BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

Central Hudson Gas & Electric

Case 08-E-0887 and 08-G-0888

November 2008

Prepared Testimony of Gas Safety Panel:

Christopher R. Stolicky
Utility Engineer 3 (Safety)
Office of Electric, Gas, & Water

Robert Jucha
Utility Engineer 2 (Safety)
Office of Electric, Gas, & Water

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

Q. Mr. Stolicky, would you please state your name and business address.

A. Christopher R. Stolicky. My business address is New York State Department of Public Service, 3 Empire State Plaza, Albany, NY 12223.

Q. By whom are you employed and in what capacity?

A. I am employed by the Department of Public Service as a Utility Engineer 3 (Safety) in the Safety Section of the Office of Electric, Gas, & Water.

Q. Please summarize your education and work experience.

A. I graduated from Union College in 2000 with a Bachelors degree in Civil Engineering. I received a Masters degree in Business Administration from the University at Albany in 2005. I have been employed by the Department of Public Service since January 2001. I work in the Safety Section and I am familiar with federal and state gas safety pipeline codes, statewide risk-based safety performance measures, and with the operations of the major

gas utilities in New York State. My other duties include engineering support for the Safety Section field staff, reviewing possible violations relating to 16 NYCRR Part 753 (damage prevention), participating in rate proceedings and negotiations, reviewing proposed pipeline designs, processing petitions and waivers relating to code compliance matters, and reviewing proposed updates to utility operations and maintenance procedures. I have also participated in job rotations and work assignments in the Gas Rates and Policy Sections, where I participated in various rate issues and in the review of utility winter gas supply planning.

Q. Mr. Stolicky, have you previously testified in an administrative proceeding?

A. Yes. I have testified in numerous rate and merger proceedings. Most recent were those of National Fuel Gas Distribution Corporation gas rate case, Case 07-G-0141, the KeySpan Energy Delivery companies rate and merger proceedings

with National Grid, PLC, Cases 06-M-0878, 06-G-1185, and 06-G-1186, the Energy East Corporation merger with Iberdrola, S.A., Case 07-M-0906, and the Niagara Mohawk Power Corporation gas rate case, Case 08-G-0609.

Q. Mr. Jucha, would you please state your name and business address.

A. Robert Jucha. My business address is New York State Department of Public Service, 3 Empire State Plaza, Albany, NY 12223.

Q. By whom are you employed and in what capacity?

A. I am employed by the Department of Public Service as a Utility Engineer 2 (Safety) in the Safety Section of the Office of Electric, Gas, & Water.

Q. Please summarize your education and work experience.

A. I graduated from Hudson Valley Community College, with an Associates degree in Civil Engineering Technology in 1993. I then continued my education and graduated from Rochester Institute of Technology, with a

Bachelors of Science Degree in Civil Engineering Technology from the College of Applied Science and Technology in 1996. I have been employed by the New York State Department of Public Service Office of Electric, Gas, & Water since February 2004. I work in the Safety Section and I am familiar with federal and state gas safety pipeline codes, as well as with the operations of the major gas utilities in New York State. My duties include reviewing pipeline damages and issuing citations of probable violations relating to 16 NYCRR Part 753 (damage prevention), reviewing proposed pipeline designs, reviewing gas utility operation and maintenance plans, and reviewing proposed changes to federal and state gas safety pipeline codes. Additionally, I conduct record, field, and construction inspections of local distribution companies and interstate pipeline operators to ensure compliance with federal and state gas pipeline safety regulations.

Q. What is the purpose of your testimony in this

proceeding?

A. The purpose of our testimony is to recommend safety performance targets, which will become incentives for Central Hudson Gas & Electric's (Central Hudson or the Company) to maintain and improve specific areas regarding the safety of its gas distribution system. These incentives should focus the Company's attention on areas widely accepted as of high importance, and help ensure service reliability. The targets are derived from the Company's actual levels of historic performance, our knowledge of Central Hudson, and our experience with other local distribution companies across the state.

