

DIRECT TESTIMONY  
OF  
ACCOUNTING PANEL

1 Q. Would each member of the Accounting Panel please state his or her name  
2 and business address?

3 A. (Ortlieb) My name is Edward G. Ortlieb. My business address is 284 South  
4 Avenue, Poughkeepsie, New York 12601.

5

6 (Komar) My name is Nancy L. Komar. My business address is the same as  
7 Mr. Ortlieb's.

8

9 Q. By whom is each member of the Panel employed and in what capacity?

10 A. (Ortlieb) I am employed by Central Hudson Gas & Electric Corporation as  
11 Director of Financial Reporting & Research.

12 (Komar) I am also employed by Central Hudson Gas & Electric Corporation  
13 as Plant Accounting Supervisor.

14

15 Q. Mr. Ortlieb, would you please summarize your educational background and  
16 work experience?

17 A. I have an Associate in Science Degree in Business Administration from  
18 Ulster County Community College, a Bachelor of Science Degree in  
19 Accounting from the State University of New York at Albany, and a Master of  
20 Business Administration Degree from Marist College. From 1988 to 1991, I  
21 was employed by public accounting firm Price Waterhouse as a staff auditor.  
22 I have been employed by Central Hudson in various capacities in the

## ACCOUNTING PANEL

1 Finance and Accounting Group since 1991. From 1991 to 1995, I worked as a staff  
2 accountant in the Financial Reporting Department. From 1995 to 1998, I was  
3 Supervisor of Financial Records. From 1998 to 2004, I was Supervisor of  
4 Accounts Payable & Financial Records. From 2004 to 2007, I was Plant  
5 Accounting Supervisor. Since January 1, 2008, I have been the Director of  
6 Financial Reporting & Research. My work experience in Finance and  
7 Accounting has centered on overall accounting theory and reporting.

8

9 Q. Mr. Ortlieb, would you please describe your current responsibilities at Central  
10 Hudson?

11 A. My responsibilities as Director of Financial Reporting & Research include the  
12 planning, scheduling, supervising and coordinating the functions related to  
13 the preparation, validation and integrity of the internal, external and  
14 regulatory reports of Central Hudson. My responsibilities also include the  
15 supervision of accounting research activities and the recommendation of  
16 changes to the accounting process assuring compliance with regulatory  
17 pronouncements.

18

19 Q. Ms. Komar, would you please summarize your educational background and  
20 work experience?

21 A. I have an Associate in Science Degree in Business Administration from  
22 Fulton Montgomery Community College and a Bachelor of Science Degree in  
23 Accounting from Marist College. I was employed by James Burn

## ACCOUNTING PANEL

1 International, a local manufacturing firm, in various accounting positions for  
2 thirteen years ending my career with them as Assistant Controller in 2005. I  
3 have been employed by Central Hudson since 2005. I started in the Internal  
4 Auditing Department as an auditor performing various financial and  
5 operational audits. This position provided me the ability to familiarize myself  
6 with many areas of the Company. In 2006, I transferred to the Plant  
7 Accounting Department and was subsequently promoted to Plant Accounting  
8 Supervisor. My work experience in this area has centered on construction  
9 accounting, property record system development and depreciation.

10

11 Q. Ms. Komar, would you please describe your current responsibilities at  
12 Central Hudson?

13 A. I have responsibility for the day-to-day supervision of all accounting activities  
14 related to the processing and maintenance of the Company's fixed asset  
15 records. I am responsible for the accuracy and coordination of the month-  
16 end closing and reporting processes for the Fixed Asset System and I  
17 oversee the development of the depreciation and AFUDC budgets based on  
18 the Capital Construction Budget along with monthly budget variance  
19 reporting.

20

21 Q. Has any member of the Panel previously testified before this Commission?

22 A. (Ortlieb) Yes, I have. That was in Central Hudson's last general rate  
23 proceeding in Cases 05-E-0934 and 05-G-0935.

