State of New York, with a principal business office located at One Blue Hill Plaza, Pearl River, New York 10965. O&R with its two wholly-owned subsidiaries, PCL&P and Rockland Electric Company, a New Jersey public utility, jointly operate a single fully integrated electric production and transmission system serving parts of Pennsylvania, New Jersey and New York, and with respect to PCL&P, a natural gas distribution system. O&R is the sole stockholder of PCL&P. (CNGHC St. 1 at 3).

3. **PCL&P**

11. PCL&P is the Pennsylvania public utility CNGHC seeks to acquire from O&R via an acquisition of all PCL&P stock. Because this is a stock acquisition, PCL&P will remain a Pennsylvania corporation and a Pennsylvania gas and electric utility before and after the transaction. Similar to CNG and Leatherstocking Gas, PCL&P provides service to primarily rural areas and small cities and villages. PCL&P furnishes electric distribution and provider of last resort services to approximately 4,500 customers in a certificated service territory, which includes the Boroughs of Milford and Matamoras and the Townships of Milford, Dingman and Westfall, in

northeastern Pennsylvania. PCL&P also is engaged in the retail distribution and sale of natural gas for residential, commercial, and industrial purposes within the Commonwealth of Pennsylvania. PCL&P serves approximately 1,200 residential and commercial gas customers in Pike County, Pennsylvania. (CNGHC St. 1 at 3-4). PCL&P offers these services pursuant to certificates of public convenience issued by the Commission. (Joint Applicant Ex. 1 at P 9 (Joint Application)).

12. PCL&P at this time does not have any registered securities certificates with outstanding balances. (CNGHC St. 4 at 9). PCL&P is not a guarantor of any affiliated company's debt instruments and PCL&P's current dividend payout ratio is less than 75%. (CNGHC St. 4 at 9).

B. The Acquisition

13. CNGHC proposes to acquire PCL&P pursuant to a Stock Purchase Agreement by and between O&R and CNGHC, dated as of October 13, 2015. (Joint Applicant Ex. 1 (Joint Application) at Attachment 1). The Stock Purchase Agreement provides that O&R will sell, and CNGHC will purchase, all of the issued and outstanding shares of common stock of PCL&P for a base purchase price of \$13.117 million ("Purchase Price"). The Purchase Price is subject to a closing date working capital adjustment that will increase the Purchase Price by no more than \$3 million. In addition, as part of the purchase, CNGHC will assume PCL&P's outstanding \$3.2 million in bonds. (CNGHC St. 1 at 4; CNGHC St. 4 (Sarhangi Direct) at 4-5).

14. Upon closing of the proposed transaction, CNGHC will directly own 100% of PCL&P, and O&R and PCL&P will cancel both the Affiliated Interest Agreement and the Power Supply Agreement currently in effect between them. Immediately following the closing of the proposed transaction, the Board of Directors of PCL&P will be Michael German, President and CEO of CNGHC, Firouzeh Sarhangi, CFO of CNGHC, Matthew Cook, VP of Operations of

CNGHC, Russell Miller, VP of Gas Supply and Marketing of CNGHC, and the General Manager of PCL&P, a position that will be filled by and coordinated with closing. The officers of PCL&P will be Michael German, CEO, Firouzeh Sarhangi, CFO, and the General Manager. (CNGHC St. 1 at 4).

15. Before and after closing, PCL&P will continue to exist as a corporation and will continue to operate pursuant to the terms of service and charge the duly authorized rates approved by this Commission as a Pennsylvania electric and gas public utility subject to the continuing jurisdiction of the Commission and without any reduction in the Commission's existing oversight or any diminishment in the authority of the Commission over the Company. The transaction will not adversely affect service, rates, or day-to-day operations of PCL&P. PCL&P will continue to provide retail electric and gas utility service to its customers, and the proposed change in control will be seamless as to those customers. In addition, CNGHC supports electric customer choice and strong competitive natural gas markets. The Company will continue to operate its Westfall Service Center. (CNGHC St. 1 at 4-5).

16. CNGHC will finance the acquisition of PCL&P through the use of cash, debt or other appropriate securities with a targeted capital structure for PCL&P appropriate for a regulated entity. Approximately 40% of the Base Purchase Price for the acquisition will be provided by contributed equity, and the remaining amount will be funded by long-term debt to be issued by Manufacturers and Traders Trust Company ("M&T Bank"). (CNGHC St. 1 at 5; CNGHC St. 4 at 5).

17. PCL&P's current capital structure is 38% long-term debt and 62% equity (excluding a long term intercompany liability of \$10 million). After the transaction, PCL&P's capital structure is expected to be 55% long-term debt and 45% equity. However, the imputed or

“hypothetical” capital structure used by the Commission in the last rate case was 48% debt, 52% equity, which approximates the CNGHC capital structure upon closing of the transaction. (CNGHC St. 5 at 6).

18. The acquisition will have no negative effect on PCL&P’s financial fitness to provide public utility services. This is demonstrated by PCL&P’s pre-and post-acquisition pro forma balance sheet and income statement and the pro formas of those documents that give effect to the transaction. (CNGHC Exhibit No. 10 (Jt. App. Att. 6 (Revised)); CNGHC Exhibit No. 11 (Jt. App. Att. 7 (Revised))). As shown on the pro forma balance sheet (CNGHC Exhibit No. 10), PCL&P’s current capital structure is 38% long-term debt and 62% equity, based on its most recently reported long-term debt (\$3,200,000) and equity (\$5,217,000); as a result of the transaction, long-term debt will be increased to \$12,000,000 and equity will be increased to \$9,789,000, producing a capital structure comprising 55% long-term debt and 45% equity. The current PCL&P capital structure includes \$10.5 million in “non-current liabilities to affiliates” (CNGHC Exhibit No. 10) that are not counted as long-term debt in PCL&P’s balance sheet or in the above calculation. If this was counted as long-term debt, the current ratio would be 70% debt and 30% equity. Interest on this debt to affiliates is approximately \$400,000 a year in addition to interest recognized as long-term debt interest. (See “Other Interest” entry in CNGHC Exhibit No. 11). As shown by the pro forma income statement (CNGHC Exhibit No. 11), the transaction will produce a net reduction in annual interest expense of \$102,000. The pro forma also shows that PCL&P will have net income of \$776,000, which is an increase of \$216,000 over actual 2015 income. (CNGHC Exhibit No. 11.). PCL&P is not taking on \$12 million more debt to finance this acquisition. Rather, the transaction *replaces* PCL&P’s existing \$13.2 million of debt (owed to Banker’s Trust and to O&R) with the new \$12 million loan from M&T Bank, which results in

a net *reduction* of PCL&P's debt. (CNGHC St. 5-R at 3 (DiValentino Rebuttal)). The \$9.9 million owed to ORU carries an interest rate that is currently at market and the \$3.2 million debt owed to Bankers Trust is very short term and has an 7% interest rate compared with PCL&P's existing \$13.2 million debt, the \$12 million M&T debt at a 4% interest rate is more favorable to PCL&P. (CNGHC St. 5-R at 4-5). Thus, the acquisition is expected to keep PCL&P even more firmly operating in the black. (CNGHC St. 5 at 6-7; CNGHC St. 5-R at 5).

19. Post-closing PCL&P's debt to total capital ratio is expected to be 55%. CNGHC will strive to maintain a capital structure that is within 10% of a 50/50 capital structure. (CNGHC St. 4 at 9).

C. The Affiliated Interest Agreement and Securities Certificate

20. In addition to the Acquisition, CNGHC also seeks regulatory approval of (1) an Affiliated Interest Agreement between PCL&P and CNG ("AIA") (Joint Applicant Exhibit No. 1, Attachment 12), and (2) registration of a securities certificate in the form of a Term Loan in the amount of \$12,000,000 from M&T Bank (Joint Applicant Exhibit No. 1, Attachment 13). (CNGHC St. 1 at 5-6 & CNGHC Exhibit 13 (extended commitment letter of M&T Bank)).

1. Affiliated Interest Agreement

21. PCL&P has no operating employees and instead provisions services under a Commission-approved Affiliated Interest Agreement dated July 1, 2014, with O&R ("O&R AIA"). Under the existing O&R AIA, O&R provides PCL&P with the facilities and workforce required to conduct the construction, maintenance and operation of PCL&P's electric distribution system, natural gas distribution system and commercial, general and administrative operations. However, pursuant to the Stock Purchase Agreement §6.11, upon closing, the existing AIA between O&R and PCL&P will terminate. CNGHC's plan to staff and provide affiliated services differs from O&R's in that CNGHC's plan provides for PCL&P to be staffed with Pennsylvania

employees, thus creating Pennsylvania jobs. Consequently, PCL&P must enter into a new AIA for services to be available and rendered by CNG, and that agreement needs to be effective simultaneous with approval of the Joint Application. (CNGHC St. 4 at 7; CNGHC St. 2 (Miller Direct) at 9-10).

22. The proposed AIA is by and between PCL&P and CNG. As shown on Exhibit A to the AIA, both companies will be subsidiaries of CNGHC. Both PCL&P and CNG believe it is in their best interests to enter into this agreement so that PCL&P may purchase certain administrative, management, construction, operation, maintenance and other goods and services, which are fully described in Exhibit B to the AIA. These services will be provided to PCL&P at the request of PCL&P. PCL&P may choose the lower of cost or market price for these services as set forth in the AIA. (CNGHC St. 4 at 7).

23. The AIA will be in full force and effect from the date of Commission approval and remain in effect until terminated by one of the Parties upon 90 days' notice or until the Parties cease to be affiliated. (AIA ¶4); (CNGHC St. 5 (DiValentino Direct) at 11).

24. Exhibit B to the AIA contains a complete description of the potential products and services to be provided. These services encompass or facilitate every aspect of providing the services that PCL&P requires for its gas and electric service. (CNGHC St. 5 at 12). To provide service under the AIA, CNG will employ executive officers, accountants, financial advisers, technical advisers, attorneys, and other persons with the necessary qualifications. If necessary, PCL&P and CNG may also arrange for the services of nonaffiliated experts, consultants and attorneys in connection with the performance of any of the provided services under the AIA. (AIA ¶2). (CGNHC St. 5 at 11).

25. To request service under the proposed AIA, PCL&P will prepare a Service Request on or before December 1st of each year listing the Services to be provided by CNG in the coming year and any special arrangements related to the provision of such Services for the coming year, based on the Services provided during the preceding year. PCL&P and CNG may supplement the Service Request during the year to reflect any additional or special Services as described in Exhibit B to the AIA that PCL&P wishes to obtain from CNG, and the arrangements relating thereto. If PCL&P requests services not described in Exhibit B to the AIA it will need to receive approval from the Commission via an updated or new Affiliated Interest Agreement. (AIA ¶5). (CNGHC St. 5 at 11-12).

26. CNG will directly assign the costs for services provided under the AIA, and where direct assignment of costs is not practicable, costs will be allocated as indicated in Exhibits B and C to the AIA. (AIA ¶3). (CNGHC St. 5 at 11). Exhibit C to the AIA contains specific guidelines for cost of service and allocation methodologies. CNG will provide services at the lower of cost or market and directly assign, distribute or allocate the cost of services by activity, project, program, work order or other appropriate basis. The primary basis for charges is the Direct Charge method. The Direct Charge method is a way of charging directly for specific intra-group services on a clearly identified basis. For services or products that will not be directly charged, Section 7 of Exhibit 3 to the AIA contains a comprehensive list of services provided to PCL&P and the specific basis of allocation. (CNGHC St. 5 at 13).

27. Regarding billing and payment under the AIA, as soon as practical after the last day of each month, CNG will render a billing for all amounts due for services and expenses for such period, computed pursuant to the AIA. PCL&P will pay all billed amounts within 30 days. PCL&P will render payment for services provided by remitting the amount billed or by making

appropriate accounting entries on the books of PCL&P and CNG. PCL&P and CNG will keep their books and records available at all reasonable times for inspection by representatives of the other Party or by regulatory bodies having jurisdiction over them and, upon request, will furnish any and all information required with respect to the services rendered, the costs thereof, and the allocation of costs among Parties to the AIA. (AIA ¶6). (CNGHC St. 5 at 12).

28. The AIA can be can be modified with the agreement of the Parties; however, all substantive changes must be approved by the Commission. (AIA ¶10). (CNGHC St. 5 at 12).

29. Through the pre-filed testimony and exhibits of Mr. DiValentino and the questions from the Commission's Technical Utility Services ("TUS") given to the Presiding Officer who directed CNGHC to ask TUS's questions of CNGHC's witnesses at the hearing, CNGHC provided the information necessary to answer all applicable questions associated with the approval of an affiliated interest agreement. (*See generally* CNGHC St. 5; Tr. at 49-55).

2. **Securities Certificate**

30. Regarding the Securities Certificate for which CNGHC requests approval, PCL&P currently has requested registration of a Securities Certificate in the form of a Term Loan in the amount of \$12,000,000 from M&T Bank. The material terms of the loan, as well as financial statements needed to support the registration are Attachment 13 to Joint Applicant Exhibit No. 1. PCL&P will partially finance the \$19,317,000 acquisition of the electric and gas distribution system currently owned by O&R with new debt, in the form of a loan from M&T Bank in the amount of \$12,000,000. The material terms are as follows:

Lender: Manufactures and Traders Trust Company (“M&T”)
Principal Amount: \$12,000,000.00.
Type of Borrowing: Term Loan.
Term: Five (5) years from the date of closing.
Rate: Variable interest based on 1 Month LIBOR plus 300 basis points.
Loan Costs: \$60,000 commitment fee.
Repayment: Billed interest only for 6 months, then commence monthly payments of principal and interest based on an amortization not to exceed 10 years.
Collateral: A perfected first lien on all assets of Borrower and assets being acquired by Borrower.

(CNGHC St. 4 at 7-8).

31. No registration of filing with the Securities and Exchange Commission will be required in connection with any of the debt issuances for this transaction. (CNGHC St. 4 at 9).

32. As further clarified and confirmed at hearing, PCL&P does not currently have any securities certificates with outstanding balances. (CNGHC St. 4 at 9; Tr. at 49:5-17).

33. Through the pre-filed testimony and exhibits of Mr. DiValentino and Ms. Sarhangi and the questions from the Commission’s Technical Utility Services (“TUS”) given to the Presiding Officer who directed CNGHC to ask TUS’s questions of CNGHC’s witnesses at the hearing, CNGHC provided the information necessary to answer all applicable standard data requests associated with the issuance of a securities certificate. (*See generally* CNGHC St. 4; CNGHC St. 5; CNGHC Ex. Nos. 6-11 (as revised); Tr. at 49-55).

34. As discussed *supra* P 18, the securities certificate will provide the ability to refinance PCL&P's existing \$13.2 million of debt (owed to Banker's Trust and to O&R) with the new \$12 million loan from M&T Bank, which results in a net reduction of PCL&P's debt and a lower interest rate that is more favorable to PCL&P. (CNGHC St. 5-R at 3-5). Thus, the debt acquired through approval of the requested securities certificate will benefit PCL&P and its ratepayers. (CNGHC St. 5 at 6-7; CNGHC St. 5-R at 5).

D. Post-Transaction Operation of PCL&P

35. PCL&P will continue to exist as a Pennsylvania gas and electric utility, and its existing tariff rates and terms and conditions of service will continue to apply. Any changes to rates or the tariff would occur only pursuant to Commission review under the Public Utility Code and the Commission's Orders and Regulations. (CNGHC St. 1 at 9).

36. Post-closing, three transitional agreements will be in place between PCL&P and O&R for the supply of electric supply and service, gas supply and services, and other transitional services, as modified by the Settlement. (CNGHC St. 2 at 2-3; Joint Petition for Settlement at 10-11).

37. During the post-closing transition period, PCL&P will obtain gas supply through a Gas Supply & Gas Transportation Agreement ("Gas Supply Agreement" or "GSGTA") with O&R. (Joint Applicant Exhibit No. 1, Attachment 10). Under the Gas Supply Agreement, O&R will provide gas supply and transportation to PCL&P for a 36-month period, which PCL&P may successively extend for three 12-month periods, up to a full term of 72 months. (Gas Supply Agreement at 1; ¶¶ 1(a) and (b)). O&R currently provides gas supply and transportation to PCL&P, and under the Gas Supply Agreement will continue to do so in good faith with the same manner of care it currently provides. (Gas Supply Agreement at 2; ¶ 1(c)). As set forth in Exhibit A to the Gas Supply Agreement, the charge for gas supply and transportation is comprised of three

components: (i) the Supply Cost, which reflects the interstate pipeline demand charges and delivered monthly gas commodity charges; (ii) the Carrying Cost, which reflects O&R's cost of maintaining and operating the physical infrastructure required to deliver gas supply to PCL&P, as well as the cost of credit support; and (iii) the Service Fee, which is based on O&R's historical costs. (CNGHC St. 2 at 3-4; CNGHC St. 2-R (Miller Rebuttal) at 11; CNGHC St. 5 at 9).

