

DIRECT TESTIMONY
OF
REVENUE REQUIREMENT PANEL

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

3 A. (Brideau) My name is David P. Brideau and my business address is 284
4 South Avenue, Poughkeepsie, N.Y. 12601.

5 (Smith) My name is Gina M. Smith. My business address is the same as Mr.
6 Brideau's.

7

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

9 A. (Brideau) I am employed by Central Hudson Gas & Electric Corporation as
10 Director of Financial Planning.

11 (Smith) I am employed by Central Hudson Gas & Electric Corporation as a
12 Senior Regulatory and Financial Analyst.

13

14 Q. Mr. Brideau, would you please summarize your educational background and
15 work experience at Central Hudson.

16 A. I am a 1984 Marist College graduate with a Bachelor of Science Degree in
17 Business Administration and a concentration in Finance. I have been
18 employed by Central Hudson since 1984. During the period 1985 through
19 1989 I held various positions in the Cash Management, Plant Accounting and
20 General Accounting Divisions. I was promoted to Associate Regulatory and
21 Financial Analyst in the Financial Planning Division in 1990 and then to
22 Regulatory and Financial Analyst in 1993 and then to Senior Regulatory and

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1 Financial Analyst in 1996. I was promoted to my present position as Director
2 of Financial Planning in 2007.

3

4 Q. Mr. Brideau, would you please describe your current responsibilities at
5 Central Hudson?

6 A. My responsibilities as Director of Financial Planning include the planning,
7 coordinating and development of short and long-term revenue requirement
8 projections. In addition, my responsibilities include directing, coordinating
9 and developing financial analyses used for a variety of purposes such as
10 business plans and analyzing operating results.

11

12 Q. Ms. Smith, would you please summarize your educational background and
13 work experience.

14 A. I have a Bachelor of Science Degree in Accounting, with a concentration in
15 Finance from Siena College and a Master of Business Administration Degree
16 from Marist College. From 1997 to 2002, I was employed by Gaber &
17 Nyman, LLP and then Arthur DeDominicis, local certified public accounting
18 firms, as an auditor and staff accountant, respectively. I have been
19 employed by Central Hudson since 2002. I started as an Associate
20 Accountant in the Financial Reporting Department, within the Accounting
21 Division. I was promoted to Accountant in 2005 and then to Senior
22 Accountant in 2006. My work experience in this area centered on accounting
23 theory and financial and regulatory reporting. In 2007, I was transferred to

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1 the Financial Planning Division as a Senior Regulatory and Financial Analyst.

2

3 Q. Ms. Smith, would you please describe your current responsibilities at Central
4 Hudson?

5 A. My current responsibilities include the development of short and long-term
6 revenue requirement projections and preparing financial analyses used for a
7 variety of purposes such as developing business plans and analyzing
8 operating results.

9

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

11 A. (Brideau) Yes, I have testified before this Commission in Cases 95-G-1034,
12 00-E-1273, 00-G-1274, 05-E-0934 and 05-G-0935.

13

14 Q. What are the purposes of the Panel's testimony in this proceeding?

15 A. The Revenue Requirement Panel testimony in this proceeding will address
16 the following:

17 1. Development of the Company's electric and gas revenue
18 requirements for the Rate Year of the twelve months ending June 30,
19 2010;

20 2. The bases for the projections for a number of specific elements of the
21 cost of providing service;

22 3. Development of the Company's rate base for the historical twelve-
23 month period ended March 31, 2008 as well as the forecast periods

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1 for the twelve-month periods ending December 31, 2008, December
2 31, 2009 and June 30, 2010; and,

3 4. The disposition of accumulated deferred costs and credits.
4

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

6 A. Yes, we are sponsoring the following exhibits, which were prepared by or
7 under the supervision of the Panel or one of the Panel's members:

8 1. Exhibit __ (RRP-1) entitled "Electric Operations Income Statement and
9 Rate of Return" which addresses the historical period of the twelve
10 months ended March 31, 2008; the Rate Year of the twelve months
11 ending June 30, 2010; and the relevant bridge periods;

12 2. Exhibit __ (RRP-2) entitled "Gas Operations Income Statement and
13 Rate of Return" which addresses the historical period of the twelve
14 months ended March 31, 2008; the Rate Year of the twelve months
15 ending June 30, 2010; and the relevant bridge periods;

16 3. Exhibit __ (RRP-3) entitled "Direct Labor";

17 4. Exhibit __ (RRP-4) entitled "Schedule of Insurance Costs";

18 5. Exhibit __ (RRP-5) entitled "Rate Base - Twelve Months Ended March
19 31, 2008;

20 6. Exhibit __ (RRP-6) entitled "Rate Base - Years Ending December 31,
21 2008 and December 31, 2009, and Twelve Months Ending June 30,
22 2010;

23 7. Exhibit __ (RRP-7) entitled "Disposition of Deferred Items"; and

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1 8. Exhibit__(RRP-8) entitled “Expense Items Removed From Expense
2 Projections Based on Inflation.”