## ACCOUNTING PANEL

1

2 Q. What is the scope of the Panel's testimony in this proceeding?

3 A. The purpose of the Accounting Panel's testimony is to:

4 1. Present the historical accounting information required under the

5 Commission's Rules and Regulations;

6 2. Set forth background information regarding a variety of accounting

7 and ratemaking matters;

8 3. Set forth certain accounting and ratemaking proposals reflected in the

9 development of the revenue requirement in this proceeding and to be

10 followed during the rate year and subsequent periods;

11 4. Present the historical amounts and projections related to book

12 depreciation and plant items including rate base amounts related to

13 Net Plant and Noninterest-Bearing Construction Work in Progress;

14 5. Address the depreciation study that Company was required to perform

15 by the Commission's last Central Hudson rate Order; and

16 6. Address the treatment of negative net salvage for gas mains and

17 services.

18

19 Q. Is the Panel sponsoring any exhibits in support of its testimony?

20 A. Yes, we are sponsoring the following exhibits in this regard and each of them

21 was prepared by or under the supervision of the Panel or one of the Panel's

22 members:

23 1. Exhibit\_\_(AP-1) entitled "Financial Statements";

## ACCOUNTING PANEL

- 1           2.     Exhibit\_\_(AP-2) entitled "Electric Operation and Maintenance
- 2                     Expenses";
- 3           3.     Exhibit\_\_(AP-3) entitled "Electric Operating Taxes";
- 4           4.     Exhibit\_\_(AP-4) entitled " Gas Operation and Maintenance
- 5                     Expenses";
- 6           5.     Exhibit\_\_(AP-5) entitled "Gas Operating Taxes"; and
- 7           6.     Exhibit \_\_ (AP-6) entitled "Rate Base Noninterest-Bearing Construction
- 8                     Work In Progress;
- 9           7.     Exhibit \_\_ (AP-7) entitled "Statement of Depreciation and Amortization
- 10                    Accruals"; and
- 11          8.     Exhibit \_\_ (AP-8) entitled "Proposed Depreciation Factors and Rate
- 12                    Changes".

- 13
- 14   Q.     Please describe the information contained in Exhibit\_\_(AP-1) entitled
- 15             "Financial Statements".
- 16   A.     Schedule A contains the balance sheets of the Company, by PSC prime
- 17             accounts, at the end of calendar years, 2005, 2006, 2007 and at March 31,
- 18             2008. Schedule B contains the income statements, per books, for calendar
- 19             years 2005, 2006, 2007, and the twelve months ended March 31, 2008. The
- 20             income statements show operating revenues and expenses and the resulting
- 21             operating income for the Electric Department and Gas Department. They
- 22             also show the development of net income on a Company basis. Schedule C
- 23             shows for each period the beginning and ending balances of unappropriated

## ACCOUNTING PANEL

1 retained earnings. The change in the balance during each period is identified  
2 in terms of the effects of net income and the declaration of common and  
3 preferred stock dividends.

4

5 Q. Please describe the information contained in Exhibit\_\_(AP-2) entitled  
6 “Electric Operation and Maintenance Expenses”.

7 A. Schedule A of Exhibit\_\_(AP-2) sets forth by functional classification the  
8 Company’s electric operation and maintenance expenses for the calendar  
9 years 2005, 2006, 2007 and the twelve months ended March 31, 2008.

10 Schedule B of Exhibit\_\_(AP-2) sets forth the electric operation and  
11 maintenance expenses in Schedule A by prime account of the Uniform  
12 System of Accounts.

13

14 Q. Please describe the information contained in Exhibit\_\_(AP-3) entitled  
15 “Electric Operating Taxes”.

16 A. This Exhibit shows for the calendar years 2005, 2006, 2007 and twelve  
17 months ended March 31, 2008 the amount of federal, state and local taxes,  
18 excluding federal and state income tax, charged to electric operations.

19

20 Q. Please describe the information contained in Exhibit\_\_(AP-4) entitled “Gas  
21 Operation and Maintenance Expenses”.

22 A. Schedule A of Exhibit\_\_(AP-4) sets forth by functional classification the  
23 Company’s gas operation and maintenance expenses for the calendar years

## ACCOUNTING PANEL

1 2005, 2006, 2007 and the twelve months ended March 31, 2008. Schedule B  
2 of Exhibit\_\_(AP-4) sets forth the gas operation and maintenance expenses in  
3 Schedule A by prime account of the Uniform System of Accounts.

4

5 Q. Please describe the information contained in Exhibit\_\_(AP-5) entitled "Gas  
6 Operating Taxes".

7 A. This Exhibit shows for the calendar years 2005, 2006, 2007 and the twelve  
8 months ended March 31, 2008 the amount of federal, state and local taxes,  
9 excluding federal and state income tax, charged to gas operations.

