

BEFORE THE  
STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION

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

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Prepared Testimony of:  
Policy Panel

Mary Ann Sorrentino  
Utility Engineer III  
Office of Electric, Gas & Water

Michael J. Summa  
Public Utility Auditor II  
Office of Accounting and Finance

Michael M. Twergo  
Utility Supervisor  
Office of Electric, Gas & Water

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

1 Q. Please state the names and business addresses of  
2 the members of the Panel.

3 A. The Panel is comprised of Mary Ann Sorrentino,  
4 Michael J. Summa and Michael M. Twergo. Our  
5 business address is 3 Empire State Plaza,  
6 Albany, New York 12223.

7 Q. Ms. Sorrentino, please describe your position  
8 and your professional and educational  
9 experience.

10 A. A description of my position and my professional  
11 and educational experience is contained the  
12 testimony of Staff's Gas Rates Panel, of which I  
13 am a member.

14 Q. Mr. Summa, please describe your position and  
15 your professional and educational experience.

16 A. A description of my position and my professional  
17 and educational experience is contained the  
18 testimony of Staff's Accounting Panel, of which  
19 I am a member.

20 Q. Mr. Twergo, what is your position?

1 A. I am a Utility Supervisor with the staff of the  
2 Office of Electric, Gas and Water, New York  
3 State Department of Public Service.

4 Q. Mr. Twergo, please summarize your education and  
5 professional experience.

6 A. In December 1981, I graduated from Rensselaer  
7 Polytechnic Institute with a Bachelor of Science  
8 degree in Electrical Engineering. Since joining  
9 the Department of Public Service in April 1982,  
10 I have held progressive engineering positions  
11 within the Office of Electric, Gas and Water and  
12 its predecessors. My responsibilities include  
13 the management, supervision and performance of  
14 technical analyses and investigations of a  
15 variety of filings submitted by New York  
16 electric utilities inclusive of Central Hudson  
17 Gas and Electric Corporation (Central Hudson or  
18 the Company). These analyses have, among other  
19 things, related to construction contracts, small  
20 power contracts, property transfers, capital  
21 expenditures, electric system modeling, revenue  
22 forecasting, embedded and marginal cost of

1 service studies, interclass revenue allocation,  
2 intraclass rate design, commodity portfolio  
3 management, and the design and operation of  
4 various rate mechanisms.

5 Q. Mr. Twergo, have you previously testified before  
6 the New York State Public Service Commission?

7 A. Yes, I have testified before the New York Public  
8 Service Commission in numerous proceedings.

9 Q. What is the purpose of the Panel's testimony in  
10 these rate proceedings?

11 A. The purpose of the Panel's testimony is to  
12 1) summarize austerity measures incorporated  
13 into Staff's recommended electric and gas  
14 revenue requirements and present Staff's  
15 recommendations regarding additional austerity  
16 measures that the Commission may choose to  
17 reflect in its final rate determination and,  
18 2) present Staff's proposal for a three-year  
19 rate plan.

20 Austerity Programs

21 Q. Did the Company propose any rate year austerity  
22 measures in its testimony?

1 A. Company witness Mosher explains on page 6 of his  
2 pre-filed Direct Testimony that one of the  
3 drivers of the electric and gas rate increases  
4 is Central Hudson's proposed reversal of the  
5 \$3 million austerity imputation made by the  
6 Commission in its prior electric and gas rate  
7 proceedings, Cases 08-E-0887 and 08-G-0888. Mr.  
8 Mosher continues on page 8 of his pre-filed  
9 Direct Testimony that, consistent with the  
10 Company's austerity filing which was made in  
11 compliance with the Commission Order in the last  
12 electric and gas rate case and the Commission's  
13 Notice Requiring the Filing of Utility Austerity  
14 Plans issued May 15, 2009 in Case 09-M-0435,  
15 executive salaries were held at 2009 levels for  
16 2010, essentially freezing them for the July -  
17 December 2010 portion of the rate year. Mr.  
18 Mosher concluded at page 9 that despite the  
19 current economic slowdown, "given the severe  
20 financial conditions and circumstances the  
21 Company operated under the terms of the recently  
22 expired rate plan, which required a number of

1 specific cost-cutting actions, all of which have  
2 already been captured permanently for the  
3 benefit of customers in the recent Rate Order,  
4 there are few, if any, additional opportunities  
5 to reduce non-labor O&M expense without  
6 jeopardizing the Company's ability to serve."

