BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

Central Hudson Gas & Electric

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

November 2009

Prepared Testimony of Gas Safety Panel:

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Q. Mr. Stolicky, would you please state your name and business address.

A. Christopher R. Stolicky. My business address is New York State Department of Public Service, 3 Empire State Plaza, Albany, NY 12223.

Q. By whom are you employed and in what capacity?

A. I am employed by the Department of Public Service as a Utility Engineer 3 (Safety) in the Safety Section of the Office of Electric, Gas, & Water.

Q. Please summarize your education and work experience.

A. I graduated from Union College in 2000 with a Bachelors degree in Civil Engineering. I received a Masters degree in Business Administration from the University at Albany in 2005. I have been employed by the Department of Public Service since January 2001. I work in the Safety Section and I am familiar with federal and state gas safety pipeline codes, statewide risk-based safety performance measures, and with the operations of the major

gas utilities in New York State. My other duties include engineering support for the Safety Section field staff, reviewing possible violations relating to 16 NYCRR Part 753 (damage prevention), participating in rate proceedings and negotiations, reviewing proposed pipeline designs, processing petitions and waivers relating to code compliance matters, and reviewing proposed updates to utility operations and maintenance procedures. I have also participated in job rotations and work assignments in the Gas Rates and Policy Sections, where I participated in various rate issues and in the review of utility winter gas supply planning.

Q. Mr. Stolicky, have you previously testified in an administrative proceeding?

A. Yes. I have testified in numerous rate and merger proceedings. Most recently the National Fuel Gas Distribution Corporation gas rate case, Case 07-G-0141; the KeySpan Energy Delivery companies rate and merger proceedings with

National Grid, PLC, Cases 06-M-0878, 06-G-1185, and 06-G-1186; the Energy East Corporation merger with Iberdrola, S.A., Case 07-M-0906; the Niagara Mohawk Power Corporation gas rate case, Case 08-G-0609; and, the last Central Hudson Gas & Electric (Central Hudson or Company) gas rate proceeding, Case 08-G-0888.

Q. Mr. Jucha, would you please state your name and business address.

A. Robert Jucha. My business address is New York State Department of Public Service, 3 Empire State Plaza, Albany, NY 12223.

Q. By whom are you employed and in what capacity?

A. I am employed by the Department of Public Service as a Utility Engineer 2 (Safety) in the Safety Section of the Office of Electric, Gas, & Water.

Q. Please summarize your education and work experience.

A. I graduated from Hudson Valley Community College, with an Associates degree in Civil Engineering Technology in 1993. I then

continued my education and graduated from Rochester Institute of Technology, with a Bachelors of Science Degree in Civil Engineering Technology from the College of Applied Science and Technology in 1996. I have been employed by the New York State Department of Public Service Office of Electric, Gas, & Water since February 2004. I work in the Safety Section and I am familiar with federal and state gas safety pipeline codes, as well as with the operations of the major gas utilities in New York State. My duties include reviewing pipeline damages and issuing citations of probable violations relating to 16 NYCRR Part 753 (damage prevention), reviewing proposed pipeline designs, reviewing gas utility operation and maintenance plans, and reviewing proposed changes to federal and state gas safety pipeline codes. Additionally, I conduct record, field, and construction inspections of local distribution companies (LDC) and interstate pipeline operators to ensure compliance with

federal and state gas pipeline safety regulations.

Q. Mr. Jucha, have you previously testified in an administrative proceeding?

A. Yes. I recently testified in the last Central Hudson gas rate proceeding, Case 08-G-0888.

Q. Mr. Moll, would you please state your name and business address.

A. Michael J. Moll. My business address is New York State Department of Public Service, 3 Empire State Plaza, Albany, NY 12223.

Q. By whom are you employed and in what capacity?

A. I am employed by the Department of Public Service as a Utility Engineer 2 (Safety) in the Safety Section of the Office of Electric, Gas, & Water.