Q. What does the Safety Panel recommend in the area of safety performance incentives?

A. We recommend, at a minimum, that Central Hudson be required to implement the safety performance incentives listed below for the Calendar Year 2010, and for each subsequent year until the rate plan resulting from this proceeding is superseded. The maximum value of the safety

performance incentives are a total of 30 basis points equivalent of regulatory liability. 30 basis points is the minimum level of total regulatory liability equivalent that has been adopted in gas rate cases since 2005, including Orange & Rockland Utilities, Case 05-G-1494, Consolidated Edison of New York, Inc., Case 06-G-1332, The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York, Case 06-G-1185, KeySpan Gas East Corporation d/b/a/ KeySpan Energy Delivery Long Island, Case 06-G-1186, and National Fuel Gas Distribution Corporation, Case 07-G-0141.

Q. Is the Panel sponsoring any exhibits?

A. Yes. We are sponsoring exhibits GSP-1, GSP-2, GSP-3, and GSP-4.

Q. Did Central Hudson propose any safety related targets in its filing?

A. No. However, the Company’s current rate plan provides that its existing safety related targets will continue until changed by the Commission. While we agree with some of the

existing targets, we have concluded that most are inadequate based on the Company's actual performance in recent years, and the level of safety it can provide the public.

Q. Please list the panel's proposed Safety Performance Incentives.

A. The panel recommends that Central Hudson be required to implement the following four safety performance incentives:

(1) Infrastructure Enhancement

(2) Leak Management

(3) Emergency Response to Gas Leak/Odor Calls

(4) Prevention of Excavator Damages

Q. Please briefly describe Central Hudson's safety-related targets currently in effect.

A. The Commission adopted safety performance measures for Central Hudson in Case 05-G-0935, which focused on targets related to the same four areas listed above. The targets were for the calendar years 2007, 2008, and 2009 and are to continue annually thereafter at the 2009 level for each calendar year unless modified by

the Commission. Thus, those targets will remain in effect unless they are updated or removed through this proceeding.

Q. Please provide an overview of the Panel's recommendations.

A. Each safety incentive is discussed below:

(1) Infrastructure Enhancement

We recommend, at a minimum, the projected level of spending to replace or remove leak-prone pipe from operation of $6.1 million during 2010 be met. If the amount of expenditures is below the targeted level, Central Hudson will incur a regulatory liability of one and one-half times the difference between actual expenditures and the target amount.

(2) Leak Management

(a) Achieve a year-end backlog of leaks pending repair no greater than 30 for 2010.

(b) Achieve a total backlog of all leaks no greater than 350 leaks for 2010.

(3) Prevention of Excavation Damage

(a) **Overall Damages**

Maintain a level equal to or below 3.00 excavation damages per 1000 One-Call Tickets for 2010.

(b) **Damages due to Mismarks**

Maintain a level equal to or below 0.50 excavation damages due to mismarks per 1000 One-Call Tickets for 2010.

(c) **Damages caused by Company Crews and Company Contractors**

Maintain a level equal to or below 0.30 excavation damages due to Company personnel and Company contractors per 1000 One-Call Tickets.

(4) **Emergency Response**

We recommend that Central Hudson meet the following targets for response to gas leak and odor calls:

(a) Respond to 75% of all gas leak and odor calls within 30 minutes.

(b) Respond to 90% of all gas leak and odor calls within 45 minutes.

Q. Would you please discuss the Panel's reasons for each of the safety-related performance measures beginning with infrastructure enhancement?

A. Yes. The infrastructure enhancement measure addresses the removal of pipe that is prone to leakage. The purpose is to eliminate aging pipeline infrastructure that, due to its vulnerability to leaks, presents safety risks. By replacing this pipe with modern materials, public safety and service reliability are improved, and operating and maintenance costs and lost gas are reduced.

Q. Please describe the leak management measure.

A. The leak management measure focuses on the reduction of unrepaired gas leaks. The infrastructure enhancement and leak management measures are complementary, in that reducing the inventory of leak-prone piping over time will lead to reductions in the number of gas leaks requiring investigation, monitoring, and

repairs, thereby improving public safety.

Q. Please discuss the prevention of excavation damages measure.

A. This measure aims to reduce the largest cause of gas pipeline failures - damage by excavating equipment. Reducing these damages will improve public safety as well as improve Central Hudson's reliability and cost of service.

