

REBUTTAL TESTIMONY
OF
ACCOUNTING PANEL

CASES 08-E-0887 & 08-G-0888

1 Q. Are you the same Edward G. Ortlieb and Nancy L. Komar who submitted
2 pre-filed direct testimony in this proceeding?

3 A. Yes, we are.
4

5 Q. What is the purpose of your rebuttal testimony?

6 A. We will address the testimony and positions of the Staff Depreciation Panel
7 concerning: (1) the accounting and ratemaking for the negative net salvage
8 (which occurs when gross salvage is less than the cost of removal) for gas
9 distribution mains and services; (2) the Staff Depreciation Panel's position
10 regarding the Company's amortization of certain common plant account
11 investment, (3) the Staff Depreciation Panel's reference to the
12 appropriateness of resolving a discrepancy between the amount of
13 depreciation expense included in the Company's revenue requirement
14 calculation and that used to develop rate base and (4) the need to make a
15 correction to the Company's filing due to an oversight concerning accruals for
16 cost of removal related to the facilities associated with the Company's
17 investment in a gas transmission main built to supply gas as boiler fuel to the
18 Roseton Electric Generating Station.
19

20 Q. Are you presenting any exhibits in support of your rebuttal testimony?

21 A. Yes. We will identify them during the course of this rebuttal testimony.
22

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1 Q. Please describe the Staff Depreciation Panel proposal with respect to cost of
2 removal for gas distribution mains and services?

3 A. Under the Depreciation Panel's proposal, all costs incurred up to and
4 including negative 60% net salvage for Account 376 (Gas Distribution Mains)
5 and Account 380 (Gas Services) would be charged to the depreciation
6 reserve related to each account as appropriate following the accounting for
7 such costs as prescribed by the Uniform System of Accounts, and all costs
8 incurred in excess of 60% negative net salvage would be charged to
9 operating and maintenance expense ("O&M Expense") rather than the
10 prescribed depreciation reserve accounting. The negative net salvage of
11 60% would equate to 60% of the book cost of plant retired. Expecting that
12 actual negative net salvage for each of those accounts would generally by far
13 exceed 60% of the book cost retired and noting that the five year average for
14 2003 - 2007 for mains was 88% and that for services it was 302% the
15 Depreciation Panel then recommended a gas O&M Expense rate allowance
16 to cover estimated charges to the Company's income for the expensing of
17 "excess" negative net salvage that is not in accordance with the
18 Commission's Uniform System of Accounts.

19
20 The O&M Expense rate allowances proposed by the Depreciation Panel
21 equate to (1) the average negative net salvage as a % of book cost of plant
22 retired for the years 2003 – 2007 less 60% times (2) the average book cost
23 of plant retired. This produced proposed rate allowances to cover the portion

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1 of negative net salvage to be charged to O&M Expense of \$53,000 for mains
2 (based on five-year average negative net salvage of 88% minus 60% and
3 average retirements of \$189,000) and \$233,000 for services (based on five-
4 year negative net salvage of 302% minus 60% and average retirements of
5 \$96,000).

6

7 Q. Does the Accounting Panel agree with the accounting and ratemaking
8 treatment proposed by Staff?

9 A. No, we do not because (1) the Staff Depreciation Panel's rationale for
10 varying from the standard accounting and ratemaking for cost of removal and
11 salvage has not been supported, (2) if there is to be a variance from the
12 standard accounting and ratemaking treatment there are alternatives to
13 Staff's proposal that will produce results that better balance the interests of
14 customers and shareholders and (3) Staff's methodology for developing the
15 O&M Expense rate allowance incorrectly looks backwards only while failing
16 to adequately take into account recent and expected circumstances during
17 the time that rates will be in effect thus producing a calculated rate allowance
18 that is not representative of reasonable expectations going forward.

19

20 Q. What rationale did the Depreciation Panel offer for proposing that the
21 Uniform System of Accounts and related standard depreciation practices not
22 be followed?

23 A. The Depreciation Panel argues that inflationary pressure on costs to remove

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1 gas mains and services requires exceptional treatment in order to maintain
2 the "integrity" of the depreciation reserve by avoiding a large deficiency of the
3 book depreciation reserve in comparison to the theoretical reserve that would
4 result from recognizing actual negative net salvage factors in that calculation
5 and to avoid increasing book depreciation expense to the level necessary to
6 provide for the recovery of negative net salvage in the standard manner by
7 "fixing the net salvage rate."