Q. Please summarize your education and work experience.

A. I graduated from the State University of New York, Institute of Technology, with a Bachelors degree in Civil Engineering Technology in 2003. I have been employed by the Department of Public

Service since February 2004. I work in the Safety Section and I am familiar with federal and state gas safety pipeline codes, as well as, with the operations of the major gas utilities in New York State. My duties include supervising the Albany Gas Safety field staff, reviewing proposed pipeline designs, reviewing gas utility operation and maintenance plans, and reviewing proposed changes to federal and state gas safety pipeline codes. Additionally, I conduct record, field, and construction inspections of local distribution companies and interstate pipeline operators to ensure compliance with federal and state gas pipeline safety regulations.

Q. Mr. Moll, have you previously testified in an administrative proceeding?

A. Yes. I recently testified in the Niagara Mohawk Power Corporation gas rate case, Case 08-G-0609.

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

A. The purpose of our testimony is to explain the

safety performance incentives established in Case 08-G-0888, recommend that they be continued in this case, and update the infrastructure enhancement programs for 2011.

Q. Did Central Hudson propose any safety performance measures in its filing?

A. No.

Q. Did the Panel investigate whether Central Hudson proposes any safety performance measures?

A. Yes. We asked three interrogatory requests, numbers-DPS 229, 230, and 231, asking the Company for its proposed damage targets for 2011, 2012, 2013, and 2014. Each request also asked the Company to explain how it forecasted and arrived at each target. See Exh___(GSP-1).

Q. What was the Company's response?

A. The Company responded to each request by simply stating it does not forecast damage targets.

Q. What does this mean to the Panel?

A. These responses indicate one of two things, both of which is disappointing. First, the Company simply ignored our question and was

uncooperative, or second, its management does not attempt to forecast its performance. This in turn leads to the question of how the Company can effectively manage its damage prevention programs without setting goals to measure against.

Q. What performance measures do you recommend for the current case?

A. Since the current safety incentives were recently established and take effect in calendar year 2010, we feel that they are adequate for this one year case. If this case results in a multiyear rate plan, we recommend the targets be examined and adjusted to allow Central Hudson to improve its performance to reflect the current statewide performance levels. Recommended improvement would be in those areas where the Company performs worse than the statewide performance levels. We also recommend that the measures remain in effect until changed by the Commission.

Q. Please list the four performance incentives

currently in effect and ordered by the Commission in Case 08-G-0888.

A. (1) Infrastructure Enhancement
(2) Leak Management
(3) Emergency Response to Gas Leak/Odor Calls
(4) Prevention of Excavator Damages

Q. Please briefly explain each safety incentive

A. **(1) Infrastructure Enhancement**

The current projected level of spending to replace or remove leak-prone pipe from operation during 2010 is $6.1 million. If the amount of expenditures is below the targeted level, Central Hudson will incur a regulatory liability of one and one-half times the difference between actual capital expenditure level allowed for in rates, and the target amount. This method also applies to the Company's proactive leak-prone service replacement program, with a required capital investment of $511,000.

(2) Leak Management

(a) Achieve a year-end backlog of leaks pending repair no greater than 30 for 2010.

(b) Achieve a total backlog of all leaks no greater than 350 leaks for 2010.

(3) Prevention of Excavation Damage

(a) **Overall Damages**

Maintain a level equal to or below 3.00 excavation damages per 1000 One-Call Tickets for 2010.

(b) **Damages due to Mismarks**

Maintain a level equal to or below 0.50 excavation damages due to mismarks per 1000 One-Call Tickets for 2010.

(c) **Damages caused by Company Crews and Company Contractors**

Maintain a level equal to or below 0.30 excavation damages due to Company personnel and Company contractors per 1000 One-Call Tickets for 2010.

(4) **Emergency Response**

(a) Respond to 75% of all gas leak and odor calls within 30 minutes.

(b) Respond to 90% of all gas leak and odor calls within 45 minutes.