Q. Please explain the emergency response measure.

A. The emergency response measure encourages the Company to focus on responding to leak and odor calls generated by the public in a timely manner.

Infrastructure Enhancement

Q. Please describe the leak-prone pipe replacement component of the safety performance measure.

A. The premise of our recommendation is that Central Hudson continues to replace this type of pipe at a rate not less than its historical capability. By doing so, the Company will consistently work to remove this deteriorating pipe from service. Without an incentive, the

Company has little reason to proactively remove pipe beyond safety code requirements, or because of significant customer complaints, city, or state driven construction projects.

Q. What is the historical expenditure level of proactive pipe replacement for Central Hudson?

A. Over the rate plan covering years 2007, 2008, and 2009 the Company is required to spend $15.75 million removing leak-prone pipe from service.

Q. Please explain what you mean by "leak-prone" pipe.

A. Leak-prone pipe is generally considered steel pipe that is unprotected, cast iron pipe, and some vintages of plastic pipe that can become brittle.

Q. What is meant by “unprotected?”

A. It means that the pipe lacks good coating and cathodic protection. Cathodic protection is a method by which steel pipelines are protected from corrosion. Such unprotected pipe is also referred to as "bare" steel. For our purposes here, bare steel pipe also includes pipe that is

ineffectively coated.

Q. How does the bare steel component of the recommended safety measure add to the safety of the gas system?

A. Data collected by the USDOT, Office of Pipeline Safety, as well as our own Department, shows that corrosion is a leading cause of leakage and that bare steel pipe is most susceptible to corrosion.

Q. How does the removal of cast iron pipe add to the safety of the gas system?

A. Due to its physical characteristics, cast iron pipe is more prone to catastrophic failures than cathodically protected steel pipe and plastic pipe. Small diameter cast iron pipe, defined as 8-inches or less in nominal diameter, is even more prone to structural failure due to brittleness and low beam strength. Removal of this pipe will reduce the potential for leaks and incidents resulting from failures. Cast iron pipe tends to be located in older, more densely populated areas with many enclosed

structures and paved areas. These circumstances tend to be more conducive to the below-ground migration of gas across wider areas than would occur in rural areas. The more congested the environment the greater the risk of fires or explosions. The removal of these leak-prone facilities will also benefit the Company and improve public safety by reducing its leak backlog.

Q. What criteria should be used to identify those sections of leak-prone pipe to be removed?

A. We recommend Central Hudson continue to use its risk-based method to identify and rank portions of pipe to be replaced under this infrastructure enhancement program.

Q. How did you arrive at the $6.1 million target?

A. $6.1 million is the amount proposed by Central Hudson for this scope of work. It reflects an increase over the historical level, but represents a reasonable increase. Our goal is to recommend a reasonable target while balancing the impact of an increase in capital spending

and ensuring the Company is able to perform the work. While we generally encourage companies to implement pipe replacement plans as aggressive as possible, we feel that recommending a higher target for this rate case would represent too large of a cost impact to ratepayers.

Q. What is the impact of this recommendation in the current case?

A. In this case, our recommendation is to require Central Hudson maintain its historic capability and historic trend in the replacement of leak-prone pipe, while also supporting the Company's requested funding level for pipe replacement.

Q. How long should Central Hudson maintain this level of spending?

A. We recommend this level of spending be continued on an annual basis until changed by the Commission.

Leak Management

Q. Please describe the Leak Management performance measure?

A. Our recommendation is that Central Hudson

achieve a backlog of leaks requiring repair, also known as potentially hazardous leaks, equal to or below 30 at the end of the calendar year 2010. We are also recommending that Central Hudson reach and maintain a total backlog of unrepaired leaks equal to or below 350 at the end of calendar year 2010. Both targets should continue on a year-to-year basis after 2010 until changed by the Commission.

Q. What is the significance of this performance measure?

A. The overall objective of the performance measure is to encourage the Company to reduce the number of active leaks on its system. Eliminating leaks helps minimize the possibility of an incident involving fire and explosion, reduces the amount of gas the Company loses, and reduces operating and maintenance costs. Minimizing unrepaired leaks at year-end requires effort year-round and results in minimizing the hazard to the public during frost conditions when there is a higher risk of gas migration into homes

because the gas cannot readily vent to the atmosphere. Therefore, this measure provides an incentive for Central Hudson to eliminate its active leaks and thereby provide a higher level of safety to the public.

