BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

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In the Matter of

Central Hudson Gas & Electric Corporation

Cases 09-E-0588 & 09-G-0589

November 2009

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Prepared Testimony of:
Electric Infrastructure Panel

John J. Quackenbush III
Utility Engineer 1

Karl F. Roenick
Utility Engineer 2

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Utility Engineer 3

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State of New York
Department of Public Service
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Albany, New York 12223-1350

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

A. Vijay Puran, John J. Quackenbush III, and Karl F. Roenick. We are all employed by the New York State Department of Public Service (Department) and are located at Three Empire State Plaza, Albany, New York 12223-1350.

Q. Mr. Puran, what is your current position?

A. I am a Utility Engineer 3 in the Office of Electric, Gas and Water.

Q. Please summarize your educational background and professional experience.

A. I graduated from the University of Guyana in October 1987 with a Bachelor of Engineering Degree in Electrical Engineering. In February 1993, I graduated from the City College of New York with a Master of Engineering Degree in Electrical Engineering. I received a Master of Public Administration Degree from the Nelson A. Rockefeller College, University at Albany, in December 2001. I accepted employment with the Department of Public Service in November 1994. My duties include the technical analysis of

utility rate filings, focusing on capital projects and budgets. I have worked in the Department's Electric Rates section and currently work in the Bulk Electric System section.

Q. Have you previously testified before the Commission?

A. Yes, I have testified in Cases 02-E-0198, 02-E-0551, 03-E-0765 and Central Hudson Gas and Electric Corporation's (Central Hudson or the Company) last electric rate proceeding, Case 08-E-0887.

Q. Mr. Roenick, what is your position with the Department?

A. I am employed as a Utility Engineer 2 in the Office of Electric, Gas, and Water.

Q. Please summarize your educational background and professional experience.

A. I graduated from the Polytechnic Institute of Brooklyn in 1973 with a Bachelor of Science degree in Mechanical Engineering. After a two-year tour in the US Army, I worked as a project planner for several power plant projects. In

1984, I joined the Department to monitor construction of the Nine Mile Point 2 Nuclear Plant. I have worked in several areas while at the Department and have spent most of my time in the electric distribution area.

Q. Have you previously testified before the Commission?

A. Yes. I have testified in a number of proceedings, including the last Central Hudson rate proceeding, Case 08-E-0887.

Q. Mr. Quackenbush, what is your position at the Department?

A. I am a Utility Engineer 1 in the Office of Electric, Gas, and Water.

Q. Please summarize your educational background and professional experience.

A. I attended Hudson Valley Community College in Troy, New York and received an Associate in General Studies degree, as well as an Associate in Applied Science degree in civil engineering technology. Thereafter, I continued my education at the State University of New York Institute of Technology (SUNYIT) in Utica, New

York and graduated with a Bachelor of Science degree in civil engineering technology. I was employed by Clough, Harbour, & Associates LLP as a Drafting & Design Technician from 2000 until November 2006. During this time, I was a member of the Wireless, Transportation, and Facility Services departments. In February 2007, I joined the Staff of the Electric Distribution Section in the Office of Electric, Gas, and Water where I have performed electric utility inspections to assess infrastructure conditions, investigated various electric utility customer reliability complaints, and reviewed utility reliability reports.

Q. Have you previously testified before the Commission?

A. Yes. I testified in Case 08-E-0887, Central Hudson's last electric rate case, as well as Case 09-E-0428, the Consolidated Edison Company of New York, Inc. electric rate proceeding.

Q. What is the purpose of the Panel's testimony?

A. The purpose of our testimony is to provide findings from our review of the projects Central

Hudson has included in its electric and common capital budget for the calendar years 2010 through 2013 for electric production, transmission, substation, distribution, and common facilities. Additionally, we will discuss our findings concerning the Company's electric Operations and Maintenance (O&M) programs and projects. We are recommending adjustments which cumulatively reduce the Company's rate year T&D plant in service. We are also recommending adjustments to the Company's proposed rate year transmission and distribution (T&D) O&M expense levels.

Q. How will you address the Company's capital projects and O&M expense programs in this testimony?

A. First, we will summarize the Company's overall capital and common budget and our proposed adjustments. Second, we will describe the Company's major capital programs. We will then discuss the Company's O&M programs and our proposed adjustments. Thereafter, we will provide an explanation of our proposed net plant

cap and downward reconciliation. Last, we will discuss our proposal regarding the Company's proposed Smart Grid Initiative.

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

A. Yes, we will refer to, and have relied upon, several responses to Department of Public Service Staff (DPS) Interrogatory Requests (IR). These responses are contained within Exhibit__ (EIP-1).

