

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

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

Prepared Testimony of:

Staff Depreciation Panel

Colonel E. Dickens
Utility Engineer 3

Alan F. Mostek
Utility Engineer 3

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. Colonel Dickens and Alan Mostek. We are employed by
4 the New York State Department of Public Service
5 (Department). Our business address is Three Empire
6 State Plaza, Albany, New York 12223.

7 Q. Mr. Dickens, what is your occupation?

8 A. I am a Utility Engineer 3 in the Office of Electric,
9 Gas and Water in the Electric Rates and Tariff
10 Section.

11 Q. Mr. Dickens, please summarize your educational
12 background and professional experience.

13 A. I graduated from Alfred University with a Bachelors
14 of Science in Ceramic Engineering. I also have a
15 Masters in Business Administration from Sage
16 College. My responsibilities include analysis of
17 electric utility applications for rate increases,
18 analysis of rate design and revenue allocation
19 proposals, analysis of various utility petitions and
20 tariff filings.

21 Q. Mr. Dickens, have you previously testified before
22 the Commission?

1 A. Yes. I have testified in numerous proceedings
2 regarding revenue allocation, rate design,
3 depreciation and other revenue requirement issues.
4 I testified in the last Central Hudson rate case
5 (Case 05-E-0934) regarding depreciation. I also
6 testified in the last New York State Electric and
7 Gas Corporation rate (Case 05-E-1222) regarding
8 depreciation. Most recently I testified in the
9 Iberdrola Merger (Case 07-M-0906).

10 Q. Mr. Mostek, what is your occupation?

11 A. I am a Utility Engineer 3 in the Office of Electric,
12 Gas and Water in the Gas Rates and Tariff Section.

13 Q. Mr. Mostek, please state your educational background
14 and professional experience.

15 A. I completed my Bachelor of Science degree in
16 Aeronautical Engineering at Rensselaer Polytechnic
17 Institute. In January 1978, I joined the Department
18 of Public Service and have progressed to my current
19 position through competitive examinations. My
20 responsibilities include analysis of gas utility
21 applications for rate increases, analysis of rate
22 design and revenue allocation proposals, analysis of
23 various gas utility petitions and tariff filings and

1 analysis of issues related to the restructuring of
2 the natural gas industry in New York State.

3 Q. Mr. Mostek, have you previously testified before the
4 Commission?

5 A. Yes, I have testified in various proceedings before
6 this Commission. Most recently I testified in Case
7 07-G-0141, National Fuel Gas Distribution
8 Corporation rate case, in the areas of revenue
9 allocation and rate design, alternate gas cost
10 recovery proposals, lost and unaccounted for gas,
11 the establishment of a revenue decoupling mechanism
12 and a proposed energy efficiency program. I also
13 recently testified in Case 05-G-1359, Corning
14 Natural Gas Corporation, Inc. rate case, in the
15 areas of sales and revenue forecast, lost and
16 unaccounted for gas, rate base as affected by gas
17 stored underground, the construction expenditure
18 forecast and depreciation, revenue allocation and
19 rate design and various policy issues related to the
20 Company's financial problems. I also recently
21 testified in Case 04-G-1047, National Fuel Gas
22 Distribution Corporation rate case, addressing
23 depreciation expense related to the changes in

1 annual depreciation accruals and also regarding
2 revenue allocation and rate design.

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

5 A. The purpose of our testimony is to provide an
6 analysis of, and adjustments to, Central Hudson Gas
7 & Electric Corporation's depreciation rates and
8 theoretical Accumulated Provision for Depreciation
9 (reserve or depreciation reserve).

10 Q. Please explain what "depreciation" is, as it is used
11 in a rate case?

12 A. Depreciation is a method of recovering capital costs
13 and net salvage related to plant in service over the
14 plant's expected life.

15 Q. What is a depreciation rate and how is it
16 calculated?

17 A. A depreciation rate is a percentage rate applied to
18 the gross plant in service, by account, to determine
19 the annual depreciation expense. The rate is
20 calculated by the formula of one minus the net
21 salvage percentage divided by the average service
22 life. A net salvage rate is any amount received for
23 the sale of the retired asset, less the cost to

1 remove that asset. The average service life
2 represents the average useful life of the assets in
3 the account based on retirement experience.

