

REBUTTAL TESTIMONY  
OF  
ELECTRIC FORECASTING PANEL

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

1 Q. Are you the same Glynis L. Bunt who submitted pre-filed direct testimony in  
2 this proceeding?

3 A. Yes, I am.

4

5 Q. Are you the same Stacy E. Powers who submitted pre-filed direct testimony  
6 in this proceeding?

7 A. Yes, I am.

8

9 Q. What is the purpose of your rebuttal testimony in this proceeding?

10 A. The purpose of our rebuttal testimony is to respond to certain portions of the  
11 prepared testimony of the Staff Forecasting Panel, Staff Hourly Pricing  
12 Panel, Staff Accounting Panel, Staff Witness Vijay Puran and Staff Witness  
13 Michael Twergo regarding electric customers, sales and revenue forecasts,  
14 proposed rate design, including the current unbundled rate structure, a  
15 proposed revenue decoupling mechanism (“RDM”), proposed electric factor  
16 of adjustment by voltage level, the revisions proposed by Staff to the  
17 Company’s Hourly Pricing Provision and the estimated finance charges  
18 included in other operating revenue. Copies of all information responses  
19 provided by Staff and referenced in this testimony are provided in Rebuttal  
20 Exhibit\_\_(EFP-1).

21

22 Q. Are there any general comments you would like to make regarding the Staff

## ELECTRIC FORECASTING PANEL

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

1 Forecasting Panel's review of the electric customer and sales forecasts  
2 submitted by the Company?

3 A. In its testimony on page 5, lines 18 through 20, the Staff Forecasting Panel  
4 stated that it found the structure of the forecasting models utilized by the  
5 Company acceptable, further indicating on page 6, lines 2 through 7, that the  
6 changes it made to the Company's forecast equations "amount to minor  
7 adjustments to the models," and concluding on page 6, lines 13 through 16,  
8 that "any large forecast differences are ultimately due to changes in Rate  
9 Year values of forecast drivers." In fact, the Staff Forecasting Panel  
10 recommended on page 15, lines 17 through 20, that "the Company's  
11 customer forecasts for both gas and electricity be adopted," and further  
12 indicated that it "incorporated the Company's [customer] numbers to produce  
13 [its] sales forecasts" as presented on Exhibit \_\_\_\_(FP-6) and Exhibit \_\_\_\_(FP-7).  
14 Finally, it should be noted that, as confirmed by the Staff Forecasting Panel's  
15 response to Information Request Nos. 97 and 98, the lost sales adjustments  
16 associated with the Energy Efficiency Portfolio Standard and continued  
17 expansion of residential photovoltaic net metering pursuant to the pre-August  
18 5, 2008 amendments to Public Service Law 66-j proposed by the Company's  
19 Electric Forecasting Panel ("Company EFP") have been reflected in Staff's  
20 sales forecasts at the levels proposed by the Company EFP.

21

22 Q. Has the Staff Forecasting Panel proposed adjustments to the electric sales

## ELECTRIC FORECASTING PANEL

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

1 forecast?

2 A. Yes. The Staff Forecasting Panel proposed adjustments to certain  
3 components of the sales forecast models. The most significant adjustments,  
4 as identified by the Staff Forecasting Panel, related to the utilization of a  
5 different estimate of the income elasticity for electric residential non-heating  
6 sales and modification to the Company's forecasts of heating and cooling  
7 degree-days ("HDD" and "CDD", respectively) to reflect the latest thirty-year  
8 average, in contrast to the linear trend forecast of HDD and CDD proposed  
9 by the Company.

10

11 Q. Do you agree with the adjustments made by the Staff Forecasting Panel?

12 A. While we continue to endorse the elasticity estimates included in the  
13 Statistically Adjusted End-use ("SAE") model sets purchased annually from  
14 Itron, Inc., we estimate that the impact of Staff's adjustment of the income  
15 elasticity for electric residential non-heating sales on sales per customer is  
16 immaterial.

17 With respect to the definition of normal weather, we continue to  
18 believe that "continuing the status quo use of a most recent 30-year average  
19 as a projection for normal climate conditions," as recommended by the Staff  
20 Forecasting Panel in its testimony on page 13, lines 17 through 19, ignores  
21 the implications of actual data, recent research and regulatory activity.

