

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of
Central Hudson Gas & Electric Corporation
Cases 09-E-0588 and 09-G-0589
November 2009

Prepared Testimony of:

Gas Procurement Panel:

Daniel G. Downs
Utility Supervisor

Anita D. Kliment
Junior Engineer

Office of Electric, Gas and
Water
State of New York
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

1 Q. Please state your name and business address.

2 A. Daniel G. Downs. I am employed by the New York
3 State Department of Public Service, Agency
4 Building Three, Empire State Plaza, Albany, NY
5 12223.

6 Q. In what capacity are you employed?

7 A. I am a Utility Supervisor in the Office of
8 Electric, Gas & Water, Gas Policy and Supply
9 Section at the New York State Department of
10 Public Service.

11 Q. Please summarize your education background and
12 professional experience.

13 A. I received a Bachelor of Science Degree in Civil
14 and Environmental Engineering from Clarkson
15 University in 1973. Since that time I have been
16 employed by the Department of Public Service and
17 have held positions primarily involved with the
18 natural gas industry sector. My
19 responsibilities have included: assisting in the
20 New York State Public Service Commission's
21 intervention activities at the Federal Energy
22 Regulatory Commission (FERC) regarding
23 interstate natural gas matters; reviewing the
24 adequacy of gas supply and delivery capacity;

1 natural gas reliability issues; natural gas
2 purchasing practices; natural gas rates and
3 ratemaking issues; and assisting in the
4 development of the Draft 2009 New York State
5 Energy Plan.

6 Q. Have you filed testimony before the Commission
7 in other proceedings?

8 A. Yes. I have testified before the New York State
9 Public Service Commission on: sales and revenue
10 forecasting; the adequacy, reliability, and cost
11 of gas supply; utility rate design; and on the
12 need for new pipeline facilities in Article VII
13 proceedings. I have also prepared testimony for
14 FERC proceedings on interstate pipeline rate
15 issues, and for Article X proceedings before the
16 New York State Board on Electric Generation
17 Siting and the Environment on gas supply and
18 capacity matters.

19 Q. Ms. Kliment. Please state your name and
20 business address.

21 A. Anita D. Kliment. I am employed by the New York
22 State Department of Public Service, Agency
23 Building Three, Empire State Plaza, Albany, NY
24 12223.

1 Q. In what capacity are you employed by the
2 Department of Public Service?

3 A. I am a Junior Engineer in the Office of
4 Electric, Gas & Water, Gas Policy and Supply
5 Section at the New York State Department of
6 Public Service.

7 Q. Please summarize your education and professional
8 experience.

9 A. I received a Bachelors of Science Degree in
10 Civil Engineering from Florida Atlantic
11 University in May 2008. I began employment with
12 the Department in January 2009 in my current
13 position of Junior Engineer.

14 Q. Have you filed testimony before the Commission
15 in other proceedings?

16 A. No.

17 Q. What is the purpose of your testimony in this
18 proceeding?

19 A. The Gas Procurement Panel will address the
20 Company's retail access procedures as they
21 pertain to capacity release, and the Company's
22 peak day and design winter calculations.

23 Q. Are you sponsoring any exhibits?

24 A. No.

1 **Retail Access Procedures**

2 Q. Please explain capacity release and the
3 Commission's policy regarding capacity release
4 costs?

5 A. Local distribution companies' (LDCs) retail
6 access programs rely on capacity release to
7 ensure that procured upstream pipeline capacity
8 is available to marketers participating in the
9 LDCs' retail market. To ensure equality in
10 capacity costs, the Commission issued an Order
11 Concerning Compliance Filings in Cases 93-G-0932
12 et al. (issued on March 28, 1996) deciding that
13 released capacity should generally be priced at
14 a cost based on the LDCs system Weighted Average
15 Cost of Capacity (WACOC).
16 When the Commission first developed its policy,
17 under FERC regulations LDCs participating in
18 state mandated retail access programs were
19 unable to release capacity above maximum rates
20 set forth in interstate pipeline tariffs and
21 would be subject to FERC's capacity notice and
22 bidding requirements for releases below the
23 maximum rate. FERC's notice and bidding
24 requirements require that releases be posted for

1 bidding, which could result in needed capacity
2 being bid away from the marketer. Therefore,
3 FERC's maximum rate and notice and bidding
4 regulations essentially prevented LDCs from
5 directly releasing capacity at their system
6 WACOC.

