

Cases 08-E-0887 & 08-G-0888- Central Hudson Rates

Staff Response to Interrogatory/Document Request

Request No.: CH-185
Date of Request: December 8, 2008
Reply Date: December 17, 2008
Responding Witness: Depreciation Panel
Subject: Depreciation

Q. 185) Referring to the Depreciation Panel's testimony on page 21, lines 6-13 regarding "fixing the net salvage rate" to "help maintain the integrity of the depreciation reserve."

a. Does the Panel agree that an amount of negative net salvage to be "treated as a current expense" for Account 376 (Gas Mains) that is greater than the amount of \$53,000 proposed by the Panel (page 8, lines 14-17) could better "help maintain the integrity of the depreciation reserve." If not, why not.

A. No. The integrity of the reserve is maintained by keeping the book reserve as closely aligned as possible with the theoretical reserve. In theory, this is so that upon retirement of the plant there will be a credit balance in the book reserve equal to the cost of the plant less net salvage. The integrity is difficult to maintain if there is a constant inflationary increase in the cost to remove plant which in turn requires increases in the amount of negative net salvage included in the associated theoretical reserve. The estimated amount of excess negative net salvage which the Panel would recommend to be treated as a current expense is a function of the chosen level of negative net salvage included in the approved depreciation rate for the distribution mains account, a forecast of the expected percent negative net salvage level in the rate year for this account, and a forecast of the expected retirements in this account in the rate year. Given the variance in the recent negative net salvage experience for distribution mains shown in the filed Depreciation Study pages III-380 to III-382, the Panel assumed that the latest five year moving average of net salvage experience of -88% was representative of the rate year. The difference between that level and the -60% level included in current depreciation rates applied to average retirements during the latest five years produces \$53,000 which is an reasonable estimate of the excess cost of removal that is likely to be

Cases 08-E-0887 & 08-G-0888- Central Hudson Rates

Staff Response to Interrogatory/Document Request

incurred in the rate year. The Panel would only increase that level if the depreciation rate for the distribution mains account were reduced to reflect a lower negative net salvage rate than the current -60%.

b. In the Panel's estimation, how large could the amount of negative net salvage to be "treated as a current expense" for Account 376 (Gas Mains) be before the Panel would consider it to be excessive because it would be too large to "help maintain the integrity of the depreciation reserve." Please explain your answer. If the Panel has not made any such estimate, please explain why not.

A. See the Panel's response to part a. above.

c. Does the Panel agree that an amount of negative net salvage to be "treated as a current expense" for Account 380 (Gas Services) that is greater than the amount of \$233,000 proposed by the Panel (page 24, lines 5-8) could better "help maintain the integrity of the depreciation reserve." If not, why not.

A. No. The integrity of the reserve is maintained by keeping the book reserve as closely aligned as possible with the theoretical reserve. In theory, this is so that upon retirement of the plant there will be a credit balance in the book reserve equal to the cost of the plant less net salvage. The integrity is difficult to maintain if there is a constant inflationary increase in the cost to remove plant which in turn requires increases in the amount of negative net salvage included in the associated theoretical reserve. The estimated amount of excess negative net salvage which the Panel would recommend to be treated as a current expense is a function of the chosen level of negative net salvage included in the approved depreciation rate for the distribution services account, a forecast of the expected percent negative net salvage level in the rate year for this account, and a forecast of expected retirements in this account in the rate year. Given the variance in the recent negative net salvage experience for distribution mains shown in the filed Depreciation Study pages III-386 to III-388, the Panel assumed that the latest five year moving average of net salvage experience of -302% was representative of the rate year. The difference between that level and the -60% level included in current depreciation rates applied to average retirements during the latest five years produces \$233,000 which is a reasonable estimate of the excess cost of removal that is likely to be

Cases 08-E-0887 & 08-G-0888- Central Hudson Rates

Staff Response to Interrogatory/Document Request

incurred in the rate year. The Panel would only increase that level if the depreciation rate for the distribution services account were reduced to reflect a lower negative net salvage rate than the current -60%.

d. In the Panel's estimation, how large could the amount of negative net salvage to be "treated as a current expense" for Account 380 (Gas Services) be before the Panel would consider it to be excessive because it would be too large to "help maintain the integrity of the depreciation reserve." Please explain your answer. If the Panel has not made any such estimate, please explain why not.

A. See the Panel's response to part c. above.

Cases 08-E-0887 & 08-G-0888- Central Hudson Rates

Staff Response to Interrogatory/Document Request

Request No.: CH- 182
Date of Request: December 8, 2008
Reply Date: December 17, 2008
Responding Witness: Depreciation Panel
Subject: Depreciation

Q. 182) Referring to the Depreciation Panel's testimony regarding the accounting treatment proposed for negative net salvage with respect to Account 376 (Gas Mains) and Account 380 (Gas Services). Does Staff believe that any part of negative net salvage incurred by the Company related to the removal of gas distribution mains and services should not be eligible for recovery from customers. If so, please explain why.

