

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of
Central Hudson Gas & Electric Corporation
Cases 08-E-0887 & 08-G-0888
November 2008

Prepared Testimony of:
Accounting Panel

Michael Summa
Public Utility Auditor II

Debbie Evans
Public Utility Auditor II

Dave Shahbazian
Senior Auditor

Office of Accounting & Finance
State of New York
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

1 Q. Please state your names, employer, and business
2 address.

3 A. We are Michael Summa, Debbie Evans, and Dave
4 Shahbazian. We are employed by the New York
5 State Department of Public Service (Department).
6 Our business address is Three Empire State
7 Plaza, Albany, NY 12223.

8 Q. Mr. Summa, what is your position in the
9 Department?

10 A. I am employed as a Public Utility Auditor II in
11 the Office of Accounting and Finance.

12 Q. Please describe your educational background and
13 professional experience.

14 A. I graduated from the State University of New
15 York at Plattsburgh in 1999 and have Bachelor of
16 Science degrees in Accounting and Business. I
17 have been employed by the Department since early
18 2004. Previous to this, I was employed as a
19 Senior Auditor at the State Education Department
20 for three years.

21 Q. Have you previously testified before the Public
22 Service Commission?

1 A. Yes. I testified before the Commission in
2 Central Hudson's last rate proceeding (Cases 05-
3 E-0934 and 05-G-0935). I also testified in the
4 rate filing made by Jamestown Board of Public
5 Utilities in Case 04-E-1485.

6 Q. Ms. Evans, what is your position in the
7 Department?

8 A. I am employed as a Public Utility Auditor II in
9 the Office of Accounting and Finance.

10 Q. Please describe your educational background and
11 professional experience.

12 A. I graduated from the State University of New
13 York at Plattsburgh in 2003 with Bachelor of
14 Science degrees in Accounting and Business. I
15 have been employed by the Department since June
16 2005.

17 Q. Have you previously testified before the Public
18 Service Commission?

19 A. Yes, I have previously testified in the Village
20 of Freeport proceeding (Case 06-E-0911) and in
21 the United Water New York proceedings (Case 06-
22 W-0131/06-W-0244). I have also been involved in

1 several recent municipal electric rate
2 proceedings, including the Villages of
3 Richmondville (Case 08-E-0359), Spencerport
4 (Case 07-E-0892) and Greene (Case 07-E-0486).

5 Q. Mr. Shahbazian, what is your position in the
6 Department?

7 A. I am employed as a Senior Auditor in the Office
8 of Accounting and Finance.

9 Q. Please describe your educational background and
10 professional experience.

11 A. I graduated from Bryant College in May 1984 with
12 a Bachelor of Science degree in Business
13 Administration, with a concentration in
14 Accounting. Upon graduation, I began working
15 for the IBM Corporation and did so until July
16 1992. In 1992, I joined Deegan Development
17 Group, a commercial real estate developer where
18 I was employed as the Office / Project
19 Accountant & Property Manager. In 1998, I
20 returned to IBM as a sub-contract financial
21 analyst, working in their Global Service & Real
22 Estate divisions. In December 2003, I received

1 my Masters of Business Administration from
2 Marist College. In 2004, I earned my Certified
3 Internal Audit (CIA) certificate. I began my
4 employment with the Department of Public Service
5 in May 2008.

6 Q. Have you previously testified before the Public
7 Service Commission?

8 A. No.

9 Q. Please briefly describe the Panel's
10 responsibilities with the Department.

11 A. We have general responsibility for accounting
12 and ratemaking matters related to the companies
13 regulated by the New York's State Public Service
14 Commission (the Commission). Our direct
15 responsibilities include examination of
16 accounts, records, documentation, policies and
17 procedures of utilities regulated by the
18 Commission and the development from that
19 information of various analyses and
20 recommendations to the Commission. In the
21 instant proceeding, we have the overall
22 responsibility for the accounting examination of

1 Central Hudson's rate filing.

2 Q. What is the purpose of the Accounting Panel's
3 testimony in this proceeding?

4 A. The Accounting Panel is presenting Staff's cost
5 of service exhibit for the twelve month rate
6 year ending June 30, 2010 for Central Hudson Gas
7 & Electric Corporation (Central Hudson or the
8 Company). We are also responsible for examining
9 certain areas of Central Hudson's rate year
10 forecast of Operation and Maintenance (O&M)
11 expenses; Taxes Other Than Income; Federal
12 Income Taxes; and certain Rate Base components.

13 Q. As a result of the Accounting Panel's
14 examination of Central Hudson's O&M expenses;
15 Taxes Other Than Income; Federal Income Taxes;
16 and certain Rate Base components, is the Panel
17 proposing any adjustments?

18 A. Yes. The Panel is proposing adjustments to the
19 following O&M expenses: Labor, Manufactured Gas
20 Plant (MGP) Remediation Cost Recovery, Economic
21 Development, Legal Services, Stray Voltage
22 Testing, Environmental, Productivity, Fringe

1 Benefits, Injuries and Damages Insurance, Other
2 Operating Insurance, Gas Leak Repairs,
3 Transportation - Fuel Expense, Bill Print and
4 Mail to Customer Expense, Institutional and
5 Informational Advertising, Regulatory Commission
6 Expense, and Transmission Sag Mitigation. We
7 are also proposing adjustments to Federal and
8 State Income Taxes, Taxes Other Than Income
9 (Sales & Use Tax, Revenue Taxes, Payroll Taxes)
10 and Other Operating Revenues.

11 Cost of Service Schedules

12 Q. Has the Panel prepared any exhibits related to
13 Central Hudson's Revenue Requirement Panel's
14 Exhibit_ (RRP-1) and Exhibit_ (RRP-2)?

15 A. Yes. The Panel has prepared Exhibit __ (AP-1)
16 (Cost of Service Exhibit-Electric), and Exhibit
17 __ (AP-2) (Cost of Service Exhibit-Gas).

18 Q. Please describe the Exhibit __ (AP-1) Cost of
19 Service Exhibit-Electric.

20 A. Exhibit __ (AP-1) Cost of Service Exhibit-
21 Electric consists of 12 schedules:

22 Schedule 1 Income Statement & Rate of Return

1 Schedule 2 Federal Income Taxes
2 Schedule 3 Additional Income & Unallowable
3 Deductions / Additional
4 Deductions and Non-taxable
5 Income
6 Schedule 4 Deferred Federal Income Taxes
7 Schedule 5 State Income Taxes
8 Schedule 6 Deferred State Income Taxes
9 Schedule 7 Rate Base Summary
10 Schedule 8 Deferred Rate Base Items
11 Schedule 9 Working Capital
12 Schedule 10 Capital Structure
13 Schedule 11 Revenue Requirement Calculation
14 Schedule 12 Summary of Staff's Adjustments
15 Q. Please summarize what is shown in Exhibit __
16 (AP-1).
17 A. Schedule 1 of Exhibit __ (AP-1) is a summary of
18 the Staff adjusted Income Statement and Rate of
19 Return calculation. This schedule begins with
20 the amounts in the column in the Company's
21 Revenue Requirement Panel's Exhibit_ (RRP-1),
22 Schedule B entitled "With Moderation & Before

1 Proposed Rate Change." Schedule 1 then shows
2 the derivation of Staff's proposed electric
3 revenue requirement of \$17.6 million for the
4 rate year ending June 30, 2010. Schedules 2-11
5 are the various supporting schedules that
6 provide input to Schedule 1. Schedule 12
7 summarizes the various adjustments proposed by
8 all Staff Witnesses that are reflected in the
9 Staff proposed revenue requirement for electric.

10 Q. Does Exhibit __ (AP-2) (Cost of Service Exhibit-
11 Gas) also contain 12 Schedules?

12 A. Yes. Exhibit __ (AP-2) (Cost of Service
13 Exhibit-Gas) contains 12 Schedules similar to
14 the format in Exhibit __ (AP-1).

15 Q. Do the Schedules in Exhibit __ (AP-2) represent
16 the same type of information represented in
17 Exhibit __ (AP-1)?

18 A. Yes. The schedules contained in Exhibit __ (AP-
19 2) mirror the schedules in Exhibit __ (AP-1),
20 except they present the cost of service for
21 Central Hudson's gas operations.

22 Q. Please summarize what is shown in Exhibit __
23 (AP-2)?

1 A. Schedule 1 of Exhibit __ (AP-2) is a summary of
2 the Staff Adjusted Income Statement and Staff
3 Rate of Return calculation. Schedule 1 of
4 Exhibit __ (AP-2) begins with the amounts in the
5 column in the Company's Revenue Requirement
6 Panel's Exhibit__ (RRP-2), Schedule B entitled
7 "With Moderation & Before Proposed Rate Change."
8 This Schedule then shows the derivation of
9 Staff's proposed gas revenue requirement of \$6.1
10 million for the rate year ending June 30, 2010.
11 Schedules 2-11 are the various supporting
12 schedules that provide input to Schedule 1.
13 Schedule 12 summarizes the various adjustments
14 proposed by all Staff Witnesses that are
15 reflected in the Staff proposed revenue
16 requirement for gas.

17 **Labor**

18 Q. Briefly describe how Central Hudson developed
19 its projected labor expense.
20 A. The Company developed its projected labor
21 expense by utilizing the March 31, 2008 base
22 salaries and wages for regular employees as the
23 beginning foundation. The March 31, 2008 base
24 salaries and wages were then increased by the

1 average premium pay percentages experienced
2 during the historic test year. The resulting
3 amount, in turn, was increased by known wage
4 escalation rates. Central Hudson's labor
5 projection also reflects a net change in
6 employee count of sixteen employees. Finally,
7 the Company includes wages and salaries for
8 temporary employees to arrive at the projected
9 labor expense for the rate year.

10 Q. Please describe in more detail the net change in
11 employee count employed in Central Hudson's
12 labor projection.

13 A. As described in the pre-filed Direct Testimony
14 of Company Witness Brocks at page 4, Central
15 Hudson assumes there will be a loss of ten
16 employees between the historic test year and the
17 beginning of the rate year. In addition, the
18 Company proposes to increase the employee count
19 by twenty-six employees. The result of these
20 two changes is a net change in employee count of
21 sixteen employees.

22 Q. Does the Panel agree with the change Central
23 Hudson made to its employee count relative to
24 net losses?

- 1 A. No. As a result of the Company's response to
2 Staff interrogatory DPS-407, provided in
3 Exhibit__ (AP-3), the Panel proposes the
4 employee count be reduced by fifteen employees,
5 which reflects the latest known change in
6 employee losses between the historic test year
7 and the beginning of the rate year.
- 8 Q. Does the Panel agree with the Company's proposal
9 to increase the employee count by an additional
10 twenty-six employees?
- 11 A. No. Central Hudson has not met its burden of
12 proof that the increase in employee headcount is
13 necessary.
- 14 Q. Please describe the rationale provided by
15 Central Hudson to support the additional
16 employees?
- 17 A. In Exhibit__ (TCB-1), the Company provided job
18 descriptions as support for the additional
19 employees.
- 20 Q. Please explain why the information provided by
21 Central Hudson does not meet its burden
22 necessary to support the additional increase to
23 the employee headcount.
- 24 A. Based on a review of the information provided in

1 Exhibit__ (TCB-1) and the Company's response to
2 Staff interrogatories DPS-512-518, provided in
3 Exhibits__ (AP-4-10), the Panel has concluded
4 the following: 1) the duties of the proposed
5 additional employees are already being performed
6 by employees of Central Hudson now or fall
7 within current employees' job scope; or 2) the
8 duties are related to planning for possible
9 future attrition by the Company.

10 Q. Are there any other reasons to exclude the
11 additional employees from the employee count?

12 A. Yes. According to the Pre-filed Direct
13 Testimony of Company Witness Brocks at page 4
14 and the Company's response to Staff
15 interrogatory DPS-50, provided in Exhibit__ (AP-
16 11), Central Hudson does not expect to fill all
17 the positions by the beginning of the rate year.
18 It would be inappropriate to allow in rates
19 expenses that the Company will not actually
20 incur during the rate year.

21 Q. Did Central Hudson include any potential off-
22 setting adjustments related to the incremental
23 employees?

24 A. No. According to the Company's response to

1 Staff interrogatories DPS-524, DPS-578, and DPS-
2 579, provided in Exhibits__ (AP-12,13, and 14),
3 other than reflecting the incremental employees
4 benefits resulting from Central Hudson's
5 recently revised benefit plan, no offsetting
6 adjustments such as reduced contractor invoices
7 or an increase in the traditional 1%
8 productivity adjustment are reflected in the
9 Company's filing.

