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March 16, 2006

Jaclyn A. Brilling, Secretary
New York State Public Service Commission
Three Empire State Plaza
Albany, New York 12223-1350

Re: Cases 05-G-1359, 05-G-1268, 04-G-1032
Corning Natural Gas Corporation

Dear Secretary Brilling:

Enclosed please find the original and five copies of a Joint Proposal dated March 15, 2006 in these proceedings. Copies have been served upon the parties listed on the attached service list.

Very truly yours,

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cc.: All Active Parties (by E-Mail & Regular Mail)
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Case 05-G-1359
Corning Natural Gas Corp. Rates and
Case 05-G-1268
Acts and Practices (Tracks 2-4)

March 08, 2006

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STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

CASE 05-G-1359 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Corning Natural Gas Corporation for Gas Service.

CASE 05-G-1268 - Proceeding on Motion of the Commission as to the Acts, Practices and Adequacy of Service of Corning Natural Gas Corporation.

CASE 04-G-1032 - Petition of Corning Natural Gas Corporation for Permission to defer for Future Recovery Costs Remaining After Sale of Appliance Business, filed in C 9218.

GAS RATES JOINT PROPOSAL

Dated: March 15, 2006

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STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

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GAS RATES JOINT PROPOSAL

THIS GAS RATES JOINT PROPOSAL (Joint Proposal) is made the 15th day of March, 2006, by and among Corning Natural Gas Corporation (Corning Gas), the Staff of the Department of Public Service (Staff), the Bath Electric, Gas & Water Systems (Bath), Multiple Intervenors (MI) and Fortuna Energy Inc. (Fortuna) (collectively referred to herein as the "Signatory Parties").

I. BACKGROUND

On October 31, 2005, Corning Gas filed with the New York State Public Service Commission (Commission) revised tariff leaves intended to increase revenues from gas operations by approximately $3.46 million for the 12-

month period ending September 30, 2007 (Rate Filing). The Commission instituted Case 05-G-1359 to consider the Rate Filing. The Rate Filing was updated with a cost of service study and related rate design recommendations in a filing dated December 22, 2005.

On October 28, 2005, the Commission instituted Case 05-G-1268 to assure that sufficient gas supplies would be available for Corning Gas to reliably serve its customers during the 2005-2006 heating season and to examine the gas operations of Corning Gas.

By Petition dated August 20, 2004, supplemented on December 29, 2005, Corning Gas requested authority to defer for later recovery all costs allocated to its appliance sales, rental and service business which had been sold on September 15, 2003. The Commission instituted Case 04-G-1032 to consider the Petition.

II. OVERVIEW OF THE JOINT PROPOSAL

This Joint Proposal recommends the establishment of increased gas delivery rates for the period October 1, 2006 through September 30, 2007. Among other things, the new rates reflect a substantial adjustment in favor of ratepayers regarding gas storage fill and hedging costs. In addition, the new rates reflect a regulatory liability in favor of ratepayers

for the failure to achieve certain leak repair, pipe replacement and protection targets established in the prior rate case.

This Joint Proposal allows Corning Gas to make certain revenue allocation and rate design revisions to its rates for gas delivery service to effectuate these changes.

This Joint Proposal provides for explicit financial incentives/disincentives to Corning Gas related to gas safety and reliability, portfolio management, accounting, and other operations and practices to ensure an adequate level of service.

This Joint Proposal provides revised capacity and balancing requirements to better manage the effects of retail access in a competitive gas market.

This Joint Proposal provides for a Depreciation Study so as to better manage plant accounts in the future. This Joint Proposal provides for an Unbundling Study, a Purchase of Receivables Study, and a Columbia Gate Station Requirements Study, to improve retail access to a competitive market. This Joint Proposal provides for a Bath/Hammondsport Billing Study to simplify procedures.

Finally, this Joint Proposal describes a potential "Merger Package" to provide some certainty as to terms that would be available as an option for a prospective purchaser.

This Joint Proposal does not resolve whether the recommended level of rates will provide Corning Gas with

reasonable cash flow, which cannot be known until after Corning Gas has entered into new arrangements regarding gas supply and asset management and/or lines of credit. Some of the provisions of this Joint Proposal may need to be re-opened depending on what is later indicated by a cash flow analysis.

This Joint Proposal also does not address the $1.50/Mcf interim Gas Adjustment Clause (GAC) reconciliation surcharge currently being assessed on bundled sales customers. Under the regulations governing gas adjustment clauses (Title 16 NYCRR, Chapter VII, Section 720-6.5), this interim GAC reconciliation surcharge will continue only through August 31, 2006, unless terminated earlier. Corning Gas is required to reconcile gas cost recoveries for the 12 months ended August 31, 2006, including the recoveries from the interim surcharge, with gas costs over the same period and either refund over-recoveries or surcharge for under-recoveries to bundled sales customers over the 12 months beginning with bills effective January 1, 2007.

In addition, this Joint Proposal does not resolve issues related to a pending filing, due March 17, 2006, Corning Gas is permitted to make regarding additional reasons it may have why its gas losses in the year ending August 31, 2005 were substantially higher than the historical levels used in computing the loss factor upon which prior rates were based.

This Joint Proposal recognizes that Corning Gas has agreed, in principle, to rate and service terms that are intended to resolve certain access matters raised by Staff and the intervention of Fortuna Energy Inc. (Fortuna) in these proceedings. This Joint Proposal contemplates that Corning Gas and Fortuna will enter into an access agreement to amend or replace their existing transportation agreement, that will provide for, among other reasonable access and interconnection terms, a fixed monthly meter charge, volumetric access rates for natural gas delivered into the Corning Gas system, terms for dispute resolution, protections against unilateral rate increases or shutdowns of production and reasonable provisions for the review and timing of new proposed meters and interconnections on the Corning Gas system.

III. DEFINITIONS

A. "Gas Delivery Service Rates" means Corning Gas's approved rates and charges for all services associated with moving gas across its distribution system regardless of the supplier of the commodity that the customer purchases its gas supply from.

B. "Rate Year" means October 1, 2006 through September 30, 2007.

C. "Stayout" means that the level of rates

established pursuant to this Joint Proposal and the other provisions of this Joint Proposal remain effective by default, without change or reaffirmation, beyond the last day of the Rate Year.

D. "Rate Period" means the Rate Year, plus any Stayout period.

IV. GENERAL PROVISIONS

1. It is understood that each provision of this Joint Proposal is in consideration and support of all the other provisions and each provision is expressly conditioned upon acceptance by the Commission of the terms of this Joint Proposal in its entirety without change. If the Commission fails to adopt the terms of this Joint Proposal without change, then the Signatory Parties shall be free to pursue their respective positions in these proceedings without prejudice.

2. The terms and conditions of the Joint Proposal apply solely to and are binding on each Signatory Party only in the context of these proceedings. None of the positions taken herein by any Signatory Party, including agreement to the terms and provisions of this Joint Proposal and any methodology or principle utilized herein, may be referred to, cited or relied upon by any other Signatory Party in any fashion as precedent in any other proceedings before the Commission, or any other

regulatory agency, or before any court of law for any purpose except in furtherance of the purposes and results of the Joint Proposal.

3. The Signatory Parties agree to submit this Joint Proposal to the Commission along with a request that the Commission expeditiously adopt the terms of this Joint Proposal, as set forth herein.

4. The Signatory Parties recognize that certain provisions of this Joint Proposal require that actions be taken in the future to effectuate fully this Joint Proposal. Accordingly, the Signatory Parties agree to cooperate with each other in good faith in taking such actions.

5. The Signatory Parties agree that Corning Gas will file tariffs in a manner consistent with the terms of this Joint Proposal.

6. In the event of any disagreement over the interpretation of this Joint Proposal or implementation of any of the provisions of this Joint Proposal, which cannot be resolved informally among the Signatory Parties, such disagreement shall be resolved in the following manner: (a) the Signatory Parties shall promptly convene a conference and in good faith attempt to resolve any such disagreement; and (b) if any such disagreement cannot be resolved by the Signatory Parties, any Signatory Party may petition the Commission for

resolution of the disputed matter.

7. This Joint Proposal is being executed in counterpart originals, and shall be binding on all of the Signatory Parties when the counterparts have been executed.

8. The term of this Joint Proposal (and the effectiveness of all of its provisions) is from the date of execution through the end of the Rate Year, plus any Stayout period.

9. The Signatory Parties have agreed upon the testimony and exhibits that should be admitted into evidence to constitute the evidentiary record in these proceedings, the results of which is set forth in "Appendix 1" attached hereto and made a part of this Joint Proposal.

10. The terms of this Joint Proposal do not impact any existing negotiated rate contracts between Corning Gas and its ratepayers, except where permitted by the terms of such contracts.

11. The Signatory Parties have agreed upon proposed ordering clauses set forth in "Appendix 5" attached hereto and made a part of this Joint Proposal that should be incorporated into any Commission decision adopting the terms of this Joint Proposal, which proposed ordering clauses in some instances state some of the terms of this Joint Proposal which may not be otherwise discussed in the body of the main text part of this

Joint Proposal.

V. RATE PLAN

A. Revenue Requirement

1. Overall Revenue Requirement

The Signatory Parties have agreed upon expense and revenue adjustments to the Rate Filing to be allowed as the basis for calculating revenue requirement, the result of which is set forth in "Appendix 2" attached hereto and made a part of this Joint Proposal. The Signatory Parties have agreed upon a calculation of revenue requirement to be allowed as the basis for setting rates, which is set forth in "Appendix 3" attached hereto and made a part of this Joint Proposal. The calculation of revenue requirement indicates an increase in Gas Delivery Service Rates of $2,700,391 for the Rate Year. Gas Delivery Service Rates will remain frozen at the new level through the end of the Rate Period of this Joint Proposal, without adjustment up or down, except for certain adjustments specifically set forth in this Joint Proposal.

2. Sales and Revenue Forecast

To the extent net margin revenues from customers A, B1, B2 and C2 under SC 2/SC 7 Transportation (as shown in Appendix 4, Page 2 of 6) are greater than $921,607 (excluding revenue taxes), Corning Gas will refund all incremental net

margin revenues to all customers, except those customers under negotiated contracts. To the extent net margin revenues from customers A, B1, B2 and C2 under SC 2/SC 7 Transportation are less than $921,607 (excluding revenue taxes), Corning Gas will surcharge the difference to all customers, except those customers under negotiated contracts.

3. Bath/Hammondsport Margin Revenues

Beginning in the Rate Year, Corning Gas will no longer be provided with a share of margin revenues from sales to Bath over and above the level imputed in this Joint Proposal. Any actual margin revenues in excess of the imputed level will flow through 100% to all Corning Gas ratepayers (except those served under negotiated rate classes) and 100% of any shortfall from the imputed level will be recovered from all Corning Gas ratepayers (except those served under negotiated rate classes).

4. Treatment of Rate Year Gas Storage Inventory Costs

Corning Gas has currently sold its inventory of gas stored underground to a third party and repurchases the stored gas supply on a month-to-month basis, as needed, from the third party. Corning Gas indicates a storage inventory arrangement substantially similar to the current arrangement is expected to continue through March 31, 2007. As a consequence, no average inventory balance for the cost of gas stored underground has been reflected in rate base for rate-making purposes. Fees and

similar costs associated with a storage inventory arrangement and any asset management arrangement shall be recovered through the GAC. If the current gas storage inventory arrangement, or a similarly structured successor arrangement, is discontinued before Gas Delivery Service Rates are next re-established pursuant to a rate case order, Corning Gas will be allowed to recover the carrying costs of the gas storage inventory actually filled by Corning Gas itself, through the GAC.

5. Treatment of Revenues from Receipt of Local Production Gas

Corning Gas will provide customers with a credit per unit of usage for any revenues generated from receipt of local production gas during the Rate Year. Corning Gas will defer any revenues generated from receipt of local production gas in the rate year (including the associated deferred New York State income taxes and deferred Federal income taxes) and then file a report with the Commission on or before November 15, 2007 showing such revenues generated over the Rate Year. The report will include a calculation of the credit per unit of usage to be passed back to all customers, except those with individually negotiated rates, over the twelve months beginning with January 2008 bills. The calculation of the credit will be based on forecast usage to all tariff service classes, except those classes with individually negotiated rates, and include interest

that accrues on any remaining balance that has not yet been returned during the year the credit is applied.

Corning Gas will continue this mechanism for each subsequent twelve month period ending September 30th, until discontinued by the Commission. Any total dollar amount over or under-credited to customers from a previous period credit will be reflected in the calculation of the subsequent period credit.

6. Bare Steel Main Replacement Program

Corning Gas will conduct a program to replace and take out of its inventory 21,120 feet of cathodically unprotected, uncoated or ineffectively coated, steel distribution main in its system measured each calendar year. The program will continue to be measured on a calendar-year-to-year basis, and reconciled on a Rate-Year-to year basis, unless discontinued by the Commission.

An annual ratebase allowance of $422,400 to fund this bare pipe replacement program has been included in the calculation of Gas Delivery Service Rates pursuant to this Joint Proposal. Performance in Calendar Year 2007 shall be measured and reconciled to the allowance for the Rate Year. The $422,400 annual rate year ratebase allowance will be subject to downward-only reconciliation on a pro-rata unit-not-achieved basis according to the following schedule:

Schedule of Bare Steel Main Replacement Reconciliation

Portion of 21,120-foot Target Replacement Not Achieved:	$20/foot

The corresponding pre-tax rate of return on unspent expenditures for the rate year will be recorded to a deferred credit account and the associated deferred Federal and State income taxes will be recognized in the balance sheet.

7. Cathodic Protection Program

Corning Gas will conduct a program to evaluate and cathodically protect (except where Corning Gas can reasonably demonstrate that protection would be economically inappropriate) 8 miles of unprotected, but coated, steel distribution main in its system measured each calendar year. The program will continue to be measured on a calendar-year-to-year basis, and reconciled on a Rate-Year-to year basis, unless discontinued by the Commission.

An annual ratebase allowance of $84,600 to fund this cathodic protection program has been included in the calculation of Gas Delivery Service Rates pursuant to this Joint Proposal. Performance in Calendar Year 2007 shall be measured and reconciled to the allowance for the Rate Year. The $84,600 annual rate year rate base allowance will be subject to downward-only reconciliation on a pro-rata unit-not-achieved-or-required

basis according to the following schedule:

Schedule of Cathodic Protection Reconciliation

Portion of 8-mile Target Evaluation Not Achieved:	$575/mile
Portion of 8-mile Target Protection Not Achieved or Required:	$10,000/mile

The corresponding pre-tax rate of return on unspent expenditures for the rate year will be recorded to a deferred credit account and the associated deferred Federal and State income taxes will be recognized in the balance sheet.

8. Bare Steel Services Replacement Program

Corning Gas will conduct a program to replace and take out of its inventory 350 cathodically unprotected, uncoated or ineffectively coated, steel individual service lines in its system measured each calendar year. The program will continue to be measured on a calendar-year-to-year basis, and reconciled on a Rate-Year-to year basis, unless discontinued by the Commission.

An annual ratebase expense allowance of $428,750 to fund this bare pipe replacement program has been included in the calculation of Gas Delivery Service Rates pursuant to this Joint Proposal. Performance in Calendar Year 2007 shall be measured

and reconciled to the allowance for the Rate Year. The $428,750 annual rate year ratebase allowance will be subject to downward-only reconciliation on a pro-rata unit-not-achieved basis according to the following schedule:

Schedule of Bare Steel Services Replacement Reconciliation

Portion of 350 Services Target Replacement Not Achieved:	$1,225/service

The corresponding pre-tax rate of return on unspent expenditures for the rate year will be recorded to a deferred credit account and the associated deferred Federal and State income taxes will be recognized in the balance sheet.

9. Reliability Projects

Corning gas will undertake the following reliability projects by the dates indicated:

(a) No later than December 31, 2006, Corning Gas will rebuild the Canada Road Station; complete stream crossing work near the Addison Road Station; and repair known or discovered leaks in Line T-11 and the pipeline between DTI and the Addison Road Station, with the exception of the known leak under Route 415 and Type 3 leaks;

(b) On-going assessment of Line T-11 and the pipeline located under Route 415 will be completed by August 31, 2006, with actual repairs, except for Type 3 leaks, completed as soon as revenues allow, but no later than December 31, 2008;

(c) A leak survey on the entire inventory of 1950's era pipe on an annual basis unless or until it can be proven that it is no longer necessary, or the entire inventory of pipe is removed from service;

(d) A leak survey on the remaining two-thirds of the system that

was not leak-surveyed in 2005, to be completed within Calendar Year 2006, except for plastic pipe surveyed within the last 3 years;

(e) Implementation of a risk-based method to identify and prioritize the replacement of higher-risk pipe such that this tool will be utilized in conjunction with the replacement programs for bare steel main and services; and

(f) Evaluation of the pipe that is considered to have a "manufacturing defect" by a qualified person each time it is exposed such that data is collected as part of the cathodic protection program so that the extent and severity of the "manufacturing defect" problem may eventually be determined.

10. Exercise of Commission Authority

Nothing in this Joint Proposal shall prohibit the Commission (upon its own motion or upon motion of a Signatory Party) from exercising its ongoing statutory authority to act on the level of Corning Gas's gas rates in the event of unforeseen circumstances that, in the Commission's judgment, have such a substantial impact on the rate of return as to render the return on the common equity devoted to Corning Gas's gas operations unreasonable, unnecessary, or inadequate for the provision of safe and adequate service.

B. Adjustments and Reconciliations

No adjustments or reconciliations will be allowed during the Rate Period except as set forth in this Joint Proposal or as authorized by the Commission. Adjustments and reconciliations will occur for the following items:

1. Gas Cost and Weather Normalization Adjustments

The GAC mechanism will continue as currently in effect, with the addition of recovery of the carrying costs of the gas storage inventory actually filled by Corning Gas itself, if that occurs, as described above.

