

DIRECT TESTIMONY
OF
MICHAEL L. MOSHER

1 Q. Please state your name and business address.

2 A. My name is Michael L. Mosher and my business address is Central Hudson
3 Gas & Electric Corporation (“Central Hudson” or the “Company”), 284 South
4 Avenue, Poughkeepsie, New York 12601.

5

6 Q. In what capacity are you employed by Central Hudson?

7 A. I am employed as Vice President - Regulatory Affairs.

8

9 Q. Please summarize your education and experience.

10 A. I received a Bachelor of Science in Electrical Engineering degree from Union
11 College in 1985. I have been employed continuously by Central Hudson, or
12 its affiliate, Central Hudson Enterprises Corporation since 1993. I have
13 served in my current capacity since 2006.

14

15 Q. What are your responsibilities in your present position?

16 A. I have overall responsibility for all matters pertaining to Regulatory Affairs,
17 Regulatory Planning, Cost, Rates & Forecasts, Customer Choice, and Energy
18 Resources. These areas are responsible for forecasting demand and use for
19 the Company’s products, designing rates and tariffs for both natural gas and
20 electricity delivery and supply service, revenue requirement determination,

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1 budgeting, fuel and natural gas procurement and power supply purchasing
2 and commodity supply portfolio management activities.

3

4 Q. Have you appeared as a witness before this Commission?

5 A. Yes. I have previously appeared in Cases 08-E-0887/08-G-0888 and 05-E-
6 0934 /05-G-0935.

7

8 Q. What is the purpose of your testimony?

9 A. The purpose of my testimony is to generally describe the filing, the need for
10 additional revenues, and describe the material presented by the Company. I
11 will also present the witnesses that will be addressing each topic in support of
12 the filing. This filing addresses a rate year comprised of the twelve months
13 ending June 30, 2011 (Rate Year). Additionally, I will address several other
14 matters.

15

16 Q. Please describe the filing.

17 A. We view the new filing as largely reflecting the Commission's recent Order
18 Adopting Recommended Decision with Modifications (Rate Order), which
19 serves as a template for updated cost inputs for the Rate Year. A number of
20 external forces create rate pressures that require the Company to petition the

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1 Commission for rate increases in order for the Company to continue to
2 operate and maintain safe and reliable electric and natural gas delivery
3 systems in the Rate Year. While the electric and gas delivery rate increases
4 recently approved by the Commission in its Rate Order provide the Company
5 with rate relief from the conditions of its recently expired three-year rate plan,
6 these revenues are projected to be insufficient for the Company to recover
7 the ongoing costs of providing electric and gas delivery service beyond June
8 30, 2010, despite the Company's efforts to offset these rate pressures
9 through internal productivity gains and cost efficiencies. Additional revenue
10 support will be required in the Rate Year. The Company's filing seeks to
11 increase electric delivery rates by \$15.2 million and gas delivery rates by \$3.9
12 million in the Rate Year.

13

14 Q. Please provide an overview of Central Hudson's presentation in this filing.

15 A. The Company has submitted operating results, with appropriate normalization
16 adjustments, for the historical period of the twelve months ended March 31,
17 2009, which was the same period used to update a number of cost elements
18 in the Company's recent case that were approved by the Commission in the
19 Rate Order. The Company has also submitted projected operating results for
20 the Rate Year, with data linking the historical period and the Rate Year.

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1 Operating results for the Electric and Gas Departments for the twelve-month
2 period ended March 31, 2009, the bridge years of 2009 and 2010 and the
3 Rate Year ending June 30, 2011 are set forth in the exhibits sponsored by the
4 Revenue Requirements Panel.

5 First, we have based the proposed rates on the 10% allowed return on
6 common equity established by the Commission in the June 22 Order because
7 we believe that this represents the best current estimate of the allowed rate of
8 return on common equity as of the date of this filing. We are also submitting
9 testimony by Professor Roger Morin that shows his analysis of the cost of
10 common equity. The Company's position should be understood as reserving
11 the Company's right to increase the requested allowed rate of return should
12 we perceive that current economic conditions have changed, and not as
13 limiting its requested allowed return on equity to 10% under all circumstances.

14 This is based on the belief and expectation that the Commission's allowed
15 return on equity should reflect a fair and appropriate return based on all
16 known circumstances and conditions at the time of decision in this case.