10 Q. What did the Panel use for an employee headcount
11 to develop the rate year labor costs?

12 A. The Panel used an employee headcount of 815
13 employees which reflects the latest known change
14 in employee losses and excludes the Company's
15 request for additional employees.

16 Q. Central Hudson has proposed that labor costs be
17 updated, including the latest known number of
18 employees. Does the Panel agree to the proposed
19 update to the employee count to an actual level,
20 later in the proceeding?

21 A. Without substantial justification for the
22 increased employee count and inclusion of all
23 potential off-setting savings, the Panel
24 proposes the Commission reflect the actual

1 employee level only to the extent it does not
2 exceed the historic employee count of 830
3 employees. Further, it must comply with rules
4 for such updates as stated at pages 8-9 of the
5 Commission's "Statement of Policy on Test
6 Periods in Major Rate Proceedings" (issued
7 November 23, 1997).

8 Q. Did the Panel propose any other adjustments to
9 Labor?

10 A. Yes. The Panel proposes the variable pay
11 portion of premium pay be eliminated.

12 Q. Please describe "variable pay" in more detail
13 and why Central Hudson offers it as portion of
14 overall compensation.

15 A. According to the pre-filed Direct Testimony of
16 Company Witness Brocks at pages 6-7, variable
17 pay is a portion of an employee's cash
18 compensation that is paid annually based on the
19 achievement of defined goals and objectives.
20 The Company includes premium pay as a portion of
21 overall compensation because it believes that
22 each employee should have a portion of their
23 salary at risk each year dependent upon the
24 satisfaction of key goals and objectives related

1 to the benefit of customers.

2 Q. Do all employees receive variable pay?

3 A. No. According to the pre-filed Direct Testimony
4 of Company Witness Brocks at pages 5-8, only
5 non-unionized employees receive variable pay.

6 Q. Is variable pay the same for all eligible
7 employees?

8 A. No. According to the Company's confidential
9 response to Staff interrogatories DPS-54 and
10 DPS-56, provided in Exhibits__ (AP-15 and 16)
11 and DPS-461 provided in Exhibit__ (AP-17),
12 executives receive short-term incentive pay and
13 long-term incentive pay, while all other
14 eligible employees just receive short-term
15 incentive pay.

16 Q. What is the difference between short-term
17 incentive pay and long-term incentive pay?

18 A. Short-term incentive pay is cash compensation,
19 as opposed to long-term incentive pay, which is
20 compensation in the form of performance shares,
21 i.e., shares of Central Hudson common stock.

22 Q. Why does the Panel propose that short-term and
23 long-term incentive pay be eliminated from
24 Central Hudson's projected labor expense?

1 A. The Panel proposes incentive pay be eliminated
2 because incentive pay plans should be self-
3 supporting plans so that the incentive pay is
4 matched by an associated efficiency gain that is
5 passed on to ratepayers. The Commission stated
6 in Cases 90-G-0734 and 91-G-0019, National Fuel
7 Gas Distribution Corporation - Rates Opinion 91-
8 16 (issued July 19, 1991):

9 Without regard to whether the Incentive
10 Plan payments constitute a salary increase
11 to management employees, the Incentive Plan
12 will only provide compensation to
13 management employees who meet certain
14 goals. Since, in this case, the goals are
15 related to financial parameters, it is only
16 reasonable to expect that, if those goals
17 are met, there will be cost savings. . . .
18 In that case, the savings would offset the
19 costs of the plan, and the plan would be
20 self-supporting.

21 Q. Has the Commission specifically addressed
22 incentive pay that compensates in the form of
23 performance shares?

24 A. Yes. In regards to incentive pay which
25 compensates in the form of performance shares
26 similar to Central Hudson's long-term incentive
27 pay for executives, the Commission stated in
28 Case 03-C-0975, Order Authorizing Issuance Of
29 Securities (issued December 23, 2003), at page.

1 2, that:

2 . . . stock options could introduce a
3 number of complications into the rate
4 setting process if accounting for the
5 option(s) were to increase compensation
6 expense. This complication is avoided if
7 costs arising from the SOP (stock option
8 plan) are booked below-the-line and do not
9 enter the rate-making equation. Below-the-
10 line treatment allows the petition to be in
11 the public interest because companies'
12 goals are achieved without cost or impact
13 to the ratepayers. This is consistent with
14 the intent, as expressed in the supporting
15 memorandum, of the 1991 amendment to
16 Section 101 allowing for the issuance of
17 stock options. Therefore, we will approve
18 the companies' petition with the condition
19 that the companies record all related costs
20 below-the-line to ensure such costs are not
21 recovered from the ratepayers.

22 Q. Despite the fact that variable pay should be
23 self-supporting, was Central Hudson able to
24 quantify how ratepayers have benefited from the
25 Company offering variable pay plans?

26 A. No. According to the Company's response to Staff
27 interrogatories DPS-52, DPS-408, and DPS-409,
28 provided in Exhibits__ (AP-18, 19, and 20),
29 Central Hudson could not quantify in dollars how
30 ratepayers have benefited from employee variable
31 pay plans.

32 Q. Are there any other reasons why variable pay

- 1 should not be included in rates?
- 2 A. Yes. In reviewing the various incentive plan
3 documents provided in response to Staff
4 interrogatories 54 and 56, provided in Exhibit__
5 (AP-15 and 16), and Central Hudson's Proxy
6 Statement filed with the Securities and Exchange
7 Commission on March 07, 2008 (Form DEF 14A, CH
8 ENERGY GROUP INC - CHG, pages 19-49), provided
9 in Exhibit__(AP-21), it is apparent that a large
10 portion of the goals and objectives related to
11 incentive pay are tied to earnings per shares
12 and its growth. This growth of earnings is more
13 directly related to shareholders, not
14 ratepayers, and therefore, should not be paid by
15 ratepayers through rates.
- 16 Q. Did the Company make any reductions or offsets
17 to base pay to reflect variable pay as a form of
18 compensation?
- 19 A. No. As demonstrated in Exhibit__ (AP-22), both
20 base pay and variable pay increased from 2005 to
21 2008.
- 22 Q. Has the Commission recently reaffirmed its
23 positions on eliminating variable pay from
24 rates?

1 A. Yes, the Commission reaffirmed its position on
2 eliminating variable pay from rates in the
3 recent Con Edison electric rate case (Case 07-E-
4 0523, Order Establishing Rates for Electric
5 Service (issued March 25, 2008), at pages 39-41.

6 Q. Has the Panel quantified their proposed
7 adjustment to Central Hudson's labor expense?

8 A. Yes. The Panel's adjustments to labor reduce
9 operating expenses by \$3,674,000 for electric
10 operations and \$876,000 for gas operations as
11 reflected in Exhibits__ (AP-1), Schedule 1 and
12 (AP-2), Schedule 1.

13 Q. Does the Panel propose any other updates to the
14 Company's labor expense?

15 A. Yes. Central Hudson's rate year labor expense
16 includes costs for two full time employees
17 dedicated to energy efficiency. The Panel
18 proposes that labor expense be updated to
19 reflect the removal of the costs related to
20 these employees upon the commencement of any
21 Central Hudson administered energy efficiency
22 program.

23 Q. What is the Panel's basis for this update?

24 A. The Commission indicated in Case 07-M-0548,

1 Order Establishing Energy Efficiency Portfolio
2 Standard and Approving Programs (issued June 23,
3 2008), that energy efficiency program costs are
4 to be funded through the System Benefits Charge
5 (SBC). Therefore, it is necessary to remove the
6 labor costs related to these employees from base
7 rates to avoid a double recovery of costs.

8 **Productivity**

9 Q. Please explain the Panel's proposed productivity
10 adjustment.

11 A. Central Hudson's proposed revenue requirement
12 reflects the Commission's traditional one
13 percent productivity factor applied solely to
14 payroll, as stated in the Company's Revenue
15 Requirement Panel pre-filed Direct Testimony at
16 page 9. Our proposed adjustment does not
17 increase the minimum one percent productivity
18 factor being used by the Company, but applies
19 the one percent rate to a larger base. We
20 propose that the productivity base include
21 employee benefits, specifically fringe benefits,
22 pensions, post employment benefits other than
23 pensions (OPEBs) and payroll taxes.

24 Q. Are employee benefits typically included in the

1 base to calculate a productivity allowance?

2 A. Yes. In Case 06-E-1433, Order Setting Permanent
3 Rates, Reconciling Overpayments during Temporary
4 Rate Period, and Establishing Disposition of
5 Property Tax Refunds (issued October 18, 2007),
6 at pages 18-19, the Commission stated:

7 Staff and the Company differ only as to the
8 scope of this adjustment. Whereas the
9 Company applies the one percent factor
10 solely to wage rates, Staff applies the
11 adjustment to a broader base of labor
12 costs, fringe benefits and payroll taxes.
13 According, to Orange and Rockland, it is
14 inappropriate to extend the adjustment to
15 benefits, since reduction of benefits would
16 imply an actual reduction in employees
17 (rather than, for example, reduction in
18 overtime). Orange and Rockland further
19 asserts that application of the adjustment
20 to pensions and OPEBs violates the
21 Commission's Policy Statement on Pensions
22 and OPEBs, which provides for deferral and
23 full payment of such costs. Staff is
24 correct that our longstanding practice is
25 to apply the productivity adjustment to
26 total employment. Therefore, we propose to
27 apply the one percent rate to employee
28 benefits and payroll taxes.

29 Q. How is the Panel's proposed adjustment
30 quantified?

31 A. Including employee benefits and payroll taxes in
32 the base increases the productivity adjustment
33 by \$176,000 for electric operations and \$38,000

1 for gas operations as reflected in Exhibits__
2 (AP-1), Schedule 1 and (AP-2), Schedule 1.

3 MGP

4 Q. How many sites are currently included in the
5 Central Hudson's Manufactured Gas Plant Site
6 Remediation (MGP SIR) Program?

7 A. According to the pre-filed Direct Testimony of
8 Company Witness Borchert at page 5, the
9 following five sites are included in the
10 Company's MGP SIR Program: Newburgh,
11 Poughkeepsie-Laurel Street, Poughkeepsie-North
12 Water Street, Kingston, and Catskill.

13 Q. What expenditures did Central Hudson forecast it
14 would incur in the rate year related to the MGP
15 SIR Program?

16 A. The Company forecasted MGP SIR expenditures in
17 the rate year to be \$7,764,000, of which,
18 \$6,599,000 would be allocated to electric
19 operations and \$1,165,000 would be allocated to
20 gas operations.

21 Q. Are the majority of the forecasted MGP SIR
22 expenditures related to any one site?

23 A. Yes. Roughly \$7,200,000 is related to the
24 proposed activities for the Newburgh site.

1 Q. Please describe the proposed activities and
2 costs associated with the Newburgh site that are
3 expected to occur during the rate year.

4 A. The activities that represent the majority of
5 the forecasted expenditures in the rate year are
6 the construction of a barrier wall and sediment
7 remediation. The barrier wall is forecasted to
8 cost \$1,900,000 during the rate year and the
9 sediment remediation is forecasted to cost
10 \$4,300,000. The remaining \$1,000,000 is for
11 other various MGP SIR related expenditures
12 associated with the site, such as O&M, Legal,
13 Department of Environmental Conservation, and
14 Insurance related costs.

15 Q. How did Central Hudson forecast MGP SIR
16 expenditures for the Newburgh site?

17 A. According to the pre-filed Direct Testimony of
18 Central Hudson Witness Borchert at page 7, the
19 Company forecasted MGP expenditures by
20 reflecting its best estimate of the activities
21 that would occur during the rate year, the costs
22 of those activities, and the timing of
23 incurrence of those costs.

24 Q. Does the Panel agree with the Company's forecast

1 of rate year MGP SIR expenditures?

2 A. No. Based on the nature of the expenditures,
3 there is a level of uncertainty as to the actual
4 timing and costs of the MGP SIR expenditures
5 that will be incurred by Central Hudson in the
6 rate year.

7 Q. Please explain in more detail your concern as it
8 relates to the timing of the expenditures for
9 the Newburgh site.

10 A. The proposed activities related to the Newburgh
11 site are subject to New York State Department of
12 Environmental Conservation (DEC) approval of the
13 final remedial work plan.