2. Establishment of a Delivery Rate Adjustment (DRA)

Corning Gas will establish a Delivery Rate Adjustment (DRA) to be applied to the bills of customers under all service classes (SC), except for those customers provided service at negotiated rates. The DRA will be derived from the net combination of the per unit credit or surcharge related to the reconciliation of the revenue imputation for the forecast usage of certain SC 2/SC 7 customers as described above, the per unit credit or surcharge related to the reconciliation of the revenue imputation for Bath/Hammondsport sales as described above, and the credit resulting from any revenues generated by receipt of local production gas as described above.

Corning Gas will file a statement to implement the DRA effective each January 1 based on results of the above reconciliations or flow-back mechanisms for the previous twelve months ended September 30th. The initial DRA will become effective January 1, 2008 based on the results for the Rate Year and will continue to be applied to customer bills through December 31, 2008. To the extent the net DRA credit or

surcharge is not fully passed back or recovered during the twelve month period the credit or surcharge is in effect, the remaining refund or surcharge balance will be included in the derivation of the next effective DRA.

C. Deferrals

No deferrals will be allowed during the Rate Period except as set forth in this Joint Proposal or as authorized by the Commission.

1. <u>Enumerated Deferrals</u>

Deferrals will occur for the following items:

- downward-only reconciliation of bare steel main replacement costs, as described above;
- downward-only reconciliation of cathodic protection program costs, as described above;
- downward-only reconciliation of bare steel services replacement costs, as described above;
- customer share of excess earnings, as described below;
- gas safety and service reliability regulatory liabilities incurred, as described below;
- "matrix"-based regulatory liabilities incurred, as described below;
- cost of performing Depreciation Study, Unbundling Study and Purchase of Receivables Study, as described below;
- Gas Adjustment Clause;
- FAS 106 Post-Retirement Benefits;
- Ratable Pension Expense;

- Appliance Corp Cost Allocations;
- Uncollectible Costs;
- Rate Case Expense;
- Interest Costs;
- NYS Franchise Tax;
- Insurance Expense;
- Pension Restoration;
- OPEB Restoration;
- Bath Revenue;
- Regulatory Asset - FAS 109;
- Main Repair Cost;
- Fortuna Energy;
- Cash Over/Short;
- Consulting Fees;
- Deferred Compensation for Officers;
- Refunds from Suppliers;
- Customer Advances for Construction;
- Consumer Education;
- Over Collection Revenues Due Customers;
- Gross Receipts Tax Due Customers;
- Director Fees;
- Office Equipment Maintenance Reserve;
- Sales of Vehicles;

- Deferred Incentive Revenues;
- Deferred New York State Income Taxes; and
- Deferred Federal Income Taxes.

2. Appliance Business Allocation Costs

Corning Gas will be allowed to defer for later recovery costs for the period October 1, 2003 through December 31, 2005 allocated to its appliance sales, rental and service business, which was sold on September 15, 2003. This treatment resolves all outstanding issues in Case 04-G-1032, which case shall be closed. Corning Gas will be allowed to petition to defer costs allocated to its appliance sales, rental and service business for the period beyond December 31, 2005.

D. Earnings Sharing

Following the Rate Year, Corning Gas will make a computation of its gas rate of return on common equity (ROE) for the Rate Year utilizing a 70% Debt and 30% Common Equity capital structure. In the event of a Stayout, Corning Gas will make the computation for any subsequent twelve-month period during which the Stayout was in effect for at least a portion of the twelve-month period. The computations and the underlying data will be made available to the Signatory Parties and filed with the Commission not later than December 31 following the end of the

applicable twelve-month period. The filings will include supporting workpapers and the ROE calculation based on traditional ratemaking practices and methodologies applicable to Corning Gas as to includable costs, revenues and appropriate capital structure. The computation of gas rate of return on common equity will be calculated from Corning Gas's books of account for the applicable twelve-month period, except that any gas safety and service reliability incentive regulatory liabilities, and "matrix" based incentive regulatory liabilities, will be excluded from the earnings calculations. Any disagreement about Corning Gas's ROE calculation and capitalization that cannot be resolved by the Signatory Parties shall be referred to the Commission for resolution. For each twelve-month period covered by this Joint Proposal, Corning Gas will allocate the revenue equivalent of its gas earnings, if any, in excess of the "Threshold Earnings Level" in the Rate Year and any subsequent year as follows:

- fifty percent of such excess will be retained by Corning Gas (shareholders); and

- fifty percent of such excess will be deferred to be applied to the benefit of customers in a manner to be determined by the Commission. The Signatory Parties will be free to make any argument as to the manner in which those deferred amounts should be used for customer benefit.

In the event of a Stayout, the earnings sharing provisions will continue for the Rate Period, to be applied, if necessary, on a pro-rata basis based on monthly operating revenues. The Threshold Earnings Level shall be 11.0 percent.

E. Incentives

1. Gas Safety and Service Reliability

A gas safety and service reliability incentive mechanism will be in effect during the Rate Year, and will continue on a Rate Year-to-year basis, unless discontinued by the Commission. If there is an incentive applicable in any period, it will be reflected in rates as a regulatory liability. The corresponding pre-tax rate of return on the regulatory liability will be recorded to a deferred credit account and the associated deferred Federal and State income taxes will be recognized in the balance sheet.

(a) Leak Backlogs

Commencing with the Rate Year (using December 31, 2006 as the measurement interval for the Rate Year), and each subsequent rate year and calendar year thereafter, Corning Gas will be assessed a regulatory liability of $1,250 for each Type 1, 2A & 2 leak in backlog pending repair that exceeds 10 on December 31 of the measurement year, up to a maximum regulatory liability in a year of $25,000 (reached at the level of 30 or more Type 1, 2A & 2

leaks in backlog pending repair).

(b) Bare Steel Main Replacement

For the Rate Year (using Calendar Year 2006 as the measurement year for the Rate Year), Corning Gas will be assessed a regulatory liability of $1.18 per foot for each foot of cathodically unprotected, uncoated or ineffectively coated, steel distribution main in its system that it fails to replace and take out of its inventory of a 15,840-foot replacement target for the measurement year. For each subsequent rate year and calendar measurement year thereafter, Corning Gas will be assessed a regulatory liability of $1.18 per foot for each foot of cathodically unprotected, uncoated or ineffectively coated, steel distribution main in its system that it fails to replace and take out of its inventory of a 21,120-foot replacement target for the measurement year.

(c) Cathodic Protection

For the Rate Year (using Calendar Year 2006 as the measurement year for the Rate Year), Corning Gas will be assessed a regulatory liability of $250 per mile for each mile of unprotected, but coated, steel distribution main in its system that it fails to evaluate for potential cathodic protection of an 8-mile evaluation target for the measurement year. For each subsequent rate year and calendar

measurement year thereafter, Corning Gas will be assessed a regulatory liability of $250 per mile for each mile of unprotected, but coated, steel distribution main in its system that it fails to evaluate for potential cathodic protection of an 8-mile evaluation target for the measurement year.

For the Rate Year (using Calendar Year 2006 as the measurement year for the Rate Year), Corning Gas will be assessed a regulatory liability of $2,250 per mile for each mile of unprotected, but coated, steel distribution main in its system that it fails to cathodically protect of an 8-mile protection target for the measurement year, except that no assessment shall apply to portions of the target that are evaluated and not protected where Corning Gas has reasonably demonstrated that protection would be economically inappropriate. For each subsequent rate year and calendar measurement year thereafter, Corning Gas will be assessed a regulatory liability of $2,250 per mile for each mile of unprotected, but coated, steel distribution main in its system that it fails to cathodically protect of an 8-mile protection target for the measurement year, except that no assessment shall apply to portions of the target that are evaluated and not protected where Corning Gas has reasonably demonstrated that protection would be economically inappropriate.

(d) Bare Steel Services Replacement

For the Rate Year (using Calendar Year 2006 as the measurement year for the Rate Year), Corning Gas will be assessed a regulatory liability of $85.71 per service for each cathodically unprotected, uncoated or ineffectively coated, steel individual service line in its system that it fails to replace and take out of its inventory of a 150-service replacement target for the measurement year. For each subsequent rate year and calendar measurement year thereafter, Corning Gas will be assessed a regulatory liability of $85.71 per service for each cathodically unprotected, uncoated or ineffectively coated, steel individual service line in its system that it fails to replace and take out of its inventory of a 350-service replacement target for the measurement year.

2. "Matrix"-Based Incentives

A "matrix"-based management incentive mechanism measured commencing June 1, 2006 will be in effect and will continue on a year-to-year basis, unless discontinued by the Commission. If there is an incentive applicable in any period, it will be reflected in rates as a regulatory liability. The corresponding pre-tax rate of return on the regulatory liability will be recorded to a deferred credit account and the associated deferred Federal and State income

taxes will be recognized in the balance sheet.

If, on or after June 1, 2006, Corning Gas shall be deficient in its management of the utility in the manner set forth in this Joint Proposal, Appendix 5 (that portion of Appendix 5 designated "Appendix A"), it shall book a regulatory liability for the benefit of ratepayers in the amount set forth in this Joint Proposal, Appendix 5 (that portion of Appendix 5 designated "Appendix A"). The measurement of deficiencies shall occur on an annual basis beginning June 1 of each year. The books and records of Corning Gas shall track and reflect potential regulatory liabilities as deficiencies occur. The final booking of regulatory liabilities shall occur by September 30th following the measurement year unless the Commission directs that they be booked earlier. Corning Gas may petition the Commission for relief from this requirement if one or more deficiencies occur due to significant natural disaster or other catastrophic event unrelated to management of the utility.

VI. REVENUE ALLOCATION AND RATE DESIGN

A. General Ratemaking Requirements

The Signatory Parties have agreed upon the derivation of individual rates by service class, the overall impact of the changes on an individual class basis, and the bill impacts for a typical residential heating customer, the result of which is set

forth in "Appendix 4" attached hereto and made a part of this Joint Proposal. Corning Gas will implement changes to the current delivery rates for service classes in the three service territories as described below.

1. Corning Service Territory

The delivery portion of the current per unit block rates for SC 1 Corning & SC 14 Aggregated Transportation (except the minimum charge) will be increased by the overall net percentage increase of 40.46%. The current monthly minimum charge will be increased to $12.55 for SC 1 Corning and SC 14 Aggregated Transportation. The current rates of SC 2/SC 7 Industrial Transportation and SC 6 Commercial Transportation customers will be increased by half of the overall net percentage increase.

2. Hammondsport Service Territory

The delivery portion of the current per unit block rates for SC 1 Hammondsport, SC 2 Hammondsport, and SC 7 Aggregated Transportation Hammondsport (excluding the minimum charges) will be increased by the overall net percentage increase of 40.46%. The current SC 1 Hammondsport, SC 2 Hammondsport, and SC 7 Aggregated Transportation Hammondsport minimum charges will be increased to $12.55. The current block delivery rates of SC 7 Aggregated Transportation Hammondsport will be set equal to the SC 1 Hammondsport block delivery rates.

The current SC 4 Firm Transportation Hammondsport will be increased by half of the overall net percentage increase.

3. Bath Service Territory

The current SC 1 Bath and SC 3 Bath delivery rate will be increased by half of the overall net percentage increase. The current SC 2 Bath delivery rate and the current SC 4 Bath rate will be set at $0.05 per Mcf less than the SC 1 Bath delivery rate.

4. Gas Lost-and-Unaccounted-For Factor

The Corning Gas fixed tariff LAUF factor will be set at 1.0220 for the Corning system, 1.0000 for the Bath system, and 1.0110 for the Hammondsport system for the 12 month period ending August 2007, and remain at these levels until changed by the Commission.

5. SC 2/SC 7 Qualifying Threshold

Effective with the establishment of new rates as a result of Commission approval of the Joint Proposal, the existing provisions of SC 2 and the companion SC 7 will be revised to include a minimum annual usage qualifying threshold of 60,000 Mcf. The provisions of these two service classes will also be revised such that an existing SC 2 or SC 7 customer cannot be subject to service reclassification based on this annual qualifying threshold unless actual annual usage by the customer falls below the threshold for two consecutive twelve

month periods.

6. SC 2A/SC 7A

Effective with the establishment of new rates as a result of Commission approval of the Joint Proposal, two new service classifications, SC 2A and a companion SC 7A, will be created to originally include any current customers served under existing SC 2 or SC 7 that would be impacted by the establishment of the qualifying threshold.

On the effective date hereof, any customer supplied under SC 2 or SC 7 that does not meet the current minimum volume requirements will be furnished service under SC 2A and SC 7A. Enrollment will expire for this service classification on the last day prior to the beginning of the Rate Year. For rate-making purposes, SC 2A will be treated the same as SC 2 and SC 7A will be treated the same as SC 7.

7. Completion of Gas Storage and Hedging Cost Adjustment Amortization

The Parties to the Joint Proposal recognize that the rates determined in Appendix 4 are predicated on a revenue requirement which includes an amortization of deferred costs previously allocated to the non-regulated subsidiaries and a substantial adjustment in favor of ratepayers regarding gas storage fill and hedging costs. To the extent these Commission approved rates remain in effect subsequent to completion of the

amortization of this net adjustment, the Parties agree that any resulting credit owed customers will be passed back through the GAC.

VII. COMPANY OPERATIONS

A. Capacity Requirements

Energy Service Companies ("ESCOs" or "Marketers") are generally required to show that they can provide reliable service through the use of firm capacity between the points where gas is produced and where it is accepted for redelivery by the local distribution company.

SC 6 (other than Human Needs Customers), SC 7 (other than Human Needs Customers), SC 11, and SC 4 (Hammondsport) Direct Customers will continue to be required to provide information on what type of capacity contracts they have in place for the winter period. The Affidavits attesting to such arrangements will be sent to Customers/Marketers and Direct Customers/Agents by September 15th and returned to Corning Gas by October 15th.

Marketers for SC 14 Aggregation Groups, SC 6 Human Needs Customers and SC 7 Human Needs Customers (Hammondsport) must provide an affidavit that they have primary firm capacity for the wintertime period defined as November 1st - March 31st. If they do not have such capacity in place for the winter, those

ESCOs or Marketers must take Corning Gas's primary firm capacity at maximum rates for the twelve-month period November 1st to October 31st. The affidavits will be issued by September 15th and must be returned to Corning Gas by October 15th.

1) Capacity will be assigned to subscribing customers for a 12 month period. The amount of this capacity will be based on the customer's forecasted usage for the average January "peak day". This average "peak day" will be determined from the last 30 years of historical weather.

2) This model will be updated annually with more current sales, weather and customer information. The capacity requirements for the Marketers' groups will be based on the number of customers in each group as of October 15th. Capacity will be released by Corning Gas in total at maximum rates and will be invoiced by the pipeline on a monthly basis.

3) Existing tariffs and the Gas Transportation and Operations Procedures Manual specify how the system capacity will be released to marketers as customers migrate.

B. <u>Monthly Balancing</u>

SC 6 and SC 4 (Hammondsport) customers who have not elected to daily balance, and SC 14, SC 5 and SC 7 (Hammondsport) Customers/Marketers, will still be balanced on a monthly basis. Corning Gas will also calculate the Minimum Daily Contract Quantity (MDCQ), defined as the minimum volume of gas

the customer is required to deliver to Corning Gas each day.

1) The MDCQ shall be calculated for each month by dividing the lowest monthly usage for that month, in the four prior years by the number of days in the meter reading cycle.

2) Corning Gas shall inform the customer/marketer by the fifteenth of the month of the calculated MDCQ prior to the month in which gas will be delivered. During the month, the MDCQ may be revised by Corning Gas upon notification to the customer/marketer by 12:00 PM on the business day prior to the gas day the change is to take effect. Reasons for changing a MDCQ may include but are not limited to: increased or decreased customer usage due to unexpected weather and production or usage patterns. Marketers or Direct Customers may request a change in the specified MDCQ if the Marketer or Direct Customer has specific knowledge that a customer's or customer group's consumption will be different than anticipated. Such requests should be emailed or faxed to Corning Gas by 12:00 PM, on the business day prior to the gas day the change is requested to take effect. The request should specify the amount by which the MDCQ should be changed as well as provide justification for the change. The change will not take effect until acknowledged and approved by Corning Gas.

3) Corning Gas will provide a calculation of the Average Daily Quantity (ADQ) indicating what the average daily

use is in a historic usage matrix showing consumption by customer class by Marketer with monthly degree days for informational purposes only but will not forecast consumption needs for the groups. Customers/marketers remain directly responsible for matching actual nominations with customer usage.

C. Communication Protocol

Ongoing communication on asset management and gas procurement issues between Corning Gas, Staff and Bath is important. Therefore, Corning Gas will follow the Communication Protocol set forth in this Joint Proposal, Appendix 5 (that portion of Appendix 5 designated "Appendix C").

D. Local Production

Corning Gas has agreed to amend or replace its transportation agreement with Fortuna so that the agreement between Corning Gas and Fortuna will be an access agreement. The agreement will provide for, among other reasonable access and interconnection terms, a fixed monthly meter charge, volumetric access rates for natural gas delivered into the Corning Gas system, terms for dispute resolution, protections against unilateral rate increases or shutdowns of production and reasonable provisions for the review and timing of new proposed meters and interconnections on the Corning Gas system.

Should Corning Gas and Fortuna not agree on the final terms of an access agreement, either party may submit its respective position to Staff for assistance in obtaining a resolution, or to the Commission for resolution.

VIII. REQUIRED STUDIES

A. Depreciation Study Requirement

Corning Gas will perform a full Depreciation Study including a mortality study and salvage study of all plant accounts. The Depreciation Study will include rolling and shrinking band analyses for each account. The width of the rolling and shrinking bands analyzed may be as determined by the Company, but in any event the rolling bands will not be greater than 10 years or less than 5 years. The shrinking band analysis will start with all the data and decrease to one year of data. Statistical results regarding Average Service Life will be determined using "h-type" curve fitting analyses and the related "fit index" for each account, and will be included in the filing. The Depreciation Study will also include a plot of the observed and smoothed survivor curve for each account along with the fitted "h-type" survivor curve. The Depreciation Study will also include a Net Salvage Study for each plant account showing historical Gross Salvage, Cost of Removal and Net Salvage for

each year of historical data included in the Net Salvage Study along with rolling band analysis results with the width of the rolling band being five years. Results of the Depreciation Study will be provided to all Signatory Parties and other parties that request a copy within two years of the effective date of a Commission order adopting the terms of this Joint Proposal.