8

9 Q. Please explain why, as you mentioned earlier, you believe Staff's rationale
10 for its proposal is inadequate?

11 A. First, the rationale is inconsistent with Staff's position on other subjects.
12 Inflationary pressure on costs is not unique to the costs of removing gas
13 mains and services. Yet no non-standard treatment has been proposed for
14 other plant and equipment. The standard approach of setting depreciation
15 rates including an appropriate negative net salvage factor, calculating the
16 theoretical reserve accordingly and assessing the status of the book reserve
17 in relation to that theoretical reserve is followed. If depreciation rates and
18 hence depreciation accruals need to be increased to adjust to higher
19 negative net salvage expectations, that is exactly what should occur.

20

21 In addition, Staff's proposal to "fix" the negative net salvage factor for gas
22 distribution mains and services in order to maintain the "integrity" of the
23 depreciation reserve is inconsistent with other Staff proposals regarding the

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1 setting of average service lives, selecting retirement dispersion curves and
2 setting negative net salvage factors. Exhibit _(AP-1R) is the Depreciation
3 Panel's response to Central Hudson Interrogatory No. 185. In that response
4 the Depreciation Panel expresses the view that "[t]he integrity of the reserve
5 is maintained by keeping the book reserve as closely aligned as possible
6 with the theoretical reserve." To the contrary, however, the Depreciation
7 Panel's Exhibit ____(DP-1) at page 1 of 2 shows that the Depreciation Panel's
8 proposed depreciation factors for electric plant result in a variance between
9 the resulting theoretical reserve and the book reserve that is larger than
10 would result from continuation of the depreciation factors currently approved
11 for use by Central Hudson and those factors that the Company proposes be
12 adopted in this proceeding.

13
14 The Staff Depreciation Panel also incorrectly relies on its proposal as being a
15 "recommend[ation] that the current treatment" as approved by the
16 Commission in Case 05-G-0935 (the Company's last gas rate case) be
17 continued. Adopting Staff's proposed treatment, however, would not be a
18 continuation of the current treatment as approved by the Commission in
19 Case 05-G-0935. In fact, it is a proposal that would result in a significant
20 change from the current treatment. Furthermore, the Depreciation Panel on
21 page 18, lines 17-22 of its testimony relies on a misstatement of our
22 description of the current procedure which we correctly explain on page 21,
23 lines 17-22 of our pre-filed direct testimony.

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1

2 Q. Please explain how Staff's proposal differs from that currently being used as
3 approved by the Commission in Case 05-G-0935.

4 A. Staff's proposal is that a negative net salvage factor of 60% be reflected in
5 the depreciation rates for gas distribution mains and services, that negative
6 net salvage experienced up to 60% of the book cost of plant retired be
7 charged to the depreciation reserve and that all excess negative net salvage
8 be charged to O&M Expense with a rate allowance of a fixed amount for that
9 expense being included in the Company's revenue requirement.

10

11 The treatment that is actually currently in place as a result of Case 05-G
12 0935 is different in important respects. That treatment is the same as
13 described by Staff, except that the amount of negative net salvage charged
14 to the depreciation reserve is not limited to 60% of the book cost of plant
15 retired. It is not limited at all because all negative net salvage in excess of
16 the O&M Expense rate allowance is charged to the depreciation reserve and
17 it is only the amount of the O&M Expense rate allowance that is charged to
18 O&M Expense.

19

20 Q. Please explain why the differences between what Staff has described as the
21 current procedure and the true current procedure are important.

22 A. Under the true current procedure customers receive full credit for paying the
23 amount included in the Company's revenue requirement as O&M Expense.

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1 This credit is in the form of an increase to the book depreciation reserve
2 which reduces rate base. This occurs whether the Company's actual
3 negative net salvage exceeds or is less than the O&M Expense rate
4 allowance. Customers are not at risk of overpaying and the Company is not
5 in a position to benefit. To the extent actual negative net salvage exceeds
6 the O&M Expense rate allowance, the full amount of that excess is charged
7 to the depreciation reserve and will theoretically be recovered by the
8 Company through depreciation expense in the future.

9
10 Under Staff's proposed procedure, customers are at risk of overpaying, and
11 the Company is at risk of loss for the amount recorded as O&M Expense that
12 is in excess of the O&M Expense rate allowance. The overpayment risk to
13 customers is limited in that it can not be greater than the amount included in
14 rates to cover the O&M Expense rate allowance. The Company's exposure
15 to loss is unlimited in that the amount of excess negative net salvage to be
16 charged to O&M Expense is not limited – not by the amount of the related
17 rate allowance and not by any other factor.

18
19 Q. Has Staff addressed the issue of its proposed procedure presenting
20 asymmetrical risks?