38. Pursuant to the Settlement, six months after closing, PCL&P will start a study of alternative supply options for gas. (Joint Petition for Settlement at 10).

39. Post-transaction and during the transition period, PCL&P will obtain electric supply through an Electric Supply Agreement ("ESA") with O&R during the transition period. (See Attachment 9 to Joint Application (Joint Applicant Exhibit No. 1)). Under the ESA, O&R will provide electric supply and transportation to PCL&P for a 36-month period, which PCL&P may successively extend for 12-month periods, up to a full term of 72 months. (ESA at 1; ¶¶ 1(a) and (b)). O&R currently provides electric supply to PCL&P and under the ESA will continue to do so in good faith with the same manner of care it currently provides. (ESA at 2; ¶ 1(c)). As set forth in Exhibit A to the ESA, the charge for electric supply comprises three components: (i) the Supply Cost, which reflects actually incurred NYISO charges; (ii) the Carrying Cost, which reflects O&R's cost of maintaining and operating the physical infrastructure required to deliver electric supply to PCL&P, as well as the cost of credit support; and (iii) the Service Fee, which is based on O&R's historical costs. (CNGHC St. 2 at 7-8; CNGHC St. 2-R at 10; CNGHC St. 5 at 8-9).

40. Pursuant to the Settlement, six months after closing, PCL&P will start a study of alternative supply options for electricity. (Joint Petition for Settlement at 10).

41. PCL&P will have two resources that may be used for other services during the transition period: first, the AIA for which CNGHC seeks approval as discussed and detailed *supra*, and second, a Transition Services Agreement (“TSA”) with O&R (Joint Applicant Exhibit No. 1 Attachment 11), which originally had a term of 12 months. (CNGHC St. 2 at 9-10; CNGHC St. 5 at 9). Pursuant to the Settlement, PCL&P and O&R will modify the TSA to allow PCL&P to extend the term on a month to month basis for an additional six months. (Joint Petition for Settlement at 11). The Settlement also requires PCL&P to have a quarterly conference with OCA and OSBA (a) to explain in sufficient detail what services PCL&P is continuing to take under the TSA and what services it no longer requires, and (b) to provide sufficient detail of what substitute services from the CNGHC or other vendors has or will occur. OCA and OSBA shall keep such confidential during the term of the Transitional Service Agreement. (*Id.*).

42. Services to be provided under the TSA include billing and customer service including customer call services, meter reading, meter operation such as installation and testing, other field services such as pressure readings, odor testing, and compliance requirements, and emergency response services. (CNGHC St. 2 at 9-10; CNGHC St. 5 at 9). Pursuant to the Settlement, CNGHC and O&R agree that the TSA is intended to provide PCLP/CNGHC with the ability to procure all of the services listed in TSA Exhibit A during the full term of the agreement and any extension thereof. O&R and CNGHC further agree that the TSA “Hours Limitation” provision will not be applicable to emergency or extraordinary circumstances (*See* Transcript at 44). (Joint Petition for Settlement at 11).

43. It is CNGHC’s plan to staff PCL&P at the operation center in Westfall, Pennsylvania with an experienced electric and gas industry General Manager and Customer Service Manager and line crews. In addition, experienced line and underground construction and

maintenance (“UC&M”) crews will be hired or contracted at PCL&P. The combination of existing experienced management and engineer capability at CNG, and hiring of experienced personnel at PCL&P, will result in a capable focused staff to manage PCL&P electric assets. (CNGHC St. 1 at 4).

44. With respect to analysis of how CNGHC determined necessary staffing, CNGHC spoke with O&R about their current workforce needed for PCL&P, including labor hours expended for particular lines, substations, and other skilled electrical work. (Tr. at 75:8-22). CNGHC then performed its own study, considering both the hours expended and O&R’s experience in providing these services, to determine the workforce it will need to operate PCL&P. (*Id.*). CNGHC also considered the fulltime equivalents required to operate the PCL&P in a cost-efficient manner, including inspection, maintenance, services outage response and new construction, (Tr. at 76:10-21), and the option of contracting out all line work excluding the General Manager position, (Tr. at 77:4-8). Going forward, CNGHC intend to operate PCL&P in a cost-efficient manner using its deliberate approach. (Tr. at 76:22-77:3). CNGHC also reviewed the average yearly costs for skilled works such as linemen, substation tech, electricians, and troublemen, vehicles and overhead such as fuel and overtime that PCL&P incurrent and compared that to options such as (1) PCL&P hiring its own workforce and owning vehicles; or (2) procuring these services through third party contract; or (3) procuring these services through an affiliated interest agreement, taking into account cost efficiency and adequacy of service provided. (Tr. at 77:9-78:6).

45. Regarding mutual aid and line services contractor agreements to augment line staff during emergency situations, while CNGHC cannot execute such agreements on behalf of PCL&P prior to acquiring the utility, CNGHC will have these agreements in place upon closing and there

will not be any time period during the transaction or transition where such agreement(s) will not be in place. (Tr. at 78:7-22).

46. Regarding equipment transferred pursuant to the acquisition, no vehicles will be transferred, but equipment owned by PCL&P such as transformers, conductors, etcetera will be part of the sale. (Tr. at 79:13-25). CNGHC through consultation with O&R has determined it may need to and will purchase vehicles and other equipment as needed to fill requirements and maintain the system and has determined that it has the wherewithal to do so. (Tr. at 80:1-81:4). If CNGHC determines that these services should be contracted out, it could also choose to have the contractor supply these materials, or supply the materials in part. (Tr. at 81:25-82:13).

47. The Settlement contains specific requirements regarding staffing, and assures that CNGHC will implement a staffing plan for PCL&P that will provide safe, reliable, and responsive gas and electric utility service at reasonable cost to PCL&P customers. (Joint Petition for Settlement at 11-13).

48. The General Manager CNGHC has committed to hire will work out of the operations center in Westfall, Pennsylvania, which is centrally located in PCL&P's service territory. (CNGHC St. 3 at 6). The General Manager will have the day to day responsibility of running the electric and gas operations and maintenance of PCL&P as well oversee the operations and management portions of the Transitional Services Agreement. The General Manager will report directly to Michael German and his management team and will be subject to his input and supervision. CNGHC anticipates that all gas and electric outage or emergency calls will be handled by the local Westfall office during normal working hours and that those type calls will be handled by the third-party customer service center during non-business hours. In both cases, the incoming service or emergency call will be dispatched directly to the on-call crew with notification

made to the General Manager, Matt Cook, or other management personnel as need. This local presence will assure the customers of PCL&P will enjoy safe and reliable service around the clock. CNGHC will also be hiring or contracting experienced line and underground construction and maintenance crews to provide daily maintenance to the electric and gas facilities, as well as any planned facilities maintenance. These crews will report directly to the General Manager. The line and/or underground crews will respond from the Westfall office and will be responsible for all field work operations such as out of service/emergency situations, gas system leak repair or electric pole replacement. This local staffing will be a benefit to the customers of PCL&P as it will ensure a timely response to all out of service or emergency situations. (CNGHC St. 3 at 6-7).

49. PCL&P will commit to maintaining PCL&P's electric reliability program. (CNGHC St. 3 at 7; Joint Petition for Settlement at 13). This program includes vegetation management; inspection/replacement of poles, distribution lines, transformers, reclosures, and substations; and voltage regulation, as well as, continuation of the Milford Second Circuit Project. (CNGHC St. 3 at 8-11). CNGHC will also meet current and prospective reliability improvements per past reliability reports, and other enhancements to reliability that may be deemed necessary using the deliberate approach. (Tr. at 82:14-83:1).

50. Direct responsibility for working with O&R under the GSGTA, ESA, and TSA will fall to the General Manager that CNGHC has committed to hire, subject to Mr. Miller's input and supervision and that of CNGHC and PCL&P's President. Mr. Miller will be in communication and work closely with that individual when and where necessary. In the interim, Mr. Miller will be responsible for ensuring that PCL&P has sufficient gas transportation and supply, electric supply and service, and other transitional services during the transition and work with O&R as necessary to achieve this goal. Mr. Miller will work with Mr. Cook, who oversees operations, to

ensure that any decisions to be made or issues that may arise will be resolved quickly. The management team at CNGHC is efficient at managing and coordinating with vendors and suppliers and will continue this expertise at PCL&P. (CNGHC St. 2 at 4, 7).

51. Consistent with CNGHC's "deliberate approach,"² post-closing PCL&P will analyze the potential for obtaining other sources of supply and implementing best practices., including considering the cost-benefits of joining PJM; seeking efficiencies and savings through procuring electric supply in the robust and competitive wholesale market, at a time and in a manner that is efficient and feasible for the PCL&P system; investigating other potential generation sources within the existing PCL&P service territory in the future such as installation of local natural gas fired generation utilizing low-cost, clean-burning natural gas. (CNGHC St. 2 at 8-9). CNGHC has also committed pursuant to the Settlement to conduct a study of utilizing alternative supply options for both gas and electric. (Joint Petition for Settlement at 10).

52. Regarding customer service, CNGHC plans for PCL&P to hire a Customer Service Manager who will work out of the operations center in Westfall, Pennsylvania. The Customer Service manager will have the day to day responsibility of running the customer service operations of PCL&P. For example, if a customer is experiencing a service problem, she or he can call the Westfall service center, which will be staffed with local personnel, who will be able to respond to the issues quickly, unlike other larger corporations with call centers located throughout the world.

² CNGHC's deliberate approach is consistent with the Pennsylvania Supreme Court's holding in *MCI/Verizon* that identification of best practices and quantification of resulting synergy savings is not required for approval of an application for acquisition of a utility. As recognized by the Presiding Officer in the *UGI/Southern Union* Initial Decision, it is reasonable and prudent for the parties to undertake a deliberate, "best practices" analysis after the transaction is consummated, and any issues that arise during or after this process can and should be addressed at that time, not at the application approval stage. See *Application of UGI Utilities, Inc., UGI Utilities Newco, Inc. and Southern Union Co.*, Docket No. A-120011F2000 *et al.*, Initial Decision, slip op. at 31-34 (July 21, 2006) (Colwell, ALJ).

If the issue requires the immediate assistance of a manager, the Customer Service Manager will be available to assist with the issue. If the Customer Service Manager is not available, both the General Manager and Mr. Miller will be available to assist with the customer's issue. Mr. Miller will be in communication with and work closely with these individuals when and where necessary and communicate with the aforementioned president(s). In the interim, Mr. Miller will take ultimate responsibility for ensuring PCL&P will provide top-notch customer service and safety during the transition and work with O&R as necessary to achieve this goal. One of the benefits of a smaller company such as CNGHC is that it has fluidity and is able to communicate and solve issues at the upper management level with ease. Mr. Miller will work with Mr. Cook, who oversees operations, to ensure that any issues that may arise will be resolved quickly. (CNGHC St. 2 at 11).

53. Regarding emergency situations during the transition, any emergency situation will be handled with due care and dispatch by Mr. Miller and Mr. Cook and when hired, the General Manager, working with O&R as necessary. Many emergencies that affect gas and electric distribution systems' physical plant also impact the utilities' ability to receive and distribute energy supplies. Handling both aspects of these emergencies is an important task. Mr. Miller and Mr. Cook have a long history of working together very effectively and rely on one another's expertise to handle each area of responsibility with just the right amount of technical overlap to complement each other's activities. This process will continue at PCL&P. Mr. Cook understands when and how a facilities emergency will impact both upstream and downstream energy supply functions and Mr. Miller possesses a similar understanding of what will impact physical plant operation. Mr. Miller and Mr. Cook will also ensure that the General Manager and the Customer Service Manager are trained to deal with emergency situations and know to notify PCL&P officers if

certain situations would benefit their involvement. The entire management team will be mindful of and attentive to the obligations in the Commission's electric and gas regulations. (CNGHC St. 2 at 12).

54. Regarding emergency preparedness plans pursuant to 52 Pa. Code § 101 and Emergency Load Control and Energy Conservations pursuant to 52 Pa. Code § 57.52, CNGHC will complete and fulfill all obligations for emergency preparedness, load control, and energy conservation, and intends to maintain the emergency preparedness that is already in place at PCL&P by stepping into those plans that are already in place, using the deliberate approach to see if enhancements are needed, feasible, and beneficial. (Tr. at 83:5-16, 84:22-24).

55. Regarding inspection and maintenance pursuant to 52 Pa. Code § 57.198, CNGHC will complete and fulfill all obligations for inspections and maintenance and intends to follow the plans currently in place at PCL&P. (Tr. at 83:17-24).

56. After expiration of the TSA and consistent with the deliberate approach, CNGHC will analyze the potential for obtaining services from the CNGHC family pursuant to the AIA discussed *supra* Section I.D., or other vendors and implementing best practices. CNGHC will seek efficiencies and savings through procuring these services from affiliates or vendors, at a time and in a manner that is efficient and feasible for the PCL&P system. This approach will benefit both customers through efficiencies and overall savings and CNGHC's overall expertise in small company management and provision of similar services that CNGHC is known for through its affiliates such as Leatherstocking Gas and Corning Natural Gas. (CNGHC St. 2 at 13). The AIA is reasonable and consistent with the public interest. It will allow PCL&P to provide a high quality of service for its operation of its electric distribution system, natural gas distribution system, and commercial and general and administrative operations without all the costs associated with the

large number of employees it would otherwise take to perform these functions. (CNGHC St. 5 at 13).

57. Regarding regulatory reporting, including Reliability Reporting Requirements pursuant to 52 Pa. Code § 57.195 and Annual Resource Planning Reports pursuant to §§ 57.141-154, CNGHC and in particular Mr. Miller are familiar with the types of reports submitted and the information required, and have experience in compiling and providing these reports, and will provide such reports. During the transition period, O&R through the TSA will assist with this reporting. PCL&P will be adequately staffed in order to complete the required reporting. CNGHC has experience through its creation of Leatherstocking Gas with putting processes in place to ensure adequate reporting, including meeting with PUC Bureaus, such as the reporting divisions, Bureau of Consumer Services, technical staff, and Commissioner officers to gain full knowledge of the Commission's expectations regarding regulatory oversight, and plans to do the same with respect to PCL&P. As Mr. Miller explained: "We want to know, we need to know what the expectations of the regulatory body [are]. We want to start off on the right foot." (Tr. at 68-71, 84-85).

58. Regarding staffing of PCL&P post transaction, through the Settlement the parties have agreed to a detailed plan and reporting for ensuring adequate staffing:

CNGHC shall provide monthly updates to OCA and OSBA of its General Manager hiring initiative until the General Manager is hired. OCA and OSBA shall keep confidential the identity of, any information which could identify, candidates who request that their interest in the position be kept confidential.

CNGHC fully acknowledges its responsibility to promptly implement a staffing plan for PCL&P after closing that will provide safe, reliable, and responsive gas and electric utility service at reasonable cost to PCL&P customers. To that end, PCL&P/CNGHC's staffing plan will include approximately twelve (12) full time equivalent employees (FTEs) of PCL&P. PCL&P will

hire, by no later than three (3) months after closing, as PCL&P employees the following five (5) full time positions: two (2) gas fitter/meter readers, one general manager, one (1) customer service manager/public affairs manager, and one (1) customer service representative. If additional time is required to secure qualified persons for these five (5) positions, PCL&P/CNGHC may take up to nine (9) additional months (for a total of one year from closing) to fill these positions, provided it shows cause for doing so and has exercised its best cost-effective and expeditious efforts to obtain qualified personnel. For the remaining positions in the areas of billing, IT, accounting, and HR/insurance, within 18 months of closing, these positions will be filled, or service provided, by hired PCL&P employees, CNGHC employees, contractors or a combination thereof. For the areas of electric crew persons, electric engineering support, and supply analyst/procurement, the Company will staff these positions within 18 months with PCL&P or CNGHC employees unless the Company demonstrates that staffing some or all of these positions through contractor employees is cost-effective and fulfills PCL&P's obligation to provide service in accordance with the requirements of the Public Utility Code. If PCL&P determines to use contractors for any of the above positions, it shall provide its demonstration to the Commission for review and approval, which shall occur within 10 days of filing. This review and approval requirement shall expire 18 months after the date of closing.