B. Unbundling Study Requirement

Corning Gas will perform an Unbundling Study including the development of competitive rates and a mechanism to recover lost revenues, consistent with the directives of the Commission's Statement of Policy on Unbundling and Order Directing Tariff Filings issued August 25, 2004 in Case 00-M-0504. The results of the Unbundling Study will be provided to all parties to Case 05-G-1359 by April 2, 2007.

C. Purchase of Receivables Study Requirement

Corning Gas will perform a Purchase of Receivables Study to plan for the future implementation of a purchase of receivables program at a discount and without recourse for gas commodity sales in the service territory. The results of the Purchase of Receivables Study will be provided to all parties to Case 05-G-1359 by April 2, 2007. The Purchase of Receivables Study will include a plan that incorporates the following parameters:

1. ESCOs/marketers that elect the consolidated billing option provided by Corning Gas for all or a portion of their customers would be required to sell their accounts receivable for such customers to Corning Gas under the terms of the Purchase of Receivables Program.

2. ESCOs/marketers would continue to have the right to issue their own bill using dual-billing for all or a portion of their customers. Such ESCOs/marketers would be precluded from participating in the Purchase of Receivables Program for customers receiving dual bills.

3. Gas accounts receivable for commodity sales would be purchased at a discount off face value of the ESCO/marketer receivable. The discount rates would be designed to compensate Corning Gas for its financial risk in purchasing gas receivables, including, but not limited to, the level of uncollectibles. The discounts should reflect the actual historical gas uncollectibles experience of Corning Gas for a specific period, as well as an adder designed to compensate Corning Gas for on-going incremental and administrative costs, including credit and collection costs.

4. The uncollectibles portion of the discount rates would be adjusted each year to reflect actual experience of Corning Gas for the prior year, with new discount rates becoming effective for the next rate year.

D. <u>Cost of Studies</u>

Corning Gas will be allowed to defer the costs of performing the Depreciation Study, up to a cap of $30,000. Corning Gas will be allowed to defer the combined costs of performing the Unbundling Study and the Purchase of Receivables Study, up to a combined cap of $30,000.

E. <u>Implementation of Study Results</u>

1. The Signatory Parties do not have a current plan

as to potential implementation measures that might be indicated by the results of the Depreciation Study.

2. Parties to Case 05-G-1359 will have until April 24, 2007 to circulate any comments they may wish to make regarding the results of the Unbundling Study. Corning Gas will consider any comments received and by May 1, 2007, will file tariff revisions to implement unbundled rates.

3. In conjunction with the filing of the April 2, 2007 Purchase of Receivables Study, Corning Gas will file on April 2, 2007 a proposed schedule for implementation of a Purchase of Receivables program, which schedule will include the convening of a collaborative with interested parties to discuss the program as the first step of implementation.

F. Bath/Hammondsport Billing Relationship

Within thirty days of Commission approval of the terms of this Joint Proposal, Corning Gas, Bath and Staff will meet to collaboratively (a) develop a simplified billing procedure between Corning Gas and Bath which does not adversely affect either party, and (b) develop a simplified Corning Gas accounting procedure for the Bath/Hammondsport volumes and revenues. Corning Gas will establish a written procedure documenting both the billing and accounting for the Bath/Hammondsport volumes and revenues developed as a result of this collaboration, to be implemented at the beginning of the

Rate Year.

G. Columbia Gate Station Requirements

The Signatory Parties agree that there is a need for minimum delivery requirements into the Columbia Gate Station at Coopers Plains for SC 7 and SC 2 customers taking service at the west end of the Corning Gas system. Within thirty days of Commission approval of the terms of this Joint Proposal, a collaborative of the interested parties shall be convened to determine the best approach for implementing such minimum delivery requirements. Corning Gas will file tariff and gas transportation procedure changes sufficient to implement such minimum delivery requirements at the beginning of the Rate Year.

IX. MERGER PACKAGE

This "Merger Package" provision is purely optional and any potential buyer would be free to not adopt this Merger Package and instead propose its own package of other provisions. The Signatory Parties agree that in the event a potential buyer enters into an agreement with Corning Gas by on or about April 15, 2006 to purchase a controlling interest in the stock or assets of Corning Gas such that the buyer would become the owner of the utility including all management rights, the Signatory Parties will jointly support approval by the Commission of a "Merger Package" containing the following elements should the

buyer elect to be bound by the Merger Package in its entirety:

A. Rates based on a revenue requirement increase of $2,347,129 frozen at that level for three years in the manner set forth in Appendix 6 attached hereto and made a part of this Joint Proposal.

B. An increase of the Threshold Earnings Level during the three year rate freeze to 13.0 percent.

C. A demonstration by the buyer that customer rates do not and will not at any time fund recovery of any purchase costs (premium costs) in excess of the book value of the utility.

D. A demonstration by the buyer that customer rates do not and will not at any time fund recovery of the costs of any so-called "golden parachutes" or other similar benefits to current management as part of or as a result of the purchase transaction.

E. A demonstration by the buyer that after the purchase of the utility the current President/Chairman and the current Executive Vice President/Chief Financial Officer shall not have any decision-making role with the utility and any salary/compensation paid to such individuals on a consultant or other basis going-forward shall not be recovered in any manner in customer rates as of the date of the purchase of the utility.

F. A demonstration by the buyer that it is credit worthy and has sufficient access to resources in financial markets to operate the utility in a safe and reliable manner.

G. In the event of such a purchase, the Required Ordering Clauses 5, 6, 11 through 19, 21, 22 and 24 would not apply to the utility as of the date of the purchase of the utility.

H. In the event of such a purchase, the buyer would be permitted to petition for the removal of Required Ordering Clause 23 regarding restrictions on the issuance of dividends, as of the date of the purchase of the utility or at anytime thereafter, for the Commission's consideration under the circumstances then presented.

In the alternative, instead of provision "A" above, the buyer could elect to set rates based on a revenue requirement increase of $2,700,391 frozen at that level for three years which would not reflect the $1.4 million gas storage fill and hedging adjustment with recovery of the Deferred Allocation Costs over a five-year period, so long as the buyer agreed to pass back the $1.4 million gas storage fill and hedging adjustment to customers through the GAC over a three-year period.

This JOINT PROPOSAL agreed to as of the 15th day of March, 2006.

CORNING NATURAL GAS CORPORATION

By: _____
Stanley W. Widger, Jr., Esq.
Nixon Peabody LLP

This JOINT PROPOSAL agreed to as of the 15th day of March, 2006.

STAFF OF THE DEPARTMENT OF
PUBLIC SERVICE

By: Paul Agresta
Paul Agresta
Assistant Counsel

This JOINT PROPOSAL agreed to as of the 15th day of March, 2006.

BATH ELECTRIC, GAS & WATER SYSTEMS

By: Kevin Brocks

Kevin R. Brocks, Esq.
Read and Laniado, LLP

This JOINT PROPOSAL agreed to as of the 15th day of March, 2006.

MULTIPLE INTERVENORS

By: James S. King, Esq.

James S. King, Esq.
Couch White LLP

This JOINT PROPOSAL agreed to as of the 15th day of March, 2006.*

FORTUNA ENERGY INC.

By: _____

Craig M Indyke, Esq.
Read and Laniado, LLP

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* Fortuna Energy Inc.'s approval to the Joint Proposal is limited to those provisions recognizing Corning Gas' agreement to a new access agreement with Fortuna to resolve certain access/transportation matters raised by Staff and the intervention of Fortuna in these proceedings.

JOINT PROPOSAL APPENDIX 1

Appendix 1

LIST OF TESTIMONY, EXHIBITS & APPENDICES TO BE ADMITTED

Testimony:

Pre-filed Direct Testimony of Kenneth J. Robinson, dated October 31, 2005, sponsoring Proposed Exhibit 10.

Pre-filed Direct Testimony of L. Mario DiValentino and Gary K. Earley, dated October 31, 2005, sponsoring Proposed Exhibits 1 through 7, 8 (Schedule 2), 11 and 12. The Pre-filed Direct Testimony of Gary K. Earley is being sponsored by witness L. Mario DiValentino as his own testimony, except lines 1-10 on page GKE-1 which will not be admitted.

Pre-filed Direct Testimony of Joel D. Moore, dated October 31, 2005, sponsoring Proposed Exhibit 8 (Schedule 1).

Pre-filed Direct Testimony of Paul D. Normand, dated October 31, 2005, sponsoring Proposed Exhibit 9.

Pre-filed Additional Direct Testimony of Paul D. Normand, dated December 22, 2005, sponsoring Supplemental Schedules PMN-3A, PMN-4A, PMN-5A and PMN-6A as part of Proposed Exhibit 9.

Pre-filed Direct Testimony of Kenneth J. Robinson, dated January 13, 2006, sponsoring Proposed Exhibits 13 through 20, and Exhibit 81.

Pre-filed Direct Testimony of Patrick J. Barry, dated February 6, 2006, sponsoring Proposed Exhibit 21.

Pre-filed Direct Testimony of Carlene M. Pacholczak, dated February 6, 2006.

Pre-filed Direct Testimony of John P. Sano, dated February 6, 2006, sponsoring Proposed Exhibits 22, 25, 76, and 78.

Pre-filed Direct Testimony of the Accounting Rate Panel consisting of Ronald Calkins and Christopher Simon, dated February 6, 2006, sponsoring Proposed Exhibit 26.

Pre-filed Direct Testimony of the Gas Rates Panel consisting of Alan F. Mostek and Aric J. Rider, dated February 6, 2006, sponsoring Proposed Exhibits 27 through 44, 75 and 77.

Pre-filed Direct Testimony of the Safety Panel consisting of Kevin J. Speicher and Christopher R. Stolicky, dated February 6, 2006, sponsoring Proposed Exhibits 45 through 47.

Pre-filed Direct Testimony of the Utility Operations Panel consisting of Alan F. Mostek, Ronald Calkins, Patrick J. Barry, and John P. Sano, dated February 6, 2006, sponsoring Proposed Exhibits 48 through 53, 61, 62 and 79.

Pre-filed Rebuttal Testimony of Joel D. Moore, dated February 27, 2006.

Pre-filed Rebuttal Testimony of Kenneth J. Robinson, dated February 27, 2006, sponsoring Proposed Exhibits 54 and 55.

Pre-filed Rebuttal Testimony of L. Mario DiValentino, dated February 27, 2006, sponsoring Proposed Exhibits 56 through 60, and 80.

Proposed Exhibits:

Exhibit 1— Pre-filed Exhibit CNG-1, dated October 31, 2005

Exhibit 2— Pre-filed Exhibit CNG-2, dated October 31, 2005

Exhibit 3— Pre-filed Exhibit CNG-3, dated October 31, 2005

Exhibit 4— Pre-filed Exhibit CNG-4, dated October 31, 2005

Exhibit 5— Pre-filed Exhibit CNG-5, dated October 31, 2005

Exhibit 6— Pre-filed Exhibit CNG-6, dated October 31, 2005

Exhibit 7— Pre-filed Exhibit CNG-7, dated October 31, 2005

Exhibit 8— Pre-filed Exhibit CNG-8, dated October 31, 2005

Exhibit 9— Pre-filed Exhibit CNG-9, dated October 31, 2005, and Supplemental Schedules PMN-3A, PMN-4A, PMN-5A and PMN-6A dated December 22, 2005 (Schedules PMN-5 and PMN-5A to be redacted to remove customer names)

Exhibit 10— Pre-filed Exhibit CNG-10, dated October 31, 2005

Exhibit 11— Pre-filed Exhibit CNG-11, dated October 31, 2005

Exhibit 12— Pre-filed Exhibit CNG-12, dated October 31, 2005

Exhibit 13— Pre-filed Exhibit KJR-1, dated January 13, 2006

Exhibit 14— Pre-filed Exhibit KJR-2, dated January 13, 2006

Exhibit 15— Pre-filed Exhibit KJR-3, dated January 13, 2006

Exhibit 16— Pre-filed Exhibit KJR-4, dated January 13, 2006

Exhibit 17— Pre-filed Exhibit KJR-5, dated January 13, 2006

Exhibit 18— Pre-filed Exhibit KJR-6, dated January 13, 2006

Exhibit 19— Pre-filed Exhibit KJR-7, dated January 13, 2006

Exhibit 20— Pre-filed Exhibit KJR-8, dated January 13, 2006

Exhibit 21— Pre-filed Exhibit PJB-1, dated February 6, 2006

Exhibit 22— Pre-filed Exhibit JPS-1, dated February 6, 2006

Exhibit 23— Pre-filed Exhibit JPS-2, dated February 6, 2006

Exhibit 24— Pre-filed Exhibit JPS-3, dated February 6, 2006

Exhibit 25— Pre-filed Exhibit JPS-4, dated February 6, 2006

Exhibit 26— Pre-filed Exhibit ARP-1, dated February 6, 2006

Exhibit 27— Pre-filed Exhibit GRP-1, dated February 6, 2006

Exhibit 28— Pre-filed Exhibit GRP-2, dated February 6, 2006

Exhibit 29— Pre-filed Exhibit GRP-3, dated February 6, 2006

Exhibit 30— Pre-filed Exhibit GRP-4, dated February 6, 2006

Exhibit 31— Pre-filed Exhibit GRP-5, dated February 6, 2006

Exhibit 32— Pre-filed Exhibit GRP-6, dated February 6, 2006

Exhibit 33— Pre-filed Exhibit GRP-7, dated February 6, 2006

Exhibit 34— Pre-filed Exhibit GRP-8, dated February 6, 2006

Exhibit 35— Pre-filed Exhibit GRP-9, dated February 6, 2006

Exhibit 36— Pre-filed Exhibit GRP-10, dated February 6, 2006

Exhibit 37— Pre-filed Exhibit GRP-11, dated February 6, 2006

Exhibit 38— Pre-filed Exhibit GRP-12, dated February 6, 2006

Exhibit 39— Pre-filed Exhibit GRP-13, dated February 6, 2006

Exhibit 40— Pre-filed Exhibit GRP-14, dated February 6, 2006

Exhibit 41— Pre-filed Exhibit GRP-15, dated February 6, 2006

Exhibit 42— Pre-filed Exhibit GRP-16, dated February 6, 2006

Exhibit 43— Pre-filed Exhibit GRP-17, dated February 6, 2006

Exhibit 44— Pre-filed Exhibit GRP-18, dated February 6, 2006

Exhibit 45— Pre-filed Exhibit GSP-1, dated February 6, 2006

Exhibit 46— Pre-filed Exhibit GSP-2, dated February 6, 2006

Exhibit 47— Pre-filed Exhibit GSP-3, dated February 6, 2006

Exhibit 48— Pre-filed Exhibit UOP-1, dated February 6, 2006

Exhibit 49— Pre-filed Exhibit UOP-2, dated February 6, 2006

Exhibit 50— Pre-filed Exhibit UOP-3, dated February 6, 2006

Exhibit 51— Pre-filed Exhibit UOP-4, dated February 6, 2006

Exhibit 52— Pre-filed Exhibit UOP-5, dated February 6, 2006

Exhibit 53— Pre-filed Exhibit UOP-6, dated February 6, 2006

Exhibit 54— Pre-filed Exhibit KJR-9, dated February 27, 2006

Exhibit 55— Pre-filed Exhibit KJR-10, dated February 27, 2006

Exhibit 56— Pre-filed Exhibit LMD-1, dated February 27, 2006

Exhibit 57— Pre-filed Exhibit LMD-2, dated February 27, 2006

Exhibit 58— Pre-filed Exhibit LMD-3, dated February 27, 2006

Exhibit 59— Pre-filed Exhibit LMD-4, dated February 27, 2006

Exhibit 60— Pre-filed Exhibit LMD-5, dated February 27, 2006

Exhibit 61— Witness Affidavit of Kenneth J. Robinson sponsoring testimony as if given orally.

Exhibit 62— Witness Affidavit of L. Mario DiValentino sponsoring testimony as if given orally.

Exhibit 63— Witness Affidavit of Joel D. Moore sponsoring testimony as if given orally.

Exhibit 64— Witness Affidavit of Paul D. Normand sponsoring testimony as if given orally.

Exhibit 65— Witness Affidavit of Patrick J. Barry sponsoring testimony as if given orally.

Exhibit 66— Witness Affidavit of Carlene M. Pacholczak sponsoring testimony as if given orally.

Exhibit 67— Witness Affidavit of John P. Sano sponsoring testimony as if given orally.

Exhibit 68— Witness Affidavit of Ronald Calkins sponsoring testimony as if given orally.

Exhibit 69— Witness Affidavit of Christopher Simon sponsoring testimony as if given orally.

Exhibit 70— Witness Affidavit of Alan F. Mostek sponsoring testimony as if given orally.

Exhibit 71— Witness Affidavit of Aric J. Rider sponsoring testimony as if given orally.

Exhibit 72— Affidavit of Kevin J. Speicher sponsoring testimony as if given orally.

Exhibit 73— Affidavit of Christopher R. Stolicky sponsoring testimony as if given orally.

