

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of
New York State Department of Public Service
Cases 08-E-0887 and 08-G-0888
November 2008

Prepared Testimony of:

Gas Rates Panel:

Mary Ann Sorrentino
Utility Engineer III

Aferdita Bardhi
Utility Engineer II

Johanna Miller
Junior Engineer

Office of Electric, Gas and
Water
State of New York
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

1 Q. Please state your name and business address.

2 A. Mary Ann Sorrentino. I am employed by the New
3 York State Department of Public Service, Agency
4 Building Three, Empire State Plaza, Albany, NY
5 12223.

6 Q. In what capacity are you employed by the
7 Department of Public Service?

8 A. I am a Utility Engineer III in the Office of
9 Electric, Gas & Water, Gas Rates Section at the
10 New York State Department of Public Service.

11 Q. Please summarize your education and professional
12 experience.

13 A. I received my Bachelors of Science in
14 Engineering from Clarkson University in 1991. I
15 began employment with the Department in March of
16 1993 as a Junior Engineer and was promoted to a
17 Utility Engineer I in March of 1994. In August
18 of 1997, I was promoted to a Utility Engineer II
19 and in March of 2003, I was promoted to my
20 current position of Utility Engineer III.

21 Q. Have you filed testimony before the Commission
22 in other proceedings?

23 A. I have testified in Case 95-G-1095, Case 96-G-
24 0548, Case 00-G-1274, Case 05-G-0935, Case 06-G-

1 1185, and in Case 06-G-1186 on various gas rates
2 matters.

3 Q. Please state your name and business address.

4 A. Aferdita Bardhi. I am employed by the New York
5 State Department of Public Service, Agency
6 Building Three, Empire State Plaza, Albany, NY
7 12223.

8 Q. In what capacity are you employed by the
9 Department of Public Service?

10 A. I am a Utility Engineer II in the Office of
11 Electric, Gas & Water, Gas Rates Section at the
12 New York State Department of Public Service.

13 Q. Please summarize your education and professional
14 experience.

15 A. I graduated from State University of New York at
16 Buffalo in 1999 with a Bachelors of Science
17 degree in Civil Engineering. I joined the
18 Department of Public Service in February 2005.
19 Previously, I have worked as a structural
20 engineer in the private sector. My duties with
21 the Department relate to gas utility matters,
22 including preparation of materials for
23 proceedings before the Commission.

24 Q. Have you filed testimony before the Commission

1 in other proceedings?

2 A. Yes, most recently in KeySpan 06-G-1185 and 06-
3 G-1186.

4 Q. Please state your name and business address.

5 A. Johanna Miller. I am employed by the New York
6 State Department of Public Service, Agency
7 Building Three, Empire State Plaza, Albany, NY
8 12223.

9 Q. In what capacity are you employed by the
10 Department of Public Service?

11 A. I am a Junior Engineer in the Office of
12 Electric, Gas & Water, Gas Rates Section at the
13 New York State Department of Public Service.

14 Q. Please summarize your education and professional
15 experience.

16 A. I received my Bachelors of Science in Mechanical
17 Engineering from the University of Delaware in
18 January 2008. I began employment with the
19 Department in May 2008 in my current position of
20 Junior Engineer.

21 Q. Have you filed testimony before the Commission
22 in other proceedings?

23 A. No.

24 Q. What is the purpose of the Gas Rates Panel's

1 testimony in this proceeding?

2 A. The Gas Rates Panel will present the following
3 topics with respect to gas service: 1) base
4 delivery revenues for all service classes for
5 the period April 1, 2008 through June 30, 2010;
6 2) development of the projection of
7 interruptible sales and revenues and the
8 mechanism for sharing interruptible profits; 3)
9 addressing the gas operations Cost of Service
10 (COS) information; 4) the interclass revenue
11 allocation of the Panel's proposed delivery rate
12 changes; 5) the Panel's proposed changes in the
13 Company's gas rates and the revenue effect of
14 those changes, including merchant function
15 charges; 6) the gas factor of adjustment; and 7)
16 a revenue decoupling mechanism ("RDM")and
17 weather normalization adjustment; 8) the
18 proposed gas plant construction budget; and 9)
19 the proposed construction budget as it relates
20 to common plant.

21 Q. Did you rely on any information produced during
22 the discovery phase of this proceeding?

23 A. Yes. We relied on responses to numerous
24 interrogatory requests. Specifically, we

1 utilized Central Hudson's responses to Staff
2 Interrogatories 1, 2, 4, 9, 10, 12, 13, 14, 15,
3 40, 41, 113, 114, 115, 117, 118, 124, 368, 369,
4 449, 525, 555, 607, 608, 609 and 619.

5 Q. Is the Panel sponsoring any exhibits?

6 A. Yes.

7 Exhibit ___(GRP-1) consists of 38 pages which
8 contain the above mentioned interrogatory
9 requests used by the Panel.

10 Exhibit ___(GRP-2) consists of the results of
11 the Company's proposed billing determinant
12 methodology for residential heat, residential
13 non heat, commercial heat, commercial non-heat,
14 Other Public Authorities (OPA) and industrial
15 customers in the rate year.

16 Exhibit ___(GRP-3) summarizes the Panel's
17 proposed billing determinants for residential
18 heat, commercial heat, commercial non-heat,
19 industrial and OPA.

20 Exhibit ___(GRP-4) contains one schedule
21 summarizing the Panel's projected base delivery
22 revenues and customers for the twelve-month
23 period ending June 30, 2010.

24 Exhibit ___(GRP-5) contains a three year history

1 of revenues associated to interruptible
2 customers.

3 Exhibit ___(GRP-6) contains a summary of impacts
4 associated with Panel modifications to the ECOS
5 studies.

6 Exhibit ___(GRP-7) contains the Panel's proposed
7 revenue requirement and allocation to firm
8 service classifications.

9 Exhibit ___(GRP-8) summarizes ECOS supported
10 customer costs versus current and the Panel's
11 proposed minimum charges.

12 Exhibit ___(GRP-9) shows the Panel's proposed
13 rates and forecast revenues for each service
14 class.

15 Exhibit ___(GRP-10) shows the Panel's revised
16 ECOS study unitized ROR for SC 1, 2, and 11; the
17 result of our revenue shifts on the unitized
18 ROR; and our proposed percent increase on each
19 of the classes listed.