10

11 Q. How are operating taxes apportioned to the Electric Department and Gas  
12 Department?

13 A. Payroll related taxes are apportioned between electric and gas operating  
14 expenses in a manner that tracks the distribution of payroll dollars. Revenue  
15 related taxes are apportioned to the departments on the basis of revenues  
16 subject to the respective taxes. The use tax is charged on the basis of  
17 related taxable items. The state hazardous waste tax is charged to the  
18 electric department only. Distribution of property taxes to the electric and  
19 gas departments is based on the relative book values of the property within  
20 each political district. Real estate tax is allocated based on the "out streets"  
21 property and special franchise tax is allocated based on the "in streets"  
22 property.

23

## ACCOUNTING PANEL

1 Q. Please explain the manner in which the Company apportions operation and  
2 maintenance expenses that are not directly assignable to electric or gas  
3 operations to those departments.

4 A. Expenses not directly assignable to a particular department, but closely  
5 related to other expenses charged to that department, are distributed in  
6 proportion to such other expenses. For example: pension costs and fringe  
7 benefit costs are related to payroll costs. They are, therefore, allocated  
8 between electric and gas operations in a manner that tracks the distribution  
9 of payroll dollars. Other operation and maintenance expenses that are not  
10 assignable to a particular department ("common" costs) are apportioned to  
11 electric and to gas based on a common cost allocation ratio.

12  
13 Q. What was the total amount of expense to which the common cost allocation  
14 ratio was applied in the twelve months ended March 31, 2008 and in what  
15 areas do these common expenses occur?

16 A. For the twelve months ended March 31, 2008, total common expenses were  
17 approximately \$39.2 million. The overwhelming majority of these common  
18 expenses were in the areas of Customer Services and Administrative and  
19 General Expenses.

20

21 Q. What common cost allocation ratio was used by the Company during the  
22 historical periods addressed in your exhibits and what ratio has been applied  
23 in the development of forecasts in this proceeding?

## ACCOUNTING PANEL

1 A. During the historical periods addressed in Exhibits\_\_(AP-1) through (AP-5)  
2 the common cost allocation ratio that was applied was 85% to electric and  
3 15% to gas. This allocation ratio has been used by the Company for  
4 financial accounting purposes since July 1, 2001. The Company considers  
5 the 85% /15% ratio to remain appropriate for financial accounting purposes  
6 and, consequently, it has been assumed to continue during the forecasted  
7 periods in this proceeding.

8

9 Q. Please explain the basis for determining the common cost allocation ratio.

10 A. There are four primary factors used in arriving at the common cost allocation  
11 ratio. The first factor is the ratio of the direct plant investments in electric  
12 plant and gas plant. The second factor is the relative number of electric and  
13 gas customers. The third factor is the ratio of direct labor costs charged to  
14 electric and to gas operations. The fourth factor is management's judgment,  
15 which includes consideration of other factors such as the relative amount of  
16 time, responsibility and effort that are devoted to electric and gas operations.

17

18 Q. Turning now to pension and other post-employment benefits, please explain  
19 the manner in which accounting for postretirement benefits other than  
20 pensions have been reflected in this filing.

21 A. In December 1990, the Financial Accounting Standards Board issued its  
22 Statement of Financial Accounting Standards No. 106, Employer's  
23 Accounting for Retirement Benefits Other Than Pensions (SFAS No. 106),

## ACCOUNTING PANEL

1 subsequently amended by SFAS No. 158 effective in 2006. Such  
2 postretirement benefits have become commonly referred to as OPEBs.  
3 Since OPEB costs are related to the compensation of employees, the annual  
4 OPEB charge has been projected to be distributed to expense, construction  
5 and other accounts in relation to the distribution of payroll costs actually  
6 experienced during the historical period. Pursuant to Statement of Policy  
7 and Order Concerning the Accounting and Ratemaking Treatment for  
8 Pensions and Postretirement Benefits Other Than Pensions, issued  
9 September 7, 1993 by the Commission in Case 91-M-0890 ("Policy  
10 Statement"), the differences between the amounts of postretirement benefits  
11 included in Company rates and the amounts of postretirement benefits  
12 charge determined by the Company's outside actuary under SFAS No. 106  
13 are deferred as either a regulatory asset or liability, as appropriate. Such  
14 deferral accounting pursuant to the Policy Statement has been assumed to  
15 continue through and beyond the forecast periods in this proceeding.

