

DIRECT TESTIMONY  
OF  
GAS FORECASTING PANEL

1 Q. Please state your names and business address(es).

2 A. Glynis L. Bunt and Amy S. Patel, Central Hudson Gas & Electric Corporation  
3 (“Central Hudson” or the “Company”), 284 South Avenue, Poughkeepsie,  
4 New York 12601.

5

6 Q. In what capacity are you employed by Central Hudson?

7 A. (Bunt) I am Director of Cost, Rates and Forecasts.

8 (Patel) I am an Assistant Cost and Rate Analyst.

9

10 Q. Please summarize your education and business experience.

11 A. (Bunt) I received an Associate in Science Degree in Business Administration  
12 from Dutchess Community College in 1984. In 1986, I graduated from the  
13 State University of New York at New Paltz with a Bachelor of Science  
14 Degree in Business Administration. I received a Master of Business  
15 Administration Degree with a concentration in Finance from Marist College in  
16 January 1994. Following about one year of employment as an internal  
17 auditor for a retail chain I was employed by Central Hudson in June 1987 as  
18 an Accounting Trainee in the Internal Audit Division. I was promoted to  
19 Assistant Auditor in 1989 and subsequently transferred to the position of  
20 Assistant Financial Analyst in the Financial Planning Division later that year.

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1 I was promoted to Associate Financial Analyst in 1991, to Regulatory and  
2 Financial Analyst in 1993 and to Senior Regulatory and Financial Analyst in  
3 1996. I was transferred to the position of Rates and Forecasts Analyst in the  
4 Cost and Rate Division in 1997 and promoted to my current position in  
5 September 2002.

6 (Patel) I received a Bachelor of Science Degree in Financial Economics with  
7 a Business Management adjunct from Binghamton University in 2004.

8 Following a year of employment as a bookkeeper at a construction company,  
9 I was employed by Central Hudson in February 2006 as an Accounting Clerk  
10 in the Plant Accounting Division. I was promoted to the position of Assistant  
11 Financial Analyst in May 2006 and subsequently transferred to the position of  
12 Assistant Cost and Rate Analyst in January 2008.

13

14 Q. What is the purpose of the Gas Forecasting Panel's testimony in this  
15 proceeding?

16 A. The Panel presents the following with respect to gas service: 1) historical  
17 sales and revenues; 2) the development of the forecast of gas customers,  
18 sales and base delivery revenues for all service classes for the period April 1,  
19 2008 through June 30, 2010; 3) development of the projection of interruptible  
20 sales and revenues, and overview of the mechanism for sharing interruptible  
21 profits; 4) the interclass revenue allocation of the Company's proposed  
22 delivery rate change; 5) the proposed changes in the Company's gas rates

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1 and the revenue effect of those changes; 6) the Company's method for  
2 collecting natural gas supply costs from customers 7) the gas factor of  
3 adjustment; and 8) a revenue decoupling mechanism ("RDM"). There are a  
4 number of close similarities in forecasting methods between the electric  
5 forecasting described in the Bunt-Powers Electric Forecasting Panel  
6 testimony and the gas forecasts described in this Bunt-Patel testimony. In  
7 addition, the RDMs described here are structurally the same as described in  
8 the Electric Forecasting Panel.

9  
10 Q. Now, turning to the subject of gas service, please begin by describing the  
11 exhibits which summarize sales, revenue and customer data for recent  
12 historical periods and the forecast period.

13 A. Exhibit \_\_\_(GFP-1) sets forth, for the calendar years 2005, 2006 and 2007,  
14 and the twelve months ending March 31, 2008 the gas operating revenues of  
15 the Company by prime revenue account, as required by the Commission's  
16 rules. Also, this exhibit shows for each revenue account the Mcf of gas  
17 delivered (designated as sales), base delivery revenue and the average base  
18 delivery revenue per Mcf sold.

19 Exhibit\_\_\_ (GFP-2) consists of six schedules. Schedule A presents a  
20 summary by customer class of sales, base delivery revenues and customers  
21 for the twelve-month periods ended March 31, 2008, December 31, 2008,  
22 December 31, 2009, and June 30, 2010. Schedule B sets forth monthly

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1 sales, base delivery revenue and customer data by revenue account for the  
2 twelve-months ended March 31, 2008. Schedules C through F contain  
3 similar monthly information by service classification for the twelve-month  
4 periods ended March 31, 2008, December 31, 2008, December 31, 2009,  
5 and June 30, 2010, respectively.

6

7 Q. Were sales to full service customers, or those customers continuing to  
8 purchase their natural gas requirements from Central Hudson, addressed  
9 differently in the forecast than sales to transport customers?