Q. How did you determine the repairable leak backlog target of 30 for this performance measure?

A. We reviewed the year-end backlog of repairable leak data submitted by Central Hudson for the annual Gas Safety Performance Measure Report (see Case 08-G-0413) and in Case 05-G-0935. The Company's repairable leak backlog was 13 in 2001, 16 in 2002, 30 in 2003, 14 in 2004, 27 in 2005, 63 in 2006, and 51 in 2007. As can be seen from the data, the Company maintained a backlog of 30 or less up until 2006, before its present rate plan targets took effect. Therefore, since the Company has proven it can operate at that level, we believe that it should be able to reverse its recent trend and be able to return to the level of 30 or less. Central

Hudson has also been identified three years in a row in the annual Gas Safety Performance Measures Report for allowing its repairable leak backlog to grow and must reverse the trend.

Q. Please describe the annual Gas Safety Performance Measures Report?

A. It is an annual report to the Commission that analyzes gas safety performance for the 11 largest natural gas distribution companies. The report summarizes data and analyzes performance in three areas of gas safety: Damage Prevention, Emergency Response, and Leak Management. It also contains subsets of those areas, resulting in a more thorough analysis and is used as a tool to track and identify Company performance in areas identified as high-risk.

Q. How did you determine the total leak backlog target of 350 for this performance measure?

A. As reported by the Company in the data collected for the annual Gas Safety Performance Measures report, in Case 05-G-0935 (located on the Commission’s Web site,

http://www.dps.state.ny.us), and in its annual rate case compliance report, its total leak backlog was 362 in 2001, 348 in 2002, 357 in 2003, 280 in 2004, 310 in 2005, 376 in 2006, and 442 in 2007. As can be seen from the data, the Company was trending downward through 2004 when it agreed to 250 for 2008. However, it had a clause in the current rate plan that allowed it to exceed the total leak target if it had repaired at least 340 leaks throughout the year, or its highest level ever repaired through 2004. While the Company repaired 446 leaks in 2006 and 363 leaks in 2007, Central Hudson allowed its total leak backlog to balloon to 376 in 2006 and 442 in 2007. We will not be able to review its 2008 year end backlog until after this testimony is filed. The Company indicated in DPS-491 (Exh___GSP-1) that it expects to be able to reduce its total leak backlog to 386 by the end of 2010, if we allow the funding they have requested. Since we are recommending the continuation of the Company's pipe replacement

program going forward, and the Company targets it highest leak-prone pipe, it should experience a further reduction in its current leak backlog. Therefore, we feel that a total leak backlog target of 350 is reasonable, given the Company has nearly two full years to obtain it.

Q. What is the panel recommending regarding Central Hudson's requested O&M and capital expenditures of $1.5 million and $250,000, respectively?

A. The Company is requesting the increased money so it can increase efforts in repairing outstanding leaks on its system. We support this request, but only if the Company is required to meet our proposed leak backlog targets as discussed above.

Q. Is there anything else you would like to say about the leak management target?

A. Yes. As noted earlier, the leak backlog is correlated to the replacement of higher-risk pipe. When pipe that is more prone to leakage is replaced with modern materials, public safety and service reliability are improved and, for

ratemaking purposes, operating and maintenance costs are reduced. The removal of this pipe should help to reduce leaks occurring on the gas distribution systems.

Damage Prevention

Q. Would you please describe your proposed performance measure recommendations related to prevention of excavation damages?

A. We recommend that Central Hudson maintain a level equal to or below 3.00 excavation damages per 1000 One-Call Tickets during 2010. In conjunction with this level, we recommend Central Hudson maintain a level equal to or below 0.50 for excavation damages due to mismarks per 1000 One-Call Tickets during 2010. We further recommend that Central Hudson maintain a level equal to or below 0.30 for damages caused by Company personnel and Company contractors per 1000 One-Call Tickets be implemented for 2010. All 2010 target levels should continue on a year-to-year basis until changed by the

Commission.