21 A. Not in its testimony but the Company raised the issue during discovery and
22 Staff provided an explanation and information that not only does not provide
23 any basis to adopt Staff's proposed procedure but ratifies its inequity.

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1

2 Q. Please explain.

3 A. Attached as Exhibit _(AP-2R) is the Depreciation Panel's response to Central
4 Hudson Interrogatory No. 182 in which the Depreciation Panel explains its
5 belief that the total amount of negative net salvage incurred by the Company
6 related to the removal of gas distribution mains and services should be
7 allocated to annual accounting periods such that the total amount incurred
8 will be recovered by the time of asset retirement (that is when the removal
9 costs are incurred). We agree. However, in response to Central Hudson
10 Interrogatory No. 181 (attached as Exhibit _(AP-3R)), pertaining to Staff's
11 proposal regarding gas mains but equally applicable to gas services because
12 Staff's proposal is the same for each, the Depreciation Panel addresses, in
13 part d, the potential for the Company to under recover negative net salvage
14 costs by explaining that the Company can address the problem by filing for a
15 rate increase. What Staff has not acknowledged is that the under recovery
16 actually incurred before a rate adjustment is permanently lost and resetting
17 rates prospectively will not provide reimbursement to the Company. As a
18 result, the Company will not have collected the total amount of negative net
19 salvage by the time the cost is incurred contrary to Staff's recognizing the
20 legitimacy of that objective. Exhibit _(AP-3R) also shows that Staff's effort to
21 demonstrate that its proposed procedure is superior to following the standard
22 accounting for negative net salvage is without support.

23 Q. How so?

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1 A. The table on page 3 of Exhibit _(AP-3R) labelled "[Staff Depreciation] Panel
2 Recommended" is presented as proof that Staff's proposed method of
3 establishing an O&M Expense rate allowance based on a five-year average
4 of negative net salvage in excess of the negative net salvage rate used for
5 depreciation expense purposes will not result in a net over or under recovery
6 of that rate allowance over time even though there may be over or under
7 recoveries each year. Although Staff does not explain why its proposed
8 procedure that contemplates year to year variations is superior to one that
9 does not (the true currently effective procedure as explained above), Staff's
10 "proof" of why there will be no net over or under recovery over time is no
11 proof at all. This is because the data used in the "Panel Recommended"
12 table is the same data that Staff used to develop its recommended O&M
13 Expense rate allowance. Staff has "demonstrated" that a backcast based on
14 data used to develop a forecast will replicate the past. Of course it will. The
15 reasonableness of a forecast based on a historical average, however, should
16 be judged by looking at how well the historical average represents the more
17 recent data that it included and how well it conforms with expectations of the
18 future.

19
20 Q. Does Staff's proposed accounting and ratemaking treatment align with recent
21 experience and expectations regarding negative net salvage for gas
22 distribution mains and services?

23 A. No.

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1

2 Q. Please explain why not.

3 A. That treatment fails to take into consideration the increased activity related to
4 the 2007 – 2009 gas Enhanced Infrastructure program which requires a
5 significantly higher level of gas distribution system replacements than was
6 reflected in the five year period used in the Depreciation Panel's average.
7 That program was instituted in Case 05-G-0934 simultaneously with the truly
8 current accounting and ratemaking treatment for negative net salvage for gas
9 distribution mains and services. Since the Staff Gas Safety Panel and the
10 Company continue to support gas safety through an expanded gas
11 Enhanced Infrastructure program as well as a new gas High Pressure
12 Service Replacement program, costs associated with the removal of gas
13 mains and services are expected to far exceed the 5-year historic average
14 used by the Depreciation Panel to set its recommended combined O&M
15 Expense rate allowance of \$286,000. For instance, as shown on Exhibit
16 _(AP-4R), for 2007, the first full year of the gas Enhanced Infrastructure
17 program, combined negative net salvage before transferring a portion to
18 expense totaled \$783,248 (\$312,734 for gas mains and \$470,514 for gas
19 services). If the Company were required to follow the treatment
20 recommended by the Depreciation Panel, it would have expensed \$653,805,
21 or \$423,205 more than the \$230,600 it was allowed in rates, with an obvious
22 negative consequence to earnings. Also shown on Exhibit _(AP-4R), for
23 2008, the second full year of the gas Enhanced Infrastructure program,

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1 combined negative net salvage before transferring a portion to expense is
2 projected to be \$794,086 (\$209,501 for gas mains and \$584,585 for gas
3 services). If the Company were required to follow the treatment
4 recommended by the Depreciation Panel, it would expense an estimated
5 \$616,103, or \$380,703 more than the \$235,400 it was allowed in rates, with
6 similar negative earnings consequences. This significant difference relative
7 to the 5-year historical average base for the O&M Expense rate allowance
8 and the related accounting and ratemaking recommended by the
9 Depreciation Panel demonstrates that the recommendations are
10 inappropriate. If the Depreciation Panel's recommended procedure is
11 adopted, the O&M Expense rate allowance would fairly be considerably
12 higher than the \$286,000 recommended by the Depreciation Panel. But, as
13 explained above, there is no need to take that step if one of the two available
14 alternatives 1). standard depreciation practices with related accounting and
15 ratemaking and 2). continuation of the true currently effective procedure) is
16 adopted.