20 Exhibit ___(GRP-11) shows the monthly and
21 annual bill impacts of the Panel's
22 recommendations on a typical customer for each
23 firm service classification.

24 Exhibit ___(GRP-12) shows a summary of our

1 recommended rates, including merchant function
2 charges.

3 **Base Delivery Revenues**

4 Q. Please summarize how the Company developed its'
5 base delivery revenues for all service classes
6 for the period April 1, 2008 through June 30,
7 2010.

8 A. The monthly sales spread between blocks was
9 determined based on an average of the actual
10 bill distribution for calendar years 2006 and
11 2007. The monthly distributions were priced at
12 current rates to obtain total base revenue.

13 Q. Does the Gas Rates Panel agree with the
14 Company's bill distribution methodology?

15 A. No. The Panel believes this methodology has
16 inherent weaknesses.

17 Q. Can the Panel demonstrate the weakness of the
18 Company's bill distribution methodology?

19 A. Yes. As shown in Exhibit ___(GRP-2), the
20 Company allocated more volume than could
21 actually be contained in the first block for
22 industrial, OPA, commercial non-heat and
23 residential heat customers for certain months in
24 the rate year. The Company also allocated more

1 volume than could actually be contained in the
2 second block for industrial and OPA.

3 Q. Please explain why the Company's proposed bill
4 distribution does not accurately distribute
5 volumes.

6 A. As use per customer changes, the block
7 distribution pattern will also change. As
8 consumption per customer increases, the amount
9 of gas consumed in higher billing blocks also
10 increases, and visa-versa. Utilizing a two year
11 average will not distribute volumes
12 appropriately to compensate for these changes.

13 Q. Did the Panel develop a bill distribution
14 methodology?

15 A. Yes, the Gas Rates Panel preformed a curve fit
16 for residential heat, commercial heat,
17 commercial non-heat, OPA and industrial to
18 determine how volumes should distributed in rate
19 blocks for these customers in the rate year.

20 Q. Please explain the curve fitting process.

21 A. On a service class or sub-service class basis,
22 the Panel performed a curve fitting process
23 which proportioned actual 2007 billing blocks
24 and billing block volumes to the forecast use

1 per customer. The Panel utilized actual billing
2 system data as provided by the Company in
3 response to Staff interrogatory DPS-9, submitted
4 as Exhibit ___(GRP-1), page 4.

5 Q. Does the Panel's bill distribution methodology
6 correct for the weaknesses found in Central
7 Hudson's billing determinant methodology?

8 A. Yes, by proportioning actual billing blocks
9 billing block volumes to forecast billing the
10 flaws are eliminated.

11 Q. Please summarize how you developed base delivery
12 revenues for all service classes for the period
13 April 1, 2008 through June 30, 2010.

14 A. For residential heat, commercial heat,
15 commercial non-heat, OPA and industrial the
16 billing determinants, which resulted from the
17 curve fitting process, were priced at current
18 rates to obtain total base revenue. For
19 residential non-heat, the Panel employed the
20 Company's methodology.

21 Q. Explain why the Panel performed curve fitting for
22 residential heat, commercial heat, commercial
23 non-heat, OPA and industrial service
24 classifications or sub-classifications.

- 1 A. These service classifications had the greatest
2 impact associated with deviations in the use per
3 customer forecast from 2006 and 2007.
- 4 Q. Explain the results of the above mentioned
5 process.
- 6 A. The results of the above described process are
7 shown in Exhibit ___(GRP-3), which shows the
8 Company's proposed block consumption percentages
9 compared to the Panel's proposed block
10 consumption percentages based on our use per
11 customer forecast. Additionally, the Panel's
12 proposed block consumption percentages are
13 shown, if the Company's use per customer
14 forecast is adopted.
- 15 Q. Has the Panel made any other adjustments to the
16 delivery service revenue increases?
- 17 A. Yes, like Central Hudson, the Panel reduced the
18 delivery service revenue increase for each
19 service class by the estimated increase in
20 revenue to be collected through the Merchant
21 Function Charges (MFC) for that class.
- 22 Q. Please summarize the Panel's resulting base
23 delivery revenues for the rate year.
- 24 A. Exhibit ___(GRP-4), contains one schedule

1 summarizing the Panel's projected base delivery
2 revenues, volumes and customers for the twelve-
3 month period ending June 30, 2010.

4 Q. If the Staff Forecasting Panel's sales forecast
5 is not adopted, would the curve fitting process
6 still need to be employed?

7 A. Yes. However, the projected block distributions
8 would be different, as the Company's projected
9 use per customer is different than that of
10 Staff. Exhibit ___(GRP-3) shows the results of
11 the curve fitting process for the Company's
12 proposed use/customer levels. Thus, if the
13 Company's sales forecast is adopted, revenues
14 would need to be reforecast using these revised
15 block distribution patterns.

16 **Interruptible Sales and Transportation Revenue**
17 **Imputation**

18 Q. Please explain the interruptible sales and
19 transportation imputation and assumptions made
20 with respect to interruptible sales and
21 transport service (S.C. Nos. 8 and 9) and sales
22 to generating facilities (S.C. No. 14)?

23 A. The Company's base delivery rates include a
24 credit derived from the net of fuel revenues

1 received from interruptible sales (S.C. Nos. 8
2 and 9) and sales to generating facilities (S.C.
3 No. 14). Current base delivery rates include a
4 profit imputation of \$1 million estimated to be
5 received from such sales. As a result, Central
6 Hudson is permitted to retain the first \$1
7 million in net of fuel revenue in each rate year
8 that it may receive from interruptible service
9 and service to generating facilities. If the
10 net of fuel revenue, or margin, is less than \$1
11 million in any rate year, the Company is
12 authorized to surcharge firm customers for 100
13 percent of the first \$250,000 of the shortfall
14 and 90 percent of the remaining shortfall. If
15 the margin exceeds \$1 million in any rate year,
16 the Company will credit to ratepayers 100
17 percent of the first \$250,000 of the excess and
18 90 percent of the remaining excess. Any such
19 surcharges or credits are applied through the
20 gas cost adjustment factor.