Q. Will any other exhibits be provided with your testimony?

A. Yes. We have also provided Exhibit___(EIP-2) entitled "Staff Estimated Average Net Plant, Twelve Month Average." This exhibit contains our electric net plant forecast for the rate year ending June 30, 2011 and for the rate years ending June 30, 2012 and June 30, 2013. We have also provided Exhibit___(EIP-3) entitled "Electric Plant Target Summary." This exhibit describes the calculation of the electric plant target for the rate year ending June 30, 2011.

Q. Please summarize the impact your recommended adjustments to the Company's T&D capital budget will have on the level of electric plant to be used for ratemaking purposes in this case.

A. First and foremost, we are not proposing changes to the Company's T&D capital budget. The Company should spend at the levels it deems appropriate to provide safe and adequate service. However, we are recommending adjustments to the amount of plant forecasted to be added to the Company's plant-in-service balances during the rate year and, thereby, adjusting the amount of carrying charges allowed to be recovered from customers. These adjustments reflect the level of capital additions the Company has justified in its initial rate case presentation and during the discovery phase of this proceeding and, thus, the level of plant-in-service that is most appropriate for the Commission to use in setting rates.

Q. If the Company completes projects, which it deems appropriate to provide safe and adequate

service, at higher spending levels than forecasted, will customers be exposed to higher electric rates than this testimony would otherwise recommend?

A. No. The rates to be paid by customers will be set in accordance with the level of forecasted net plant that the Commission adopts in this proceeding, as well as other cost of service items. If the Company adds plant at levels in excess of the forecasted level than rates are based upon, there are no provisions for automatically adjusting rates associated with that increased level of plant. Conversely, if the Company adds plant at levels less than the forecasted level rates are based upon, we are recommending that the Company credit customers the revenue requirement impact of the shortfall in net plant relative to the target levels.

Q. Please summarize the impact your recommended adjustments will have on the amount of electric T&D plant used for ratemaking purposes.

A. The T&D capital adjustments we recommend will reduce the amount of electric plant added to

plant-in-service by approximately $4.4 million in the rate year ending June 30, 2011. We incorporated our project specific capital adjustments, which are made on a calendar year basis, into the Company's plant-in-service forecast model to develop an average net plant amount to be used for ratemaking purposes for the rate year. The average net plant amount we are recommending is shown in Exhibit___(EIP-2). We then provided the average net plant amount to the Staff Accounting Panel, which used the average net plant amount to develop the Company's overall revenue requirement.

Q. Please explain what you mean by "the level of T&D plant to be used for ratemaking purposes."

A. The Company presents its capital budgets on a calendar year basis, which reflects the amount of spending it expects to incur for capital projects during that calendar year. For many of its large capital projects, the Company budgets expenditures over several years. When the project is completed, and thus is used and useful, the total dollars expended on that

project are added to the Company's plant accounts. The Company's net plant accounts, that is to say the total amount expended to complete the Company's capital projects minus depreciation charged to those plant accounts, is the primary component of the Company's rate base. The Company's rate base is a component used in calculating the Company's revenue requirement for a rate year by applying a rate of return on the amount of net rate base. Thus, the level of T&D plant assumed for ratemaking purposes is the average amount of net plant-in-service expected to be included in the Company's rate base during the rate year. Generally, the amount of net plant forecast is calculated by taking the existing amount of plant in service during the test year, per the Company's books, adding the amount of plant that is expected to be placed in service during each month of the link period and the rate year, and subtracting an amount accruing for depreciation on that plant during each month. The average of the monthly net plant-in-service balances for the

rate year is the level that is reflected in rate base.

Q. How is the amount of plant to be placed in service during the rate year determined from Central Hudson's capital budgets?

A. Capital projects are added to the Company's plant accounts using two different methods-- at a single point in time or ratably. When a large capital project, like a substation, is completed, it is added to the Company's plant accounts at that single point in time. For instance, if a substation is expected to be completed and placed into service in May 2011, the total amount expended on that project will be added to the Company's plant accounts in May 2011. For projects with specific in-service dates, the amount of plant expected to be placed in service during the rate year is determined from the Company's capital budgets over a number of years by identifying the total cost of the project and the month it will be used and useful.

Q. Please continue.

A. For capital projects that result in the addition of many pieces of plant-in-service throughout the year, such as the Company's blanket projects, it would be impractical to add the cost of every individual project to the Company's plant accounts each time the plant is placed-in-service. Rather, the total amount of capital dollars to be expended by the Company on blanket projects over the course of the year is added to the plant account in specific monthly amounts, which is said to be done ratably. Thus, for projects that are flowed into the plant accounts ratably, the amount of plant expected to be placed-in-service during the rate year is determined from the Company's capital budgets by identifying the most likely level of expense the Company will incur for that project during the year and distributing that amount to its plant accounts accordingly on a monthly basis throughout the forecasted rate year. The Company is allowed the opportunity to recover a return on, and the depreciation of, the investment over the useful life of the plant.