4 Q. Please define book and theoretical reserve.

5 A. The book reserve is the accumulation of the annual
6 depreciation expense accruals, by account, less any
7 retirements and cost of removal, plus any salvage
8 received. The book reserve is subtracted from the
9 original or gross plant to derive the net plant.
10 The theoretical reserve is the total dollars that
11 should have been recovered at that time given a
12 selected survivor curve and net salvage rate. A
13 survivor curve indicates the percentage of original
14 plant, by age, which is still in service. The area
15 under that curve is the average service life. The
16 original survivor curves are generated from actual
17 retirement history over several years. Known curves
18 such as H curves or Iowa curves are fit to the
19 observed survivor data. The curve that fits or
20 tracks the survivor data points the best becomes the
21 survivor curve used to calculate the theoretical
22 reserve.

1 Q. Please summarize the recommendations reached in your
2 testimony.

3 A. We recommend that the current and proposed
4 depreciation rates and theoretical Accumulated
5 Provision for Depreciation be adjusted.

6 Q. Please quantify your adjustments to depreciation
7 expense and the theoretical reserve?

8 A. Our adjustments to the proposed depreciation rates
9 will decrease electric depreciation expense by
10 approximately \$1.3 million dollars in the rate year
11 and decrease the Company's proposed theoretical
12 reserve for electric plant by approximately \$19.2
13 million dollars. This will change the resulting
14 book to theoretical reserve deficiency, or under
15 accrual, of approximately \$8.8 million as calculated
16 by the Company to a reserve surplus, or over
17 accrual, of approximately \$ 10.4 million as
18 calculated by the Panel. Gas depreciation expense
19 will also decrease by approximately \$105,000 and the
20 existing reserve surplus, or over accrual, of
21 approximately \$3.1 million in the book depreciation
22 reserve will remain roughly the same.

23

1 **Electric**

2 Q. Has the Company proposed to change the current
3 service lives, survivor curves and salvage rates?

4 A. Yes. The Company, as shown on Exhibit (AP-8),
5 Schedule B is proposing to change the service lives
6 and survivor curves for 28 of the 38 electric
7 accounts and is proposing changes to the salvage
8 rates for 30 of the 38 accounts.

9 Q. What is the Company's basis for changing the service
10 lives, survivor curves and salvage rates?

11 A. The Company's Accounting Panel at page 17, lines 22-
12 23 through page 18, lines 1-4, indicates that a
13 depreciation study was performed by an outside
14 consultant, Gannett Fleming, Inc. which included an
15 analysis of average service life, net salvage
16 factors, and retirement dispersion patterns using
17 historical data through December 31, 2007. As
18 stated by the Accounting Panel, at page 18, lines 7-
19 8, in the previous rate proceeding (Case 05-E-0934)
20 the Commission required that the study be filed as
21 part of the Company's filing in this proceeding. The
22 study is an actuarial examination of past placements
23 and retirements of property. The study also

1 provides the actual costs to remove the property and
2 the salvage revenues received. Based on the results
3 of the study the Company proposes new service lives,
4 survivor curves and salvage rates.

5 Q. Does the Panel agree with all the proposed changes
6 made by the Company?

7 A. No. The Panel has interpreted the depreciation
8 study differently and recommends changes to the
9 average service lives, survivor curves and salvage
10 rates for 17 of the Company's proposed changes.
11 Exhibit___ (DP-1), Page 1 of 2 compares the
12 Company's proposed changes and Staff's proposed
13 changes for all the electric accounts.

14 **Average Service Lives and Survivor Curves**

15 Q. What are the Panel's recommended changes to the
16 average service lives and survivor curves proposed
17 by the Company?

18 A. Exhibit___(DP-1), page 2 of 2, shows that we are
19 proposing different service lives and/or survivor
20 curves for 10 accounts.

21 Q. Please explain the Panel is recommending adjustments
22 to the average service lives and or survivor curves
23 proposed by the Company?