10 A. No. In a prior Central Hudson general rate proceeding, Case 00-G-1274, the  
11 Commission approved the unbundling of commodity supply from delivery,  
12 resulting in the same base delivery rates for both sales service and  
13 transportation service for firm residential (Service Classification ("S.C.") Nos.  
14 1 and 12) and firm commercial and industrial customers (S.C. Nos. 2, 6 and  
15 13). Therefore, the sales forecast reflects total sales service and transport  
16 service (designated as sales).

17

18 Q. Please provide an overview of the process by which the forecast of firm gas  
19 sales was developed.

20 A. Customer forecasts were developed for each customer class. Sales volume  
21 forecasts were developed on a sales per customer basis, with total sales  
22 specified as a function of sales per customer and customer count.

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1 Q. What forecasting methodologies were used to project customer and sales  
2 levels?

3 A. Forecasts of customers and sales were developed utilizing various  
4 econometric or time series models, or trend projections. The  
5 models/forecasts were estimated using actual monthly billed customer and  
6 sales data covering the period January 1997 to March 2008. Estimation  
7 periods vary somewhat for the different classes to recognize structural  
8 changes to the billing process and data quality issues that can sometimes  
9 limit data availability. For example, revisions to billing cycles, in terms of  
10 customer composition, and recording of customers' end-use category  
11 (residential, commercial, industrial, etc.) can cause dramatic shifts in data. A  
12 summary of the methods utilized for each forecast is provided below, with  
13 detail regarding model specifications and statistics presented on Exhibit \_\_  
14 (GFP-3). Forecast results for each class, and in total, are shown on  
15 Exhibit\_\_(GFP-4).

List of Customer and Sales Forecast

<u>Class</u>	<u>Forecast Method</u>	
<u>Class</u>	<u>Customers</u>	<u>Sales</u>
20 Res. Heat	econometric	econometric (per customer)
21 Res. Non-Heat	time series	econometric (per customer)
22 Com. Heat	econometric	econometric (per customer)
23 Com. Non-Heat	time series	econometric (per customer)
24 OPA	historic w/ additions	econometric (per customer)
25 Industrial	linear regression	econometric (per customer)

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1 Interdepart. historic historic constant  
2 constant  
3

4 Q. Please explain the forecasting methods utilized to develop the customer  
5 forecasts.

6 A. Econometric models were constructed to forecast customer levels for the  
7 residential and commercial heating classes. Two types of variables were  
8 employed in the specification of these models: economic and binary (or  
9 dummy). The model specification for the residential heating class utilizes  
10 number of households while the commercial heating class model utilizes  
11 non-manufacturing employment data. The model specification for the  
12 commercial heating class employs a non-linear regression equation as it  
13 reflects the use of an autoregressive (“AR”) term. This term captures the  
14 impact of all other variables that have not been included in the model due to  
15 the inability to identify or quantify such variables or due to the lack of data for  
16 such variables.

17 The residential and commercial non-heating class customer forecasts reflect  
18 utilization of exponential smoothing models.

19 The customer forecast developed for the Other Public Authority (“OPA”)  
20 class assumes that minor growth will continue through the forecast period  
21 with the addition of approximately two customers each year. Many schools,  
22 hospitals and government offices, which could be included in the OPA

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1 classification are coded as commercial heating and included in the  
2 commercial heating growth.

3 The industrial customer forecast was developed by applying a linear  
4 regression equation to the rolling twelve-month average customer level. The  
5 resulting forecast customer level for each calendar year was then allocated  
6 to calendar month using the average of the actual odd/even billing pattern for  
7 calendar years 2004 through 2007.

8

9 Q. What is the source for the economic data utilized in the forecast models?

10 A. Economic projections for the region served by the Company were based on  
11 the April 2008 forecast provided by Moody's Economy.com to the New York  
12 Independent System Operator for statewide forecasting. A more thorough  
13 explanation of the application of this forecast is provided in the direct  
14 testimony of the Electric Forecasting Panel.

15

16 Q. What forecasting methods were used to project sales volumes?

17 A. Statistically Adjusted End-Use ("SAE") models were constructed to forecast  
18 all firm classes excluding interdepartmental. The SAE model approach is  
19 presented in the direct testimony of the Electric Forecasting Panel.

20

21 Q. What is the source for end-use saturation and efficiency data?

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1 A. Residential appliance and commercial end-use saturation and efficiency  
2 trends are based on Energy Information Administration estimates for the  
3 Middle Atlantic Census Region as compiled by Itron, Inc.