PCL&P/CNGHC shall provide OCA, OSBA, and the Commission with sufficiently detailed quarterly status reports on the progress of retaining an electric and gas utility staff for PCL&P. Each report shall contain information regarding the number of permanent staff retained and the number of contractors still in use.

(Joint Petition for Settlement at 11-13).

59. Other post-transaction operations modified by the Settlement include:

- PCL&P will commence a natural gas system cast iron and bare steel study (CIBS) within six (6) months of closing, and within eighteen (18) months of closing start implementation of a replacement program. (Joint Petition for Settlement at 10).
- PCL&P not file for a general rate increase prior to March 1, 2018, as described in the Joint Petition for Settlement at 10.
- PCL&P will hold at least four quarterly meetings during the three years following the date of closing with local officials, economic development councils and/or agencies, to discuss any need for expansion of service or any service issues. (Joint Petition for Settlement at 10).

- PCL&P will continue its Electric Division Reliability Plan. (Joint Petition for Settlement at 10).
- PCL&P will not claim transaction costs in future rate proceedings, as described in the Joint Petition for Settlement at 13.
- PCL&P will not claim goodwill or an acquisition premium in future rate proceedings. (Joint Petition for Settlement at 13).
- For the next general gas and electric rate cases, PCL&P shall not request inclusion of risk premium in the authorized return on equity for small size or for any other aspect of parent company (CNGHC) risk attributes. While this provision does not prohibit PCL&P from requesting such a risk premium in future rate cases beyond the first post-Closing cases, all parties retain all rights to oppose such a request for a risk premium. (Joint Petition for Settlement at 13).
- PCL&P customers shall be held harmless from adverse rate effects associated with tax and accounting changes associated with this transaction as described in the Joint Petition for Settlement at 13-14.
- PCL&P/CNGHC will study the feasibility and cost implications of an interest rate swap, or similar switch to fixed rate debt, to hedge variable rate debt and shall provide its findings in one of its quarterly status reports filed within six months after closing of the transaction. (Joint Petition for Settlement at 14).
- PCL&P will establish a service center/office in PCL&P's service territory. (Joint Petition for Settlement at 14).

II. THE JOINT APPLICATION, AS MODIFIED BY THE SETTLEMENT, MEETS THE REQUIREMENTS FOR COMMISSION APPROVAL

60. The sections of the Public Utility Code (Code), 66 Pa. C.S. § 101 *et seq.*, applicable to this case are sections 1102, 1103, and 2210. These sections provide, in relevant part, as follows:

§1102. Enumeration of acts requiring certificate

(a) General rule.-Upon the application of any public utility and the approval of such application by the commission, evidenced by its certificate of public convenience first had and obtained, and upon compliance with existing laws, it shall be lawful: (1) For any public utility to begin to offer, render, furnish or supply within this Commonwealth service of a different nature or to a different territory than that authorized by: (i) A certificate of public convenience granted under this part or under the former provisions of the act of July 26, 1913 (P.L. 1374, No. 854), known as "The Public Service Company Law," or the act of May 28, 1937 (P.L.

1053, No. 286), known as the “Public Utility Law.” (footnotes omitted).

...

(2) For any public utility to abandon or surrender, in whole or in part, any service, except that this provision is not applicable to discontinuance of service to a patron for nonpayment of a bill, or upon request of a patron.

(3) For any public utility or an affiliated interest of a public utility as defined in section 2101 (relating to definition of affiliated interest), ... to acquire from, or to transfer to, any person or corporation, including a municipal corporation, by any method or device whatsoever, including the sale or transfer of stock and including a consolidation, merger, sale or lease, the title to, or the possession or use of, any tangible or intangible property used or useful in the public service...

66 Pa. C.S. § 1102

§ 1103. Procedure to obtain certificates of public convenience

(a) General rule.—Every application for a certificate of public convenience shall be made to the commission in writing, be verified by oath or affirmation, and be in such form, and contain such information, as the commission may require by its regulations. A certificate of public convenience shall be granted by order of the commission, only if the commission shall find or determine that the granting of such certificate is necessary or proper for the service, accommodation, convenience, or safety of the public. The commission, in granting such certificate, may impose such conditions as it may deem to be just and reasonable. In every case, the commission shall make a finding or determination in writing, stating whether or not its approval is granted. Any holder of a certificate of public convenience, exercising the authority conferred by such certificate, shall be deemed to have waived any and all objections to the terms and conditions of such certificate.

66 Pa. C.S. § 1103

§ 2210. Approval of proposed mergers, consolidations, acquisitions or dispositions

(a) General rule.—In the exercise of authority the commission otherwise may have to approve mergers or consolidations involving natural gas distribution companies or natural gas suppliers or the acquisition or disposition of assets or securities of natural gas

distribution companies or natural gas suppliers, the commission shall consider:

(1) Whether the proposed merger, consolidation, acquisition or disposition is likely to result in anticompetitive or discriminatory conduct, including the unlawful exercise of market power, which will prevent retail gas customers from obtaining the benefits of a properly functioning and effectively competitive retail natural gas market.

66 Pa. C.S. § 2210.³

61. To determine if a certificate of public convenience should be granted pursuant to the provisions of 66 Pa. C.S. § 1103, the Commission must find by a preponderance of the evidence that such approval is necessary or proper for the service, accommodation, convenience, or safety of the public. As a general rule in making this determination the Commission has required that “an applicant demonstrate a public need or demand for the proposed service, the inadequacy of existing service or facilities in the proposed territory, and the applicant's fitness to render such service, along technical, financial and legal lines.” *Chester Water Auth. v. Pa. Pub. Util. Comm'n*, 581 Pa. 640, 643, 868 A.2d 384, 386 (2005). However, a continuing public need is presumed where public utility service is already being provided in the service territory subject to the application. *See Re Glenn Yeager et al.*, 49 Pa. PUC 138 (1975). In this case, it is uncontested that a continuing need for electric distribution service and natural gas service exists in PCL&P’s service territory.

62. In the context of a transfer of control of a utility, the Pennsylvania Supreme Court has described the analysis required as follows:

³ Section 2210(a)(2), which provides that the Commission shall consider “[t]he effect of the proposed merger, consolidation, acquisition or disposition on the employees of the natural gas distribution company and on any authorized collective bargaining agent representing those employees,” 66 Pa. C.S. § 2210(a)(2) does not apply because PCL&P does not currently have any of its own employees. (CNGHC St. 2 at 9-10).

In summary, as indicated in *City of York*, the appropriate legal framework requires a reviewing court to determine whether substantial evidence supports the Commission's finding that a merger will affirmatively promote the service, accommodation, convenience, or safety of the public in some substantial way. In conducting the underlying inquiry, the Commission is not required to secure legally binding commitments or to quantify benefits where this may be impractical, burdensome, or impossible; rather, the PUC properly applies a preponderance of the evidence standard to make factually-based determinations (including predictive ones informed by expert judgment) concerning certification matters.

Popowsky v. Pa. Pub. Util. Comm'n, 594 Pa. 583, 611, 937 A.2d 1040, 1057 (2007) (footnote omitted) (“*Popowsky*”).

63. Additionally, in the case of natural gas distribution companies, the Commission must find that the transaction will not result in anticompetitive or discriminatory conduct, and will not have adverse effects on the employees of the companies or on any authorized collective bargaining agent representing those employees.

64. As demonstrated below, the Acquisition, as modified by the Settlement, meets the standards for utility acquisitions: the acquisition and settlement provide affirmative public benefits; CNGHC is technically and financially fit to own and operate PCL&P; and the acquisition will have no adverse effect on competition. *See, e.g., Joint Application of West Penn Power Company*, Docket No. A-2010-2176520, 2011 WL 858491 at *8-10 (Order entered Feb. 24, 2011) (“*West Penn*”).

A. The Acquisition as Modified by the Settlement Provides Affirmative Public Benefits

65. The Settlement in and of itself meets the affirmative benefits tests for acquisitions of utilities as set forth in *City of York v. Pa. Pub. Util. Comm'n*, 449 A.2d 825 (Pa. 1972) and *Popowsky*. There are also affirmative benefits in addition to those in the Settlement delineated in

CNGHC's testimony and exhibits which will be discussed below. Pursuant to the *City of York* standard, in order to approve an acquisition of a public utility the Commission must find the transaction results in affirmative benefits. Affirmative benefits are measured based on the net effects on all affected parties – not every customer or party need receive a benefit for a finding of affirmative benefits. *West Penn* at *22. A finding of affirmative benefits does not require quantitative proof or guarantee of such benefits, but rather adequate proof can be shown by a likelihood or probability of public benefit. *Popowsky* at 1057. The Commission need not “secure legally binding commitments to assure public benefit from a[n acquisition].” *Id.* at 1055. The PUC must generally consider the effect of the acquisition on rates, but no quantification of specific effects of alleged savings is required. *Id.* at 1056. The PUC must apply “a preponderance of the evidence standard to make factually based determinations (including predictive ones informed by expert judgment) concerning certification matters.” *Id.* at 1057.

66. The PUC has held the following affirmative benefits, among others, support approval of a proposed acquisition:

- increased scale, scope and diversification of the company providing opportunities for improved service, reliability and operational flexibility, *West Penn* at *10;
- enhanced customer service and reliability shown through prior history and commitment to implementation of best practices through deliberate approach, *id.* at 11;
- utilization of local Pennsylvania natural gas, *Joint Application of Peoples Natural Gas Company LLC, Initial Decision*, Docket No. A-2013-2353647, 2013 WL 6073343 at *44, 47-48 (Nov. 1, 2013), adopted by Final Commission Order entered Nov. 14, 2013 (“*Peoples*”);
- committing to delay of general rate increase or “stay-out,” *UGI Utilities, Inc.*, Docket No. A-2008-2034045, 2008 WL 3925861 at *12 (Order entered Aug. 21, 2008) (“We adopt the ALJ’s analysis of the substantial benefits contained in the Settlement Agreement and the record support for those benefits”); *UGI Utilities, Inc.*, Recommended Decision, slip. op. at 21 (Aug. 7, 2008).
- removal of acquisition premium from rates, *UGI Utilities Inc.*, slip. op. at 21;

- retention of or provision for Pennsylvania jobs, *UGI Utilities Inc.*, slip. op. at 21;
- commitment to continue charitable contributions and community involvement, *id.*; and
- allowing acquiring and divesting companies to better focus on core business and compatibility between acquiring company and utility acquired, *see id.*; *Peoples* at *44-45.

67. Here, a review of CNGHC’s testimony and exhibits shows the proposed acquisition results in the following affirmative benefits:

- **Compatibility and Local Service.** PCL&P is a good fit in the CNGHC family and will allow both companies to focus on what each does best – CNGHC will focus on service to rural territories with small towns and villages while O&R is able to focus on service in New York and New Jersey. Both the CNGHC utilities and PCL&P serve rural territories as well as small cities and villages. The CNGHC companies have a century plus of experience in serving the southern tier of NY and more recently the northcentral and northeastern tier of PA. A local presence and membership in the communities served makes a great difference as opposed to huge companies that may not be local or as local. CNGHC makes it simple and easy for customers to communicate with the Company and officers maintain an open door philosophy. (CNGHC St. 1 at 6).
- **Nimble Decision-Making.** CNGHC is smaller and more decentralized, and thus more nimble and able to make prompt decisions to react and respond to customers. CNGHC takes pride in customer satisfaction with the service its companies provide. (CNGHC St. 1 at 6; CNGHC St. 2 at 5, 8). As OCA witness Mr. Kahal admitted, larger organizations can suffer from “diseconomies of scale” due to bureaucracy and inefficiency, (CNGHC St. 5-R at 10-11 (quoting Kahal Response to CNGHC Interrogatory I-19)). These diseconomies of scale are much less likely with a company like CNGHC, which is closer to its customers, and can respond quickly and creatively to issues like individual customer problems and changing market conditions. *Id.*
- **History of and Commitment to Innovation.** CNGHC is innovative and tries to identify the best and fairest ways to promote service to customers, such as CNGHC’s novel program at Leatherstocking Gas to serve areas of Pennsylvania that had no public utility natural gas service. (CNGHC St. 1 at 6; Direct Testimony of Matthew Cook, CNGHC St. 3 at 15).
- **Focus on Core Business.** The transaction will permit the buyer to focus on its core business model. The CNGHC companies will continue to manage and operate small and mid-sized utilities serving primarily rural areas and small towns and villages. O&R will continue to serve 304,947 electric customers and 133,272 gas customers in New York and New Jersey, and PCL&P will continue

to serve approximately 4,500 electric customers and 1,200 gas customers in Pennsylvania. (CNGHC St. 1 at 6-7; CNGHC St. 3 at 15).

- **Increased Scale and Scope.** PCL&P will make CNGHC an even stronger company through increased scale and scope. Diversification of CNGHC's utility portfolio will result in greater stability of cash flow, and increasing the size of CNGHC will allow us to potentially attract capital at better rates to the benefit of all affiliates and customers. (CNGHC St. 1 at 7).
- **No Changes for Customers during the Transition.** CNGHC will take a "deliberate approach"⁴ to the integration of PCL&P's O&M into CNGHC. This means that with the aid of the transitional agreements PCL&P will have in place customers will see no adverse change to their quality of service after CNGHC takes control of PCL&P's stock. CNGHC will continue to operate PCL&P with the same or better quality of service that its customers have come to expect." (CNGHC St. 3 at 5:1-8; CNGHC St. 2 at 5, 8, 12-13).
- **Employing Pennsylvanians.** CNGHC will employ local people focused solely on PCL&P. CNGHC plans to staff PCL&P at its operations center in Westfall, Pennsylvania with employees dedicated to PCL&P operations including a General Manager who is experienced in both the electric and gas industries, Customer Service Manager and experienced line and underground construction and maintenance crews. Additionally, CNGHC will use as necessary and appropriate, Pennsylvania vendors and qualified contractors to augment the provision of quality service. This will not only enhance the local economy through the addition of jobs, but will also benefit the customers of PCL&P by providing local contacts and personnel to handle service issues in a timely matter. (CNGHC St. 1 at 13; CNGHC St. 3 at 5). For example, Leatherstocking Gas employs two full-time staff at its local office and operations center in Montrose, Pennsylvania. We expect similar results at PCL&P on a larger scale with respect to employing Pennsylvanians and utilizing Pennsylvania businesses, which will create a ripple effect benefitting Pennsylvania and its economy. (CNGHC St. 1 at 13; CNGHC St. 3 at 12).
- **Deliberate Approach to Best Practices.** CNGHC will use the "deliberate approach" and implement best practices where feasible and beneficial to customers and the company. As Mr. German explained, when acquiring a utility "typically you like to get your feet on the ground, see what the current practices are, and then try to improve those practices across the entire spectrum of the purchased utility." (Tr. at 34:17-20). As CNGHC presently neither owns nor operates PCL&P, at this point and as with any purchase, whether it be an existing building or business, it will take some time to get to know and understand what works, what does not work, and what, based upon CNGHC's over century-long experience serving rural and small city and village customers, may work for PCL&P so as to benefit customers. After an initial

⁴ This deliberate approach is consistent with appellate precedent and ALJ and PUC decisions. *See supra* note 2.

transition period to assure continuity, safety, and reliable service, CNGHC and PCL&P will analyze the feasibility of achieving operational efficiencies or service quality enhancements by adopting the “best practices” of each company. In other words, PCL&P customers will benefit from CNGHC’s ability to draw on the intellectual capital, technical expertise and experience of the more diverse CNGHC family of utilities. Not only will the customers of PCL&P benefit from this synergy, it will also give CNGHC a hands-on opportunity to see if any PCL&P best practices can benefit CNGHC affiliate’s existing customers. That is a win-win. Any savings or efficiencies will be flowed through to customers either through postponement of rate cases and/or reduced revenue requirements in future rate cases. Examples of areas CNGHC will look at during the deliberate approach review include:

- customer satisfaction;
- meter reading;
- the process for deciding repair versus replacement;
- third party vendors;
- contractor relations;
- maintenance practices and techniques;
- service extension practices and policies;
- whether there will be any duplication of functions between the CNGHC family and PCL&P that could be eliminated in whole or part or consolidated to improve collective efficiency;
- support functions such as general management, accounting and gas and electric supply and purchasing; and
- PCL&P will explore a full range of options for electric and gas supply. PCL&P will use its deliberate approach to study the feasibility and economics of possible interconnection with PA utility (electric) and interstate gas transmission systems as alternatives to the ORU delivery service, and the feasibility of purchase from other suppliers including direct purchases from NYISO and PJM.