22

## ELECTRIC FORECASTING PANEL

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

1 Q. Please detail your position regarding your disagreement with Staff's  
2 recommendation to use a thirty-year average to define normal weather.

3 A. While the Staff Forecasting Panel provided both quantitative and qualitative  
4 data purporting to support its recommendation for the use of a thirty-year  
5 average, this data fails to conclusively support its proposal. The Staff  
6 Forecasting Panel's reliance on its quantitative support, in the form of  
7 statistical analyses of the Company's weather estimates, which is  
8 interspersed through its testimony beginning on page 9, line 16 and  
9 continuing through page 15, line 7, to reject the Company's trend estimate,  
10 actually confirms the presence of a trend, but ignores this finding. A warming  
11 trend, as exhibited by decreasing HDD levels and increasing CDD, is readily  
12 apparent when visually reviewing the historical HDD and CDD data for  
13 Central Hudson presented in Rebuttal Exhibit \_\_\_\_(EFP-2), and is in fact being  
14 captured in the thirty-year moving average. However, as we noted in our  
15 pre-filed direct testimony on page 20, line 15 through page 21, line 1, utilizing  
16 a thirty-year average as an estimate for future weather may introduce error  
17 into the forecast as "[a] time average will generally approximate a  
18 monotonically changing normal best near the mid-point of the averaging  
19 interval with error increasing towards the beginning and end of the interval."<sup>1</sup>  
20 Moreover, the Staff Forecasting Panel failed to provide any empirical

---

1 Livezey, Robert E., Climate Services Division, Office of Climate, Water, and Weather Services/NWS/NOAA, et. al., Estimation and Extrapolation of Climate Normals and Climatic Trends, Second Revision, June 29, 2007, p. 2.

## ELECTRIC FORECASTING PANEL

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

1 evidence refuting recent research conclusions regarding climate change,  
2 which have been addressed by various regulatory bodies, including the New  
3 York State Public Service Commission (for example in Cases 03-E-0188 and  
4 07-M-0548).

5 Finally, while the Staff Forecasting Panel has focused on attempting to  
6 provide evidence to reject the Company's linear trend definition of weather, it  
7 has failed to provide any quantitative evidence to prove that its thirty-year  
8 definition is appropriate and mathematically superior for forecasting  
9 purposes. As a result, it has simply recommended continuation of the "status  
10 quo."

11

12 Q. Do you have any additional comments to make regarding the topic of sales  
13 forecasts?

14 A. Yes. As stated in the Company EFP's pre-filed direct testimony on page 27,  
15 line 21 continuing through page 28, line 7, "[t]o the extent that activity in our  
16 service territory, in terms of the level of customers, changes dramatically, or  
17 customers change their consumption habits in response to changes in  
18 economic/price conditions, these changes should be reflected in the final  
19 Rate Year forecasts utilized to determine the revenue requirement and rate  
20 design."

21

22 Q. Does Staff generally agree with the concept of updates to the forecasts?

## ELECTRIC FORECASTING PANEL

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

1 A. Yes. In its testimony on page 16, lines 21 through 23, the Staff Forecasting  
2 Panel indicated its intention “to revise its forecasts to reflect latest available  
3 data.” This was affirmed by the Staff Forecasting Panel in its response to  
4 Information Request No. CH-164.

5

6 Q. Have there been any changes in the data or assumptions utilized by the  
7 Company in the development of the electric customer, sales and revenue  
8 forecasts that accompanied the EFP’s pre-filed direct testimony?

9 A. Yes. The original forecasts generally utilized actual customer and sales data  
10 available through March 2008 and utilized economic projections based on  
11 the April 2008 forecast provided by Moody’s Economy.com to the New York  
12 Independent System Operator. The Company received a new forecast from  
13 Moody’s Economy.com on November 18, 2008, which was provided to Staff  
14 as a supplemental response to Staff Information Request Nos. 2, 27 and 37a  
15 on November 19, 2008. Staff acknowledged receipt of this information in its  
16 response to Information Request No. CH-164, indicating that it anticipated  
17 that the Company would present an updated forecast in rebuttal testimony,  
18 which it would subsequently review to determine if revisions were required to  
19 its forecast.