17 Second, the Company is generally, with minor exceptions, not proposing any
18 changes to the structure, format or practices reflected in the recent
19 Commission Rate Order. The forecasts for customers and sales reflect the
20 same methodologies approved in the Rate Order. As such, the tariff leaves

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1 included with the filing are primarily limited to changing the price levels to
2 reflect the forecast revenue requirements as allocated to the various service
3 classes, with proposals for modest increases in customer, energy, and
4 demand charges, and a continuation of the revenue decoupling mechanisms
5 recently adopted by the Commission.

6 Lastly, the Company has provided projections for a majority of the elements
7 of cost consistent with past practices and the treatment approved in the Rate
8 Order. The Company is also utilizing all of the recently approved depreciation
9 rates for electric, gas, and common plant.

10

11 Q. What are the primary drivers of the rate increases?

12 A. The Company faces a number of cost increases, which can be broadly
13 grouped and quantified into categories as shown in the format of a high-level
14 summary of revenue requirements in the table below:

15

Category	Variance from Current Rates (08-E/G-0887/0888)		
	Electric (\$000)	Gas (\$000)	Total (\$000)
Mandates/Externally Imposed Costs	6,736	1,307	8,043
Sales/Revenues	2,891	908	3,799

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Operating Expenses	2,106	292	2,398
Employee Costs	(110)	406	296
Rate Base Growth	1,432	495	1,927
Cost of Debt	1,458	399	2,741
Equity Ratio	694	190	
Rate Increase	15,207	3,997	19,204

1

2 As is shown by this table, over 40% of the increase in total revenue
3 requirements is due solely to mandates and externally imposed costs. The
4 Company has included in the mandates and the externally imposed cost
5 categories, among other items, increases in MGP site remediation expenses,
6 (which makes up nearly 8% of the total increase), property taxes, PSC
7 assessment, and reversal of the austerity imputation and productivity
8 adjustment.

9 In addition to these externally driven cost increases, there are also factors
10 tending to reduce customers' use of our system and the anticipated
11 reductions in use require increases of unit rates. Low and slowing customer
12 growth, and declining unit sales per customer, brought about by the economy
13 and increased awareness and Commission efforts on energy efficiency,
14 create rate pressures that are responsible for nearly 20% of the rate
15 increases. While the revenue decoupling mechanisms (RDMs) recently

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1 approved in the Rate Order by the Commission may be effective in breaking
2 the link between sales and revenues, by design, they cannot provide either
3 any (in the case of the electric revenue per class mechanism) or enough (in
4 the case of the gas revenue per customer mechanism) of the additional
5 revenues required in the Rate Year.

6 Despite the current economic slowdown, the Company is required to commit
7 shareholder and debt capital to build, upgrade, reinforce, expand, and
8 modernize its gas and electric delivery systems in order to meet its public
9 service obligations of providing safe, adequate, and reliable service to its
10 customers. Even with reduced levels of electric, gas, and common capital
11 plant expenditures forecasted due to the current recession, this rate base
12 growth requires incremental revenue support as return on capital and
13 increased depreciation expense, and represents approximately 16% of the
14 total increase.

15 Additionally, increased borrowing costs on the debt to support these
16 investments represent almost 10% of the total rate increases.

17 Operating expense increases are about 6.5% of the total increases, driven
18 primarily by inflation, which while currently low, is likely to accelerate, and
19 remains a contributing factor.

20 Labor costs and the increase in common equity ratio are responsible for the

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1 remaining increases, but in total these factors amount to just over \$1.1 million
2 of the requested \$19.204 million, or just over 6% of the total increase.

3 Consistent with our austerity filing, executive salaries were held at 2009 levels
4 for 2010, essentially freezing them for the July – December 2010 portion of
5 the Rate Year.

6

7 Q. Are there any cost projections or issues in the filing that are not consistent
8 with the recent Rate Order?

9 A. Yes. As addressed in detail by Company witness Mr. Renner, the Company is
10 seeking to increase the common equity ratio reflected for rate making
11 purposes from 47% to 48%, to maintain the Company's financial integrity and
12 strengthen key financial metrics. Additionally, the Company's filing seeks to
13 recover all projected costs related to its Directors and Officers insurance
14 coverage rather than half of the costs as approved in the recent Rate Order.
15 The Company continues to believe that full cost recovery of this expense is
16 appropriate. Additionally, the Company is seeking a forward looking, rather
17 than historical (latest known) factor to properly forecast and recover its true
18 cost of service related to uncollectible expense, as more fully addressed by
19 the Company's Uncollectible Panel.

