

DIRECT TESTIMONY
OF
THOMAS C. BROCKS

1 Q. Please state your name and business address.

2 A. My name is Thomas C. Brocks and my business address is 284 South
3 Avenue, Poughkeepsie, NY 12601.

4

5 Q. Please summarize your education and work experience.

6 A. In 1976 I received a Bachelor of Science Degree in Industrial Relations
7 from LeMoyne College. In 1980 I received a Master of Science Degree in
8 Labor Relations from Pace University. I have worked for Central Hudson
9 Gas & Electric Corporation ("Central Hudson" or the "Company") since
10 July 1980 with the majority of my career being spent in Human Resources.
11 I am currently the Vice President of Human Resources and Chief Ethics
12 and Compliance Officer. During my career I have held positions with
13 responsibility for labor relations, employee relations, employee benefits,
14 compensation, training and development, employment, payroll and safety.

15

16 Q. What is the nature of your responsibilities as Vice President of Human
17 Resources and Chief Ethics and Compliance Officer?

18 A. I am responsible for the staffing of the organization and for the
19 development and administration of all compensation strategies, policies
20 and procedures for all of Central Hudson. In addition, I am responsible for
21 the Company's Ethics and Compliance programs and policies.

22

THOMAS C. BROCKS

1 Q. Have you previously testified before the Public Service Commission
2 (“Commission”)?

3 A. Yes, I testified in Cases 05-E-05934 and 05-G-0935 regarding staffing,
4 compensation and benefits.

5
6 Q. What is the purpose of your testimony in this proceeding?

7 A. The purpose of my testimony is to address the staffing, employee
8 compensation, and benefits (health care, pensions and other post
9 employment benefits (“OPEBs”)). I have developed a forecast of the rate
10 year staffing level that I have described in this testimony and provided that
11 estimate to the Revenue Requirements Panel. I describe the Company’s
12 approach to compensation for management employees and why Central
13 Hudson believes that its approach is appropriate. I also describe
14 generally the kinds of health and retirement benefits offered by the
15 Company and recent activities to manage these costs.

16
17 Q. Please describe the Company's staffing levels in the historic year ended
18 March 31, 2008.

19 A. As of March 30, 2008, there were 830 employees, including officers, full-
20 time management employees and full and part-time union employees.

21

THOMAS C. BROCKS

1 Q. Do you believe that it will be necessary or desirable for the Company to
2 add employees during the forecast rate year period, the twelve months
3 ending June 30, 2010?

4 A. Yes. Increases in work tasks and changes in scopes of responsibilities
5 warrant adding 26 employees. I have described these positions in
6 Exhibit____(TCB-1). In addition, I note that five employees in addition to
7 those I have addressed in Exhibit____(TCB-1), are assumed to be added in
8 the testimony of the Energy Efficiency Panel to respond the Commission's
9 recent EEPS Order concerning energy efficiency. The Energy Efficiency
10 Panel has assumed that those employees will be funded through the
11 EEPS Program/System Benefits Charge and, therefore, I have not
12 included them in my Exhibit____(TCB-1). If the Energy Efficiency Panel's
13 assumption of SBC funding for these new employees is not accepted by
14 the Commission and the Company's Energy Efficiency Program as
15 supported by the Energy Efficiency Panel is approved by the Commission,
16 the new employees would need to be funded through rate revenues and
17 my Exhibit____(TCB-1) should be modified to include those additional five
18 employees.

19
20 Q. Have you assumed that there will be increases or losses of employees
21 between the March 30, 2008 end of the historic period and the July 1,
22 2009 start of the rate year?

THOMAS C. BROCKS

1 A. I have assumed that there will be a net loss of an additional ten
2 employees from the historic period-end total of 830 stated above. On that
3 basis the employee level will become 846 by the beginning of the Rate
4 Year with the net increase of 16 employees being the result of the
5 assumed intervening attrition combined with filling the specifically
6 identified positions shown in Exhibit____(TCB-1).