20

21 Q. Have you prepared revised electric customer, sales and revenue forecasts  
22 incorporating this new data?

ELECTRIC FORECASTING PANEL

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

1 A. Yes. These forecasts are presented in Rebuttal Exhibit \_\_\_\_(EFP-3).

2

3 Q. Please summarize the changes made to the forecasts originally submitted by  
4 the Company EFP with its pre-filed direct testimony.

5 A. Generally, all customer and sales models, with the exception of the lighting  
6 sales models, were updated with actual data through November 2008. In  
7 addition, all forecasts which utilized econometric models were updated with  
8 the new economic forecast from Moody's Economy.com and all forecasts  
9 which utilized price reflect an updated price forecast. Furthermore, the  
10 residential sales models were updated with new end-use saturation and  
11 efficiency data for the Middle Atlantic Census Region as compiled by Itron,  
12 Inc.

13 With respect to model specifications, minor changes such as the  
14 addition or removal of binary (or dummy) variables were made to certain  
15 models. These modifications are detailed on Rebuttal Exhibit\_\_(EFP-4).  
16 As previously indicated, we updated the customer forecasts for the area and  
17 street lighting classes to reflect the most recent data available. We have not  
18 updated the related fixture inventories, and resulting estimated sales, at this  
19 time. Similar to our proposal to update forecasts at a later point in the  
20 proceeding, we believe that the lighting inventories should be updated, based  
21 on the most recent data available, prior to final revenue allocation and rate  
22 design.

## ELECTRIC FORECASTING PANEL

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

1           Additionally, we revised the S.C. No. 13 customer and sales forecasts  
2           to reflect the termination of operations of one customer, to reflect an  
3           additional eight months of consumption data and additional adjustments to  
4           three customers over and above the adjustments resulting from the  
5           additional actual data.

6           Furthermore, the allocation used to convert monthly customers and  
7           sales from revenue class to service class was revised to account for several  
8           S.C. No. 3 customers who were switched to S.C. No. 2 at the end of 2007.  
9           Since the allocation originally utilized was based on the 36 months ended  
10          December 2007, the allocation incorrectly over-allocated these customers  
11          and sales to the S.C. 3 class for the Rate Year.

12          We also updated the retail access penetration factors and the  
13          purchase of receivables/dual billed participation factors utilized in the  
14          forecast of MFC revenue included in the Rate Year estimate.

15          Finally, sales reductions attributable to the EEPS were updated to  
16          reflect the June 23, 2008 Order in Case 07-M-0548. Similar to the forecast  
17          supported by our pre-filed direct testimony, sales reductions were allocated  
18          across applicable customer classes and months based on the pre-  
19          adjustment forecast.

20

21    Q.     Please summarize the resulting impacts, as compared to the forecasts  
22          originally submitted by the Company EFP with its pre-filed direct testimony.

## ELECTRIC FORECASTING PANEL

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

1 A. As shown on Rebuttal Exhibit\_\_(EFP-5), Rate Year own territory sales  
2 (excluding unbilled) are 5,209,980 MWh, or 182,004 MWh lower, as  
3 compared to 5,391,984 MWh as shown on Exhibit\_\_(EFP-2) Schedule F,  
4 Sheet 1 of 3 of our pre-filed direct testimony. We believe the sales reductions  
5 are attributable to two major factors: (1) the updated economic forecast  
6 obtained from Moody's Economy.com, and (2) the revisions to S.C. No. 13  
7 sales, as previously discussed, which resulted in a reduction of 98,510 MWh  
8 of sales attributable to that class. The former conclusion is based on the  
9 Company re-running the models initially used to produce the sales forecasts  
10 supported by our pre-filed testimony, changing only the economic data. This  
11 resulted in a reduction of approximately 93,000 MWh. Therefore, the  
12 Company believes about half of the 182,004 MWh reduction referenced  
13 above is due to the new economic forecast.

14  
15 Q. Has the Company EFP revised its revenue allocation and rate design  
16 positions to reflect the forecast changes it has presented herein?