Exhibit 74— Copy of Fortuna Agreement, and E-Mail messages from Thomas Barry and Kenneth J. Robinson dated February 22, 2006 (a portion of the Fortuna Agreement to be submitted on a confidential basis)

Exhibit 75— Response to Discovery Request DPS-2

Exhibit 76— Response to Discovery Request DPS-134 & Supplemental Response to DPS-134

Exhibit 77— Response to Discovery Request DPS-160

Exhibit 78— Response to Discovery Request CNG-21

Exhibit 79— Response to Discovery Request CNG-44

Exhibit 80— Supplemental Response to Discovery Request DPS-3

Exhibit 81— Milestones for 2006-2007 Natural Gas Supply dated January 20, 2006

JOINT PROPOSAL APPENDIX 2

Corning Natural Gas Corp
Detail of Adjustments
For the Rate Year ended September 30, 2007

ADJUSTMENTS AS NEGOTIATED		Witness	Amount
	REVENUES		
A.	GAC revenue		$ (138,388)
	TOTAL REVENUE ADJUSTMENT		(138,388)
B.	OPERATIONS AND MAINTENANCE EXPENSE		
	1. Payroll - Correct Active Employee Count		266,816
	2. Uncollectible Expense		9,050
	3. Productivity Adjustment		(12,368)
	4. Other O&M Costs		(26,311)
	5. Decreased Deferred Appliance Costs Amortization for Purdence		(280,000)
	6. Deferred Appliance Costs - Additional Amortization		368,177
	TOTAL O&M ADJUSTMENT		325,364
C.	Taxes Other Then FIT		
	1. Revenue Taxes		(1,176)
	2. Payroll taxes related to increasing labor expense		23,586
	TOTAL OTHER THEN FIT TAX ADJUSTMENT		22,410
D.	STATE INCOME TAX		
	Current Tax		(26,920)
	Deferred Tax		(6,353)
	TOTAL STATE INCOME TAX ADJUSTMENT		(33,273)
E.	FEDERAL INCOME TAX EXPENSE		
	Current Tax		(112,885)
	Deferred Tax		(28,800)
	TOTAL FEDERAL INCOME TAX ADJUSTMENT		(141,685)
F.	RATE BASE		
	1. Increase Working Capital		39,539
	2. Reduce Deferred Appliance Costs to Reflect Prudence		(1,260,000)
	3. Reduce Deferred Appliance Costs to Reflect additional amortization		(184,089)
	4. Increase deferred Credit Prior Period Incentive		(15,617)
	5. Reduce Deferred SIT - Deferred Debits		108,307
	6. Increase Deferred SIT - Deferred Credits		1,171
	7. Decrease Deferred FIT - Deferred Debits		490,990
	8. Increase Deferred FIT - Deferred Credits		5,310
	TOTAL RATE BASE ADJUSTMENTS		(814,389)
	SIT and FIT CALCULATION ADJUSTMENT		
	Interest Expense		(42,520)
	TOTAL SIT AND FIT CALCULATION ADJUSTMENT		$ (42,520)

JOINT PROPOSAL APPENDIX 3

Corning Natural Gas Corporation
Income Statement and Rate of Return Calculation
With Prudence Adjustment
For the Rate Year Ended September 30, 2007

	1 Rate year Per Company	2 Adj #	3 Staff Adjustments	4 As Adjusted By Staff	5 Adj #	6 Negotiated Adjustments	7 As Adjusted Negotiated	8 Revenue Requirement	9 As Finally Adjusted
Operating Revenues	$ 21,561,888	(1)	$ 602,504	$ 22,164,392	(A)	$ (138,388)	$ 22,026,004	$ 2,700,391	$ 24,726,395
Operating Expenses									
Purchased Gas	14,562,437			14,562,437			14,562,437		14,562,437
Operating & Maintenance Expense	6,261,931	(2)	(293,481)	5,968,450	(B)	325,364	6,293,814	27,004	6,320,818
Depreciation Expense	652,349	(3)	3,427	655,776			655,776		655,776
Taxes Other Then FIT	1,401,811	(4)	(12,230)	1,389,581	(C)	22,410	1,411,991	24,303	1,436,294
Total Operating Expense	22,878,528		(302,284)	22,576,244		347,774	22,924,018	51,306	22,975,324
Operating Income Before SIT	(1,316,640)		904,788	(411,852)		(486,162)	(898,014)	2,649,084	1,751,070
State Income Taxes									
Current	(110,260)		74,560	(35,700)	(D)	(26,920)	(62,620)	198,681	136,061
Deferred	(62,598)		656	(61,942)		(6,353)	(68,295)	-	(68,295)
Total State Income Taxes	(172,858)	(5)	75,216	(97,642)		(33,273)	(130,915)	198,681	272,123
Operating Income Taxes Before FIT	(1,143,782)		829,572	(314,210)		(452,889)	(767,099)	2,450,403	1,478,948
Federal Income Taxes									
Current	(462,355)		312,656	(149,699)	(E)	(112,885)	(262,584)	833,137	570,553
Deferred	(283,777)		2,975	(280,802)		(28,800)	(309,602)	-	(309,602)
Total Federal Income Taxes	(746,132)	(6)	315,631	(430,501)		(141,685)	(572,186)	833,137	260,951
Operating Income	$ (397,650)		$ 513,941	$ 116,291		$ (311,204)	$ (194,913)	$ 1,617,266	$ 1,422,353
Rate Base	$ 19,990,456	(7)	$ (1,872,503)	$ 18,117,953		$ (814,389)	$ 17,303,564		$ 17,303,564
Rate of Return	-1.99%			0.64%					8.22%

This Revenue Requirement of $2,700,391 reflects a $1.4 million prudence adjustment and a fixed annual amortization of Deferred Allocation Costs of $614,076. Once the Deferred Allocation Costs are fully amortized the associated revenues for the $614,0716 fixed amortization shall be recorded in a deferred credit account and the related FIT and SIT are to be deferred on the balance sheet.

Corning Natural Gas Corp
Detail of Operating and Maintenance Expenses
For the Rate Year ended September 30, 2007

Operating Expenses	Rate Year 09/30/07	Adj #	Staff Adjustment	As Adjusted By Staff	As Negotiated	Negotiated Totals
Direct Labor	$ 1,804,469	2 A	$ (220,340)	$ 1,584,129	266,816	$ 1,850,945
Vacation Accrual	162,946			162,946		162,946
Insurance Costs	934,259			934,259		934,259
Regulatory Costs	90,166			90,166		90,166
Pensions and OPEBS	1,390,288			1,390,288		1,390,288
Uncollectible Accounts	220,674			220,674	9,050	229,724
Building Services	123,319			123,319		123,319
Transportation	208,636			208,636		208,636
Outside Services	199,497			199,497		199,497
EDP/Work and Computer Equipment	23,120			23,120		23,120
Deferred Appliance Costs	525,899			525,899	88,177	614,076
Other O& M Costs	578,658			578,658	(26,311)	552,347
Productivity Adjustment	-	2 B	(73,141)	(73,141)	(12,368)	(85,509)
	$ 6,261,931		$ (293,481)	$ 5,968,450	$ 325,364	$ 6,293,814

Corning Natural Gas Corporation
Detail of Taxes Other then Income Tax
For the Rate Year Ended September 30, 2007

	Rate Year Per Company	Staff Adjustment	As Adjusted By Staff	As Negotiated	Negotiated Total	Revenue Requirement	Final Adjusted
Property Tax	$ 950,271	$ -	$ 950,271	$ -	$ 950,271	$ -	$ 950,271
Payroll Taxes	152,353	(19,478)	$ 132,875	$ 23,586	$ 156,461	$ -	$ 156,461
Revenue Taxes	13,042	7,248	$ 20,290	$ (1,176)	$ 19,114	$ 24,303	$ 43,417
Other Taxes	286,145	-	$ 286,145	$ -	$ 286,145	$ -	$ 286,145
Total Taxes Other Than Income Taxes	$ 1,401,811	$ (12,230)	$ 1,389,581	$ 22,410	$ 1,411,991	$ 24,303	$ 1,436,294

Corning Natural Gas Corp
Detail of New York State Tax Expense
For the Rate Year ended September 30, 2007

	Rate Year Per Company	Adj #	Staff Adjustments	Staff As Adjusted	As Negotiated	Total Negotiated
Operating Income Before Taxes and Fixed Charges	$ (1,316,640)		$ 904,788	$ (411,852)	(486,162)	$ (898,014)
Interest Expense	1,043,865	8 A	(98,099)	945,766	(42,520)	903,246
Disallowed Meal Allowance	3,000			3,000		3,000
Class Life Depreciation	71,400			71,400		71,400
Employee Life Insurance	(16,685)			(16,685)		(16,685)
Deferred Compensation Payments	(1,974)		-	(1,974)	-	(1,974)
Total Differences and Flow Through Items	55,741		-	55,741	-	55,741
ADR Normalized	22,185			22,185		22,185
ACRS Normalized	(515,480)	8 B	(8,750)	(524,230)		(524,230)
Rateable Pension Expense	375,361			375,361		375,361
Deferred Interest	12,585			12,585		12,585
Deferred Uncollectible Expense	12,867			12,867		12,867
Deferred Uncollectible Costs 9/03	16,033			16,033		16,033
Deferred Rate Case Reopener Expense	204,352			204,352		204,352
Deferred Appliance Corp Allocation Expense	525,900			525,900	88,177	614,077
Pension Restoration Case 02-G-0003	10,310			10,310		10,310
OPEB Restoration Case 02-G-0003	19,698			19,698		19,698
Deferred Uncollectible Costs-2005	24,314			24,314		24,314
Rate Case Costs-2005	60,000			60,000		60,000
NYS Franchise Tax	(58,090)			(58,090)		(58,090)
Deferred Insurance Expense	12,585			12,585		12,585
Prior Year Incentive	-			-	(3,470)	(3,470)
Section 263A Adjustment	112,017		-	112,017	-	112,017
Total Timing Differences	834,637		(8,750)	825,887	84,707	910,594

Corning Natural Gas Corp
Detail of New York State Tax Expense
For the Rate Year ended September 30, 2007

	Rate Year Per Company	Adj #	Staff Adjustments	Staff As Adjusted	As Negotiated	Total Negotiated
Tax Income	$ (1,470,127)		$ 994,137	$ (475,990)	(358,935)	$ (834,925)
Rate	7.50%		7.50%	7.50%	7.50%	7.50%
Current SIT	(110,260)	5 A	74,560	(35,700)	(26,920)	(62,620)
ADR Normalized	(1,664)			(1,664)		(1,664)
ACRS Normalized	38,661	5 B	656	39,317		39,317
Rateable Pension Expense	(28,152)			(28,152)		(28,152)
Deferred Interest	(944)			(944)		(944)
Deferred Uncollectible Expense	(965)			(965)		(965)
Deferred Uncollectible Costs 9/03	(1,203)			(1,203)		(1,203)
Deferred Rate Case Reopener Expense	(15,327)			(15,327)		(15,327)
Deferred Appliance Corp Allocation Expense	(39,443)			(39,443)	(6,613)	(46,056)
Pension Restoration Case 02-G-0003	(773)			(773)		(773)
OPEB Restoration Case 02-G-0003	(1,477)			(1,477)		(1,477)
Deferred Uncollectible Costs-2005	(1,824)			(1,824)		(1,824)
Rate Case Costs-2005	(4,500)			(4,500)		(4,500)
NYS Franchise Tax	4,358			4,358		4,358
Deferred Insurance Expense	(944)			(944)		(944)
Prior Year Incentive	-			-	260	260
Section 263A Adjustment	(8,401)		-	(8,401)	-	(8,401)
Total Deferred SIT	$ (62,598)		$ 656	$ (61,942)	$ (6,353)	$ (68,295)

Corning Natural Gas Corp
Detail of Federal Tax Expense
For the Rate Year ended September 30, 2007

	Rate Year Per Company	Adj #	Staff Adjustments	Staff As Adjusted	As Negotiated	Total Negotiated
Operating Income Before Taxes and Fixed Charges	$ (1,316,640)		$ 904,788	$ (411,852)	(486,162)	$ (898,014)
Interest Expense	1,043,865	8 A	(98,099)	945,766	(42,520)	903,246
Disallowed Meal Allowance	3,000			3,000		3,000
Class Life Depreciation	71,400			71,400		71,400
Employee Life Insurance	(16,685)			(16,685)		(16,685)
Deferred Compensation Payments	(1,974)		-	(1,974)	-	(1,974)
Total Permanent Differences and Flow Thru Items	55,741		-	55,741	-	55,741
ADR Normalized	22,185			22,185		22,185
ACRS Normalized	(515,480)	8 B	(8,750)	(524,230)		(524,230)
Rateable Pension Expense	375,361			375,361		375,361
Deferred Interest	12,585			12,585		12,585
Deferred Uncollectible Expense	12,867			12,867		12,867
Deferred Uncollectible Costs 9/03	16,033			16,033		16,033
Deferred Rate Case Reopener Expense	204,352			204,352		204,352
Deferred Appliance Corp Allocation Expense	525,900			525,900	88,177	614,077
Pension Restoration Case 02-G-0003	10,310			10,310		10,310
OPEB Restoration Case 02-G-0003	19,697			19,697		19,697
Deferred Uncollectible Costs-2005	24,314			24,314		24,314
Rate Case Costs-2005	60,000			60,000		60,000
NYS Franchise Tax	(58,090)			(58,090)		(58,090)
Deferred Insurance Expense	12,585			12,585		12,585
Prior Year Incentive					$ (3,470)	$ (3,470)
Section 263A Adjustment	112,017		-	112,017	-	112,017
	$ 834,636		$ (8,750)	$ 825,886	$ 84,707	$ 910,593

Corning Natural Gas Corp
Detail of Federal Tax Expense
For the Rate Year ended September 30, 2007

	Rate Year Per Company	Adj #	Staff Adjustments	Staff As Adjusted	As Negotiated	Total Negotiated
SIT Current	$ (110,260)		$ 74,560	$ (35,700)	(26,920)	$ (62,620)
Tax Income	(1,359,867)		919,577	(440,291)	(332,015)	(772,306)
Rate	34.00%		34.00%	34.00%	34.00%	34.00%
Current FIT	(462,355)	6 A	312,656	(149,699)	(112,885)	(262,584)
ADR Normalized	(7,543)			(7,543)		(7,543)
ACRS Normalized	175,263	6 B	2,975	178,238		178,238
Rateable Pension Expense	(127,623)			(127,623)		(127,623)
Deferred Interest	(4,279)			(4,279)		(4,279)
Deferred Uncollectible Expense	(4,375)			(4,375)		(4,375)
Deferred Uncollectible Costs 9/03	(5,451)			(5,451)		(5,451)
Deferred Rate Case Reopener Expense	(69,480)			(69,480)		(69,480)
Deferred Appliance Corp Allocation Expense	(178,806)			(178,806)	(29,980)	(208,786)
Pension Restoration Case 02-G-0003	(3,506)			(3,506)		(3,506)
OPEB Restoration Case 02-G-0003	(6,697)			(6,697)		(6,697)
Deferred Uncollectible Costs-2005	(8,267)			(8,267)		(8,267)
Rate Case Costs-2005	(20,400)			(20,400)		(20,400)
NYS Franchise Tax	19,751			19,751		19,751
Deferred Insurance Expense	(4,279)			(4,279)		(4,279)
Prior Year Incentive					1,180	1180
Section 263A Adjustment	(38,085)		-	(38,085)	-	(38,085)
Total Deferred FIT	$ (283,777)		$ 2,975	$ (280,802)	$ (28,800)	$ (309,602)

Corning Natural Gas Corp
Calculation of Interest Deduction
For the Rate Year ended September 30, 2007

	Rate Year Per Company	Staff Adjustment	As Adjusted By Staff	As Negotiated	Total Negotiated
Rate Base	$ 19,990,456	$ (1,872,503)	$ 18,117,953	(814,389)	$ 17,303,564
Add: Interest Bearing CWIP	-	-	-		
Total Debt Base	19,990,456	(1,872,503)	18,117,953	(814,389)	17,303,564
Debt Component of Capitalization	5.22%	5.22%	5.22%	5.22%	5.22%
Total Interest	$ 1,043,856	$ (98,099)	$ 945,766	$ (42,520)	$ 903,246

Corning Natural Gas Corporation
Rate Base
For the Rate Year Ended September 30, 2007

	Rate Year Per Company		Staff Adjustments	As Adjusted by Staff	As Negotiated	Negotiated Total
Plant in Service	28,026,443	7 A	133,570	28,160,013		28,160,013
Non-Interest Bearing CWIP	313,354			313,354		313,354
Depreciation reserve	(11,197,403)	7 B	(1,148)	(11,198,551)		(11,198,551)
New Plant Dedicated to Appliance Corp	(995,372)		-	(995,372)	-	(995,372)
NET PLANT	16,147,022		132,422	16,279,444	-	16,279,444
Gas Stored Underground	1,966,424	7 C	(1,966,424)	-		-
Material and Supplies	246,478			246,478		246,478
Prepayments	651,458			651,458		651,458
Cash Working Capital	755,157	7 D	(36,685)	718,472	39,539	758,011
Deferred Debits	4,667,584			4,667,584	(1,444,089)	3,223,495
Deferred Credits	(11,502)			(11,502)	(15,617)	(27,119)
Unamortized Debt Discount & Expense	218,198			218,198		218,198
Deferred Taxes				-		-
Accumulate Deferred ITC	-			-		-
Accelerated Depreciation - Def SIT	(468,896)	7 E	(328)	(469,224)		(469,224)
Accelerated Depreciation - Def FIT	(2,125,663)	7 F	(1,488)	(2,127,151)		(2,127,151)
Def SIT - Deferral Debits	(350,069)			(350,069)	108,307	(241,762)
Def SIT - Deferral Credits	863			863	1,171	2,034
Def FIT - Deferral Debits	(1,586,979)			(1,586,979)	490,990	(1,095,989)
Def FIT - Deferral Credits	3,911		-	3,911	5,310	9,221
TOTAL DEFERRED TAXES	(4,526,833)		(1,816)	(4,528,649)	605,778	(3,922,871)
Earnings Based Capitalization Adjustment	(123,530)			(123,530)		(123,530)
Rate Base	19,990,456		(1,872,503)	18,117,953	(814,389)	17,303,564

Corning Natural Gas Corporation
Calculation of Cash Working Capital
For the Rate Year Ended September 30, 2007