20

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1 Q. Has the Company been able to achieve any operating efficiencies or internal
2 productivity gains to offset these new rate pressures that are reflected in the
3 filing?

4 A. Yes. The Company expects that it will be able to stabilize its total pool of
5 labor, fringe benefits, pension, and other post employment benefit (OPEB)
6 expense to the levels recently approved by the Commission in its Rate Order.
7 This is shown by the small change, only a net of \$296,000 between the
8 current rate allowance and the forecast rate year costs for these items, shown
9 in my table above. However, given the severe financial conditions and
10 circumstances the Company operated under the terms of the recently expired
11 rate plan, which required a number of specific cost-cutting actions, all of
12 which have already been captured permanently for the benefit of customers in
13 the recent Rate Order, there are few, if any, additional opportunities to reduce
14 non-labor O&M expense without jeopardizing the Company's ability to serve.

15

16 Q. Please address the allocation of common costs, which are the Company's
17 costs that are not directly assignable to a particular electric or gas
18 department, function, or operations.

19 A. The Company's filing continues the common allocation ratio of 85/15, that is,
20 allocating common expenses 85% to electric expense and 15% to gas

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1 expense. In the recent Rate Order, the Commission directed the Company in
2 its next rate case to “provide an objective analysis of the relative responsibility
3 of the gas and electric businesses for the costs of common functions.” This
4 analysis starts with an identification of the nature of common costs. An
5 analysis of our common costs shows that our common costs are made up of
6 a number of cost categories that cannot be specifically assigned to an electric
7 or gas department or function, including among others, administrative and
8 general salaries, office supplies expense, meter reading expense for
9 combination (gas and electric) customers, customer records and collections
10 expense, certain legal and special service expenses. These common cost
11 categories account for approximately 90% of the common costs, with the
12 remaining 10% due to other miscellaneous expense category items. I believe
13 that the nature of these costs is predominantly related to the numbers of
14 customers served by the Company. As a result, I believe that objectively they
15 should be allocated on the basis of relative numbers of customers. This
16 would imply a common allocation ratio of 87/13, based on the last four years
17 of data, but I believe that the current 85/15 ratio remains appropriate. There
18 are several reasons. First, the Company has used this ratio since July 1,
19 2001, when the Company completed the divestiture of all of its major electric
20 generating assets. Since that time, there have been no major structural

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1 changes in the Company's assets or operations that dictated that common
2 costs should be allocated significantly differently. The Company has not
3 changed its recommendation in several rate proceedings since then and the
4 Commission has consistently approved the Company's recommendations.
5 Second, common cost responsibilities should ultimately be viewed as
6 customer responsibilities, regardless of the level of plant or labor required to
7 provide service, which supports maintaining the current ratio. In my opinion,
8 these costs are predominantly driven by electric service, rather than gas
9 service and the allocation of common costs is properly predominantly towards
10 electric service. Third, the cost shifting consequences of a change to 80/20,
11 as recommended by a party in our recent case, would have resulted in a shift
12 of revenue responsibility from electric to gas of approximately \$3.0 million.
13 This would result in approximately a 4.0% increase to the gas revenue
14 requirement, with corresponding bill impacts, but provide less than a 1.0%
15 decrease in the electric revenue requirement.

16
17 Q. Please describe the areas of testimony of the various witnesses in this filing.

18 A. Mr. Renner will testify in support of the Company's capital structure and cost
19 of capital required by the Commission's Statement of Policy, the Company's
20 cash requirements, and financing plan to meet its service obligations, as well

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1 as matters related to maintaining the Company's financial and credit profile.

2

3 Dr. Roger Morin will testify in support of the cost of common equity capital.

4 As noted above, the Company's filing includes rates based upon an overall
5 rate of return of 7.58%, which reflects a common equity ratio of 48%, and an
6 allowed rate of return on common equity of 10.00%.

7

8 Our Accounting Panel, consisting of Ms. Gescheidle and Ms. Komar, will
9 testify to the Company's accounting practices, the accounting charges for
10 pensions and OPEBs, matters related to the use of deferral accounting, Plant-
11 in-Service, Construction Work In Progress, Depreciation, and cost projections
12 for excess cost of removal for gas mains and services, and show that what
13 we are proposing in these new filings is consistent with the recent Rate Order.
14 An updated estimate of the negative net salvage cost of removal expense for
15 gas mains and services (above a 60% allocation to the reserve) has been
16 included.