21 Q. Is the Company proposing any changes to this
22 interruptible profit level of imputation or
23 sharing mechanism?

24 A. No, the Company has not proposed any

1 modification to the mechanism or the level of
2 imputation.

3 Q. Is the Panel proposing any changes to the
4 interruptible imputation profit level or sharing
5 mechanism?

6 A. The Panel proposes increasing the level of
7 imputation to recognize current net of fuel
8 revenues margins levels from this group of
9 customers.

10 Q. How has the Panel reflected this mechanism in
11 this proceeding?

12 A. The Panel has reflected an interruptible profit
13 imputation of \$3.0 million, instead of \$1.0
14 million, which is the most recent three year
15 average. Exhibit ___(GRP-5) depicts the most
16 recent three years experience of the net of fuel
17 revenues received from interruptible sales and
18 sales to generating facilities on a monthly
19 basis.

20 **Cost of Service**

21 Q. Please summarize how Central Hudson's Gas
22 Embedded Cost of Service (ECOS) Study was
23 performed.

24 A. As stated in Company Witness Arvidson's Direct

1 Testimony at pages 5 thru 8, Central Hudson used
2 a three step process of (1) functionalization as
3 production, transmission, distribution, or
4 customer related (2) classification of
5 investment and expenses as demand, customer
6 related or specific; and, (3) allocation of
7 those "costs" among the service subclasses.
8 Central Hudson also functionalized costs
9 associated with the merchant function including:
10 procurement, delivery service related
11 uncollectible amounts and credits and
12 collections, bill printing and mailing, and
13 competitive energy services. Allocators were
14 used in each of the three steps and were based
15 on Company studies.

16 Q. Do you believe Central Hudson's ECOS study was
17 reasonable?

18 A. Generally speaking, the Panel believes the ECOS
19 study to be reasonable. However, the Panel
20 recommends one modification to the study. For
21 the purpose of revenue allocation and rate
22 design, we propose that all mains be allocated
23 as demand in the classification step. The
24 purpose of this change is to more closely

1 identify the minimum customer costs for each
2 service class. In the Panel's view, the result
3 of the revised study will more closely indicate
4 costs associated with a basic level of service,
5 which is more representative of the costs saved
6 when a customer leaves the system.

7 Q. How did the Company calculate the allocator to
8 be applied to the gas main accounts?

9 A. Central Hudson conducted a minimum intercept
10 analysis, in which costs of varying size mains
11 are plotted against main size, and the vertical
12 intercept (the cost to install a zero-inch
13 diameter main) is classified as customer costs.
14 The remainder is classified as demand. This
15 analysis attempted to identify the percent of
16 mains in the Company's system that should be
17 considered customer versus demand. Central
18 Hudson therefore classified mains as both
19 customer and demand, and the Company used
20 minimum intercept analysis to determine the
21 allocator of 55% customer and 45% demand.

22 Q. Did the Panel request that Central Hudson re-run
23 the ECOS study with mains classified as demand?

24 A. Yes, when Panel requested the Company re-run the

1 study in Staff interrogatory DPS-608, the
2 Company refused. Therefore, to determine the
3 effect of this change on the rate of return for
4 each class and the minimum cost of service for
5 each class the Panel re-ran the study.

6 Q. For what service sub-classifications did Central
7 Hudson perform a rate of return calculation
8 utilizing the ECOS study results?

9 A. The Company used the ECOS study results to
10 calculate sub service-classification rates of
11 return for residential heat, residential non-
12 heat, commercial and industrial heat, commercial
13 and industrial non-heat, West Point, and service
14 classification 11.

15 Q. Did the Panel aggregate the subclasses to
16 calculate a service class rate of return?

17 A. Yes, the Panel did so because heat and non-heat
18 customers pay the same rates. The Panel
19 combined heat and non-heat sub-classes to
20 develop aggregate service class rates of return.
21 These rates of return were used to determine if
22 a service class contributed more or less than
23 the system rate of return.

24 Q. What are the results of the modifications made

1 by the Panel on the ECOS study?

2 A. The impacts of these modification can be seen in
3 Exhibit ___(GRP-6), which shows residential
4 customers having a rate of return of 5.25%
5 commercial customers with a rate of return of
6 1.0%, as compared to the system average return
7 of 3.16%.

8 Q. How did the Panel use the modified ECOS study in
9 this proceeding?

10 A. We used the study as a basis to review the
11 proposed merchant function charges. We also
12 used the revised ECOS study, with mains
13 classified as demand, as a tool to aid in the
14 revenue allocation and rate design process.
15 Since there are many assumptions used in the
16 development of a study of this nature, the cost
17 studies can be used as a guide for the revenue
18 allocations within the Company's service
19 classifications.

20 Q. Has the Company performed a marginal cost of
21 service study?

22 A. No, as seen in response to Staff interrogatory
23 DPS-114, submitted as Exhibit ___(GRP-1), page
24 24), Central Hudson has not filed a formal

1 marginal cost of service study for its gas
2 department since Case 90-G-0673. The Company
3 should be directed to do so in its' next rate
4 filing. A marginal cost of service study is
5 needed to ensure tail block rates are set
6 appropriately to recover marginal costs.

7 **Revenue Allocation, Rate Design modifications**
8 **and Impacts**

9 Q. Do you have any recommendations with respect to
10 the overall revenue allocation and rate design?

11 A. Yes. We recommend an approach which relies on
12 information contained in the revised ECOS study,
13 and moves each firm service class rate toward
14 that of the system average resulting in
15 realigned base delivery revenues. We then
16 recommend applying the overall percent increase
17 to the realigned base delivery rates for each of
18 the firm service classifications.

19 Q. Generally, what principles do you recommend
20 should be followed when developing the overall
21 revenue allocation and rate design?