A. The Panel believes in the fundamental concept that the negative net salvage incurred by the Company related to the removal of gas distribution mains and services should be allocated to annual accounting periods such that the total amount incurred will be obtained at the time when the asset is retired.

Cases 08-E-0887 & 08-G-0888- Central Hudson Rates

Staff Response to Interrogatory/Document Request

Request No.: CH- 181
Date of Request: December 8, 2008
Reply Date: December 17, 2008
Responding Witness: Depreciation Panel
Subject: Depreciation

Q. 181) Referring to the Depreciation Panel's testimony regarding the accounting treatment proposed for negative net salvage with respect to Account 376 (Gas Mains) Please respond to the questions below assuming the application of the Panel's proposed accounting treatment, the Panel's proposed 60% negative net salvage rate for depreciation purposes and the data shown below. The amounts for Book Cost Retired and Negative Net Salvage appear as 2007 amounts (rounded) in the related columns on page III-381 of the Company's depreciation study referred to in the Panel's testimony and the Negative Net Salvage O&M Rate Allowance as recommended by the Panel for the rate year in this proceeding at page 23, lines 14-17 of its testimony.

Account 376 (Gas Mains)

Book Cost Retired \$65,000

Negative Net Salvage \$313,000

Negative Net Salvage O&M Rate Allowance \$53,000

a. Does the Panel agree that the amount of negative net salvage that would be charged to the depreciation reserve would be \$39,000? If not, explain why not and provide the amount that the Panel believes would be correct.

A. The actual example for distribution mains chosen by the Company does not necessarily represent what has occurred year to year in this account, nor what will occur in the future in this account. However, for the last five years (2003 through 2007), the following would have been charged to the reserve and to O&M expense under the Panel's recommendation for distribution mains as compared to the Company's proposal (all amounts rounded consistent with the Company's assumption):

Cases 08-E-0887 & 08-G-0888- Central Hudson Rates

Staff Response to Interrogatory/Document Request

YEAR (1)	ACTUAL RETIREMENTS (2)	ACTUAL NET NEGATIVE SALVAGE (3)	PANEL REC. BOOKED TO THE RESERVE (4) = LESSER OF 60% x (2) OR (3)	PANEL REC. BOOKED TO O&M EXPENSE (5) = (3)-(4)	PANEL REC. TOTAL BOOKED O&M AND RESERVE (6) = (4)+(5)	CO. PROPOSED BOOKED ONLY TO THE RESERVE (7) = (3)
2003	\$ 102,000	\$ 61,000	\$ 61,000		\$ 61,000	\$ 61,000
2004	\$ 149,000	\$ 90,000	\$ 89,400	\$ 600	\$ 90,000	\$ 90,000
2005	\$ 311,000	\$ 187,000	\$ 186,600	\$ 400	\$ 187,000	\$ 187,000
2006	\$ 315,000	\$ 175,000	\$ 175,000		\$ 175,000	\$ 175,000
2007	\$ 65,000	\$ 313,000	\$ 39,000	\$ 274,000	\$ 313,000	\$ 313,000

b. Does the Panel agree that the amount of negative net salvage that would be charged to O&M expense would be \$274,000? If not, explain why not and provide the amount that the Panel believes would be correct.

A. For the actual 2007 sample period chosen by the Company, the answer would be yes. See chart included in response to part a. above.

c. Does the Panel agree that the amount of negative net salvage that would be charged to O&M expense as stated in part b would exceed the rate allowance by \$221,000? If not, explain why not and provide the amount that the Panel believes would be correct.

A. The amount of negative net salvage for distribution mains that would be charged to O&M expense as stated in part b. would exceed the rate allowance by \$221,000 only for the actual 2007 sample period chosen by the Company. In comparison, under the Company's proposed treatment for the same actual 2007 sample period, the actual booking to the reserve would exceed the rate allowance by even a larger amount, \$274,000.

The below charts show the hypothetical overall recoveries for the last five actual years 2003 through 2007 under both the Panel's recommendation and the Company proposed. The chart shows that if the Panel's recommended expensing of excess net negative salvage had hypothetically been in effect for each of the actual years 2003 through 2007, the five year total rate recoveries would have slightly exceeded the actual bookings by \$4,200. Under the Company proposal, the rate recoveries would have been

Cases 08-E-0887 & 08-G-0888- Central Hudson Rates

Staff Response to Interrogatory/Document Request

\$260,800 less than the actual bookings of cost and there would be a resulting need to increase depreciation rates to keep pace with the bookings to the reserve.

