

DIRECT TESTIMONY
OF
ACCOUNTING PANEL

1 Q. Would each member of the Accounting Panel please state his or her name
2 and business address?

3 A. (Gescheidle) My name is Lora J. Gescheidle. My business address is 284
4 South Avenue, Poughkeepsie, New York 12601.

5

6 (Komar) My name is Nancy L. Komar. My business address is the same as
7 Ms.Gescheidle.

8

9 Q. By whom is each member of the Panel employed and in what capacity?

10 A. (Gescheidle) I am employed by Central Hudson Gas & Electric Corporation
11 ("Central Hudson") as Director of Financial Reporting & Research.

12 (Komar) I am also employed by Central Hudson as Plant Accounting
13 Supervisor.

14

15 Q. Ms. Gescheidle, would you please summarize your educational background
16 and work experience?

17 A. I have Bachelor of Science Degree in Accounting from Seton Hall University.

18 From 1999 to 2004, I was employed by public accounting firm Ernst &

19 Young LLP as an auditor. I have been employed by Central Hudson since

20 September of 2004. From 2004 to 2007, I worked as an auditor in the

21 Internal Audit Department and performed various financial and operational

22 audits. From 2007 to March 2009, I worked as an accountant in the

ACCOUNTING PANEL

1 Financial Reporting and Research Department. In March 2009, I was
2 promoted to the Director of Financial Reporting and Research. My work
3 experience in both Auditing and Accounting has centered primarily on overall
4 accounting theory and reporting.

5

6 Q. Ms. Gescheidle, would you please describe your current responsibilities at
7 Central Hudson?

8 A. My responsibilities as Director of Financial Reporting & Research include
9 planning, scheduling, supervising and coordinating the functions related to
10 the preparation, validation and integrity of the internal, external and
11 regulatory reports of Central Hudson. My responsibilities also include the
12 supervision of accounting research activities and the recommendation of
13 changes to the accounting process assuring compliance with regulatory
14 pronouncements.

15

16 Q. Ms. Komar, would you please summarize your educational background and
17 work experience?

18 A. I have an Associate in Science Degree in Business Administration from
19 Fulton Montgomery Community College and a Bachelor of Science Degree in
20 Accounting from Marist College. I was employed by James Burn
21 International, a local manufacturing firm, in various accounting positions for

ACCOUNTING PANEL

1 thirteen years ending my career with them as Assistant Controller in 2005. I
2 have been employed by Central Hudson since 2005. I started in the Internal
3 Auditing Department as an auditor performing various financial and
4 operational audits. This position provided me the ability to familiarize myself
5 with many areas of the Company. In 2006, I transferred to the Plant
6 Accounting Department and was subsequently promoted to Plant Accounting
7 Supervisor. My work experience in this area has centered on construction
8 accounting, property record system development and depreciation.

9
10 Q. Ms. Komar, would you please describe your current responsibilities at
11 Central Hudson?

12 A. I have responsibility for the day-to-day supervision of all accounting activities
13 related to the processing and maintenance of the Company's fixed asset
14 records. I am responsible for the accuracy and coordination of the month-
15 end closing and reporting processes for the Fixed Asset System and I
16 oversee the development of the depreciation and AFDC budgets based on
17 the Capital Construction Budget along with monthly budget variance
18 reporting.

19
20 Q. Has any member of the Panel previously testified before this Commission?

21 A. (Komar) Yes, I have. That was in Central Hudson's last general rate

ACCOUNTING PANEL

1 proceeding in Cases 08-E-0887 and 08-G-0888.

2

3 Q. What is the scope of the Panel's testimony in this proceeding?

4 A. The purpose of the Accounting Panel's testimony is to:

5 1. Present the historical accounting information required under the

6 Commission's Rules and Regulations;

7 2. Set forth background information regarding a variety of accounting
8 and ratemaking matters;

9 3. Set forth certain accounting and ratemaking proposals reflected in the
10 development of the revenue requirement in this proceeding and to be
11 followed during the rate year and subsequent periods;

12 4. Present the historical amounts and projections related to book
13 depreciation and plant items including rate base amounts related to
14 Net Plant and Non-interest-Bearing Construction Work in Progress;

15

16 Q. Is the Panel sponsoring any exhibits in support of its testimony?

17 A. Yes, we are sponsoring the following exhibits in this regard and each of them
18 was prepared by or under the supervision of the Panel or one of the Panel's
19 members:

20 1. Exhibit__(AP-1) entitled "Financial Statements";

21 2. Exhibit__(AP-2) entitled "Electric Operation and Maintenance

ACCOUNTING PANEL

- 1 Expenses”;
- 2 3. Exhibit__(AP-3) entitled “Electric Operating Taxes”;
- 3 4. Exhibit__(AP-4) entitled “ Gas Operation and Maintenance Expenses”;
- 4 5. Exhibit__(AP-5) entitled “Gas Operating Taxes”;
- 5 6. Exhibit __ (AP-6) entitled "Rate Base Non-interest-Bearing
- 6 Construction Work In Progress”; and
- 7 7. Exhibit __ (AP-7) entitled "Statement of Depreciation and Amortization
- 8 Accruals”.
- 9 8. Exhibit __(AP-8) entitled “Gas Excess Cost Of Removal Projection”
- 10
- 11 Q. Please describe the information contained in Exhibit__(AP-1) entitled
- 12 “Financial Statements”.
- 13 A. Schedule A contains the balance sheets of the Company, by PSC prime
- 14 accounts, at the end of calendar years, 2006, 2007, 2008 and at March 31,
- 15 2009. Schedule B contains the income statements, per books, for calendar
- 16 years 2006, 2007, 2008, and the twelve months ended March 31, 2009. The
- 17 income statements show operating revenues and expenses and the resulting
- 18 operating income for the Electric Department and Gas Department. They
- 19 also show the development of net income on a Corporate basis. Schedule C
- 20 shows for each period the beginning and ending balances of unappropriated
- 21 retained earnings. The change in the balance during each period is identified

ACCOUNTING PANEL

1 in terms of the effects of net income and the declaration of common and
2 preferred stock dividends.

3

4 Q. Please describe the information contained in Exhibit__(AP-2) entitled
5 “Electric Operation and Maintenance Expenses”.

6 A. Schedule A of Exhibit__(AP-2) sets forth by functional classification the
7 Company’s electric operation and maintenance expenses for the calendar
8 years 2006, 2007, 2008 and the twelve months ended March 31, 2009.

9 Schedule B of Exhibit__(AP-2) sets forth the electric operation and
10 maintenance expenses in Schedule A by prime account of the Uniform
11 System of Accounts.

12

13 Q. Please describe the information contained in Exhibit__(AP-3) entitled
14 “Electric Operating Taxes”.

15 A. This Exhibit shows for the calendar years 2006, 2007, 2008 and twelve
16 months ended March 31, 2009 the amount of federal, state and local taxes,
17 excluding federal and state income tax, charged to electric operations.

18

19 Q. Please describe the information contained in Exhibit__(AP-4) entitled “Gas
20 Operation and Maintenance Expenses”.

21 A. Schedule A of Exhibit__(AP-4) sets forth by functional classification the

ACCOUNTING PANEL

1 Company's gas operation and maintenance expenses for the calendar years
2 2006, 2007, 2008 and the twelve months ended March 31, 2009. Schedule B
3 of Exhibit__(AP-4) sets forth the gas operation and maintenance expenses in
4 Schedule A by prime account of the Uniform System of Accounts.

5

6 Q. Please describe the information contained in Exhibit__(AP-5) entitled "Gas
7 Operating Taxes".

8 A. This Exhibit shows for the calendar years 2006, 2007, 2008 and the twelve
9 months ended March 31, 2009 the amount of federal, state and local taxes,
10 excluding federal and state income tax, charged to gas operations.

11

12 Q. How are operating taxes apportioned to the Electric Department and Gas
13 Department?

14 A. Payroll related taxes are apportioned between electric and gas operating
15 expenses in a manner that tracks the distribution of payroll dollars. Revenue
16 related taxes are apportioned to the departments on the basis of revenues
17 subject to the respective taxes. The use tax is charged on the basis of
18 related taxable items. The state hazardous waste tax is charged to the
19 electric department only. Distribution of property taxes to the electric and
20 gas departments is based on the relative book values of the property within
21 each political district. Real estate tax is allocated based on the "out streets"

ACCOUNTING PANEL

1 property and special franchise tax is allocated based on the "in streets"
2 property.

3

4 Q. Please explain the manner in which the Company apportions operation and
5 maintenance expenses that are not directly assignable to electric or gas
6 operations to those departments.