22 A. We recommend that revenue allocation and rate
23 design remain consistent with the following
24 goals:

- 1 - Individual firm service class increases
2 are related to the overall delivery service
3 increases;
- 4 - The direction of individual firm service
5 class increases are guided by the results of the
6 revised ECOS study; and,
- 7 - Existing rate classes are maintained, and
8 none of the rate classes receive a rate
9 reduction when other classes receive a rate
10 increase.
- 11 Q. What guidance from the revised ECOS study did
12 you use in your revenue allocation?
- 13 A. We used the unitized rate of return (ROR), which
14 is the class rate of return, divided by the
15 system rate of return, for each of the firm
16 service classes to determine if there were any
17 revenue deficiencies and excesses.
- 18 Q. What did you find with respect to the class
19 revenue deficiencies and excesses?
- 20 A. The overall system ROR for the firm classes,
21 based on the Staff revised ECOS study, was
22 3.16%. Using a standard plus or minus 10%
23 range, we determined that a class with a
24 unitized ROR of less than 0.9, or greater than

1 1.1, was producing a revenue deficiency or
2 excess which merited realigning.

3 Q. How did the Panel calculate the amount of class
4 deficiency or excess?

5 A. This was determined by adjusting the unitized
6 ROR to the outer limit of the plus or minus 10%
7 range. For example, if a class was under-
8 earning, we would set the unitized ROR at 0.9
9 and calculate the associated return for that
10 class. Then, to find the amount of the
11 deficiency, we would take the difference of our
12 calculated return and the actual return.

13 Q. Did the Panel bring all firm service class rates
14 of return to the edge of the tolerance band?

15 A. No. We determined that we would shift only a
16 portion of the revenue deficiencies and
17 excesses. The reason for only shifting a
18 portion of the revenue deficiencies and excesses
19 was to mitigate rate impacts on the customer
20 class with a below average return.

21 Q. Will the use of your revenue shift to reallocate
22 revenue deficiencies or excesses for the firm
23 classes fully correct the rate of return
24 discrepancies between the classes, as shown in

1 the results of the revised ECOS study?

2 A. No. Not fully. However, it is a step in the
3 right direction and will help to mitigate these
4 discrepancies.

5 Q. Why not fully correct the discrepancies between
6 rate classes?

7 A. Rate design is not an exact science and an ECOS
8 study does not provide definitive results.
9 Other factors must be considered in the revenue
10 allocation and rate design process such as
11 customer impacts. We took both the results of
12 the revised ECOS study and the rate impacts on
13 customers into consideration when designing the
14 rates for Staff's determined revenue
15 requirement.

16 Q. If the Commission finds that the Company is
17 entitled to some rate relief above Staff's filed
18 amount, could some firm service classes be
19 significantly impacted from the revenue shifts?

20 A. Yes. It would be very important to calculate
21 and consider the impacts to customers for any
22 proposed base rate increase.

23 Q. How did you develop the percentage increase to
24 the firm classes?

- 1 A. We began with Staff's recommended revenue
2 requirement, less associated revenue taxes, and
3 divided this amount by Staff's forecasted rate
4 year revenues from the firm classes. Exhibit
5 ____ (GRP-7) shows the results of this process.
- 6 Q. How did the Panel shift revenues to bring class
7 unitized rates of return closer to the system
8 average?
- 9 A. Revenue shifts were made to the firm class rate
10 year revenues at current rates, while limiting
11 each class specific delivery service rate
12 increase to no more than 120% of the overall
13 delivery service revenue increase. This was
14 done to minimize bill impacts on any one service
15 class.
- 16 Q. How was Staff's revenue requirement allocated to
17 the firm customers?
- 18 A. The delivery service revenue percent increase
19 was then applied to those realigned revenues.
20 That increase was added to the shift to
21 determine the net incremental revenue
22 requirement target for each class.
- 23 Q. In general, how did you design Staff's
24 recommended rates?

- 1 A. Generally, for each service class, we adjusted
2 the monthly minimum charge to more closely
3 reflect the distribution customer charges as
4 indicated in Staff's revised ECOS study. We
5 then adjusted the remaining volumetric block
6 rates to achieve the revenue requirement for
7 each class.
- 8 Q. Do you agree with the general concept of setting
9 the minimum charge based on the indications of
10 the ECOS study?
- 11 A. Yes; however, we only used the study as a guide
12 and also considered customer bill impacts in the
13 rate design process.
- 14 Q. Why do you believe your recommendations for the
15 minimum charge increases are reasonable?
- 16 A. The minimum charge recommendations are closer to
17 the revised ECOS study customer charge results
18 than the existing rates, as shown on
19 Exhibit___(GRP-8). Further, the minimum charges
20 are comparable to the other New York State local
21 distribution companies. For example, the
22 proposed residential (SC-1) minimum customer
23 charge of \$16.75 is slightly higher than the
24 Commission approved residential minimum customer

1 charges of Con Edison at \$14.34, Central Hudson
2 at \$14.00, New York State Electric & Gas at
3 \$14.50, Rochester Gas and Electric at \$15.00,
4 and National Fuel at \$16.61.

5 Q. Please describe Exhibit ____ (GRP-9).

6 A. Exhibit ____ (GRP-9) shows our proposed rates and
7 forecast revenues for each service class. We
8 used our forecasted sales volumes and customer
9 counts for the rate year and priced out the
10 forecast at our proposed rates to determine if
11 Staff's revenue requirement was met for each of
12 the firm service classes. The Exhibit also
13 shows the recommended per unit increase and the
14 percentage impact at Staff's recommended revenue
15 requirement contribution.

16 Q. Are you supporting an exhibit that shows the
17 impact that your rate design has on the rate of
18 return for each service class?

19 A. Yes. Exhibit ____ (GRP-10) shows the revised
20 ECOS study unitized ROR for SC 1, 2, and 11; the
21 result of our revenue shifts on the unitized
22 ROR; and our proposed percent increase on each
23 of the classes listed.

24 Q. What are the customer impacts of your revenue

1 allocation and rate design proposals?

2 A. Exhibit ____ (GRP-11) indicates the monthly and
3 annual bill impacts of our recommendations on a
4 typical customer for each firm service
5 classification. This exhibit reflects Panel's
6 recommended revenue requirement level for
7 illustrative purposes.

8 Q. Did you provide a summary of Panel's proposed
9 rates?

10 A. Yes. Exhibit ____ (GRP-12) shows a summary of our
11 recommended rates.

12 Q. If the Commission were to determine that no
13 change in delivery revenues were necessary,
14 would you recommend any rate design changes?