Q. Would you please discuss the Panel's reasons for each of the safety-related performance measures beginning with infrastructure enhancement?

A. Yes. The infrastructure enhancement measure addresses the removal of pipe that is prone to leakage. The purpose is to eliminate aging pipeline infrastructure that, due to its vulnerability to leaks, presents safety risks. By replacing this pipe with modern materials, public safety and service reliability are improved, and operating and maintenance costs and lost gas are reduced.

Q. Please describe the leak management measure.

A. The leak management measure focuses on the reduction of unrepaired gas leaks. The infrastructure enhancement and leak management measures are complementary, in that reducing the inventory of leak-prone piping over time will

lead to reductions in the number of gas leaks requiring investigation, monitoring, and repairs, thereby improving public safety.

Q. Please discuss the prevention of excavation damages measure.

A. This measure aims to reduce the largest cause of gas pipeline failures - damage by excavating equipment. Reducing these damages will improve public safety as well as improve Central Hudson's reliability and cost of service.

Q. Please explain the emergency response measure.

A. The emergency response measure encourages the Company to focus on responding to leak and odor calls generated by the public in a timely manner.

Infrastructure Enhancement

Q. Please describe the leak-prone pipe replacement component of the safety performance measure.

A. The premise of our recommendation is that Central Hudson continues to replace this type of pipe at a rate not less than its historical capability. By doing so, the Company will

consistently work to remove this deteriorating pipe from service. Without an incentive, the Company has little reason to proactively remove pipe beyond safety code requirements, or because of significant customer complaints, city, or state driven construction projects.

Q. What is the historical expenditure level of proactive pipe replacement for Central Hudson?

A. Over the rate plan covering years 2007, 2008, and 2009 the Company was required to spend $15.75 million removing leak-prone pipe from service. Under the current rate plan, Central Hudson is required to spend a minimum of $6.1 million during calendar year 2010.

Q. Please explain what you mean by "leak-prone" pipe.

A. Leak-prone pipe is generally considered steel pipe that is unprotected, cast iron pipe, and some vintages of plastic pipe that can become brittle.

Q. What is meant by “unprotected?”

A. It means that the pipe lacks good coating and

cathodic protection. Cathodic protection is a method by which steel pipelines are protected from corrosion. Such unprotected pipe is also referred to as "bare" steel. For our purposes here, bare steel pipe also includes pipe that is ineffectively coated.

Q. How does the bare steel component of the recommended safety measure add to the safety of the gas system?

A. Data collected by the USDOT, Office of Pipeline Safety, as well as our own Department, shows that corrosion is a leading cause of leakage and that bare steel pipe is most susceptible to corrosion.

Q. How does the removal of cast iron pipe add to the safety of the gas system?

A. Due to its physical characteristics, cast iron pipe is more prone to catastrophic failures than cathodically protected steel pipe and plastic pipe. Small diameter cast iron pipe, defined as 8-inches or less in nominal diameter, is even more prone to structural failure due to

brittleness and low beam strength. Removal of this pipe will reduce the potential for leaks and incidents resulting from failures. Cast iron pipe tends to be located in older, more densely populated areas with many enclosed structures and paved areas. These circumstances tend to be more conducive to the below-ground migration of gas across wider areas than would occur in rural areas. The more congested the environment the greater the risk of fires or explosions. The removal of these leak-prone facilities will also benefit the Company and improve public safety by reducing its leak backlog.

Q. What criteria should be used to identify those sections of leak-prone pipe to be removed?

A. We recommend Central Hudson continue to use a risk-based method to identify and rank portions of pipe to be replaced under this infrastructure enhancement program.

Q. How did you arrive at the $6.1 million target?

A. $6.1 million is the amount resulting from case

08-G-0888. It reflects an increase over the historical level, but represents a reasonable increase. Our goal is to recommend a reasonable target while balancing the impact of an increase in capital spending and ensuring the Company is able to perform the work.