4

5 Q. What is the basis for the price variable?

6 A. The historic price series for each class was determined as a function of the  
7 total bundled revenue (including delivery and supply) billed to full service  
8 customers divided by sales to full service customers in each class. Monthly  
9 forecast prices for each class include all applicable base delivery charges,  
10 including a projected delivery rate increase of approximately ten percent  
11 effective July 1, 2009, as well as Merchant Function Charges ("MFC"),  
12 System Benefits Charge, Renewable Portfolio Standard Charge, an estimate  
13 for the Energy Efficiency Portfolio Standard ("EEPS") Charge in Case 07-M-  
14 0548, and Gas Supply Charge ("GSC"). The forecast of the GSC, or supply  
15 price, reflects utilization of assets currently under contract to Central Hudson,  
16 including pipeline transport, storage and commodity supplies, with  
17 commodity supply based on New York Mercantile Exchange ("NYMEX")  
18 natural gas futures prices as of May 9, 2008. The price variable is expressed  
19 as the CPI-indexed twelve-month moving average on a one-month lag.

20

21 Q. What economic variables are utilized in the sales models?

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1 A. The residential and OPA class models utilize household income and  
2 household size, while the commercial and demand models utilize GDP. As  
3 previously noted, this data is part of the forecast supplied by Moody's  
4 Economy.com and subsequently compiled by Central Hudson to more  
5 reasonably reflect the Company's service territory.

6

7 Q. How is weather incorporated into the sales models?

8 A. Weather is expressed in terms of degree days, with a heating degree day  
9 ("HDD") defined as the amount by which 65 degrees Fahrenheit exceeds the  
10 twenty-four average of temperatures for a given gas day. Monthly actual  
11 HDDs are transformed into billed HDDs to more closely correspond to the  
12 sales billing period. The sales forecasts are based on normal weather  
13 conditions, where the normal weather is determined from a linear trend of  
14 monthly HDDs for the period 1975 through 2007.

15

16 Q. Is this a change from the definition of normal weather that was utilized in the  
17 Company's filing in Case 05-G-0935?

18 A. Yes. In Case 05-G-0935 the Company defined normal weather as the  
19 average of actual HDDs for the thirty-year period 1975 through 2004. A  
20 detailed explanation of the Company's proposed definition of normal weather  
21 as well as the rationale for changing the definition is presented in the direct  
22 testimony of the Electric Forecasting Panel.

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1 Q. Do the sales models contain any other assumptions or variables?

2 A. Yes. The residential sales models include price, income and household size  
3 elasticity estimates, while the remaining sales models include price and GDP  
4 elasticity estimates. With the exception of the residential, commercial heat  
5 and industrial price elasticity parameters, the remaining estimates have been  
6 compiled by Itron. Utilization of binary, or “dummy”, variables is quite  
7 common and is reflected in many of the customer and sales models  
8 presented here. In many instances, this type of variable was added as a  
9 switch to turn various parameters on and off, such as differences in odd/even  
10 month billing to reflect bimonthly billing for certain accounts, or to  
11 accommodate a specific data point to reduce model error, while maintaining  
12 a longer estimation period.

13

14 Q. How are the models evaluated for reasonableness?

15 A. The models perform well as measured by the Adjusted  $R^2$ , Durbin Watson,  
16 and mean absolute percent error (“MAPE”), with statistically significant model  
17 coefficients.

18

19 Q. How were the Company’s interdepartmental sales forecast?

20 A. Interdepartmental sales were projected based on a two-year average of  
21 monthly sales for the 24 months ended March 31, 2008. Interdepartmental  
22 sales were held constant throughout the forecast period.

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1 Q. Were any changes made to forecasted sales external to the models?

2 A. Yes. One adjustment was made to reflect targeted sales reductions included  
3 in the EEPS proceeding.

4

5 Q. Please explain how this adjustment was developed.

6 A. The sales reductions attributable to the EEPS were developed by allocating  
7 the annual residential reductions itemized in DPS Staff's Report on  
8 Recommendations for the EEPS Proceeding issued March 25, 2008 and the  
9 Straw Proposal issued by the Administrative Law Judges on February 13,  
10 2008 across months based on the pre-adjustment forecast.

11

12 Q. What does the final sales forecast show?

13 A. While the Company continues to experience growth in the number of  
14 customers, overall use per customer has decreased significantly since 2005  
15 primarily in response to prices. As a result of decreasing use per customer,  
16 as well as usage reductions due to the EEPS in Case 07-M-0548, own  
17 territory sales (excluding unbilled, Sales for Resale and S.C. No. 14) as  
18 shown on Schedule A of Exhibit\_\_(GFP-2) are forecast to decrease by 278  
19 MMcf, or 1.8 percent, based on the Rate Year estimate of 14,794 MMcf as  
20 compared to the calendar year 2008 estimate of 15,072 MMcf.