17

18 Q. Are the negative net salvage amounts (before transfer of any portion to
19 expense) discussed above the same as the negative net salvage amounts
20 shown on pages III-381 and III-387 of the Depreciation Study and used by
21 the Staff Depreciation Panel in its calculations?

22 A. No, they are not. The negative net salvage amounts shown in the
23 Company's Depreciation Study for 2005 through 2007 represent negative net

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1 salvage remaining after transferring a portion to expense. The amount of
2 negative net salvage that should be used is the full amount prior to any
3 portions being transferred to expense. Exhibit _(AP-5R) reconciles the
4 amounts shown in the Company's Depreciation Study and relied on by the
5 Staff Depreciation Panel to the full amount of negative net salvage.

6

7 Q. If the full amounts of negative net salvage were used in the Depreciation
8 Panel's calculations, what would the resulting rate allowance be under Staff's
9 recommended approach?

10 A. If the full amounts of negative net salvage were used in the Depreciation
11 Panel's calculations, the O&M Expense rate allowance would have been
12 calculated to be \$369,000, as shown on Exhibit _(AP-6R) rather than
13 \$286,000 as calculated by the Depreciation Panel.

14

15 Q. In the event the Depreciation Panel's proposed procedure is adopted, what
16 would be an appropriate amount to include in the Company's revenue
17 requirement for the O&M Expense rate allowance?

18 A. Given the expectation of increased removal activity and costs as we
19 explained in comparison to the 5-year period used by Staff to develop its
20 proposed O&M Expense rate allowance, a rate allowance similar to recent
21 experience in the time during which the gas Enhanced Infrastructure
22 replacement program has been conducted is appropriate. As discussed
23 above and shown in detail on Exhibit _(AP-4R), under the first two years of

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1 such a program, cost associated with the removal of gas mains and services
2 net of salvage averaged \$789,000 per year. Using Staff's recommended
3 trigger point of 60% negative net salvage and average book cost of retired
4 plant for those two years of \$154,000, the Accounting Panel believes that an
5 O&M Expense rate allowance of \$635,000 as calculated on Exhibit _(AP-4R)
6 is supported. Because the Company supports a gas Enhanced Infrastructure
7 program through 2009 and 2010, including a new gas High Pressure Service
8 Replacement program, forecasted removal costs net of salvage are expected
9 to continue at high levels similar to 2007 and 2008. Book costs of retired
10 property are also expected to be comparable to amounts experienced in
11 2007 and 2008 based on similar levels of replacement activity and expected
12 comparable costs on a per unit basis. Since removal costs have been at a
13 considerably higher level than the 5-year historical average under the gas
14 safety program initiatives and these high levels are expected to continue, the
15 higher O&M Expense rate allowance is justified.

16
17 In addition, since removal costs, net of salvage, for gas mains and services
18 are expected to continue at the higher levels as discussed above with the
19 Depreciation Panel's recommendation of "fixing" the negative net salvage
20 component of the depreciation rate, a higher O&M Expense rate allowance
21 would be necessary to allow the Company to collect at least its current costs
22 of removal, net of salvage. Also, should the Depreciation Panel's premise of
23 "maintaining the integrity of the reserve" be considered appropriate, the O&M

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1 Expense rate allowance must be set at a level approximating the expected
2 negative net salvage in excess of 60%. As indicated previously, as a result
3 of the gas Enhanced Infrastructure programs, recent and expected future
4 levels of removal costs for gas mains and services, net of salvage, are in
5 excess of \$700,000 per year.

6

7 Q. What does the Accounting Panel recommend with respect to negative net
8 salvage for gas distribution mains and services?