7
8 Q. Do you expect that all of the positions shown in your Exhibit____(TCB-1)
9 will necessarily be filled by the start of the rate year?

10 A. No. In the Con Edison electric rate case that the Commission decided in
11 March of 2008, there was litigation over the appropriateness of the
12 inclusion in rates of certain new positions identified by Con Edison
13 management. I have explained why the Company considers filling the
14 positions to be warranted. However, the Con Edison case indicates that
15 management's assessment is subject to the Commission's evaluation in
16 this case. As a result, the final decision as to whether to hire all or some
17 of the individuals to fill the 26 positions identified in Exhibit____(TCB-1)
18 cannot be made until the result of the Commission's review is known.

19
20 Q. Have you provided your forecast of the number of employees to the
21 Revenue Requirements Panel?

22 A. Yes. Additionally I recommend that the employee level be updated at a
23 later stage in these proceedings.

THOMAS C. BROCKS

1 Q. Turning now to compensation, please describe Central Hudson's
2 compensation strategy and philosophy.

3 A. Central Hudson believes that there are several components to
4 compensation and each component makes up a portion of the total
5 compensation package. The compensation package has to have the right
6 balance of cash compensation, including variable compensation, and
7 benefits to attract and retain qualified employees. Such compensation
8 package has to be competitive in the market place in order to attract and
9 retain the talent needed to complete the work of the Company.

10

11 Q. Why is it important to Central Hudson to maintain a compensation
12 program that is competitive in the employment market?

13 A. If Central Hudson does not maintain a compensation program that is
14 competitive in the employment market, it will not be able to retain the high
15 quality employees it currently employs and it will not be able to attract high
16 quality candidates for existing or new requirements. As a result, Central
17 Hudson's operating performance, customer service quality and customer
18 satisfaction would be at needless risk of deterioration.

19

20 Q. Please describe Central Hudson's cash compensation program for non-
21 unionized employees and how it manages the costs of the program.

22 A. For non-unionized employees the cash compensation component of the
23 total compensation program consists of two components, base pay and

THOMAS C. BROCKS

1 variable pay. The use of the two components is a requirement of the
2 market place. It is critical to the Company's recruiting and retention
3 success to abide by this market practice in order to remain competitive.

4
5 Central Hudson has adopted a strategy to compensate employees with
6 base salaries at the 50th percentile of overall compensation for
7 comparable jobs in the Northeast United States. We employ the services
8 of a nationally known compensation consultant to establish those salaries.
9 We believe paying base salaries at the median level provides the
10 Company the ability to attract new qualified employees and retain its
11 existing employees.

12
13 Rather than paying employees all of their cash compensation as a base
14 salary the Company reserves a portion of their cash compensation and
15 pays it annually based on the achievement of specific, defined,
16 measurable and customer-centric goals and objectives. Depending on the
17 position, and its place in Central Hudson's organizational structure, the
18 goals and objectives can be 100% individual goals and objectives or 50%
19 individual goals and objectives and 50% corporate goals and objectives.
20 In either case the goals and objectives are designed to improve Central
21 Hudson's performance as it relates to its customers.

22

THOMAS C. BROCKS

1 Q. Why does Central Hudson use variable pay in its overall compensation
2 program?

3 A. Central Hudson believes variable pay tied directly to customer service and
4 the satisfaction of customer-related work and issues gives every covered
5 employee a commitment to customer satisfaction. Central Hudson does
6 not believe an employee should receive the full market-based pay as a
7 base salary, but that each employee should have a portion of their salary
8 at risk each year dependent upon the satisfaction of key goals and
9 objectives related directly to the benefit of Central Hudson's customers.

10 The alternative of using fixed pay alone does not create the direct linkage
11 to customer values that Central Hudson is seeking to establish.

12

13 Q. Is the compensation program for Central Hudson's executives similar to
14 the program described above for the non-unionized employees?