- 1 A. The Panel reviewed the rolling and shrinking
2 retirement bands. A retirement band is a period of
3 years over which retirements experience is examined.
4 Rolling bands are retirement bands of constant
5 width. Shrinking bands aggregate all retirements
6 initially and then subtract one year at a time. The
7 analysis provides average service lives by bands and
8 is an indication of how well a known survivor curve
9 may fit the actual curve or data. We requested,
10 through Staff Interrogatory DPS 347, that the
11 Company provide different survivor curves for
12 several accounts. Based on the response to DPS 347,
13 which is attached as Exhibit___(DP-2), the Panel is
14 proposing different survivor curves than the current
15 curves and those proposed by the Company for 5
16 accounts. The Panel also recommends maintaining the
17 current service lives and survivor curves for 5
18 accounts that the Company is proposing to change.
- 19 Q. Please explain further why you are proposing
20 different survivor curves than the current curves
21 and those proposed by the Company for 5 accounts.
- 22 A. As shown on Exhibit___ (DP-2), pages 1 through 10,
23 the survivor curves for the five accounts (334, 362,

1 365, 369, and 370) selected by the Panel (titled
2 Staff) fit or track the actual retirement history
3 better than the curves selected by the Company
4 (titled Company). Therefore, the Panel recommends
5 that its survivor curves be used for the 5 accounts.

6 Q. Please explain why the Panel recommends maintaining
7 the current survivor curves and service lives for 5
8 accounts.

9 A. The Company has proposed different survivor curves
10 for 5 accounts (355, 356.10, 356.15, 356.20, and
11 361) that shorten the average service lives. As
12 shown on Exhibit___(DP-3), pages 1 through 5, the
13 actual survivor curves for these accounts are
14 stubbed, which means there is an incomplete survivor
15 curve because of a lack of retirement data on longer
16 lived property and, therefore, it makes it difficult
17 to accurately fit a curve. Additionally, the curves
18 selected by the Company are well below the limited
19 data shown, which suggests a service life shorter
20 than indicated by the limited data. Therefore, we
21 recommend maintaining the current survivor curves
22 because there is insufficient data to justify the
23 proposed changes.

1 Q. What are the effects of the proposed changes?

2 A. The survivor curves we selected produce longer
3 service lives for 6 of the 10 accounts, which reduce
4 the depreciation accrual for those accounts, as
5 shown on Exhibit___ (DP-1). In addition, for 8 of
6 the 10 accounts the curves produce a lower
7 theoretical reserve which is also shown on
8 Exhibit___ (DP-1). A lower theoretical reserve
9 reduces the deficiency proposed by the Company.

10 **Salvage**

11 Q. Concerning Salvage, does the Panel agree with all of
12 the Company's proposed changes?

13 A. No. We recommend maintaining the current salvage
14 rates for 11 accounts that the Company proposes to
15 increase, as shown on Exhibit___ (DP-1). We also
16 recommend increasing the salvage rate for 2 accounts
17 that the Company has either maintained or decreased.

18 Q. Please explain why the Panel disagrees with the
19 proposed changes to certain net salvage rates for
20 electric plant.

21 A. We compared the trend of actual historical net
22 salvage dollars incurred to the dollars accrued by
23 the current net salvage rates for all the electric

1 accounts. We found some significant differences,
2 which would cause actual salvage expense to deviate
3 from the amount collected from ratepayers. We
4 recommend that the current rates be adjusted to more
5 closely reflect the actual dollars of net salvage
6 incurred.

7 Q. Please further explain your analysis?

8 A. As an example, Account 369 - Overhead Services has a
9 negative net salvage rate of 75% and an average
10 service life of 52 years, which produces an overall
11 depreciation rate of 3.37%. The 75% negative net
12 salvage represents 1.45 percentage points of the
13 3.37% total depreciation rate. The 1.45% net
14 salvage accrual rate, when applied to the current
15 book cost of about \$32 million produces an annual
16 accrual of about \$462,000 dollars. However,
17 Exhibit___ (DP-4), which uses the most recent
18 5-year average of actual net salvage incurred for
19 comparison purposes, shows that the most recent
20 five-year average of actual net salvage costs for
21 Account 369 is about \$159,000. Therefore, the
22 accrual rate of \$462,000 is significantly higher
23 than the actual costs incurred of \$159,000, which

1 means the Company is over recovering net salvage
2 costs from its ratepayers.

3 Q. What does the Panel recommend to correct this over
4 recovery?

5 A. Based on the comparison discussed above, we
6 recommend maintaining the current accrual rate of
7 negative 75% for Account 369.

8 Q. What is the Company proposing for Account 369?

9 A. The Company is proposing to increase the current net
10 salvage rate of negative 75% to negative 100%

11 Q. What is the basis for the Company's proposal?

12 A. The Company's proposed rate was developed by the
13 traditional method of incorporating a trend of
14 negative net salvage percentages developed by
15 dividing the actual net salvage cost by the plant
16 dollars retired in that year.