7 Q. When does Staff forecast that the economy in  
8 Central Hudson's service territory will recover?

9 A. The Staff Forecasting Panel concludes in its  
10 testimony that the economy in Central Hudson's  
11 service territory, as measured by the Gross  
12 Domestic Product, is forecast to be in a weak  
13 recovery during the rate year, and notes that it  
14 is not forecast to fully recover, that is reach  
15 its pre-recession level, until the end of 2011  
16 with employment recovering in early 2012.

17 Q. Does the Panel recommend that additional  
18 austerity measures be implemented by Central  
19 Hudson during the rate year?

20 A. Yes. As stated in the Commission's May 15, 2009  
21 Austerity Notice, "The downturn in the national  
22 and state economy has dramatically affected many

1 residents and businesses in New York State.”  
2 “When utility customers are experiencing the  
3 extraordinary economic realities we see today,  
4 these customers look to their utility service  
5 providers to demonstrate the same frugality as  
6 the customers themselves experience daily so  
7 that the ultimate costs that customers must bear  
8 are minimized.” “[U]tilities, like other New  
9 York businesses, should be implementing  
10 austerity measures aimed at eliminating or  
11 deferring spending whenever such actions can be  
12 taken without compromising the provision of safe  
13 and reliable service.”

14 Q. Have any Staff witnesses proposed adjustments to  
15 the Company’s proposed rate year revenue  
16 requirement based, in part, on the state of the  
17 economy?

18 A. Yes. The Staff Accounting Panel has removed the  
19 rate year allowance of about \$860,000 for  
20 electric and \$152,000 for gas associated with  
21 the Supplemental Executive Retirement Plan.  
22 Additionally, the Staff Accounting Panel removed

1 the rate year allowance of \$212,500 for electric  
2 and \$37,500 for gas associated with the  
3 implementation of the International Financial  
4 Reporting Standards. Further, the Staff  
5 Accounting Panel increased its traditional one  
6 percent labor productivity adjustment to two  
7 percent, in part, based on forecast rate year  
8 economic conditions. The additional one percent  
9 labor productivity adjustment equates to a  
10 reduction in the rate year revenue requirement  
11 of about \$832,000 and \$197,000 for electric and  
12 gas, respectively.

13 The total adjustments to Central Hudson's  
14 revenue requirement that are proposed by Staff  
15 based on the forecast rate year economic  
16 conditions are about \$1.9 million for electric  
17 and \$387,000 for gas.

18 Q. Please identify additional or alternative  
19 adjustments to the Company's revenue requirement  
20 that you recommend the Commission consider if it  
21 determines that further or alternative austerity  
22 measures are warranted?

1 A. Additional or alternative adjustments to the  
2 Company's revenue requirement that we recommend  
3 the Commission consider if it determines that  
4 further or alternative austerity measures are  
5 warranted include:

- 6 • Freezing executive salaries at 2009 levels  
7 for the January - June 2011 portion of the  
8 rate year. This would reduce the rate year  
9 electric and gas revenue requirements by  
10 \$29,000 and \$7,000, respectively.
- 11 • Freezing management salaries at 2009 levels  
12 for the rate year. This would reduce the  
13 rate year electric and gas revenue  
14 requirements by \$749,000 and \$184,000,  
15 respectively.