21

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

3 A. Yes. The models and methods that we have described incorporate a number  
4 of assumptions regarding economic activity, prices and consumption  
5 patterns. To the extent that activity in our service territory, in terms of the  
6 level of customers, changes dramatically, or customers change their  
7 consumption habits in response to changes in economic/price conditions,  
8 these changes should be reflected in the final Rate Year forecasts utilized to  
9 determine the revenue requirement and rate design.

10

11 Q. How were the revenues associated with the sales forecast for 2008, 2009  
12 and the Rate Year developed?

13 A. The monthly sales spread between blocks was determined based on an  
14 average of the actual bill distribution for calendar years 2006 and 2007. The  
15 monthly distributions were priced at present rates to obtain total base  
16 revenue. Other operating revenues were estimated by extrapolating recent  
17 experience and adjusting for known changes.

18

19 Q. What assumptions were made with respect to interruptible sales and  
20 transport service (S.C. Nos. 8 and 9)?

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- 1 A. Forecasts of sales/deliveries to these customers have been included based  
2 on the assumption that they will continue to use these services through the  
3 forecast period.
- 4 Currently, both the Company's base delivery rates and gas cost adjustment  
5 factor include credits derived from the net of fuel revenues received from  
6 interruptible sales (S.C. Nos. 8 and 9) and sales to generating facilities (S.C.  
7 No. 14). Current base delivery rates include a profit imputation of \$1 million  
8 estimated to be received from such sales. As a result, the Company is  
9 permitted to retain the first \$1 million in net of fuel revenue in each rate year  
10 that it may receive from interruptible service and service to generating  
11 facilities. If the net of fuel revenue, or margin, is less than \$1 million in any  
12 rate year, the Company is authorized to surcharge firm customers for 100  
13 percent of the first \$250,000 of the shortfall and 90 percent of the remaining  
14 shortfall. If the margin exceeds \$1 million in any rate year, the Company will  
15 credit to ratepayers 100 percent of the first \$250,000 of the excess and 90  
16 percent of the remaining excess. Any such surcharges or credits are applied  
17 through the gas cost adjustment factor.
- 18
- 19 Q. Is the Company proposing any changes to this interruptible profit  
20 mechanism?
- 21 A. No.
- 22

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1 Q. How has the Company reflected this mechanism in the instant filing?

2 A. The Company has continued to reflect an interruptible profit imputation of  
3 \$1.0 million as discussed in the rate design section below.

4

5 Q. With respect to the subject of revenue allocation, please describe the criteria  
6 you have applied in allocating revenues and designing rates.

7 A. The Company has historically sought to bring the rates of return of the  
8 various service classifications to within 15 percent of the system average rate  
9 of return. In this filing, in order to mitigate impacts on those customer  
10 classes earning less than 85 percent of the system average rate of return,  
11 the maximum increase allocated is 1.5 times the overall increase while the  
12 minimum increase allocated to customer classes earning more than 115  
13 percent of the system average rate of return is 0.5 times the overall increase.

14

15 Q. Were any changes made to forecasted revenues for purposes of revenue  
16 allocation and rate design?

17 A. No.

18

19 Q. Please explain Exhibit\_\_\_\_(GFP-5), entitled "Estimated Effect of Proposed  
20 Gas Revenue Increase."

21 A. Exhibit\_\_\_\_(GFP-5) consists of two schedules that present the details of the  
22 proposed interclass gas revenue allocation. Schedule A details the

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1 methodology used to allocate the gas revenue increase among the various  
2 service classifications. Schedule B combines the allocated revenue  
3 increases from Schedule A with revenues at present rates to determine total  
4 filed base rate revenue by service classification for the Rate Year.

5

6 Q. What revenue requirement was used in developing the proposed gas rate  
7 revisions?

8 A. Own territory operating revenue must be increased by \$14,747,000 in the  
9 Rate Year, in order to meet the Company's costs of providing service. Of  
10 that amount \$439,000 represents state and local revenue taxes that would  
11 be billed pursuant to the tax surcharge provision of the Company's tariff. The  
12 balance of \$14,308,000, plus \$1,000,000 that is offset through imputation to  
13 S.C. Nos. 1, 2, 6, 12 and 13 in the rate design process, or a total of  
14 \$15,308,000 is to be obtained from Service Classification Nos. 1, 2, 6, 12  
15 and 13 rates as explained below.

16

17 Q. Please describe your procedure for allocating the Company's proposed  
18 revenue increase among the various service classifications (or sub-classes).

19 A. The Company has allocated the proposed increase with reference to the  
20 results of the Pro-Forma Rate Year Embedded Cost of Service Study  
21 ("ECOSS"), which is contained in Exhibit\_\_\_\_ (LGA-1, Schedule B) and

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1 supported by the direct testimony of Mr. Arvidson. The revenue allocation  
2 methodology is a three-step process.