The amount included in rates to recover the cost of the plant, the depreciation of the plant, and property taxes related to the plant is generally referred to as the carrying charges on the investment.

Q. Before you explain your specific T&D capital adjustments, please describe the general nature of your adjustments.

A. Our review and adjustments focused on the need, timing, and cost of the Company's T&D projects and programs. With regard to need, we reviewed the justification provided by the Company in its pre-filed testimony and exhibits, conducted several related interviews, and analyzed its responses to information requests for each project and program in order to assess the project's necessity for the provision of safe and adequate service. For projects not sufficiently justified or imminently necessary, we would recommend that the cost of the project be excluded from the Company's rate base for the purpose of setting rates in this proceeding. In addition to assessing the need for each project

and program, we determined whether the timing of that project's inclusion in the Company's plant-in-service was consistent with the expected completion of the project. Finally, we made a determination of the reasonableness of the costs associated with the projects and programs. Instances where we reach conclusions that differ from the Company, we propose adjustments.

**Electric Capital Projects**

Q. Please briefly describe the electric infrastructure investment Central Hudson proposes to undertake during the next four years.

A. In its filing, Central Hudson proposes electric capital expenditures of $58.011 million, $60.325 million, $68.690 million, and $61.454 million for the calendar years 2010 through 2013, respectively. Central Hudson forecasts capital expenditures for its common facilities of $9.496 million, $12.871 million, $12.987 million, and $12.759 for the calendar years 2010 through 2013, respectively.

**Production Projects**

Q. Please summarize the major production projects proposed by Central Hudson.

A. Central Hudson proposes to install rubber bladder flashboards at its Sturgeon Pool hydroelectric plant and refurbish its Coxsackie and South Cairo combustion turbine plants.

Q. Please describe the project at the Sturgeon Pool hydroelectric plant.

A. The Company proposes to replace the wooden flashboards on the dam crest with rubber bladder flashboards. The proposed scope of the project is to install a 326-foot section of remotely controlled rubber crest gate, a 110-foot section of manually controlled rubber crest gate and a 36-foot section of crest sluice in the spillway section of the dam. The intent of this project is to improve worker safety by negating the need to manually adjust, repair and replace wooden flashboards; increase the safety level to the dam itself; improve pond control during flooding conditions, thereby reducing flooding of upstream properties; and to avoid loss of

generation caused by loss of the wooden flashboards. Central Hudson estimates the project may increase annual energy output of the hydro plant by thirty percent (30%), which, along with annual flashboard material savings of $20,000, would result in net customer savings of $1.0 million per year. This project is justified based upon the improvement in safety and the avoidance of significant amounts of lost generation from a renewable resource. Design and planning for the project started in 2002. The Company proposes to expend $1.28 million in 2010 and $1.802 million in 2011. The project is scheduled for completion in December 2011. Based on our review, we find the Company's proposal to be reasonable and are not proposing any adjustments at this time.

Q. Please describe the project proposed for the Coxsackie and South Cairo combustion turbine plants.

A. Central Hudson proposes to refurbish the Coxsackie and South Cairo combustion turbine plants by replacing the plants' fuel modules and

stacks. The Company also proposes to install improved emission controls and monitoring equipment at both plants. In addition, the Company proposes to replace the South Cairo's air compressor. Central Hudson conducted a financial analysis and determined that refurbishing the plants is more cost-beneficial than replacing them or building transmission alternatives. This project is necessary to maintain service reliability to customers in the Northwest section of Central Hudson's service territory. The Company proposes to expend $177,000, $360,000, $3.488 million, and $3.378 million in the years 2010 through 2013, respectively. The project is scheduled for completion in December 2013. Based on our review, we find the Company's proposal to be reasonable and are not proposing any adjustments at this time.

**Transmission Line Projects**

Q. Please summarize the major transmission projects proposed by Central Hudson.

A. Central Hudson proposes a Transmission Sag

Mitigation project to address the sag on transmission line spans that do not meet required ground clearance and to rebuild the "WM" transmission line.

A. Please describe the Transmission Sag Mitigation project.

A. In 2006, Central Hudson performed a system-wide LiDAR, which is a Light Detection and Ranging system that can determine relative heights of transmission facilities and the adjacent environment using helicopter flyovers to survey the transmission system. With the aid of computer modeling, the results of the survey indicated that a number of the Company's transmission circuits do not meet National Electric Safety Code clearance requirements for pedestrian paths, roadways and other facilities. Clearances can change for various reasons: assumptions used in the original circuit design may no longer be consistent with current field conditions as a result of fill being added, usage under the conductor changing, or conductor creep (elongation) occurring due to aging.