Q. What is a “One-Call Ticket?”

A. The Public Service Commission’s regulations contained in 16 NYCRR Part 753 – Protection of Underground Facilities – require excavators to make a toll-free call to a “one-call” notification system and provide notice of their intent to perform excavation work. The one-call notification system that covers Central Hudson's territory is Dig Safely New York (Dig Safely). Dig Safely takes the pertinent information from the excavator and transmits it to its member utilities that may be affected by the excavation work. Those utilities then mark the location of their affected facilities so the excavator can avoid damaging them. Each incoming call to Dig Safely will generate several outgoing notices to the member utilities such as the gas, electric, telephone, cable, and water companies. A notice received by the utility is referred to as a One-Call ticket.

Q. What is a “mismark?”

A. A mismark occurs when a utility fails to accurately mark the location of its underground facilities in response to the One-Call ticket. Consistent with the requirements of 16 NYCRR Part 753, Protection of Underground Facilities, for purposes of this performance measure a mismark is considered any instance of damage where the marks are off by more than 2 feet. It should also include any instances of damage where the Company fails to mark its facilities at all in response to a properly served notice by an excavator to Dig Safely.

Q. Please describe the performance incentives regarding the prevention of excavation damage caused by mismarks?

A. As an operator of a natural gas distribution system, Central Hudson participates in the local one-call/damage prevention system in an effort to minimize the instances of damage to its facilities by excavation activities. In order to comply with 16 NYCRR Part 753, Central Hudson must respond to all requests for a mark out by

excavators, physically accurately locate its pipes, and mark out the locations on the ground. This performance incentive will gauge how well these mark outs are conducted.

Q. What are damages by "Company personnel and Company contractors?"

A. These are damages to the Company's pipe facilities that are caused by Company personnel, or contractors that are operating under the Company’s direct control.

Q. How did the Panel derive the recommended targets for Central Hudson?

A. We derived the targets based on historical performance, our working experience with the Company, and considered year-to-year improvements in performance.

Q. Please explain further.

A. We looked at Central Hudson over the past several years in each area of damage prevention performance. We then took into consideration the improvement from year-to-year. Further, we examined the statewide performance in each area.

If a utility performs worse than the statewide average performance level, we recommend it improves to at least that level. If a utility is performing better than the statewide performance level, we recommend a performance target that generally discourages the utility from backsliding, while also providing a reasonable cushion for unforeseen circumstances. We also make the assumption that Central Hudson works to improve its performance and attempts to avoid performing below its historical capability.

Q. How would these measures benefit public safety?

A. According to state and national statistics, the leading cause of gas pipeline failures and accidents is third-party construction damage. These damages often cause interruptions of service to customers. They also frequently cause building evacuations and road closures. Explosions and fires are less frequent, but have occurred. Fatalities and injuries due to construction damages are also possible.

Therefore, reducing these types of damages clearly improves public safety.

By implementing a target that prevents the Company from significant deterioration in performance, public safety and reliability are generally maintained at current levels.

Q. How has Central Hudson performed in the past for overall damages?

A. We reviewed Central Hudson's performance in these measures over the last five years as reported for the annual Gas Safety Performance Measure Report. For years 2003, 2004, 2005, 2006, and 2007, Central Hudson experienced 7.68, 4.81, 4.14, 3.19, and 2.98 overall damages per 1000 One-Call Tickets, respectively. It has performed through the first three quarters of 2008 at a normalized rate of 2.43 (see Exh___GSP-2).

Q. How about damages due to mismarks?

A. For years 2003, 2004, 2005, 2006 and 2007, Central Hudson experienced 0.60, 0.73, 0.74, 0.99 and 0.80 damages due to mismarks per 1000

One-Call Tickets, respectively. It has performed through the first three quarters of 2008 at a normalized rate of 0.22 (see Exh___GSP-2).

Q. How about damages due to Company personnel and Company contractors?

A. For years 2003, 2004, 2005, 2006 and 2007, Central Hudson experienced 0.13, 0.11, 0.05, 0.24 and 0.28 Company and Company contractor damages per 1000 One-Call Tickets, respectively. It has performed through the first three quarters of 2008 at a normalized rate of 0.44 (see Exh___GSP-2).