3 The first step is to use results from the ECOSS for the Rate Year ending  
4 June 30, 2010 to determine what revenue adjustment among service  
5 classifications is necessary to have all class rates of return fall within a plus  
6 or minus 15 percent tolerance band around the overall rate of return as  
7 shown on columns 1-5 of Exhibit \_\_ (GFP-5, Schedule A).

8 The second step is to allocate the proposed revenue increase based on total  
9 delivery service revenue. The results of this step are shown in column 9 of  
10 Exhibit \_\_ (GFP-5, Schedule A).

11 After adding the results of the first two steps together in column 10 of  
12 Schedule A, the third step determines the resulting unconstrained  
13 percentage increases for each class as shown in column 11, which are then  
14 constrained as previously described.

15

16 Q. What were the results you obtained by applying the revenue allocation  
17 methodology?

18 A. Initially the methodology produced unconstrained rate changes for the  
19 service classifications ranging from 25.71 percent to 86.61 percent. The  
20 increases were then adjusted based on the percentage increases for the  
21 service classifications relative to the system average increase of 29.89  
22 percent.

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1 For S.C. No. 11 – Distribution and S.C. No. 11 - DLM, for which the rate of  
2 return fell below the lower tolerance level of 85 percent of the system  
3 average, the maximum permissible increase of 1.5 times the average overall  
4 increase, or 44.83 percent, was utilized.

5 Application of the maximum/minimum increase methodology produced a  
6 revenue deficiency as compared to the rate increase revenue. This revenue  
7 deficiency was then allocated pro-rata among the service classes. The  
8 resulting increases are shown in columns 21 and 22 of Exhibit \_\_ (GFP-5,  
9 Schedule A).

10

11 Q. Were any adjustments made to the final base revenue increases?

12 A. Yes. The base revenue increase for each service class was reduced by the  
13 estimated increase in revenue to be collected through the redesigned  
14 Merchant Function Charges for that class, as more thoroughly discussed  
15 below. This adjustment is presented on Schedule A of Exhibit \_\_ (GFP-5).

16

17 Q. Please explain Schedule B of Exhibit \_\_ (GFP-5), regarding the effects of the  
18 proposed gas rates.

19 A. Schedule B of Exhibit \_\_ (GFP-5) sets forth, by service classification,  
20 present base rate delivery revenues, the proposed revenue increase, total  
21 proposed delivery revenue and the net effect of the proposed revenue  
22 increase.

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1 Q. Are you proposing any structural changes to rate design?

2 A. No. The Company is proposing to continue to maintain the unbundled rate  
3 structure approved by the Commission in the Company's most recent  
4 general rate proceeding, Case 05-G-0935.

5

6 Q. Please describe the Company's unbundled rate structure.

7 A. As approved by the Commission in Case 05-G-0935, electric backout credits  
8 were eliminated effective July 1, 2007 and replaced by service class specific  
9 Merchant Function Charges ("MFC") and lost revenue provisions. MFCs  
10 were sub-divided into a MFC Administration Charge and a MFC Supply  
11 Charge.

12 The MFC Administration Charge includes an allocated portion of credit and  
13 collection function costs and procurement-related call center function costs,  
14 plus administrative and general rate base items associated with each of the  
15 aforementioned costs. This charge is not applied to the bills of customers  
16 that elect to purchase their commodity supply service from an energy service  
17 company ("ESCO") that maintains dual billing.

18 The delivery portion of forecast net lost revenues is recovered through the  
19 Transition Adjustment. Unlike the MFC Administration Charge, the Transition  
20 Adjustment is applicable to all deliveries regardless of a customer's source of  
21 commodity supply and bill service election under a dual bill approach.

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1 The MFC Supply Charge includes commodity purchasing function costs,  
2 allocated portions of advertising and promotions function costs and  
3 procurement-related call center function costs, plus administrative and  
4 general rate base items associated with each of the aforementioned costs,  
5 as well as the commodity supply portion of forecast net lost revenues. This  
6 charge is not applied to the bills of customers that elect to purchase their  
7 commodity supply service from an ESCO.

8

9 Q. Is the Company proposing to update the rates for these charges?

10 A. Yes. The Company is proposing to update the base rates (excluding lost  
11 revenue) for the MFC Administration Charge and the MFC Supply Charge as  
12 reflected on Schedule A of Exhibit \_\_\_\_(GFP-6).

13

14 Q. How were these proposed rates developed?

15 A. These rates are based on the results of the ECOSS, which is contained in  
16 Exhibit \_\_\_\_ (LGA-1, Schedule C). More specifically, Mr. Arvidson has  
17 identified certain cost elements, as noted previously, that might be avoided if  
18 a customer were to procure their energy supply from a third party. These  
19 cost elements, detailed by service classification in the ECOSS, were grouped  
20 by MFC group and divided by estimated Rate Year sales to establish base  
21 MFC rates. This procedure was followed for each MFC group to determine

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1 the base MFC Administration Charge rate and base MFC Supply Charge  
2 rate.