15 A. Yes, it is. Central Hudson uses a nationally recognized compensation
16 consultant to establish the median level of salaries for Central Hudson's
17 executives. Through the use of this consultant, Central Hudson
18 benchmarks its executive positions to the 50th percentile of overall
19 compensation for comparable jobs in similarly sized companies. Variable
20 pay is part of executive compensation for the same reasons that it is part
21 of non-unionized employee compensation. The executive goals and
22 objectives are also linked to customer values.

23

THOMAS C. BROCKS

1 Q. Has the expense portion of the forecast rate year variable pay costs been
2 included in the rate year labor expense?

3 A. Yes. I have been informed by Mr. Brideau of the Revenue Requirements
4 Panel that the ratio of base to variable pay experienced in the historic
5 period was used to determine the forecast year variable pay.

6

7 Q. Do union employees have variable compensation?

8 A. No.

9

10 Q. Was a collective bargaining agreement in place between the Company
11 and its union workers during the historic period?

12 A. Yes.

13

14 Q. Will a collective bargaining agreement be in place during the forecast rate
15 year?

16 A. Yes. A new collective bargaining agreement was arrived at effective May
17 1, 2008. The new agreement has a term of three years.

18

19 Q. What are the negotiated wage increases for union employees from the
20 March 31, 2008 end of the historical year through the Rate Year?

21 A. The current labor agreement provided for a 3.5% wage increase on May
22 1, 2008. That will be followed by increases of 3.5% on May 1, 2009, 0.5%

THOMAS C. BROCKS

1 on November 1, 2009, 3.5% on May 1, 2010, and 0.5% on November 1,
2 2010.

3

4 Q. What are the projected payroll increases for non-union employees?

5 A. The rate year payroll expenses reflect an overall compensation increase
6 of 3.5% from the March 31, 2008 level.

7

8 Q. Turning now to the subject of retirement benefits, please describe, in
9 general terms, any defined benefit pension plan available to current
10 employees and current retirees.

11 A. Central Hudson maintains a career average defined benefit pension plan
12 for, at this time, most of its current and retired employees but has made
13 recent changes to the plan with respect to the eligibility for retirement
14 benefits of newer employees.

15

16 Q. What eligibility changes have been made to that pension plan?

17 A. That pension plan has been frozen to new entrants beginning in 2008.
18 Non-unionized employees, including executives, hired on or after January
19 1, 2008 are not eligible to participate in the pension plan. Unionized
20 employees hired on or after May 1, 2008 are not eligible to participate in
21 the pension plan.

22

THOMAS C. BROCKS

1 Q. Did Central Hudson offer a substitute or an alternative plan to take the
2 place of the defined benefit pension plan for those employees who would
3 not be eligible to participate in the plan?

4 A. No. The defined benefit pension plan has been eliminated for new
5 employees as of the dates I stated and there is no replacement plan.
6

7 Q. What, if any, retirement plan does the Company offer to new employees
8 who are not eligible to participate in the defined benefit pension plan under
9 the terms you described?

10 A. Those employees may participate in the Company's 401-K plan that has
11 been in place for over 20 years and receive a Company provided fifty
12 percent match to the employee's contributions to the plan up to employee
13 contributions not more than 8% of the employee's base salary subject to
14 any contribution limits under applicable law.
15

16 Q. How did the eligibility freezes you mentioned earlier with respect to the
17 Company's defined benefit pension plan come about?

18 A. The eligibility freeze I mentioned for non-union employees resulted from a
19 management decision to reduce pension related costs by reducing the
20 number of participants in the plan over time by foreclosing new entry. The
21 eligibility freeze I mentioned with respect to union employees would have
22 the same general effect but that change was a result of overall collective
23 bargaining negotiations with the union in the Spring of 2008.

THOMAS C. BROCKS

1 Q. Do you have an estimate of by how much, if any, that the Company's
 2 pension costs are expected to change because of the pension plan
 3 eligibility restrictions you mentioned?