Q. What is the basis for the Panel's proposed targets for this measure?

A. Analysis of the data indicates that overall damages, and more recently damages due to mismarks, have generally improved over the past couple of years. However, Central Hudson has experienced deteriorated performance in the area of damages due to Company personnel and Company contractors since 2005.

Even though the Company is currently performing better or equal to the statewide level for damages due to mismarks of 0.50 through the third quarter of 2008, and overall damages of 2.73 through the third quarter of 2008, our recommendations are intended to provide an incentive to prevent significant deterioration. As for damages due to Company personnel and Company contractors, the Company continues to experience more of these damages based on its own history and also above the statewide level of 0.10 through the third quarter of 2008. Up until 2008, Central Hudson had performed better than our recommended target of 0.30, thus it has proven it is capable of doing so.

Q. How much control does Central Hudson have over its performance for mismark damages?

A. Damages caused by mismarks is an area where the Company has greater control of its performance as compared to damages caused by the actions of third-party excavators and Central Hudson is currently performing significantly better than

our recommended target. Our recommended target of 0.50 damages caused by mismarks allows Central Hudson a reasonable cushion before it would experience a regulatory liability adjustment.

Q. Please discuss further the control Central Hudson has over Company personnel and Company contractors?

A. While Central Hudson does not usually experience as many of these types of damages compared to other causes, this is an area of damage prevention where it has direct control. As mentioned earlier, Central Hudson has experienced continued deterioration in performance. Our recommended target of 0.30 is above its performance until 2008, and the historical performance implies that it should be able to meet the target. Thus, we believe that recommending the target of 0.30 is fair and will urge the Company to reverse its downward trend. It is also justified in view of public safety.

Q. Is it true that Central Hudson’s pipe

replacement program forces it to perform more excavation around its own facilities than in the past?

A. Yes.

Q. Could the increased level of work around Central Hudson's own facilities increase the risk of it damaging its own facilities?

A. The Company may argue this point. However, it has been experiencing a higher rate of these damages since 2005, and its current target for pipe replacement took effect during 2007. That argument would not apply for years 2005 and 2006.

Q. Is there anything else you would like to illustrate about Central Hudson's performance in this area?

A. Yes. Other companies, such as Orange and Rockland Utilities, Inc. (O&R), for example, have historically had a higher rate than the statewide level for damages due to Company personnel and Company contractors. The issue has been addressed several times in the annual

Gas safety Performance Measures report. O&R has a pipe replacement program that is much more aggressive than Central Hudson's and it includes a specific type of plastic pipe that was installed without tracer wire and unreliable mapping. Through the third quarter of 2008 O&R was performing at a rate of 0.36, 18% better than Central Hudson (see Exh___DPS-3). Therefore, if O&R can make corrective actions to improve its performance with a greater replacement level, Central Hudson should also be able to take a similar approach.

Q. Is it correct that mismarks and Company personnel and Company contractor damages are within the control of the Company?

A. Yes.

Q. How about overall damages?

A. Damages caused by excavator failure to notify Dig Safely and/or unsafe excavation practices are not totally within the control of the Company. However, the utilities can minimize these damages by influencing excavator activity

through education and outreach efforts to excavators, by continuing to bill excavators for repair costs when the excavator is at fault, and by referring problem contractors to Department of Public Service Staff for possible enforcement activities.

Q. Are “No-Call” damages a component of the overall damages measure?

A. Yes. No call damages are simply instances where no ticket was generated because the excavator did not provide proper notice of intent to excavate. This metric is part of the overall damages and provides an indication of the general level of awareness excavators have about the one-call notification system. Legislation by the Federal Communications Commission mandated the creation of a single nationwide “three-digit” telephone number “811” that excavators can call to request the markout of any underground facility. The single telephone number “811” will relieve excavators from having to remember multiple phone numbers if they work

in areas covered by different one-call centers across the country. The number officially became effective in April 2007, and Dig Safety New York is participating.

Q. What does Staff do in enforcement of damage prevention?

A. Beginning in 2007, expanding on historic enforcement levels, Staff requested that LDCs report all instances of damages due to lack of one call notification. Staff then follows its enforcement process. LDC participation requires little additional effort and the result is greater enforcement and eventual lower no-call damage rates to pipeline facilities. Staff also investigates damages when it becomes aware of them. These could come from notifications by utility companies, contractors, or discoveries in the field during routine inspection activities.