16

17 Q. What is the amount of the annual charge for OPEB that has been used in the  
18 development of this filing?

19 A. Based on estimates of the annual charge for 2009 and 2010 by the  
20 Company's actuary, the estimated charge for the Rate Year ending June 30,  
21 2010 is \$6,350,000. This estimated expense includes the effects of the  
22 Prescription Drug and Medicare Improvement Act of 2003 (2003 Medicare  
23 Act). The allocation of this charge is based on the distribution of payroll for

## ACCOUNTING PANEL

1 the twelve months ended March 31, 2008, and is as follows:

2	Electric Expense	58.48%	\$3,713,000
3	Gas Expense	13.15%	835,000
4	Construction and Other	<u>28.37%</u>	<u>1,802,000</u>
5	Total	100.00%	\$6,350,000

6

7 Q. Please explain the manner in which accounting for pension costs has been  
8 reflected in this filing.

9 A. These costs have been treated in accordance with longstanding accounting  
10 and ratemaking practices. The Company has been accounting for pension  
11 costs in accordance with Statement of Financial Accounting Standards No.  
12 87 "Employers Accounting for Pensions" (SFAS No. 87) since January 1,  
13 1987, as amended by SFAS No. 158 effective in 2006 as well as in  
14 accordance with the Commission's Policy Statement as explained above with  
15 respect to OPEB costs. That treatment, including deferral of the difference  
16 between the rate allowance and actual pension charges has been assumed  
17 to continue through and beyond the forecast periods in this proceeding.

18

19 Q. What is the amount of forecast pension charges reflected in this rate filing?

20 A. Based on estimates of the annual charge for 2009 and 2010 by the  
21 Company's actuary the estimated charge for the Pension Plan and the  
22 Supplemental Executive Retirement Plan (SERP) for the Rate Year ending  
23 June 30, 2010 is \$14,314,000. The allocation of the Pension Plan estimate is

ACCOUNTING PANEL

1 based on the distribution of payroll for the twelve months ended March 31,  
2 2008. The SERP estimate is allocated to electric and gas expense using the  
3 common allocation basis described earlier in this testimony. The resulting  
4 allocation of the pension charges is as follows:

5	Electric Expense	60.544%	\$ 8,666,000
6	Gas Expense	13.294%	1,903,000
7	Construction and Other	<u>26.162%</u>	<u>3,745,000</u>
8	Total	100.000%	\$14,314,000

9  
10 Q. Please explain the impact of Financial Accounting Standard No.158.

11 A. In September 2006, the Financial Accounting Standards Board issued its  
12 Statement of Financial Accounting Standards No. 158, Employers  
13 Accounting for Defined Benefit Pension and Other Postretirement Plans  
14 (SFAS No. 158), which amended Statements No. 87 (pensions) and No. 106  
15 (OPEB). SFAS No. 158 resulted in a change to the recognized level of  
16 funded status for both the pension and OPEB plans which caused the benefit  
17 obligations to be recognized for accounting purposes to increase. Because  
18 of the accounting and ratemaking treatments under the Commission's Policy  
19 Statement related to pension and OPEB charges, including the use of  
20 deferral accounting, as we described earlier, the increase in the benefit  
21 obligation caused an increase in regulatory assets.

22  
23 Q. Would you like to make any further comments regarding the Company's

## ACCOUNTING PANEL

1 accounting for either pension or OPEB costs?

2 A. Yes. The Company accounts for the effects of the 2003 Medicare Act in  
3 accordance with the Commission's Order Adopting Accounting For 2003  
4 Medicare Act Effects, issued November 16, 2006 in Cases 04-M-1693 and  
5 91-M-0890. Consequently, the cost savings and income tax benefits arising  
6 out of the 2003 Medicare Act are being deferred.

7

8 Q. What proposals, if any, does the Company make concerning the use of  
9 deferral accounting as a result of this proceeding?