17 Q. Why is the Panel proposing a methodology that is
18 different than the one traditionally employed?

19 A. The Panel's proposed change is justified because of
20 the significant difference between the actual net
21 salvage incurred and the amount accrued. For about
22 70% of the accounts there is not much difference in
23 the results of applying the two methodologies.

1 Where there is a significant difference, however, an
2 adjustment is warranted.

3 Q. Is there any further justification for your
4 proposal?

5 A. Yes. The traditional methodology implies a direct
6 relationship between the net salvage and the
7 original cost of the plant. However, net salvage is
8 more closely related to current labor costs of plant
9 removal than it is to the original cost of the plant
10 retired.

11 Q. Are you recommending that your alternative
12 methodology replace the traditional approach?

13 A. Not exclusively. We are proposing to use this
14 alternative method for about 30% of the accounts,
15 shown on Exhibit___(DP-1), that have relatively low
16 retirement dollars compared to the current gross
17 plant.

18 We find that our adjustments are conservative
19 since the net salvage rates resulting from the
20 alternative method will continue to accrue net
21 salvage that exceeds the current costs.

22 Q. Does the application of the alternative method
23 always maintain or reduce current net salvage rates?

1 A. No. For two accounts (accounts 334 and 390), the
2 Panel is recommending a negative net salvage rate
3 that is higher than the current rate and the rate
4 recommended by the Company.

5 Q. Has your salvage proposal been accepted in other
6 rate cases?

7 A. Yes. In the last Central Hudson rate case Staff
8 recommended a similar proposal; the current salvage
9 rates reflect either Staff's recommendations or
10 movement towards those recommendations.

11 Additionally, The Commission approved a similar
12 Staff Salvage proposal in the New York State
13 Electric and Gas Corporation proceeding, Case 05-E-
14 1222.

15 Q. What is the overall effect of the Panel's
16 recommended salvage adjustments?

17 A. Overall, the adjustments reduce depreciation expense
18 and the theoretical reserve, as shown on Exhibit____
19 (DP-1).

20 **Gas**

21 Q. Please describe the changes to gas depreciation
22 rates in the rate year proposed by the Company?

23 A. Based on the depreciation study of historical data

1 for Central Hudson's gas plant accounts through
2 December 31, 2007 and the related net salvage study
3 mentioned previously in our testimony, the Company's
4 Accounting Panel at pages 17-22 proposed various
5 changes to depreciation characteristics for those
6 gas plant accounts including average service life,
7 estimated survivor curve, and net salvage.

8 Exhibit___ (AP-8), Schedule C shows the specific
9 changes by account proposed by the Company and the
10 resulting annual depreciation accrual rate. The
11 Company's Accounting Panel at page 21 also proposed
12 to discontinue the existing Commission approved
13 practice of expensing excess negative net salvage in
14 Account 376, gas distribution mains, and Account
15 380, gas services

16 Q. How do these proposed changes impact the Company's
17 rate year forecast of gas depreciation expense?

18 A. By applying the proposed annual depreciation accrual
19 rates to the original cost of plant for the rate
20 year ended June 30, 2010, the Company calculated
21 rate year gas depreciation expense of \$7,289,000,
22 including an allocation from common plant. This is
23 shown on Exhibit___ (RRP-2), Schedule B.

1 Q. Are you recommending any changes to the Company's
2 gas depreciation proposals?

3 A. We do not oppose the proposed changes to individual
4 gas account accrual rates, except for Account 380,
5 gas services.

6 Q. Please explain why you oppose the change to Account
7 380, gas services?

8 A. The Company proposed to increase the negative net
9 salvage rate from 60% to 70%, which is shown at
10 Exhibit___ (AP-8), Schedule C. We recommend that
11 the existing negative 60% net salvage rate continue
12 and that the treatment of excess negative net
13 salvage for gas services also continue. The basis
14 for our recommendation is that the salvage study for
15 the gas services account continues to show annual
16 net negative salvage percentages that are in excess
17 of even the greater negative net salvage percentage
18 proposed by the Company. For example, the latest
19 five-year average net salvage experience for the
20 services account is negative 302%, as shown by the
21 above mentioned Company Depreciation Study at pages
22 III-386 - III-388, filed separately in this case on
23 August 12, 2008, in compliance with the Joint

1 Proposal and July 24, 2006 Commission Order in Case
2 05-G-0935. Therefore, the continued Commission
3 approved expensing of the excess over the existing
4 negative 60% level to current operation and
5 maintenance (O&M) expense is the better solution to
6 the trend, than another increase in the depreciation
7 accrual rate that does not represent current
8 experience and simply continues to create a
9 deficiency in the depreciation reserve.