Q. In your opinion should the target continue to be $6.1 million for the years beyond 2010?

A. No. We recommend an increase to $6.7 million for 2011 based on the Company's forecast in this proceeding.

Q. Should anything else about the program be changed?

A. No. The same adjustment mechanism should remain in place.

Leak Management

Q. Please describe the Leak Management performance measure?

A. Under Case 08-G-0888 Central Hudson must achieve a backlog of leaks requiring repair, also known as potentially hazardous leaks, equal to or below 30 at the end of the calendar year 2010.

The Company also has to reach and maintain a total backlog of unrepaired leaks equal to or below 350 at the end of calendar year 2010.

Q. What is the significance of this performance measure?

A. The overall objective of the performance measure is to encourage the Company to reduce the number of active leaks on its system. Eliminating leaks helps minimize the possibility of an incident involving fire and explosion, reduces the amount of gas the Company loses, and reduces operating and maintenance costs. Minimizing unrepaired leaks at year-end requires effort year-round and results in minimizing the hazard to the public during frost conditions when there is a higher risk of gas migration into homes because the gas cannot readily vent to the atmosphere. Therefore, this measure provides an incentive for Central Hudson to eliminate its active leaks and thereby provide a higher level of safety to the public.

Q. How did you determine the repairable leak

backlog target of 30 for this performance measure?

A. We reviewed the year-end backlog of repairable leak data submitted by Central Hudson for the annual Gas Safety Performance Measure Report (see Case 09-G-0454 on Commission's Web site, http://www.dps.state.ny.us) and in Case 05-G-0935. The Company's repairable leak backlog was 13 in 2001, 16 in 2002, 30 in 2003, 14 in 2004, 27 in 2005, 63 in 2006, 51 in 2007, and 41 in 2008. As can be seen from the data, the Company maintained a backlog of 30 or less up until 2006, before Case 05-G-0935 targets took effect. This allowed the Company to let its backlog grow without a regulatory liability adjustment. Therefore, based on historical data, the Company proved it could operate at that level, and we believe that it could reverse the increasing trend and be able to return to the level of 30 or less.

Q. Please describe the annual Gas Safety Performance Measures Report?

A. It is an annual report to the Commission that analyzes gas safety performance for the 11 largest natural gas distribution companies. The report summarizes data and analyzes performance in three areas of gas safety: Damage Prevention, Emergency Response, and Leak Management. It also contains subsets of those areas, resulting in a more thorough analysis and is used as a tool to track and identify Company performance in areas identified as high-risk.

Q. How did you determine the total leak backlog target of 350 for this performance measure?

A. As reported by the Company in the data collected for the annual Gas Safety Performance Measures report, in Case 05-G-0935, and in its annual rate case compliance report, its total leak backlog was 362 in 2001, 348 in 2002, 357 in 2003, 280 in 2004, 310 in 2005, 376 in 2006, 442 in 2007, and 486 in 2008. As can be seen from the data, the Company was trending downward through 2004 when it agreed to 250 for 2008. However, it had a clause in the prior rate plan

that allowed it to exceed the total leak target if it had repaired at least 340 leaks throughout the year, or its highest level ever repaired through 2004. While the Company repaired 446 leaks in 2006, 363 leaks in 2007, and 449 in 2008, Central Hudson allowed its total leak backlog to swell during 2006, 2007, and 2008. In Cases 08-E-0887 & 08-G-0888, the Commission ordered the Company to reduce its total leak backlog to 350 by the end of 2010. Since we are recommending the continuation of the Company's pipe replacement program going forward, and the Company targets it highest leak-prone pipe, the target is reasonable for 2010.

Q. Is there anything else you would like to say about the leak management target?

A. Yes. As noted earlier, the leak backlog is correlated to the replacement of higher-risk pipe. When pipe that is more prone to leakage is replaced with modern materials, public safety and service reliability are improved and, for ratemaking purposes, operating and maintenance

costs are reduced. The removal of this pipe should help to reduce leaks occurring on the gas distribution systems.