	12 months Ended September 2007	Staff Adjustment	As Adjusted By Staff	Negotiated Adjustment	As Negotiated
O&M Expense	$ 20,824,368	$ (293,481)	$ 20,530,887	$ 325,364	$ 20,856,251
Deduct					
Cost of Purchased Gas	14,562,437		14,562,437		14,562,437
Uncollectibles	220,674		220,674	9,050	229,724
	14,783,111		14,783,111	9,050	14,792,161
Balance	6,041,257	(293,481)	5,747,776	316,314	6,064,090
Cash Working Capital Allowance @ 1/8	0.1250	0.1250	0.1250	0.1250	0.1250
Cash Working Capital Allow	$ 755,157	$ (36,685)	$ 718,472	$ 39,539	$ 758,011

Corning Natural Gas Corporation
Consolidated and Hypothetical Capital Structure

	TOTAL	DEREGULATED	REGULATED
Long-Term Debt			
Parent	$ 9,400,000		
Subsidiary	369,653		
	9,769,653	$ 878,961	8,890,692
Short-term Debt			
Parent	5,092,708		
Subsidiary to Parent	241,748		
	5,334,456	479,933	4,854,523
Total debt	15,104,109	1,358,894	13,745,215
Deferred Compensation	39,047		39,047
Customer Deposits	248,946		248,946
Common Equity	6,942,321	2,038,341	4,903,980
Total	$ 22,334,423	$ 3,397,235	$ 18,937,188

	Amount	Structure	Cost Rate	Weighted Average
Long-Term Debt	$ 13,745,215	72.58%	7.56%	5.49%
Deferred Compensation	39,047	0.21%	4.21%	0.01%
Customer Deposit	248,946	1.31%	3.00%	0.04%
Common Equity	4,903,980	25.90%	10.00%	2.59%
	$ 18,937,188	100.00%		8.13%

Debt Cost	Amount	Structure	Cost Rate	Weighted Average
Regulated				
Long-Term Debt	8,890,692	64.68%	8.56%	5.54%
Short-Term Debt	4,854,523	35.32%	5.73%	2.02%
	13,745,215	100.00%		7.56%

Regulated Capital Structure 70% - 30%

Long-Term Debt	$ 12,394,492
Deferred Compensation	39,859
Customer Deposits	248,216
Common Equity	5,435,386
	$ 18,117,953

	Amount	Structure	Cost Rate	Weighted Average
Long-Term Debt	$ 12,394,492	68.41%	7.56%	5.17%
Deferred Compensation	39,859	0.22%	4.21%	0.01%
Customer Deposits	248,216	1.37%	3.00%	0.04%
Common Equity	5,435,386	30.00%	10.00%	3.00%
	$ 18,117,953	100.00%		8.22%

Corning Natural Gas Corporation
Consolidated and Hypothetical Capital Structure

	TOTAL	DEREGULATED	REGULATED
Long-Term Debt			
Parent	$ 9,400,000		
Subsidiary	369,653		
	9,769,653	$ 878,961	8,890,692
Short-term Debt			
Parent	5,092,708		
Subsidiary to Parent	241,748		
	5,334,456	479,933	4,854,523
Total debt	15,104,109	1,358,894	13,745,215
Deferred Compensation	39,047		39,047
Customer Deposits	248,946		248,946
Common Equity	6,942,321	2,038,341	4,903,980
Total	$ 22,334,423	$ 3,397,235	$18,937,188

	Amount	Structure	Cost Rate	Weighted Average
Long-Term Debt	$ 13,745,215	72.58%	7.56%	5.49%
Deferred Compensation	39,047	0.21%	4.21%	0.01%
Customer Deposit	248,946	1.31%	3.00%	0.04%
Common Equity	4,903,980	25.90%	10.00%	2.59%
	$ 18,937,188	100.00%		8.13%

Debt Cost	Amount	Structure	Cost Rate	Weighted Average
Regulated				
Long-Term Debt	8,890,692	64.68%	8.56%	5.54%
Short-Term Debt	4,854,523	35.32%	5.73%	2.02%
	13,745,215	100.00%		7.56%

Regulated Capital Structure 70% - 30%

Long-Term Debt	$ 11,837,368
Deferred Compensation	38,068
Customer Deposits	237,059
Common Equity	5,191,069
	$ 17,303,564

	Amount	Structure	Cost Rate	Weighted Average
Long-Term Debt	$ 11,837,368	68.41%	7.56%	5.17%
Deferred Compensation	38,068	0.22%	4.21%	0.01%
Customer Deposits	237,059	1.37%	3.00%	0.04%
Common Equity	5,191,069	30.00%	10.00%	3.00%
	$ 17,303,564	100.00%		8.22%

Corning Natural Gas Corp
Detail of Adjustments
For the Rate Year ended September 30, 2007

	ADJUSTMENTS	Witness	Amount
	REVENUES		
1	A. Tariff Revenue customer forecast usage	Gas Rates Panel	$ 236,723
	B. Tariff revenue Dresser Rand	Gas Rates Panel	(24,873)
	C. GAC revenue	Gas Rates Panel	390,654
	TOTAL REVENUE ADJUSTMENT		602,504
	OPERATIONS AND MAINTENANCE EXPENSE		
2	A. Payroll - removal positions	Acct Rates Panel	(220,340)
	B. Productivity Adjustment	Acct Rates Panel	(73,141)
	TOTAL O&M ADJUSTMENT		(293,481)
3	Depreciation Expense - on plant additions	Acct Rates Panel	3,427
4	Taxes Other Then FIT		
	A. Revenue Taxes	Acct Rates Panel	7,248
	B. Payroll taxes related to lowering labor expense	Acct Rates Panel	(19,478)
	TOTAL OTHER THEN FIT TAX ADJUSTMENT		(12,230)
5	STATE INCOME TAX		
	A. Current Tax	Acct Rates Panel	74,560
	B. Deferred Tax	Acct Rates Panel	656
	TOTAL STATE INCOME TAX ADJUSTMENT		75,216
6	FEDERAL INCOME TAX EXPENSE		
	A. Current Tax	Acct Rates Panel	312,656
	B. Deferred Tax	Acct Rates Panel	2,975
	TOTAL FEDERAL INCOME TAX ADJUSTMENT		315,631
7	RATE BASE		
	A. Plant Additions	Safety Panel	133,570
	B. Depreciation Reserve	Safety Panel	(1,148)
	C. Gas Storage	Gas Rates Panel	(1,966,424)
	D. Working Capital	Acct Rates Panel	(36,685)
	E. Accum Def SIT - Tax Depreciation	Acct Rates Panel	(328)
	F. Accum Def FIR - Tax Depreciation	Acct Rates Panel	(1,488)
	TOTAL RATE BASE ADJUSTMENTS		(1,872,503)
8	SIT and FIT CALCULATION ADJUSTMENT		
	A. Interest Expense	Acct Rates Panel	98,099
	B. Accelerated Tax Depreciation	Acct Rates Panel	8,750
	TOTAL SIT AND FIT CALCULATION ADJUSTMENT		$ 106,849

Corning Natural Gas Corporation
Revenue Requirement Reflecting the Prudence Adjustment
and Additional Deferred Allocation Costs Amortization

Revenue Requirement Reflecting Prudence Adjustment	$	2,347,129
Additional Amortization of Deferred Allocation Costs		375,308
Rate Base Effects		(5,851)
Federal Income Tax effect of lower current State Income Tax		(16,195)
Revenue Requirement reflecting Prudence adjustment and additional Deferred Allocation Costs Amortization	$	2,700,391
Additional Amortization	$	368,177
Revenue Tax & Uncollectible Factor		0.981
	$	375,308
Rate Base		
Reduce Deferred Allocation Costs	$	(184,089)
Accumulated Deferred Federal Income Tax		62,590
Accumulated Deferred State Income Tax		18,807
Working Capital ($368,177 x 1/8)		46,022
Rate Base Reduction		(56,670)
Pre Tax Rate of return		10.13%
		(5,740)
Revenue Tax & Uncollectible Factor		0.981
		(5,851)
Federal Income Tax Effect		
Lower Current State Income Tax	$	27,613
Federal Income Tax Rate		34%
Federal Income Tax Effect		9,388
Revenue Effect	$	16,195

Corning Natural Gas Corporation
Deferred Costs Subject to Amortization in the Rate Year

	Rate Year 9/30/2007	Deferred Credit Offset	Rate Year Amort. Amount Net of Offsets	Disallowance	Rate Year Amort. Amount	Amort. Period In Years	Annual Amount	
Deferred Credits								
Consumer Education	$ 323	$ (323)	$ -	$ -	$ -			
Over Collect Revenues Due Customers	(4,404)	4,404	-	-	-			
GRT Due Customers	(216,273)	216,273	-	-	-			
Sale of Vehicles	(55,692)	55,692	-	-	-			
Total Deferred Credits Available to Offset Customer Deferred Debits (Customer IOU's)	$ (276,046)	$ 276,046	$ -	$ -	$ -			
Deferred Debits								
Rateable Pension Expense	$1,876,806		$ 1,876,806	$ -	$ 1,876,806	5	375,361	
Appliance Corp Cost Allocations	2,629,498		2,629,498	(1,400,000)	1,229,498	Fixed Amount (A)	614,076	245,899
Deferred Uncollectible Costs	107,761	1,827	109,588	-	109,588	5	21,918	
Deferred Uncollectible Costs 9/03	80,163		80,163	-	80,163	5	16,033	
Rate Case 2001	-		-	-	-			
Rate Case Reopener	204,352	(204,352)	-	-	-			
Deferred Interest Cost	37,755	(37,755)	-	-	-			
Deferred S/T Interest Cost 9/03	-		-	-	-			
NYS Franchise Tax	(58,090)	58,090	-	-	-			
Deferred Insurance Expense	93,856	(93,856)	-	-	-			
Deferred Uncollectible Costs-2005	121,569		121,569	-	121,569	5	24,314	
Rate Case Costs-2005	300,000		300,000	-	300,000	5	60,000	
Pension Restoration Case 02-G-0003	51,552		51,552	-	51,552	5	10,310	
OPEB Restoration Case 02-G-0003	98,487	-	98,487	-	98,487	5	19,697	
TOTAL DEFERRED DEBITS	$5,543,709	$(276,046)	$ 5,267,663	$ (1,400,000)	$ 3,867,663			

Fixed amortization is the amount that Corning would book absent an acquisition of it by another entity; if acquired the buyer would amortize the unrecovered amount of $1,229,498 over a five year period

JOINT PROPOSAL APPENDIX 4

CORNING NATURAL GAS CORPORATION
CALCULATION OF RATES

Total Rate Year Margin	$	6,614,723
Required Revenue Adjustment	$	2,700,391
Less Associated Revenue Taxes	$	24,303
Total Required Revenue Adjustment	$	2,676,088
Percent Increase of Non-Gas Cost Revenue		40.46%

Other Gas Revenues

Customer Discounts Forfieted	$	130,195	40.46%	$	52,672.39
Reconnect Fees	$	7,100	0.00%	$	-
Surcharges	$	30,649	0.00%	$	-
				$	52,672.39

Adjusted Total Reveune Requirement	$	2,623,415.61

CORNING NATURAL GAS CORPORATION
CALCULATION OF RATES BY BLOCK

	ACTUAL HISTORIC SALES CCF	WEATHER NORM / ADJUSTMENTS	FORECASTED RATE YEAR SALES	CURRENT TARIFF RATES $/CCF	RATE YEAR SALES AT CURRENT RATES	PROPOSED RATES $/CCF	PROPOSED INCREASE $/CCF	PROPOSED % INCREASE %	FORECASTED REVENUES	PROPOSED REVENUE INCREASE
SC 1 & 5 CORNING FIRM										
FIRST 3 CCF	395,280	0	395,280	$ 7.25	$ 955,260	**$ 12.55**	$ 5.30	73.10%	$ 1,653,588	$ 698,328
NEXT 47 CCF	4,644,540	0	4,644,540	$ 0.23932	$ 1,111,531	**$ 0.33614**	$ 0.10	40.46%	$ 1,561,216	$ 449,684
OVER 50 CCF	8,196,530	(416,650)	7,779,880	$ 0.15122	$ 1,176,473	**$ 0.21240**	$ 0.06	40.46%	$ 1,652,447	$ 475,973
					$ 3,243,265				$ 4,867,250	$ 1,623,985
SC 6 CORNING TRANSPORTATION										
All CCF	3,425,350	(526,969)	2,898,381	$ 0.13000	$ 376,790	**$ 0.15630**	$ 0.03	20.23%	$ 453,017	$ 76,227
SC 14 CORNING AGGREGATION										
FIRST 3 CCF	112,790	0	112,790	$ 7.25	$ 272,576	**$ 12.55**	$ 5.30	73.10%	$ 471,838	$ 199,262
NEXT 47 CCF	1,325,260	0	1,325,260	$ 0.23932	$ 317,161	**$ 0.33614**	$ 0.10	40.46%	$ 445,473	$ 128,312
OVER 50 CCF	4,043,490	(137,880)	3,905,610	$ 0.15122	$ 590,606	**$ 0.21240**	$ 0.06	40.46%	$ 829,552	$ 238,945
					$ 1,180,343				$ 1,746,863	$ 566,519
SC 2 & 7 CORNING TRANSPORTATION										
D1	150,000	0	150,000	$ 0.38755	$ 58,133	**$ 0.46594**	$ 0.08	20.23%	$ 69,891	$ 11,759
D2	3,185,170	(85,170)	3,100,000	$ 0.02000	$ 62,000	$ 0.02000	$ -	0.00%	$ 62,000	$ -
A	4,365,030	1,088,620	5,453,650	$ 0.05270	$ 287,407	**$ 0.06336**	$ 0.01	20.23%	$ 345,543	$ 58,136
B1	4,567,690	1,522,540	6,090,230	$ 0.05270	$ 320,955	**$ 0.06336**	$ 0.01	20.23%	$ 385,877	$ 64,922
B2	960,520	391,790	1,352,310	$ 0.02700	$ 36,512	$ 0.02700	$ -	0.00%	$ 36,512	$ -
E	4,301,140	0	4,301,140	Contract						
C2	608,000	5,772,010	6,380,010	$ 0.02700	$ 172,260	$ 0.02700	$ -	0.00%	$ 172,260	$ -
C1				$ 3,921	$ 47,052	**$ 4,714**	$ 793.00	20.22%	$ 56,568	$ 9,516
F1	30,000	0	30,000	$ 0.38755	$ 11,627	**$ 0.46594**	$ 0.08	20.23%	$ 13,978	$ 2,352
F2	3,925,440	14,560	3,940,000	$ 0.05270	$ 207,638	**$ 0.06336**	$ 0.01	20.23%	$ 249,638	$ 42,000
G1	30,000		30,000	$ 0.38755	$ 11,627	**$ 0.46594**	$ 0.08	20.23%	$ 13,978	$ 2,352
G2	482,684	(13,215)	469,469	$ 0.05270	$ 24,741	**$ 0.06336**	$ 0.01	20.23%	$ 29,746	$ 5,005
					$ 1,239,952				$ 1,435,992	$ 196,041
NYSEG	36,673,100	0	36,673,100	Contract						

CORNING NATURAL GAS CORPORATION
CALCULATION OF RATES BY BLOCK

	ACTUAL HISTORIC SALES		WEATHER NORM / ADJUSTMENTS	FORECASTED RATE YEAR SALES	CURRENT TARIFF RATES	RATE YEAR SALES AT CURRENT RATES	PROPOSED RATES	PROPOSED INCREASE	PROPOSED % INCREASE	FORECASTED REVENUES	PROPOSED REVENUE INCREASE
BATH											
SC 1 FIRM SALES FOR RESALE	3,144,190	202,517	161,810	3,306,000	$ 0.06441	$ 212,939	**$ 0.07744**	$ 0.01	20.23%	$ 256,017	$ 43,077
SC 3 TRANSPORTATION FOR RESALE	926,360	59,667	619,640	1,546,000	$ 0.06441	$ 99,578	**$ 0.07744**	$ 0.01	20.23%	$ 119,722	$ 20,144
SC 2 HAMMONDSPORT - SALES FOR RESALE					$ 0.05941	$ -	**$ 0.07244**	$ 0.01	21.93%	$ -	$ -
SC 4 HAMMONDSPORT - TRANSPORTATION	2,600,800	154,514	(1,652,800)	948,000	$ 0.05941	$ 56,321	**$ 0.07244**	$ 0.01	21.93%	$ 68,673	$ 12,352
SC 1 HAMMONDSPORT											
FIRST 3 THM	11,200		0	11,200	$ 6.11	$ 22,811	**$ 12.55**	$ 6.44	105.40%	$ 46,853	$ 24,043
NEXT 47 THM	138,762		(7,212)	131,550	$ 0.23932	$ 31,483	**$ 0.33614**	$ 0.10	40.46%	$ 44,219	$ 12,737
OVER 50 THM	162,669		551	163,220	$ 0.14208	$ 23,190	**$ 0.19956**	$ 0.06	40.46%	$ 32,572	$ 9,382
						$ 77,484				$ 123,645	$ 46,161
SC 2 HAMMONDSPORT											
FIRST 3 THM	2,520		0	2,520	$ 5.93	$ 4,981	**$ 12.55**	$ 6.62	111.64%	$ 10,542	$ 5,561
NEXT 49.7 THM	106,176		(1,806)	104,370	$ 0.15262	$ 15,929	**$ 0.21436**	$ 0.06	40.45%	$ 22,373	$ 6,444
NEXT 14,500 THM	13,470		0	13,470	$ 0.11517	$ 1,551	**$ 0.16176**	$ 0.05	40.45%	$ 2,179	$ 628
OVER 15,000 THM	-		0	-	$ 0.10932	$ -	**$ 0.15355**	$ 0.04	40.46%	$ -	$ -
						$ 22,461				$ 35,094	$ 12,632
SC 4 HAMMONDSPORT TRANSPORTATION											
All THM	951,900		(24,100)	927,800	$ 0.100490	$ 93,235	**$ 0.12082**	$ 0.02	20.23%	$ 112,097	$ 18,862
SC 7 HAMMONDSPORT AGGREGATION											
FIRST 3 THM	1,190		0	1,190	$ 6.11	$ 2,424	**$ 12.55**	$ 6.44	105.40%	$ 4,978	$ 2,555
NEXT 47 THM	13,960		0	13,960	$ 0.23932	$ 3,341	**$ 0.33614**	$ 0.10	40.46%	$ 4,693	$ 1,352
OVER 50 THM	48,080		(1,690)	46,390	$ 0.14208	$ 6,591	**$ 0.19956**	$ 0.06	40.46%	$ 9,258	$ 2,666
						$ 12,356				$ 18,928	$ 6,573
					TOTAL CORNING	$ 6,040,349				$ 8,503,122	$ 2,462,773
					TOTAL BATH	$ 368,838				$ 444,412	$ 75,574
					TOTAL HAMMONSPORT	$ 205,535				$ 289,763	$ 84,228
					TOTAL DELIVERY REVENUES	$ 6,614,723				$ 9,237,297	**$ 2,622,575**
										TARGET	**$ 2,623,416**
										DELTA	**$ (841)**