14 Q. When is the final remedial work plan required to
15 be submitted to the DEC?

16 A. According to the pre-filed Direct Testimony of
17 Central Hudson Witness Borchert at page 7, the
18 final remedial work plan must be submitted to
19 the DEC by December 31, 2008.

20 Q. Are there any assurances the approval of the
21 remedial work plan by the DEC will be an
22 expeditious process?

23 A. No. Based on Central Hudson's responses to
24 Staff interrogatory DPS-62, provided in

1 Exhibit__ (AP-23), it appears to vary by site.
2 The remedial work plan for Area A of the
3 Newburgh site took a month to approve, whereas
4 the remedial work plan for the Beacon site took
5 three months to approve. Further, at page 8 of
6 his direct testimony, Central Hudson Witness
7 Borchert discusses the impact of a delay in
8 receipt of DEC authorization, in which he
9 states:

10 If there were to be a delay in receipt of
11 DEC authorization to proceed of less than
12 about six months, there should be no
13 significant impact on completing the
14 barrier wall during 2009. If the
15 hypothetical delay were to be longer than
16 six months, I would evaluate the options at
17 that time to shift the timing of other
18 tasks so as to complete the barrier wall
19 during 2009. However, under the
20 hypothetical scenario of an extended delay,
21 at some point the 2009 construction season
22 would be lost for this item.

23 Q. Are there any assurances the DEC will approve
24 the remedial work plan as filed by the Company?

25 A. No. The DEC could chose to amend the remedial
26 work plan, which could further delay the
27 proposed activities and the costs associated
28 with them.

29 Q. Please explain in more detail the uncertainty

1 related to the forecasted expenditures.

2 A. Since the forecasted expenditures are based on
3 best estimates, there is no assurance or
4 certainty to the actual level of costs that will
5 be experienced in the rate year. In response to
6 Staff interrogatory DPS-63, provided in
7 Exhibit__ (AP-24), Central Hudson acknowledged
8 the costs are uncertain when it stated:

9 These costs are still subject to change
10 based on additional technical data
11 collected during pre-design investigations,
12 ongoing supplemental investigations that
13 have been or that may still be requested by
14 the NYSDEC, technology advancements,
15 remedial design changes/negotiations, and
16 changed or unforeseen conditions during
17 remediation.

18 Q. Does the timing also have an impact on the
19 actual expenditures that will be experienced in
20 the rate year?

21 A. Yes. If the activities are postponed or
22 delayed, the associated costs of those
23 activities will be postponed or delayed which
24 could lead to the costs being slipped to a time
25 period outside the rate year.

26 Q. What does the Panel propose be included in rates
27 for MGP SIR expenditures?

28 A. Given the uncertainty of the timing of the

1 projects and the actual expenditures that will
2 be experienced in the rate year, the Panel
3 proposes that a three-year average of actual
4 expenditures from 2005 to 2007, as reflected in
5 the Company's supporting workpapers, be included
6 in rates.

7 Q. What is the impact of the Panel's proposal on
8 the forecasted MGP SIR expenditures filed by the
9 Company?

10 A. The Panel's proposal reduces MGP SIR
11 expenditures allocated for electric operations
12 by \$4,200,000 and gas operations by \$749,000,
13 as reflected in Exhibits__ (AP-1), Schedule 1
14 and (AP-2), Schedule 1.

15 Q. If MGP SIR expenditures were to exceed the
16 amounts provided for in rates during the rate
17 year, how does the Panel propose the Commission
18 handle these expenditures?

19 A. As it pertains to the electric operations, the
20 Panel proposes that the expenditures be offset
21 against the net regulatory liability remaining
22 after balance sheet offsets. For gas
23 operations, the Panel proposes the expenditures
24 be deferred for future rate recovery in

1 conformance with the existing methodology and
2 guidelines established in Case 01-G-1821, Order
3 Regarding Deferred Accounting Plan for 2002
4 (issued October 25, 2002).

5 Q. Central Hudson proposes to continue to defer the
6 actual expenditures in excess of the rate
7 allowance for future recovery, with carrying
8 charges, as allowed by the Company's existing
9 rate plan. Does the Panel agree?

10 A. Yes. The Panel agrees that both the deferral
11 treatment and reporting requirements should
12 continue as allowed by existing Commission
13 Orders, including the Order issued October 25,
14 2002 in Case 01-G-1821.

15 **Economic Development**

16 Q. Briefly describe the Company's Economic
17 Development cost projection for the rate year.

18 A. Central Hudson is proposing to include an
19 additional \$250,000 of Economic Development
20 funding to support the Hudson Valley Economic
21 Development Corporation (HVEDC).

22 Q. Do ratepayers already fund a portion of the
23 HVEDC's budget?

24 A. Yes. Currently, the HVEDC receives a

1 contribution from Central Hudson's Customer
2 Benefit Fund.

3 Q. What is the level of contributions that have
4 been provided to the HVEDC via the Customer
5 Benefit Fund over the last few years?

6 A. According to the Company's response to Staff
7 interrogatory DPS-320, provided in Exhibit__
8 (AP-25), the HVEDC has received \$4,183,505 from
9 the Customer Benefit Fund for the period 2004 to
10 2007.

11 Q. How was the proposed \$250,000 determined?

12 A. According to the Company's response to Staff
13 interrogatory DPS-319, provided in Exhibit__
14 (AP-26), the amount to be included in rates was
15 determined by calculating the HVEDC's projected
16 funding revenue, assuming that the state funding
17 stopped in 2009-2010 due to budget cuts, and
18 calculating the budget shortfall. The budget
19 shortfall was then partially off-set by adding
20 affiliated members dues, with the remaining
21 short fall in revenues made up by the additional
22 Central Hudson funding in rates.

23 Q. Is the budget shortfall directly related to the
24 possible reduction or elimination of the state

1 funding to the HVEDC?

2 A. Yes. Not only does the Company state the
3 possible reduction or elimination of the New
4 York State budget allotment as a reason for the
5 inclusion of the \$250,000 in rates, but it also
6 provided a chart in response to a Staff
7 interrogatory DPS-319, that demonstrates the
8 reduction of the New York State budget allotment
9 as well.

10 Q. What evidence, if any, does Central Hudson
11 provide to support the assumption that the state
12 funding could be reduced or eliminated?

13 A. The Company references the fiscal year 2008-2009
14 NYS budget appropriation bill that contains
15 language that the HVEDC budget could be reduced.

16 Q. Was the budget allotment to the HVEDC for the
17 fiscal year 2008-2009 eliminated or reduced?

18 A. The budget allotment was not eliminated;
19 however, it was reduced by 6% from an allotment
20 of \$500,000 to \$470,000.

21 Q. Does a budget shortfall exist if New York State
22 provides a budget allotment of \$470,000 in the
23 2009-2010 fiscal years?

24 A. No, it does not. In fact, New York State could

1 reduce the budget allotment by almost 47% and
2 the HVEDC budget would not experience a
3 shortfall according to the projected budgets
4 provided by the Company in response to Staff
5 interrogatory DPS-319.

6 Q. Does Central Hudson believe the additional
7 funding would benefit ratepayers?

8 A. Yes. In response to Staff interrogatory DPS-
9 322, provided in Exhibit__ (AP-27), the Company
10 stated:

11 The increased delivery revenues these
12 projects will foster will help off set
13 increases in Central Hudson costs and
14 therefore lower future rate adjustments.

15 Q. Did the Company make any off sets to costs or
16 the sales forecast to reflect the increased
17 revenues?

18 A. No, according to Central Hudson's response to
19 Staff interrogatory DPS-621, provided in
20 Exhibit__ (AP-28), the Company does not
21 anticipate that the economic development
22 activities will necessarily be successful to the
23 point where new facilities will be constructed
24 and operational during the rate year. It is the
25 Panel's opinion that if the Company believes
26 there will eventually be increased revenues that

1 will help off set increases in Central Hudson
2 costs, and therefore, lower future rate
3 adjustments, then the increased revenues should
4 support the additional \$250,000 the Company is
5 seeking in rates.

6 Q. Does the Panel agree with the Company's
7 inclusion of an additional \$250,000 in the rate
8 year to fund the HVEDC?

9 A. No, it does not.

10 Q. Please explain and summarize your rationale for
11 excluding the additional \$250,000 from rate year
12 O&M expenses.

13 A. There are several reasons why the additional
14 \$250,000 should be excluded from rate year O&M
15 expenses. First, the increased delivery
16 revenues these projects will eventually foster
17 should offset the increase in additional
18 funding, especially since the Company did not
19 make any offsetting adjustments to reflect the
20 increase in revenues. Second, it is uncertain
21 as to whether or not New York State will reduce
22 or eliminate the HVEDC budget allotment in the
23 rate year and, as stated above, it appears as
24 though a reduction in the current allotment

1 level would not create a budget shortfall for
2 the HVEDC in the rate year. Finally, it is
3 inappropriate to include in rates an expense
4 related to economic development when a deferred
5 credit owed to customers remains related to
6 economic development that Central Hudson does
7 not project will be exhausted until beyond the
8 rate year.

9 Q. Please explain in more detail the deferred
10 balance related to economic development.

11 A. The Commission authorized in Case 00-E-1273,
12 Order Adopting Economic Development Program,
13 (issued October 3, 2002) that Central Hudson
14 disburse from the Customer Benefit Fund up to
15 \$11 million over a five-year period for
16 promoting economic development activities in the
17 Hudson Valley region. As of October 31, 2008,
18 the remaining balance is roughly \$3,758,971.

19 Q. Does Central Hudson propose to include the
20 \$250,000 in rates even if the NYS funding
21 allocation to the HVEDC is maintained at its
22 current level?

23 A. Yes. The Company proposes to defer the \$250,000
24 for future support of the HVEDC if the NYS

1 funding allocation to the HVEDC is maintained at
2 its current level.

3 Q. Does the Panel believe it would be appropriate
4 to include the \$250,000 in rates, even if the
5 NYS funding allocation to the HVEDC is
6 maintained at its current level?

7 A. No. It would be inappropriate to include
8 expenses in rates that do not pertain to the
9 rate year.

10 Q. Did the Panel quantify its proposed adjustment
11 to economic development?

12 A. Yes. The removal of economic development funding
13 from rates is a reduction to operating expense
14 in the amount of \$213,000 for electric
15 operations and \$38,000 for gas operations, as
16 reflected in Exhibits__ (AP-1), Schedule 1 and
17 (AP-2), Schedule 1.

18 **Stray Voltage**

19 Q. How did Central Hudson develop its projected
20 stray voltage expense for the rate year?

21 A. The Company used their budget projections for
22 fiscal years 2008 and 2009 to develop forecasted
23 expenditures for the bridge period (March 31,
24 2008 to July 1, 2009), and the rate year.

1 Q. Did Central Hudson adjust the stray voltage
2 expenditures for inflation as part of the
3 forecast?

4 A. No. The Company used escalation factors instead
5 of inflation.

6 Q. What escalation factors are used in the
7 Company's forecasted expenditures?

8 A. According to an O&M Expense workpaper provided
9 by the Company, for expenditures related to
10 Distribution and Street Lights/Traffic Signals,
11 Central Hudson used an escalation factor of 3%
12 per year. For Transmission expenditures, an
13 escalation factor of 4% per year was used, and
14 for expenditures related to Quality
15 Assurance/Quality Control, a 5% per year
16 escalation factor was used.

17 Q. What did the Company forecast it would incur in
18 the rate year related to the stray voltage
19 expenditures?

20 A. The Company forecasted stray voltage
21 expenditures to be \$2,023,000 in the rate year.

22 Q. Does the Panel agree with Company's forecast?

23 A. Based on a review of actual stray voltage
24 expenditures for fiscal years 2005, 2006, and

1 2007, as provided by the Company in response to
2 Staff interrogatory DPS-314, provided in
3 Exhibit__ (AP-29), as well as, the Stray Voltage
4 Test and Facility Inspection reports, submitted
5 to the Commission pursuant to Case 04-M-0159,
6 for fiscal years 2005, 2006, and 2007, the Panel
7 does not agree with the Company's forecast.

8 Q. Please describe in more detail the Panel's
9 review of stray voltage expenditures.

10 A. Our review of actual expenditures for the last
11 three fiscal years revealed the rate allowance
12 exceeded the actual expenditures in each of the
13 years.