Q. Please continue.

A. In its previous rate case, Case 08-E-0887, Central Hudson identified 624 spans that did not meet the required clearance and proposed to fix 108 spans by re-tensioning and the remaining 516 spans by structure/conductor replacement. However, upon analysis of some of the detailed designs, the Company found that re-tensioning a span would necessitate equalizing the tension of the line in the entire ruling span, thereby, requiring mobilization at each structure within the ruling span. This caused the cost of re-tensioning a span to increase from the original estimate of $31,000 to $106,000. As a result, the Company now proposes to address the 624 spans by structure/conductor replacement.

Q. Please continue.

A. In its supplemental response to Staff IR DPS-207, as provided in Exhibit___(EIP-1), Central Hudson indicated that 28 additional spans, mainly those not meeting pedestrian clearances, were added to the program. Consequently, 652 spans are now targeted for mitigation during the

five-year program ending in 2013. The Transmission Sag Mitigation program is necessary to meet mandated safety requirements and to reduce the risk of accidents occurring at the identified spans.

Q. Please discuss the capital expenditures associated with the Transmission Sag Mitigation program.

A. In Mr. Haering's testimony at page 7, Central Hudson initially proposed to expend $37.781 million for the Transmission Sag Mitigation program over the five years ending 2013. However, in its supplemental response to Staff IR DPS-207, as provided in Exhibit___(EIP-1), the Company indicated that based on its September 2009 review, it now estimates the project would cost $31.221 million over the five-year period ending 2013. The new projection is based on Central Hudson's review of actual work completed and current work in progress. The Company determined that the structure to span ratio for the project would be about 1.24 instead of the 1.6 used to develop

the initial estimate. This resulted in a reduction of the number of structures to be replaced from 1,000 to 807 and the concomitant reduction in capital expenditures from $37.781 million to $31.221 million. This will reduce the program cost to 82.6 percent of the initially proposed spending level.

Q. Are you proposing an adjustment to the Transmission Sag Mitigation program?

A. Yes. We reviewed and accept the updated $31.221 million capital expenditure funding level for the Transmission Sag Mitigation program for years 2009 through 2013. Consequently, we propose to adjust each year’s program cost, as reflected in the Company’s plant-in-service model, to 82.6 percent of the level initially proposed. This updated funding level reduces the Company’s forecasted plant additions by $1.182 million, $1.241 million, and $1.304 million during the rate years ending June 30, 2011, 2012, and 2013, respectively.

Q. Please describe the “WM” transmission line project.

A. Central Hudson proposes to rebuild all 11.5 miles of the 69 kV “WM” line in Orange County with 795 Aluminum Conductor Steel Reinforced (ACSR) conductors. The planning and permitting work on the “WM” line rebuild project started in 2006. The “WM” line serves the Maybrook, Montgomery and Walden (NYSEG) Substations. The “WM” line is supplied by two inputs, the East Walden 115/69 kV transformer to the north and the Rock Tavern 115/69 kV transformer to the south. The Company states that with one of these two inputs out-of-service, the “WM” line is only capable of serving 44 MVA without shedding load. The total “WM” line loads were 52 MVA, 48 MVA, 44 MVA and 44.5 MVA during the summer coincident peak in years 2006, 2007, 2008 and 2009, respectively. Therefore, under a first contingency condition (loss of one input) at peak periods during these years, load shedding may have been necessary.

Q. Please continue.

A. Central Hudson also conducted an analysis to determine when the “WM” line load is forecasted

to operate over its maximum rating for a significant number of hours during the summer and the associated risk. The result of the Company's risk analysis shows that by year 2011, the "WM" line is forecasted to be over its maximum rating during the summer for a significant number of hours. The Company concluded that the associated risk is higher than the allowed risk established by the Company as part of its local transmission planning process. Therefore, remedial action on the "WM" line is necessary before 2011.

Q. Did the Company consider alternatives to the proposed rebuild of the "WM" line?

A. Yes. The Company considered alternatives such as building a third supply feed into the area, reconductoring or rebuilding limiting sections of the "WM" line and demand side management solutions. However, the proposed rebuild of the entire line appears to be the least costly option. Central Hudson proposes to rebuild the "WM" line in phases; the southern section of the line is scheduled for completion in December

2010, the northern section is scheduled for completion in December 2011 and the middle section is scheduled for completion in December 2012. The Company estimates that the "WM" line will be capable of serving 113 MVA after completion of the project, which will sustain a first contingency condition. This project is necessary to replace aging infrastructure, including 1930 vintage wood poles, and to increase the capability to reliably serve anticipated load growth in the area under a first contingency condition.