7 A. Expenses not directly assignable to a particular department, but closely
8 related to other expenses charged to that department, are distributed in
9 proportion to such other expenses. For example: pension costs and fringe
10 benefit costs are related to payroll costs. They are, therefore, allocated
11 between electric and gas operations in a manner that tracks the distribution
12 of payroll dollars. Other operation and maintenance expenses that are not
13 assignable to a particular department ("common" costs) are apportioned to
14 electric and to gas based on a common cost allocation ratio.

15

16 Q. What was the total amount of expense to which the common cost allocation
17 ratio was applied in the twelve months ended March 31, 2009 and in what
18 areas do these common expenses occur?

19 A. For the twelve months ended March 31, 2009, total common expenses were
20 approximately \$39.3 million. The overwhelming majority of these common
21 expenses were in the areas of Customer Services and Administrative and

ACCOUNTING PANEL

1 General Expenses.

2

3 Q. What common cost allocation ratio was used by the Company during the
4 historical periods addressed in your exhibits and what ratio has been applied
5 in the development of forecasts in this proceeding?

6 A. A common cost allocation ratio of 85% to electric and 15% to gas was
7 applied to both periods for the reasons described by Mr. Mosher.

8

9 Q. Turning now to pension and other postretirement benefits, please explain the
10 manner in which accounting for postretirement benefits other than pensions
11 have been reflected in this filing.

12 A. In December 1990, the Financial Accounting Standards Board issued its
13 Statement of Financial Accounting Standards No. 106, Employer's
14 Accounting for Retirement Benefits Other Than Pensions (SFAS No. 106),
15 subsequently amended by SFAS No. 158 effective in 2006. Such
16 postretirement benefits have become commonly referred to as OPEBs.
17 Since OPEB costs are related to the compensation of employees, the annual
18 OPEB charge has been projected to be distributed to expense, construction
19 and other accounts in relation to the distribution of payroll costs actually
20 experienced during the historical period. Pursuant to Statement of Policy
21 and Order Concerning the Accounting and Ratemaking Treatment for

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1 Pensions and Postretirement Benefits Other Than Pensions, issued
2 September 7, 1993 by the Commission in Case 91-M-0890 ("Policy
3 Statement"), the differences between the amounts of postretirement benefits
4 included in Company rates and the amounts of postretirement benefits
5 charge determined by the Company's outside actuary under SFAS No. 106
6 are deferred as either a regulatory asset or liability, as appropriate. Such
7 deferral accounting pursuant to the Policy Statement has been assumed to
8 continue through and beyond the forecast periods in this proceeding.

9
10 Q. What is the amount of the annual charge for OPEB that has been used in the
11 development of this filing?

12 A. Based on estimates of the annual charge for 2009 by the Company's
13 actuary, the estimated charge for the Rate Year ending June 30, 2011 is
14 \$9,687,000. This estimated expense includes the effects of the Prescription
15 Drug and Medicare Improvement Act of 2003 (2003 Medicare Act). The
16 allocation of this charge is based on the distribution of payroll for the twelve
17 months ended March 31, 2009, and is as follows:

18	Electric Expense	57.23%	\$5,544,000
19	Gas Expense	12.98%	1,257,000
20	Construction and Other	<u>29.79%</u>	<u>2,886,000</u>
21	Total	100.00%	\$9,687,000

ACCOUNTING PANEL

1

2 Q. Please explain the manner in which accounting for pension costs has been
3 reflected in this filing.

4 A. These costs have been treated in accordance with longstanding accounting
5 and ratemaking practices. The Company has been accounting for pension
6 costs in accordance with Statement of Financial Accounting Standards No.
7 87 "Employers Accounting for Pensions" (SFAS No. 87) since January 1,
8 1987, as amended by SFAS No. 158 effective in 2006 as well as in
9 accordance with the Commission's Policy Statement as explained above with
10 respect to OPEB costs. That treatment, including deferral of the difference
11 between the rate allowance and actual pension charges has been assumed
12 to continue through and beyond the forecast periods in this proceeding.