Damage Prevention

Q. Would you please describe the performance measure recommendations related to prevention of excavation damages?

A. Central Hudson performs many repairs each year caused by excavation around its facilities. Any damage to a pipeline can result in the uncontrollable release of natural gas and could potentially lead to a serious incident. In order to encourage the Company to continuously strive to improve its performance, the Company has targets in its rate plan that measures its progress in minimizing damage to its system. The actual targets were discussed earlier and are normalized by the number of one-call tickets the Company receives.

Q. What is a “One-Call Ticket?”

A. The Public Service Commission’s regulations contained in 16 NYCRR Part 753 – Protection of

Underground Facilities – require excavators to make a toll-free call to a “one-call” notification system and provide notice of their intent to perform excavation work. The one-call notification system that covers Central Hudson's territory is Dig Safely New York (Dig Safely). Dig Safely takes the pertinent information from the excavator and transmits it to its member utilities that may be affected by the excavation work. Those utilities then mark the location of their affected facilities so the excavator can avoid damaging them. Each incoming call to Dig Safely will generate several outgoing notices to the member utilities such as the gas, electric, telephone, cable, and water companies. A notice received by the utility is referred to as a One-Call ticket.

Q. What is a “mismark?”

A. A mismark occurs when a utility fails to accurately mark the location of its underground facilities in response to the One-Call ticket. Consistent with the requirements of 16 NYCRR

Part 753, Protection of Underground Facilities, for purposes of this performance measure a mismark is considered any instance of damage where the marks are off by more than 2 feet. It should also include any instances of damage where the Company fails to mark its facilities at all in response to a properly served notice by an excavator to Dig Safely.

Q. Please describe the performance incentives regarding the prevention of excavation damage caused by mismarks?

A. As an operator of a natural gas distribution system, Central Hudson participates in the local one-call/damage prevention system in an effort to minimize the instances of damage to its facilities by excavation activities. In order to comply with 16 NYCRR Part 753, Central Hudson must respond to all requests for a mark out by excavators, physically accurately locate its pipes, and mark out the locations on the ground. This performance incentive will gauge how well these mark outs are conducted.

Q. What are damages by "Company personnel and Company contractors?"

A. These are damages to the Company's pipe facilities that are caused by Company personnel, or contractors that are operating under the Company’s direct control.

Q. How did the Panel derive the recommended damage prevention targets for Central Hudson?

A. We derived the targets based on historical performance, and our working experience with the Company, and considered the Company’s year-to-year improvements in performance.

Q. Please explain further.

A. We looked at Central Hudson over the past several years in each area of damage prevention performance. We then took into consideration the improvement from year-to-year. Further, we examined the statewide performance in each area. If a utility performs worse than the statewide average performance level, we recommend it improves to at least that level. If a utility is performing better than the statewide

performance level, we recommend a performance target that generally discourages the utility from backsliding, while also providing a reasonable cushion for unforeseen circumstances. We also make the assumption that Central Hudson works to improve its performance and attempts to avoid performing below its historical capability.

Q. How would these measures benefit public safety?

A. According to state and national statistics, the leading cause of gas pipeline failures and accidents is third-party construction damage. These damages often cause interruptions of service to customers. They also frequently cause building evacuations and road closures. Explosions and fires are less frequent, but have occurred. Fatalities and injuries due to construction damages are also possible. Therefore, reducing these types of damages clearly improves public safety.

By implementing a target that prevents the Company from significant deterioration in

performance, public safety and reliability are generally maintained at current levels.

Q. How much control does Central Hudson have over its performance for mismark damages?

A. Damages caused by mismarks is an area where the Company has greater control of its performance as compared to damages caused by the actions of third-party excavators. It is up to the Company locators to follow Central Hudson's procedures and accurately mark the location of its buried facilities.