CORNING SC 1 GENERAL SERVICE
BILL IMPACT ON AVERAGE RESIDENTIAL HEATING CUSTOMER

ANNUAL BILL

MONTH	CCF USAGE	CURRENT RATES	PROPOSED RATES	$ INCREASE	% INCREASE
JAN	236	$ 255.44	$ 276.85	$ 21.41	8.4%
FEB	204	$ 222.30	$ 241.74	$ 19.44	8.7%
MAR	195	$ 212.98	$ 231.86	$ 18.88	8.9%
APR	145	$ 161.20	$ 176.99	$ 15.80	9.8%
MAY	70	$ 83.53	$ 94.69	$ 11.17	13.4%
JUN	34	$ 44.82	$ 53.19	$ 8.37	18.7%
JUL	27	$ 36.95	$ 44.64	$ 7.69	20.8%
AUG	23	$ 32.45	$ 39.75	$ 7.30	22.5%
SEP	25	$ 34.70	$ 42.19	$ 7.49	21.6%
OCT	49	$ 61.69	$ 71.52	$ 9.84	15.9%
NOV	106	$ 120.81	$ 134.20	$ 13.39	11.1%
DEC	136	$ 151.88	$ 167.12	$ 15.24	10.0%
TOTAL	1250	$ 1,418.75	$ 1,574.76	$ 156.01	11.0%

MONTHLY BILL TABLE

BILL USAGE	CURRENT BILL	PROPOSED BILL	$ INCREASE	% INCREASE
0	$ 7.31	$ 12.66	$ 5.35	73.1%
2	$ 9.08	$ 14.42	$ 5.35	58.9%
3	$ 9.96	$ 15.31	$ 5.35	53.7%
5	$ 12.21	$ 17.75	$ 5.54	45.4%
10	$ 17.83	$ 23.86	$ 6.03	33.8%
20	$ 29.08	$ 36.08	$ 7.00	24.1%
40	$ 51.57	$ 60.53	$ 8.96	17.4%
47	$ 59.44	$ 69.08	$ 9.64	16.2%
50	$ 62.81	$ 72.75	$ 9.93	15.8%
75	$ 88.70	$ 100.18	$ 11.48	12.9%
100	$ 114.59	$ 127.61	$ 13.02	11.4%
150	$ 166.38	$ 182.48	$ 16.10	9.7%
200	$ 218.16	$ 237.35	$ 19.19	8.8%
250	$ 269.94	$ 292.22	$ 22.27	8.3%
300	$ 321.72	$ 347.08	$ 25.36	7.9%
400	$ 425.29	$ 456.82	$ 31.53	7.4%
500	$ 528.85	$ 566.55	$ 37.70	7.1%
750	$ 787.77	$ 840.89	$ 53.12	6.7%
1000	$ 1,046.68	$ 1,115.23	$ 68.55	6.5%

RATES

BLOCK		CURRENT RATES	PROPOSED RATES
FIRST	3 CCF	$ 7.25	$ 12.55
NEXT	47 CCF	$ 0.23932	$ 0.33614
OVER	50 CCF	$ 0.15122	$ 0.21240
GAC		$ 0.87570	$ 0.87570
TAX FACTOR		0.9915	0.9915

HAMMONDSPORT SC 1 RESIDENTIAL SERVICE
BILL IMPACT ON AVERAGE RESIDENTIAL HEATING CUSTOMER

ANNUAL BILL

MONTH	CCF USAGE	CURRENT RATES	PROPOSED RATES	$ INCREASE	% INCREASE
JAN	236	$ 255.36	$ 277.23	$ 21.87	8.6%
FEB	204	$ 222.14	$ 242.15	$ 20.01	9.0%
MAR	195	$ 212.80	$ 232.29	$ 19.49	9.2%
APR	145	$ 160.88	$ 177.48	$ 16.59	10.3%
MAY	70	$ 83.02	$ 95.26	$ 12.24	14.7%
JUN	34	$ 44.07	$ 53.59	$ 9.52	21.6%
JUL	27	$ 36.12	$ 44.96	$ 8.84	24.5%
AUG	23	$ 31.57	$ 40.02	$ 8.45	26.8%
SEP	25	$ 33.85	$ 42.49	$ 8.64	25.5%
OCT	49	$ 61.12	$ 72.10	$ 10.99	18.0%
NOV	106	$ 120.39	$ 134.72	$ 14.33	11.9%
DEC	136	$ 151.54	$ 167.61	$ 16.07	10.6%
TOTAL	1250	$ 1,412.86	$ 1,579.90	$ 167.04	11.8%

MONTHLY BILL TABLE

BILL USAGE	CURRENT BILL	PROPOSED BILL	$ INCREASE	% INCREASE
0	$ 6.16	$ 12.66	$ 6.49	105.4%
2	$ 7.95	$ 14.45	$ 6.49	81.7%
3	$ 8.85	$ 15.34	$ 6.49	73.4%
5	$ 11.12	$ 17.81	$ 6.69	60.2%
10	$ 16.80	$ 23.98	$ 7.18	42.7%
20	$ 28.16	$ 36.32	$ 8.15	29.0%
40	$ 50.89	$ 61.00	$ 10.11	19.9%
47	$ 58.84	$ 69.63	$ 10.79	18.3%
50	$ 62.25	$ 73.34	$ 11.08	17.8%
75	$ 88.21	$ 100.74	$ 12.53	14.2%
100	$ 114.16	$ 128.15	$ 13.98	12.2%
150	$ 166.08	$ 182.96	$ 16.88	10.2%
200	$ 217.99	$ 237.77	$ 19.78	9.1%
250	$ 269.90	$ 292.58	$ 22.68	8.4%
300	$ 321.81	$ 347.39	$ 25.58	7.9%
400	$ 425.63	$ 457.01	$ 31.37	7.4%
500	$ 529.46	$ 566.63	$ 37.17	7.0%
750	$ 789.01	$ 840.68	$ 51.66	6.5%
1000	$ 1,048.57	$ 1,114.73	$ 66.15	6.3%

RATES

BLOCK		CURRENT RATES	PROPOSED RATES
FIRST	3 CCF	$ 6.11	$ 12.55
NEXT	47 CCF	$ 0.23932	$ 0.33614
OVER	50 CCF	$ 0.14208	$ 0.19956
GAC		$ 0.88740	$ 0.88740
TAX FACTOR		0.9915	0.9915

CORNING NATURAL GAS CORPORATION

IMPACTS OF RATE INCREASE

		RATE INCREASE ORIGINAL REQUEST ($)	PERCENT ON DELIVERY (%)	PERCENT OVERALL (%)	RATE INCREASE JOINT PROPOSAL ($)	PERCENT ON DELIVERY (%)	PERCENT OVERALL (%)
CORNING							
SC 1 & 5	GENERAL	$ 1,878,620	57.9%	16.7%	$ 1,623,985	50.1%	14.5%
SC 14	AGGREGATION	$ 683,341	57.9%	57.9%	$ 566,519	48.0% [1]	48.0%
SC 6	TRANSPORTATION	$ 218,910	50.0%	50.0%	$ 76,227	20.2%	20.2%
SC 2	FIRM INDUSTRIAL SALES	$ 35,001	50.2%	50.2%	$ 25,978	20.2%	20.2%
SC 7	INDUSTRIAL TRANSPORTATION	$ 344,969	50.3%	50.3%	$ 170,063	20.2%	20.2%
BATH							
SC 1	FIRM SALES FOR RESALE	$ 107,081	50.3%	50.3%	$ 43,077	20.2%	20.2%
SC 2	TRANSPORTATION FOR RESALE	$ -	0.0%	0.0%	$ -	0.0%	0.0%
SC 3	HAMMONDSPORT - SALES FOR RESALE	$ 50,075	50.3%	50.3%	$ 20,144	20.2%	20.2%
SC 4	HAMMONDSPORT - TRANSPORTATION	$ 28,336	50.3%	50.3%	$ 12,352	21.9% [2]	21.9%
HAMMONDSPORT							
SC 1	RESIDENTIAL	$ 44,917	58.0%	16.5%	$ 46,161	59.6%	17.0%
SC 7	AGGREGATION	$ 7,158	57.9%	57.9%	$ 6,573	53.2%	53.2%
SC 2	COMMERCIAL	$ 13,018	58.0%	12.2%	$ 12,632	56.2%	11.8%
SC 4	TRANSPORTATION	$ 45,935	49.3%	49.3%	$ 18,862	20.2%	20.2%
TOTAL		**$ 3,457,362**	**54.0%**	**16.0%**	**$ 2,622,575**	**39.6%**	**11.8%**

NOTE:

[1] The percent on delivery increase does not match the percentage increase for SC 1 & 5. This is attributable to both rounding of the final rates and the rate design.

[2] The percent on delivery increase does not match the percentage increase for SC 1 & 3 because of the $0.05 historical difference carried forward in the rate design (see page 27).

JOINT PROPOSAL APPENDIX 5

JOINT PROPOSAL APPENDIX 5

REQUIRED ORDERING CLAUSES

Health and Safety Reporting

1. On or before the 10th day of each month, commencing with a report to be filed on or before July 15, 2006, Corning Natural Gas Corporation (Corning Gas) shall provide a Monthly Leak Repair Report to the Commission reporting on its activities during the preceding calendar month, and its cumulative activities. This requirement shall continue monthly until discontinued by the Commission. The monthly reports shall include a report of: (a) the percentage of the system leak-surveyed to date; (b) the percentage of bare steel pipe leak-surveyed to date; (c) all leaks discovered by type of leak; (d) the current leak backlog by type of leak; (e) all leak repairs completed by type of leak; (f) all bare steel pipe, both mains and services, eliminated during the month; (g) all bare steel pipe, both mains and services, eliminated during the calendar year to date; and (h) all exposures of the 1950's pipe with the apparent manufacturing defect, including a progress estimate of the nature and extent of the defect and data regarding leaks and removals of such 1950's pipe, where applicable.

2. On or before the 1st day of December each year, commencing with a report to be filed on or before December 1, 2006, Corning Gas shall provide an Annual Leak Survey Report to the Commission reporting on the completion of the leak survey cycle for the calendar year, including findings, recommendations, and a specific plan of action for Corning Gas in the next leak survey cycle. This requirement shall continue annually until discontinued by the Commission.

3. On or before the 1st day of November each year, commencing with a report to be filed on or before November 1,

2006, Corning Gas shall provide an Annual Cathodic Protection Program Report to the Commission reporting on the completion of cathodic protection measures for the preceding year ending September 30th. This requirement shall continue annually until discontinued by the Commission.

Gas Procurement and Capacity Asset Management

4. Corning Gas shall follow the Natural Gas Acquisition Strategy (NGAS) as specified in its Natural Gas Supply and Acquisition Plan, subject to the specific directives ordered by the Commission.

5. Commencing in June 2006, Corning Gas shall follow the non-discretionary purchase volume recommendations in its Natural Gas Supply and Acquisition Plan in order that non-discretionary volumes[1] are to be priced at fixed prices and purchased forward for a minimum of 12 months, as follows:

Date (No Later Than)	**Fixed-Price Volumes Locked-In**
June 1st	51%
September 1st	27%
November 1st	21%

The quantities applicable to this requirement shall be as set forth in "Chart 9 NGAS Volumes" in the Natural Gas Supply and Acquisition Plan. This requirement shall continue until discontinued by the Commission.

6. Commencing in June, 2006, Corning Gas shall follow the storage injection and storage withdrawal recommendations in its Natural Gas Supply and Acquisition Plan in order that monthly minimum storage inventory levels are maintained as of the last day of each calendar month, as follows:

[1] Non-discretionary volumes are defined as those volumes equal to 33% of flowing base gas supplies on a monthly basis. These volumes are used to derive the 19% fixed price hedge identified in the NGAS.

Month	Percent Full
June	44
July	56
August	68
September	80
October	90
November	80
December	60
January	40
February	20
March	No Target
April	20
May	32

This requirement shall continue monthly until discontinued by the Commission.

7. Corning Gas shall submit to Staff and Bath Electric, Gas and Water Services any changes, modifications or updates to its Natural Gas Supply and Acquisition Plan, as the plan specifies, by March 31st of each year, or in the event of a proposed transfer of ownership of the utility, by the purchaser as part of the petition for regulatory approval of the purchase. The required minimum fixed-price volumes locked-in and monthly minimum storage inventory levels set forth in Clauses "6" and "7" above will not be revised as a result of changes, modifications or updates to the Natural Gas Supply and Acquisition Plan, unless revisions are approved by Staff or the Commission.

8. Corning Gas shall follow the gas transportation rules, regulations and procedures as specified in its effective tariffs, PSC No.'s 2, 3 and 4, and in its Gas Transportation Operating Procedures Manual.

9. Corning Gas shall meet the monthly and quarterly reporting requirements related to gas procurement, capacity asset management and gas transportation management indicated in Appendix C.

10. Corning Gas shall maintain its capacity contracts and minimize its stranded capacity costs in a manner that is consistent with the following policy statement: Cases 93-G-0932 & 97-G-1380, Policy Statement Concerning the Future of the Natural Gas Industry in New York State and Order Terminating Capacity Assignment, (issued November 3, 1998), subject to the specific directives ordered by the Commission.

Accounting

11. Corning Gas shall daily report its cash balance to the Office of Accounting and Finance.

12. Corning Gas shall report monthly the reconciliation of the cash balance reported per books with the cash balance reported on the bank statements no later than 30 days after the monthly closing (the report shall include a copy of the bank statement, general ledger run for the cash account, and a list of outstanding checks).

13. Corning Gas shall provide a rolling 12-month cash flow forecast on a monthly basis, commencing June 2006, identifying cash receipts, cash disbursements, available sources of cash and assumptions utilized, to be provided no later than 30 days after the monthly closing to the Office of Accounting and Finance.

14. Commencing June 2006, Corning Gas shall provide to the Office of Accounting and Finance a monthly income statement and balance sheet no later than 30 days after the monthly closing.

15. Corning Gas shall file the following quarterly reports (submitted 45 days following the end of the quarter) to the Director of the Office of Accounting and Finance:

a) The General Ledger detailing the activity for each account. The General Ledger will be cumulative from the beginning of each

rate year and include balance sheet and income statement accounts;

b) A report on all long and short-term debt for both regulated and non-regulated entities of Corning Gas;

c) a report on common equity balances by component for both regulated and non-regulated activities; and

d) a report detailing investment activity, including buying and selling a non-utility business, in non-utility activities by Corning Gas.

16. On or before July 1, 2006, Corning Gas shall hire personnel to carry out the duties of the Treasurer position, which personnel shall report directly to the President or some other senior officer of Corning Gas other than the Chief Financial Officer or the individual serving as the Chief Financial Officer. Such separation between the personnel carrying out the duties of the Treasurer and the Chief Financial Officer or the individual serving as the Chief Financial Officer shall thereafter be permanently maintained.

17. Corning gas shall report to the Commission on potential opportunities to improve both its accounting and recordkeeping practices, by July 1 of each year.

18. Corning Gas shall reconcile monthly its accruals with the payments/refunds made to respective vendors.

19. Corning Gas shall reconcile the filed Federal Income Tax and New York State Income Tax returns with the amounts recorded on its books within 60 days of the filing of the returns.

20. Corning Gas shall abide by the Commission's policy concerning record retention (i.e., filed tax forms, contracts, bank statements, etc.).

21. Corning Gas shall explore opportunities for new lines of bank credit. Corning Gas shall communicate to the

Office of Accounting and Finance a summary or other verification of meetings with financial institutions on a monthly basis.

22. On or before July 1, 2006, Corning Gas shall prepare a succession plan for all key employee positions and file it with the Office of Accounting and Finance.

23. Use of the hypothetical capital structure for ratemaking purposes is solely premised upon several Corning Gas actions:

(a) Corning Gas shall in good faith endeavor to issue $1.5 million of common stock at such time Corning Gas reasonably determines favorable market conditions for issuance at a reasonable price exists, and shall consult with Staff on its progress to issue the stock at the 12 month point following implementation of the terms of the Joint Proposal.

(b) Corning Gas will not issue cash dividends or buy back stock, thereby reducing its retained earnings and negatively impacting its equity ratio, until its actual regulated capital structure supports an equity ratio of 70% debt-30% equity. If Corning Gas believes that it has reached an actual regulated capital structure of 70% debt-30% equity and plans to issue cash dividends or repurchase stock, it must notify the Director of the Office of Accounting and Finance and provide ten (10) business days for Staff to reply to the Company's position. If Corning Gas and Staff disagree as to the actual debt-equity ratio of the Company, Corning Gas must further refrain from issuing cash dividends and/or repurchasing stock for twenty (20) business days after it notifies the Director of Accounting and Finance.