3 4 **DEVELOPMENT OF REVENUE REQUIREMENTS**

5
6 Q. What is the purpose of Exhibit__(RRP-1)?

7 A. Exhibit__(RRP-1) presents the electric delivery base rate revenue
8 requirement for the Rate Year ending June 30, 2010. In other words, it
9 excludes all revenues and expenses related to commodity, Sales for Resale
10 and the surcharge for System Benefits and Renewable Portfolio Standards.

11
12 Q. Have you prepared a similar exhibit with respect to the gas base rate
13 revenue requirement?

14 A. Yes, Exhibit__(RRP-2) pertains to the development of the gas base rate
15 revenue requirement for the Rate Year. It shows the development of the
16 revenue requirement related to establishing a gas delivery rate, which
17 excludes consideration for purchased gas revenues and expense and Sales
18 for Resale.

19
20 Q. Please describe the information shown on Schedule A of Exhibit__(RRP-1)
21 which is entitled “Electric Operations Income Statement and Rate of Return”.

22 A. Schedule A sets forth for the electric department the operating revenues,
23 operating revenue deductions, operating income, rate base and the

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1 associated rate of return for the historical period and the bridge periods.
2 Schedule A-1 shows normalization adjustments to the historical period
3 including those necessary to display operating income related to delivery
4 service only. Schedule A-2 is a reconciliation of the total ratemaking
5 operating revenue deductions for the historical base year as shown on
6 Schedule A to the Company's total electric operating expenses for that
7 period for financial accounting purposes. It addresses the reclassification as
8 a cost of service certain income deductions and credits which are recorded
9 as non-operating items for financial accounting purposes.

10 Schedule B shows the projected revenue requirement for the Rate Year
11 before and after the effects of the rate changes necessary to establish base
12 rates for the Company's delivery service to provide the overall rate of return
13 of 7.81% addressed in the testimony of Mr. Renner.==

14
15 Q. Have you prepared a schedule showing similar information with respect to
16 the gas revenue requirement?

17 A. Yes. Schedules A and B of Exhibit__(RRP-2) entitled "Gas Operations
18 Income Statement and Rate of Return" shows information for the gas
19 revenue requirement in similar form to that of Schedules A and B of
20 Exhibit__(RRP-1).

21
22 Q. What is the purpose of Schedule C of Exhibit__(RRP-1)?

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1 A. Schedule C of Exhibit___(RRP-1) shows for the historical period, the bridge
2 periods and the Rate Year, the actual, normalized and projected amounts, by
3 PSC functional classification, for most of the operating revenue deductions
4 listed in Schedules A and B of Exhibit___(RRP-1). Operating revenue
5 deductions not included in Schedule C are Direct Labor cost details which
6 are shown on Exhibit___(RRP-3), Insurance Cost details which are shown on
7 Exhibit___(RRP-4), Depreciation and Amortization which are shown on
8 Exhibit___(AP-7) sponsored by the Accounting Panel and Federal and State
9 Income Taxes which are shown on Exhibit___(CDT-1) sponsored by Mr.
10 Thomas.

11

12 Q. Has the Panel prepared a schedule for gas operating deductions similar to
13 Schedule C of Exhibit___(RRP-1)?

14 A. Yes, Schedule C of Exhibit___(RRP-2) presents similar historical and
15 projected information related to operating deductions for the gas department.

16

17 Q. Please describe the general methodology that was followed in the
18 preparation of the projections of expense in developing electric and gas
19 revenue requirements.

20 A. In developing these forecasts, the historical period was first reviewed to
21 determine actual costs incurred for the various expense components and to
22 determine whether any specific costs or activities included should be
23 normalized due to their being related to the Company's commodity activities,

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1 excluded from revenue requirements under Commission policy, non-
2 recurring or only a partial reflection of an annual cost. As previously
3 indicated, normalization adjustments related to electric costs are shown on
4 Exhibit___(RRP-1), Schedule A-1 and those related to gas costs are shown
5 on Exhibit___(RRP-2), Schedule A-1. A number of cost components were
6 forecasted based on factors particular to them which influence their future
7 level. The remainder of the cost components were forecasted by inflating
8 historical period costs. Gross Domestic Implicit Price (GDP) deflators used
9 to inflate historical period costs were 1.7% for 2008, 2.2% for 2009 and 2.2%
10 for the Rate Year ending June 30, 2010. These inflation rates are addressed
11 in the testimony of the Electric Forecasting Panel.