9 A. The Accounting Panel continues to believe that the Uniform System of
10 Accounts should be followed for the treatment of net costs associated with
11 the removal of gas distribution mains and services. Exceptions to these rules
12 for gas mains and services result in distorted activity in the depreciation
13 reserve which could influence depreciation study results and theoretical
14 reserve requirements. The Accounting Panel believes that to be an
15 undesirable consequence. Staff support's collection of these net costs from
16 customers, but prefers a portion to be collected by including an estimated
17 "excess" amount in the Company's revenue requirement as O&M Expense
18 rather through the traditional method in accordance with the Uniform System
19 of Accounts as a component of depreciation rates. Staff's proposed
20 accounting and ratemaking, however, presents unnecessary consequences
21 as we have explained above and it should be rejected in favor of, in order of
22 our preference, (1) standard depreciation practices and related accounting
23 and ratemaking, (2) continuation of the procedure that is actually currently

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1 authorized and in use as we have explained or (3) its adoption but modified
2 to set the O&M Expense rate allowance at the levels supported in this
3 testimony. We also recommend that the approach adopted continue until
4 changed in a subsequent rate filing.

5

6 Q. Turning now to the Staff Depreciation Panel's position regarding the
7 Company's amortization of certain plant account investment, please describe
8 Staff's position.

9 A. There are several aspects of Staff's position. First of all, the Depreciation
10 Panel's testimony at pages 28-29 generally characterizes the Company's use
11 in its filing in this proceeding of an amortization of common general
12 equipment plant account investment as a change of method of plant
13 investment recovery. Staff's response to Central Hudson Interrogatory No.
14 72 (attached as Exhibit _(AP-7R)), however, acknowledges that Staff was
15 incorrect in that the Company's use of an amortization method regarding
16 common general equipment accounts (that is the Vintage Method of
17 retirement and cost recovery) is not a change of method proposed in this
18 proceeding but, rather, after "rereading" the Company's response to a Staff
19 information request (No. 348 and presented by the Staff Depreciation Panel
20 as Exhibit __(DP-6) to its testimony) the method has been in place since the
21 Commission's determinations in Company rate cases 00-E-1273 and 00-G-
22 1274. Nonetheless the Staff Depreciation Panel stated, as shown in Exhibit
23 _(AP-7R) that it "still disagrees with amortizing the plant" while claiming in its

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1 testimony that no other New York State major combination utility amortizes
2 common plant.

3

4 Also as addressed in the Staff Depreciation Panel's testimony and in
5 response to Central Hudson Interrogatory No. 72 (Exhibit _(AP-7R)) the
6 Depreciation Panel "disagrees with" the Company proposal to shorten the
7 amortization periods objecting to the shortened amortization periods on the
8 basis that the current periods are closer to those used by the other five New
9 York State major combination utilities and, finally, it objects to the Company
10 "creating two different sets of assets." The latter point is addressed by the
11 Depreciation Panel in its testimony at page 28 where it opines "recovering
12 plant dollars by vintage would be more onerous than the current method."

13

14 Q. Does the amortization of common general plant investment and the use of
15 the Vintage Accounting retirement method by the Company in this
16 proceeding represent a change of method?

17 A. Absolutely not. As explained above, the Company proposed use of this
18 method in Cases 00-E-1273 and 00-G-1274 and has used it since the
19 Commission's order in those proceedings including its subsequent use in the
20 Company's most recent rate cases (Cases 05-E-0934 and 09-G-0935).

21

22 Q. Is there other authority supporting the Company's use of the Vintage
23 Accounting method?

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1 A. Yes. The Vintage Accounting method is an accepted method of accounting
2 by utilities for general plant accounts as pursuant to FERC Accounting
3 Release No. 15, dated January 1997. It is a method suitable for use with
4 accounts that are subject to a high volume of transactions of relatively low
5 individual cost or for items with relatively short useful lives. These are the
6 characteristics of the common general plant accounts. It should also be
7 noted that use of the method in Cases 00-E-1273 and 00-G-1274 and in
8 Cases 05-E-0934 and 05-G-0935 was not met with objection by Staff.

9
10 Q. Do you agree with Staff's view that use of the Vintage Accounting method is
11 a "more onerous" method of asset accounting as Staff opines on page 28 of
12 its testimony?

13 A. No. In fact the use of Vintage Accounting is less burdensome than the
14 property accounting that is otherwise generally applicable because it
15 eliminates the need for detailed accounting for minor items of property. That
16 is, the need to track each individual unit of property no longer exists, and that
17 makes this method less onerous than the otherwise generally applicable
18 method.

19
20 Q. Do you agree with Staff's statement that the Company is "creating two
21 different sets of assets"?