16 Multi-Year Rate Plan

17 Q. Did the Company address the electric and gas  
18 revenue requirements for the two twelve month  
19 periods subsequent to the rate year,  
20 specifically, the twelve months ending June 30,  
21 2012 (Rate Year 2) and the twelve months ending  
22 June 30, 2013 (Rate Year 3)?

1 A. The Company did not address the electric and gas  
2 revenue requirements for Rate Year 2 or Rate  
3 Year 3 in its testimony. However, the Company  
4 has included, as part of its filing, electric  
5 and gas income statements and supporting  
6 schedules for Rate Years 2 and 3 in a section  
7 titled "Additional Information".

8 Q. Are you proposing a multi-year rate plan as an  
9 alternative to Staff's one-year case?

10 A. Yes. As an alternative to Staff's one-year  
11 case, we are proposing a three-year rate plan.

12 Q. Please explain your proposal.

13 A. We are proposing that the rates established by  
14 the Commission for the rate year ending June 30,  
15 2011 become the base from which the Commission  
16 allows for a staged increase for Rate Years 2  
17 and 3, limited to only four electric cost  
18 drivers and six gas cost drivers. Specifically,  
19 the cost drivers to be included in the electric  
20 staged filings are: sales; known changes in the  
21 union contract labor rate and the management and  
22 executive wage increases contained in the

1           Company's workpapers provided in response to  
2           information request DPS-2; carrying costs on net  
3           plant additions as described by the Electric  
4           Infrastructure Panel and associated depreciation  
5           expense; and property taxes. For gas, the items  
6           to be included in the staged filings are: sales;  
7           known changes in the union contract labor rate  
8           and the management and executive wage increases  
9           contained in the Company's workpapers provided  
10          in response to information request DPS-2;  
11          carrying costs on net plant additions as  
12          described by the Gas Rates Panel and associated  
13          depreciation expense; property taxes; gas leak  
14          repairs; and excess cost of removal.

15          Our proposal provides the Commission an  
16          alternative to repeated annual rate case filings  
17          in the next two years involving the same cost  
18          drivers. The public interest may not be served  
19          if Central Hudson continues to file annual rate  
20          cases that primarily raise these same issues and  
21          cost drivers.

1 Q. Please describe the review undertaken to select  
2 the cost drivers proposed to be allowed in the  
3 electric and gas staged filings.

4 A. Reviewing Central Hudson's last electric rate  
5 case and its filing in this electric rate case  
6 there are five primary causes of base rate  
7 increases: sales, labor, carrying costs on net  
8 plant additions and associated depreciation  
9 expense, property taxes and changes in rate of  
10 return.

11 In the last case, these accounted for about  
12 76 percent of the increase to the electric  
13 revenue requirement. Additionally, when  
14 pensions, other post employment benefits (OPEB),  
15 regulatory Commission expense, manufactured gas  
16 plant (MGP) remediation and austerity - all cost  
17 elements subject to reconciliation and deferral  
18 - are included, the full increase to the  
19 electric revenue requirement is accounted for.  
20 These same five primary causes and deferrable  
21 cost elements account for about 85 percent of

1 the proposed increase to the electric revenue  
2 requirement during the rate year.

3 Further, reviewing the additional information  
4 contained in the Company's filing, these five  
5 primary causes and deferrable cost elements  
6 account for nearly 100 percent and 90 percent,  
7 respectively, of the estimated increase to the  
8 electric revenue requirement for the rate years  
9 ending June 30, 2012 and 2013.

10 Similar to electric, reviewing the utility's  
11 last gas rate case and its filing in this rate  
12 case, there are seven primary causes of base  
13 rate increases: sales, labor, carrying costs on  
14 net plant additions and associated depreciation  
15 expense, property taxes, gas leak repairs,  
16 excess cost of removal and changes to the rate  
17 of return.