3

4 Q. Are there any other issues related to MFCs that you would like to discuss?

5 A. Yes. The Company is proposing that the net lost revenue provisions of the  
6 Joint Proposal (section VI.H.) approved by the Commission in Case 05-G-  
7 0935 continue to be applied, with the delivery portion of forecast net lost  
8 revenues recovered through the Transition Adjustment and the supply  
9 portion of forecast net lost revenues recovered through the MFC Supply  
10 Charge, subject to the deferral provisions previously approved by the  
11 Commission, updated as necessary to reflect outcomes approved in the  
12 instant proceeding.

13

14 Q. Are you proposing any other rate changes?

15 A. Yes. The Company currently provides a consolidated billing service to  
16 ESCOs participating in the Company's Retail Access Program. The  
17 accounts receivable balances of ESCOs electing this consolidated billing  
18 service are purchased by the Company at a discount, with the discount rate  
19 reflecting the average of the Company's net write-offs for the most recent  
20 three calendar years and an allowance of 0.25 percent to reflect other costs  
21 of the program. This latter rate, which was initially effective November 1,  
22 2004, was calculated as one-twelfth of the sum of the then effective customer

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1 deposit rate of 2.45 percent and 0.55 percent for other administrative costs.

2 The Company is proposing to revise the determination of this rate such that it  
3 reflects the currently approved customer deposit rate in effect at the time of  
4 the annual update, which is effective with the Company's first billing batch of  
5 April, plus 0.55 percent for other administrative costs.

6 In relation to the consolidated billing service, the Company currently provides  
7 customers choosing to receive a consolidated bill with a \$0.68 credit per bill  
8 regardless of the customer's service classification. The consolidated bill  
9 credit provided to the customer is recovered from the customer's ESCO. The  
10 Company is proposing to revise the Billing Services Credit to \$0.49 for S.C.  
11 No. 12 customers and \$0.98 for all other service classifications, based on the  
12 ECOSS contained in Exhibit \_\_ (LGA-1, Schedule C).

13

14 Q. After allocating the proposed revenue increase between various service  
15 classifications, how did you proceed to design the proposed residential rates  
16 (S.C. Nos. 1 and 12)?

17 A. In designing rates for residential customers the fundamental goal was to shift  
18 as much of the costs as possible to the lower billing blocks, while not placing  
19 an excessive burden on the smaller customers. This will reduce the  
20 subsidization of the smaller customers by the larger customers and bring the  
21 customer charge closer to the embedded costs shown on Schedule C of  
22 Exhibit \_\_ (LGA-1). To accomplish this, the minimum charge for the first 200

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1 cubic feet or less was increased from \$14.00 to \$21.00 per month. The  
2 remaining increase was then allocated between the penultimate and tail  
3 blocks to increase the ratio of the rates between the blocks from 1.6:1 to  
4 1.8:1.

5

6 Q. Please describe how the charges to Service Classification Nos. 2, 6 and 13  
7 were developed.

8 A. The primary goal in designing the rates for these classes was to maintain a  
9 minimum amount of increase in the tail block to assist in the retention of large  
10 dual fuel customers.

11 The first step in the rate design was to increase the minimum charge from  
12 \$20.00 to \$30.00, moving this charge closer to the embedded costs shown  
13 on Schedule C of Exhibit \_\_\_ (LGA-1). The next step was to increase the  
14 remaining blocks in order to produce a 1.7:1 ratio of the second to the third  
15 block and a 1.3:1 ratio of the third to the tail block.

16

17 Q. Please describe how the charges to S.C. No. 11 – Transmission, Distribution  
18 and DLM were developed.

19 A. The monthly customer charge for each subclass was increased to \$600,  
20 approximating the embedded cost for the DLM subclass while maintaining  
21 the same monthly charge across the subclasses for administrative purposes.  
22 Due to the limited number of customers taking service under S.C. No. 11,

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1 this proposed increase does not generate a significant amount of revenue.

2 The remaining increase was allocated to the Maximum Daily Quantity (MDQ)  
3 charge.

4

5 Q. Are there any other service classifications for which the Company is  
6 proposing revised rates?

7 A. Yes. Although the Company does not currently serve any customers under  
8 S.C. Nos. 15 and 16 (Distributed Generation (“DG”) – Commercial and  
9 Industrial and DG – Residential, respectively), the Company is proposing to  
10 update these rates consistent with the rate design changes previously  
11 discussed, as well as the ECOSS presented by Mr. Arvidson.