Q. Please discuss further the control Central Hudson has over Company personnel and Company contractors?

A. While Central Hudson does not usually experience as many of these types of damages compared to other causes, this is an area of damage prevention where it has direct control. The Company or it's directly trained and qualified contractors, actually damages its own facility. Central Hudson has also experienced continued deterioration in performance over the past

several years as indicated in Case 08-G-0888 and the annual Gas Safety Performances Measures report, Case 09-G-0454. The current target for 2010 of 0.30 damages per 1000 one-call tickets does not bring the Company in line with the statewide performance of 0.13, but it is encouraging it to improve. If this case results in a multi-year agreement, this measure should be lowered to further encourage improvement and safer excavation practices around the Company's own facilities.

Q. Is it true that Central Hudson's pipe replacement program forces it to perform more excavation around its own facilities than in the past?

A. Yes.

Q. Could the increased level of work around Central Hudson's own facilities increase the risk of it damaging its own facilities?

A. Yes, and the Company may attempt to argue this point, as it did in Case 08-G-0888. However, with the Company instituting new work practices

over the past year, and our experience with several other LDC's that also have escalated their pipe replacement programs, there are several best practices that can be adopted that reduce the likelihood of these damages from occurring. Some of which could include employee and contractor incentives, requiring manual excavations on certain construction activities, and utilizing vacuum excavation techniques.

Q. Is it correct that Mismark and Company Personnel and Company Contractor damages are within the control of the Company?

A. Yes.

Q. How about overall damages?

A. Damages caused by excavator failure to notify Dig Safely and/or unsafe excavation practices are not totally within the control of the Company. However, Central Hudson can minimize these damages by influencing excavator activity through education and outreach efforts to excavators, by continuing to bill excavators for repair costs when the excavator is at fault, and

by referring problem contractors to Department of Public Service Staff for possible enforcement activities.

Q. Are “No-Call” damages a component of the overall damages measure?

A. Yes. No call damages are simply instances where no ticket was generated because the excavator did not provide proper notice of intent to excavate. This metric is part of the overall damages and provides an indication of the general level of awareness excavators have about the one-call notification system. Legislation by the Federal Communications Commission mandated the creation of a single nationwide “three-digit” telephone number “811” that excavators can call to request the markout of any underground facility. The single telephone number “811” will relieve excavators from having to remember multiple phone numbers if they work in areas covered by different one-call centers across the country. The number officially

became effective in April 2007, and Dig Safety New York is participating.

Q. What does Staff do in enforcement of damage prevention?

A. Beginning in 2007, expanding on historic enforcement levels, Staff requested that LDCs report all instances of damages due to lack of one call notification. Staff then follows its enforcement process. LDC participation requires little additional effort and the result is greater enforcement and eventual lower no-call damage rates to pipeline facilities. Staff also investigates damages when it becomes aware of them. These could come from notifications by utility companies, contractors, or discoveries in the field during routine inspection activities.

Q. Do the recommended targets for overall damages per 1000 One-Call tickets include the mismark and Company personnel and Company contractor components?

A. Yes.

Q. Why do you recommend that approach?

A. Even if it appears that the targets for mismark and/or Company personnel and Company contractor damages will be exceeded, Central Hudson will have an incentive to keep these figures as low as possible because they would still be contributing to the overall damages measure.

Emergency Response

Q. Please describe the Emergency Response performance measures?

A. These measures evaluate Company response to gas leak, odor and emergency calls generated by the public and non-Company personnel. Each utility is required by gas safety regulations to provide a monthly report of the total number of calls received and responded to in intervals of 15 minutes during normal business hours, weekdays outside of business hours, and weekends and holidays. This measure, in addition to the leak management and damage prevention measures, is included in the Gas Safety Performance Measures Report. Statewide standards for this

performance measure have been jointly established by Staff and utilities as follows:

a) Respond to 75% of all gas leak and odor calls within 30 minutes;

b) Respond to 90% of all gas leak and odor calls within 45 minutes; and

c) Respond to 95% of all gas leak and odor calls within 60 minutes.