The Company proposes to expend $1.441 million in 2009, $3.386 million in 2010, $3.331 million in 2011 and $6.599 million in 2012 to rebuild the "WM" transmission line. Central Hudson estimates that the total cost of the project, which is scheduled for completion in December 2012, will be about $16.6 million. Based on our review, we find the Company's proposal to be reasonable and we are not proposing any adjustments at this time.

**Substation Capital Projects**

Q. Please summarize the major substation projects being proposed by Central Hudson.

A. Central Hudson is proposing capital expenditures for the Spackenkill, Galeville, and East Fishkill substations in the near term. The Company has also proposed capital expenditures for substations at New Coombe Road, New Saugerties, Rhinebeck, and Grimley Road (Ellenville); these additional projects have proposed in service dates between 2011 and 2013.

Q. Does Central Hudson have a major on-going program with regard to substations?

A. Yes. As discussed in the previous rate case, Central Hudson has a breaker replacement program that it is spending approximately $4.6 million per year that will replace about 152 more breakers in the next five years. It prioritizes circuit breaker replacements based upon a number of factors including: an evaluation of breaker duties being exceeded; age and relative condition based upon failure reports and testing results; obsolescence in terms of outdated

technology and/or unavailability of replacement parts; and other factors such as coordination with other substation projects. The Company, which has a detailed replacement plan, emphasizes that this is a "living process," and that additional types of circuit breakers and/or modifications to the replacement order may be required in the future due to changes in system conditions, failures and indication of problems resulting from poor test reports. While age is not necessarily the primary determinant, the plan shows many breakers of 1950's vintage with some breakers going back to the 1920's and 1930's. Through this program, by the end of 2009, the Company anticipates the replacement of three 345 kV breakers, seven 115 kV breakers, and thirty-four 15 kV breakers. The Company plans on replacing eight 345 kV breakers, eighteen 115 kV breakers, fourteen 69 kV breakers, and one hundred twelve 15 kV breakers between 2010 and 2014. The Company notes that two 115 kV breakers at Reynolds Hill were completed ahead of plan and that two 69 kV

breakers at Neversink were not completed as planned and will be completed in 2010.

Q. Are you proposing any adjustments to the Company's substation capital programs?

A. Yes, we are proposing an adjustment to reflect the current estimated in service date for the Spackenkill substation.

Q. Please clarify the Company's current estimate for placing the Spackenkill substation in-service.

A. Central Hudson's plant-in-service model has the Spackenkill Substation being placed in service in June 2010. However, as shown in the response to Staff IR DPS-238, provided in Exhibit__(EIP1), the Company now estimates a November 2010 in-service date. We have reflected this new in service date in our plant targets.

**Distribution Capital Projects**

Q. Please summarize the major distribution capital projects proposed by Central Hudson.

A. Central Hudson's major programs include Distribution Improvement Blankets, which include

the distribution projects needed for daily operations, and a multi-year infrastructure improvement based program. The components of the infrastructure improvement program are related to equipment age and/or reliability and are part of what appears to be a general shift in Company spending from growth-related projects, as load growth has slowed.

Q. What is the Company's forecasted level of expenditures for budget category 15, Distribution Improvements?

A. For calendar years 2010, 2011, and 2012 it is forecasting to spend $17.5 million, $17.8 million, and $18.1 million, respectively. These forecasts are in-line with the current rate year level.

Q. Is there a concern with utility infrastructure in general?

A. Yes. We are concerned generally with an aging infrastructure. In fact, as an outgrowth of the ongoing process to develop a comprehensive New York State Energy Plan, Staff has received condition assessments of electric transmission

and distribution infrastructure from all the New York regulated utilities.

Q. What types of expenditures are included in the Company's Distribution Improvements program?

A. The Distribution Improvements program includes the addition of 16 automated load transfer (ALT) switch locations, replacement of 322 distribution poles annually, replacement of 13 hydraulic reclosers annually, replacement of old aerial and underground paper insulated lead cable, and a reliability program focused on customers who have been interrupted more than ten times a year. Combined, the programs are estimated by the Company to cost $21 million through 2014. The Company plans to spend about $5.1 million, $3.9 million, and $3.9 million on these projects in calendar years 2010, 2011, and 2012, respectively.

Q. What is your opinion of these programs?

A. Based on our review of the Company's workpapers, responses to information requests and presentations, we conclude that these programs are worthwhile to help shore up the Company's

infrastructure and reliability. We also recognize that the Company will likely use experience gleaned as the programs go forward to optimize them. We recommend that the Company continue to include with its reporting requirements a narrative discussion of its progress with these ongoing distribution improvement programs. Any slippage in the progress of these programs will be captured in our proposed Plant Targets.