18 In the last case, these accounted for about  
19 83 percent of the increase to the gas revenue  
20 requirement. Additionally, when including the  
21 deferrable cost elements: pension, OPEB,  
22 regulatory Commission expense, MGP remediation

1 and austerity, virtually the full increase to  
2 the gas revenue requirement is accounted for.  
3 These same seven primary causes and deferrable  
4 cost elements account for the full increase  
5 proposed to the gas revenue requirement during  
6 the rate year.

7 Reviewing the additional information contained  
8 in the Company's filing, these seven primary  
9 causes and deferrable cost elements account for  
10 about 76 percent and 46 percent, respectively,  
11 of the estimated increase to the gas revenue  
12 requirement for the rate years ending June 30,  
13 2012 and 2013. The unaccounted for portions of  
14 the Rate Years 2 and 3 gas revenue requirements  
15 are about \$300,000 and \$385,000, respectively.

16 Q. Would the electric and gas revenue requirements  
17 recommended by Staff for Rate Year 1 be modified  
18 as a result of the proposed three-year rate  
19 plan?

20 A. Yes. The Staff Accounting Panel notes that  
21 Staff is recommending no change in electric or  
22 gas base rates for the rate year ending June 30,

1           2011. There is no stay-out premium in the one-  
2           year cases. With a three-year rate plan, as  
3           discussed by the Staff Rate of Return Panel,  
4           there would be a stay-out premium of 12 basis  
5           points to increase the recommended return on  
6           equity (ROE) from 9.6 percent to 9.72 percent.  
7           Accordingly, if a multi-year plan was adopted,  
8           the increase in the ROE would result in an  
9           electric base rate increase of about \$680,000.  
10          While gas base rates would remain unchanged, as  
11          discussed in the testimony of the Staff  
12          Accounting Panel, the amortization of the net  
13          regulatory asset would be increased by \$594,000  
14          rather than \$781,000 for the rate year ending  
15          June 30, 2011.

16    Q.    What information would be included in the staged  
17          filings?

18    A.    As we previously stated, the increases in  
19          revenue requirement for the rate year ended June  
20          30, 2012 and the rate year June 30, 2013 would  
21          be determined in fully supported staged filings  
22          that Central Hudson would make related to sales,

1 known changes in the union contract labor rate  
2 and the management and executive wage increases  
3 contained in the Company's workpapers provided  
4 in response to information request DPS-2, net  
5 plant additions as described by the Electric  
6 Infrastructure and Gas Rates Panels and  
7 associated depreciation expense, and property  
8 tax expense, and for gas rates, would also  
9 include costs associated with gas leak repairs,  
10 and excess cost of removal.

11 Central Hudson would, among other things, submit  
12 its electric and gas capital spending plan,  
13 limited to the levels as described in the  
14 testimony of the Staff Electric Infrastructure  
15 and Gas Rates Panels, and the associated revenue  
16 requirement impact, including depreciation  
17 expenses.

18 The staged filings would also include Central  
19 Hudson's forecast of electric and gas property  
20 tax expense based on latest known available  
21 information.

1           The annual staged filings would include electric  
2           and gas forecast sales and customers using the  
3           sales and customers forecasting methodology that  
4           the Commission adopts for Rate Year 1. Based on  
5           the updated sales forecasts and the resulting  
6           electric and gas revenue requirements ultimately  
7           approved for Rate Years 2 and 3, the Company  
8           would file updated electric and gas Revenue  
9           Decoupling Mechanism (RDM) targets for each  
10          year. The RDM mechanisms in place for Rate  
11          Year 1 should remain in effect for Rate Years 2  
12          and 3.

13          Specific to the gas business, items to be  
14          included in the staged filing would include  
15          information related to gas leak repairs and  
16          excess cost of removal. For gas leak repairs,  
17          the Company would include the updated number of  
18          leaks repaired and the average cost per repair  
19          on an annual basis. For excess cost of removal,  
20          the filing would include book retirements and  
21          net salvage on an annual basis for plant account  
22          376 - mains and 380 - services.