15 A. Yes. We would recommend that revenue neutral
16 rate design changes be made to each firm service
17 class to bring the minimum charge closer to the
18 results of the revised ECOS study.

19 Q. If the Commission were to determine that
20 additional revenues above those recommended by
21 Staff were justified, would you recommend the
22 same rate design changes?

23 A. Yes. We would also consider modifying our
24 revenue shifts to distribute the revenue

1 requirement to the customer classes based on the
2 indications of the revised ECOS study regarding
3 unitized rate of return for each of the firm
4 classes. For SC-1, we would put the rate
5 increase in the minimum charge up to our
6 recommended rate of \$17 per month. If the
7 revenue requirement exceeded the amount produced
8 by this modification, we would put the remainder
9 in the penultimate block and keep the tail block
10 constant. For SC-2, we would put the rate
11 increase in the minimum charge up to our
12 recommended rate of \$25 per month. If revenue
13 requirement exceeded the amount produced by this
14 modification, we would apply an equal percentage
15 increase to the remaining blocks.

16 **Merchant Function Charge**

17 Q. Describe the purpose of the Merchant Function
18 Charge (MFC), as used in this case, and
19 associated net lost revenues.

20 A. The Merchant Function Charge ("MFC") contains
21 certain commodity-related costs that are
22 associated with the provision of sales service
23 by the Company to its customers. The Company
24 may experience net lost revenues because

1 customers taking commodity service from an ESCO
2 do not, in general, pay the MFC and the utility
3 may be unable to avoid the costs included in the
4 MFC when customers migrate.

5 Q. Describe the structure of the MFC.

6 A. The MFC is divided into a MFC Administration
7 Charge and a MFC Supply Charge. As stated by
8 Central Hudson, the MFC Administration Charge
9 includes an allocated portion of credit and
10 collection function costs and procurement-
11 related call center function costs, plus
12 administrative and general rate base items
13 associated with each of the aforementioned
14 costs. The MFC Supply Charge includes commodity
15 purchasing function costs, allocated portions of
16 advertising and promotions function costs and
17 procurement-related call center function costs,
18 plus administrative and general rate base items
19 associated with each of the aforementioned
20 costs, as well as the commodity supply portion
21 of forecast net lost revenues.

22 Q. How are net lost revenues recovered by Central
23 Hudson?

24 A. The delivery portion of forecast net lost

1 revenues is recovered through the Transition
2 Adjustment, which is applicable to all
3 deliveries regardless of a customer's source of
4 commodity supply. The commodity supply portion
5 of forecast net lost revenues is recovered in
6 the MFC supply charge, which is applicable to
7 only customers taking sales service from Central
8 Hudson.

9 Q. Does the Panel propose any modifications to the
10 recovery of MFC related net lost revenues
11 treatment?

12 A. Yes, the Panel proposes that the current net
13 lost revenue provisions of the delivery portion
14 of forecast net lost revenues remain unchanged.
15 However, the Panel proposes the commodity supply
16 portion of forecast net lost revenues, which is
17 currently recovered in the MFC supply charge and
18 applicable to only sales customers, be collected
19 from sales and transportation customers alike
20 through the Transition Adjustment discussed
21 above.

22 Q. Why do you recommend this treatment for these
23 lost revenues?

24 A. Under the existing lost revenue recovery

1 mechanism, customers that buy their gas from the
2 utility are responsible for a greater share of
3 lost revenues than are customers that buy their
4 gas from an ESCO. Having all customers shoulder
5 responsibility for these lost revenues, on an
6 equitable basis, is more appropriate and fair.

7 Q. Is the Company proposing to update the rates for
8 these charges?

9 A. Yes. The Company is proposing to update the
10 base rates (excluding lost revenue) for the MFC
11 Administration Charge and the MFC Supply Charge.

12 Q. How were the Company proposed MFC rates
13 developed?

14 A. These rates are based on the results of the ECOS
15 study, which identified certain cost elements
16 that might be avoided if a customer were to
17 procure their energy supply from a third party.
18 These cost elements, detailed by service
19 classification in the ECOS study, were grouped
20 as either administrative or supply and divided
21 by estimated Rate Year sales to establish base
22 MFC rates. This procedure was followed for each
23 MFC group to determine the base MFC
24 Administration Charge rate and base MFC Supply

1 Charge rate.

2 Q. Does the Panel agree with the Company proposed
3 MFC rates development?

4 A. We agree that rates should be set based on the
5 results of the ECOS study and should include
6 avoidable cost elements. However, the Panel
7 found that the Company did not utilize rate year
8 sales to establish base MFC rates. We propose
9 to develop the MFC unit rates based on the rate
10 year sales. Our proposed MFC rates are shown in
11 Exhibit ___(GRP-12).

12 **Factor of Adjustment**

13 Q. What is "Lost and Unaccounted For" (LAUF) gas?

14 A. LAUF gas is system sendout, less all known
15 system dispositions of gas.

16 Q. What is the lost and unaccounted for (LAUF)
17 factor?

18 A. A LAUF factor is LAUF divided by sendout.

19 Q. How is an allowed LAUF factor developed?

20 A. An allowed LAUF factor is a determined in rate
21 proceedings based on historic experience.

22 Q. What is the factor of adjustment?

23 A. The factor of adjustment is the multiplier
24 utilized to gross up dispositions to properly

1 adjust sendout for the loss factor;

2 mathematically it is 1 divided by 1 minus the

3 LAUF Factor.

4 Q. What is the LAUF adjustment mechanism?

5 A. The LAUF adjustment mechanism is designed as an

6 incentive to motivate gas utilities to control

7 losses on their system. If the Company's actual

8 LAUF gas is greater than allowed LAUF gas, the

9 Company must absorb the difference. Conversely,

10 if Company's actual LAUF gas is less than

11 allowed LAUF gas, the Company retains the

12 difference.

13 Q. How did the Company develop its' proposed LAUF

14 factor.

15 A. The Company proposed using a three-year average

16 of 1.015 for the period ending August 31, 2007.