17

18 Our Revenue Requirements Panel testimony sponsored by Mr. Brideau, Ms.
19 Smith, and Mr. Kardas addresses the development of the electric and gas
20 revenue requirements, including the historical rate base and related

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1 normalization adjustments, all operating expenses not specifically addressed
2 by others and any required adjustments related to operating expenses. As
3 shown in the Revenue Requirements panel's testimony, the treatments of
4 forecast costs follows, with few exceptions, the treatments of the recent Rate
5 Order and provides updated cost forecast information.

6

7 Mr. Brocks supports the Company's forecast labor requirement, and testifies
8 with regard to the Company's labor and fringe benefit costs and
9 compensation practices.

10

11 Mr. Haering will support projected construction expenditures, and related
12 matters, including a number of projects the Company will be seeking federal
13 stimulus funding for under the American Recovery and Reinvestment Act of
14 2009, which may be implemented in the forecast Rate Year.

15

16 Mr. DuBois will testify in support of electric transmission and distribution line
17 clearance practices and expenditures as well as the transmission right of way
18 management program, and the costs of the stray voltage-testing program
19 during the forecast rate year.

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1 A Smartgrid Panel, consisting of Mr. Kiszkiel and Ms. Butler, will provide
2 testimony to address ratemaking for the Company's plans for implementation
3 of a Smartgrid pilot project, as is discussed subsequently. In light of the
4 issuance of the Commission's Order in Case 09-E-0310 on July 27, 2009, the
5 Company is reviewing that Order to determine the extent to which
6 supplementation of the present filing may be appropriate. The Company will
7 provide any such further information as may be appropriate by August 27,
8 2009.

9
10 Mr. Borchert will provide testimony and schedules supporting MGP site
11 remediation expenditures and address the Company's gas leak repair
12 program and the forecast of such expense.

13
14 Mr. Thomas will testify as to income taxes.

15
16 Ms. Seitz will testify as to electric and gas commodity procurement methods
17 and gas supply planning.

18
19 A Rates and Forecasting Panel, consisting of Ms. Powers and Ms. Dittmar,
20 will support the projections of electric and gas customers, sales and related

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1 revenues and address the continuation of the mechanisms for billing
2 customers for the cost of electricity and natural gas purchased on behalf of
3 full service customers, consistent with the changes to the electric
4 mechanisms established by the Commission in its recent Rate Order. The
5 Panel will testify to the proposed gas and electric interclass revenue
6 allocation, rate design, and continuation of the RDM mechanisms recently
7 adopted by the Commission for gas and electric delivery service.

8

9 A Cost of Service Panel, consisting of Ms. Bunt and Ms. Guido, will sponsor
10 the embedded and pro forma cost-of-service studies for electric and gas,
11 which adopt the recent changes in the Rate Order. The Panel also presents
12 a delivery service-only electric embedded cost of service study, and
13 addresses the schedule for completion of a marginal gas cost of service
14 study, as required by the Rate Order.

15

16 An Uncollectible Accounts Panel, consisting of Ms. Harrison, Mr. Dimisko,
17 and Ms. Wright, will address the Company's recent experience with
18 uncollectible expenses and actions to control these costs, and propose a
19 forecasting method for uncollectible expense in the Rate Year.

20

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1 Finally, Ms. Royce and Ms. Ojulo, as a Low Income Panel, will address the
2 Company's existing Enhanced Powerful Opportunities low-income assistance
3 program, which incorporates the changes approved by the Commission in its
4 recent Rate Order. An increase in the scope of the EPOP is being requested.
5

6 Q. Has the Company submitted testimony in compliance with the Rules and
7 Regulations of the Public Service Commission, 16 NYCRR, Chapter I, Part
8 61.3 relating to gas purchasing policies and load management practices?

9 A. Yes. Ms. Seitz's testimony addresses the Company's gas purchasing policies
10 and load management practices including explanation of Company efforts
11 that have resulted in gas cost savings for customers.
12

13 Q. Is the Company proposing any changes Electric Reliability, Gas Safety, or
14 Customer Service Quality performance mechanisms?

15 A. No, we are not. While our preference would be for "mechanisms" that are
16 symmetrical, we are not proposing any changes.
17

18 Q. Does this conclude your pre-filed direct testimony?

19 A. Yes, it does.