(CNGHC St. 1 at 8-9; CNGHC St. 3 at 15).

- **History of and Commitment to Customer Satisfaction and Service.** CNGHC companies have a history of satisfying customers and the communities in which they serve and will strive to achieve the same or greater level of satisfaction with respect to PCL&P’s customers. Leatherstocking Gas was named Business of the Year in 2014 by the Susquehanna County Economic Development Board and Progress Authority for pioneering distribution of natural gas to Susquehanna County citizens, saving Susquehanna County organizations tens of thousands of dollars. To date, Leatherstocking Gas has not had a single customer formal complaint. In New York, Corning Natural

Gas has a customer satisfaction rating of 86%. (See CNGHC Exhibit No. 2; CNGHC St. 1 at 9; CNGHC St. 3 at 12, 15).

- **Utilization of Local Natural Gas.** Leatherstocking Gas’s mission is to “bring local gas to local people” by providing a local benefit to individuals in the region from the natural resources in the region, which it has successfully implemented in its service territory. Commissioner Witmer praised Leatherstocking for this commitment. (See CNGHC Exhibit No. 3 (Statement of Commissioner Pamela A. Witmer, *Leatherstocking Gas Company, LLC*, Docket No. A-2014-2408064 (May 22, 2014))). When the Commission granted Leatherstocking Gas’s certificate of public convenience, then-Chairman Powelson commended Leatherstocking Gas for establishment of the first new local distribution gas utility in decades in Pennsylvania, allowing local residents to switch from high-cost heating sources such as fuel oil and propane to lower-cost natural gas. (See CNGHC Exhibit No.4 (Statement of Chairman Robert F. Powelson, *Application of Leatherstocking Gas Company, LLC*, Docket No. A-2011-2275595 (Sept. 27, 2012))). CNGHC will bring the same philosophy to PCL&P. (CNGHC St. 1 at 9-10). Consistent with CNGHC’s deliberate approach, it will analyze the potential for obtaining other sources of supply and transportation and implementing best practices. Consistent with the approach at Leatherstocking Gas, CNGHC will seek efficiencies and savings through utilizing local gas from the Marcellus region where possible and feasible at a time and in a manner that is efficient for the PCL&P system. This approach will benefit both customers through efficiencies and overall savings and the local economy through utilization of local gas. Mr. Miller has extensive experience in procuring natural gas supply, and PCL&P and its customers will benefit from his expertise in this field. (CNGHC St. 2 at 5).
- **Potential for Competitive Fuel Options.** Given its small size, PCL&P is not required to implement retail gas choice in its service territory. However, like Leatherstocking Gas, CNGHC’s natural gas distribution company that provides regulated natural gas service and whose tariff includes a flex rate for customers with competitive fuel options, allowing such ratepayers the ability to obtain a competitive rate, CNGHC will consider similar provisions for PCL&P gas customers. (CNGHC St. 5 at 5).
- **History of Community Presence and Service.** The CNGHC family of utilities takes pride in being important members of the communities they serve. CNGHC encourages employees to become active in their communities and to be contributing members where they live. CNGHC has a program that matches a portion of employee gifts to approved charitable groups. In addition to encouraging employees to contribute, CNGHC and its affiliates contribute to local communities as well. There have been substantial contributions to capital campaigns for the local community college library, the local Guthrie Hospital and the Clemens Center Performing Arts Center. All of these are valuable resources in the region. CNGHC also supports many civic organizations across the service territory, including 171 Cedar Arts Center, Corning Rotary, four

local Chambers of Commerce, Three Rivers Development Corporation, and the local Food Bank. (CNGHC St. 1 at 12).

- **Commitment to Continue PCL&P Charitable Contributions.** As to PCL&P's charitable contributions, CNGHC will maintain historic levels for at least 3 years, and after a deliberate analysis, will determine whether levels are sufficient or need to be adjusted. (CNGHC St. 1 at 12).
- **Local Support for Acquisition.** Benefits to the Pike County area are demonstrated by support for the transaction from various leaders, including letters from the Pike County Economic Development Authority, the Pike County Chamber of Commerce, Pike County Commissioner's Office, Representative Rosemary M. Brown, Senator Gene Yaw, and Representative Peifer. They appear in CNGHC Exhibit No. 5 and are attached hereto as Attachment A. (CNGHC St. 1 at 13; Tr. at 30).

68. Moreover, the terms and conditions of the Settlement provide affirmative benefits to customers above and beyond that which the public benefits standard requires. These include:

a. **CIBS study and replacement program.** "PCL&P shall commence a natural gas system cast iron and bare steel (CIBS) study within six (6) months of closing, and within eighteen (18) months of closing start implementation of a replacement program." (Joint Petition for Settlement at 10).

b. **Alternative Supply Option Study.** "Six (6) months after closing, PCL&P shall start a study of alternative supply options for its gas and electric divisions. For the electric division, the options studied shall include, but are not limited to, the inclusion of bilateral contracts as defined in 66 Pa.C.S. §2803, which "may include the EEI Master Agreement for physical energy purchases and sales and the ISDA Master Agreement for financial energy purchases and sales." The study should also include, but not be limited to, other flexible options such as purchases of financial (or physical) hedges in small quantities from brokers. PCL&P shall consult with OCA and OSBA before the study begins with respect to its scope and the options to be studied. PCL&P, OCA and OSBA

shall meet to discuss the results of the study within twelve (12) months of closing.” (Joint Petition for Settlement at 10).

c. **A “rate case filing stay-out.”** “PCL&P shall not file for a general rate increase under 1308(d) of the Public Utility Code, 66 Pa. C.S. § 1308(d) prior to a March 1, 2018. However, if a legislative body, the judiciary, or an administrative agency, including the Commission, enacts or orders any fundamental changes in policy or statutes that directly and substantially affect the Company’s cost of service, the Settlement shall not prevent the Company from filing a tariff or tariff supplement to the extent necessitated by such action. In addition, this provision shall not preclude the Company from seeking extraordinary rate relief under Section 1308(e) of the Public Utility Code, 66 Pa, C.S. § 1308(e).” (Joint Petition for Settlement at 10).

d. **Quarterly meetings on expansion of service.** “PCL&P will hold no fewer than four (4) quarterly meetings during the three (3) years following the date of closing with local officials, economic development councils and/or agencies, to discuss any need for expansion of service or any service issues.” (Joint Petition for Settlement at 11).

e. **Option for extension of TSA.** “PCLP and O&R will modify the Transition Services Agreement (TSA) to allow PCLP to extend the 12 month term of the TSA, on a month to month basis, for a maximum of an additional six (6) months. During the term of the Transitional Service Agreement PCL&P will meet or have a quarterly conference with OCA and OSBA (a) to explain in sufficient detail what services PCL&P is continuing to take under the TSA and what services it no longer requires and (b) to provide sufficient detail of what substitute services from the CNGHC or other vendors has or will occur.

OCA and OSBA shall keep such confidential during the term of the Transitional Service Agreement.” (Joint Petition for Settlement at 11).

f. **Confirmation of TSA terms.** “O&R and CNGHC agree that the TSA is intended to provide PCLP/CNGHC with the ability to procure all of the services listed in TSA Exhibit A during the full term of the agreement. O&R and CNGHC further agree that the TSA “Hours Limitation” provision will not be applicable to emergency or extraordinary circumstances (see Transcript at 44).” (Joint Petition for Settlement at 11).

g. **Monthly Updates on General Manager position.** “CNGHC shall provide monthly updates to OCA and OSBA of its General Manager hiring initiative until the General Manager is hired. OCA and OSBA shall keep confidential the identity of, any information which could identify, candidates who request that their interest in the position be kept confidential.” (Joint Petition for Settlement at 11).

h. **Detailed Staffing Plan and Timeline.** “CNGHC fully acknowledges its responsibility to promptly implement a staffing plan for PCL&P after closing that will provide safe, reliable, and responsive gas and electric utility service at reasonable cost to PCL&P customers. To that end, PCL&P/CNGHC’s staffing plan will include approximately twelve (12) full time equivalent employees (FTEs) of PCL&P. PCL&P will hire, by no later than three (3) months after closing, as PCL&P employees the following five (5) full time positions: two (2) gas fitter/meter readers, one general manager, one (1) customer service manager/public affairs manager, and one (1) customer service representative. If additional time is required to secure qualified persons for these five (5) positions, PCL&P/CNGHC may take up to nine (9) additional months (for a total of one year from closing) to fill these positions, provided it shows cause for doing so and has

exercised its best cost-effective and expeditious efforts to obtain qualified personnel. For the remaining positions in the areas of billing, IT, accounting, and HR/insurance, within 18 months of closing, these positions will be filled, or service provided, by hired PCL&P employees, CNGHC employees, contractors or a combination thereof. For the areas of electric crew persons, electric engineering support, and supply analyst/procurement, the Company will staff these positions within 18 months with PCL&P or CNGHC employees unless the Company demonstrates that staffing some or all of these positions through contractor employees is cost-effective and fulfills PCL&P's obligation to provide service in accordance with the requirements of the Public Utility Code. If PCL&P determines to use contractors for any of the above positions, it shall provide its demonstration to the Commission for review and approval, which shall occur within 10 days of filing. This review and approval requirement shall expire 18 months after the date of closing." (Joint Petition for Settlement at 11-12).

i. **Quarterly Reporting on Staffing Plan.** "PCL&P/CNGHC shall provide OCA, OSBA, and the Commission with sufficiently detailed quarterly status reports on the progress of retaining an electric and gas utility staff for PCL&P. Each report shall contain information regarding the number of permanent staff retained and the number of contractors still in use." (Joint Petition for Settlement at 12-13).

j. **Continuation of Reliability Plan.** "PCL&P will continue its Electric Division Reliability Plan." (Joint Petition for Settlement at 13).

k. **No rate recovery of transaction costs.** "Transaction costs and costs incurred as a result of this acquisition will not be claimed by PCL&P in any rate case. Such costs shall include the costs incurred to effect and gain regulatory approvals for the

purchase of PCL&P, the costs of recruiting a new staff, the cost of training a new staff, the costs of bringing PCL&P into compliance with PUC regulations due to the change in ownership, except to the extent PCL&P can demonstrate that such costs result in cost savings for PCL&P customers.” (Joint Petition for Settlement at 13).

l. **No rate recovery of acquisition premium.** “No goodwill or acquisition premium, if any, will be claimed by PCL&P in any rate case (including goodwill-related equity in capital structure).” (Joint Petition for Settlement at 13).

m. **No inclusion of risk premium in next general rate case.** “For the next general gas and electric rate cases, PCL&P shall not request inclusion of a risk premium in the authorized return on equity for small size or for any other aspect of parent company (CNGHC) risk attributes. While this provision does not prohibit PCL&P from requesting such a risk premium in future rate cases beyond the first post-Closing cases, all parties retain all rights to oppose such a request for a risk premium. (Joint Petition for Settlement at 13).

n. **Customers held harmless from certain rate effects of transaction.** “PCL&P customers shall be held harmless from adverse rate effects associated with tax and accounting changes associated with this transaction. This would include but not be limited to the loss of the PCL&P balance of accumulated deferred taxes to the extent they are includable in rate base as a deduction. PCL&P would have the burden of demonstrating an absence of harm from the loss of PCL&P’s pre-Closing deferred tax balance at the time of its next rate case to the extent they are includable in rate base as a deduction.” (Joint Petition for Settlement at 13-14).

o. **Interest swap study.** “PCL&P/CNGHC shall study the feasibility and cost implications of an interest rate swap, or similar switch to fixed rate debt, to hedge variable rate debt and shall provide its findings in one of its quarterly status reports filed within six months after closing of the transaction.” (Joint Petition for Settlement at 14).

p. **Service Center in service territory.** “PCL&P shall establish a service center/office in PCL&P’s service territory.” (Joint Petition for Settlement at 14).

B. Technical and Financial Fitness

69. The record demonstrates that CNGHC possesses the requisite technical and financial fitness to own and operate PCL&P. (*See* Section I.A.1 (describing CNGHC) and Section I.D (describing post-Acquisition operation of PCL&P), *supra*).

C. No Adverse Effect on Retail Competition

70. The acquisition will have no adverse impact on retail competition. PCL&P serves approximately 5,700 retail electric and gas customers in total. CNGHC’s acquisition of PCL&P therefore will not result in the unlawful exercise of market power or otherwise prevent retail electricity customers in the PCL&P service territory in particular, or Pennsylvania in general, from obtaining the benefits of a properly functioning competitive retail electricity market. (CNGHC St. 5 at 5).

71. Given its small size, PCL&P is not required to implement retail gas choice in its service territory. Leatherstocking Gas is owned in part by CNGHC and is a natural gas distribution company that provides regulated natural gas service and whose tariff includes a flex rate for customers with competitive fuel options, allowing such ratepayers the ability to obtain a competitive rate. CNGHC will consider similar provisions for PCL&P gas customers. (CNGHC St. 5 at 5).

72. PCL&P, CNGHC, and O&R do not own electric generation facilities. To date, PCL&P has been active in supporting and promoting retail electric competition in its service territory. As of October 1, 2015, approximately 53% of PCL&P's customers take generation services from an Electric Generation Supplier ("EGS"). CNGHC will continue the existing program. (CNGHC St. 5 at 5).

III. ADOPTION OF THE SETTLEMENT IS IN THE PUBLIC INTEREST

73. It is the Commission's policy to encourage settlements. 52 Pa. Code § 5.231. The Commission reviews proposed settlements to determine whether the terms are in the public interest. For the reasons set forth below,⁵ adoption of the Settlement embodied in the Joint Petition for Settlement is in the public interest, and it should be approved without modification.

74. The Settlement amicably and expeditiously resolves a number of important and potentially contentious issues which would have been very expensive and time-consuming to litigate before this Commission, and likely would have spawned expensive and time-consuming appeals. This Settlement represents a mutually acceptable and reasonable compromise, and will conserve the time, effort and expense of all parties, as well as those of the Commission and Presiding Officer.

75. The Joint Petitioners arrived at the Settlement terms after review of the Joint Applicants' responses to discovery by the statutory advocates, review and analysis of the Parties' prepared direct, rebuttal and surrebuttal testimony, the cross examination of witnesses, and in-depth discussions. The Settlement terms and conditions constitute a carefully crafted package

⁵ The Commission's rules expressly contemplate the use of statements in support as the basis for consideration and approval of settlements. *See* 52 Pa. Code §§ 232(a) (parties should include in settlement agreement statement(s) in support of settlement explaining how and why the settlement is in the public interest).

representing reasonable negotiated compromises on the issues raised by the Joint Application. Thus, the Settlement is consistent with the Commission's rules, practices and procedures encouraging negotiated settlements. *See* 52 Pa. Code §§ 5.231, 69.391, 69.401.

76. The Settlement provides a significant number of customer benefits that would not be available in this proceeding outside the context of settlement, including the CIBS study and replacement program, the rate case stay-out, the quarterly meetings with local officials, the exclusion of claims for transaction and acquisition costs and goodwill or acquisition premiums from future rate cases, and the exclusion of a small company risk premium from the next rate case.

77. OCA and OSBA are charged with specific legal obligations to carefully scrutinize all aspects of a utility acquisition. The OCA has a statutory obligation to protect the interest of consumers of public utility service.⁶ *See* 71 Pa. C.S. §§ 309-1 *et seq.* The OSBA is authorized by the Small Business Act⁷ to represent the interest of small business consumers as a party in proceedings before the Commission. As evidenced by their active and extensive participation in all aspects of this case, these statutory parties have discharged their statutory obligations. Their joining in and fully supporting the Settlement demonstrates the Settlement's terms and conditions are just, reasonable and in the public interest.

⁶ *See* 71 Pa. C.S. §§ 309-1 *et seq.*

⁷ 73 P.S. §§399.41 – 399.50.

IV. CONCLUSION

Corning Natural Gas Holding Corporation respectfully submits that the Settlement is in the public interest and, therefore, requests that the Honorable Administrative Law Judge Susan D. Colwell recommend approval of and the Commission approve the Settlement and the Joint Application including all regulatory approvals requested therein without modification or delay.

Respectfully submitted,

Handwritten signature of Thomas J. Sniscak in blue ink, underlined.