17 Q. What problems has the Panel identified with the

18 Company developed loss factor?

19 A. As seen in response to Staff interrogatory DPS-

20 449, submitted as Exhibit ___(GRP-1), page 31,

21 Central Hudson did not include all known

22 dispositions of gas on its' system in their LAUF

23 calculation.

24 Q. Please explain how the Panel proposes to set the

1 allowed loss factor.

2 A. Like Central Hudson, the Panel proposes to
3 continue to utilize a three-year average to
4 strike the balance between reflecting current
5 loss activity without producing a high degree of
6 volatility. The Panel finds this time period to
7 be appropriate. However, the Panel proposes to
8 include all known dispositions of gas in the
9 LAUF calculation. This produces an allowed loss
10 factor of 1.15%, and a fixed factor of
11 adjustment of 1.0117.

12 **Revenue Decoupling Mechanism (RDM)**

13 Q. Please explain the Commission's April 20, 2007
14 Order Requiring Proposals for Revenue Decoupling
15 Mechanisms in Case 06-G-0746?

16 A. The Commission examined potential disincentives
17 to utilities associated with energy efficiency
18 programs, and required utilities to develop
19 true-up based delivery service revenue
20 decoupling mechanisms for consideration in
21 individual rate cases to ameliorate this
22 disincentive.

23 Q. Did the Company propose implementing a RDM in
24 this rate proceeding?

- 1 A. Yes.
- 2 Q. Is the Company proposing to exempt any service
3 classifications from a RDM?
- 4 A. Yes. The Company proposes exempting S.C. No. 8
5 - Interruptible Sales, S.C. No. 9 -
6 Interruptible Transportation/Standby Sales and
7 S.C. No. 14 - Interruptible transportation for
8 Electric Generation as revenues from these
9 classes are incorporated in the interruptible
10 profit imputation and sharing mechanism.
11 Central Hudson also proposed that S.C. No. 11 -
12 Core Firm Transportation be exempt from the RDM,
13 as the rate structure for this class is demand
14 based, and to exempt S.C. No. 15 - Distribution
15 Generation Commercial and Industrial and S.C.
16 No. 16 - Distribution Generation Residence, as
17 no customers have yet to take service under the
18 provisions of these classes.
- 19 Q. Does the Panel agree to these exemptions?
- 20 A. Yes.
- 21 Q. For what service classifications does the
22 Company's propose to implement a revenue
23 decoupling mechanism?
- 24 A. The Company proposes the RDM be applicable to

1 S.C. No. 1 - Residential Heat and Non-heat Sales
2 customers, S.C. No. 2 - Commercial and
3 Industrial Heat and Non-heat Sales customers,
4 S.C. No. 6 - Firm Transportation customers, S.C.
5 No. 12 Residential Heat and Non-heat Aggregation
6 Transportation customers and S.C. No. 13
7 Commercial and Industrial Heat and Non-heat
8 Aggregation Transportation customers.

9 Q. Does the Panel agree with the Company proposed
10 services classifications to be included in the
11 RDM?

12 A. Yes.

13 Q. Please explain the Company proposed RDM.

14 A. The Company's proposes implementing a delivery
15 service Use Per Customer ("UPC") revenue
16 decoupling model. For each month of the rate
17 year, Central Hudson proposes billing
18 determinant units (Mcf) be divided by customer
19 months to determine the monthly UPC target. The
20 Company proposes to do this on a customer type
21 basis for four different customer types:
22 Residential Heat, Residential Non-heat,
23 Commercial and Industrial Heat, and Commercial
24 and Industrial Non-heat. During the rate year,

1 actual UPC will be determined in the same manner
2 as the target UPC on a monthly basis. The
3 Company proposes that the UPC difference for
4 each target item be multiplied by the actual
5 number of customers to calculate the unit
6 difference. The unit difference will then be
7 multiplied by the applicable delivery rate to
8 determine the excess or shortfall of allowed
9 monthly base revenue. Central Hudson also
10 proposes that the unit difference be multiplied
11 by the applicable Merchant Function Charge
12 ("MFC") rates to determine the excess or
13 shortfall of allowed MFC revenue.

14 Q. How does Central Hudson propose to treat any
15 excess or shortfall of allowed revenue?

16 A. Central Hudson proposes the excess or shortfall
17 be reconciled monthly and be subject to carrying
18 charges calculated at the authorized pre-tax
19 rate of return for refund/recovery. The Company
20 also proposes to mitigate potential bill impacts
21 for residential customers by limiting the RDM
22 factors for residential customers to +/- 25
23 percent of the underlying unit delivery rate and
24 deferring amounts above/below the +/- 25% to the

1 following month.

2 Q. Does the Panel support implementation of a UPC
3 per class proposal RDM?

4 A. Yes, the Panel supports a UPC per class
5 mechanism for natural gas companies, as it
6 encourages growth of the business because every
7 customer subject to the RDM impacts Company
8 revenue allowance.

9 Q. Does the Panel have concerns with a UPC per
10 class RDM?

11 A. Yes. Since customers subject to the RDM impact
12 Company revenue allowance, accurate accounting
13 of customers within each service class or group
14 is a critical element of an UPC based RDM and
15 will require a reliable data source. For RDM
16 purposes, Central Hudson's definition of a
17 customer is a customer month, which is a pro-
18 rated customer count reported by Central
19 Hudson's billing system. In response to Staff
20 interrogatory DPS-4, submitted as Exhibit ____
21 (GRP-1), page 3, Central Hudson indicated "there
22 could be variations between the number of
23 customers billed in a given month and the number
24 of customers connected to the system. Billed

1 customers may reflect bill cancels and re-bills
2 which can also impact the number of customer
3 months billed in a month."

4 Q. Based on the potential inaccuracies, should
5 there be an additional measurement for customer
6 counts?

7 A. Yes, to provide confirmation that customer
8 counts are accurate, we propose the development
9 of the capability to track customers by using an
10 equivalent bill, as defined as minimum charge
11 revenues divided by the minimum charge rate. As
12 seen in response to Staff interrogatory DPS-369,
13 submitted as Exhibit ___(GRP-1), page 30,
14 currently the Company does not track minimum
15 charge revenues. The Company should be required
16 to develop and track customer counts via the
17 Panel's proposed equivalent bill methodology.