13

14 Q. What is the amount of forecast pension charges reflected in this rate filing?

15 A. Based on estimates of the annual charge for 2009 by the Company's actuary
16 the estimated charge for the Pension Plan and the Supplemental Executive
17 Retirement Plan (SERP) for the Rate Year ending June 30, 2011 is
18 \$41,154,000. The allocation of the Pension Plan estimate is based on the
19 distribution of payroll for the twelve months ended March 31, 2009. The
20 SERP estimate is allocated to electric and gas expense using the common
21 allocation basis described earlier in this testimony. The resulting allocation of

ACCOUNTING PANEL

1 the pension charges is as follows:

2	Electric Expense	57.91%	\$23,834,000
3	Gas Expense	13.03%	5,362,000
4	Construction and Other	<u>29.06%</u>	<u>11,958,000</u>
5	Total	100.000%	\$41,154,000

6

7 Q. Please explain the impact of Financial Accounting Standard No.158.

8 A. In September 2006, the Financial Accounting Standards Board issued its
9 Statement of Financial Accounting Standards No. 158, Employers
10 Accounting for Defined Benefit Pension and Other Postretirement Plans
11 (SFAS No. 158), which amended Statements No. 87 (pensions) and No. 106
12 (OPEB). SFAS No. 158 resulted in a change to the recognized level of
13 funded status for both the pension and OPEB plans which caused the benefit
14 obligations to be recognized for accounting purposes to increase. Because
15 of the accounting and ratemaking treatments under the Commission's Policy
16 Statement related to pension and OPEB charges, including the use of
17 deferral accounting, as we described earlier, the increase in the benefit
18 obligation caused an increase in regulatory assets.

19

20 Q. Would you like to make any further comments regarding the Company's
21 accounting for either pension or OPEB costs?

ACCOUNTING PANEL

1 A. Yes. The Company accounts for the effects of the 2003 Medicare Act in
2 accordance with the Commission's Order Adopting Accounting For 2003
3 Medicare Act Effects, issued November 16, 2006 in Cases 04-M-1693 and
4 91-M-0890. Consequently, the cost savings and income tax benefits arising
5 out of the 2003 Medicare Act are being deferred.

6

7 Q. What proposals, if any, does the Company make concerning the use of
8 deferral accounting as a result of this proceeding?

9 A The Company is currently authorized or required by the Commission
10 because of generic policies or determinations specific to the Company to
11 employ deferral accounting with regard to various costs, expenses and
12 revenues as needed to implement a variety of Commission ratemaking and
13 accounting objectives and policies. The Company requests that the
14 Commission continue such authorizations and requirements except to the
15 extent that any such authorizations or requirements will not or can not by
16 their terms survive the expiration of Rate Year as established in Cases 08-E-
17 0887 and 08-G-0888. The Company also requests the use of deferral
18 accounting with respect to such costs, expenses and revenues without
19 limitation of the amount allowed or required to be deferred and that the
20 deferral accounting authorizations or requirements survive the end of the
21 Rate Year. In addition to the above deferral accounting authorizations and

ACCOUNTING PANEL

1 requirements, the Company requests authorization in this proceeding to use
2 deferral accounting related to the amounts determined to be uncollectible
3 from customers as discussed in the testimony of the Uncollectibles Panel.

4 The Company's request is for the use of deferral accounting without limitation
5 on the amount allowed to be deferred and that the deferral accounting
6 authorization survive the end of the Rate Year.

7

8 Q. Turning now to utility plant and depreciation, would you please explain the
9 development of the rate base amounts for book cost of utility plant,
10 accumulated provision for depreciation and amortization, and net plant for
11 the historical and projected periods?

12 A. The historical book cost, accumulated provision for depreciation and
13 amortization and net plant amounts were developed from the Company's
14 monthly balance sheets using the average of the monthly averages method.

15 The rate base amounts for the historical and projected periods are included
16 in the Rate Base Summary Exhibits sponsored by the Revenue
17 Requirements Panel in this proceeding.

18 For projected periods the same method was used as was used in prior
19 cases. Projected cash construction expenditures by month for electric, gas
20 and common plant were provided by Mr. Haering, and are summarized on an
21 annual basis on Exhibit___ (PEH-2). Mr. Haering also supplied the

ACCOUNTING PANEL

1 anticipated in-service date for each major construction project having an
2 estimated cost of \$1,000,000 or more. This information was used to
3 determine plant additions and allowance for funds used during construction
4 (AFUDC) amounts related to these projects. For minor projects estimated to
5 cost less than \$1,000,000 average historical relationships for the calendar
6 years 2006 through 2008 of plant additions, book cost of retirements,
7 removal costs, and salvage were used to make projections of those items.