17 A. No. As previously stated, we continue to maintain that to the extent the  
18 assumptions regarding economic activity, prices and/or consumption patterns  
19 incorporated in the sales forecasts that we sponsored change, these  
20 changes, as well as any other changes associated with revenue requirement,  
21 should be reflected in the final Rate Year forecasts utilized to determine the  
22 revenue requirement and rate design. As a result, we believe that any

## ELECTRIC FORECASTING PANEL

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

1 required revenue allocation and rate design changes should be made at a  
2 later stage in this proceeding.

3

4 Q. Did Staff accept the Company's revenue allocation methodology?

5 A. Yes. As he indicated in his testimony on page 4, line 12 through page 5, line  
6 8, and page 8, lines 3 through 22, Staff Witness Puran supports the revenue  
7 allocation methodology proposed by the Company EFP, including the  
8 application of a "plus or minus 15 percent tolerance band to bring the  
9 individual service classes' rates of return to within that range of the system  
10 average rate of return." While also supporting the Company EFP's proposal  
11 to constrain the revenue increase to each service class in order to mitigate  
12 impacts, Staff Witness Puran proposes to revise these constraints to reduce  
13 the minimum increase to 0.5 times the system average, rather than 0.75  
14 times as proposed by the Company EFP, and to raise the maximum increase  
15 to 2.2 times the system average, rather than 1.25 times as proposed by the  
16 Company EFP.

17

18 Q. Do you agree with the changes made by Staff Witness Puran to the  
19 constraint levels?

20 A. We generally support these changes as they do not result in significant shifts  
21 in cost responsibility. However, we believe that these constraints should be  
22 reviewed at a later stage in this proceeding within the context of the

## ELECTRIC FORECASTING PANEL

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

1 determination of the final revenue requirement.

2

3 Q. Are there any comments that you would like to make regarding the rate  
4 design proposed by Staff?

5 A. Yes. In his testimony on page 4, lines 2 through 6, Staff Witness Twergo  
6 states that “[a]n RDM is necessary because utilities’ existing rate designs  
7 are, in most cases, not “optimal” in that they do not collect fixed costs  
8 through fixed charges and variable costs through variable charges.” Despite  
9 the opportunity presented here to move closer to a more “optimal” rate  
10 design, Staff Witness Puran, on page 15, lines 11 through 16 of his  
11 testimony, recommends much smaller increases to all customer charges, as  
12 compared to the Company EFP’s proposal, even though he acknowledges  
13 that the Company EFP’s “proposal to increase the customer charges closer  
14 to the embedded costs is cost justified.” In fact, Staff Witness Puran’s  
15 proposal to increase the S.C. No. 1 monthly customer charge from \$16 to  
16 \$18 provides only a very minor move toward the embedded cost of  
17 approximately \$30 sponsored by Company Witness Arvidson on Schedule C  
18 of Exhibit \_\_ (LGA-2), and unopposed by Staff, and virtually no progress in  
19 the proportion of base revenue (excluding Merchant Function Charges)  
20 collected through this charge. In this latter case, the amount of S.C. No. 1  
21 base revenue projected to be collected through the monthly customer charge  
22 increases only slightly by 1.5 percent.

## ELECTRIC FORECASTING PANEL

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

1

2 Q. Has Staff made any other proposals regarding the electric rate structure?

3 A. Yes. Staff Witness Twergo, on page 21, line 13 continuing to page 25, line  
4 18, proposes the elimination of the Company's current retail access lost  
5 revenue recovery mechanism (related to Merchant Function Charge ("MFC")  
6 revenue that is not recovered due to retail access), with recovery of this lost  
7 revenue through either a RDM, which we address later in testimony, or  
8 through implementation of a newly-created Retail Access Reconciliation  
9 Adjustment ("RARA"). His proposal recommends that the determination of  
10 the recovery mechanism, either RDM or RARA, applicable to each service  
11 class be based on the applicability of the RDM to each service class.  
12 Consequently, if a service class is included in the RDM, recovery of retail  
13 access lost revenue would be included in the RDM. Correspondingly, he  
14 proposes that recovery of retail access lost revenue for those service classes  
15 excluded from the RDM would be accomplished through the RARA.