18 Q. Why is it important to develop a separate
19 customer count method?

20 A. Without a separate customer count validation
21 there is no way check for accuracy. As part of
22 the RDM reconciliation, if there were only one
23 customer count and there were anomalies, they
24 may not be found. However, if we have

1 concurrent methods, there would be the
2 capability to find errors or anomalies.

3 Q. Does the Panel support Central Hudson's proposal
4 as it pertains to developing monthly UPC
5 targets?

6 A. No. We propose an annual UPC target in lieu of
7 monthly UPC targets. However, we support the
8 use of monthly UPC targets for tracking purposes
9 only.

10 Q. Why does the Panel believe that the UPC per
11 class targets should be developed for an annual
12 period?

13 A. The revenue requirement and rates are developed
14 on an annual basis, and the RDM is the
15 reconciliation of the annual revenue requirement
16 per class. Plus, an annual target eliminates
17 some variability that could result in the
18 monthly forecast RDM targets.

19 Q. How does the Panel propose to develop the annual
20 target?

21 A. The Panel proposes to calculate annual targets
22 by dividing delivery service base revenues for
23 the rate year by the 12 month rolling average
24 number of customers in the rate year.

1 Q. Does the Panel propose to include weather
2 variations in the RDM?

3 A. No. The Panel recommends implementation of a
4 separate Weather Normalization Clause (WNC),
5 without a deadband, for all heating sub
6 classifications.

7 Q. Please explain why the Panel supports
8 implementing an annual RDM in conjunction with a
9 weather normalization clause, instead of
10 utilizing a monthly RDM target.

11 A. Including weather deviations in an RDM can
12 result in a Company revenue deficiency or excess
13 due to variations from normal weather being
14 inconsistent with actual weather experience.
15 Therefore, the Panel recommends implementing a
16 weather normalization adjustment by billing
17 cycle.

18 Q. Please explain why variations from normal
19 weather create revenue deficiency or excess
20 inconsistent with actual weather experience.

21 A. The monthly RDM surcharge or credit as proposed
22 by the Company would go into effect 3 months
23 after the actual weather experience. The Panel
24 looked at historic weather patterns for the past

1 three years. In all three years there was at
2 least one instance of countercurrent variations
3 from normal weather in the three month gap. For
4 example, in December of 2005 it was 12% colder
5 than normal, while the RDM refund for this would
6 be returned in March 2006, which was 8% warmer
7 than normal. In November of 2006, it was 18%
8 warmer than normal, while the RDM surcharge for
9 this would be returned in February 2007, which
10 was 17% colder than normal. Therefore, in
11 February, customers would have been paying
12 larger than normal heating bills associated with
13 the colder than normal weather, which would be
14 further increased by the RDM delivery rate
15 surcharge from the previous November.

16 Q. Please explain why the Panel prefers the
17 implementation of a separate weather
18 normalization adjustment.

19 A. We prefer to correct for delivery service
20 revenue deficiencies or excesses associated with
21 variations from normal weather when the
22 variation is actually experienced because
23 customer rate impacts associated with delivery
24 services would be mitigated at the appropriate

1 time.

2 Q. Does the Panel support the Company proposal as
3 it pertains to customer type?

4 A. No. The Panel does not support Central Hudson's
5 proposal to calculate different billing
6 determinants for heat versus non-heat within a
7 service class. In response to Staff
8 interrogatory DPS-609, which is located at
9 Exhibit ___(GRP-1), page 37, the Company
10 acknowledged that it has not verified the number
11 of residential non-heat versus heat customers.
12 Without a baseline study the Company could shift
13 customers from non-heat to heat and be rewarded
14 with a larger UPC, which results in a higher
15 revenue. Therefore, a single UPC class target
16 should be created. We recommend the Company
17 perform a base line study to determine which
18 customers are actually non-heat customers.

19 Q. Are there potential shortcomings associated with
20 developing single service class targets?

21 A. Yes, as heat customers have more weather
22 sensitivity and deviations from normal, a single
23 class UPC could create inter-class subsidies.
24 There could also be impacts on growth of the

1 business, as Company revenue allowance for heat
2 and non-heat customers would be the same
3 independent of non-heat customers having a lower
4 UPC.

5 Q. How would you address this potential limitation?

6 A. We recommend that the Company verify if non-
7 heating customers are categorized correctly for
8 use in a future RDM to eliminate the need for
9 single class targets. In the interim, we
10 recommend one UPC.

11 Q. Has a study to determine customer type (heat
12 versus non-heat) been necessary in the past?

13 A. No, Central Hudson does not have different rate
14 structures for heat versus non-heat customers.
15 Thus, a customer's rate would not change by a
16 heating system conversion.

17 Q. Does the Panel agree with the Company's proposal
18 for the treatment of any excess or shortfall of
19 actual to allowed revenue?

20 A. No. The Panel disagrees with the Central Hudson
21 proposal to reconcile excesses/shortfalls
22 monthly.

23 Q. How does the Panel propose to reconcile RDM
24 related excesses/shortfalls?

1 A. The Panel proposes an annual reconciliation with
2 timeframes similar to those of the annual
3 reconciliation of gas cost filings. To allow
4 adequate time for Company preparation, the
5 filing would be made 45 days after the end of
6 the rate year (in this instance August 14).
7 Rates would be effective approximately 2 and
8 one-half months after the filing (November 1) to
9 allow adequate time for Staff review and
10 Commission action on the filing.

11 Q. Does the Panel believe that revenue
12 deficiencies/excesses associated with the RDM
13 should be subject to carrying costs?

14 A. Yes, the Panel supports applying the other
15 customer capital rate to revenue deficiencies or
16 excesses, in comparison to the Company's
17 proposal to utilize the authorized pre-tax rate
18 of return for refund.

19 **Gas Capital Construction Forecast Adjustments**

20 Q. How much did the Company forecast for gas and
21 common construction expenditures?

22 A. In its filing, the Company's rate year average
23 net plant was derived based on a gas capital
24 construction forecast of \$17,396,000 in 2009 and

1 \$17,092,000 in 2010, as shown in Central Hudson
2 Exhibit ____ (PEH-2). The Company submitted a
3 common capital forecast of \$27,033,000 for 2009
4 and \$14,702,000 for 2010. In addition to the
5 capital forecasts, which directly impact the
6 rate year, the Company also presented annual
7 forecasts through 2013.