4 A. Yes. The Company has received an estimate of pension charges (FAS 87
 5 expense) for the next several years prepared by its outside actuary that
 6 shows the following reductions in the Company's total annual pension
 7 charge:

8 (\$millions)

Year	Pension Charge Without Plan Changes	Pension Charge With Plan Changes	Reduction Due to Pension Plan Changes
2008	\$17.8	\$18.4	(\$0.6)
2009	\$11.6	\$11.6	\$0.0
2010	\$15.2	\$14.8	\$0.4
2011	\$10.8	\$9.9	\$0.9
2012	\$2.9	\$1.4	\$1.5
2013	(\$2.8)	(\$4.9)	\$2.1

9

10

11 Q. Please describe what, if anything, Central Hudson has done to control its
 12 OPEB costs.

13 A. There have been several steps taken to control OPEB costs. First, retiree
 14 life insurance and retiree medical (health) coverage plans are part of
 15 OBEBs. Those retirement benefits are no longer available to new
 16 employees. Those OPEBs are not provided to non-union employees hired

THOMAS C. BROCKS

1 on or after January 1, 2008, nor to union-member employees hired on or
2 after May 1, 2008.

3

4 Q. Are any substitute or alternative plans for post employment health care or
5 life insurance benefits made available by the Company to employees who
6 are not eligible for benefits under existing plans because of the eligibility
7 changes you mentioned?

8 A. No. The plans and related benefits were eliminated for new employees as
9 I stated and there are no replacement plans or arrangements in effect.
10 Existing employees as of those dates were grandfathered.

11

12 Q. Besides the elimination of the post employment health care and life
13 insurance benefits for new employees as you have addressed, please
14 describe the other actions Central Hudson has taken to control or reduce
15 its OPEB costs.

16 A. First, for those employees who continue to be eligible for such plans,
17 Central Hudson has established a maximum amount or "cap" the
18 Company will contribute for each participant eligible for Medicare in the
19 retirement health insurance plan. The cap applies to existing and future
20 retirees. A \$7,000 cap has been set as the maximum amount Central
21 Hudson will contribute towards a Medicare-eligible participant's health
22 care charges in Central Hudson's retiree health care plan. Once the cap
23 is reached the participants must pay 100% of all costs in excess of the cap

THOMAS C. BROCKS

1 in addition to their normal contribution towards such retirement health
2 benefits. Previously, the Company's retirement benefits did not contain
3 such a cap.

4 Also, Central Hudson has established a cost sharing mechanism whereby
5 all non-union employees who retire on or after January 1, 2008 and union
6 employees who retire on or after May 1, 2008 will pay 25% of the cost of a
7 new Preferred Provider Organization ("PPO") health care plan. In
8 addition, all existing retirees (including some who were not making any
9 contributions towards their retiree health care plan) are now required to
10 contribute 25% of all future cost increases using the 2006 plan cost as the
11 base for all future cost comparisons.

12
13 In addition, effective January 1, 2008 Central Hudson made significant
14 plan design changes to the health care plan for its existing and future
15 retirees and their dependents. Central Hudson established a PPO health
16 plan as the replacement for all other existing retiree health plans (for
17 existing retirees). This new PPO has a significant cost sharing plan
18 design that contains substantial annual deductibles and co-pays. This
19 managed care plan also contains disease management components that
20 are designed to provide medical oversight and add an extra component of
21 health management that will help in managing the high costs associated
22 with high-risk disease.

23

THOMAS C. BROCKS

1 With regard to prescription drug benefit costs, on January 1, 2008 Central
2 Hudson increased the cost sharing contribution for non-union employees
3 and existing retirees for mail order maintenance drugs by increasing the
4 co-pay by 50%, increasing the minimum amount per prescription by 50%,
5 and increasing the maximum amount per prescription by 25%.

6
7 Finally, effective January 1, 2008, for non-union employees hired prior to
8 January 1, 1984, the retiree life insurance and the life insurance amount at
9 retirement will be immediately reduced to the service-related amount.