Thomas J. Sniscak, Esquire
Christophe M. Arfaa, Esquire
William E. Lehman, Esquire
Whitney E. Snyder, Esquire
Hawke McKeon & Sniscak LLP
100 North Tenth Street
Harrisburg, PA 17101
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*Attorneys for Corning Natural Gas Holding
Corporation*

Date: June 10, 2016

ATTACHMENT A

Letters of Support from:

- ◆ **Pike County Economic Development Authority**
- ◆ **Pike County Chamber**
- ◆ **Pike County Commissioner's Office**
- ◆ **Senator Gene Yaw**
- ◆ **Representative Mike Peifer**
- ◆ **Representative Rosemary Brown**



Pike County Economic Development Authority
209 East Harford Street
Milford, PA 18336
(570) 296-7332

Feb. 16, 2016

Michael I. German, CEO
Corning Natural Gas Holding Corporation
330 West William Street
Corning, New York 14830.

**Re: Proposed Acquisition of Pike County Light and Power Company by
Corning Natural Gas Holding Corporation**

Dear Mr. German:

As Executive Director of the Pike County Economic Development Authority, I am writing to express our support for the proposed acquisition of Pike County Power & Light Company (Pike) by Corning Natural Gas Holding Corporation (Corning).

Our county contains many rural areas and communities and has diverse service needs. When we heard that Corning, who has a history of providing utility service to rural areas, it got our attention as we understand Corning's companies, Corning Natural Gas and Leatherstocking Gas, have successful track records of providing reliable, affordable service to rural areas like that served by Pike. In Pennsylvania, we like that Leatherstocking Gas's goal is to bring "local gas to local people." Led by you and the rest of the Corning team, Leatherstocking Gas has actively pursued that goal by purchasing its natural gas supply from Pennsylvania Marcellus Shale sources and making significant investments to bring natural gas service to areas previously without service and to improve the reliability of its system.

It is our understanding that the proposed acquisition will bring the same corporate leadership and commitment to local communities that have made Leatherstocking Gas a highly respected natural gas service utility to Pike's natural gas and electric systems. In addition, we understand that Corning plans to hire local residents and utilize local vendors to help operate Pike upon consummation of the acquisition.

For all of these reasons, we welcome Corning's proposed acquisition of Pike, and we support and hope you obtain prompt approval of the transaction by the Pennsylvania Public Utility Commission.

Sincerely,

A handwritten signature in black ink that reads "Michael J. Sullivan". The signature is written in a cursive, slightly slanted style.

Michael J. Sullivan
Executive Director



PIKE COUNTY CHAMBER OF COMMERCE

209 E. Harford Street • Milford, PA 18337
Tel. (570) 296-8700 • Fax (570) 296-3921

E-mail: Info@pikechamber.com • Web Site: www.pikechamber.com

February 16, 2016

Michael I. German, CEO
Corning Natural Gas Holding Corporation
330 West William Street
Corning, New York 14830.

Re: Proposed Acquisition of Pike County Light and Power Company by
Corning Natural Gas Holding Corporation

Dear Mr. German:

As President of the Pike County Chamber of Commerce, I am writing to express our support for the proposed acquisition of Pike County Power & Light Company (Pike) by Corning Natural Gas Holding Corporation (Corning).

Our county contains many rural areas and communities and has diverse service needs. When we heard that Corning, who has a history of providing utility service to rural areas, it got our attention as we understand Corning's companies, Corning Natural Gas and Leatherstocking Gas, have successful track records of providing reliable, affordable service to rural areas like that served by Pike. In Pennsylvania, we like that Leatherstocking Gas's goal is to bring "local gas to local people." Led by you and the rest of the Corning team, Leatherstocking Gas has actively pursued that goal by purchasing its natural gas supply from Pennsylvania Marcellus Shale sources and making significant investments to bring natural gas service to areas previously without service and to improve the reliability of its system.

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For all of these reasons, we welcome Corning's proposed acquisition of Pike, and we support and hope you obtain prompt approval of the transaction by the Pennsylvania Public Utility Commission.

Sincerely,

A handwritten signature in cursive script that reads "Jody Welsh".
Jody Welsh, President

JW/lc

PIKE COUNTY COMMISSIONERS

PIKE COUNTY ADMINISTRATION BUILDING
506 BROAD STREET
MILFORD, PA 18337
570-296-7613
FAX: 570-296-6055

MATTHEW M. OSTERBERG
RICHARD A. CARIDI
STEVEN R. GUCCINI

COMMISSIONERS



GARY R. ORBEN
CHIEF CLERK

THOMAS F. FARLEY, ESQUIRE
COUNTY SOLICITOR

Michael I. German, CEO
Corning Natural Gas Holding Corporation
330 West William Street
Corning, New York 14830.

February 17, 2016

Re: Proposed Acquisition of Pike County Light and Power Company by
Corning Natural Gas Holding Corporation

Dear Mr. German:

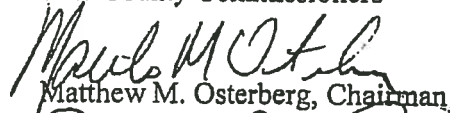
We, the Commissioners of Pike County, are writing to express our support for the proposed acquisition of Pike County Power & Light Company (Pike) by Corning Natural Gas Holding Corporation (Corning).

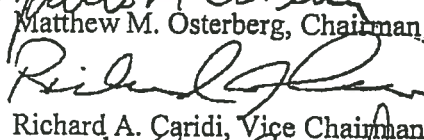
Our county contains many rural areas and communities and has diverse service needs. When we heard that Corning, who has a history of providing utility service to rural areas, it got our attention as we understand Corning's companies, Corning Natural Gas and Leatherstocking Gas, have successful track records of providing reliable, affordable service to rural areas like that served by Pike. In Pennsylvania, we like that Leatherstocking Gas's goal is to bring "local gas to local people." Led by you and the rest of the Corning team, Leatherstocking Gas has actively pursued that goal by purchasing its natural gas supply from Pennsylvania Marcellus Shale sources and making significant investments to bring natural gas service to areas previously without service and to improve the reliability of its system. Obviously, County support of local gas service is conditioned upon the company abiding by all state and federal laws and regulations.

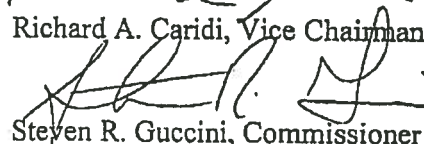
It is our understanding that the proposed acquisition will bring the same corporate leadership and commitment to local communities that have made Leatherstocking Gas a highly respected natural gas service utility to Pike's natural gas and electric systems. In addition, we understand that Corning plans to hire local residents and utilize local vendors to help operate Pike upon consummation of the acquisition.

For all of these reasons, we welcome Corning's proposed acquisition of Pike, and we support and hope you obtain prompt approval of the transaction by the Pennsylvania Public Utility Commission.

Sincerely,
Pike County Commissioners

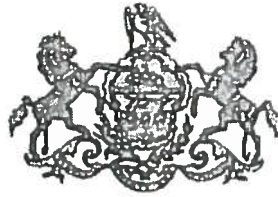

Matthew M. Osterberg, Chairman


Richard A. Caridi, Vice Chairman


Steven R. Guccini, Commissioner

**SENATOR
GENE YAW**
23RD SENATORIAL DISTRICT

- SENATE BOX 203023
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Senate of Pennsylvania

COMMITTEES

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LAW & JUSTICE
- RULES & EXECUTIVE NOMINATIONS
- THE CENTER FOR RURAL PENNSYLVANIA
CHAIRMAN
- JOINT LEGISLATIVE AIR & WATER
POLLUTION CONTROL COMMITTEE

March 15, 2016

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor (filing room)
Harrisburg, PA 17120

Re: *Joint Application of Pike County Light and Power Company, Corning Natural Gas Holding Corporation and Orange and Rockland Utilities, Inc. for: a Certificate or Certificates of Public Convenience Evidencing the Pennsylvania Public Utility Commission's Approval of: the Transfer by Sale of 100% of the Issued and Outstanding Stock of Pike County Light & Power Company, etc., Docket Nos.: A-2015-2517111, A-2015-2517036, G-2015-2517113, G-2015-2517114, S-2015-2517115, S-2015-2517116*

Dear Secretary Chiavetta:

As state senator for Pennsylvania's 23rd Senatorial District, which includes the service territory of Leatherstocking Gas Company, I am writing to offer my perspective as you consider the proposed acquisition of Pike County Power & Light Company ("PCL&P") by Corning Natural Gas Holding Corporation ("CNGHC").

As you are aware, rural areas and communities have diverse service needs and present unique challenges to public utilities. CNGHC's companies, Corning Natural Gas and Leatherstocking Gas, have successful track records of providing reliable, affordable service to rural areas and communities similar to those located within PCL&P's service territory. In Pennsylvania, Leatherstocking Gas is bringing "local gas to local people." Leatherstocking currently purchases all of its natural gas supply from Pennsylvania Marcellus Shale and has made significant investments to bring natural gas service to areas previously without service and to improve the reliability of its system.

The proposed acquisition will bring the same corporate expertise and commitment to local communities that have made Leatherstocking Gas a highly respected natural gas service utility to PCL&P's natural gas and electric systems. In addition, it is my understanding that CNGHC plans to hire local residents and utilize local vendors to operate and supply PCL&P upon consummation of the acquisition.

For all of these reasons, I believe CNGHC's acquisition of PCL&P will produce benefits for those living and working in PCL&P's territory and continue the expansion of natural gas distribution networks in rural Pennsylvania. Therefore, I'd like to join with the Pike County Chamber of Commerce and the Pike County Economic Development Authority and support the Commission's swift consideration and approval of the transaction.

Sincerely,



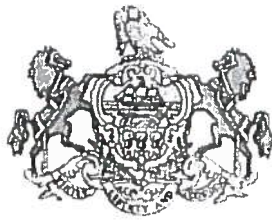
GENE YAW
SENATOR

cc: Gladys M. Brown, Chairman
Andrew G. Place, Vice-Chairman
John F. Coleman, Jr., Commissioner
Robert F. Powelson, Commissioner
Pamela A. Witmer, Commissioner

MIKE PEIFER, MEMBER
139th LEGISLATIVE DISTRICT

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PHONE: (717) 783-2037
FAX: (717) 782-2910

February 26, 2016



House of Representatives
Commonwealth of Pennsylvania
Harrisburg

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Email: mpeifer@pahousegop.com
www.RepPeifer.com

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor (filing room)
Harrisburg, PA 17120

RECEIVED
2016 MAR - 1 AM 9:55
PA P.U.C.
SECRETARY'S BUREAU

Re: *Joint Application of Pike County Light and Power Company, Corning Natural Gas Holding Corporation and Orange and Rockland Utilities, Inc. for: a Certificate of Public Convenience Evidencing the Pennsylvania Public Utility Commission's Approval of: the Transfer by Sale of 100% of the Issued and Outstanding Stock of Pike County Light & Power Company, etc., Docket Nos.: A-2015-2517111, A-2015-2517036, G-2015-2517113, G-2015-2517114, S-2015-2517115, S-2015-2517116*

Dear Secretary Chiavetta:

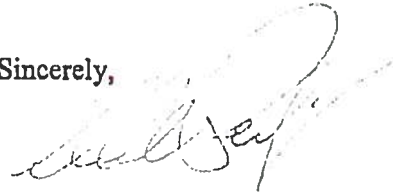
As House Representative for Pennsylvania's 139th District, which includes the service territory of Pike County Power & Light Company ("PCL&P"), I am writing to offer my perspective as you consider the proposed acquisition of PCL&P by Corning Natural Gas Holding Corporation ("CNGHC").

As you are aware, rural areas and communities have diverse service needs and present unique challenges to public utilities. CNGHC's companies, Corning Natural Gas and Leatherstocking Gas, have successful track records of providing reliable, affordable service to rural areas and communities similar to those located within PCL&P's service territory. In Pennsylvania, Leatherstocking Gas is bringing "local gas to local people." Leatherstocking currently purchases all of its natural gas supply from Pennsylvania Marcellus Shale and has made significant investments to bring natural gas service to areas previously without service and to improve the reliability of its system.

The proposed acquisition will bring the same corporate expertise and commitment to local communities that have made Leatherstocking Gas a highly respected natural gas service utility to PCL&P's natural gas and electric systems. In addition, it is my understanding that CNGHC plans to hire local residents and utilize local vendors to operate and supply PCL&P upon consummation of the acquisition.

For all of these reasons, I believe CNGHC's acquisition of PCL&P will produce benefits for those living and working in PCL&P's territory. Therefore, I'd like to join with the Pike County Chamber of Commerce, Pike County Commissioners and the Pike County Economic Development Authority and support, conditioned upon the company abiding by all state and federal laws and regulation, the Commission's swift consideration and approval of the transaction.

Sincerely,



Michael T. Peifer
State Representative
139th Legislative District

cc: Gladys M. Brown, Chairman
Andrew G. Place, Vice-Chairman
John F. Coleman, Jr., Commissioner
Robert F. Powelson, Commissioner
Pamela A. Witner, Commissioner

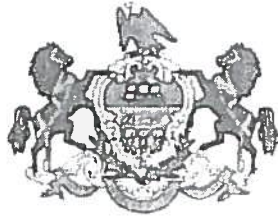
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PA PUC
SECRETARY'S BUREAU

COMMITTEES

Commerce, Housing Subcommittee Chair
Education
Gaming Oversight, Majority Vice Chair
Policy, Deputy Chair
Veterans Affairs and Emergency Preparedness



House of Representatives

Commonwealth of Pennsylvania
Harrisburg

ROSEMARY M. BROWN, MEMBER
189TH LEGISLATIVE DISTRICT

Website: repbrown.com
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DISTRICT
143 Seven Bridge Road
East Stroudsburg, PA 18301
Phone: (570) 420-8301
Fax: (570) 420-8304

April 28, 2016

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor (filing room)
Harrisburg, PA 17120

Re: *Joint Application of Pike County Light and Power Company, Corning Natural Gas Holding Corporation and Orange and Rockland Utilities, Inc. for: a Certificate or Certificates of Public Convenience Evidencing the Pennsylvania Public Utility Commission's Approval of: the Transfer by Sale of 100% of the Issued and Outstanding Stock of Pike County Light & Power Company, etc., Docket Nos.: A-2015-2517111, A-2015-2517036, G-2015-2517113, G-2015-2517114, S-2015-2517115, S-2015-2517116*

Dear Secretary Chiavetta:

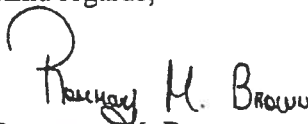
As House Representative for Pennsylvania's 189th District, which includes the service territory of Pike County Power & Light Company ("PCL&P"), I am writing to offer my perspective as you consider the proposed acquisition of PCL&P by Corning Natural Gas Holding Corporation ("CNGHC").

As you are aware, rural areas and communities have diverse service needs and present unique challenges to public utilities. CNGHC's companies, Corning Natural Gas and Leatherstocking Gas, have successful track records of providing reliable, affordable service to rural areas and communities similar to those located within PCL&P's service territory. In Pennsylvania, Leatherstocking Gas is bringing "local gas to local people." Leatherstocking currently purchases all of its natural gas supply from Pennsylvania Marcellus Shale and has made significant investments to bring natural gas service to areas previously without service and to improve the reliability of its system.

The proposed acquisition will bring the same corporate expertise and commitment to local communities that have made Leatherstocking Gas a highly respected natural gas service utility to PCL&P's natural gas and electric systems. In addition, it is my understanding that CNGHC plans to hire local residents and utilize local vendors to operate and supply PCL&P upon consummation of the acquisition.

For all of these reasons, I believe CNGHC's acquisition of PCL&P will produce benefits for those living and working in PCL&P's territory. Therefore, I'd like to join with the Pike County Chamber of Commerce, Pike County Commissioners and the Pike County Economic Development Authority and support the Commission's swift consideration and approval of the transaction.

Kind regards,

A handwritten signature in black ink that reads "Rosemary M. Brown". The signature is written in a cursive style with a large initial "R".