12

13 Q. How were the proposed S.C. Nos. 15 and 16 rates designed?

14 A. The proposed rates for S.C. No. 15 were designed consistent with the  
15 currently effective rates that were approved by the Commission in its Order  
16 issued and effective November 7, 2007 in Case 02-M-0515. By this Order  
17 the rate provisions approved by the Commission in Case 05-G-0935 for  
18 comparable non-residential, non-DG rates were incorporated into the rates  
19 for S.C No. 15, while maintaining the 70 percent load factor assumption  
20 established by the Commission in its Order issued and effective April 24,  
21 2003 in Case 02-M-0515 (the April 24 Order had required a three year freeze  
22 on DG rates).

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1 Similarly, the proposed rates for S.C. No. 16 were designed consistent with  
2 the currently effective rates that were approved by the Commission in its  
3 Order issued and effective February 21, 2008 in Case 02-M-0515. By this  
4 Order the rate provisions approved by the Commission in Case 05-G-0935  
5 for comparable residential non-DG rates were incorporated into the rates for  
6 S.C No. 16, while maintaining the 50 percent load factor assumption  
7 established by the Commission in its Order issued and effective August 4,  
8 2004 in Case 02-M-0515 (the August 4 Order has required a three year  
9 freeze on DG rates).

10

11 Q. Please explain Exhibit\_\_\_(GFP-6), entitled "Summary of Present and  
12 Proposed Gas Rates."

13 A. Exhibit\_\_\_ (GFP-6) consists of three schedules. As previously noted,  
14 Schedule A sets forth present and proposed base MFC charges. Schedule B  
15 sets forth a comparison of the provisions of present S.C. Nos. 1, 2, 6, 11, 12  
16 and 13 and the proposed superseding service classifications. Schedule C  
17 sets forth similar provisions for S.C. Nos. 15 and 16.

18

19 Q. Please explain Exhibit\_\_\_ (GFP-7), regarding comparative bills.

20 A. Exhibit\_\_\_ (GFP-7) provides comparisons of charges for typical usages  
21 under S.C. Nos. 1/12 and 2/6/13 at present and proposed rates. These  
22 comparisons were prepared using the monthly GSC factor effective July 1,

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1 2008, but exclude implementation of the gas System Benefits Charge  
2 approved by the Commission in its order issued and effective June 23, 2008  
3 in Case 07-M-0548, in order to develop estimates of full service bills to allow  
4 for a more accurate estimate of the utility bill impacts of the proposed rate  
5 changes.

6

7 Q. How are the Company's natural gas supply costs recovered from full service  
8 customers?

9 A. Gas supply expense (demand and commodity) incurred by the Company to  
10 serve full service customers taking service under S.C. Nos. 1 and 2 is  
11 recovered through the Gas Supply Charge ("GSC"). The GSC is determined  
12 monthly and reconciled annually, for the twelve-month period ending August  
13 31, in accordance with 16 NYCRR §720-6.

14

15 Q. Is the Company proposing any changes to the GSC?

16 A. Yes. The Company is proposing to update, on an annual basis, the  
17 uncollectible rate utilized in the calculation of the uncollectible allowance  
18 included in the GSC to reflect the most recent calendar year's charge-offs.  
19 Although the current uncollectible allowance component of GSC fluctuates as  
20 commodity and commodity-related prices fluctuate, a static factor does not  
21 reflect changes in the overall rate of charge-offs as a percent of total revenue  
22 subject to bad-debt.

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1 Q. Please explain how the loss factor was determined.

2 A. The factor of adjustment of 1.0159 approved by the Commission in Case 05–  
3 G-0935 was based on a three-year average ended August 31, 2005.  
4 Similarly, the Company proposes to continue to utilize a three-year average  
5 to strike the balance between reflecting current loss activity without  
6 producing a high degree of volatility. For the three years ended August 31,  
7 2007 the average was 1.0150. The Company recommends that this factor  
8 be reviewed prior to the Commission's decision in this proceeding to reflect  
9 the most recent three years of data available at the time.

10

11 Q. Is the Company proposing to make any other rate related changes?

12 A. Yes. Pursuant to the Commission's Order in Cases 03-E-0640 and 06-G-  
13 0746, issued and effective April 20, 2007 ("RDM Order"), the Company is  
14 proposing implementation of a true-up based delivery service revenue  
15 decoupling mechanism ("RDM") coincident with the commencement of the  
16 Rate Plan resulting from the instant proceeding ("Rate Plan"). The RDM  
17 elements required by the RDM Order and an overview of the Company's  
18 proposed RDM, which is a unit per customer ("UPC") model, are addressed  
19 in the direct testimony of the Electric Forecasting Panel.

20

21 Q. Will the RDM be applicable to all service classifications?

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1 A. No. The RDM would be applicable to S.C. Nos. 1, 2, 6, 12 and 13, with S.C.  
2 Nos. 8, 9, 11, 14, 15 and 16 exempt.