Panel Recommended:

YEAR (1)	ACTUAL RETIREMENTS (2) (\$000)	ACTUAL NET NEGATIVE SALVAGE (3) (\$000)	PANEL TOTAL BOOKED O&M AND RESERVE (4) (\$000)	PANEL RECOVERY THROUGH DEPREC. RATES (5) = 60% X (2) (\$000)	PANEL DELIVERY RATE RECOVERY (6) (\$000)	PANEL TOTAL RECOVERY (7) = (5) + (6) (\$000)	PANEL OVER/UNDER RECOVERY (8) = (7) - (4) (\$000)
2003	\$ 102,000	\$ 61,000	\$ 61,000	\$ 61,200	\$ 53,000	\$ 114,200	\$ 53,200
2004	\$ 149,000	\$ 90,000	\$ 90,000	\$ 89,400	\$ 53,000	\$ 142,400	\$ 52,400
2005	\$ 311,000	\$ 187,000	\$ 187,000	\$ 186,600	\$ 53,000	\$ 239,600	\$ 52,600
2006	\$ 315,000	\$ 175,000	\$ 175,000	\$ 189,000	\$ 53,000	\$ 242,000	\$ 67,000
2007	\$ 65,000	\$ 313,000	\$ 313,000	\$ 39,000	\$ 53,000	\$ 92,000	\$ (221,000)

FIVE YEAR OVER RECOVERY \$ 4,200

Company
 Proposed:

YEAR (1)	ACTUAL RETIREMENTS (2) (\$000)	ACTUAL NET NEGATIVE SALVAGE (3) (\$000)	CO.PROPOSED BOOKED TO THE RESERVE (4) = (3) (\$000)	CO.PROPOSED RECOVERY THROUGH DEPREC. RATES (5) = 60% X (2) (\$000)	CO.PROPOSED OVER/UNDER RECOVERY (6) = (5) - (4) (\$000)
2003	\$ 102,000	\$ 61,000	\$ 61,000	\$ 61,200	\$ 200
2004	\$ 149,000	\$ 90,000	\$ 90,000	\$ 89,400	\$ (600)
2005	\$ 311,000	\$ 187,000	\$ 187,000	\$ 186,600	\$ (400)
2006	\$ 315,000	\$ 175,000	\$ 175,000	\$ 189,000	\$ 14,000
2007	\$ 65,000	\$ 313,000	\$ 313,000	\$ 39,000	\$ (274,000)

FIVE YEAR UNDER RECOVERY \$ (260,800)

d. Describe the accounting and ratemaking treatment under the Panel's proposal for the amount stated in part c.

A. Theoretically, any under recovery of cost produces increased revenue requirement which normally is resolved through a request for increased rates. Therefore any potential under recoveries from either the Panel's recommendation or the Company's proposed

Cases 08-E-0887 & 08-G-0888- Central Hudson Rates

Staff Response to Interrogatory/Document Request

treatment would require rate making treatment in the form of a request by the Company for increased rates. However, as shown in the Panel's response to part c., under the Panel's recommendation there would be no under recovery of cost over the five years examined. Only the Company proposal produces the need for increased rates over those same five years.

e. Describe the manner in which the Company would recover the amount stated in part c from customers under the Panel's proposal. If the Company would not recover that amount, explain why that would be the proper result.

A. Referring to the Panel's response to part d., under the Panel's recommendation the Company would recover the amount stated through depreciation rates and the recommended O&M component of delivery rates.

Central Hudson Gas & Electric Corporation

Negative Net Salvage - Gas Mains and Services

During first 2 years of gas Enhanced Infrastructure Program

	Account 376.00		Account 380.00		Total		Average (rounded to 000s)
	actual * 2007	projected ** 2008	actual * 2007	projected ** 2008	actual 2007	projected 2008	
Full Negative Net Salvage	\$ 312,734	\$ 209,501	\$ 470,514	\$ 584,585	\$ 783,248	\$ 794,086	\$ 789,000
Amount charged to O&M Expense					230,600	235,400	233,000
Excess of Full Negative Net Salvage over Amount Charged to O&M Expense					\$ 552,648	\$ 558,686	\$ 556,000
Book Cost of Retired Plant	65,190	46,790	150,548	249,849	215,738	296,639	256,000
60% of book cost					129,443	177,983	154,000
Excess of Full Negative Net Salvage over 60% negative net salvage (Deprec Panel method)					\$ 653,805	\$ 616,103	\$ 635,000

* actual 2007 as reported in Depreciation Study at pages III-381 and III-387 (see Exhibit_(AP-5R) for reconciliation of full negative net salvage for Account 380.00 to Depreciation Study)