Q. What is the significance of the emergency response performance measure?

A. Leaks on inside piping, improperly operated or installed appliances, and gas migration into a building from leaks on outside buried piping present a risk to the general public. The Company recognizes this and dispatches crews in response to calls reporting gas leaks or odors on a priority basis. The utility operators are required to maintain a log of these calls that track the elapsed time between the dispatch and arrival time of the service personnel on the scene. The potential for an incident and physical harm to the general public increases as

the Company's response time lengthens. Therefore, it is important to minimize the response times to calls of gas odor and/or gas leaks.

Q. How has Central Hudson performed related to this measure?

A. Central Hudson has adequately met the standard targets explained above. Since it is currently exceeding the targets, our recommendation of the accepted statewide targets simply encourages it to avoid significant deterioration in performance.

Regulatory Liability

Q. Do you have specific recommended rate adjustments that will be assessed for failure to meet the proposed safety performance measures?

A. Yes. We recommend the assigned number of basis points and other adjustments in Case 08-G-0888 remain in effect for the pertinent measures. However, we recommend the value of the adjustments be updated to reflect the new basis point value in this proceeding, approximately

$15,000.

Infrastructure Enhancement

The failure of Central Hudson to achieve, at a minimum, an expenditure level of $6.1 million and $6.7 million for the elimination of leak-prone pipe, and $511,000 and $500,000 for the replacement and relocation of inside meter sets to outside with high pressure unprotected steel service lines during 2010 and 2011, respectively, will result in Central Hudson deferring for ratepayer benefit the amount of the shortfall multiplied by one and one-half (1.5x) times the amount of the shortfall. This should be viewed in capital dollars such that a shortfall of $100,000 at a 10% rate of return would result in a negative adjustment of 10% x $100,000 x 1.5 = $15,000. This is the same method as detailed under the current rate plan. The pipe removed from service shall be identified and prioritized using a risk-based model.

Leak Management – 14 basis points

(a) Failure of Central Hudson to maintain a level equal to or below a backlog of 30 repairable leaks at year-end 2010 will result in a pre-tax revenue adjustment owed to ratepayers of $135,000 (9).

(b) Failure of Central Hudson to maintain a level equal to or below 350 total known leaks at year-end 2010 will result in a pre-tax revenue adjustment owed to ratepayers of $75,000 (5).

Prevention of Excavation Damages – 10 basis points

Overall Damages - Failure of Central Hudson to remain at or below 3.00 excavation damages per 1000 One-Call Tickets at year-end 2010 will result in a pre-tax revenue adjustment owed to ratepayers of $30,000 (2).

Damages Due to Mismarks – Failure of Central Hudson to remain at or below 0.50 excavation damages due to mismarks per 1000 One-Call Tickets at year-end 2010 will result in a pre-tax revenue adjustment owed to ratepayers of $60,000 (4).

Damages Due to Company Personnel and Company

Contractors – Failure of Central Hudson to remain at or below 0.30 excavation damages due to Company personnel and Company contractors per 1000 One-Call Tickets at year-end 2010 will result in a pre-tax revenue adjustment owed to ratepayers of $60,000 (4).

Emergency Response – 6 basis points

(a) Failure of Central Hudson to respond to 75% of all gas leak and odor calls within 30 minutes will result in a pre-tax revenue adjustment owed to ratepayers of $60,000 (4).

(b) Failure of Central Hudson to respond to 90% of all gas leak and odor calls within 45 minutes will result in a pre-tax revenue adjustment owed to ratepayers of $30,000 (2).

Q. Why are you not recommending incentive awards for exceeding target levels?

A. All of our recommendations, with the exception of Central Hudson’s current performance in the area of damages due to Company personnel and Company contractors, are derived from the expected capability and historical performance

of the Company. The safety-related targets in this testimony reflect efforts the Company should already be making as a matter of course to safely operate its gas distribution system. We are recommending these targets as a means to provide the ratepayers of Central Hudson the same, if not improved, levels of safety they currently are or have received from the Company based on historical capability. Therefore, we believe recommending incentives for exceeding proposed targets that incorporate each Company's existing efforts can not be justified.