10 A. The Company is currently authorized or required by the Commission  
11 because of generic policies or determinations specific to the Company to  
12 employ deferral accounting with regard to various costs, expenses and  
13 revenues as need to implement a variety of Commission ratemaking and  
14 accounting objectives and policies. The Company requests that the  
15 Commission continue such authorizations and requirements except to the  
16 extent that any such authorizations or requirements will not or can not by  
17 their terms survive the expiration of the Company's current rate plan as  
18 established in Cases 05-E 0934 and 05-G-0935. The Company also requests  
19 the use of deferral accounting with respect to such costs, expenses and  
20 revenues without limitation of the amount allowed or required to be deferred  
21 and that the deferral accounting authorizations or requirements survive the  
22 end of the Rate Year.

23

## ACCOUNTING PANEL

1 In addition to the above deferral accounting authorizations and requirements  
2 the Company requests authorization in this proceeding to use deferral  
3 accounting related to the items or circumstances listed below. In each case,  
4 the Company's request is for the use of deferral accounting without limitation  
5 on the amount allowed to be deferred and that the deferral accounting  
6 authorization survive the end of the Rate Year.

- 7 1. All Energy Efficiency program costs under the PSC Order Establishing  
8 Energy Efficiency Portfolio Standards and Approving Programs issued  
9 June 23, 2008 in Case 07-M-0548, as addressed in the testimony of  
10 the Energy Efficiency Panel and the testimony of Mr. Brocks;
- 11 2. Revenue Decoupling Mechanism revenue deferrals as addressed in  
12 the testimonies of the Electric Forecasting Panel and the Gas  
13 Forecasting Panel;
- 14 3. Property tax litigation costs as addressed in the testimony of the  
15 Revenue Requirement Panel;
- 16 4. Economic Development costs as addressed in the testimony of Mr.  
17 Glusko;
- 18 5. All costs related to the Advanced Metering Initiative (AMI) Pilot as  
19 outlined in the PSC Order Rejecting Filing and Requiring New Filing  
20 issued December 19, 2007 in Cases 05-E-0934, 05-G-0935, 94-E-  
21 0952, 00-E-0165 and 02-M-0514, as addressed in the testimony of Mr.  
22 Mosher;

## ACCOUNTING PANEL

1           6.     New York State income tax in the manner described in the testimony  
2                   of Mr. Thomas; and

3           7.     Lost delivery revenues associated with all net-metered systems not  
4                   reflected in the Company's sales forecast as addressed by Mr.  
5                   Mosher.

6

7    Q.     Turning now to utility plant and depreciation, would you please explain the  
8                   development of the rate base amounts for book cost of utility plant,  
9                   accumulated provision for depreciation and amortization, and net plant for  
10                  the historical and projected periods?

11   A.     The historical book cost, accumulated provision for depreciation and  
12                  amortization and net plant amounts were developed from the Company's  
13                  monthly balance sheets using the average of the monthly averages method.  
14                  The rate base amounts for the historical and projected periods are included  
15                  in the Rate Base Summary Exhibits sponsored by the Revenue  
16                  Requirements Panel in this proceeding.

17                  For projected periods the same method was used as was used in prior  
18                  cases. Projected cash construction expenditures by month for electric, gas  
19                  and common plant were provided by Mr. Haering, and are summarized on an  
20                  annual basis on Exhibit\_\_\_ (PEH-1). Mr. Haering also supplied the  
21                  anticipated in-service date for each major construction project having an  
22                  estimated cost of \$1,000,000 or more.

23                  This information was used to determine plant additions and allowance for

## ACCOUNTING PANEL

1 funds used during construction (AFUDC) amounts related to these projects.  
2 For minor projects estimated to cost less than \$1,000,000 average historical  
3 relationships for the calendar years 2005 through 2007 of plant additions,  
4 book cost of retirements, removal costs, and salvage were used to make  
5 projections of those items.

6

7 Q. What is shown in Exhibit \_\_\_\_ (AP-6) which bears the caption "Rate Base  
8 Noninterest-Bearing Construction Work in Progress"?