14 Q. Are stray voltage expenditures subject to
15 deferred accounting treatment?

16 A. Yes. Currently, the difference between the rate
17 allowance and the actual expenditures by the
18 Company are deferred for either future rate
19 recovery or future ratepayer benefit. As of
20 October 31, 2008, Central Hudson had deferred on
21 its books \$1,510,438 that it owes ratepayers.

22 Q. Please explain in more detail the Panel's review
23 of the Stray Voltage Test and Facility
24 Inspection reports.

1 A. Based on our review, we have concluded that
2 from 2005 to 2007, Central Hudson completed two
3 full testing cycles related to distribution
4 poles, underground facilities, and transmission
5 facilities, and three full testing cycles were
6 completed related to street lighting and traffic
7 signals.

8 Q. Based on your review of stray voltage
9 expenditures and Stray Voltage Test and Facility
10 Inspection reports, what does the Panel propose?

11 A. The Panel proposes for distribution poles,
12 underground facilities, and transmission
13 facilities to average the costs of the two full
14 testing cycles. For costs related to street
15 lighting and traffic signals, we propose to
16 average the costs of three full testing cycles.

17 Q. Why does the Panel believe this to be a more
18 appropriate method of calculating rate year
19 expenditures?

20 A. This method more accurately forecasts
21 expenditures by reflecting the actual
22 expenditures experienced by Central Hudson
23 related to stray voltage.

24 Q. Did the Panel quantify its proposed adjustment

1 to stray voltage?

2 A. Yes. The total of the proposed averages
3 adjusted for inflation from 2007 to the end of
4 the rate year is \$1,910,053, compared to the
5 Company's rate year amount of \$2,023,358, which
6 results in a reduction of O&M expenses of
7 \$113,305 as reflected in Exhibit__ (AP-1),
8 Schedule 1.

9 Q. Would the Panel like to address any other issues
10 related to Stray Voltage?

11 A. Yes. The pre-filed Direct Testimony of Company
12 Witness Dubois at page 15 indicates the Company
13 is concerned that the "Notice Soliciting
14 Comments", issued July 8, 2008, regarding
15 proposed revisions to the Commission's Electric
16 Safety Standards in Case 04-M-1519 (Notice)
17 could impact the level of expenditures related
18 to Stray Voltage.

19 Q. Did the Company quantify the potential cost
20 impact?

21 A. No. Mr. Dubois states at page 15 of his pre-
22 filed Direct Testimony that there is not
23 sufficient detail provided in the Notice to
24 determine with any degree of certainty what the

1 incremental cost would be to comply with the
2 proposed revisions to the standards.

3 Q. What is the Panel's position regarding the
4 Company's concern?

5 A. We believe it is premature to discuss the
6 potential cost impacts regarding proposed
7 revisions to the Commission's Electric Safety
8 Standards because the Commission has yet to make
9 any revisions to the current Electric Safety
10 Standards. In addition, it is undetermined at
11 this point whether the revision would impact the
12 level of expenditures related to Stray Voltage.

13 Q. You indicated above that stray voltage
14 expenditures currently are subject to deferred
15 accounting treatment. Does the Panel propose
16 this treatment be continued?

17 A. No, deferred accounting treatment for this item
18 is no longer necessary or appropriate. As our
19 proposed rate allowance is based on actual
20 expenditures experienced by the Company for
21 Stray Voltage in recent years, it provides a
22 reasonable forecast of expenditures in the rate
23 year. Deferred accounting is an extraordinary
24 measure and the information provided by Central

1 Hudson related to this cost component does not
2 provide a basis for continuing deferred
3 accounting treatment.

4 **Legal Services**

5 Q. How did Central Hudson calculate legal services
6 expense for the rate year?

7 A. The Company's rate year amount was projected by
8 increasing historical period costs by the
9 estimated inflation factor.

10 Q. Does the Panel propose any adjustments to the
11 Company's rate year amount for legal services?

12 A. Yes. The Panel proposes to normalize the
13 historical period costs by reflecting a three-
14 year average of costs for legal services.

15 Q. Please explain why the Panel adjusted the
16 historical period to reflect a three-year
17 average.

18 A. Based on a review of the actual costs for the
19 last three years, periods ending June 30, 2005,
20 June 30, 2006, and June 30, 2007, as provided by
21 the Company in response to Staff interrogatory
22 DPS-599, provided in Exhibit__ (AP-30), it
23 appears that the actual costs for legal services
24 tend to fluctuate, and therefore, an average is

1 a more accurate representation of legal services
2 costs the Company is likely to incur in the rate
3 year because it evens out the fluctuation.

4 Q. What is the three-year average of costs for
5 legal services?

6 A. The three-year average of costs for legal
7 services for the periods ending June 30, 2005,
8 June 30, 2006, and June 30, 2007, shown in
9 Exhibit__ (AP-30), reflected in 2007 dollars is
10 \$2,001,585 for electric operations and \$567,320
11 for gas operations.

12 Q. Did the Panel quantify its proposed adjustment
13 to legal services?

14 A. Yes. The three-year average adjusted for
15 inflation from 2007 to the end of the rate year
16 for electric operations is \$2,140,295, compared
17 to the Company's rate year amount of \$2,401,170,
18 which results in a reduction of electric
19 operating expense of \$260,875, as reflected in
20 Exhibit__(AP-1), Schedule 1. For gas
21 operations, Staff's proposed rate year amount is
22 \$606,636, compared to the Company's rate year
23 amount of \$990,440, which results in a reduction
24 of gas operating expenses of \$383,805 as

1 reflected in Exhibit__ (AP-2), Schedule 1.

2 Q. Does Central Hudson propose to make any other
3 changes to legal services?

4 A. Yes. The Revenue Requirement Panel's pre-filed
5 Direct Testimony at pages 20-22 proposed that
6 litigation costs related to property taxes be
7 afforded the same regulatory treatment as
8 property taxes.

9 Q. What is the Company's current regulatory
10 treatment for property taxes?

11 A. The difference between the actual expense and
12 the rate allowance is shared, with 90% deferred
13 for future return or charge to customers, and
14 10% being at the expense of, or benefit to, the
15 Company.

16 Q. Does the Panel agree with the Central Hudson's
17 proposal?

18 A. No, it does not.

19 Q. Please explain why the Panel disagrees with
20 Company's proposal.

21 A. It would be inappropriate to remove one type of
22 litigation cost from the total of litigation
23 costs. As pointed out above, litigation costs
24 tend to fluctuate from year to year. Therefore,

1 similar to the theory behind items forecasted by
2 applying the projected general inflation factor
3 to a pool of certain O&M expenses, commonly
4 referred to as the inflation pool, in one year
5 litigation costs associated with property taxes
6 may be higher, but in that same year litigation
7 costs associated with another legal matter may
8 be lower. In addition, since we included
9 property tax litigation costs as part of our
10 three-year average of historic legal services
11 costs to project rate year legal services costs,
12 we have already taken into consideration any
13 abnormally high legal services costs due to
14 property tax litigation, if any exist.

15 Q. Are there any other reasons Central Hudson's
16 proposal should not be adopted?

17 A. Yes. As described later our testimony, we
18 propose to remove the deferral associated with
19 property taxes.

20 **Environmental Expense**

21 Q. How did Central Hudson determine its rate year
22 amounts related to environmental expense?

23 A. The Company's Revenue Requirement Panel pre-
24 filed Direct Testimony at page 24 used cost

1 projections provided by Central Hudson's
2 Director of Environmental Affairs.

3 Q. How were the cost projections developed?

4 A. In reviewing the Company's workpapers, it
5 appears as though some of the environmental
6 expenses were just adjusted for inflation, while
7 others were adjusted for projected increases.

8 Q. Did the Company provide support for the
9 projected increases to certain environmental
10 expenses?

11 A. Yes. However, the information provided does not
12 meet the burden of proof necessary to support
13 the projected increases.

14 Q. Did the Panel review actual expenditures for
15 previous years related to environmental expense?

16 A. Yes.

17 Q. What was the result of the Panel's review of the
18 expenditures related to previous years?

19 A. Similar to legal services, we found that the
20 actual costs related to environmental expenses
21 tend to fluctuate from year to year.

22 Q. Does the Panel propose an adjustment to
23 environmental expense?

24 A. Yes. The Panel proposes to use a three-year

1 average of the last three fiscal years adjusted
2 for inflation.

3 Q. What is the three-year average of environmental
4 expense?

5 A. The three-year average of environmental expense
6 for fiscal years 2005, 2006, and 2007, as
7 provided by the Company in response to Staff
8 interrogatories DPS-310 and DPS-311, provided in
9 Exhibits__ (AP-31 and 32), reflected in 2007
10 dollars is \$345,510 for the electric operations
11 and \$43,727 for the gas operations.

12 Q. Did the Panel quantify its proposed adjustment
13 to environmental expense?

14 A. Yes. The three-year average adjusted for
15 inflation from 2007 to the end of the rate year
16 for electric operations is \$364,859, compared to
17 the Company's rate year amount of \$457,487,
18 which results in a reduction of operating
19 expense of \$92,628, as reflected in Exhibit__
20 (AP-1), Schedule 1. For the gas operations the
21 rate year amount is \$46,176, compared to the
22 Company's rate year amount of \$80,326, which
23 results in a reduction of gas operating expenses
24 of \$34,150 as reflected in Exhibit__ (AP-2),

1 Schedule 1.

2 **Fringe Benefits**

3 Q. In what area of fringe benefits is the Panel
4 proposing an adjustment?

5 A. We are proposing an adjustment to the medical
6 claim cost projection within the medical
7 insurance portion of fringe benefits.

8 Q. Please explain how Central Hudson developed its
9 projection of medical claim costs.

10 A. The Company's rate year forecasts of fringe
11 benefits are described in the Revenue
12 Requirement Panel's pre-filed Direct Testimony
13 at pages 15-17. Central Hudson's historic test
14 year medical claim costs were based on the 12
15 months ended March 31, 2008. Central Hudson
16 adjusted the historic test year to reflect
17 twelve months of payments, and then inflated the
18 normalized historic test year using an
19 escalation rate of 6% per year. The Company
20 claims the 6% escalation rate better reflects
21 the cost trend over the past three years.

22 Q. Did Central Hudson use the 6% escalation rate to
23 forecast other areas of fringe benefits?

24 A. No. Central Hudson used estimated inflation

1 rates based on projections of the Gross Domestic
2 Implicit Price (GDP) deflator to forecast most
3 fringe benefit costs.

4 Q. Does the Panel agree with Central Hudson's use
5 of a 6% escalation rate to forecast medical
6 claim costs?

7 A. No. Central Hudson's methodology is contrary to
8 the Commission's policy established in Opinion
9 84-27, Case 28695 - Rochester Telephone
10 Corporation, issued October 12, 1984, and
11 reaffirmed in numerous Commission decisions
12 including Opinion 90-8, Case 89-C-022 -
13 Rochester Telephone Corp., issued February 14,
14 1990; Opinion 90-29, Case 89-G-1050 - Brooklyn
15 Union Gas Company, issued October 17, 1990;
16 Opinion 90-30, Case 89-G-1057 - Columbia Gas of
17 New York, Inc., issued October 26, 1990; Opinion
18 91-25, Case 90-E-1185/90-G-0112 - Long Island
19 Lighting Company, issued November 26, 1991;
20 Opinion 94-3, Case 92-E-1055/92-G-1056 - Central
21 Hudson Gas and Electric Corp., issued February
22 11, 1994; and Opinion 95-8, Case 93-E-1123 -
23 Long Island Lighting Company, issued July 3,
24 1995.

1 In Opinion 94-3, at page 13, the Commission
2 stated:

3 The treatment of medical insurance costs as
4 one factor in a large pool of expenses
5 subject to inflation should produce a
6 reasonable result, because some items will
7 increase at a rate greater than inflation
8 and others at a lower rate.

9 Q. Has the Commission recently reaffirmed its
10 decisions to use inflation to forecast medical
11 insurance expenses?

12 A. Yes, in Case 07-E-0523, Consolidated Edison
13 Company of New York, Inc., issued March 25,
14 2008, the Commission reaffirmed its decision to
15 include medical care expenses in the inflation
16 pool. At pages 42-43 of the Order, the
17 Commission stated:

18 The practice uses the recent costs and the
19 current employee count to capture the
20 present operating conditions. It also
21 acknowledges that the costs in this and
22 many other categories are expected to
23 increase. Overall, the Company is expected
24 to manage the cost increases in the entire
25 group and to keep them, as best it can, to
26 the general inflation rate. By this time,
27 we would expect the utility companies to
28 have accepted the standard practice and to
29 apply their resources more productively to
30 other matters.