8 Q. Have these gas construction expenditure
9 forecasts been approved by Central Hudson's
10 Board of Directors?

11 A. No. According to the Company's response to
12 Staff Interrogatory DPS-40, which is submitted
13 as Exhibit ____ (GRP-1), page 12, the capital
14 expenditure budget for a given calendar year is
15 not approved by the Board until November, just
16 prior to the beginning of the given year.
17 Although the Board is presented with a 5-year
18 capital forecast each year, only the initial
19 year is actually approved by the Board.
20 Therefore, based on Staff Interrogatory DPS-41,
21 submitted as Exhibit ____ (GRP-1), page 15, at the
22 time of its rate case filing, the 2009 through
23 2010 annual capital expenditure forecasts that
24 were part of the 5-year capital forecast for

1 2009-2013 had not yet been presented to the
2 Board of Directors.

3 Q. What is the significance of this?

4 A. The Company's rate year forecast is still
5 subject to Board of Director approval. There is
6 a chance that the expenditures as forecasted
7 won't be approved. The Panel views this as a
8 potential concern on a specific Common Capital
9 Expenditure as discussed below.

10 Q. How has the Panel analyzed the forecasts
11 presented by the Company?

12 A. The Panel examined the forecasts from both an
13 overall perspective compared to historic
14 experience, as well as a project by project
15 review of the 2009-2010 rate case projects that
16 are forecast to cost more than \$250,000.

17 Q. What has the Panel found for Gas Capital
18 Expenditures?

19 A. The Panel has found that the forecasted Gas
20 Capital Expenditures appear to be reasonable.

21 Q. Does the Panel have any adjustments to the gas
22 rate year forecasts?

23 A. Not at this time.

24 Q. Describe the Company's forecast for Common

1 Capital Expenditures?

2 A. Typically, for forecasting purposes, each year's
3 construction expenditures forecast is separated
4 into general categories. In 2009, the Company
5 has forecasted an expenditure of \$15,444,000 in
6 the Buildings Category.

7 Q. What is the major driver of the \$15,444,000 in
8 the Buildings Category?

9 A. The Company has forecasted the Kingston Building
10 Rebuild Project for 2009 with an estimated
11 expenditure of \$14,635,000 as shown in Staff
12 Interrogatory DPS-555, Attachment A, which is
13 submitted as Exhibit ___(GRP-1), page 33. The
14 previous 5-year forecasts are shown in Exhibit
15 ___ (GRP-1), pages 16-22. The Kingston Building
16 Rebuild Project creates a significant increase
17 over past Common Capital Expenditures for 2008.

18 Q. What were the Common Capital Expenditures
19 Building Category forecasts since 2007?

20 A. The Board Approved forecast in 2007 was \$444,000
21 and in 2008 was \$1,606,000. The 2009 forecasted
22 Common Building category that appeared in the
23 2008 5-year forecast is \$15,441,000. The Board
24 is expected to review the 2009 Capital

1 Expenditure forecast in November 2008.

2 Q. What does the Panel recommend?

3 A. The Panel requests that in its rebuttal
4 testimony, the Company address whether the
5 Kingston Building Rebuild Project is approved by
6 the Board of Directors and, if so, at what level
7 of expenditures. The Panel does not expect to
8 be updated on the Board of Directors approved
9 2009 budget until after testimony has been
10 submitted. The Common Capital Expenditure
11 forecast should be updated accordingly based on
12 the results of the Board of Directors approved
13 budget for the Kingston Building Rebuild
14 Project.

15 **Construction Budget Deferral Mechanism**

16 Q. Has the Company offered any proposal to hold it
17 accountable for its rate allowance for gas and
18 common capital expenditures?

19 A. No, it has not.

20 Q. Does the current Rate Plan, Cases 05-E-0934 and
21 05-G-0935, hold the Company accountable for its
22 rate allowance for gas and common plant in
23 service?

24 A. Yes, the current Rate Plan has a mechanism which

1 holds the Company accountable for the level of
2 its gas plant, exclusive of gas infrastructure
3 enhancements. The mechanism is explained at
4 pages 22 and 23 of the Joint Proposal included
5 as Attachment 1 to the Order, Proceeding on
6 Motion of the Commission as to the Rates,
7 Charges, Rules and Regulations of Central Hudson
8 Gas & Electric Corporation for Gas Service, in
9 Case 05-G-0935 (issued July 24, 2006).

10 Q. Does the Panel recommend a similar mechanism in
11 this rate case?

12 A. Yes. We recommend that the amount authorized by
13 the Commission for Central Hudson's gas capital
14 expenditures and common expenditures be compared
15 to the actual expenditures incurred during the
16 rate year. If actual expenditures fall short of
17 the Commission approved amount, the Company
18 should defer for ratepayer benefit the amount of
19 the revenue requirement effect due to any
20 shortfall multiplied by the authorized pre-tax
21 rate of return, as well as the related
22 depreciation expense allowance. This deferral
23 will be subject to carrying charges calculated
24 at the authorized pre-tax rate of return.

1 Q. Why is this deferral mechanism needed?

2 A. This is needed to protect ratepayers if the
3 forecasted capital programs slip, are canceled,
4 or if the actual expenditures are less than
5 forecasted.

6 Q. Does the Panel have another recommendation?

7 A. Yes, the Panel would like the Company to report
8 to Staff, on an annual basis, its fiscal year
9 actual capital expenditures as categorized in
10 Staff Interrogatory DPS-525, Attachment A, which
11 is submitted as Exhibit ___(GRP-1), page 32.
12 The Panel would also like the Company forecast
13 of the new fiscal year capital budget for gas
14 and common plant as categorized in Exhibit
15 ___(GRP-1), pages 32 and 33. These reports will
16 be used to monitor the Company's implementation
17 of capital projects and forecasting performance,
18 and should be reported annually for Staff
19 analysis and monitoring.

20 Q. Does this conclude the Panel's direct testimony?

21 A. Yes, at this time.

22

23