1 Q. Will Central Hudson be allowed to reconcile, or  
2 true-up, any of its costs under your multi-year  
3 rate plan?

4 A. Yes. Deferred accounting treatment would be  
5 continued for the items proposed by the Staff  
6 Accounting Panel. Also, the downward-only  
7 reconciliation for electric and gas net plant  
8 and the electric transmission and distribution  
9 right of way maintenance (i.e. tree trimming)  
10 would continue as described in the testimony of  
11 the Staff Electric Infrastructure Panel and/or  
12 the Gas Rates Panel.

13 Q. Please explain your proposal regarding the  
14 remaining portion of Central Hudson's electric  
15 and gas revenue requirement.

16 A. As noted above, nearly 100 percent and 90  
17 percent, respectively, of the Company's  
18 projected electric rate needs, and 76 percent  
19 and 46 percent, respectively, of the Company's  
20 projected gas rate needs for Rate Years 2 and 3  
21 are driven by items for which staged filings and  
22 reconciliations and deferrals would be permitted

1 under our proposal. The Company would be  
2 required to manage the remaining differences in  
3 its projected revenue requirement without  
4 incremental rate relief.

5 Q. What about the cost of any regulatory,  
6 legislative or accounting change or any other  
7 new Commission-approved deferral item?

8 A. We propose to reconcile and defer, during the  
9 three-year rate plan, the entire costs of any  
10 regulatory, legislative or accounting change or  
11 any new Commission-approved deferral. However,  
12 the Company can only defer the costs to the  
13 extent that its earnings do not exceed the  
14 Commission allowed return on equity. Cost  
15 savings associated with any regulatory,  
16 legislative or accounting change or any new  
17 Commission-approved deferral would not be  
18 subject to an earnings test and they would be  
19 deferred entirely for customers.

20 Q. Does Staff's rate plan include a provision for  
21 excess earnings?

22 A. Yes. Our rate plan includes an earnings sharing

1 mechanism because we believe it will provide the  
2 Company with a strong incentive to minimize its  
3 costs and gain efficiencies. The earning  
4 sharing mechanism is described in the testimony  
5 of the Staff Rate of Return Panel.

6 Q. What incentives are included in your multi-year  
7 proposal?

8 A. We recommend that the incentive mechanisms (e.g.  
9 electric reliability, gas safety, customer  
10 service, etc.) adopted by the Commission for  
11 Rate Year 1 continue for Rate Years 2 and 3,  
12 unless otherwise modified by the Commission..

13 Q. When would the Company make its staged increase  
14 filings?

15 A. Central Hudson should be directed to submit a  
16 fully supported filing, no later than  
17 September 1, 2010, for the rate year beginning  
18 July 2011 and no later than September 1, 2011  
19 for the rate year beginning July 2012. We  
20 believe that this will provide sufficient time  
21 for Staff and other interested parties to  
22 examine the Company's filing and report on it to

1 the Commission for its consideration and  
2 eventual determination.

3 Q. Has Staff estimated the magnitude of the  
4 electric and gas incremental revenue  
5 requirements for Rate Years 2 and 3?

6 A. Yes. Staff projects that the electric and gas  
7 incremental revenue requirements (i.e. rate  
8 increases) for Rate Year 2 are \$6,169,000 and  
9 \$766,000, respectively. The projected electric  
10 and gas incremental revenue requirements for  
11 Rate Year 3 are \$6,715,000 and \$863,000,  
12 respectively.

13 Q. What do you propose in the event Central Hudson  
14 files for new rates during the term of rate  
15 plan?

16 A. If Central Hudson files for a rate increase to  
17 become effective before July 1, 2013, it should  
18 be required to return the stayout premium of  
19 12 basis points to ratepayers starting from July  
20 1, 2010 to the date of new rates.

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

22 A. Yes.