3

4 Q. Why is the Company proposing to exempt these service classifications from  
5 a RDM?

6 A. The Company is proposing to exempt S.C. Nos. 8, 9 and 14 as revenue  
7 realized from these classes is addressed by the interruptible profit sharing  
8 mechanism. It is proposed that S.C. No. 11 be exempt from the RDM as the  
9 rate structure for this class is demand based, with the customer specific  
10 billing determinant of maximum daily quantity ("MDQ") potentially increasing  
11 based on five MDQ exceedances during a winter season, but rarely  
12 decreasing. Finally, the Company proposes to exempt S.C. No. 15 and 16  
13 since no customers have yet to take service under the provisions of these  
14 classes, which were implemented January 1, 2004 and November 2, 2004,  
15 respectively, and, as a result, no sales forecast for these classes has been  
16 proposed herein.

17

18 Q. How will the RDM targets be determined?

19 A. For each month of the rate year, total service class, or sub-class, billing  
20 determinant units (Mcf), as approved by the Commission in its decision, will  
21 be divided by customer months to determine the monthly UPC target.

22

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1 Q. How will actual UPC be calculated and how frequently will actual UPC be  
2 compared to the target levels?

3 A. Actual UPC will be determined in the same manner as the target UPC on a  
4 monthly basis.

5

6 Q. Please explain how the revenue excess or shortfall corresponding to  
7 differences in UPC will be calculated.

8 A. The UPC difference for each target item will be multiplied by the actual  
9 number of customers to calculate the unit difference. The unit difference will  
10 then be multiplied by the applicable delivery rate to determine the excess or  
11 shortfall of allowed monthly base revenue. For S.C. Nos. 1, 2, 6, 12 and 13  
12 the unit difference will also be multiplied by applicable Merchant Function  
13 Charge ("MFC") rates to determine the excess or shortfall of allowed MFC  
14 revenue.

15 For S.C. Nos. 1 and 12 the total unit difference will be multiplied by the  
16 MFC Administration Charge. Additionally, the total unit difference for these  
17 classes will be multiplied by the percentage of units (Mcf) for which the  
18 Company provided commodity service, with the resulting product multiplied  
19 by the MFC Supply Charge.

20 For S.C. Nos. 2, 6 and 13, the total unit difference will be multiplied by  
21 the percentage of units (Mcf) for which the Company provided commodity

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1 service, with the resulting product multiplied by both the MFC Administration  
2 Charge and the MFC Supply Charge.

3

4 Q. How will any excess or shortfall of allowed revenue be treated?

5 A. Any excess or shortfall of allowed revenue will be deferred and will be  
6 subject to carrying charges calculated at the authorized pre-tax rate of return  
7 for refund/recovery.

8

9 Q. How will any refund/recovery be accomplished?

10 A. On a calendar-month basis, RDM refund/recovery factors will be determined  
11 by service class, or sub-class, on a unit (Ccf) specific basis by dividing any  
12 excess or shortfall of allowed revenue by an estimate of billed units. The  
13 factors so determined will be applied to the total measured quantities  
14 included in bills for which meters are read on and after the effective date of  
15 the factors. The average of the current and prior month's RDM factors will be  
16 applied to bimonthly bills.

17

18 Q. Will refunds/recoveries through the RDM factors be reconciled?

19 A. Yes. Actual RDM refunds/recoveries will be reconciled similar to ECAM, on  
20 a three-month lag corresponding to completion of such refunds/recoveries, to  
21 the amounts utilized to set the factors. Any over or under recoveries will be

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1 refunded to or collected from customers on a monthly basis through the RDM  
2 factors.

3

4 Q. Will this RDM proposal include any thresholds to mitigate the potential bill  
5 impact associated with any calculated refunds/recoveries?

6 A. Yes. The Company proposes that for S.C. Nos. 1 and 12, RDM factors not  
7 exceed +/- 25 percent of the underlying unit delivery rate. Amounts in  
8 excess of this threshold will remain deferred for future disposition through  
9 subsequent factor determinations or as approved by the Commission.

10

11 Q. Does the Company's RDM proposal meet the Commission's requirements as  
12 included in the RDM Order?

13 A. Yes. The Company has proposed a true-up mechanism, which will utilize  
14 approved Rate Year and actual data, preventing shifting of customers  
15 between classes, and is designed on a service class or sub-class basis,  
16 preventing inter-class revenue re-allocation between customer classes.

17 Additional issues regarding the statewide RDM initiative are discussed in the  
18 direct testimony of the Electric Forecasting Panel.

19

20 Q. Does this conclude your pre-filed direct testimony?

21 A. Yes, it does.