31 Q. What is the Panel proposing as the escalation
32 rate for Central Hudson's medical claim costs?

33 A. We are proposing to use the projected inflation

1 rates that were used to escalate Central
2 Hudson's other fringe benefit costs.

3 Q. What is the effect of using the projected
4 inflation rates on medical claim costs?

5 A. The use of projected inflation rates reduces O&M
6 expenses by \$359,344 for electric operations and
7 \$80,803 for gas operations.

8 Q. Is the Panel proposing additional adjustments to
9 fringe benefits?

10 A. Yes, we are proposing an additional adjustment
11 to the medical insurance portion of fringe
12 benefits.

13 Q. Please explain the adjustment in more detail.

14 A. As described above, Central Hudson increased its
15 rate year fringe benefit expenses to reflect its
16 increased level of employees. Between the
17 historic test year and rate year, Central Hudson
18 is forecasting an additional 26 newly-hired
19 employees and a reduction of 10 employees due to
20 retirements. The Company has increased rate
21 year costs to reflect the net 16 incremental
22 employees.

23 Q. Please explain the Panel's proposed adjustment.

24 A. As described above, we are proposing to

1 eliminate all of the new positions and remove
2 five additional retirees. We have reflected a
3 related adjustment to eliminate associated
4 health insurance expenses for those employees.

5 Q. What is the effect of the Panel's adjustment on
6 medical insurance expenses?

7 A. The removal of the incremental employees and
8 retirements reduces the expenses by \$166,117 for
9 electric operations and \$37,354 for gas
10 operations.

11 Q. What is the Panel's total proposed adjustment to
12 fringe benefits?

13 A. Our total proposed adjustment to fringe
14 benefits, as summarized on Exhibit__(AP-33), is
15 \$525,461 for electric operations and \$118,157
16 for gas operations. Additionally, this
17 adjustment is reflected on Exhibits__ (AP-1),
18 Schedule 1 & (AP-2), Schedule 1.

19 **Injuries and Damages**

20 Q. In what area of Injuries and Damages Insurance
21 is the Panel proposing an adjustment?

22 A. We are proposing an adjustment to the claim
23 costs for workers compensation insurance,
24 personal and property damage, and accident and

1 safety.

2 Q. Please explain how Central Hudson forecasted
3 claim costs.

4 A. Central Hudson escalated four-years of claim
5 costs to 2008 dollars and then took an average
6 to develop a normalized expense level. The
7 Company then escalated the averages using the
8 GDP inflation rates to develop rate year
9 projected costs.

10 Q. Does the Panel agree with the averaging
11 approach?

12 A. We agree that insurance claims for workers
13 compensation insurance, personal and property
14 damage, and accident and safety are best
15 forecasted using an averaging approach in order
16 to normalize one-time expenses and fluctuating
17 expense levels. However, when averaging various
18 expenses in its filing, Central Hudson used
19 different time periods, ranging between a two-
20 year average and a five-year average. We are
21 proposing to use a three-year average.

22 Q. Please explain why the Panel is using a three-
23 year average.

24 A. Using a three-year average, rather than varied

1 years, will provide consistency. We are
2 proposing a three-year average because three
3 years reflects recent costs and is an adequate
4 time period for taking an average.

5 Q. What is the effect of the Panel's adjustment on
6 Injuries and Damages Insurance?

7 A. The use of a three-year average reduces O&M
8 expenses by \$134,426 for electric operations and
9 \$35,297 for gas operations as reflected on
10 Exhibits__ (AP-1), Schedule 1 and (AP-2),
11 Schedule 1.

12 **Federal and State Income Taxes**

13 Q. In what area of taxes is the Panel proposing an
14 adjustment?

15 A. We are proposing an adjustment to Central
16 Hudson's calculation of the rate year tax
17 deduction for interest expense, including the
18 related "avoided cost of interest" calculation
19 within the federal income tax and state income
20 tax calculations. We are also recommending an
21 adjustment related to Central Hudson's proposed
22 treatment of the income tax consequences of
23 Manufactured Gas Plant Site Remediation (MGP
24 SIR) expenditures and recoveries.

1 Q. Please explain how Central Hudson calculated its
2 rate year tax deduction for interest expense.

3 A. To calculate its rate year interest expense
4 projection, Central Hudson multiplied its
5 projected rate year rate base, by its proposed
6 weighted cost rate for long-term debt and
7 customer deposits.

8 Q. Does the Panel agree with Central Hudson's
9 methodology used to calculate interest expense?

10 A. No. Central Hudson ignores the related "avoided
11 cost of interest" adjustment when calculating
12 interest expense. Specifically, the Company's
13 projection of total rate year interest expense
14 excluded interest costs on Interest Bearing
15 Construction Work in Process (IBCWIP). However,
16 Central Hudson's "avoided cost of interest"
17 adjustment assumes total rate year interest
18 expense includes interest costs on IBCWIP. This
19 creates a mismatch in the tax calculation and
20 results in overstated rate year tax expense.

21 Q. How should the tax deduction for interest
22 expense be calculated?

23 A. The tax deduction for interest expense should be
24 calculated by adding IBCWIP to the projected

1 rate base, and then multiplying by the debt
2 weighted cost rate.

3 Q. Why did Central Hudson exclude IBCWIP from its
4 calculation of interest expense?

5 A. As explained in the Company's response to Staff
6 interrogatory DPS-463, provided in Exhibit__(AP-
7 34), Central Hudson did not include IBCWIP in
8 its calculation in order to be consistent with
9 the revenue requirements in the Company's last
10 rate case, Case 05-E-0934 and 05-G-0935.

11 Q. Does the Panel agree that IBCWIP was not
12 included in Central Hudson's last rate case?

13 A. Staff's projected interest expense calculations
14 in Case 05-E-0934 and 05-G-0935 included IBCWIP;
15 however, regardless of the last rate filing, the
16 Company's current presentation is incorrect.

17 Q. Is the Panel making an adjustment to include
18 IBCWIP?

19 A. Yes, as shown in Exhibit__ (AP-35), we are
20 adding in the Company's projected IBCWIP
21 interest of \$774,000 for electric operations and
22 \$53,000 for gas operations in the interest
23 expense calculation. This adjustment is
24 reflected in Exhibits__ (AP-1), Schedule 10 and

1 (AP-2), Schedule 10.

2 Q. Please explain how Central Hudson calculated its
3 "avoided cost of interest" deferral.

4 A. Central Hudson provided workpapers in response
5 to Staff interrogatory DPS-185, provided in
6 Exhibit__ (AP-36), detailing its "avoided cost
7 of interest" deferral calculation. Central
8 Hudson calculated its total avoided interest on
9 Allowance for Funds used during Construction
10 (AFC) projects and Non-AFC projects, subtracted
11 the portion of interest estimated to be
12 associated with IBCWIP, and deferred the
13 remaining Non-IBCWIP portion. The IBCWIP
14 portion was treated as a flow-through item
15 (i.e., reflected in rates immediately) and the
16 Non-IBCWIP portion was treated as a deferral
17 item (i.e., adjusted out to be reflected in
18 future rates) for tax purposes.

19 Q. Did Central Hudson explain why it is not
20 deferring the tax effect on all interest?

21 A. In response to Staff interrogatory DPS-466,
22 provided in Exhibit__(AP-37), Central Hudson
23 explained that it is following the methodology
24 described in Case 29465, which resulted in the

1 issuance of the Commission's Statement of Policy
2 on Accounting and Ratemaking Procedures to
3 Implement Requirements of the Tax Reform Act of
4 1986 (TRA 86 Policy Statement).

5 Q. Please describe the relevant portions of the TRA
6 86 Policy Statement.

7 A. As discussed in the TRA 86 Policy Statement and
8 consistent with the Tax Reform Act of 1986 (TRA-
9 86), all interest arising from the self-
10 construction of real property, property with an
11 ADR life of more than 20 years and property with
12 a construction period of more than two years (or
13 one year if costs exceed \$1 million) must be
14 capitalized as part of the tax basis. TRA-86
15 assumes that construction costs are financed by
16 debt, and requires all interest related to
17 construction to be capitalized for tax purposes.
18 Following this methodology, interest capitalized
19 for tax purposes may exceed the interest
20 assigned to construction for accounting and
21 ratemaking purposes.

22 Q. Please explain how interest capitalized for tax
23 purposes may differ from interest capitalized
24 for accounting and ratemaking purposes.

1 A. It is assumed for accounting and ratemaking
2 purposes that construction period capital costs
3 are consistent with the corporate capital
4 structure, which includes debt and equity.
5 Because TRA-86 assumes that construction costs
6 are completely financed by debt, interest
7 capitalized for tax purposes will be greater
8 than for accounting purposes for regulated
9 utilities.

10 Q. Does the TRA 86 Policy Statement explain how to
11 account for the difference?

12 A. The TRA 86 Policy Statement states that
13 utilities should normalize, or defer, the income
14 tax expense for the additional interest required
15 to be capitalized for tax purposes to ensure
16 that ratepayers receive the benefit of the
17 interest deduction on the rate base for which
18 they provide a current return. The TRA 86
19 Policy Statement further explains that in order
20 to align the interest expense deduction for tax
21 purposes with the interest expense for
22 accounting and ratemaking purposes, utilities
23 should defer the difference between interest
24 capitalized for tax purposes and the debt

1 component of AFC multiplied by the AFC base, and
2 amortize the resulting deferred tax over the
3 life of the plant once placed into service.

4 Q. Does the Panel believe Central Hudson's
5 calculation is consistent with the Policy
6 Statement?

7 A. No. Central Hudson projects that all its
8 construction costs will be fully financed by
9 short-term debt, but it is not deferring the
10 related short-term interest costs for tax
11 purposes. Instead, Central Hudson is only
12 deferring the additional interest, which was
13 calculated by comparing the interest that should
14 be capitalized for tax purposes to the
15 calculation of the debt component of AFC
16 multiplied by the AFC base. Central Hudson's
17 calculation results in the majority of interest
18 being flowed through, and very little being
19 deferred to be amortized over the life of the
20 plant once placed into service. This treatment
21 forces ratepayers to pay for the tax costs up
22 front, rather than over the life of the plant.

23 Q. Please explain the Panel's proposed adjustment.

24 A. We are proposing to correctly capitalize all

1 interest on IBCWIP and defer the tax effect,
2 consistent with the TRA 86 Policy Statement and
3 TRA-86.

4 Q. What is the impact of the Panel's adjustments?

5 A. Our proposed adjustments are shown in Exhibit__
6 (AP-35). The total adjustment reduces Federal
7 Income Tax expense by \$541,000 for electric
8 operations and by \$38,000 for gas operations.
9 Additionally, State Income Tax expense is
10 reduced by \$72,000 for electric operations and
11 \$4,000 for gas operations. The adjustments are
12 reflected in Exhibits__ (AP-1), Schedules 4 and
13 6, and (AP-2), Schedules 4 and 6.

14 Q. Does the Panel have another adjustment to taxes?

15 A. Yes, we have an adjustment related to how
16 Central Hudson reflected the impacts of MGP SIR
17 costs in its rate year income tax calculations.

18 Q. Where did the Company reflect MGP SIR costs in
19 its federal and state income tax calculations?

20 A. For the electric operations, Central Hudson's
21 proposed reflection of the income tax
22 ramifications of MGP SIR costs in the rate year
23 are reflected on Exhibit__ (CDT-1), Schedule D,
24 Sheet 3 of 4, in the line entitled "MGP SIR

1 Costs & Recovery." For the gas operations, the
2 Company's proposed reflection of the income tax
3 ramifications of MGP SIR costs are reflected on
4 Exhibit__ (CDT-1), Schedule D, Sheet 4 of 4, in
5 the line entitled "MGP SIR Costs & Recovery".

6 Q. Please summarize how Central Hudson reflected
7 MGP SIR costs in its federal and state income
8 tax calculations.

9 A. These calculations indicate a projected
10 difference between: 1) the amount the Company
11 will be allowed in rates in this proceeding and
12 actually recovered from customers for MGP SIR
13 costs in the rate year; and 2) the amount it
14 will actually incur in the rate year for MGP SIR
15 costs that can be reflected as a deduction on
16 its income tax returns. These calculations also
17 reflect the impacts of this difference being
18 deferred on Central Hudson's books, to be
19 reflected in future rate cases. In theory, this
20 should result in no impact on the revenue
21 requirement.