Rosemary M. Brown
Representative

cc: Gladys M. Brown, Chairman
Andrew G. Place, Vice-Chairman
John F. Coleman, Jr., Commissioner
Robert F. Powelson, Commissioner
Pamela A. Witmer, Commissioner

APPENDIX B

**Pike County Light & Power Company
and Orange & Rockland Utilities, Inc.**

Statement in Support of Full Settlement

**BEFORE THE PENNSYLVANIA
PUBLIC UTILITY COMMISSION**

Joint Application of Pike County Light & Power Company, Buyer Corning Natural Gas Holding Corporation and Seller Orange And Rockland Utilities, Inc. for a Certificate Of Public Convenience Approving the Transfer By Sale of 100% of the Stock of Pike County Light & Power Company from Seller Orange: And Rockland Utilities, Inc. to Buyer Corning Natural Gas Holding Corporation	:	:	A-2015-2517036 A-2015-2517111 G-2015-2517113 G-2015-2517114 S-2015-2517115 S-2015-2517116
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**PIKE COUNTY LIGHT & POWER COMPANY INC.
STATEMENT IN SUPPORT OF
JOINT PETITION FOR SETTLEMENT
OF JOINT APPLICATION PROCEEDING**

TO: ADMINISTRATIVE LAW JUDGE SUSAN D. COLWELL:

Pike County Light & Power Company Inc. (“Pike” or “PCL&P”) by and through counsel hereby respectfully submits that the terms and conditions of the foregoing Joint Petition for Settlement of Joint Application Proceeding (“Joint Petition” or “Settlement”) are in the public interest and represent a fair, just, reasonable and equitable balance of the interests of Pike and its customers.

A. BACKGROUND

1. All active parties to this proceeding participated in settlement discussions and as a result, Pike, Corning Natural Gas Holding Corporation (“Buyer” or “CNGHC”), Orange and Rockland Utilities, Inc. (“Seller”, “Orange and Rockland Utilities” or “O&R”), the Pennsylvania Office of Consumer Advocate (“OCA”) and the Pennsylvania Office of Small Business

Advocate (“OSBA”) (collectively, “Parties” or “Joint Petitioners”) have agreed upon the terms embodied in the foregoing Joint Petition.

2. Pike provides electric distribution and provider of last resort services to approximately 4,500 customers in Milford and Matamoras, in northeastern Pennsylvania. Pike is also engaged in the retail distribution and sale of natural gas for residential, commercial and industrial purposes within the Commonwealth of Pennsylvania. Pike serves approximately 1,200 residential and commercial and industrial gas customers in Pike County, Pennsylvania.

3. On or about December 4, 2016, Pike, O&R and CNGHC filed a Joint Application seeking approval to transfer O&R’s control and ownership interests in PCL&P to CNGHC (“Joint Application”). The Joint Application asks for all necessary authority, approvals and certificates of public convenience pursuant to Sections 1102(a)(3), 2102(b) and 1901(a) and (c) of the Public Utility Code, 66 Pa. C.S. §§ 11102(a)(3), 2102(b) and 1901(a) and (c) regarding the transfer of all of O&R's ownership interests in PCL&P to CNGHC, the affiliated interest agreements, and the securities transactions involving PCL&P.

4. On December 23, 2015, OCA filed a Protest and Public Statement in response to the Joint Application.

5. Also on December 23, 2015, OSBA filed a Notice of Appearance.

6. On January 12, 2016, a notice of prehearing conference was issued, scheduling the prehearing conference for Monday, February 1, 2016, before Administrative Law Judge (“ALJ”) Susan D Colwell (the “Presiding Officer”).

7. The Joint Applicants, OCA and OSBA filed prehearing memos, and the prehearing conference was held as scheduled, with the following counsel attending: on behalf of PCL&P, John J. Gallagher, Esq.; on behalf of O&R, John Carley, Esq.; on behalf of CNGHC,

Thomas J. Sniscak, Esq., and William Lehman, Esq.; on behalf of OCA, Aron J. Beatty, Esq., and Brandon Pierce, Esq.; and on behalf of OSBA, Daniel Asmus, Esq.

8. During the February 1, 2016 prehearing conference, the parties agreed upon modifications to the Commission's discovery regulations and agreed upon the following litigation schedule:

Applicants' direct testimony	February 19, 2016
Public advocates direct	April 1, 2016
Rebuttal	April 15, 2016
Surrebuttal	April 25, 2016
Oral rejoinder	May 4, 2016
Hearings	May 5-6, 2016
Main briefs	May 20, 2016
Reply briefs	June 1, 2016

9. The ALJ subsequently issued a Scheduling Order adopting the discovery procedure modifications and the litigation schedule agreed upon by the Parties at the prehearing conference

10. On February 19, 2016, CNGHC served on the ALJ and the other Parties the prepared direct testimony and exhibits of Michael I. German (CNGHC St. No. 1), Russell Miller (CNGHC St. No. 2), Matthew Cook (CNGHC St. No. 3), and Firouzeh Sarhangi and L. Mario DiValentino (presented as Financial Panel testimony) (CNGHC St. No. 4).

11. On or about February 19, 2016, PCL&P served its Statement No. Transfer Panel-I, which was the direct testimony of Francis W. Peverly, Kenneth A. Kosier, and Kate Trischitta, presented as panel testimony.

12. On March 25, 2016, the ALJ issued an Order directing PCL&P to re-serve its direct testimony with each witness sponsoring a separate, distinct statement, rather than panel testimony.

13. On April 1, 2016, OCA served the prepared direct testimony and exhibits of Matthew I. Kahal (premarked as OCA St. No. 1) on the ALJ and the other Parties.
14. On April 1, 2016, OSBA served a letter on the ALJ and the other Parties stating that it would not be submitting direct testimony.
15. On April 4, 2016, PCL&P re-served its prepared direct testimony as the direct testimony of Francis W. Peverly (PCL&P St. No. 1), Kenneth A. Kosier (PCL&P St. No. 2), and Kate Trischitta (PCL&P St. No. 3).
16. On April 15, 2016, CNGHC served the prepared rebuttal testimony and exhibits of Michael I. German (CNGHC St. No. 1-R), Russell Miller (CNGHC St. No. 2-R), and Firouzeh Sarhangi and L. Mario DiValentino (presented as Financial Panel testimony) (CNGHC St. No. 4-R).
17. On April 20, 2016, the ALJ issued an Order directing CNGHC to re-serve the direct and rebuttal testimonies submitted by its “Financial Panel” (CNGHC St. Nos. 4 and 4-R) as individual statements.
18. On May 2, 2016, CNGHC re-served its Financial Panel direct and rebuttal testimonies as the prepared direct testimony of Firouzeh Sarhangi (CNGHC St. Nos. 4) and the prepared direct and rebuttal testimonies of L. Mario DiValentino (CNGHC St. Nos. 5 and 5-R).
19. On May 5, 2015, the OCA served the prepared surrebuttal testimony of Matthew I. Kahal (OCA St. No. 1-S).
20. On May 4, 2016, CNGHC served its Outline of Oral Rejoinder Testimony.
21. Prior to the hearings, the Joint Applicants responded to approximately 65 discovery requests (not including subparts) propounded by the protestants and provided numerous pages of documents in response to these requests.

22. The Parties initiated settlement discussions prior to the commencement of evidentiary hearings.

23. At the request of the Parties for the purpose of facilitating settlement discussions, the Presiding Officer canceled May 5, 2016 as a hearing day and scheduled the evidentiary hearing to commence at 9:00 a.m. on May 6, 2016.

24. On May 6, 2016, the evidentiary hearing was held in this matter pursuant to notice with counsel for CNGHC, O&R and PCL&P, OCA and OSBA attending. OCA's and CNGHC's witnesses appeared in person at the hearing and O&R and PCL&P's witnesses were granted leave to testify by telephone subject to agreement by the Parties and permission from the Presiding Officer.

25. In a preliminary matter at the hearing, the Presiding Officer presented the Parties with a list of questions from members of the Commission's staff regarding the Joint Application and instructed the Joint Applicants to have their witnesses address the questions.

26. Upon commencement of the hearing, the direct statements of the Company witnesses, Mr. Peverly, Mr. Kosior and Ms. Trischitta, were marked, authenticated and admitted as PCL&P Statements No. 1, 2 and 3, respectively. (Tr. 26-27.) Mr. Peverly's testimony summarized the proposed transaction and discussed O&R's reasons for selling the Company. Mr. Kosior's testimony discussed the background to the proposed transaction, the impact of the proposed transaction upon retail competition and the employees of PCL&P, and the services to be provided by O&R to PCL&P under a proposed Transition Services Agreement ("TSA") and the pricing of such services. Ms. Trischitta's testimony discussed the services to be provided by O&R to PCL&P under a proposed Electric Supply Agreement ("ESA") and a proposed Gas Supply and Gas Transportation Agreement ("GSGTA") and the pricing of such services.

27. The direct and rebuttal statements of CNGHC's witnesses were marked, authenticated and admitted at hearing as follows: CNGHC St. Nos. 1 and 1-R (direct and rebuttal testimony of Michael I. German), CNGHC St. Nos. 2 and 2-R (direct and rebuttal testimony of Russell Miller), CNGHC St. No. 3 (direct testimony of Matthew Cook), CNGHC St. No. 4 (direct testimony of Firouzeh Sarhangi), and CNGHC St. Nos. 5 and 5-R (direct and rebuttal testimony of L. Mario DiValentino).

28. The exhibits sponsored by CNGHC's witnesses were marked, authenticated and admitted at hearing as follows: Joint Applicant Ex. No. 1 (Joint Application and attachments); CNGHC Ex. No. 1 (Handouts from 1/1/2015 Pike Co. Chamber of Commerce meeting); CNGHC Ex. No. 2 (Corning Natural Gas customer survey results); CNGHC Ex. No. 3 (Statement of Commissioner Pamela Witmer regarding Leatherstocking Gas Company); CNGHC Ex. No. 4 (Statement of then-Chairman Robert Powelson regarding Leatherstocking Gas Company); CNGHC Ex. No. 5 (letters of support from Pike Co. Economic Development Authority, Pike Co. Chamber of Commerce, Pike Co. Commissioners' Office, State Representative Rosemary M. Brown, State Senator Gene Yaw and Rep. Mike Peifer); CNGHC Ex. No. 6 (CNGHC consolidated balance sheets for 12 months ending Sept. 30, 2015); CNGHC Ex. No. 7 (CNGHC pro forma balance sheet); CNGHC Ex. No. 8 (CNGHC income statement for 12 months ending Sept. 30, 2015); CNGHC Ex. No. 9 (CNGHC pro forma balance sheet); CNGHC Ex. No. 10 (PCL&P pro forma pre- and post-acquisition balance sheet at December 31, 2014, with revision for PCL&P 2015 data); CNGHC Ex. No. 11 (PCL&P pro forma pre- and post-acquisition income statement at December 31, 2014, with revision for PCL&P 2015 data); and CNGHC Ex. No. 12 (M&T Bank e-mail regarding fixed rate swap). After the hearing, CNGHC Ex. No. 13 (M&T Bank extended financing commitment letter) was also admitted.

29. Mr. German, President and CEO of CNGHC, described the proposed acquisition and related transactions and approvals sought by the Joint Application, including the acquisition itself, an affiliated interest agreement between PCL&P and Corning Natural Gas Corp. (“CNG”), and registration of a securities certificate. Mr. German then addressed whether the proposed acquisition would promote the service, accommodation and safety of the public, and described the deliberate approach CNGHC would take to study and employ the best practices of CNGHC and PCL&P when integrating operations following the acquisition. (CNGHC St. Nos. 1 and 1-R.) Mr. German also addressed certain of the staff questions presented by the Presiding Officer. (Tr. 34-35, 90-95.)

30. Mr. Miller, CHGHC’s Vice President of Energy Supply and Business Development, testified regarding the three proposed transitional agreements that are part of the Joint Application – the TSA, the ESA and the GTGSA. Mr. Miller also addressed CNGHC’s plans to hire a General Manager and Customer Service Manager for PCL&P, how CNGHC would work with Orange and Rockland and other vendors during the terms of the transitional agreements, and how CNGHC may utilize local supply in the future. Mr. Miller also discussed CNGHC’s approach to business expansion, its community outreach, its focus on bringing utility services to local people in rural territories and small cities and villages, and the potential benefits of that focus for PCL&P. (CNGHC St. Nos. 2 and 2-R.) Mr. Miller also answered certain of the staff questions presented by the Presiding Officer. (Tr. 68-71.)

31. Mr. Cook, CNGHC’s Vice President – Operations, testified regarding the technical fitness of CNGHC to operate both the electric and gas distribution functions of PCL&P and CNGHC’s staffing plans for PCL&P. (CNGHC St. No. 3.) Mr. Miller also answered certain of the staff questions presented by the Presiding Officer. (Tr. 75-85.)

32. Ms. Sarhangi, CNGHC's Chief Financial Officer, and Mr. DiValentino, President of Moonstone Consulting LLC, each testified about the financial aspects and effects of the proposed acquisition, CNGHC's financial fitness to acquire PCL&P, the request by CNGHC and PCL&P for approval of an affiliated interest agreement between PCL&P and CNG; and PCL&P's request for registration of a securities certificate in the form of a Term Loan in the amount of \$12,000,000 from Manufacturers and Traders Trust Company ("M&T Bank"). (CNGHC St. Nos. 4, 5 and 5-R.) Ms. Sarhangi also provided oral rejoinder testimony regarding the availability and terms of a fixed interest rate swap from M&T Bank. (Tr. 64-65.) Mr. DiValentino also answered certain of the staff questions presented by the Presiding Officer. (Tr. 48-55.)

33. The direct and surrebuttal statements of OCA witness Matthew I. Kahal were marked, authenticated and admitted at hearing as OCA St. No. 1 and OCA St. No. 1-S. Mr. Kahal testified regarding the transaction and Joint Applicants' testimony and exhibits, including concerns he had regarding the proposed acquisition's impact on customers' service and rates, and CNGHC's fitness relative to electric operations and service. Regarding those concerns, Mr. Kahal discussed and proposed safeguards or conditions he recommended be imposed should the Joint Application be approved. Absent sufficient conditions or safeguards, he recommended that the Joint Application not be granted. (OCA St. Nos. 1. and 1-S.)

34. The Parties engaged in multiple and extensive settlement discussions before, during, and after the evidentiary hearing. On May 13, 2016, the Parties requested a one-week extension of the briefing schedule. The Presiding Officer granted this request by order dated May 16, 2016.

35. On or about May 25, 2016, the Parties informed the Presiding Officer they had reached a settlement of all issues in this proceeding, stated that a joint petition for settlement would be filed no later than June 10, 2016, and requested that the briefing schedule be stayed due to the settlement. The Presiding Officer granted this request.

B. TERMS AND CONDITIONS OF SETTLEMENT

38. The Parties agreed that “affirmative benefits” are necessary under applicable law for the application to be approved. The Joint Applicants and OCA and OSBA disagreed as to what constituted affirmative benefits relative to the application, proposed transaction, testimony and exhibits presented.

39. In order to resolve these competing positions, the Parties through extensive and comprehensive negotiation have agreed to terms and conditions to the Application which taken together with the evidentiary record warrant granting the approvals requested in the Joint Application as in the public interest. It also represents an outcome Joint Petitioners agree is preferable to the time, expense and uncertainty of litigation before the Commission and potentially, appellate courts. Indeed, Joint Petitioners note it is the policy of this Commission to encourage settlements. *See* 52 Pa. Code §§ 5.231, 69.391, 69.401.