Q. Do the recommended targets for overall damages per 1000 One-Call tickets include the mismark and Company personnel and Company contractor

components?

A. Yes.

Q. Why do you recommend that approach?

A. Even if it appears that the targets for mismark and/or Company personnel and Company contractor damages will be exceeded, Central Hudson will have an incentive to keep these figures as low as possible because they would still be contributing to the overall damages measure.

Emergency Response

Q. Please describe the Emergency Response performance measures?

A. These measures evaluate Company response to gas leak, odor and emergency calls generated by the public and non-Company personnel. Each utility is required by gas safety regulations to provide a monthly report of the total number of calls received and responded to in intervals of 15 minutes during normal business hours, weekdays outside of business hours, and weekends and holidays. This measure, in addition to the leak management and damage prevention measures, is

included in the Gas Safety Performance Measures Report. Statewide standards for this performance measure have been jointly established by Staff and utilities as follows:

a) Respond to 75% of all gas leak and odor calls within 30 minutes;

b) Respond to 90% of all gas leak and odor calls within 45 minutes; and

c) Respond to 95% of all gas leak and odor calls within 60 minutes.

Q. What is the significance of the emergency response performance measure?

A. Leaks on inside piping, improperly operated or installed appliances, and gas migration into a building from leaks on outside buried piping present a risk to the general public. The Company recognizes this and dispatches crews in response to calls reporting gas leaks or odors on a priority basis. The utility operators are required to maintain a log of these calls that track the elapsed time between the dispatch and arrival time of the service personnel on the

scene. The potential for an incident and physical harm to the general public increases as the Company's response time lengthens. Therefore, it is important to minimize the response times to calls of gas odor and/or gas leaks.

Q. How has Central Hudson performed related to this measure?

A. Central Hudson has adequately met the standard targets explained above. Since it is currently exceeding the targets, our recommendation of the accepted statewide targets simply encourages it to avoid significant deterioration in performance.

Regulatory Liability

Q. Do you have specific recommended rate adjustments that will be assessed for failure to meet the proposed safety performance measures?

A. Yes. We recommend the following adjustments be assessed in the corresponding rate year derived from the approximate basis point value of $14,000 for Central Hudson, or as indicated by

each measure:

Infrastructure Enhancement

Failure of Central Hudson to achieve, at a minimum, an expenditure level of $6.1 million for the elimination of leak-prone pipe during 2010, will result in Central Hudson deferring for ratepayer benefit the amount of the shortfall multiplied by one and one-half (1.5x) times. The pipe removed from service shall be identified and prioritized using a risk-based model.

Leak Management – 14 basis points

(a) Failure of Central Hudson to maintain a level equal to or below a backlog of 30 repairable leaks at year-end 2010 will result in a pre-tax revenue adjustment owed to ratepayers of $126,000 (9).

(b) Failure of Central Hudson to maintain a level equal to or below 350 total known leaks at year-end 2010 will result in a pre-tax revenue adjustment owed to ratepayers of $70,000 (5).

Prevention of Excavation Damages – 10 basis points

Overall Damages - Failure of Central Hudson to remain at or below 3.00 excavation damages per 1000 One-Call Tickets at year-end 2010 will result in a pre-tax revenue adjustment owed to ratepayers of $28,000 (2).

Damages Due to Mismarks – Failure of Central Hudson to remain at or below 0.50 excavation damages due to mismarks per 1000 One-Call Tickets at year-end 2010 will result in a pre-tax revenue adjustment owed to ratepayers of $56,000 (4).

Damages Due to Company Personnel and Company Contractors – Failure of Central Hudson to remain at or below 0.30 excavation damages due to Company personnel and Company contractors per 1000 One-Call Tickets at year-end 2010 will result in a pre-tax revenue adjustment owed to ratepayers of $56,000 (4).

Emergency Response – 6 basis points

(a) Failure of Central Hudson to respond to 75% of all gas leak and odor calls within 30 minutes will result in a pre-tax revenue adjustment owed

to ratepayers of $56,000 (4).