16

17 Q. What is the basis for Staff Witness Twergo's proposal?

18 A. Staff Witness Twergo suggests, on page 22, lines 15 through 18, that his  
19 retail access lost revenue recovery proposal will potentially avoid unintended  
20 interaction with the RDM and will simplify rates. He further suggests, on  
21 page 23, lines 9 through 13, that including the recovery of retail access lost  
22 revenue into base rates "will minimize future RDM adjustments because the

## ELECTRIC FORECASTING PANEL

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

1 majority of lost revenues will be recovered through base rates.”

2

3 Q. Do you agree with Staff Witness Twergo's proposal?

4 A. We agree with Staff Witness Twergo with respect to the continued recovery  
5 of retail access lost revenue as most recently addressed by the Commission  
6 in its October 27, 2008 Order in Case 07-M-0458. However, we believe that  
7 the recommendation to recover retail access lost revenue in base rates,  
8 which basically amounts to a rebundling of previously unbundled rates, is  
9 inconsistent with the Commission's intent with respect to unbundling, as it  
10 redefines the components to be unbundled, and therefore the cost  
11 responsibility for these components. Moreover, we are not aware of any  
12 change in Commission policy addressing the rebundling of previously  
13 unbundled rate components. Finally, we do not necessarily agree with Staff  
14 Witness Twergo's assertion that his proposal will simplify rates. His proposal  
15 will result in further bill changes, essentially “undoing” a portion of the  
16 changes implemented July 1, 2007 in compliance with the initial MFC  
17 unbundling, and thus requiring customer re-education and acceptance.

18

19 Q. Moving on to the topic of revenue decoupling mechanisms (“RDM”), what  
20 were the results of Staff's review of the Company's proposed RDM?

21 A. Although Staff Witness Twergo, on page 7 of his testimony, purports that  
22 there are several shortcomings to the Company's proposed electric RDM, he

## ELECTRIC FORECASTING PANEL

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

1 provides no indication that the Company's proposal fails to meet the criteria  
2 required by the Commission in its April 27, 2007 Order in Cases 03-E-0640  
3 and 06-G-0746 and referenced in his testimony on page 5, lines 2 through  
4 20.

5

6 Q. Did Staff Witness Twergo propose a RDM for electric delivery service?

7 A. Yes. Company Witness Mosher has provided a summary of the electric  
8 RDM proposed by Staff Witness Twergo, including a brief overview of the  
9 differences between Staff's proposed RDM and the electric RDM proposed  
10 by the Company and also a brief overview of the differences between the  
11 electric and gas RDMs proposed by Staff.

12

13 Q. Do you concur with the structure of the electric RDM proposed by Staff  
14 Witness Twergo?

15 A. No. We believe that the justification for Staff's RDM based on several of the  
16 purported shortcomings identified by Staff Witness Twergo in the Company's  
17 proposal is misplaced.

18

19 Q. Please explain.

20 A. Staff Witness Twergo, on page 7, lines 14 through 16, asserts that "[t]he  
21 UPC RDM model over-compensates or over-penalizes the utility for  
22 variations from the rate year customer forecast," concluding on page 10,

## ELECTRIC FORECASTING PANEL

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

1 lines 16 through 19, that “[t]he incremental revenue requirement associated  
2 with new customers is less than the revenues retained by the utility under the  
3 UPC RDM model.” However, as offered in the response to Information  
4 Request No. CH-126, Staff Witness Twergo fails to quantify this conclusion,  
5 relying on his experience with marginal cost of service studies and the  
6 statement in testimony on page 9, lines 14 through 17, that “[a] review of the  
7 Company’s Revenue Requirement testimony reveals numerous costs that  
8 are forecast independent of the number of customers or sales.” Closely  
9 related to this theme, is the assertion he makes on page 7, lines 17 through  
10 18, that “[t]he UPC RDM model charges ratepayers for “lost revenue” for  
11 efficient customer additions.” Again, Staff Witness Twergo offers no  
12 quantitative evidence, but relies solely on his conclusion on page 11, lines 15  
13 through 17 that “[t]he revenue retained and collected by the utility under the  
14 UPC RDM model would exceed the incremental revenue requirement” in this  
15 type of situation.