10 Prior to this modification the reduction was a graduated reduction taking
11 place over four years and one month.

12

13 Q. Do you have an estimate of by how much, if any, that the Company's
14 OPEB costs are expected to change because of the eligibility restrictions
15 you mentioned along with the other benefit changes you spoke about?

16 A. Yes. The Company has received an estimate of OPEB charges (FAS 106
17 expense) for the next several years prepared by its outside actuary that
18 shows the following reductions in the Company's total annual OPEB
19 charge:

20

(\$millions)

Year	OPEB Charges Without Plan Changes	OPEB Charges With Plan Changes	Reductions Due to OPEB Plan Changes
2008	\$16.4	\$5.4	\$11.0
2009	\$17.0	\$5.3	\$11.7

THOMAS C. BROCKS

2010	\$20.0	\$7.4	\$12.6
2011	\$20.2	\$6.7	\$13.5
2012	\$18.8	\$4.4	\$14.4
2013	\$13.5	(\$2.0)	\$15.5

1

2

3 Q. Please describe the health care benefits Central Hudson offers to its non-
4 union and union employees and what the measures the Company has
5 taken to control these costs.

6 A. Central Hudson offers a comprehensive health care plan to its non-union
7 employees. Central Hudson is self-insured and uses a third party
8 administrator to process claims and administer the plans. Being self-
9 insured allows Central Hudson the opportunity to control costs to the
10 greatest extent possible. Central Hudson only offers managed care health
11 care programs to this group of employees. Managed care programs allow
12 Central Hudson to take advantage of negotiated deep discounts offered
13 through a network of providers. The plan design for out of network
14 coverage serves as an incentive to steer participants to the less expensive
15 network providers.

16

17 Effective January 1, 2008 Central Hudson made significant changes to the
18 health care plans offered to non-union employees including executives.

19 Central Hudson implemented a 25% cost sharing contribution for
20 employees for the health care plan and had previously modified its

THOMAS C. BROCKS

1 prescription drug program adopting a co-insurance design of 75%-25%
2 whereby participants pay 25% of each prescription. Obviously, this 25%
3 cost sharing mechanism results in increased contributions from
4 employees anytime the cost of the plan or prescriptions increases.

5
6 In addition to the modifications of the employee contribution schedule,
7 Central Hudson made significant plan design changes. As I mentioned
8 earlier, Central Hudson adopted a PPO health plan as the base plan that
9 has a significant cost sharing plan design containing substantial annual
10 deductibles and co-pays. Also, as I mentioned earlier, these managed
11 care health plans also contain disease management components that are
12 designed to provide medical oversight and add an extra component of
13 health management that will help in managing the high costs associated
14 with high-risk disease.

15
16 As to union employees and as a result of the recently completed collective
17 bargaining agreement, with a few minor exceptions, as of May 1, 2008 the
18 same plan I described for non-unionized employees was put in place for
19 unionized employees. The PPO plan design became the basic plan for all
20 unionized employees, but they may choose another plan however, if that
21 other plan is more expensive, they pay the full cost differential between
22 the PPO and the more expensive plan. Along with those plan changes
23 unionized employees will now pay increasingly higher health care

THOMAS C. BROCKS

1 contributions until they reach a final amount of 25% of the cost of the
2 health care plan they choose up to the cost of the PPO plan.

3

4 Q. Has the Company quantified the productivity savings resulting from the
5 changes in compensation and benefit plans described in your testimony?

6 A. Yes. As discussed in the testimony of Mr. Mosher, the total costs for
7 employee labor and benefits will decrease by over \$6 million in the July
8 2009-June 2010 rate year in this case compared to the amounts allowed
9 in rates in rate year three of the existing rate plan. Since the forecast rate
10 year includes the additional employees identified in my Exhibit____(TCB-1)
11 to address increased work requirements, these cost reductions are
12 indicative of the significant benefits resulting from Central Hudson's
13 compensation strategy and philosophy, and specific actions taken to
14 control the costs of fringe benefits (health care and retirement benefits).

15

16 Q. Does this conclude your direct testimony?

17 A. Yes.