(c) Because Corning Gas is receiving a rate increase, derived in part from the artificial capital structure, the officers will be held to a combined annual salary increase, including bonuses, of 3.55% of the previous year's salary and

bonus during the term of the rates established pursuant to the Joint Proposal, including any "Stayout" period. The 3.55% limit shall be calculated on an aggregate basis for all officers, so if the total salary and bonus for year one for the group of officers were $100,000, the year two salary and bonus amount could be up to $103,550. Notwithstanding the foregoing, bonuses to be paid out of earnings of the Appliance Corporation or its subsidiaries, which have already been approved by the Board of Directors, may be paid according to their terms. The payment of bonuses, however, by the Appliance Corporation or any of its subsidiaries shall not be included in meeting the allocations of cost to non-utility business functions.

(d) Corning Gas will be permitted to record the $139,345 to revenues so long as it reaches several milestones in working towards strengthening its financial position. The $139,345 shall be recorded by Corning Gas provided it demonstrates that actual average common equity has increased to the forecasted average balance of $5,191,069 in the rate year and increases annually on average by $519,107 beyond the rate year. These amounts are predicated upon the issuance of $1.5 million in common stock. If the annual average actual common equity balances are not achieved due to the Company's inability to issue $1.5 million in common stock, the threshold for booking the $139,345 revenues may be modified. Upon a demonstration by Corning Gas that circumstances beyond its control prevent it from reaching the average actual common equity balances, as stated herein, Staff and the Company will meet to discuss the extent and scope of the modification to the actual average common equity balances. If Corning Gas and Staff do not reach agreement on such modification within fifteen (15) business days after the Company's presentation as described above, then the matter shall be presented to the Commission.

(e) Corning Gas will file the following quarterly reports (submitted 45 days following the end of the quarter) to the Director of the Office of Accounting and Finance:

(i) The General Ledger detailing the activity for each account. The General Ledger will be cumulative from the beginning of each rate year and include balance sheet and income statement accounts.

(ii) A report of all long and short-term debt for both regulated and non-regulated entities of Corning gas.

(iii) A report on common equity balances by component for both regulated and non-regulated activities.

(iv) A report detailing investment activity, including buying and selling a non-utility business, in non-utility activities.

24. If, on or after June 1, 2006, Corning Gas shall be deficient in its management of the utility in the manner set forth in Appendix A, it shall book a regulatory liability for the benefit of ratepayers in the amount set forth in Appendix A. The measurement of deficiencies shall occur on an annual basis beginning June 1 of each year. The books and records of Corning Gas shall track and reflect potential regulatory liabilities as deficiencies occur. The final booking of regulatory liabilities shall occur by September 30th following the measurement year unless the Commission directs that they be booked earlier. Corning Gas may petition the Commission for relief from this requirement if one or more deficiencies occur due to significant natural disaster or other catastrophic event unrelated to management of the utility.

APPENDIX A

POTENTIAL MANAGEMENT DEFICIENCIES

1. Horizontal Axis

Health and Safety Reporting

A. Failure to timely file a sufficient Monthly Leak Repair Report (one deficiency per each occurrence, maximum 12 deficiencies per year).

B. Failure to timely file a sufficient Annual Leak Survey Report (one deficiency per each occurrence, maximum 1 deficiency per year).

C. Failure to timely file a sufficient Annual Cathodic Protection Program Report (one deficiency per each occurrence, maximum 1 deficiency per year).

Gas Procurement and Capacity Asset Management

D. Failure to timely lock-in the minimum fixed price volumes no later than June 1st, September 1st, or November 1st (one deficiency per each occurrence, maximum 3 deficiencies per year).

E. Failure to maintain the minimum gas storage inventory levels as of the end of a month (one deficiency per each occurrence, maximum 11 deficiencies per year).

F. Failure to timely file a sufficient monthly or quarterly report related to gas procurement, capacity asset management and gas transportation management indicated in Appendix C (one deficiency per each occurrence, maximum 12 deficiencies per year).

2. Vertical Axis

Accounting

A. Failure to timely file a sufficient daily cash balance report (one deficiency per each occurrence, maximum 365 deficiencies per year).

B. Failure to timely file a sufficient monthly reconciliation of the cash balance reported per books with the cash balance reported on the bank statements (one deficiency per each occurrence, maximum 12 deficiencies per year).

C. Failure to timely file a sufficient monthly rolling 12-month cash flow forecast (one deficiency per each occurrence, maximum 12 deficiencies per year).

D. Failure to timely file a sufficient monthly income statement and balance sheet (one deficiency per each occurrence, maximum 12 deficiencies per year).

E. Failure to timely file a sufficient quarterly report to the Director of the Office of Accounting and Finance (one deficiency per each occurrence, maximum 4 deficiencies per year).

F. Failure to hire personnel to carry out the duties of the Treasurer position on or before July 1, 2006, or failure after July 1, 2006 to maintain separation between the personnel carrying out the duties of the Treasurer and the Chief Financial Officer or the individual serving as the Chief Financial Officer (one deficiency per each occurrence, maximum 1 deficiency per year).

G. Failure to timely file a sufficient report on potential opportunities to improve both its accounting and recordkeeping practices (one deficiency per each occurrence, maximum 1 deficiency per year).

H. Failure to timely reconcile monthly its accruals with the payments/refunds made to respective vendors (one deficiency per each occurrence, maximum 12 deficiencies per year).

I. Failure to timely reconcile the filed Federal Income Tax and New York State Income Tax returns with the amounts recorded on its books (one deficiency per each occurrence, maximum 1 deficiency per year).

J. Failure to abide by the Commission's policy concerning record retention (i.e., filed tax forms, contracts, bank statements, etc.)(one deficiency per each occurrence, no maximum deficiencies per year).

K. Failure to communicate to the Office of Accounting and Finance a summary or other verification of meetings with financial institutions on a monthly basis (one deficiency per each occurrence, maximum 12 deficiencies per year).

L. Failure to timely file a sufficient succession plan for all key employee positions with the Office of Accounting and Finance (maximum 1 deficiency).

3. Calculation of Regulatory Liabilities

Matrix of Deficiencies
For Calculating Regulatory Liabilities

	0	1	2	3	4	5	6
0	$0	$64,000	$128,000	$192,000	$256,000	$320,000	$384,000
1	$9,000	$73,000	$137,000	$201,000	$265,000	$329,000	$393,000
2	$18,000	$82,000	$146,000	$210,000	$274,000	$338,000	$411,000
3	$27,000	$91,000	$155,000	$219,000	$283,000	$347,000	$411,000
4	$36,000	$100,000	$164,000	$228,000	$292,000	$356,000	$420,000
5	$45,000	$109,000	$173,000	$237,000	$301,000	$365,000	$429,000
6	$54,000	$118,000	$182,000	$246,000	$310,000	$374,000	$438,000
7	$63,000	$127,000	$191,000	$255,000	$319,000	$383,000	$447,000
8	$72,000	$136,000	$200,000	$264,000	$328,000	$392,000	$456,000
9	$81,000	$145,000	$209,000	$273,000	$337,000	$401,000	$465,000
10	$90,000	$154,000	$218,000	$282,000	$346,000	$410,000	$474,000
11	$99,000	$163,000	$227,000	$291,000	$355,000	$419,000	$483,000
12	$108,000	$172,000	$236,000	$300,000	$364,000	$428,000	$492,000
13	$117,000	$181,000	$245,000	$309,000	$373,000	$437,000	$501,000
14	$126,000	$190,000	$254,000	$318,000	$382,000	$446,000	$510,000
15	$135,000	$199,000	$263,000	$327,000	$391,000	$455,000	$519,000

Deficiencies shall be tallied for each measurement year. Deficiencies applicable to the horizontal axis shall be tallied to a maximum of six. Deficiencies applicable to the vertical axis shall be tallied to a maximum of fifteen. The amount of the regulatory liability applicable to the measurement year shall be taken from the above table by using the column and row corresponding respectively to the horizontal axis tally and the vertical axis tally for the measurement year. If, by July 1, 2006, Corning Gas enters into an agreement with a qualified outside operator to perform the gas procurement and asset management functions of the utility in a manner acceptable to Staff or the Commission, the maximum number of deficiencies

tallied applicable to the horizontal axis shall be reduced by two for the period of time such agreement is in effect. If, by June 1, 2006, Corning Gas issues a request for proposals for the sale of the utility in a manner acceptable to Staff or the Commission, and in substantial conformance with Appendix B, the maximum number of deficiencies tallied applicable to the horizontal axis shall be reduced by two for the measurement year June 1, 2006 through May 31, 2007. If, by July 1, 2006, Corning Gas enters into an agreement with a qualified outside operator to perform the accounting functions of the utility in a manner acceptable to Staff or the Commission, the maximum number of deficiencies tallied applicable to the vertical axis shall be reduced by five for the period of time such agreement is in effect.

APPENDIX B

CRITERIA TO BE ADDRESSED IN A SALE

If Corning Gas issues an RFP or enters into a purchase agreement to sell the utility or its assets, the following criteria should be addressed:

1. The Purchaser's financial condition and capital structure following the sale.
2. The Purchaser's degree of access to the financial markets.
3. The Purchaser's plan to improve accounting and recordkeeping procedures.
4. The Purchaser's plan to improve gas plant infrastructure.
5. The Purchaser's plan to address gas safety concerns.
6. The Purchaser's planned gas procurement practices; addressing gas storage, hedging and flowing gas purchases.
7. The Purchaser's planned capacity asset management practices.
8. The forecasted synergy savings.
9. The Purchaser's planned treatment of affiliates, including all Corning Gas subsidiaries.
10. The impact on gas rates and customers.

APPENDIX C

Communication Protocol for Asset Management, Natural Gas Procurement and Transportation Balancing

Corning Natural Gas Corporation ("Corning" or "Company") will provide to Staff of the Office of Gas and Water, Department of Public Service ("DPS") and Bath Electric, Gas & Water Systems ("Bath"), the following information by the end of the first week of each calendar month and/or quarter, as specified below. Reports will be considered late if not received or if incomplete on the 20th of each month. Follow-up discussion/meetings may ensue if deemed necessary by any party.

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

Monthly Basis

1. The status of storage injections and withdrawals as of the first of the month (i.e., actual versus target figures), for DTI and TCO storage contracts. If the actual figure for either storage contract is lower than the minimum target, the reason(s) for such difference will be provided, along with the Company's plan to reduce the difference. If Corning has excess storage capacity (e.g., due to the migration of customers from sales to transportation service), it will describe how it currently is mitigating, or plans to mitigate, the cost of such excess.

2. A detailed description (i.e., a discussion with sufficient specificity to convey all material points and such other facts as may be reasonably viewed as necessary to understanding the transaction in question) of any transportation or storage capacity assignments, off-system sales, packaged sales or streaming transactions. A detailed account of gas-portfolio-related agreements that the Company has executed, with other parties.

3. A detailed description of any agency, gas procurement, or asset management agreements the Company is contemplating (for purposes of this Agreement contemplating means giving such a degree of consideration that a substantial possibility exists that the Company would enter such an Agreement) entering into, with other parties or has executed since the last monthly report.

4. The status and results of all gas procurement activities for each month.

5. The status and related data of transportation balancing performance at both the city-gate and burner-tip for all transportation customers, where possible. This should include but not be limited to nominations, actual city-gate receipts, and actual usage.

6. A list of issues of concern to the Company regarding its Customers and/or the natural gas industry.

Quarterly Basis

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

2. The status of retail access customer migration to transportation.

3. A comparison of Corning's gas procurement activity to NYMEX settlement prices for each month.

4. Charts and tables indicating the daily actual storage inventory versus minimum target inventory.

5. The Quarterly Capacity Release, Off-System Sales and Streaming transaction Report.

JOINT PROPOSAL APPENDIX 6

Corning Natural Gas Corporation
Income Statement and Rate of Return Calculation
With Prudence Adjustment
For the Rate Year Ended September 30, 2007

	1 Rate year Per Company	2 Adj #	3 Staff Adjustments	4 As Adjusted By Staff	5 Adj #	6 Negotiated Adjustments	7 As Adjusted Negotiated	8 Revenue Requirement	9 As Finally Adjusted
Operating Revenues	$ 21,561,888	(1)	$ 602,504	$ 22,164,392	(A)	$ (138,388)	$ 22,026,004	$ 2,347,129	$ 24,373,133
Operating Expenses									
Purchased Gas	14,562,437			14,562,437			14,562,437		14,562,437
Operating & Maintenance Expense	6,261,931	(2)	(293,481)	5,968,450	(B)	(42,813)	5,925,637	23,471	5,949,108
Depreciation Expense	652,349	(3)	3,427	655,776			655,776		655,776
Taxes Other Then FIT	1,401,811	(4)	(12,230)	1,389,581	(C)	22,410	1,411,991	21,124	1,433,115
Total Operating Expense	22,878,528		(302,284)	22,576,244		(20,403)	22,555,841	44,595	22,600,436
Operating Income Before SIT	(1,316,640)		904,788	(411,852)		(117,985)	(529,837)	2,302,534	1,772,696
State Income Taxes									
Current	(110,260)		74,560	(35,700)	(D)	(27,161)	(62,861)	172,690	109,829
Deferred	(62,598)		656	(61,942)		21,260	(40,682)	-	(40,682)
Total State Income Taxes	(172,858)	(5)	75,216	(97,642)		(5,901)	(103,543)	172,690	219,658
Operating Income Taxes Before FIT	(1,143,782)		829,572	(314,210)		(112,084)	(426,294)	2,129,844	1,553,038
Federal Income Taxes									
Current	(462,355)		312,656	(149,699)	(E)	(113,898)	(263,597)	724,147	460,550
Deferred	(283,777)		2,975	(280,802)		96,380	(184,422)	-	(184,422)
Total Federal Income Taxes	(746,132)	(6)	315,631	(430,501)		(17,518)	(448,019)	724,147	276,128
Operating Income	$ (397,650)		$ 513,941	$ 116,291		$ (94,566)	$ 21,725	$ 1,405,697	$ 1,427,422
Rate Base	$ 19,990,456	(7)	$ (1,872,503)	$ 18,117,953		$ (752,719)	$ 17,365,234		$ 17,365,234
Rate of Return	-1.99%			0.64%					8.22%

This Revenue Requirement of $2,347,129 reflects a $1.4 million prudence adjustment and an annual amortization of Deferred Allocation Costs of $245,899 over a five year period.

Corning Natural Gas Corp
Detail of Operating and Maintenance Expenses
For the Rate Year ended September 30, 2007

Operating Expenses	Rate Year 09/30/07	Adj #	Staff Adjustment	As Adjusted By Staff	As Negotiated	Negotiated Totals
Direct Labor	$ 1,804,469	2 A	$ (220,340)	$ 1,584,129	266,816	$ 1,850,945
Vacation Accrual	162,946			162,946		162,946
Insurance Costs	934,259			934,259		934,259
Regulatory Costs	90,166			90,166		90,166
Pensions and OPEBS	1,390,288			1,390,288		1,390,288
Uncollectible Accounts	220,674			220,674	9,050	229,724
Building Services	123,319			123,319		123,319
Transportation	208,636			208,636		208,636
Outside Services	199,497			199,497		199,497
EDP/Work and Computer Equipment	23,120			23,120		23,120
Deferred Appliance Costs	525,899			525,899	(280,000)	245,899
Other O& M Costs	578,658			578,658	(26,311)	552,347
Productivity Adjustment	-	2 B	(73,141)	(73,141)	(12,368)	(85,509)
	$ 6,261,931		$ (293,481)	$ 5,968,450	$ (42,813)	$ 5,925,637

Corning Natural Gas Corporation
Detail of Taxes Other then Income Tax
For the Rate Year Ended September 30, 2007

	Rate Year Per Company	Staff Adjustment	As Adjusted By Staff	As Negotiated	Negotiated Total	Revenue Requirement	Final Adjusted
Property Tax	$ 950,271	$ -	$ 950,271	$ -	$ 950,271	$ -	$ 950,271
Payroll Taxes	152,353	(19,478)	$ 132,875	$ 23,586	$ 156,461	$ -	$ 156,461
Revenue Taxes	13,042	7,248	$ 20,290	$ (1,176)	$ 19,114	$ 21,124	$ 40,238
Other Taxes	286,145	-	$ 286,145	$ -	$ 286,145	$ -	$ 286,145
Total Taxes Other Than Income Taxes	$ 1,401,811	$ (12,230)	$ 1,389,581	$ 22,410	$ 1,411,991	$ 21,124	$ 1,433,115

Corning Natural Gas Corp
Detail of New York State Tax Expense
For the Rate Year ended September 30, 2007

	Rate Year Per Company	Adj #	Staff Adjustments	Staff As Adjusted	As Negotiated	Total Negotiated
Operating Income Before Taxes and Fixed Charges	$ (1,316,640)		$ 904,788	$ (411,852)	(117,985)	$ (529,837)
Interest Expense	1,043,865	8 A	(98,099)	945,766	(39,301)	906,465
Disallowed Meal Allowance	3,000			3,000		3,000
Class Life Depreciation	71,400			71,400		71,400
Employee Life Insurance	(16,685)			(16,685)		(16,685)
Deferred Compensation Payments	(1,974)		-	(1,974)	-	(1,974)
Total Differences and Flow Through Items	55,741		-	55,741	-	55,741
ADR Normalized	22,185			22,185		22,185
ACRS Normalized	(515,480)	8 B	(8,750)	(524,230)		(524,230)
Rateable Pension Expense	375,361			375,361		375,361
Deferred Interest	12,585			12,585		12,585
Deferred Uncollectible Expense	12,867			12,867		12,867
Deferred Uncollectible Costs 9/03	16,033			16,033		16,033
Deferred Rate Case Reopener Expense	204,352			204,352		204,352
Deferred Appliance Corp Allocation Expense	525,900			525,900	(280,000)	245,900
Pension Restoration Case 02-G-0003	10,310			10,310		10,310
OPEB Restoration Case 02-G-0003	19,698			19,698		19,698
Deferred Uncollectible Costs-2005	24,314			24,314		24,314
Rate Case Costs-2005	60,000			60,000		60,000
NYS Franchise Tax	(58,090)			(58,090)		(58,090)
Deferred Insurance Expense	12,585			12,585		12,585
Prior Year Incentive					(3,470)	(3,470)
Section 263A Adjustment	112,017		-	112,017	-	112,017
Total Timing Differences	834,637		(8,750)	825,887	(283,470)	$ 542,417