16 Staff Witness Twergo also states, on page 8, line 3, that the  
17 Company’s proposed inclusion of S.C. No. 13 has the “potential for creating  
18 detrimental bill impacts” due to the limited number of customers in this class  
19 and the differences in their billing demands. While we agree that the material  
20 curtailment of usage or termination of operations of one of the larger  
21 customers in this class could produce large bill impacts for the remaining  
22 customers in this class under a RDM, we do not believe that this class should

## ELECTRIC FORECASTING PANEL

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

1 be excluded from a RDM on the basis of number of customers or differences  
2 in billing demands. It should be noted that Staff Witness Twergo also  
3 proffered, on page 19, that this class be excluded from a RDM on the basis  
4 that there are no identified Energy Efficiency Portfolio Standard (“EEPS”)  
5 programs promoting energy efficiency for this class. We do not agree with  
6 this conclusion as there are other measures, outside the EEPS, that these  
7 customers can pursue to reduce electricity consumption, including but not  
8 limited to obtaining SBC funding for energy efficiency and net metering of  
9 photovoltaic generation to be available to this class in early 2009 via the  
10 August 5, 2008 amendments to Public Service Law Section 66-j. It should be  
11 noted that in justifying these two reasons, number of customers and energy  
12 efficiency, for exclusion from a RDM, Staff Witness Twergo concluded that  
13 they reduce the need for a RDM, but did not conclude that they eliminate the  
14 need for a RDM.

15 Finally, Staff Witness Twergo concludes, on page 8, lines 5 through 8,  
16 that “[t]he proposed frequency of the [Company’s] RDM refund/recovery  
17 billing factors could introduce unnecessary volatility to the delivery portion of  
18 customer bills.” However, in detailing his concern on page 13, line 17  
19 through page 14, line 9, Staff Witness Twergo fails to address the volatility  
20 constraint proposed by the Company for S.C. No. 1, which could be  
21 extended to other service classes, instead recommending a potentially  
22 lengthier refund/recovery process that could result in improper price signals

ELECTRIC FORECASTING PANEL

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

1 as identified by Mr. Mosher.

2

3 Q. Are there any other comments that you would like to make regarding the  
4 electric RDM proposed by Staff Witness Twergo?

5 A. Yes. As a point of clarification, Staff Witness Twergo, in response to  
6 Information Request No. CH-125, confirmed that S.C. No. 6 residential time-  
7 of-use “was inadvertently omitted from the list of service classes that would  
8 be subject to an electric RDM under staff’s proposal,” which is consistent with  
9 the Company’s proposal.

10 Additionally, Staff Witness Twergo has proposed that RDM revenue  
11 shortfalls/excesses accrue carrying charges at the other customer capital  
12 rate, in contrast to the Company’s proposal to utilize the authorized pre-tax  
13 rate of return and in contrast to other carrying charge applications as  
14 discussed by Company Witness Mosher in his rebuttal testimony.

15

16 Q. Please identify the Staff position as it relates to the electric factor of  
17 adjustment.

18 A. In his testimony on pages 23 and 24, Staff Witness Puran accepts the  
19 continued utilization of a three-year average in the determination of the  
20 electric factor of adjustment. However, Staff Witness Puran also  
21 recommends that the Company conduct a loss allocation study and file the  
22 results of this study in its next rate filing so that voltage-level specific factors

ELECTRIC FORECASTING PANEL

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

1 of adjustment can be implemented.

2

3 Q. Are there any comments you would like to make regarding Staff Witness  
4 Puran's proposals regarding the electric factor of adjustment?

5 A. Yes. As stated in our pre-filed direct testimony we continue to propose that  
6 the factor of adjustment be determined based on a three-year average of the  
7 most recent data available at the time of the Commission's decision in this  
8 proceeding. Additionally, we believe that Staff Witness Puran's position  
9 regarding the requirement of the submission of a loss study with the  
10 Company's next rate filing should be clarified to require the submission of the  
11 most recent study available at the time of such rate filing.

12

13 Q. Moving on to the recovery of purchased electricity costs, has Staff proposed  
14 any changes to the Hourly Pricing Provision ("HPP")?