40. The Settlement consists of the following terms and conditions:

a. PCL&P shall commence a natural gas system cast iron and bare steel (CIBS) study within six (6) months of closing, and within eighteen (18) months of closing start implementation of a replacement program.

b. Six (6) months after closing, PCL&P shall start a study of alternative supply options for its gas and electric divisions. For the electric division, the options studied shall include, but are not limited to, the inclusion of bilateral contracts as defined in 66 Pa.C.S. §2803, which “may include the EEI Master Agreement for physical energy purchases and sales and the ISDA Master Agreement for financial energy purchases and sales.” The study should also include, but not be limited to, other flexible options such as purchases of financial (or physical) hedges in small quantities from brokers. PCL&P shall consult with OCA and OSBA before the study begins with respect to its scope and the options to be studied. PCL&P, OCA and OSBA shall meet to discuss the results of the study within twelve (12) months of closing.

c. PCL&P shall not file for a general rate increase under 1308(d) of the Public Utility Code, 66 Pa. C.S. § 1308(d) prior to March 1, 2018. However, if a legislative body, the judiciary, or an administrative agency, including the Commission, enacts or orders any fundamental changes in policy or statutes that directly and substantially affect the Company’s cost of service, the Settlement shall not prevent the Company from filing a tariff or tariff supplement to the extent necessitated by such action. In addition, this provision shall not preclude the Company from seeking extraordinary rate relief under Section 1308(e) of the Public Utility Code, 66 Pa, C.S. § 1308(e).

d. PCL&P will hold no fewer than four (4) quarterly meetings during the three (3) years following the date of closing with local officials, economic development councils and/or agencies, to discuss any need for expansion of service or any service issues.

e. PCLP and O&R will modify the TSA to allow PCLP to extend the 12 month term of the TSA, on a month to month basis, for a maximum of an additional six (6) months. During the term of the TSA PCL&P will meet or have a quarterly conference with OCA and OSBA (a) to explain in sufficient detail what services PCL&P is continuing to take under the TSA and what services it no longer requires and (b) to provide sufficient detail of what substitute services from the CNGHC or other vendors has or will occur. OCA and OSBA shall keep such information confidential during the term of the Transitional Service Agreement.

f. O&R and CNGHC agree that the TSA is intended to provide PCLP/CNGHC with the ability to procure all of the services listed in TSA Exhibit A during the full term of the agreement. O&R and CNGHC further agree that the TSA “Hours Limitation” provision will not be applicable to emergency or extraordinary circumstances (see Transcript at 44).

g. CNGHC shall provide monthly updates to OCA and OSBA of its General Manager hiring initiative until the General Manager is hired. OCA and OSBA shall keep confidential the identity of, and any information which could identify, candidates who request that their interest in the position be kept confidential.

h. CNGHC fully acknowledges its responsibility to promptly implement a staffing plan for PCL&P after closing that will provide safe, reliable, and responsive gas and electric utility service at reasonable cost to PCL&P customers. To that end, PCL&P/CNGHC’s staffing plan will include approximately twelve (12) full time equivalent employees (“FTEs”) of PCL&P. PCL&P will hire, by no later than three (3) months after closing, as PCL&P employees the following five (5) full time positions:

two (2) gas fitter/meter readers, one general manager, one (1) customer service manager/public affairs manager, and one (1) customer service representative. If additional time is required to secure qualified persons for these five (5) positions, PCL&P/CNGHC may take up to nine (9) additional months (for a total of one year from closing) to fill these positions, provided it shows cause for doing so and has exercised its best cost-effective and expeditious efforts to obtain qualified personnel. For the remaining positions in the areas of billing, IT, accounting, and HR/insurance, within 18 months of closing, these positions will be filled, or service provided, by hired PCL&P employees, CNGHC employees, contractors or a combination thereof. For the areas of electric crew persons, electric engineering support, and supply analyst/procurement, the Company will staff these positions within 18 months with PCL&P or CNGHC employees unless the Company demonstrates that staffing some or all of these positions through contractor employees is cost-effective and fulfills PCL&P's obligation to provide service in accordance with the requirements of the Public Utility Code. If PCL&P determines to use contractors for any of the above positions, it shall provide its demonstration to the Commission for review and approval, which shall occur within 10 days of filing. This review and approval requirement shall expire 18 months after the date of closing.

i. PCL&P/CNGHC shall provide OCA, OSBA, and the Commission with sufficiently detailed quarterly status reports on the progress of retaining an electric and gas utility staff for PCL&P. Each report shall contain information regarding the number of permanent staff retained and the number of contractors still in use.

j. PCL&P will continue its Electric Division Reliability Plan.

k. Transaction costs and costs incurred as a result of this acquisition will not be claimed by PCL&P in any rate case. Such costs shall include the costs incurred to effect and gain regulatory approvals for the purchase of PCL&P, the costs of recruiting a new staff, the cost of training a new staff, the costs of bringing PCL&P into compliance with PUC regulations due to the change in ownership, except to the extent PCL&P can demonstrate that such costs result in cost savings for PCL&P customers.

l. No goodwill or acquisition premium, if any, will be claimed by PCL&P in any rate case (including goodwill-related equity in capital structure).

m. For the next general gas and electric rate cases, PCL&P shall not request inclusion of risk premium in the authorized return on equity for small size or for any other aspect of parent company (CNGHC) risk attributes. While this provision does not prohibit PCL&P from requesting such a risk premium in future rate cases beyond the first post-closing cases, all Parties retain all rights to oppose such a request for a risk premium.

n. PCL&P customers shall be held harmless from adverse rate effects associated with tax and accounting changes associated with this transaction. This would include but not be limited to the loss of the PCL&P balance of accumulated deferred taxes to the extent they are includable in rate base as a deduction. PCL&P would have the burden of demonstrating an absence of harm from the loss of PCL&P's pre-closing deferred tax balance at the time of its next rate case to the extent they are includable in rate base as a deduction.

o. PCL&P/CNGHC shall study the feasibility and cost implications of an interest rate swap, or similar switch to fixed rate debt, to hedge variable rate debt and

shall provide its findings in one of its quarterly status reports filed within six months after closing of the transaction.

p. PCL&P shall establish a service center/office in PCL&P's service territory.

Additional Settlement Terms

41. The Commission's approval of the Settlement shall not be construed as approval of any Joint Petitioner's position on any issue, except to the extent required to effectuate the terms and agreements of the Settlement. Accordingly, this Settlement may not be cited as precedent in any future proceeding, except to the extent required to implement or to enforce this Settlement.

42. It is understood and agreed among the Joint Petitioners that the Settlement is the result of compromise and does not necessarily represent the position(s) that would be advanced by any Joint Petitioner in this or any other proceeding, if it were fully litigated.

43. This Settlement is being presented only in the context of this proceeding in an effort to resolve the issues presented in this proceeding in a manner that is fair and reasonable. The Settlement is the product of compromise. This Settlement is presented without prejudice to any position which any of the Joint Petitioners may have advanced and without prejudice to the position any of the Joint Petitioners may advance on the merits of the issues in future proceedings, except to the extent necessary to effectuate or enforce the terms and conditions of this Settlement.

44. This Settlement is conditioned upon the Commission's approval of the terms and conditions contained herein without modification. In reaching this Settlement, the Joint

Petitioners thoroughly considered all issues and give and take of positions. As a result of that consideration, the Joint Petitioners believe that the settlement agreement meaningfully addresses all such issues raised and therefore should be approved without modification. If the Commission should disapprove the Settlement or modify any terms and conditions herein, this Settlement may be withdrawn upon written notice to the Commission and all active parties within five (5) business days following entry of the Commission's Order by any of the Joint Petitioners and, in such event, shall be of no force and effect. In the event that the Commission disapproves the Settlement or the Company or any other Joint Petitioner elects to withdraw the Settlement as provided above, the Joint Petitioners reserve their respective rights to fully litigate this case, including, but not limited to, presentation of witnesses, cross-examination and legal argument through submission of Briefs, Exceptions and Replies to Exceptions.

45. All Joint Petitioners shall support the Settlement and make reasonable and good faith efforts to obtain approval of the Settlement by the Presiding Officer and the Commission without modification. If the Presiding Officer, in her Recommended Decision, recommends that the Commission adopt the Settlement as herein proposed without modification, the Joint Petitioners agree to waive the filing of Exceptions. However, to the extent any terms and conditions of the Settlement are modified, or additional matters are proposed by the Presiding Officer in her Recommended Decision, the Joint Petitioners do not waive their rights to file Exceptions in support of the Settlement. The Joint Petitioners also reserve the right to file Replies to any Exceptions that may be filed provided such Replies support the Settlement.

46. The Joint Petitioners agree that this document may be signed or executed in separate counterparts which shall be binding upon the Joint Petitioners and such counterparts shall be considered as one document.

I. The Settlement is in the Public Interest

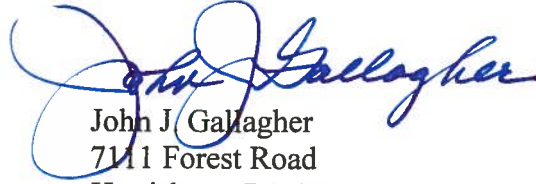
47. Pike submits that the Settlement is in the public interest for the reasons stated above and for the following reasons:

a. The Settlement amicably and expeditiously resolves a number of important and potentially contentious issues. The administrative burden and costs to litigate these matters to conclusion, including possible appeal of any Final Order, would be significant. Rate case costs permitted by the Commission are borne by ratepayers of the Company. Thus, the Settlement will not only conserve the time, effort and expense of all parties as well as those of the Commission and the Presiding Officer, it serves to lower allowable rate case costs and therefore rates.

b. The Joint Petitioners arrived at the Settlement terms after review of the Joint Applicants' responses to discovery by the statutory advocates, review and analysis of the Parties' prepared direct, rebuttal and surrebuttal testimony, the cross examination of witnesses, and in-depth discussions. The Settlement terms and conditions constitute a carefully crafted package representing reasonable negotiated compromises on the issues raised by the Joint Application. Thus, the Settlement is consistent with the Commission's rules, practices and procedures promoting and encouraging negotiated settlements. *See* 52 Pa. Code §§ 5.231, 69.391, 69.401.

WHEREFORE, PCL&P represents that it fully supports the instant settlement as being in the public interest and respectfully requests that the Administrative Law Judge recommend, and the Commission subsequently approve without modification, the proposed Settlement as set forth in the Joint Petition.

Respectfully submitted,



John J. Gallagher
7111 Forest Road
Harrisburg, PA 17112
jgallagher@jglawpa.com

*Counsel for Pike County Light and Power
Company, Inc.*

Dated June 9, 2016

APPENDIX C

Office of Consumer Advocate

Statement in Support of Full Settlement

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Joint Application of Pike County Light and Power)
Company, Corning Natural Gas Holding Corporation and)
Orange and Rockland Utilities, Inc. for: a Certificate or)
Certificates of Public Convenience Evidencing the)
Pennsylvania Public Utility Commission's Approval of: the)
Transfer by Sale of 100% of the Issued and Outstanding)
Stock of Pike County Light & Power Company, a Public)
Utility Providing Natural Gas and Electric Distribution)
Service in Pennsylvania, from Seller Orange and Rockland)
Utilities, Inc. to Buyer Corning Natural Gas Holding)
Corporation; Approval of Certain Affiliated Interest Filings)
and Securities Certificates; and, All Other Approvals Or)
Certificates Appropriate, Customary or Necessary Under)
the Public Utility Code to Carry Out The Transactions)
Described in the Application.)

Docket Nos.:
A-2015-2517111
A-2015-2517036
G-2015-2517113
G-2015-2517114
S-2015-2517115
S-2015-2517116

STATEMENT OF THE
OFFICE OF CONSUMER ADVOCATE
IN SUPPORT OF THE JOINT
PETITION FOR FULL SETTLEMENT

The Office of Consumer Advocate (OCA), a signatory party to the Joint Petition for Full Settlement of Joint Application Proceeding (Settlement) in the above-captioned proceedings, respectfully requests that the terms and conditions of the Settlement be approved by Administrative Law Judge Susan Colwell (ALJ Colwell) and the Pennsylvania Public Utility Commission (Commission). It is the position of the OCA that the proposed Settlement provides substantial, affirmative benefits to the public and is in the interest of the customers of Pike County Light and Power Company (Pike or the Company).

I. INTRODUCTION

A. Background

Pike is a Pennsylvania public utility that provides electric distribution services and provider of last resort services to approximately 4,500 customers in a certificated service territory, including the Boroughs of Milford and Matamoras in northeastern Pennsylvania. Pike also provides retail distribution and sale of natural gas to approximately 1,200 residential and commercial customers in Pike County, Pennsylvania. As such, Pike is regulated by the Pennsylvania Public Utility Commission (Commission). Pike is a wholly owned subsidiary of Orange and Rockland, a New York corporation that operates a single, fully integrated electric distribution and transmission system serving parts of Pennsylvania, New Jersey, and New York.

Pursuant to a Commission-approved Affiliated Interest Agreement, Orange and Rockland Utilities, Inc. (Orange and Rockland or O&R) provides Pike with the facilities and employees needed to construct, maintain, and operate Pike's electric and natural gas distribution systems and conduct administrative operations. Additionally, pursuant to a Power Supply Agreement approved by the Federal Energy Regulatory Commission, Orange and Rockland also sells and delivers electric supply to Pike.

Corning Natural Gas Holding Corporation (Corning or CNGHC) is a holding company owning 100% of the New York public utility Corning Natural Gas Corporation, which presently provides natural gas distribution services to approximately 15,000 customers and to two other utilities in parts of New York. Corning also owns a 50% share of Leatherstocking Gas Company, LLC, a Pennsylvania public utility providing natural gas services to approximately 270 customers in Susquehanna and Bradford Counties, Pennsylvania. Additionally, Corning owns a 50% share of Leatherstocking Pipeline Company, a non-certificated pipeline serving one customer in Pennsylvania. In this proceeding, Pike, Corning, and Orange and Rockland

(collectively, Joint Applicants) seek Commission approval to transfer control and ownership interests of Pike from Orange and Rockland to Corning.

B. Procedural History

On December 4, 2015, Pike, Corning, and Orange and Rockland filed a Joint Application with the Commission seeking to transfer control and ownership interests of Pike, an affiliate of Orange and Rockland, from Orange and Rockland to Corning. Specifically, pursuant to Sections 1102(a)(3), 2102(b) and 1901(a) and (c) of the Public Utility Code, 66 Pa. C.S. §§ 1102(a)(3), 2102(b) and 1901(a) and (c), Joint Applicants seek: (1) a Certificate or Certificates of Public Convenience evidencing the Commission's approval of the transfer of all of Orange and Rockland's ownership interests in Pike to Corning; (2) approval of certain affiliated interest filings and security certificates; and (3) all other approvals or certificates necessary for Joint Applicants to execute the proposed transaction. This matter was assigned to the Office of Administrative Law Judge and was further assigned to Administrative Law Judge Susan Colwell (ALJ Colwell).

On December 23, 2015, the Office of Consumer Advocate (OCA) filed a Protest and Public Statement. In its Protest, the OCA identified a number of issues with the proposed transaction in the Joint Application, including: 1) whether the transaction provides affirmative ratepayer benefits; 2) whether the transaction will provide any acquisition savings and/or synergies; 3) whether the Joint Applicants propose to bear the costs of executing the proposed transaction; 4) whether quality of service will be affected as a result of the transaction; 5) whether there is an adverse impact on rates; 6) whether there are any market power and effects on competitive markets; 7) whether the corporate structure will change and the impact of any changes; 8) whether the Commission's jurisdiction would continue; and 9) whether Corning possesses the requisite technical, legal, and financial fitness to operate Pike. The Office of Small

Business Advocate (OSBA) filed a Notice of Intervention, Notice of Appearance, and Protest also on December 23, 2015.

On January 12, 2016, ALJ Colwell issued a Prehearing Conference Notice, scheduling a Prehearing Conference for February 1, 2016. During the February 1, 2016 Prehearing Conference, the parties agreed to discovery modifications and a litigation schedule, which was adopted by Scheduling Order dated March 9, 2016.

Pursuant to the Scheduling Order, on February 19, 2016, Pike served the Direct Testimony of a Transfer Panel on February 19, 2016, which included testimonies from Pike witnesses Francis W. Peverly, Kenneth A. Koisior, and Kate Trischitta (PCL&P St. Transfer Panel-1),¹ and Corning served the Direct Testimonies of Corning witnesses Michael German (CNGHC St. 1), Russell Miller (CNGHC St. 2), Matthew J. Cook (CNGHC St. 3), and Firouzeh Sarhangi and L. Mario DiValentino (CNGHC St. 4). On February 22, 2016, Pike served a corrected copy of PCL&P Statement No. Transfer Panel-1. By Order dated March 25, 2016, ALJ Colwell directed Pike to re-serve PCL&P Statement No. Transfer Panel-1 in the standard format, with each witness sponsoring a separate, distinct statement. Accordingly, on April 4, 2016, Pike re-served its Direct Testimony, with each witness sponsoring a separate, distinct statement, which consisted of the Direct Testimony of Francis W. Peverly (PCL&P St. 1), the Direct Testimony of Kenneth A. Koisior (PCL&P St. 2), and the Direct Testimony of Kate Trischitta (PCL&E St. 3).

In accordance with the Scheduling Order, the OCA served the Direct Testimony of Matthew I. Kahal on April 1, 2016.² In his Direct Testimony, Mr. Kahal raised numerous

¹ Joint Complainants note that, in this case, Pike has no employees of its own, but instead obtains the necessary staffing and services for its operations from Orange and Rockland. See OCA St. 1 at 6; see also CNGHC St. 5 at 6.

² Mr. Kahal is an independent consultant retained in this case by Exeter Associates, Inc. (Exeter Associates), an

concerns with the Joint Application, including the following: 1) Corning's technical and managerial capability to operate an electric utility; 2) Corning's proposed reliance on Orange and Rockland post-Acquisition for certain services, power supply, and gas supply through third-party contracts with O&R, despite the fact that the Commission will lose regulatory authority over the Orange and Rockland and Pike affiliated interest relationships post-acquisition; 3) Corning's financial ability to finance the proposed transaction; and 4) the unknown impact of the transaction on Pike's customers' rates over time.