Also, when the Commission makes its determination in this case the allowed rates are based on an expected level of safety and reliability. That level should be derived from Central Hudson’s proven historical capability and Staff’s working knowledge of the Company.

High Pressure Service Replacement Program

Q. Please describe Central Hudson’s requested funding of $511,000 during 2010 to replace high pressure services with inside meter sets.

A. In case 08-G-0888, Central Hudson witness Haering stated that Central Hudson targeted approximately 3,000 steel services that operate at high pressure and terminate at a meter set inside a building. Central Hudson maintained that it would like to start a 5-year program that would remove 1,500 of these services.

Q. Why do these services present a risk?

A. According to witness Haering, Central Hudson has experienced three incidents in the past six years where an excavator damaged a service line resulting in high pressure gas flowing into a building.

Q. Since these were the result of excavator damages, why would Staff support this program when a damage prevention measure is also recommended?

A. There are a couple of reasons. Yes, the Company’s effort to reduce third party damages does result in fewer overall damages to its facilities. We know from experience that one of the three damages was a result of an excavator’s

failure to request a markout. The cause of the other two damages related to miscommunication issues between Central Hudson and the excavators surrounding the planned work area and locations of facilities. There have been improvements made in Company procedures since the incidents. However, the services for the proposed program are comprised of steel and are susceptible to corrosion. Cathodic protection status is the second ranking criteria behind operating pressure in considering the services that would be replaced.

Q. What else does the program entail?

A. The Company will replaces services in addition to those included in the infrastructure enhancement program. It will also relocate the meter and service regulator outside the structure, unless it is unsafe to do so, it is limited by local ordinances or historical significance, or when it encounters significant individual customer concerns and is still able to obtain satisfactory access to the indoor

location of the meter.

Q. Do you agree with these criteria?

A. We generally support the criteria, but would prefer to see the meter and regulator relocated outside the structure whenever physically possible. It is usually the safest location in the case of a leak on the high pressure piping.

Q. Should Central Hudson be able to continue this program?

A. We agree the program is a worthwhile effort due to the increased risk of incidents based on historical events, the likelihood these services will get replaced due to the increased chance of leakage when compared to those services comprised of plastic pipe, and it ultimately lowers the risk to the public by locating high pressure piping outside of a structure. However, this program should only target those services that are considered unprotected steel, as they carry an increased risk of developing leaks due to corrosion.

Q. What else do you recommend?

A. The funding for this enhanced service replacement program be subject to the same mechanisms as the funding for the infrastructure enhancement program. Is should also be incremental to the leak-prone pipe replacement program.

Q. Are there any additional recommendations regarding the aforementioned performance incentives?

A. Yes. We recommend that Central Hudson be required to implement the aforementioned safety recommendations, pipe replacement programs, and performance incentives for calendar year 2010, except where noted for 2011, and remain at the 2010, or 2011, target levels for each subsequent year until the mechanisms recommended in this proceeding are superseded in the future by the Commission. However, if this proceeding results in a multiyear rate plan, increased expenditures for replacement of leak-prone pipe, leak management, and evaluation of the damage prevention targets should be updated. The

updated targets will ensure the public obtains the same, or improved, level of safety as Central Hudson provides it today.

Q. Are there any other conditions that Central Hudson should meet pertaining to your safety-related recommendations?

A. Yes, we urge the Commission to continue to direct Central Hudson to submit a report to the Director of the Office of Electric, Gas and Water on its performance in the areas of the recommended targets in this testimony within 30 days following the end of the calendar year. The report should also list, and separately identify, those services replaced under the infrastructure enhancement program and those replaced under the high pressure inside meter set replacement program.

Q. Does this conclude your panel testimony at this time?

A. Yes.