7 LDCs developed other means to charge an
8 equivalent WACOC for capacity releases in order
9 to comply with Commission policy and FERC
10 regulations. The two methods adopted were: 1)
11 releasing slices of the LDC's capacity at
12 maximum pipeline rates that, would roughly equal
13 the LDC's WACOC; and 2) releasing capacity at
14 maximum rates then applying a credit or
15 surcharge to transportation customer bills for
16 the difference between the cost of capacity
17 released to Marketers and the LDC's WACOC.

18 Q. Explain how the Company currently charges
19 marketers for released capacity.

20 A. The Company is currently following procedures
21 that were approved by the Commission in a
22 Company tariff filing on February 27, 2007 in
23 Case 06-G-1487, "Tariff filing by Central Hudson
24 Gas & Electric Corporation to revise the

1 capacity assignment requirements under its
2 Retail Access Program." Under the Company's
3 current retail access program, marketers serving
4 customers are assigned a pro-rata slice of
5 capacity from the Company's gas capacity
6 portfolio. The Company determines the specific
7 upstream capacity to be released to the marketer
8 and that capacity is released at the upstream
9 interstate pipeline's maximum FERC approved
10 rate. The marketer is directly billed by the
11 interstate pipeline for the released capacity.
12 Since the released capacity represents only a
13 portion of the capacity associated with two of
14 the five pipelines that the Company holds
15 interstate capacity on, the average cost of
16 released capacity will not be equal to the
17 system WACOC. Therefore, the Company surcharges
18 or credits firm transportation customers' bills
19 for differences between the system WACOC and the
20 cost of capacity associated with the released
21 pipeline capacity through a Capacity Assignment
22 Adjustment (CAA).

23 Q. What is your recommendation in regards to the
24 Company's retail access procedures?

1 A. We recommend that the Company release capacity
2 to marketers at its system WACOC.

3 Q. Why are you now proposing that the Company
4 change its procedures and release capacity to
5 marketers at its WACOC?

6 A. Since the Company implemented its retail access
7 program, FERC issued Orders 712, 712-A, and 712-
8 B on June 19, 2008, November 21, 2008 and April
9 16, 2009, respectively. Of significance to the
10 State's retail access programs, these orders
11 modified the FERC regulations by: 1) exempting
12 from notice and bidding requirements capacity
13 releases made from LDCs to marketers, in
14 conjunction with state approved retail access
15 programs, and 2) allowing short term capacity
16 releases at prices greater than maximum rates.
17 This allows short term capacity releases made
18 under state mandated retail access programs to
19 be exempt from the FERC notice and bidding
20 requirements, regardless of the rate at which
21 the LDC releases the capacity, and provides for
22 the LDC to release capacity to the marketers at
23 a rate equal to its WACOC without posting the
24 capacity release transaction for bidding.

1 Q. Why are you recommending this modification?

2 A. It is our opinion that it complies with
3 Commission policy and is administratively
4 simpler than the current method. By charging
5 the actual WACOC to the marketer replacement
6 shipper, it eliminates the need for the Company
7 to credit or surcharge firm transportation
8 customers through the CAA mechanism.

9 Q. When should the change be implemented?

10 A. We suggest the Company meet with its marketers
11 prior to any changes to allow the marketers time
12 for transitioning to the new modifications. It
13 is Staff's recommendation to have the Company
14 make the necessary changes to its operating
15 procedures and tariff so that the procedure can
16 be in place and utilized by November 1, 2010.

17 **Peak Day and Design Winter Requirement**

18 **Calculations**

19 Q. What comments do you have in regard to the
20 Company's peak day and design winter
21 requirements forecasts?

22 A. The Company derives its peak day and design
23 winter requirements forecasts from its sales and
24 revenue forecasting model. The forecasting

1 model used for sales and revenues is based on
2 normal heating degree days (HDD), while the peak
3 day and design winter forecasts assume extreme
4 weather HDD. The resulting peak day and design
5 winter requirement forecasts are used for gas
6 supply and capacity procurement planning
7 purposes. Staff's Forecasting Panel is
8 developing its own forecasting methodology which
9 results in adjustments to the Company's forecast
10 sales and revenues. We recommend that the
11 forecasting methodology that is ultimately
12 approved in this proceeding be used by the
13 Company to calculate the peak day and design
14 winter requirements for future supply planning
15 purposes.

16 Q. Does that conclude your testimony at this time?

17 A. Yes.