Corning Natural Gas Corp
Detail of New York State Tax Expense
For the Rate Year ended September 30, 2007

	Rate Year Per Company	Adj #	Staff Adjustments	Staff As Adjusted	As Negotiated	Total Negotiated
Tax Income	$ (1,470,127)		$ 994,137	$ (475,990)	(362,154)	$ (838,144)
Rate	7.50%		7.50%	7.50%	7.50%	7.50%
Current SIT	(110,260)	5 A	74,560	(35,700)	(27,161)	(62,861)
ADR Normalized	(1,664)			(1,664)		(1,664)
ACRS Normalized	38,661	5 B	656	39,317		39,317
Rateable Pension Expense	(28,152)			(28,152)		(28,152)
Deferred Interest	(944)			(944)		(944)
Deferred Uncollectible Expense	(965)			(965)		(965)
Deferred Uncollectible Costs 9/03	(1,203)			(1,203)		(1,203)
Deferred Rate Case Reopener Expense	(15,327)			(15,327)		(15,327)
Deferred Appliance Corp Allocation Expense	(39,443)			(39,443)	21000	(18,443)
Pension Restoration Case 02-G-0003	(773)			(773)		(773)
OPEB Restoration Case 02-G-0003	(1,477)			(1,477)		(1,477)
Deferred Uncollectible Costs-2005	(1,824)			(1,824)		(1,824)
Rate Case Costs-2005	(4,500)			(4,500)		(4,500)
NYS Franchise Tax	4,358			4,358		4,358
Deferred Insurance Expense	(944)			(944)		(944)
Prior Year Incentive					260	260
Section 263A Adjustment	(8,401)		-	(8,401)	-	(8,401)
Total Deferred SIT	$ (62,598)		$ 656	$ (61,942)	$ 21,260	$ (40,682)

Corning Natural Gas Corp
Detail of Federal Tax Expense
For the Rate Year ended September 30, 2007

	Rate Year Per Company	Adj #	Staff Adjustments	Staff As Adjusted	As Negotiated	Total Negotiated
Operating Income Before Taxes and Fixed Charges	$ (1,316,640)		$ 904,788	$ (411,852)	(117,985)	$ (529,837)
Interest Expense	1,043,865	8 A	(98,099)	945,766	(39,301)	906,465
Disallowed Meal Allowance	3,000			3,000		3,000
Class Life Depreciation	71,400			71,400		71,400
Employee Life Insurance	(16,685)			(16,685)		(16,685)
Deferred Compensation Payments	(1,974)		-	(1,974)	-	(1,974)
Total Permanent Differences and Flow Thru Items	55,741		-	55,741	-	55,741
ADR Normalized	22,185			22,185		22,185
ACRS Normalized	(515,480)	8 B	(8,750)	(524,230)		(524,230)
Rateable Pension Expense	375,361			375,361		375,361
Deferred Interest	12,585			12,585		12,585
Deferred Uncollectible Expense	12,867			12,867		12,867
Deferred Uncollectible Costs 9/03	16,033			16,033		16,033
Deferred Rate Case Reopener Expense	204,352			204,352		204,352
Deferred Appliance Corp Allocation Expense	525,900			525,900	(280,000)	245,900
Pension Restoration Case 02-G-0003	10,310			10,310		10,310
OPEB Restoration Case 02-G-0003	19,697			19,697		19,697
Deferred Uncollectible Costs-2005	24,314			24,314		24,314
Rate Case Costs-2005	60,000			60,000		60,000
NYS Franchise Tax	(58,090)			(58,090)		(58,090)
Deferred Insurance Expense	12,585			12,585		12,585
Prior Year Incentive					$ (3,470)	$ (3,470)
Section 263A Adjustment	112,017		-	112,017	-	112,017
	$ 834,636		$ (8,750)	$ 825,886	$ (283,470)	$ 542,416

Corning Natural Gas Corp
Detail of Federal Tax Expense
For the Rate Year ended September 30, 2007

	Rate Year Per Company	Adj #	Staff Adjustments	Staff As Adjusted	As Negotiated	Total Negotiated
SIT Current	$ (110,260)		$ 74,560	$ (35,700)	(27,161)	$ (62,861)
Tax Income	(1,359,867)		919,577	(440,291)	(334,993)	(775,284)
Rate	34.00%		34.00%	34.00%	34.00%	34.00%
Current FIT	(462,355)	6 A	312,656	(149,699)	(113,898)	(263,597)
ADR Normalized	(7,543)			(7,543)		(7,543)
ACRS Normalized	175,263	6 B	2,975	178,238		178,238
Rateable Pension Expense	(127,623)			(127,623)		(127,623)
Deferred Interest	(4,279)			(4,279)		(4,279)
Deferred Uncollectible Expense	(4,375)			(4,375)		(4,375)
Deferred Uncollectible Costs 9/03	(5,451)			(5,451)		(5,451)
Deferred Rate Case Reopener Expense	(69,480)			(69,480)		(69,480)
Deferred Appliance Corp Allocation Expense	(178,806)			(178,806)	95200	(83,606)
Pension Restoration Case 02-G-0003	(3,506)			(3,506)		(3,506)
OPEB Restoration Case 02-G-0003	(6,697)			(6,697)		(6,697)
Deferred Uncollectible Costs-2005	(8,267)			(8,267)		(8,267)
Rate Case Costs-2005	(20,400)			(20,400)		(20,400)
NYS Franchise Tax	19,751			19,751		19,751
Deferred Insurance Expense	(4,279)			(4,279)		(4,279)
Prior Year Incentive					1,180	1180
Section 263A Adjustment	(38,085)		-	(38,085)	-	(38,085)
Total Deferred FIT	$ (283,777)		$ 2,975	$ (280,802)	$ 96,380	$ (184,422)

Corning Natural Gas Corp
Calculation of Interest Deduction
For the Rate Year ended September 30, 2007

	Rate Year Per Company	Staff Adjustment	As Adjusted By Staff	As Negotiated	Total Negotiated
Rate Base	$ 19,990,456	$ (1,872,503)	$ 18,117,953	(752,719)	$ 17,365,234
Add: Interest Bearing CWIP	-	-	-		
Total Debt Base	19,990,456	(1,872,503)	18,117,953	(752,719)	17,365,234
Debt Component of Capitalization	5.22%	5.22%	5.22%	5.22%	5.22%
Total Interest	$ 1,043,856	$ (98,099)	$ 945,766	$ (39,301)	$ 906,465

Corning Natural Gas Corporation
Rate Base
For the Rate Year Ended September 30, 2007

	Rate Year Per Company		Staff Adjustments	As Adjusted by Staff	As Negotiated	Negotiated Total
Plant in Service	28,026,443	7 A	133,570	28,160,013		28,160,013
Non-Interest Bearing CWIP	313,354			313,354		313,354
Depreciation reserve	(11,197,403)	7 B	(1,148)	(11,198,551)		(11,198,551)
New Plant Dedicated to Appliance Corp	(995,372)		-	(995,372)	-	(995,372)
NET PLANT	16,147,022		132,422	16,279,444	-	16,279,444
Gas Stored Underground	1,966,424	7 C	(1,966,424)	-		-
Material and Supplies	246,478			246,478		246,478
Prepayments	651,458			651,458		651,458
Cash Working Capital	755,157	7 D	(36,685)	718,472	(6,483)	711,989
Deferred Debits	4,667,584			4,667,584	(1,260,000)	3,407,584
Deferred Credits	(11,502)			(11,502)	(15,617)	(27,119)
Unamortized Debt Discount & Expense	218,198			218,198		218,198
Deferred Taxes				-		-
Accumulate Deferred ITC	-			-		-
Accelerated Depreciation - Def SIT	(468,896)	7 E	(328)	(469,224)		(469,224)
Accelerated Depreciation - Def FIT	(2,125,663)	7 F	(1,488)	(2,127,151)		(2,127,151)
Def SIT - Deferral Debits	(350,069)			(350,069)	94,500	(255,569)
Def SIT - Deferral Credits	863			863	1,171	2,034
Def FIT - Deferral Debits	(1,586,979)			(1,586,979)	428,400	(1,158,579)
Def FIT - Deferral Credits	3,911		-	3,911	5,310	9,221
TOTAL DEFERRED TAXES	(4,526,833)		(1,816)	(4,528,649)	529,381	(3,999,268)
Earnings Based Capitalization Adjustment	(123,530)			(123,530)		(123,530)
Rate Base	19,990,456		(1,872,503)	18,117,953	(752,719)	17,365,234

Corning Natural Gas Corporation
Calculation of Cash Working Capital
For the Rate Year Ended September 30, 2007

	12 months Ended September 2007	Staff Adjustment	As Adjusted By Staff	Negotiated Adjustment	As Negotiated
O&M Expense	$ 20,824,368	$ (293,481)	$ 20,530,887	$ (42,813)	$ 20,488,074
Deduct					
Cost of Purchased Gas	14,562,437		14,562,437		14,562,437
Uncollectibles	220,674		220,674	9,050	229,724
	14,783,111		14,783,111	9,050	14,792,161
Balance	6,041,257	(293,481)	5,747,776	(51,863)	5,695,913
Cash Working Capital Allowance @ 1/8	0.1250	0.1250	0.1250	0.1250	0.1250
Cash Working Capital Allow	$ 755,157	$ (36,685)	$ 718,472	$ (6,483)	$ 711,989

Corning Natural Gas Corporation
Consolidated and Hypothetical Capital Structure

	TOTAL	DEREGULATED	REGULATED
Long-Term Debt			
Parent	$ 9,400,000		
Subsidiary	369,653		
	9,769,653	$ 878,961	8,890,692
Short-term Debt			
Parent	5,092,708		
Subsidiary to Parent	241,748		
	5,334,456	479,933	4,854,523
Total debt	15,104,109	1,358,894	13,745,215
Deferred Compensation	39,047		39,047
Customer Deposits	248,946		248,946
Common Equity	6,942,321	2,038,341	4,903,980
Total	$ 22,334,423	$ 3,397,235	$18,937,188

	Amount	Structure	Cost Rate	Weighted Average
Long-Term Debt	$ 13,745,215	72.58%	7.56%	5.49%
Deferred Compensation	39,047	0.21%	4.21%	0.01%
Customer Deposit	248,946	1.31%	3.00%	0.04%
Common Equity	4,903,980	25.90%	10.00%	2.59%
	$ 18,937,188	100.00%		8.13%

Debt Cost	Amount	Structure	Cost Rate	Weighted Average
Regulated				
Long-Term Debt	8,890,692	64.68%	8.56%	5.54%
Short-Term Debt	4,854,523	35.32%	5.73%	2.02%
	13,745,215	100.00%		7.56%

Regulated Capital Structure 70% - 30%

Long-Term Debt	$ 12,394,492
Deferred Compensation	39,859
Customer Deposits	248,216
Common Equity	5,435,386
	$ 18,117,953

	Amount	Structure	Cost Rate	Weighted Average
Long-Term Debt	$ 12,394,492	68.41%	7.56%	5.17%
Deferred Compensation	39,859	0.22%	4.21%	0.01%
Customer Deposits	248,216	1.37%	3.00%	0.04%
Common Equity	5,435,386	30.00%	10.00%	3.00%
	$ 18,117,953	100.00%		8.22%

Corning Natural Gas Corporation
Consolidated and Hypothetical Capital Structure

	TOTAL	DEREGULATED	REGULATED
Long-Term Debt			
Parent	$ 9,400,000		
Subsidiary	369,653		
	9,769,653	$ 878,961	8,890,692
Short-term Debt			
Parent	5,092,708		
Subsidiary to Parent	241,748		
	5,334,456	479,933	4,854,523
Total debt	15,104,109	1,358,894	13,745,215
Deferred Compensation	39,047		39,047
Customer Deposits	248,946		248,946
Common Equity	6,942,321	2,038,341	4,903,980
Total	$ 22,334,423	$ 3,397,235	$18,937,188

	Amount	Structure	Cost Rate	Weighted Average
Long-Term Debt	$ 13,745,215	72.58%	7.56%	5.49%
Deferred Compensation	39,047	0.21%	4.21%	0.01%
Customer Deposit	248,946	1.31%	3.00%	0.04%
Common Equity	4,903,980	25.90%	10.00%	2.59%
	$ 18,937,188	100.00%		8.13%

Debt Cost	Amount	Structure	Cost Rate	Weighted Average
Regulated				
Long-Term Debt	8,890,692	64.68%	8.56%	5.54%
Short-Term Debt	4,854,523	35.32%	5.73%	2.02%
	13,745,215	100.00%		7.56%

Regulated Capital Structure 70% - 30%

Long-Term Debt	$ 11,879,557
Deferred Compensation	38,204
Customer Deposits	237,904
Common Equity	5,209,570
	$ 17,365,234

	Amount	Structure	Cost Rate	Weighted Average
Long-Term Debt	$ 11,879,557	68.41%	7.56%	5.17%
Deferred Compensation	38,204	0.22%	4.21%	0.01%
Customer Deposits	237,904	1.37%	3.00%	0.04%
Common Equity	5,209,570	30.00%	10.00%	3.00%
	$ 17,365,234	100.00%		8.22%

Corning Natural Gas Corp
Detail of Adjustments
For the Rate Year ended September 30, 2007

	ADJUSTMENTS	Witness	Amount
	REVENUES		
1	A. Tariff Revenue customer forecast usage	Gas Rates Panel	$ 236,723
	B. Tariff revenue Dresser Rand	Gas Rates Panel	(24,873)
	C. GAC revenue	Gas Rates Panel	390,654
	TOTAL REVENUE ADJUSTMENT		602,504
	OPERATIONS AND MAINTENANCE EXPENSE		
2	A. Payroll - removal positions	Acct Rates Panel	(220,340)
	B. Productivity Adjustment	Acct Rates Panel	(73,141)
	TOTAL O&M ADJUSTMENT		(293,481)
3	Depreciation Expense - on plant additions	Acct Rates Panel	3,427
4	Taxes Other Then FIT		
	A. Revenue Taxes	Acct Rates Panel	7,248
	B. Payroll taxes related to lowering labor expense	Acct Rates Panel	(19,478)
	TOTAL OTHER THEN FIT TAX ADJUSTMENT		(12,230)
5	STATE INCOME TAX		
	A. Current Tax	Acct Rates Panel	74,560
	B. Deferred Tax	Acct Rates Panel	656
	TOTAL STATE INCOME TAX ADJUSTMENT		75,216
6	FEDERAL INCOME TAX EXPENSE		
	A. Current Tax	Acct Rates Panel	312,656
	B. Deferred Tax	Acct Rates Panel	2,975
	TOTAL FEDERAL INCOME TAX ADJUSTMENT		315,631
7	RATE BASE		
	A. Plant Additions	Safety Panel	133,570
	B. Depreciation Reserve	Safety Panel	(1,148)
	C. Gas Storage	Gas Rates Panel	(1,966,424)
	D. Working Capital	Acct Rates Panel	(36,685)
	E. Accum Def SIT - Tax Depreciation	Acct Rates Panel	(328)
	F. Accum Def FIR - Tax Depreciation	Acct Rates Panel	(1,488)
	TOTAL RATE BASE ADJUSTMENTS		(1,872,503)
8	SIT and FIT CALCULATION ADJUSTMENT		
	A. Interest Expense	Acct Rates Panel	98,099
	B. Accelerated Tax Depreciation	Acct Rates Panel	8,750
	TOTAL SIT AND FIT CALCULATION ADJUSTMENT		$ 106,849

Corning Natural Gas Corp
Detail of Adjustments
For the Rate Year ended September 30, 2007

ADJUSTMENTS AS NEGOTIATED		Witness	Amount
	REVENUES		
A.	GAC revenue		$ (138,388)
	TOTAL REVENUE ADJUSTMENT		(138,388)
B.	OPERATIONS AND MAINTENANCE EXPENSE		
	1. Payroll - Correct Active Employee Count		266,816
	2. Uncollectible Expenses		9,050
	3. Productivity Adjustment		(12,368)
	4. Other O&M Costs		(26,311)
	5. Decreased Deferred Appliance Costs Amortization for Purdence		(280,000)
	TOTAL O&M ADJUSTMENT		(42,813)
C.	Taxes Other Then FIT		
	1. Revenue Taxes		(1,176)
	2. Payroll taxes related to increasing labor expense		23,586
	TOTAL OTHER THEN FIT TAX ADJUSTMENT		22,410
D.	STATE INCOME TAX		
	Current Tax		(27,161)
	Deferred Tax		21,260
	TOTAL STATE INCOME TAX ADJUSTMENT		(5,901)
E.	FEDERAL INCOME TAX EXPENSE		
	Current Tax		(113,898)
	Deferred Tax		96,380
	TOTAL FEDERAL INCOME TAX ADJUSTMENT		(17,518)
F.	RATE BASE		
	1. Reduce Working Capital		(6,483)
	2. Reduce Deferred Appliance Costs		(1,260,000)
	3. Increase Deferred Credits for Prior Period Incentive		(15,617)
	4. Reduce Def SIT - Deferred Debits		94,500
	5. Increase Def SIT - Deferred Credits		1,171
	6. Reduce Def SIT - Deferred Credits		428,400
	7. Increase Def FIT - Deferred Credits		5,310
	TOTAL RATE BASE ADJUSTMENTS		(752,719)
	SIT and FIT CALCULATION ADJUSTMENT		
	Interest Expense		(39,301)
	TOTAL SIT AND FIT CALCULATION ADJUSTMENT		$ (39,301)