On April 15, 2016, Corning served the Rebuttal Testimonies of Michael German (CNGHC St. 1R), Russell Miller (CNGHC St. 2R), and Firouzeh Sarhangi and L. Mario Divalentino (CNGHC St. 4R). By Order dated April 20, 2016, ALJ Colwell directed Corning to withdraw CNGHC Statement No. 4 and CNGHC Statement No. 4R and re-serve the testimonies with only one witness testifying per statement submitted. Accordingly, on April 29, 2016, Corning served Replacement Testimonies, in which it replaced the previously-served CNGHC Statement No. 4 with separate Direct Testimonies of Firouzeh Sarhangi and L. Mario Divalentino (CNGHC Statement Nos. 4 and 5, respectively). Furthermore, Corning served Replacement Testimony for CNGHC Statement No. 4R, in which Corning removed the testimony of Firouzeh Sarhangi from CNGHC Statement No. 4R.

On April 25, 2016, the OCA served the Surrebuttal Testimony of Matthew I. Kahal. On May 4, 2016, Corning served an outline of the Oral Rejoinder Testimony of Firouzeh Sarhangi.

The hearing for this case occurred on May 6, 2016, at which time the OCA conducted cross-examination of Mr. German, Mr. DiValentino, Mr. Miller, and Mr. Cook, and Corning

economic consulting firm. Mr. Kahal holds a Bachelor of Arts and a Master of Arts degree in economics from the University of Maryland. He has been employed in the area of energy, utility, and telecommunications consulting for the past 35 years, wherein he focused primarily on electric utility integrated planning, plant licensing, environmental issues, mergers, and financial issues. Mr. Kahal is a co-founder of Exeter Associates, where he has been employed as a Senior Economist and Principal since 1981. Prior to entering consulting, he served on the Economics Department faculties at the University of Maryland and Montgomery College.

conducted cross-examination of Mr. Kahal. Further, Ms. Sarhangi provided oral Rejoinder Testimony, and the written Direct, Rebuttal, and Surrebuttal Testimonies and accompanying exhibits that had been previously served by the parties were admitted into the record.

Throughout the proceeding, the OCA actively participated in settlement discussions with Joint Applicants and the parties, leading to its participation in this Settlement. The OCA submits that the Settlement provides substantial, affirmative benefits to the public and is in the interest of consumers for the reasons set forth below.

II. SETTLEMENT BENEFITS FOR THE PUBLIC AND RESIDENTIAL RATEPAYERS

The OCA submits that the Settlement addresses many of the issues raised by OCA witness Matthew I. Kahal and provides substantial, affirmative benefits to the public and to Pike's ratepayers. Of significance, the Settlement provides for a stay-out extended 18 months from the date the present stay-out expires (September 1, 2016) until March 1, 2018. Settlement at ¶ 36(c). This provision of the Settlement addresses Mr. Kahal's concerns regarding the potential impact of the transaction on Pike's customers' rates. See OCA St. 1 at 9. Specifically, Mr. Kahal testified:

It is my understanding that later this year PCL&P will be free to file a base rate case. As a small company and with almost no electric utility technical capability, I am concerned that CNGHC could experience substantially higher costs at PCL&P (and therefore higher customer rates) than would be the case under continued O&R ownership. Certainly, the Joint Applicants have provided no assurance or even plausible evidence that this would not be the case. In fact, Joint Applicants have not even addressed this issue.

OCA St. 1 at 9. The OCA submits that this stay-out provision addresses Mr. Kahal's concerns regarding the impact of Pike's customers' rates. The stay-out will provide Pike customers with a measure of rate stability and assurance that a rate increase will not be requested prior to March 1, 2018, thus mitigating the risk for Pike's ratepayers.

Additionally, the Settlement addresses the OCA's concern that Pike's ratepayers would be forced to pay for transaction, transition, and/or acquisition adjustment costs (*i.e.* "goodwill" costs) through their rates. Specifically, the Settlement provides that Pike will not claim transaction costs, costs incurred as a result of this acquisition, or "goodwill" costs in any rate case. Settlement at ¶¶ 36(k) – 36(l). As explained by Mr. Kahal, these one-time costs may be substantial and should be borne by the applicant, as these costs would not exist but for the proposed transaction. See OCA St. 1 at 25; see also Tr. at 133-34. This Settlement provision helps alleviate the risk that Pike's ratepayers will be required to assume these potentially substantial costs. As such, the OCA submits that the Settlement is in the public interest.

OCA witness Mr. Kahal also testified that Corning/Pike should not include a small company equity risk premium in rates, as such costs are not included in Pike's rates under O&R ownership. See Tr. at 134. Mr. Kahal also testified that Pike's customers should be held harmless for the loss of deferred taxes on the Company's balance sheet. See Tr, at 134. Additionally, Mr. Kahal testified that the Company should explore the possibility of switching to a fixed rate debt. Tr. at 135. These concerns are also addressed in the Settlement, which provides that Pike shall not request inclusion of a small company equity risk premium in its next base rate case. Settlement at ¶ 36(m). Furthermore, the Settlement provides that customers shall be held harmless from adverse rate effects associated with tax and accounting charges related to this transaction. Settlement at ¶ 36(n). Additionally, under the Settlement, Pike/Corning has also agreed to study the feasibility and cost implications of an interest rate swap, or similar switch to fixed rate debt, to hedge variable rate debt and shall provide its findings in one of its quarterly status reports filed within six months of closing. Settlement at ¶ 36(o). These Settlement provisions also help to ensure that Pike's ratepayers will not be exposed to substantial

rate increases as a result of this transaction. As such, the OCA submits that the Settlement provides reasonable protections to Pike's ratepayers and to the public.

Additionally, the Settlement makes several modifications to the Transition Services Agreement (TSA) between Pike and Orange and Rockland, in which Orange and Rockland will provide specific services to Pike at a specific cost following the Closing. See Settlement at ¶¶ 36(e) - 36(f). First, the Settlement modifies the TSA by allowing Pike to extend the proposed 12-month term by an additional six months on a month-to-month basis. Settlement at ¶ 36(e). During the term of the TSA, Pike will meet or conference with the OCA and the OSBA on a quarterly basis to discuss which services Pike will continue to purchase from Orange and Rockland and which services Pike no longer needs from O&R. Settlement at ¶ 36(e). Second, pursuant to the Settlement, O&R and Corning agree that the TSA is intended to provide Pike and Corning with the ability to procure all services listed in TSA Exhibit A during the full term of the agreement. Settlement at ¶ 36(f). Orange and Rockland and Corning further agree that the Hours Limitation provision of TSA Exhibit A will not be applicable during emergency or extraordinary circumstances. Settlement at ¶ 36(f).

The OCA submits that these settlement provisions related to the TSA clarify any confusion on the record relating to the intent of the TSA and help to address the OCA's concerns regarding Corning's lack of electric utility experience. The OCA submits that the 6-month extension of the TSA, the required quarterly meetings in the Settlement, and the modifications/clarifications of limitations to the TSA will help to ensure a smooth transition and as Corning to hires the necessary staff and implements the necessary operations in order to conduct electric utility operations. As such, these Settlement provisions are in the public interest and in the interest of Pike's ratepayers.

As a further assurance of a smooth transition, under the Settlement, Corning and Pike make specific commitments relating to the Corning/Pike re-staffing plan. See Settlement at ¶ 36(h). Specifically, Pike commits to hiring five specific full time positions no later than three months post-closing. Settlement at ¶ 36(h). Should Pike require additional time to fill those positions, Pike must show cause for extending the hiring beyond three months. Settlement at ¶ 36(h). Pike will fill additional positions identified in the Settlement within 18 months of closing. Settlement at ¶ 36(h). If Pike determines to use contractors for any of the positions identified, it must receive Commission approval. Settlement at ¶ 36(h). Furthermore, Corning has agreed to provide monthly updates to OCA and OSBA of its General Manager hiring initiative, and Corning/Pike has agreed to provide the OCA, OSBA, and the Commission with quarterly status reports on the progress of retaining an electric and gas utility staff for Pike. Settlement at ¶¶ 36(g), 36(i).

The OCA submits that these Settlement provisions address the OCA's concerns relating to the re-staffing plan as outlined in the Joint Application. As noted above, Pike currently utilizes O&R employees at costs charged under an Affiliate Interest Agreement. The OCA expressed concern that the re-staffing plan in the Joint Application was described in a "general way" and, as such, the success of the staff replacement was unknown. See OCA St. 1 at 6, 16. These Settlement provisions, however, establish a more specific re-staffing plan and, in doing so, help to ensure that Pike will be fully staffed in a timely manner post-closing. Additionally, as part of this Settlement, the Company agrees to hire dedicated Pike County Light and Power Company employees headquartered in Pennsylvania. The OCA submits that a commitment to the hiring of dedicated Pennsylvania staff is a key benefit of this Settlement. As such, these Settlement provisions are in the public interest and in the interest of Pike's ratepayers.

The Settlement also contains numerous provisions requiring Pike or Corning to commence various studies and engage in quarterly meetings relating to improving Company operations and the status of the transition. See Settlement at ¶¶ 36(a), 36(b), 36(d). Specifically, pursuant to the Settlement, Pike must commence a natural gas system cast iron and bare steel study within six months of closing and begin implementation of a replacement program within eighteen months of closing. Settlement at ¶ 36(a). Additionally, Pike must start a study of alternative supply options for its gas and electric divisions six months after closing. Settlement at ¶ 36(b). Pike has also agreed to meet with the OCA and OSBA before the study begins with respect to the scope of the study and twelve months after closing to discuss the results of the study. Settlement at ¶ 36(b). The OCA submits that these provisions address Mr. Kahal's concerns relating to Corning's fitness to operate Pike, as they require Pike/Corning to consider operational improvements that have the potential to bring major benefits to Pike customers. Such requirements will help to ensure that Corning has the technical and financial fitness to operate Pike. As such, these provisions are beneficial to the public.

Pursuant to the Settlement, Pike is also required to have at least four quarterly meetings for a three year time period with local officials, economic development councils and/or agencies to discuss any need for expansion of service or any service issues. Settlement at ¶ 36(d). This provision will help to ensure that Pike maintains a relationship with the community to meet its needs.

Additionally, the Settlement addresses the OCA's concerns that the Joint Application failed to adequately address the manner in which Pike/Corning would maintain and improve service quality and reliability. See OCA St. 1 at 24. Specifically, the Settlement provides that Pike will continue its Electric Division Reliability Plan. Settlement at ¶ 36(j). Furthermore, Pike

has agreed to establish a dedicated service center in its service territory. Settlement at ¶ 36(p). These Settlement provisions are beneficial to the public, as they will help to ensure adequate service quality and reliability.

For the foregoing reasons, the OCA respectfully requests that the Settlement be approved in its entirety without modification.

III. CONCLUSION

For the foregoing reasons, the Office of Consumer Advocate submits that the proposed Settlement provides substantial, affirmative benefits to the public and to Pike's ratepayers. The OCA further submits that the Joint Petition for Full Settlement adequately addresses the concerns raised by the OCA in this proceeding and provides a reasonable resolution to the Joint Application. As such, the OCA respectfully requests that the Settlement be approved in its entirety without modification.

Respectfully Submitted,



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Dated: June 10, 2016
222095

APPENDIX D

Office of Small Business Advocate

Statement in Support of Full Settlement

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**In re: Joint Application of Pike County Light :
And Power Company, Corning Natural Gas :
Holding Corporation and Orange and Rockland :
Utilities , Inc. for a Certificate or Certificates of :
Public Convenience Evidencing the Pennsylvania:
Public Utility Commission’s Approval of the :
Transfer by Sale of 100% of the Issued and :
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Natural Gas and Electric Distribution Service in :
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Holding Corporation, Approval of Certain :
Affiliated Interest Filings and Securities :
Certificates, and All Other Approvals or :
Certificates Appropriate, Customary or :
Necessary Under the Public Utility Code to :
Carry Out the Transactions Described in the :
Application.**

**STATEMENT OF THE
OFFICE OF SMALL BUSINESS ADVOCATE
IN SUPPORT OF THE JOINT PETITION FOR SETTLEMENT**

The Small Business Advocate is authorized and directed to represent the interests of the small business consumers of utility services in the Commonwealth of Pennsylvania under the provisions of the Small Business Advocate Act, Act 181 of 1988, 73 P.S. §§ 399.41 - 399.50. Pursuant to that statutory authority, on December 23, 2015, the Office of Small Business Advocate (“OSBA”) filed a Notice of Intervention and Protest in the above-captioned proceeding against the December 4, 2015, filing by Pike County Light & Power Company (“Pike”), Corning Natural Gas Holding Corp. (“Corning”) and Orange and Rockland Utilities, Inc. (“Orange and

Rockland”) of a Joint Application seeking certificates of public convenience as well as all approvals which may be required from the Commission with respect to the proposed sale of Pike by Orange and Rockland to Corning. (Application, at ¶ 1) Parties to the proceeding, in addition to the Joint Applicants, include the OSBA and the Office of Consumer Advocate (“OCA”).

Subsequently, the parties participated in a Prehearing Conference on February 1, 2016, before Administrative Law Judge (“ALJ”) Susan D. Colwell, where a procedural schedule was agreed to. Corning, Pike and the OCA Parties filed direct testimony, Corning filed rebuttal testimony, and OCA filed surrebuttal testimony. The OSBA did not file testimony in this proceeding.

A hearing was held on May 6, 2016 for the purpose of admitting testimony into the record, and to cross examine several of the witnesses. At the hearing, ALJ Colwell introduced two of the Commission’s technical staff who had prepared a list of questions to be answered by the Joint Applicants (primarily by Corning). The answers to those questions were presented by Corning’s witnesses.

The parties actively participated in negotiations before, during and after the evidentiary hearing that led to the Joint Petition for Full Settlement (“Settlement”). The OSBA was an active participant in those negotiations and is a signatory to the Settlement.

The OSBA submits this statement in support of the Settlement.

Settlement

The Settlement sets forth a list of issues that were resolved through the negotiation process.

The OSBA listed two issues of concern in its Notice of Intervention and Protest and in its Prehearing Memorandum. These issues were:

- a. Whether transferring ownership of a Pennsylvania electric and gas distribution company to an entity which is solely a natural gas holding company would be consistent with Commission policy and in the public interest; and
- b. Whether ratepayers would benefit from the combination of the companies

Through its testimony and responses to discovery, Corning has convinced the OSBA that it possesses or can acquire the requisite expertise to own and operate a company which is primarily an electric distribution company. In addition, the Transition Services Agreement (“TSA,” an agreement which allows for Orange and Rockland to continue certain services to Pike during the transition of ownership) allows Pike to extend the 12 month term of the TSA for a maximum of an additional six (6) months, providing additional assurance of stability. During the term of the TSA, Pike will meet or have a quarterly conference with OCA and OSBA to (a) explain in sufficient detail what services Pike is continuing to utilize under the TSA and what services it no longer requires and (b) to provide sufficient detail of what services from Corning or other vendors has or will occur.

Further, with regard to staffing the newly-owned entity, Corning has acknowledged its responsibility to promptly implement a staffing plan for Pike that will provide safe, reliable, and

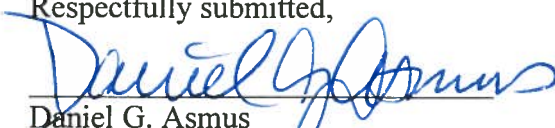
responsive gas and electric utility service at reasonable cost to Pike's customers. The staffing plan will include approximately twelve (12) full time equivalent employees of Pike. Pike will also hire as Pike employees an additional 5 full time positions. This staffing plan has alleviated much of OSBA's concern about Corning's ability and expertise in managing an electric distribution company.

The above-listed efforts and many others listed in the Settlement amply demonstrate the benefits that will accrue to Pike's ratepayers by transferring ownership of Pike from Orange and Rockland to Corning. The resolution of the foregoing issues was of special importance to the OSBA when it concluded that the Settlement was in the best interests of Pike's small business customers.

Conclusion

For the reasons set forth in the Settlement, as well as the additional factors that are enumerated in this statement, the OSBA supports the proposed Settlement and respectfully requests that the ALJ and the Commission approve the Settlement document in its entirety without modification.

Respectfully submitted,


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For:

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Small Business Advocate

Date: June 10, 2016