22 A. We do not find Staff's testimony in that regard particularly clear. Staff might
23 be viewing the "two classes" as being one in which the assets are subject to

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1 the Vintage Accounting method and the others not, or as the "two classes"
2 both being within the assets subject to the Vintage Accounting method with
3 one being those assets in place before the beginning of the rate year, which
4 the Company has proposed to continue to amortize over the currently
5 authorized amortization period and the other being those assets placed in
6 service from the beginning of the rate year forward which the Company
7 proposes to amortize over different amortization periods as a result of the
8 depreciation study prepared in connection with this proceeding. In the first
9 instance, Staff would be incorrect because the Vintage Accounting method is
10 already in use. In the second, Staff would also be incorrect because there
11 would be a simple separation of the new assets into a subaccount of the
12 primary plant account applicable to assets of that class.

13

14 Q. Do you believe that Staff's statement that no other New York State major
15 combination utility amortizes common plant is correct?

16 A. No. Attached as Exhibit _(AP-8R) is an excerpt from PSC Staff testimony in
17 Niagara Mohawk Power Corporation rate case 08-G- 0609 discussing the
18 "present amortization" of "Gas General Plant and Common Plant" and the
19 Staff exhibit referred to in that testimony which lists several general plant
20 accounts such as Office Furniture, Data Processing Equipment, Tools and
21 Work Equipment, and Communication Equipment that would clearly be
22 common plant for a combination utility like Niagara Mohawk Power
23 Corporation. That Staff exhibit also shows that the reference in the testimony

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1 to changing the amortization period from 22 years to 20 years refers to such
2 common accounts.

3

4 Q. Please address the Depreciation Panel's objection to shortening the
5 amortization period for new additions to the common general plant accounts.

6 A. The amortization periods for the common general plant accounts are
7 addressed in the rebuttal testimony of Mr. Spanos. These new amortization
8 periods would apply only to plant additions occurring after the start of the rate
9 year as a Company proposal to result in no increase to the amortization
10 expense applicable to the currently held assets in order to temper the
11 expense effect of the new amortization periods. We believe this is a
12 reasonable approach and that Staff's unfounded concerns over increased
13 accounting process burdens should not prevent that result.

14

15 As we referred to earlier, the Deprecation Panel, on page 29, at lines 7-10
16 states, "Central Hudson's current lives, for most of the common accounts,
17 are closer to the other five New York State major combination utilities than
18 the proposed lives." We believe that statement to be considerably less
19 significant, even if it were shown to be true, than necessary to form a basis to
20 reject the shortened amortization periods that the Company proposes be
21 applicable to plant additions occurring after the start of the rate year. First,
22 as addressed in the rebuttal testimony of Mr. Spanos, the proposed
23 amortization periods for the common accounts are, in his view, comparable

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1 to those of other utilities across the United States. In addition, attached as
2 Exhibit _(AP-9R) is the Depreciation Panel's response to Central Hudson
3 Interrogatory No. 138 in which the Company requested the common plant
4 lives Staff relied on to reach its conclusion about the relationship of currently
5 approved lives for Central Hudson and those for the other companies. That
6 schedule indicates that with the exception of Niagara Mohawk ("Grid" in the
7 schedule) which appears according to the schedule to have generally the
8 longest lives, even Central Hudson's proposed shorter lives are not generally
9 out of line with those used at other companies. Of the six accounts listed, it
10 is only Account 391 (Office Furniture) for which Central Hudson's proposed
11 shortened life would be shorter than that used by any other company. The
12 Schedule also shows that Central Hudson's proposed shortened life for
13 Account 394 (Tools and Work Equipment) is equal to the longest life used by
14 any other Company with the exception of "Grid".

15

16 Q. Please explain the matter you mentioned earlier regarding the
17 appropriateness of resolving a discrepancy between the amount of
18 depreciation expense included in the Company's revenue requirement
19 calculation and that used to develop rate base.

20 A. As explained by the Staff Depreciation Panel at page 29, line 18 through
21 page 31, line 3 of its testimony, Staff is aware of a discrepancy between the
22 depreciation accrual amounts the Company used to develop the net plant
23 portion of rate base and those reflected in the Company's calculation of the

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1 revenue requirement as depreciation expense in the income statement. The
2 Company reported this discrepancy to Staff during the course of discovery
3 along with updated depreciation accrual amounts in Company responses to
4 Staff information requests. Attached as Exhibit _(AP-10R) is the Company's
5 supplemental response to Staff Information Request No. 592 in which
6 explains the bases for the corrections and updates. Included in that Exhibit
7 as Sheet 3 of 13 is a schedule in the format of our Exhibit __ (AP-7),
8 Schedule C showing depreciation expense as originally included, the
9 corrected/updated amounts and the difference. Staff acknowledges in its
10 testimony that the amounts used to determine net plant were correct but
11 those included in the income statement revenue requirement calculation as
12 depreciation expense were not. The Depreciation Panel further explains that
13 it "is not opposed" to the correct amount of depreciation expense being
14 included in the income statement revenue requirement calculations before
15 any Staff adjustments to depreciation expense.