9 A. The amounts of the noninterest-bearing portion of construction work in  
10 progress (CWIP) included in rate base for the historical and forecast period  
11 are developed in Exhibit \_\_\_\_ (AP-6). For the historical period on Schedule A,  
12 the total AFUDC charged to CWIP for major projects with an estimated cost  
13 of \$1,000,000 or more, was deducted from the total AFUDC charged to  
14 CWIP on a monthly basis. The resulting amount represents the AFUDC  
15 charged to all other, or minor projects, those with an estimated cost of less  
16 than \$1,000,000. The AFUDC related to minor projects was then divided by  
17 the average AFUDC rate used for the twelve-month period to arrive at the  
18 twelve-month average interest-bearing CWIP for minor projects. The twelve-  
19 month average interest-bearing CWIP for both minor and major projects was  
20 then deducted from the corporate twelve-month average CWIP to determine  
21 the average non-interest-bearing CWIP for the period. This same method  
22 was used to determine non-interest-bearing CWIP for the projected period  
23 shown on Schedules B and C of Exhibit \_\_\_\_ (AP-6).

## ACCOUNTING PANEL

1 Q. Referring to Exhibit \_\_\_\_(AP-7) which bears the caption "Statement of  
2 Depreciation and Amortization Accruals", please explain what is shown on  
3 Schedules A, B and C of that Exhibit.

4 A. These Schedules show the Company's depreciation and amortization  
5 accruals for the historic and projected periods, as allocated to electric and  
6 gas expense. Schedule A reflects the depreciation and amortization accruals  
7 for the historic period; Schedules B and C are related to projected periods.

8  
9 Q. What is the basis for allocating depreciation of common plant to electric and  
10 gas expense?

11 A. The allocation basis reflected in Exhibit \_\_\_\_(AP-7) is 85% to electric expense  
12 and 15% to gas expense during the historical period and all projected  
13 periods. That allocation is the same as applied to other common expenses  
14 and common utility plant.

15  
16 Q. Briefly describe the Company's method of accruing depreciation?

17 A. The Company's annual provisions for depreciation are generally computed  
18 and accrued on a straight-line basis using the half-year convention and rates  
19 based on estimated average service lives and estimated net salvage. A  
20 depreciation rate is established for each depreciable plant account.

21  
22 Q. Has the Company reviewed the adequacy of the depreciation factors  
23 currently being used?

## ACCOUNTING PANEL

1 A. Yes. The Company had a depreciation study performed by an outside  
2 consultant, including an analysis of average service life, net salvage factors  
3 and retirement dispersion patterns using historical data through December  
4 31, 2007.

5

6 Q. Please describe the depreciation study you mentioned.

7 A. In the Commission's Order dated July 24, 2006, the Company was required  
8 to conduct a depreciation study and submit it as part of its next rate filing.

9 Certain elements of the study were specified in the Order, and Central

10 Hudson reserved the right to submit additional analyses, and any

11 recommendations, of its choice. The study that was prepared contains the

12 elements that were required. In addition, the consultant's report associated

13 with the study indicates that in addition to the mathematical or statistical

14 aspects of reviewing average service lives and net salvage factors, the

15 consultant also considered other factors including Company plans and

16 operating policies and the consultant's general knowledge of service lives

17 and net salvage factors experienced and estimated by the electric and gas

18 industries.

19

20 Q. Has the Commission approved the consideration of such other factors in  
21 depreciation studies?

22 A. Yes. In its Order Establishing Rates for Electric Service, issued March 25,  
23 2008 in Case 07-E-0523, a Consolidated Edison rate case, the Commission

## ACCOUNTING PANEL

1 noted (at page 74) that:

2 "an approach that considers other factors, such as changes in  
3 operating procedures, changes in accounting procedures, labor costs,  
4 equipment replacement programs, requirements of governmental  
5 authorities, obsolescence and technological changes, results in a  
6 more thorough and balanced outcome."  
7

8 Q. Have you attached the study as an exhibit to your prepared direct testimony?

9 A. No, due to the voluminous nature of the study, but the study will be  
10 separately filed with the Commission.  
11

12 Q. Based on this study, does the Company propose any changes to the  
13 depreciation factors and rates currently in use?

14 A. Yes. Based on the results of the depreciation study, modest changes are  
15 proposed to some average service lives and net salvage factors (and  
16 resulting depreciation rates) as well as changes to some retirement  
17 dispersion patterns. Exhibit \_\_\_\_ (AP-8) has been prepared to show the  
18 details of the changes resulting from the study combined with a Company  
19 proposal to apply the changed depreciation factors with respect to plant  
20 accounts subject to the vintage depreciation method to only those plant  
21 additions that occur starting at the beginning of the rate year. Exhibit AP-8  
22 shows the current and proposed depreciation factors and, for illustrative  
23 purposes, an annual depreciation accrual based on December 31, 2007 plant

## ACCOUNTING PANEL

1 balances and the theoretical depreciation reserve based on the current and  
2 proposed factors. The information is shown for each depreciable plant  
3 account in the Electric Department (Schedule B), the Gas Department  
4 (Schedule C) and the Common category (Schedule D). These proposed  
5 revised depreciation rates were used to develop the projected depreciation  
6 accruals shown on Schedules B and C of Exhibit \_\_\_(AP-7) beginning with  
7 July 1, 2009.