15 A. Yes. The Staff Hourly Pricing Panel ("HP Panel") has proposed both  
16 changes to the scope and operation of the HPP.

17

18 Q. Please summarize the changes proposed by the Staff HP Panel.

19 A. Generally, the Staff HP Panel has proposed to expand the HPP to customers  
20 with maximum demands greater than 500 kW and revise the manner in  
21 which capacity costs are recovered through the HPP.

22

## ELECTRIC FORECASTING PANEL

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

1 Q. What is the basis for the Staff HP Panel's proposal to expand the HPP and  
2 the selection of a 500 kW threshold?

3 A. In its testimony on page 7, line 18 through page 8, line 3, the Staff HP Panel  
4 states that it is proposing the expansion to achieve increased benefits,  
5 "including potential reductions to peak period prices, enhanced peak period  
6 reliability, wholesale market power mitigation, a reduction in dependence on  
7 natural gas fueled generation, and more equitable pricing of customer bills."  
8 Further, the Staff HP Panel states in its testimony on page 9, lines 6 through  
9 10, that it selected the 500 kW threshold "because we would like to include  
10 those S.C. No. 2 customers that are most likely to have the resources to  
11 monitor and react to hourly pricing."  
12

13 Q. Did the Staff HP Panel offer any empirical evidence quantifying the increased  
14 benefits of the proposed expansion of the HPP or any empirical evidence  
15 indicating how many of the customers likely affected by the 500 kW threshold  
16 possess the resources to monitor and react to hourly pricing?

17 A. No. Although the Staff HP Panel, in response to Information Request No.  
18 CH-43, referred to five specific papers allegedly addressing the benefits of  
19 mandatory hourly pricing, it did not provide any empirical evidence  
20 quantifying the increased benefits of the proposed expansion of the HPP. In  
21 fact, it should be noted that all five of these papers were published prior to  
22 the 2006 implementation of state-wide mandatory hourly pricing in New York.

## ELECTRIC FORECASTING PANEL

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

1           Moreover, the Staff HP Panel, in response to Information Request Nos. CH-  
2           122 and CH-123, specifically stated that it has no “specific knowledge of how  
3           many of the 118 customers targeted for hourly pricing have energy managers  
4           or building engineers,” two of the resources that the Staff HP Panel indicated  
5           that these customers are likely to have (the Staff HP Panel also identified  
6           facilities managers, energy management software, access to energy  
7           consultants and demand response providers as resources).

8

9    Q.    Are there any other comments you would like to make regarding the Staff HP  
10   Panel’s proposed expansion of the HPP?

11   A.    Yes.  Currently, the HPP is available to all S.C. No. 2 customers on a  
12   voluntary basis.  The Company believes that requiring S.C. No. 2 customers  
13   who continue to elect to purchase their electricity supply requirements from  
14   the Company to do so only under the HPP eliminates a significant pricing  
15   option for those customers that do not possess the resources supposed by  
16   the Staff HP Panel.  Additionally, should the Staff HP Panel’s proposed  
17   expansion of the HPP be approved, we believe that the Staff HP Panel’s  
18   proposal regarding the provision of load management software to these  
19   customers free of charge during the implementation stage should be clarified  
20   to provide for the cost recovery of this software.  Moreover, we believe that  
21   the Company should be allowed to recover any increases in the costs  
22   associated with the provision of load management software resulting from all

## ELECTRIC FORECASTING PANEL

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

1 changes in the scope and operation of the HPP.

2

3 Q. Please describe the changes proposed by the Staff HP Panel regarding the  
4 manner in which capacity costs are recovered through the HPP.

5 A. The Staff HP Panel, in its testimony on page 27, lines 8 through 11, stated  
6 that “[g]eneration capacity cost should be recovered through a kW demand  
7 charge based on each customer’s individual demand during the system peak  
8 hour.”