16
17 In its response to Central Hudson Interrogatory No. 79 (Exhibit _(AP-11R)),
18 the Depreciation Panel states that the changes or corrections are to increase
19 electric depreciation expense by \$279,000 and to increase gas depreciation
20 expense by \$113,000 based on materials provided by the Company.

21 However, as shown in Exhibit _(AP-10R) on Sheet 3 of 13 (the schedule in
22 the format of our Exhibit _(AP-7), Schedule C included the Company's
23 supplemental response to Staff Information Request No. 592), the correct

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1 amounts of the changes are to increase electric depreciation expense by
2 \$365,000 and gas depreciation expense by \$126,000 which amounts include
3 the allocation of common amounts to electric and gas. Making corrections in
4 those latter amounts would be appropriate.

5
6 On the other hand, the Depreciation Panel's testimony on this subject and its
7 response to Central Hudson Interrogatory No. 79 also refer to making
8 corresponding adjustments (that is corrections) to decrease electric and gas
9 net plant rate base. These changes should not be made because the
10 Depreciation Panel's testimony (at page 30) correctly stating that the
11 Company's depreciation accrual levels "produce net plant levels consistent
12 with the Company's intended presentation as originally filed" and that "those
13 levels were apparently not reflected in the rate year income statements as
14 filed by the Company" is the correct description of the scope of the errors to
15 be corrected.

16

17 Q. Please explain the need which you mentioned earlier to make a correction to
18 depreciation accruals for cost of removal related to facilities associated with
19 the Company's investment in a gas transmission main built to supply gas as
20 a boiler fuel to the Roseton Generating Station.

21 A. In connection with developing the Company's response to Staff Information
22 Request No. 244, it was noticed that our Exhibit ____(AP-8), Schedule C which
23 presents gas depreciation rates and related information for the gas plant

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1 accounts did not correctly present depreciation accruals for the gas
2 transmission plant accounts in the "Iroquois Transmission" section.
3 Therefore, the Company included with its response a schedule in the same
4 format as the original Schedule C but identifying which portion of the
5 investment in those accounts pertained to the amount subject to standard
6 depreciation methods (1/6) and the portion (5/6) subject to amortization over
7 15 years as approved by the Commission in Case 90-G-0673 by order dated
8 July 1, 1991 and to include depreciation accruals related to removal costs of
9 the latter portion that had been omitted. In summary, the revisions to our
10 initial Schedule C of Exhibit __ (AP-8) were to (a) show the two portions of
11 Accounts 365-50-2, 366-50-2, 367-50-2, 369-51-2 and 369-52-2; (b) include
12 additional depreciation accruals totaling \$59,358 due to applying the
13 Company's proposed net salvage factors for those accounts to the 5/6
14 portion which had not been done initially and (c) make a conforming
15 correction (increase) to the theoretical reserve calculation for those accounts
16 of \$363,702 thereby reducing the previously calculated gas department
17 excess book depreciation reserve from \$3,086,969 to \$2,723,267. Although
18 not mentioned in the Company's response to Staff Information Request No.
19 244, a net plant rate base conforming correction (decrease) to recognize the
20 effect of the increased depreciation accruals would also be appropriate.
21 Given the Company's practice of recording depreciation expense evenly by
22 month the effect would be a decrease in rate base of \$29,679 ($\$59,358 \times$
23 $1/2$).

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1

2 Q. How were the depreciation accruals developed?

3 A. For each of the accounts a negative net salvage depreciation rate was
4 developed by using the average service life and negative net salvage factor
5 applicable to the portion of the account subject to standard depreciation
6 methods and then deducting the portion of the resulting rate related to the
7 average service life element to produce a net salvage only rate. Those rates
8 were applied to the investment in the respective plant accounts. In other
9 words, the removal costs will be accrued over the average service life
10 applicable to plant of the same type.

11

12 Q. How were the theoretical reserve amounts developed?

13 A. For each of the accounts the annual accrual was multiplied by 15 which is
14 the current age of the investment.

15

16 Q. Did Staff incorporate these corrections into its filing?

17 A. No.

18

19 Q. Did the Company ask Staff if it agreed with the corrections?

20 A. Yes by Central Hudson Interrogatory No. 205 to which the Depreciation
21 Panel responded that "absent a supported on the record presentation" it
22 "could not" confirm agreement with the corrections. That response along
23 with the Company's response to Staff Information Request No. 244 including

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1 the revisions to Schedule C as referred to in the Depreciation Panel's
2 response are attached as Exhibit _(AP-12R).