10 Q. Do you also have a recommendation regarding the
11 Company's proposal to similarly discontinue the
12 expensing of excess negative net salvage in the gas
13 distribution mains account?

14 A. We recommend that the current treatment, also
15 approved by the Commission in Case 05-G-0935,
16 continue for the gas distribution mains account as
17 well. Currently, as explained by the Company's
18 Accounting Panel at page 21 lines 17-22, any
19 negative net salvage in excess of the negative 60%
20 rate is expensed by the Company as a current O&M
21 expense rather than being booked to the depreciation
22 reserve.

23 Q. Why did the Commission previously adopt this

1 treatment of excess negative net salvage for both
2 gas distribution mains and services?

3 A. The Commission adopted this treatment because the
4 salvage studies for both gas distribution mains and
5 services were demonstrating a trend of very large
6 percentage negative net salvage on gas distribution
7 mains and services that were being retired.

8 Q. Is this trend continuing for both these accounts?

9 A. Yes. As we noted previously, the latest five year
10 average of net salvage for gas services is negative
11 302%. The latest five-year average of net salvage
12 for gas distribution mains is negative 88%. Again
13 this is shown in the Company's Depreciation Study at
14 pages III-380 - III-382.

15 Q. What is causing this trend?

16 Q. Negative net salvage occurs when the cost of removal
17 of the plant being retired exceeds any salvage
18 value. In the case of gas distribution mains and
19 services, the cost of removing the plant being
20 retired is not only greater than any salvage value,
21 but also represents a significant percentage of, or
22 in some cases may even exceed, the original cost to
23 construct that plant in the past. This occurs

1 because of the effects of inflation on current costs
2 to remove the plant. The negative net salvage rates
3 for both of these accounts are increasing because of
4 the continuing inflationary pressure on the cost of
5 removal compared to an original cost, which remains
6 constant at the level when it was booked many years
7 prior. Since the assets in each of these accounts
8 are long lived, this inflationary pressure on the
9 cost of removal is multiplied. In this case,
10 Central Hudson currently uses an 85 year average
11 service life for distribution mains and a 70 year
12 average service life for services, as shown at the
13 Company's Exhibit___ (AP-8), Schedule C.

14 Q. How does the increase in the negative net salvage
15 rate effect the depreciation reserve?

16 A. The increasing negative net salvage rate creates an
17 increased theoretical depreciation reserve
18 requirement, which, in turn, creates the need for an
19 increased annual depreciation accrual rate in order
20 for the book depreciation reserve to keep pace with
21 the theoretical. Since gas distribution mains and
22 services are typically the largest two gas plant
23 accounts for gas utilities, an increased reserve

1 requirement in these accounts, in particular, can
2 create a large deficiency in the overall book
3 depreciation reserve.

4 Q. How does the expensing treatment address this
5 problem?

6 Q. By fixing the net salvage rate, the depreciation
7 reserve requirement remains constant and any
8 incremental cost of removal over and above that
9 level is treated as a current expense. This will
10 help maintain the integrity of the depreciation
11 reserve without unnecessarily increasing
12 depreciation accrual rates, and consequently
13 depreciation expense, over many years.

14 Q. Does the Panel recommend this treatment be extended
15 to other gas plant accounts?

16 A. No, not at this time. However, expensing a portion
17 of removal costs can be an advisable option for any
18 plant account where the cost of removal outstrips
19 the depreciation reserve accruals for net salvage
20 and where the integrity of the reserve is greatly
21 impacted.

22 Q. As a result of the Panel's recommendations, are
23 there adjustments to the Company's rate year gas

1 revenue requirement?

2 A. Yes. The Company's gas rate year depreciation
3 expense must be reduced by \$105,000 to reflect the
4 reduced depreciation accrual to the gas services
5 account, as well as the associated reduction to the
6 rate year gas depreciation reserve of \$52,000. In
7 addition, rate year gas O&M must be adjusted to
8 reflect the impact of the continuation of the
9 expensing of excess negative net salvage in the
10 distribution mains and services accounts.