8

9 Q. What effect will the proposed changes in depreciation rates shown on Exhibit  
10 \_\_\_(AP-8) have on annual depreciation accruals?

11 A. Based on December 31, 2007 plant balances, for illustrative purposes, the  
12 overall Company depreciation accruals will increase by approximately  
13 \$1,254,000 from a current-rate annual accrual base of approximately  
14 \$31,366,000 as shown in Exhibit \_\_\_(AP-8). The increase is a net amount of  
15 an increase of \$1,196,000 for electric plant, an increase of \$316,000 for gas  
16 plant and a decrease of \$258,000 for common plant as shown in Exhibit  
17 \_\_\_(AP-8).

18

19 Q. How does the accumulated reserve for depreciation per the Company books  
20 at December 31, 2007 compare to the theoretical depreciation reserve at that  
21 date based on the proposed depreciation factors?

22 A. As shown in Exhibit \_\_\_(AP-8) entitled " Proposed Depreciation Factors and  
23 Rate Changes ", the book reserve for the Electric Department would be

## ACCOUNTING PANEL

1           deficient in comparison to the theoretical reserve by approximately  
2           \$8,839,000, or 3.7 %. For the Gas Department the book reserve would  
3           exceed the theoretical reserve by approximately \$3,087,000, or 3.5%. For  
4           the Common category the book reserve would be deficient in comparison to  
5           the theoretical reserve by approximately \$2,119,000, or 4.7%.

6

7    Q.    Is the Company making any proposals in this filing regarding the differences  
8           between book and theoretical reserves that you have described?

9    A.    Yes. As more fully discussed in the testimony of Mr. Mosher, the Company  
10           proposes that the electric reserve deficiency, including an allocation of 85%  
11           of the common reserve deficiency, be recovered from the net credit balance  
12           of the Electric Balance Sheet Offsets as shown in Exhibit\_\_\_\_(RRP-7),  
13           Schedule A and the gas excess reserve, net of an allocation of 15% of the  
14           common reserve deficiency, be used to reduce the net debit balance of Gas  
15           Balance Sheet Offsets as shown in Exhibit\_\_\_\_(RRP-7), Schedule B .

16

17   Q.    The Commission Order of July 24, 2006 also referred to negative salvage  
18           and stated that during the three rate years, the Company will charge all costs  
19           associated with the removal of gas mains and services in excess of the rate  
20           allowance to the appropriate depreciation reserve account. Does the  
21           Company propose that this treatment be continued?

22   A.    No. The Revenue Requirements Panel reflects this treatment only as a  
23           placeholder.

## ACCOUNTING PANEL

1

2 Q. How should the costs associated with the removal of gas mains and services  
3 be treated?

4 A. The Uniform System of Accounts requires electric and gas utilities to charge  
5 the costs of removal of capital property to the depreciation reserve account.  
6 Depreciation rates assume this to be the case, and include a component for  
7 the cost of removal. Accordingly, the Company charges all cost of removal  
8 for all electric, gas and common property against the depreciation reserve.  
9 The treatment of removal costs related to gas mains and services agreed to  
10 in Cases 05-E-0934 and 05-G-0935 are a deviation from standard prescribed  
11 accounting results that, if continued, will tend to distort the outcome of future  
12 depreciation studies and ultimately, future depreciation rates. The  
13 Accounting Panel recommends this deviation from normal practice in  
14 accounting be discontinued at this time and normal accounting following  
15 industry standards be resumed. As such, the accounting for cost of removal  
16 for gas mains and services would align with the standard prescribed  
17 accounting that is applied to all other capital property of the Company.  
18 Should this proposed accounting be granted, the Rate Year amount of  
19 \$251,000 would not be included in the revenue requirement.

20

21 Q. Does this conclude the Panel's pre-filed direct testimony?

22 A. Yes, it does.