** projection based on YTD November 2008 actual plus expected results for December 2008

Central Hudson Gas & Electric Corp

	Depreciation Study Page #	Cost of Removal Used in Depreciation Study	Salvage Used in Depreciation Study	Add back: O&M expense transfer	Other Adjustments (see note)	Full Negative Net Salvage
Gas Mains						
2003	III-380	69,055	(7,833)	68,064	-	129,286
2004	III-380	101,962	(12,332)	123,914	-	213,544
2005	III-380	273,614	(86,905)	87,152	-	273,861
2006	III-381	174,783	-	3,566	-	178,349
2007	III-381	<u>344,734</u>	<u>(32,000)</u>	<u>-</u>	<u>-</u>	<u>312,734</u>
		964,148	(139,070)	282,696	-	1,107,774
Five year Moving Avg						
03-07	III-382	192,830	(27,814)	56,539	-	221,555
Gas Services						
2003	III-386	486,594	(870)	-	(229,609)	256,115
2004	III-386	629,910	(29,136)	-	(294,229)	306,545
2005	III-386	132,793	(46,772)	274,476	-	360,497
2006	III-387	45,065	-	154,452	-	199,517
2007	III-387	<u>359,509</u>	<u>(119,595)</u>	<u>230,600</u>	<u>-</u>	<u>470,514</u>
		1,653,871	(196,373)	659,528	(523,838)	1,593,188
Five year Moving Avg						
03-07	III-387	330,774	(39,275)	131,906	(104,768)	318,638
Combined Gas Mains and Services						
2003		555,649	(8,703)	68,064	(229,609)	385,401
2004		731,872	(41,468)	123,914	(294,229)	520,089
2005		406,407	(133,677)	361,628	-	634,358
2006		219,848	-	158,018	-	377,866
2007		<u>704,243</u>	<u>(151,595)</u>	<u>230,600</u>	<u>-</u>	<u>783,248</u>
		2,618,019	(335,443)	942,224	(523,838)	2,700,962
Five year Moving Avg						
03-07		523,604	(67,089)	188,445	(104,768)	540,192

NOTE: In the Depreciation Study, cost of removal for 2003 and 2004 for gas services was intended to be grossed up for the amount that was transferred to expense. However, this component was added back twice in error. Adjustments necessary to correct duplicate add back of expense transfer. No other items affected.

Central Hudson Gas & Electric Corp

	Depreciation Study Page #	Cost of Removal Used in Depreciation Study	Salvage Used in Depreciation Study	Add back: O&M expense transfer	Other Adjustments	Full Negative Net Salvage
Five year Moving Avg						
Gas Mains 03-07	III-382	\$ 192,830	\$ (27,814)	\$ 56,539	\$ -	\$ 221,555
				Negative Net Salvage %		117%
				Book Cost Retired per Deprec Study		188,582
				Excess % over negative 60%		<u>57%</u>
				Amount in excess of 60% negative net salvage		<u>\$ 108,000</u>
				Resulting O&M Rate Allowance		<u>\$ 108,000</u>
Gas Services 03-07	III-387	\$ 330,774	\$ (39,275)	\$ 131,906	\$ (104,768)	\$ 318,638
				Negative Net Salvage %		330%
				Book Cost Retired per Deprec Study		96,465
				Excess % over negative 60%		<u>270%</u>
				Amount in excess of 60% negative net salvage		<u>\$ 261,000</u>
				Resulting O&M Rate Allowance		<u>\$ 261,000</u>
Combined Gas Mains and Gas Services O&M Rate Allowance						<u>\$ 369,000</u>

Cases 08-E-0887 & 08-G-0888- Central Hudson RatesStaff Response to Interrogatory/Document Request

Request No.: CH-72
Date of Request: 11/26/08
Reply Date: 12/04/08
Responding Witness: Depreciation Panel
Subject: Depreciation

Q.72) Please refer to Staff Depreciation Panel testimony Page 26, line 15 through Page 29, line 17, which relates to Common Plant. Staff exhibit DP-6 states that "Central Hudson currently uses the Vintage Method of retirement for certain common General Equipment (approved case 00-E-1273, 00-G-1274)." However, the Staff testimony referred to above at Page 29, lines 13-15 states that "The Panel recommends that the common accounts the company proposes to be amortized continue to be depreciated at the current rates." Please clarify Staff's understanding of the Company's current method of amortization or depreciation of common plant investment.

A. Staff, in rereading the Company's response to Staff's interrogatory located in exhibit DP-6, now realizes that the Company currently fully depreciates all plant in certain common accounts at the average service life of that particular account. Staff is of the opinion that this is essentially the same as amortizing the plant. Staff is confused that the Company has survivor curves for these accounts while they continue to amortize and are apparently removing the curves. Staff is also confused by why the Company is proposing to separate new plant additions to be amortized over a different time periods. Staff still disagrees with amortizing the plant, shortening the amortization periods and creating two different sets of assets.