8

9 Q. What is shown in Exhibit ____ (AP-6) which bears the caption "Rate Base Non-
10 interest-Bearing Construction Work in Progress"?

11 A. The amounts of the non-interest-bearing portion of construction work in
12 progress (CWIP) included in rate base for the historical and forecast period
13 are developed in Exhibit ____ (AP-6). For the historical period on Schedule A,
14 the total AFUDC charged to CWIP for major projects with an estimated cost
15 of \$1,000,000 or more, was deducted from the total AFUDC charged to
16 CWIP on a monthly basis. The resulting amount represents the AFUDC
17 charged to all other, or minor projects, those with an estimated cost of less
18 than \$1,000,000. The AFUDC related to minor projects was then divided by
19 the average AFUDC rate used for the twelve-month period to arrive at the
20 twelve-month average interest-bearing CWIP for minor projects. The twelve-
21 month average interest- bearing CWIP for both minor and major projects was
22 then deducted from the corporate twelve-month average CWIP to determine

ACCOUNTING PANEL

1 the average non-interest-bearing CWIP for the period. This same method
2 was used to determine non-interest-bearing CWIP for the projected period
3 shown on Schedules B and C of Exhibit ___(AP-6).

4

5 Q. Referring to Exhibit ___(AP-7) which bears the caption "Statement of
6 Depreciation and Amortization Accruals", please explain what is shown on
7 Schedules A, B and C of that Exhibit.

8 A. These Schedules show the Company's depreciation and amortization
9 accruals for the historic and projected periods, as allocated to electric and
10 gas expense. Schedule A reflects the depreciation and amortization accruals
11 for the historic period; Schedules B and C are related to projected periods.

12

13 Q. What is the basis for allocating depreciation of common plant to electric and
14 gas expense in Exhibit ___(AP-7)?

15 A. Common plant depreciation expense was allocated 85% to electric expense
16 and 15% to gas expense during the historical period and all projected
17 periods. That allocation is the same as applied to other common expenses
18 and common utility plant.

19

20 Q. Briefly describe the Company's method of accruing depreciation?

21 A. The Company's annual provisions for depreciation are generally computed
22 and accrued on a straight-line basis using the half-year convention and rates

ACCOUNTING PANEL

1 based on estimated average service lives and estimated net salvage. A
2 depreciation rate is established for each depreciable plant account.

3

4

5 Q. Does the Company plan on implementing any changes to the depreciation
6 factors and rates currently in use?

7 A. No. No changes are proposed in annual depreciation rates from those
8 approved in the recent rate order.

9

10 Q. Please explain the manner in which accounting for cost of removal for Gas
11 Services retirements have been reflected in this filing.

12 A. The Company is currently required by the Commission as directed by the
13 Commission's Order Adopting Recommended Decision with Modifications,
14 issued June 22, 2009 in Case 08-E-0087 and Case 08-G-0888 to expense
15 negative net salvage in excess of 60% of the book cost retired for Gas
16 Distribution Mains and Services. The amounts projected for this filing follows
17 the accounting mandated by this Order and are shown on Exhibit__(AP- 8).

18

19 Q. Referring to Exhibit __ (AP- 8) please explain the development of the
20 amounts reflected in this filing as expense.

21 A. The projected Cost of Removal Net of Salvage amounts were provided by
22 Mr. Haering as part of the Construction Budget Forecast. The Projected

ACCOUNTING PANEL

1 Retirements of Gas Mains and Services for minor projects estimated to cost
2 less than \$1,000,000 is based on historical relationships for calendar years
3 2006 through 2008 of book cost retirements to plant additions. This
4 calculated factor was then applied to projected plant additions for Gas
5 Distribution Mains and Services. The Gas O&M expense projection is simply
6 the subtraction of the allowed amount of cost of removal that can be posted
7 to the reserve (60% of book cost retired) from the projected cost of removal
8 net of salvage.

9

10 Q. Why is a projection of Cost of Removal being used?

11 A. The cost of removal projection reflects latest known estimates based on a
12 higher level of retirements for gas infrastructure enhancement purposes than
13 incurred prior to 2008. Use of historic figures would understate the rate year
14 expense for this item given the increased scope of retirements and the
15 increased costs (negative net salvage) for those retirements.

16

17 Q. Does this conclude the Panel's pre-filed direct testimony?

18 A. Yes, it does.