3

4 Q. Please explain why it would be correct to include accruals for removal costs
5 on the 5/6 portion in the revenue requirements in this proceeding.

6 A. When the Iroquois Pipeline ("IGTS") was being developed, Central Hudson
7 was the managing co-tenant of the Roseton Plant and was advocating an
8 interconnection with IGTS to accomplish two significant goals, a new pipeline
9 supply to the Central Hudson gas distribution system on the eastern end of
10 its system and a new source of gas for Roseton, which permitted the
11 conversion of Roseton to gas burning capability and also allowed a further
12 reinforcement of Central Hudson's gas distribution system on the west side
13 of the Hudson River. In addition, the IGTS/CHGE interconnection in
14 Pleasant Valley was a significant factor that supported the Commission's
15 decision to route IGTS through Dutchess County.

16

17 The CHGE/IGTS interconnection would create benefits to Central Hudson's
18 electric customers through the economics and environmental benefits of gas
19 burning at Roseton and to Central Hudson's gas customers through the gas
20 system operational and supply enhancements of the additional Iroquois gas.

21 Eventually it was agreed that Central Hudson would apportion the capital
22 costs of its interconnection with IGTS including the interconnection with
23 Roseton 5/6 to Roseton and 1/6 to its gas delivery business and recover the

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1 Roseton portion of the costs over a 15 year period. Central Hudson
2 described the accounting and ratemaking in its testimony in its Article VII
3 case (89-T-032] and subsequent gas rate case 90-G-0673). This agreement
4 formed a part of the basis of the Commission's approval of the Article VII
5 cases for IGTS (Case 70363) and Central Hudson Article VII (89-T-032).
6 See Opinion Nos.89-35 for Central Hudson and 89-42 for IGTS.

7
8 In the Article VII direct testimony it is discussed how a small portion of the
9 pipeline costs would be added to Central Hudson's gas rate base and
10 recovered from firm customers. The remainder of the pipeline capital cost
11 would be covered by a facility charge to Roseton co-tenants. For
12 depreciation purposes 1/6 of the plant investment would be subject to normal
13 depreciation and rate base treatment and recovered from firm gas
14 customers. Accordingly, this plant investment would be subject to normal
15 depreciation rates for the plant accounts in which recorded. 5/6th of the
16 capital cost would be subject to a 15-year amortization that was discussed in
17 the Article VII testimony/exhibits and was first included in Case 90-G-0673.
18 That portion of the capital investment became fully amortized as of
19 12/31/2007. However, following the approved cost recovery methods
20 delayed the commencement of the accrual and recovery of 5/6 of the costs
21 to remove the facilities by virtue of not including them in the charge to the
22 Roseton co-tenants over the 15-year amortization period and not adding
23 them to the depreciation accruals for the 1/6 of the investment subject to

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1 standard depreciation practices. That recovery should now begin in this first
2 rate proceeding following the end of the 15-year period.

3

4 Q. Has it also been determined since the filing of Staff's evidentiary presentation
5 that aspects of Staff's presentation concerning depreciation matters also
6 contain errors?

7 A. Yes, while the need for the two corrections to the Company's filing addressed
8 above (that pertaining to a discrepancy between depreciation work papers
9 and evidentiary presentation and that pertaining to accruing for the cost of
10 removal related to facilities associated with the Company's investment in a
11 gas transmission main built to supply gas as a boiler fuel to the Roseton
12 Generating Station) came to light after the filing of the Company's initial
13 evidentiary presentation, the Depreciation Panel has also stated after the
14 filing of its initial evidentiary presentation that various aspects of its filed
15 depreciation presentation are in error and, as with the two depreciation
16 related errors by the Company described above, these errors were found
17 during the post-filing review and discovery process. Attached as Exhibit
18 _(AP-13R) are the Depreciation Panel's responses to Central Hudson
19 Interrogatory Nos. 69, 70, 71 and 112 in each of which the Depreciation
20 Panel's reports an error in its evidentiary presentation.

21

22 Q. How should these situations involving the post-filing discovery of errors in a
23 party's filing be handled?

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1 A. Each "error" acknowledged by one party to the other regardless of which of
2 the parties made the error should be evaluated in the decision in these
3 proceedings.

4

5 Q. Does this conclude the Accounting Panel's pre-filed rebuttal testimony?

6 A. Yes, it does.