Q. Are you proposing any adjustments to the Company's proposed distribution capital projects?

A. No, we are not at this time.

**T&D O&M Projects**

Q. What has the Company proposed for its rate year O&M budget, for each of the major O&M categories?

A. The Company proposes rate year stray voltage expenses of $2.565 million, transmission ROW (right of way) maintenance expenses of $1.651 million, distribution line clearance expenses of $16.701 million, and transmission enhanced

infrastructure maintenance expenses of $0.700 million. By comparison, the actual amounts spent on these categories during the test year were $1.045 million on stray voltage expenses, $2.511 million on transmission ROW maintenance expenses, and $9.2 million on distribution line clearance expenses. The Company did not expend funds to the enhanced infrastructure maintenance program during the test year. According to the Company's response to Staff IR DPS-33, as provided in Exhibit__(EIP-1), the activities associated with the Transmission Enhanced Infrastructure Maintenance program were planned to commence on July 1, 2009, but were subsequently deferred as part of Central Hudson's Austerity Filing.

Q. Please describe why the Company's proposed stray voltage expenses are higher than those in the test year?

A. The cost increase to the Company's stray voltage program is a result of new regulations and Commission mandates which assert that all metallic objects within 30 feet of any detected

stray voltage occurrence be tested and that the initial and any detected stray voltage occurrence be reduced to 1 volt.

Q. Please describe the reason for the increase in the Company's distribution line clearance expense.

A. The increase of the Company's distribution line clearance program is primarily due to its proposed increase in distribution trimming miles for the rate year and the significant increase in unit cost of this program.

Q. Why are distribution line clearance expenses a concern in this rate case?

A. The total cost for distribution line clearance in the rate year ending June 30, 2011 is forecast by the Company to be $16.7 million, 62% more than the $10.3 million approved in last year's rate case (Case 08-E-0887) for the current rate year ending June 30, 2010.

Q. What is the primary driver for this forecast increase?

A. The Company states the primary driver of this forecast increase is an increase in tree density

being experienced in 2009 by Central Hudson's contractors as they seek to establish an improved system-wide trimming specification, also known as "modified enhanced." As a result of the tree density, there are higher unit rates per mile than previously experienced.

Q. Is that the only effect from the higher tree density?

A. No. The current line clearance program was designed around a four-year cycle, which means that all distribution circuits will be trimmed within a four-year window. Because the Company is not spending more on tree trimming than it has budgeted as an outgrowth of rate case orders, a shortfall of miles trimmed compared to expected levels has resulted.

Q. How does this shortfall factor in the large forecast increase?

A. The large forecast increase has a "catch up" component with the Company seeking to achieve completion of the first four-year cycle under the new trimming specification roughly on schedule during the Rate Year. The Company

estimates that 1,831 of on-road miles and 501 miles of off-road miles will have to be completed during the rate year, compared with 1,363 miles and 426 miles respectively for a normal year in a four-year cycle.

Q. What had been the Company's experience prior to 2009 with costs relating to trimming to this specification?

A. The Company's experience with trimming to this specification, which began in March 2007, has been $2,975/mile on-road and $5,979/mile off-road in calendar year 2008, as shown in the responses to Staff IR DPS-150 and DPS-151, Exhibit__(EIP-1).

Q. What are the unit rates projected by the Company for the rate year in this case?

A. The Company is now forecasting $4,445/mile and $8,307/mile, increases of 49% and 39% respectively, for on and off road trimming.

Q. Was the Company's experience in calendar year 2007 similar to 2008?

A. Yes, the unit rates for 2007 and 2008 were very similar while taking into account that trimming

for two months in 2007 was performed to the old specification.

Q. Has the Company provided any reasons in testimony or discovery for the increase in tree density in 2009 vs. 2008?

A. No, it merely states that it initially underestimated the cost of transitioning to the new specification, and that in 2009 it is experiencing higher unit rates, as shown in the responses to Staff IR DPS-150 and DPS-151, Exhibit__(EIP-1).

Q. Has the Company provided any other reasons for the increase in tree density?

A. Anecdotally, the Company has told Staff that the increase could be related to the prioritization of circuits slated to be trimmed by reliability impact so that the less-loaded circuits would drop down on the list. Also, the Company told Staff that the low level of trimming clearances observed on these less-loaded circuits required greater effort to bring them into conformance with the new specification.

Q. Do you have any confidence in the current unit

rate forecast?

A. No. Staff looks questionably at the change in rates requested only one year after the last rate case. The Company's unit rate forecast is based on only four months of data and fails to account for the first two years of the four-year program. Additionally, the Company has not inventoried tree growth along the circuits to be trimmed to establish whether the conditions observed will continue.

Q. What is your opinion of the revised specification?

A. Staff noted in the last rate case that a major feature of the specification eliminating overhanging branches to the maximum extent makes intuitive sense. The other features include increased side clearance, removal of tall-growing species within the distribution right-of-way, and identifying danger trees outside the right-of-way for future removal. Staff believes that all of the aforementioned are good measures.