(b) Failure of Central Hudson to respond to 90% of all gas leak and odor calls within 45 minutes will result in a pre-tax revenue adjustment owed to ratepayers of $28,000 (2).

Q. Why are you not recommending incentive awards for exceeding target levels?

A. All of our recommendations, with the exception of Central Hudson's current performance in the area of damages due to Company personnel and Company contractors, are derived from the expected capability and historical performance of the Company. The safety-related targets in this testimony reflect efforts the Company should already be making as a matter of course in safely operating its gas distribution system. We are recommending these targets as a means to provide the ratepayers of Central Hudson the same, if not improved, levels of safety they currently or have received from the Company based on historical capability. Therefore, we believe recommending incentives for exceeding

proposed targets that incorporate each Company's existing efforts can not be justified.

Also, when the Commission makes its determination in this case on the level of rates Central Hudson is allowed, those allowed rates are based on an expected level of safety and reliability. That level should be derived from Central Hudson's proven historical capability and Staff's working knowledge of the Company.

High Pressure Service Replacement Program

Q. Please describe Central Hudson's requested funding of $511,000 during 2009 to replace high pressure services with inside meter sets.

A. Central Hudson witness Haering states in his testimony (at page 15, lines 2-15) that Central Hudson has targeted approximately 3,000 steel services that operate at high pressure, and terminate at a meter set inside a building. Central Hudson would like to start a 5-year program that would remove 1,500 of these services.

Q. Why do these services present a risk?

A. According to witness Haering, Central Hudson has experienced three incidents in the past six years where an excavator damaged a service line resulting in high pressure gas flowing into a building.

Q. Since these were the result of excavator damages, why would staff support this program when a damage prevention measure is also recommended?

A. There are a couple of reasons. Yes, the Company's effort to reduce third party damages does result in fewer overall damages to its facilities. We know from experience that one of the three damages was a result of an excavator's failure to request a markout. The cause of the other two damages related to miscommunication issues between Central Hudson and the excavators surrounding the planned work area and locations of facilities. There have been improvements made in Company procedures since the incidents. However, the services for the proposed program are comprised of steel and are susceptible to

corrosion. Central Hudson, in response to IR DPS-490 (Exh___GSP-4), states that cathodic protection status is the second ranking criteria behind operating pressure in considering the services that would be replaced.

Q. What else does the program entail?

A. As stated in DPS-490 (Exh___GSP-4), the Company will replace services in addition to those included in the infrastructure enhancement program. It will also relocate the meter and service regulator outside the structure unless it is unsafe to do so, it is limited by local ordinances or historical significance, or when it encounters significant individual customer concerns and is still able to obtain satisfactory access to the indoor location of the meter.

Q. Do you agree with these criteria?

A. We generally support the criteria, but would prefer to see the meter and regulator relocated outside the structure whenever physically possible. It is usually the safest location in

the case of a leak on the high pressure piping.

Q. Should Central Hudson be able to pursue this program?

A. We agree the program is a worthwhile effort due to the increased risk of incidents based on historical events, the likelihood these services will get replaced due to the increased chance of leakage when compared to those services comprised of plastic pipe, and it ultimately lowers the risk to the public by locating high pressure piping outside of a structure. However, this program should only target those services that are considered unprotected steel, as they carry an increased risk of developing leaks due to corrosion.

Q. What else do you recommend?

A. The funding for this enhanced service replacement program be subject to the same mechanisms as the funding for the infrastructure enhancement program.

Q. Are there any additional recommendations regarding the aforementioned performance

incentives?

A. Yes. We recommend that Central Hudson be required to implement the aforementioned safety recommendations, pipe replacement programs, and performance incentives for calendar year 2010 and remain at the 2010 target levels for each subsequent year until the mechanisms recommended in this proceeding are superseded in the future by the Commission.

Q. Are there any other conditions that Central Hudson should meet pertaining to your safety-related recommendations?

A. Yes, we urge the Commission to direct Central Hudson to submit a report to the Director of the Office of Electric, Gas and Water on its performance in the areas of the recommended targets in this testimony within 30 days following the end of the calendar year. The report should also list, and separately identify, those services replaced under the infrastructure enhancement program and those replaced under the high pressure inside meter

set replacement program.

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

A. Yes.