22 Q. Does the Panel agree with the Company's
23 calculation?

24 A. No. First, we disagree with certain amounts

1 used in Central Hudson's calculation. Moreover,
2 the Company's rate year forecasts assume an MGP
3 SIR deferral balance of \$0 at the beginning of
4 the rate year because of the Company's deferred
5 debit/credit offset proposal. This is indicated
6 in pre-filed Direct Testimony of the Revenue
7 Requirement Panel at page 49. As a result,
8 there is no difference between the proposed rate
9 allowance and the projected income tax
10 adjustments for MGP SIR expenditures and
11 recoveries.

12 Q. Please explain the Panel's adjustment.

13 A. We are proposing to eliminate all of the
14 Company's proposed rate year tax adjustments and
15 related deferrals for MGP SIR costs. These
16 adjustments are reflected in Exhibits__ (AP-1)
17 and (AP-2), Schedules 3, 4, and 6, respectively.
18 As discussed in this testimony, we have
19 recommended a rate year O&M expense allowance of
20 \$2,399,000 for MGP Cost Recovery for electric
21 operations and \$416,000 for gas operations.
22 Central Hudson's accounting for income taxes
23 should continue to reflect deferred accounting
24 procedures consistent with current practice.

1 **Other Operating Insurance**

2 Q. In what area of other operating insurance is the
3 Panel proposing an adjustment?

4 A. We are proposing an adjustment to the Directors
5 and Officers Liability (D&O) Insurance portion
6 of other operating insurance.

7 Q. What is D&O Insurance?

8 A. D&O Insurance indemnifies the Company and its
9 directors and officers for "wrongful acts" in
10 performing their respective corporate
11 capacities.

12 Q. Could the Panel further explain "wrongful acts"?

13 A. As defined in the Company's insurance policy
14 provided in response to Staff interrogatory DPS-
15 181, provided in Exhibit__ (AP-38), "wrongful
16 acts" are any error, misstatement, misleading
17 statement, act, omission, neglect, or breach of
18 duty committed, attempted, or allegedly
19 committed or attempted by an insured person,
20 individually or otherwise, in his insured
21 capacity.

22 Q. What is Central Hudson's coverage level for D&O
23 Insurance?

24 A. As explained in Central Hudson's response to

1 Staff interrogatory DPS-180, provided in
2 Exhibit__ (AP-39), the Company has a primary
3 policy with a limit of \$15 million that provides
4 coverage to Directors and Officers and the
5 Company. The Company has three supplemental
6 policies that provide excess coverage to the
7 primary policy up to \$85 million. Central
8 Hudson also has an additional policy, with a
9 limit of \$15 million, which provides coverage to
10 only directors and officers.

11 Q. If the Company did not have D&O Insurance
12 coverage, would customers normally pay for the
13 costs of judgments resulting from shareholder
14 suits in cases where directors or officers were
15 found to have committed a "wrongful act"?

16 A. No. Generally, the Commission protects
17 ratepayers from bearing costs resulting from
18 unreasonable and imprudent utility actions.

19 Q. If in the normal course of ratemaking, the
20 Commission would disallow rate recovery of costs
21 associated with "wrongful acts", should
22 ratepayers pay insurance premiums to protect the
23 shareholders from the financial consequences of
24 "wrongful acts"?

1 A. No, ratepayers should not be paying to protect
2 shareholders from "wrongful acts".

3 Q. What is the Panel's proposed adjustment to D&O
4 Insurance costs?

5 A. We are proposing that the shareholders pay for
6 most of the cost of D&O Insurance because the
7 benefit of the insurance is to shareholders.

8 Q. In the Panel's opinion, should a portion of D&O
9 Insurance be allowed in rates?

10 A. We believe that the ratepayers should provide
11 costs for the primary coverage, but any excess
12 policies should be paid for by shareholders.
13 Plaintiffs may bring lawsuits whether or not the
14 claims and alleged wrongful acts have any basis.
15 However, it seems reasonable that claims without
16 basis could be covered using the Company's
17 primary policy, and would not require the
18 additional coverage of the excess policies.

19 Q. Please explain how the Panel's adjustment to D&O
20 Insurance was calculated.

21 A. We are proposing to eliminate all of the
22 Company's excess D&O Insurance policies. This
23 is a reduction of \$512,994 for electric
24 operations and \$90,528 for gas operations. This

1 adjustment is reflected in Exhibits__ (AP-1),
2 Schedule 1 and (AP-2), Schedule 1.

3 Q. Please explain the associated adjustment to rate
4 year prepaid insurance in rate base.

5 A. The Company's forecast assumes 33% of insurance
6 premiums are prepaid in the rate year for
7 electric operations and 31% for gas operations.
8 Our adjustment to prepaid insurance of \$169,997
9 for electric operations and \$28,383 for gas
10 operations tracks our adjustments to rate year
11 other operating insurance expense. This
12 adjustment is reflected in Exhibit__ (AP-1) and
13 (AP-2), Schedule 9, respectively.

14 Q. Is Staff or any another party proposing a
15 similar adjustment in an ongoing Commission
16 Proceeding?

17 A. Yes. In the current Consolidated Edison Company
18 of New York Inc. (Consolidated Edison) electric
19 rate case, Staff is proposing to allow only the
20 basic level of coverage for claims and
21 litigation against Directors and Officers, which
22 is 10% of Consolidated Edison's total D&O
23 Insurance. The Consumer Protection Board (CPB)
24 is also proposing an adjustment, but it proposes

1 projection for gas leak repairs expense?

2 A. The workpapers provided by the Company indicate
3 that Central Hudson first projected the average
4 rate year cost for one gas leak repair by
5 determining the average historic test year cost
6 of one leak repair, and then inflated that
7 amount by an annual growth rate of 5%. The
8 Company projected rate year gas leak repairs
9 expense by multiplying the number of leak
10 repairs it expects to occur during the rate year
11 by the projected average cost for one leak
12 repair.

13 Q. How did the Company determine the 5% growth
14 rate?

15 A. The Company's workpapers indicate the 5% annual
16 growth rate is based on a recommendation by Mr.
17 Brochert.

18 Q. Does Mr. Brochert's testimony, or the testimony
19 of any other Central Hudson witness, provide a
20 basis for using the 5% annual growth rate,
21 rather than the general rate of inflation, to
22 project the average cost of one leak repair in
23 the rate year?

24 A. No. Mr. Brochert's testimony does not address

1 the 5% annual growth rate at all. The only
2 Central Hudson witness that addresses the
3 projected cost of gas leak repairs is Mr.
4 Haering, who generally states at page 16 of his
5 pre-filed testimony:

6 The expense related costs for this program
7 are shown on Exhibit__(RRP-2), Schedule B,
8 Gas Leak Repairs - Distribution Main.
9 These costs include the increases in gas
10 leak repair costs related to the higher
11 cost of materials for restoration efforts
12 such as paving and blacktop of which the
13 Company cannot control.

14 Q. Do you agree with the Company's use of a 5%
15 annual growth rate?

16 A. No. Central Hudson has not met its burden of
17 proof for escalating the historic average cost
18 for one leak repair by anything other than the
19 general GDP inflation factor.

20 Q. What is your proposed adjustment to gas leak
21 repairs expense?

22 A. Our adjustment reflects historic test year costs
23 per gas leak, inflated using the GDP inflation
24 rates, and applied to the Company's projected
25 number of leaks to be repaired during the rate
26 year. Our adjustment reduces gas leak repair
27 expenses by \$133,010. This adjustment is

1 reflected on Exhibit__ (AP-2), Schedule 1.

2 Q. Is any other Staff Witness addressing gas leak
3 repairs?

4 A. Yes. We are just addressing Central Hudson's
5 failure to meet its burden of proof for
6 increasing the historic average cost for one
7 leak repair by anything other than the general
8 inflation factor. The Safety Panel is
9 addressing Staff's position on all other matters
10 related to Gas Leak Repairs.

11 **Transportation - Fuel**

12 Q. Please explain how Central Hudson developed its
13 Transportation - Fuel expense forecast for the
14 rate year.

15 A. Central Hudson first normalized the historic
16 test year by pricing out the volume of fuel used
17 during the historic period at the last unit
18 price paid in April 2008. The normalized
19 historic test year was then escalated by a two
20 year average growth rate of 11.96%. As a
21 result, the Company has requested that
22 transportation fuel be removed from the O&M
23 expenses forecasted in the inflation pool.

24 Q. Does the Panel agree with Central Hudson's

1 normalization adjustment to the historic test
2 year?

3 A. We generally agree with the Company's
4 normalization adjustment; however, it should be
5 updated to reflect the most recent unit price of
6 fuel paid by the Company. Furthermore, the
7 Panel was unable to fully assess the
8 reasonableness of a portion of the normalization
9 adjustment.

10 Q. Why wasn't the Panel able to fully assess the
11 reasonableness of a portion of Central Hudson's
12 normalization adjustment?

13 A. The normalization adjustment consists of two
14 parts. The first relates to fuel drawn from the
15 Company's fuel inventory and the second relates
16 to direct purchases of fuel from vendors. We
17 were able to assess the reasonableness of the
18 quantities of fuel drawn from the Company's fuel
19 inventory based on information and historic data
20 provided in the Company's supporting workpapers
21 and interrogatory responses. However, we were
22 unable to fully assess the reasonableness of the
23 Company's assumption that the quantity of fuel
24 directly purchased from vendors in the historic

1 test year would be the same in the projected
2 rate year because the Company's filing did not
3 disclose the actual quantities of such purchases
4 in prior historic periods.

5 Q. Were prior year fuel quantities and dollar
6 amounts directly purchased by the Company
7 requested by Staff?

8 A. Yes, Staff interrogatories DPS-193, DPS-595, and
9 DPS-596, provided in Exhibits__ (AP-40, 41, and
10 42), requested detail regarding specific
11 gasoline and diesel quantities directly
12 purchased from vendors. However, the Company's
13 response stated that the information was not
14 readily available. In the absence of the
15 requested information, the Panel was unable to
16 fully evaluate the reasonableness of Company's
17 fuel quantity projection for direct purchases
18 from vendors.

19 Q. Does the Commission's "Statement of Policy on
20 Test Periods in Major Rate Proceedings" (issued
21 November 23, 1997) (Test Year Policy Statement)
22 address such matters?

23 A. Yes. Page 8 of the Test Year Policy Statements
24 states:

1 Our staff and other parties in rate cases
2 should be able to retrace projections back
3 to their historical source. All
4 assumptions, escalation factors,
5 contingency provisions and changes in
6 activity levels should be quantified and
7 properly supported.

8 Q. What is the Panel's recommendation related to
9 this matter?

10 A. The Panel recommends the Commission inform
11 Central Hudson that if it wants to use this
12 methodology in future rate filings, its
13 supporting workpapers must include the actual
14 quantities of fuel purchased directly from
15 vendors for all historic periods subsequent to
16 2008 so that the forecast can be properly
17 evaluated. Arguably, we could recommend that
18 the Company has not met its burden for this
19 normalization adjustment and disallow it
20 entirely; however, given our further
21 recommendations, we do not believe that this
22 approach is necessary at this time.

23 Q. Has the Panel calculated its proposed adjustment
24 to Central Hudson's normalized transportation -
25 fuel expense forecast?

26 A. Yes, as shown in Exhibit__(AP-43), we updated
27 the normalization adjustment to reflect the

1 "last unit price paid" as of October 2008, which
2 was provided by the Company in response to Staff
3 interrogatory DPS-585, provided in Exhibit__(AP-
4 44).

5 Q. Should the "last unit price paid" be further
6 updated?

7 A. Yes. Page 8 of the Commission's Test Year
8 Policy Statement states that revisions for known
9 changes in cost rates, to the extent they are
10 material, may be made as late as the Company's
11 initial brief on exceptions. Thus, if "the last
12 unit price paid" is materially different than it
13 was in October 2008, the Company should provide
14 that information in its brief on exceptions so
15 the Commission's decision can reflect the latest
16 available information for this volatile cost
17 component.