Q. Has the cycle length always been four years?

A. No. Trimming on the last full cycle under the previous specification was performed on a three-year cycle.

Q. Why did the Company choose to go to a four-year cycle?

A. To keep the cost of implementation of the new specification at a reasonable level. Based on a pilot project, the Company estimated a 25% annual increase in program costs; stretching the trimming cycle to four years would levelize costs to approximately what it had been. As noted earlier, while this assumption held true for the first two years of the program, unfortunately, this apparently is no longer the case in 2009.

Q. What is your opinion of the four-year cycle?

A. As discussed in the previous rate case, Case 08-E-0887, while re-growth was projected by the Company not to be a major factor after implementation of the revised trimming specification, the lengthening of the cycle from three years to four years might still have some future unforeseen effects.

Q. Are you proposing an adjustment?
A. Yes, we recommend a rate allowance of $12,567,330 for the line clearance program, compared to the $16,700,928 proposed by the Company, and compared to the current rate allowance of $10,263,000.
Q. Please discuss your adjustment.
A. We propose reducing both the unit rate and miles trimmed for normal trimming, as well as the associated on-road flagging forecast. Instead of using the Company's estimate which is based on the first four months of 2009, we used a composite of the first nine months of 2009, as shown in the responses to Staff IR DPS-35, Exhibit__(EIP-1), and three months of average 2008 unit rates.
Q. What is the basis for the miles trimmed reduction?
A. We are projecting what would be trimmed in a normal one year cycle, that is, one-quarter of the total miles to be trimmed and not building in any "catch up." There is the possibility that more miles could be trimmed if the unit

rate should shift in a more favorable direction. Also, the fact that the Company managed to historically trim approximately on schedule and budget for a four-year cycle for two years supports that the Company can continue to trim at this level.

Q. Do you propose an adjustment for normal on-road flagging?

A. Yes. We propose to reduce it based on the number of on-road miles that we are predicting.

Q. Do you propose any other adjustment?

A. No.

Q. In a general way, please describe the Company's enhanced trimming program.

A. This program targets specific highly-loaded feeders that can have great impact on reliability. The specification for this program, developed in concert with the Company's line clearance consultant and which has been on-going for several years, pre-dates and is similar to, but is a more aggressive version of, the revised specification described earlier. The Company had been achieving 100 miles

annually but increased the target to 150 miles. This program has been a component of the Company's Electric Reliability Performance Mechanism (EPRM).

Q. Please discuss the Company's planned changes for the enhanced trimming program for the new rate year.

A. In the new rate year, the Company is planning to reduce the current 150 miles it trims annually to 100 miles, so that the remaining 300 miles of feeders targeted by its clearance consultant will be completed in three years.

Q. Why is the Company doing this?

A. Company witness DuBois has testified that it is to help defray the transition cost to the normal trimming specification.

Q. Do you have an opinion regarding the enhanced line clearance program and the EPRM?

A. Yes. While the enhanced line clearance program seems to be worthwhile and has been supported by Staff, in the light of the difficulties the Company appears to be experiencing in transitioning to the revised normal clearance

specification continuing to include it in an ERPM may no longer be productive.

Q. Please explain.

A. The Company may be facing some management choices regarding the transition to the revised normal clearance specification. The current ERPM, while encouraging a worthwhile line clearance program, also limits the Company's options somewhat.

Q. What do you recommend?

A. We recommend that the enhanced line clearance component of the EPRM be eliminated, and, in order to continue encouragement of the Company's overall attention to reliability, also recommend that the revenue adjustment be re-assigned to the reliability statistics portion of the mechanism. This will allow the Company to have more flexibility to manage its overall line clearance program in light of the difficulties it appears to have to transitioning to the revised normal trimming specification.

Q. Please describe the transmission ROW (right of way) maintenance program.

A. The transmission ROW maintenance program is comprised of four activities: routine maintenance, danger tree removal, hot spot trimming, and legal and environmental. As previously indicated, the maintenance expenses was reduced from a level of $2.511 million to $1.651 million.

Q. Is the panel in agreement with the reduction in spending?

A. Yes. The majority of the reduction is associated with the completion of the ROW Edge Encroachment Reclamation activity. The amount forecasted is at an appropriate level to maintain the right of ways on a five-year cycle.

Q. Do you have any more recommendations regarding the distribution line clearance and transmission ROW programs?

A. Yes. We recommend a deferral for ratepayer benefit of any shortfall in spending for the distribution line clearance and the transmission right of way maintenance programs during the rate year ending June 30, 2011 and the rate years ending June 30, 2012 and June 30, 2013.