11 Q. What is the impact on the Company's rate year O&M
12 expense?

13 A. The Company, as shown at Exhibit___ (RRP-2),
14 Schedule B and noted in the Accounting Panel at page
15 21, has included a place holder amount in the rate
16 year income statement of \$251,000 for the expensing
17 of the excess negative net salvage from the
18 distribution mains account. This amount must be
19 adjusted to reflect the continuation of the
20 expensing for both the distribution mains and
21 services accounts.

22 Q. Please explain the adjustments.

23 A. We have made estimates of the level of O&M expense

1 for each of the accounts based on the results of the
2 Company's salvage study incorporated in the
3 Company's Depreciation Study.

4 For distribution mains, the latest five-year
5 average, from 2003 to 2007, of net salvage
6 experience for the account is approximately negative
7 88%. This is shown in the Depreciation Study at page
8 III-382. Based on the difference between that level
9 and the negative 60% level proposed for the annual
10 depreciation accrual (28%), applied to the average
11 level of retirements for distribution mains over the
12 last five years, approximately \$189,000, shown in
13 the Depreciation Study at pages III-380 - III-381,
14 there would be increased operation and maintenance
15 expense related to excess negative net salvage of
16 distribution mains of approximately \$53,000 in the
17 rate year.

18 Similarly for services, the latest five-year
19 average, from 2003 to 2007, of net salvage
20 experience for the services account is approximately
21 negative 302%. This is shown in Depreciation Study
22 at page III-388. Based on the difference between
23 that level and the negative 60% level proposed for

1 the annual depreciation accrual (242%), applied to
2 the average level of retirements for distribution
3 mains over the last five years, approximately
4 \$96,000, again shown in the Depreciation Study at
5 pages III-380 - III-382, there would be increased
6 operation and maintenance expense related to excess
7 negative net salvage of services of approximately
8 \$233,000 in the rate year.

9 The combination of the O&M expense estimated
10 for the two accounts in the rate year is
11 approximately \$277,000. Therefore, we have
12 increased the \$251,000 O&M expense placeholder,
13 estimated by the Company in its Exhibit___ (RRP-2),
14 Schedule B and the Accounting Panel at page 21, by
15 \$26,000 to be \$277,000.

16 Q. Has the Commission previously approved this
17 alternative expensing treatment for excess negative
18 net salvage of gas distribution mains and services?

19 A. Yes. Consolidated Edison Company of New York, Inc.,
20 Orange and Rockland Utilities, Inc., KeySpan Energy
21 Delivery - NY, KeySpan Energy Delivery - LI,
22 National Fuel Gas Distribution Corporation, Inc. and
23 Central Hudson have all been allowed to expense a

1 portion of the negative net salvage for gas
2 distribution mains and or services.

3 Q. Does the Panel have any recommendation regarding the
4 treatment of the current surplus in the gas book
5 depreciation reserve?

6 A. Yes. The Company's Exhibit___ (AP-8), Schedule C
7 indicates that the surplus in the gas book
8 depreciation reserve was approximately \$3 million,
9 or approximately 3.5% at December 31, 2007, both
10 using current rates and proposed rates. We would
11 recommend that no action be taken with regard to
12 this surplus at this time for two reasons. First,
13 previous Commission practice has been to take no
14 action with book depreciation reserve surpluses or
15 deficiencies that did not exceed 10%. Second,
16 according to the figures provided in the Company's
17 response to Staff Interrogatory DPS 216, which is
18 attached as Exhibit___ (DP-5), the level of the gas
19 depreciation reserve surplus has declined since the
20 currently effective depreciation rates were last set
21 in the Company's last rate case, Case 05-G-0935.
22 Exhibit___ (DP-5), page 6 of 6, shows the gas book
23 depreciation reserve at December 31, 2006 to be

1 approximately \$76.8 million and the theoretical
2 reserve to be approximately \$71.7 million, which
3 represents approximately a \$5.1 million surplus. As
4 previously mentioned, the surplus in the gas book
5 depreciation reserve using those same depreciation
6 rates has declined to approximately \$3 million at
7 December 31, 2007. This would indicate that current
8 depreciation rates may still not be exactly
9 reflective of actual retirement and net salvage
10 activity in all accounts, and therefore, re-enforces
11 our recommendation for the Commission to wait to
12 adopt special treatment of any surplus, should it
13 continue into the future.