9

10 Q. What is the basis for the Staff HP Panel’s proposal?

11 A. In its testimony on page 21, line 16 continuing through page 23, line 16 the  
12 Staff HP Panel summarizes the capacity requirements of the New York  
13 Independent System Operator (“NYISO”), which ensure “that the electric  
14 system has sufficient generation capacity to maintain reliable electric supply  
15 and avoid blackouts.” Generally, the capacity requirement of load serving  
16 entities (“LSEs”), such as Central Hudson, is based on the LSE’s actual peak  
17 load at the time of the NYISO’s overall system peak hour from the prior  
18 summer. Based on the manner in which the NYISO develops the capacity  
19 requirement for the capability period of May 1 through April 30, utilizing a  
20 summer system peak hour, the Staff HP Panel has based its proposal on the  
21 conclusion that “customer demand that occurs during the system peak hour  
22 contributes to the LSE’s generation capacity costs while demand at other

## ELECTRIC FORECASTING PANEL

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

1 times will not contribute to the LSE's generation capacity cost."

2

3 Q. Do you agree with the Staff HP Panel's conclusion, and consequently its  
4 proposal?

5 A. Not entirely. The Staff HP Panel is correct, in part, in its conclusion that  
6 "customer demand that occurs during the system peak hour contributes to  
7 the LSE's generation capacity costs." However, as explicitly stated by the  
8 Staff HP Panel on page 23, lines 19 through 20, "LSEs must procure  
9 sufficient capacity to meet their requirements **each month**." (emphasis  
10 added) Moreover, the Staff HP Panel, in its response to Information Request  
11 No. CH-47, agreed that utilizing the summer system peak hour load to  
12 determine the capacity requirement generally ensures sufficient capacity for  
13 all other times of the year. Therefore, recovering capacity costs through the  
14 HPP based on each customer's individual demand during the summer  
15 system peak hour, as proposed by the Staff HP Panel, would result in the  
16 shifting of costs from customers that are responsible for the capacity  
17 requirement each month to those that contributed to the summer system  
18 peak hour demand.

19

20 Q. Are there any other topics that you would like to address?

21 A. Yes. In its development of finance, or late payment, charges included in the  
22 forecast of other operating revenue, the Company EFP developed a separate

## ELECTRIC FORECASTING PANEL

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

1 factor, to be applied to base revenue, for each of the three finance charge  
2 categories, residential, commercial and industrial, by dividing a historic  
3 average of finance charges for each category by the respective average  
4 base revenue for each category. For the residential and commercial  
5 categories, the Company EFP's factors were based on a three year average  
6 for calendar years 2005, 2006 and 2007, resulting in a residential factor of  
7 0.0150 and a commercial factor of 0.0126. For the industrial category the  
8 Company EFP based its factor on the average for the three months ended  
9 March 2008, resulting in an industrial factor of 0.0045. This was done to  
10 reflect the fact that the industrial finance charges and base revenues for the  
11 calendar years 2005, 2006 and 2007 include billed finance charges and  
12 revenue that were canceled in calendar year 2007 as the result of the  
13 settlement of billing issues related to two customers taking station power  
14 requirements under the NYISO's tariff and resolution of related matters  
15 before the Federal Energy Regulatory Commission. The three-year average  
16 industrial factor for the calendar years 2005, 2006 and 2007 was 0.0243.  
17 Clearly, without a "normalizing" adjustment the industrial finance charge  
18 factor is overstated.

19

20 Q. Did Staff concur with the Company's proposed finance charge forecast  
21 methodology?

22 A. No. The Staff Accounting Panel has proposed to develop a single, weighted

## ELECTRIC FORECASTING PANEL

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

1 factor, reflecting a three-year average of calendar year 2005, 2006 and 2007  
2 data, to be applied to base revenue.

3

4 Q. Do you agree with the Staff Accounting Panel's approach to developing  
5 finance charges?

6 A. No. We believe that the factors should continue to be developed on a  
7 category-specific basis to properly align finance charges with base revenue.

8 Additionally, we believe that the billing adjustments associated with the  
9 station power issue discussed previously require a "normalization"

10 adjustment in order to properly reflect the level of finance charges actually  
11 realized.

12

13 Q. Would you like to make any further comments on the issue of finance  
14 charges?

15 A. Yes. We concur with the Staff Accounting Panel that Rate Year finance  
16 charges should reflect the final revenue requirement determination.

17

18 Q. Does this conclude your rebuttal testimony?

19 A. Yes, it does.