18 Q. Does the Panel agree with the Company's use of
19 an 11.96% growth rate?

20 A. No, we do not agree with the use of this two-
21 year growth rate.

22 Q. Please explain why the Panel disagrees with the
23 use of this growth rate.

24 A. The Company calculated its growth rate by using

1 a two-year average from 2005 to 2007. Two years
2 of data is insufficient to calculate a growth
3 trend when the data inputs are at opposite
4 extremes of one another, as is the case with
5 transportation - fuel costs.

6 Q. What does the Panel propose be used instead of
7 the growth rate?

8 A. We propose using the projected rates of
9 inflation as a substitute for the Company's
10 growth rate during the bridge period through the
11 end of the rate year.

12 Q. What is the basis for using inflation rates as a
13 substitute to the Company's two-year growth
14 rate?

15 A. Central Hudson's two-year average growth rate
16 includes anomalies due to the volatility of the
17 price of fuel over the last year. Further, use
18 of a historic growth factor is neither
19 necessary, nor appropriate since the Panel is
20 proposing to update transportation fuel-expense
21 for "the last unit price paid" a few months
22 prior to the beginning of the rate year.
23 Finally, the Company's rate allowance for
24 transportation-fuel was fully based on the

1 projected inflation factor in the Company's last
2 two rate cases, Cases 00-E-1273 and 00-G-1274,
3 and 05-E-0934 and 05-E-0935.

4 Q. Did the Panel quantify its adjustments to
5 transportation - fuel?

6 A. Yes. The adjustments result in a reduction to
7 the Company's rate year projection, as
8 summarized in Exhibit__ (AP-45), of \$421,337 for
9 the electric operations and \$86,712 for gas
10 operations. In addition, the adjustments are
11 reflected in Exhibits__ (AP-1) and (AP-2),
12 Schedule 1, respectively.

13 **Bill Print & Mail to Customer**

14 Q. Please explain how Central Hudson developed its
15 bill print and mail to Customer (bill print and
16 mail) projection for the rate year.

17 A. The Company removed bill print and mail expense
18 from the inflation pool and inflated the
19 normalized historic test year using a four-year
20 average growth rate of 4.73%.

21 Q. Was bill print and mail expense included in the
22 inflation pool in the Company's last rate
23 filing?

24 A. Yes.

1 Q. Does the Panel agree with the Company's proposal
2 to remove bill print and mail from the inflation
3 pool and use a four-year average growth rate of
4 4.73%?

5 A. No, actual calendar year data for 2003 to 2007
6 adjusted to 2007 dollars results in an inflation
7 adjusted growth rate of 1.92%, as shown in
8 Exhibit__ (AP-46). Based on this data, the Panel
9 believes bill print and mail expense should
10 remain in the inflation pool.

11 Q. Does the Panel propose any adjustments to the
12 Company's rate year amount for bill print & mail
13 expense?

14 A. Yes. The Panel proposes to normalize the
15 historic test year costs by reflecting a three-
16 year average of actual costs for the periods
17 ending December 31, 2005, December 31, 2006 and
18 December 31, 2007 to even out any fluctuation in
19 costs for bill print and mail expense. In
20 addition, the Panel proposes that bill print and
21 mail expense should remain in the inflation pool
22 and therefore the normalized historic test year
23 costs should be inflated using GDP inflation
24 rates, not a growth rate.

1 Q. Did the Panel quantify its adjustment to Bill
2 Print & Mail expense?

3 A. Yes. The adjustments result in a reduction to
4 the Company's rate year projection by \$60,969
5 for electric operations and \$10,759 for gas
6 operations, as reflected in Exhibits__ (AP-1)
7 and (AP-2), Schedule 1, respectively.

8 **Informational and Institutional Advertising**

9 Q. Please explain how Central Hudson developed its
10 informational and institutional advertising
11 (advertising) expenditures?

12 A. According to the pre-filed Direct Testimony of
13 the Revenue Requirement Panel at page 26,
14 Central Hudson's rate year projection for
15 advertising expense was determined by applying a
16 factor of 0.07% (0.0007) of combined delivery
17 and commodity revenues for both electric and
18 gas. Additionally, the testimony indicates this
19 methodology is a return to a prior practice.

20 Q. Please describe the practice referenced.

21 A. In Case 91-E-0506, the Commission applied a
22 factor of 0.07% (0.0007) against projected
23 revenues to establish Central Hudson's rate
24 allowance for advertising expenses.

1 The Commission's determination at that time was
2 based on its "Statement of Policy on Advertising
3 and Promotional Practices of Public Utilities",
4 issued on February 25, 1977.

5 Q. Has the Company's recent rate allowances for
6 advertising been based on the referenced
7 practice?

8 A. No. The Company did not employ, and the
9 Commission did not adopt, that methodology in
10 the Company's last two previous rate cases, 00-
11 E-1273 and 00-G-1274, and 05-E-0934 and 05-E-
12 0935. In these cases, Central Hudson's rate
13 allowance was based on historic test year
14 advertising expenses, increased by the projected
15 inflation factor. As elaborated below, this
16 resulted in the Company's rate allowance being
17 less than the 0.0007 factor established in Case
18 91-E-0506.

19 Q. What is the Panel's position regarding the
20 change in forecast methodology?

21 A. As shown in Exhibit__ (AP-47), the Company's
22 most recent actual spending on advertising for
23 electric operations fell just under the 0.0007
24 factor, based upon a three-year average ratio of

1 advertising expenditures to total operating
2 revenues. Therefore, the Panel proposes no
3 change to Central Hudson's method to project
4 advertising expense for electric operations.

5 Q. Does the Panel propose any adjustments to the
6 Company's advertising projection for gas
7 operations?

8 A. Yes. Central Hudson has requested a higher rate
9 allowance for gas operations in the projected
10 rate year than it requested and was allowed in
11 its most recent Commission approved rate
12 filings. Moreover, the Company's most recent
13 actual expenditures demonstrate that it does not
14 actually need an amount greater than actual
15 historic test year advertising expenses adjusted
16 for inflation to effectively operate its gas
17 operations in the rate year. The Panel's
18 analysis shows that the three-year average ratio
19 of advertising expenditures to total operating
20 revenues for gas operations supports use of a
21 0.0004 factor. Therefore, Central Hudson has
22 not met its burden of proof for determining its
23 rate allowance for advertising expenses by
24 applying the 0.0007 factor.

1 Q. Does the Panel's analysis result in an
2 adjustment?

3 A. Yes. As shown in Exhibit__ (AP-48), the
4 Company's original advertising expense
5 projection for gas operations in its supporting
6 workpapers, updated to reflect the 0.0004
7 factor, results in a reduction to the rate year
8 advertising projection of \$54,979 for gas
9 operations. This adjustment is reflected in
10 Exhibit__ (AP-2), Schedule 1.

11 **Regulatory Commission Expense**

12 Q. Please explain how Central Hudson developed its
13 Regulatory Commission Expense projection?

14 A. The forecast is based on the Company's
15 "Department of Public Service Statement of
16 Estimated Assessment for fiscal year end March
17 31, 2009". The Company escalated the assessment
18 amount based upon a four-year average growth
19 rate to arrive at the rate year projection.

20 Q. Does the Panel agree with Company's forecast
21 methodology?

22 A. No. The Panel's proposed calculation escalates
23 the historic year data at the GDP inflation
24 factors. As explained above, regarding

1 transportation - fuel, the Panel does not
2 believe the use of growth averages to escalate
3 the historic year data is appropriate or
4 necessary since the Panel, as will be discussed
5 later in our testimony, is proposing to update
6 the historic year costs a few months prior to
7 the beginning of the rate year.

8 Q. Has the Panel quantified its proposed
9 adjustment?

10 A. Yes. The adjustments result in a reduction to
11 the Company's Regulatory Commission Expense rate
12 year projection by \$161,590 for the electric
13 operations and \$49,743 for the gas operations as
14 reflected shown in Exhibits __ (AP-1) and (AP-2),
15 Schedule 1, respectively.

16 **Taxes Other Than Income (Sales & Use Tax)**

17 Q. Please explain how Central Hudson developed its
18 sales & use tax expense projection.

19 A. The Company applied a four-year average growth
20 rate to escalate the historic year data.

21 Q. Does the Panel agree with the Company's
22 methodology?

23 A. No. As explained above, the Panel concludes
24 that cost items that are updated for the latest

1 known data a few months prior to the beginning
2 of the rate year should not be escalated at a
3 rate different than the rate of inflation.

4 Q. Does the Panel propose an adjustment?

5 A. Yes. The Panel proposes that rate year
6 projected Sales and Use Taxes be determined by
7 applying the GDP inflation factors to the
8 updated sales & use tax base. The adjustments
9 result in a reduction to the Company's Taxes
10 Other Than Income (sales & use tax) rate year
11 projection by \$15,542 for the electric
12 operations and \$44,569 for the gas operations,
13 as reflected Exhibits__ (AP-1) and (AP-2),
14 Schedule 1, respectively.

15 **Revenue Taxes**

16 Q. How did Central Hudson calculate revenue taxes?

17 A. According to the Revenue Requirement Panel pre-
18 filed Direct Testimony at page 28, Central
19 Hudson calculated revenue taxes by applying the
20 existing tax rates to revenues projected for the
21 bridge period and the rate year.

22 Q. Please describe the Panel's adjustment to
23 revenue taxes?

24 A. Because Staff has adjusted revenues, there is a

1 corresponding adjustment to revenue taxes. The
2 Panel's adjustment tracks the change in revenues
3 to determine the revenue taxes reflected in the
4 rate year.

5 Q. Has the Panel quantified its proposed adjustment
6 to revenue taxes to track the changes in
7 revenues?

8 A. Yes. The adjustments result in an increase to
9 the Company's revenue taxes in the rate year by
10 \$438,000 for the electric operations and
11 \$183,000 for the gas operations, as reflected in
12 Exhibit__ (AP-1), Schedule 1 and Exhibit__ (AP-
13 2), Schedule 1.

14 **Payroll Taxes**

15 Q. How did Central Hudson calculate payroll taxes?

16 A. Central Hudson calculated payroll taxes by
17 applying the appropriate tax rates for Federal
18 Insurance Contributions Act (FICA) and federal
19 and state unemployment insurance to the related
20 taxable wages projected for the applicable
21 periods.

22 Q. Please describe the Panel's adjustment to
23 payroll taxes?

24 A. Since the Panel adjusted the Company's taxable

1 wages when it adjusted labor expense, there is a
2 corresponding adjustment to payroll taxes. The
3 Panel's adjustment reflects the change in
4 taxable wages to payroll taxes in the rate year.

5 Q. Has the Panel quantified its proposed adjustment
6 to payroll taxes?

7 A. Yes. The adjustments result in a decrease to
8 the Company's payroll taxes in the rate year by
9 \$268,000 for the electric operations and \$60,000
10 for the gas operations, as reflected in
11 Exhibits__ (AP-1) and (AP-2), Schedule 1,
12 respectively.

13 **Other Operating Revenues**

14 Q. Please describe your adjustment to other
15 operating revenues.

16 A. The adjustment relates to late payment or
17 finance charges included in the Company's other
18 revenues forecast. Finance charges are paid by
19 customers based on over due amounts owed Central
20 Hudson, and thus, directly correspond to
21 revenues the Company receives from customers.
22 However, the Company's projection, based on
23 information provided in workpapers, for finance
24 charges is based on historical information and

1 ignores the changes in customer revenues
2 reflected in Central Hudson's rate year
3 forecasts, including the proposed rate
4 increases. The purpose of the Panel's
5 adjustment is to reflect the relationship
6 between finance charges and customer revenues.
7 We propose the adjustment be reflected by
8 applying a factor to customer revenues of
9 (0.0151) for electric operations and (0.0202)
10 for gas operations. The impact on the proposed
11 revenue requirement is reflected by the
12 inclusion of this factor in the gross-up factor
13 reflected in Exhibits__ (AP-1), Schedule 11 and
14 (AP-2), Schedule 11 and is separately identified
15 in Exhibits__ (AP-1) and (AP-2), Schedule 1,
16 respectively.

17 Q. Please describe how the Panel calculated the
18 proposed factors.

19 A. We calculated the factors by developing a
20 weighted composite finance charge percentage.
21 The finance charge percentage was calculated by
22 using a three-year average of finance charge
23 percentages for fiscal years 2005 to 2007 and
24 then weighting the percentages using a three-

1 year average of residential, commercial, and
2 industrial revenues to arrive at the weighted
3 composite finance charge percentage included in
4 the gross up factor.