14 **Common**

15 Q. Is the Company proposing any changes to the common
16 accounts?

17 A. Yes. In a statement on Exhibit___ (AP-8), Schedule
18 D, the Company's Accounting Panel identified new
19 accounts for expenditures after the start of the
20 rate year, which will have shorter lives than the
21 current service lives.

22 Q. How do you know that the Company is actually
23 proposing an amortization for the new accounts?

- 1 A. The Company stated, in response to Staff
2 Interrogatory DPS 348, which is attached as
3 Exhibit___ (DP-6), that it is proposing an
4 amortization of new assets by vintage. The Company
5 stated that it will set up new accounts for
6 expenditures made during and after the rate year and
7 those expenditures will be amortized over the
8 periods shown on Company's Exhibit___ (AP-8),
9 Schedule D. The assets before the rate year will
10 continue to be depreciated exactly as they are now.
- 11 Q. Would you explain the difference between an
12 amortization and depreciation in the context used
13 above?
- 14 A. Yes. In this case, the Company is proposing to
15 recover the cost of all assets put into service in a
16 certain year over a definite time period. For
17 example, all plant dollars put into service in 2009
18 with a 15 year amortization period will be retired
19 in 2024 and all the dollars will have been
20 recovered. If one of the 2009 assets is removed from
21 service in 2010, it will be amortized until 2024
22 even though it is not used and useful. Also, if a

1 2009 asset lives until 2050, it will have been
2 retired in 2024.

3 Currently, under traditional depreciation
4 practice, all plant dollars put into service are
5 retired when they are no longer used and useful no
6 matter what the age. The dollars of all vintages
7 are recovered over the average service life assuming
8 that all the asset dollars have actually been
9 living.

10 Q. Does the Panel agree with changing the method of
11 recovering certain common assets?

12 A. No. The Company has not demonstrated any benefits
13 to rate payers by changing methods. The Panel
14 believes that recovering plant dollars by vintage
15 would be more onerous than the current method. The
16 Company would have to keep track of when the asset
17 actually was taken out of service and when it had
18 lived to the service life. The Company will also
19 have to keep track of current assets and future
20 assets using two different methods. As discussed
21 above, asset dollars may not be collected over the
22 actual useful life. Additionally, no other New York

1 State major combination utility is amortizing common
2 plant.

3 Q. Does the Panel agree with the Company proposal to
4 shorten the lives of certain accounts?

5 A. No. The Company has provided no actual retirement
6 history to indicate that the actual lives are
7 shorter. Also, Central Hudson's current lives, for
8 most of the common accounts, are closer to the other
9 five New York State major combination utilities than
10 the proposed lives.

11 Q. What does the Panel recommend with regard to common
12 plant?

13 A. The Panel recommends that the common accounts the
14 Company proposes to be amortized continue to be
15 depreciated at the current rates. We accept all
16 other changes to common plant proposed by the
17 Company.

18 Q. Does the Panel have any additional comments
19 regarding the depreciation presentation in the
20 Company's filing?

21 A. Yes. In the late stages of our review of the
22 Company's depreciation presentation, we discovered a
23 discrepancy between the rate year depreciation

1 expense levels included in the income statements and
2 the depreciation expense produced by the work papers
3 provided by the Company to support those levels.

4 The Company has since supplemented its response
5 to a previous Staff information request to explain
6 the discrepancy which would result in an increase to
7 the rate year depreciation expense shown in the
8 Company's filed income statements for both electric
9 and gas.

10 Q. Does the Panel agree with the proposed changes?

11 A. It appears that the workpapers originally provided
12 to Staff incorporate the correct depreciation
13 accrual levels and accordingly produce net plant
14 levels consistent with the Company's intended
15 presentation as originally filed. However, those
16 levels were apparently not reflected in the rate
17 year income statements as filed by the Company. We
18 are not opposed to the Company reflecting the
19 results of the originally provided rate year net
20 plant workpapers in the income statement before any
21 adjustments as a result of the Staff presentation.
22 Accordingly rate year depreciation expense should
23 increase and rate year net plant should decrease

1 from the levels originally shown in the filed
2 electric and gas income statements before our
3 recommended adjustments.

4 Q. Does this conclude your testimony?

5 A. Yes, it does.

6