**Electric Plant Targets**

Q. Are you proposing any mechanisms to ensure that the Company effectively manages its T&D capital infrastructure investment?

A. Yes. We recommend a net plant cap mechanism be adopted in this proceeding. A description of our proposed calculation of electric plant targets for the rate year ending June 30, 2011 is included in Exhibit___(EIP-3), which is the same methodology used by the Company to develop the net plant balances it proposed for rate making purposes. Our electric plant targets, however, reflect the capital adjustments we previously discussed, specifically the reduced cost of the Transmission Sag Mitigation project and the new in-service date for the Spackenkill substation. We further propose that electric plant targets be set for the rate years ending June 30, 2012 and 2013 using the method described in Exhibit__(EIP-3).

Q. Are you proposing a downward reconciliation for the Company’s electric plant?

A. Yes. It is our intent that the plant-in-service

levels proposed with this testimony should be the cap, or maximum level, on the amount of electric plant used for ratemaking purposes. We believe that if the actual amounts added to the Company's plant account at the conclusion of the rate year are less than our recommended levels contained in Exhibit___(EIP-2), then the Commission should require Central Hudson to credit customers the revenue requirement impact of the shortfall in net plant relative to the target levels. If the amount of added plant exceeds the plant target levels recommended in our testimony as provided in Exhibit___(EIP-2), we recommend that the Company only be allowed to recover the revenue requirement associated with the plant upon inclusion of the plant in rate base in its next rate case provided that the Company fully justifies the cause of exceeding the plant target levels proposed in our testimony.

Q. In addition to plant targets for the rate year ending June 30, 2011, have you provided plant targets for the rate years ending June 30, 2012

and June 30, 2013?

A. Yes, these have also been provided in Exhibit__(EIP-2). As proposed by the Staff Policy Panel, the Company should submit a staged filing for the rate years ending June 30, 2012 and 2013, which would include capital expenditure forecasts. However, we propose that those forecasts should not result in plant additions that would exceed those shown in Exhibit___(EIP-2) and that the down-ward only reconciliation also be applied to rate years 2 and 3.

**Smart Grid Initiative**

Q. Please briefly describe Central Hudson's Smart Grid Initiative as proposed by the Company's Smart Grid Panel.

A. The Company's Smart Grid Initiative project would encompass many Smart Grid elements and technology applications. It would create ten "intelligent" circuits from source to end user combining smart metering technologies, distribution equipment upgrades and automation, and data system modernization to enhance

operational efficiency in the distribution grid, and, when coupled with dynamic rate offerings, allow greater energy consumption control by consumers. With its Smart Grid Initiative project, the Company seeks to deploy systems that are cost-effective, scalable, adaptable, open to technology and vendor neutrality, and provide reliable and secure transmission of data. Technology applications of the Company's Smart Grid Initiative would include: Home Area Networks (HAN), Meter Data Management System (MDMS), Electric Distribution Automation, Data Monitoring and Engineering Analysis Software Tools, Distributed Resources, Natural Gas Equipment Monitoring and Customer Programs.

Q. Has the Company sought approval and funding for its Smart Grid Initiative in another proceeding before the Commission?

A. Yes, on July 2, 2009, Central Hudson filed its Smart Grid Initiative with the Commission in Case 09-E-0310, In the Matter of the American Recovery and Reinvestment Act of 2009 – Utility Filings for New York Economic Stimulus.

Q. Please explain the American Recovery and Reinvestment Act of 2009 (ARRA)(Public Law 111-05).

A. Among other things, the ARRA provides funding to the U.S. Department of Energy (DOE) to award grants to various entities to facilitate projects that test and deploy smart technology for the electric grid, promote investment in renewable energy sources, drive innovation in the fossil energy industry, and adapt electric facilities to the needs of the future. Due to the cost sharing requirements of the grants, utilities filed their project proposals with the Commission seeking ratepayer funding for the balance of project costs.

Q. Did the Commission act on the Company's proposal prior to the Company's rate case filing?

A. No. The Commission's Order in Case 09-E-0310 was issued after the Company's rate case filing. However, by Order issued on July 27, 2009, in Case 09-E-0310, et. al., the Commission approved among other things and with certain conditions, Central Hudson's Smart Grid Initiative proposal.

Approval was conditioned, however, on the Company's receipt of ARRA funding.

Q. Has the Company received ARRA funding for its Smart Grid Initiative?

A. No. Staff has been informed that the DOE has denied approval of Central Hudson's requested funding.

Q. Should project funding be considered in this proceeding?

A. No. To ensure consistency among Smart Grid projects, this project should be considered in Case 09-E-0310. Thus, we recommend that it not be addressed in this rate proceeding.

Q. Does this conclude your testimony at this time?

A. Yes.