5 Q. Has the Panel quantified the impact of its
6 proposed adjustment to other operating revenues?

7 A. Yes. The adjustments result in an increase to
8 the Company's other operating revenues in the
9 rate year by \$266,000 for the electric
10 operations and \$124,000 for the gas operations.

11 **Transmission Sag Mitigation Program**

12 Q. Please describe the Company's anticipated
13 expenditures related to the Transmission Sag
14 Mitigation Program.

15 A. The Company anticipates spending \$3,300,000 over
16 the next few years to retension a number of
17 spans that do not meet required clearances. The
18 Company has included \$1,100,000 in the rate year
19 related to the Transmission Sag Mitigation
20 Program.

21 Q. Does the Panel propose any adjustments to the
22 Company's Transmission Sag Mitigation Expense?

23 A. Yes. The Panel proposes that the expenses
24 related to the Transmission Sag Mitigation

1 Program be removed from rates and recovered by
2 offsetting the expenses against the net
3 regulatory liability remaining after balance
4 sheet offsets.

5 Q. Why does the Panel propose the expenses related
6 to the Transmission Sag Mitigation Program be
7 removed from rates and recovered by offsetting
8 the expenses against the net regulatory
9 liability remaining after balance sheet offsets?

10 A. If expenses for the Transmission Sag Mitigation
11 Program were included in base rates upon
12 completion of the Program, base rates would be
13 overstated for the amount of expenses related to
14 the Program.

15 Q. How does the Panel propose the expenses related
16 to the Transmission Sag Mitigation Program be
17 recovered?

18 A. The Panel proposes the expenses be recovered by
19 offsetting the expenses against the net
20 regulatory liability remaining after balance
21 sheet offsets.

22 Q. How does the Panel propose the level of expenses
23 that can be offset against the net regulatory
24 liability be determined?

1 A. The Panel recommends the level of expenses that
2 can be offset against the net regulatory
3 liability be determined using the methodology
4 proposed in the Staff Electric Infrastructure
5 Panel's testimony.

6 **Uncollectibles**

7 Q. Has the Company proposed any modifications to
8 the uncollectible rate related to commodity
9 revenues?

10 A. Yes, the Company proposes to update, on an
11 annual basis, the uncollectible rate utilized in
12 the calculation of the uncollectible allowance
13 included in the Energy Cost Adjustment Mechanism
14 (ECAM) and the Gas Supply Charge (GSC) to
15 reflect the most recent calendar year's charge-
16 offs. According to the pre-filed Direct
17 Testimony of the Electric Forecasting Panel at
18 page 54 and Gas Forecasting Panel at page 25,
19 Central Hudson contends this change is needed
20 because a "static factor does not reflect
21 changes in the overall rate of charge-offs as a
22 percent of total revenue subject to bad debt."

23 Q. Does the Panel agree with this modification?

24 A. No. Allowing Central Hudson to update

1 uncollectible rates between rate cases may
2 reduce the Company's incentive to control the
3 level of uncollectible expenses. Moreover,
4 Central Hudson has not demonstrated that its
5 proposed change is appropriate or necessary.

6 **Disposition of Deferred Items**

7 Q. Is the Company proposing to net the actual
8 deferred credit and debit balances against each
9 other at the beginning of the rate year?

10 A. Yes. According to the pre-filed Direct
11 Testimony of the Revenue Requirement Panel at
12 pages 48-50, Central Hudson proposes that actual
13 deferred credit and debit balances as of June
14 30, 2009 be netted against each other.

15 Q. Does the Panel agree with this proposal?

16 A. Yes.

17 Q. Does the Panel propose any changes to the
18 Company estimated deferred credit and debit
19 balances subject to offset for the electric
20 operations?

21 A. Yes. The deferred credits related to the
22 electric depreciation reserve and the
23 Competition Education Program should be updated
24 to reflect the changes made by the Staff

1 Depreciation Panel and Staff Witness Hart.

2 Q. Do the Staff adjusted forecasts indicate there
3 will be a balance remaining after the deferred
4 credit and debit balances are offset against
5 each other for electric operations?

6 A. Yes. They indicate there will be a net
7 regulatory liability owed customers remaining
8 after the offset in the amount of \$52.9 million.

9 Q. Does Staff propose the forecasted regulatory
10 liability be used to mitigate the Staff proposed
11 electric rate increase for the rate year ended
12 2010?

13 A. No. The reasons for this position are explained
14 in the Direct Testimony of Staff Witness Vijay
15 Puran.

16 Q. How does the Panel propose the actual net
17 regulatory liability remaining after offsets be
18 treated?

19 A. As previously discussed in our testimony, we
20 propose the actual net regulatory liability
21 remaining after offset be first used to fund MGP
22 Site Remediation (SIR) Program and Transmission
23 Sag Mitigation Costs. The remaining balance
24 should be deferred for future ratepayer benefit

1 with carrying charges at the Company's pre-tax
2 rate of return.

3 Q. Does the Panel propose any changes to the
4 Company estimated deferred credit and debit
5 balances subject to offset for the gas
6 operations?

7 A. Yes. The deferred credits related to the
8 Competition Education Program should be updated
9 to reflect the changes made by the Staff Witness
10 Hart.

11 Q. Do the Staff adjusted forecasts reflect there
12 will be a balance remaining after the deferred
13 credit and debit balances are offset against
14 each other for the gas operations?

15 A. Yes. Our adjusted forecasts indicate there will
16 be a net regulatory asset remaining after offset
17 in the amount of \$20.9 million.

18 Q. How does the Panel propose to treat the actual
19 net regulatory asset remaining after offsets?

20 A. The Panel agrees with the Company's proposal, as
21 described in the pre-filed Direct Testimony of
22 the Revenue Requirement Panel at page 49, to
23 amortize the balance, including interest on the
24 unamortized balance, over a five-year period.

1 **Deferral Requests**

2 Q. What is the Panel's position regarding the
3 Company's proposed deferred accounting treatment
4 for several cost items?

5 A. The following expenses currently have Commission
6 authorization for deferred accounting treatment,
7 and therefore, deferred accounting should
8 continue: Pensions, OPEB, and Interest Costs on
9 Variable Rate Debt, Asbestos Litigation, and
10 Research & Development costs. As previously
11 stated in our testimony, the Panel proposes to
12 continue deferred accounting treatment related
13 to Manufactured Gas Plant Site Remediation costs
14 and Stray Voltage costs. In addition, the Panel
15 supports the continuation of deferred accounting
16 treatment for Low Income Customers, as described
17 in the testimony of Staff Witness Silverstein.

18 Q. What other items does the Panel propose be
19 allowed deferred accounting treatment?

20 A. The Panel supports the Company's request for
21 deferral authorization for cost variations
22 compared to the debt structure and costs assumed
23 for ratemaking purposes, as discussed in the
24 Staff Rate of Return Panel testimony. The Panel

1 also supports deferred accounting treatment
2 related to the Revenue Decoupling Mechanism
3 (RDM), as proposed in Staff Witness Twergo's
4 testimony and the Gas Rates Panel testimony. In
5 addition, the Panel supports deferred accounting
6 treatment related to Lost Revenues associated
7 with Net Metered Systems for the services
8 classes excluded from the RDM, as proposed by
9 Staff Witness Twergo.

10 Q. How does the Panel propose to account for lost
11 revenues?

12 A. Lost revenues should be tracked on a class and
13 sub-class basis. The Company should be allowed
14 to recover the lost revenues on an annual basis
15 from the applicable classes that the lost
16 revenues pertained to over a twelve month
17 period. The Company should also be required to
18 file a report with Commission detailing the lost
19 revenues for the period.

20 Q. Are there any items the Panel proposes to not
21 allow deferred accounting treatment?

22 A. Yes. The Panel proposes not to allow deferred
23 accounting treatment for NYS Income Taxes,
24 Property Taxes, Property Tax Litigation, Energy

1 Efficiency Programs, Advanced Metering
2 Initiative, Economic Development Programs and
3 changes in federal or state regulations that
4 have an impact of more than 1% of net income.

5 Q. Please provide in more detail why the Panel
6 proposes not to allow deferred accounting
7 treatment related to NYS Income taxes.

8 A. As described in pre-filed Direct Testimony of
9 Company Witness Thomas at page 5, there are four
10 different methods of calculating state income
11 tax. The Company's tax liability is the highest
12 tax amount resulting from the four different
13 methods. The Company filed its case using the
14 net income tax method of calculating state
15 income tax, and has requested to be allowed to
16 defer the difference in tax liability associated
17 with using the net income tax method, as opposed
18 to one of the other three methods. The Panel
19 does not believe deferred accounting treatment
20 is appropriate or necessary because the Company
21 filed its case using the net income tax method
22 and did not provide any evidence suggesting the
23 Company's NYS tax liability may be based on one
24 of the other methods in rate year.

1 Q. Please provide in more detail why the Panel
2 proposes not to allow deferred accounting
3 treatment related to Property Taxes and Property
4 Tax Litigation.

5 A. The Panel does not believe property taxes
6 warrant deferred accounting treatment in the
7 context of a one year rate case. The current
8 deferred accounting treatment relating to
9 property taxes was part of a Joint Proposal in
10 which the term of the agreement was three years.
11 The Panel disagrees with deferred accounting for
12 property tax litigation for the reasons
13 described previously in our testimony, and based
14 on our decision to deny deferred accounting for
15 property taxes deferred accounting treatment for
16 property tax litigation is a moot point and
17 should likewise not be allowed.

18 Q. Please provide in more detail why the Panel
19 proposes not to allow deferred accounting
20 treatment for Energy Efficiency.

21 A. In Case 07-M-1139, Order Authorizing Energy
22 Efficiency Program Low-Income Customers (issued
23 on October 16, 2008), the Commission stated:

24
25 Other outstanding elements of the Company's

1 energy efficiency proposals will be
2 considered in separate proceedings and will
3 not be considered in the Company's rate
4 proceeding.

5 Based on this Order, the Panel believes deferred
6 accounting treatment should be addressed in the
7 separate energy efficiency proceedings.

8 Further, it would be premature to allow deferred
9 accounting treatment for Energy Efficiency since
10 the Commission has yet to authorize Central
11 Hudson's Energy Efficiency Programs.

12 Q. Please provide in more detail why the Panel
13 proposes not to allow deferred accounting
14 treatment for Advanced Metering.

15 A. We believe it is premature to allow deferred
16 accounting treatment for Advanced Metering
17 because the Commission has yet to require the
18 Company implement Advanced Metering.

19 Q. Please provide in more detail why the Panel
20 proposes not to allow deferred accounting
21 treatment related to Economic Development.

22 A. The Panel proposes not to allow deferred
23 accounting treatment related to Economic
24 Development for the reasons previously stated in
25 our testimony.

26 Q. Please provide in more detail why the Panel

1 proposes not to allow deferred accounting
2 treatment related to changes in federal or state
3 regulations that have an impact of more than 1%
4 of net income.

5 A. The Panel opposes deferred accounting treatment
6 because in these cases the Commission may act on
7 its own volition, or the Company can petition
8 the Commission for relief if the need arises, on
9 a case-by-case basis.

10 **Update Items**

11 Q. Does the Panel agree with the Company's request
12 that updates be provided later in this
13 proceeding?

14 A. Yes.

15 Q. Does the Panel agree with items that the Company
16 has requested to update as described in the
17 revenue requirement panel testimony?

18 A. Yes, however, we have a few modifications to
19 some of the updates.

20 Q. Please describe your modifications in more
21 detail.

22 A. As addressed previously in our testimony, labor
23 should only be updated to reflect the actual
24 employee level only to the extent it does not

1 exceed the filed employee count of 830
2 employees. Regulatory Commission Assessment
3 should be updated to reflect the latest PSC
4 assessment. The workers compensation portion
5 and personal & property damage claims portion of
6 Injuries and Damages expense should reflect the
7 latest known information in the three-year
8 average serving as the basis for the projection.
9 Storm Restoration expense should be updated for
10 the latest known information in the four-year
11 average serving as the basis for projections,
12 exclusive of any anomalies, and GDP inflation
13 factors. Finally, for transportation - fuel,
14 the normalization adjustment should be updated
15 to reflect the "latest price paid." All of the
16 updates should be made by the Company in
17 compliance with the Commission rules for updates
18 enunciated at pages 8 and 9 of the Commission's
19 Test Year Policy Statement.

20 Q. Does this conclude the Panel's testimony at this
21 time?

22 A. Yes, it does.