12
13 Q. How were costs which relate to both electric and gas operations allocated
14 between the two departments?

15 A. Costs of a common or corporate nature were allocated using the Company's
16 current common cost allocation ratio of 85% electric and 15% gas consistent
17 with the testimony of the Accounting Panel on this subject.

18
19 Q. Please explain generally how Direct Labor costs were projected.

20 A. Direct Labor costs were developed using annual base salaries and wages,
21 by classification, for regular employees on the Company's payroll at March
22 31, 2008. The salaries and wages were then increased where applicable by
23 the average premium pay (i.e.- overtime, shift differential, variable pay, etc.)

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1 percentages which occurred during the historical period. Salaries and wages
2 were then increased by the applicable salary and wage increase rates set
3 forth in the testimony of Mr. Brocks. The regular employee level reflected in
4 the labor cost projection is the 846 employees as set forth in the testimony of
5 Mr. Brocks. Requirements for temporary employees were also included to
6 arrive at a total Direct Labor cost projection. Allocations to electric and gas
7 expense were determined based on the distribution of actual payroll costs for
8 the twelve months ended March 31, 2008.

9
10 Q. Do the exhibits sponsored include further information related to the projection
11 of Direct Labor Costs?

12 A. Yes. Exhibit___(RRP-3) was prepared to present detailed information
13 related to the projection of Direct Labor costs. Schedule A of that exhibit
14 addresses electric expense, Schedule B addresses gas expense and
15 Schedule C summarizes labor costs by employee classification and the
16 allocation of labor costs to electric expense, gas expense, construction and
17 other categories of costs.

18
19 Q. Does the Company's filing reflect a productivity adjustment?

20 A. Yes. We have imputed a 1% productivity factor to capture future productivity
21 gains in a manner similar to that customarily employed by the Commission.
22 This productivity adjustment is in addition to the productivity gains included in
23 the Rate Year and more fully described by Mr. Mosher.

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1 Q. Are there any further comments that the Panel would like to make with
2 regard to the projection of Direct Labor costs?

3 A. Yes. We recommend that direct labor costs be based on the latest
4 information known at the time of the Commission's decision, including the
5 latest known number of employees as described in the testimony of Mr.
6 Brocks and later known salary increases and premium pay percentages.

7
8 Q. Please provide the basis on which each of the other expense items have
9 been included in the development of the electric and/or gas revenue
10 requirement.

11 A. Production Maintenance

12 Production Maintenance consists of maintenance performed at the
13 Company's hydro and gas turbine electric generating facilities. Projected
14 costs for the Rate Year were provided by the Company's Production
15 Operations Superintendent consistent with planned operating objectives at
16 these facilities. Further detailed information appears on Exhibit___(RRP-1),
17 Schedule C, Page 1 of 7.

18
19 Right of Way Maintenance

20 Exhibit___(RRP-1), Schedule C, Page 1 of 7 shows the projection for the
21 Company's tree-trimming program. This expense component represents the
22 estimated costs as addressed in the testimony of Mr. DuBois.

23

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Research & Development

Schedule C, Page 2 of 7, of Exhibit___(RRP-1), shows Research & Development (R&D) costs for electric and Schedule C, Page 1 of 6, of Exhibit___(RRP-2) shows this expense for gas, as they appear on Schedule A of (RRP-1) and (RRP-2), respectively. Projected costs for the Rate Year were provided by the Company's R&D Administrator and are consistent with current program goals and objectives and approximate the levels provided for in rates under the current Rate Plan. These costs are subject to revenue matching accounting and deferral as required by the Commission's Technical Release #16.

Expense Projections Based on Inflation

A number of cost components were forecasted based on inflation of historical period costs. The Gross Domestic Implicit Price (GDP) deflators used to inflate historical period costs were those previously mentioned in this testimony. This expense component includes:

- Direct Invoices (Residual)
- Material & Supplies
- Office Supplies & Expenses
- Stores Handling Expenses
- Miscellaneous Rents
- Postage
- Transformer Installations & Removals (Credits)

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- 1 - Meter Installations (Credits)
- 2 - Miscellaneous Expenses
- 3 - Transportation Excluding Depreciation and Fuel

4

5 With the exception of Transformer Installation & Removal credits these
6 expenses apply to both electric and gas operations. Schedule C, Page 2 of 7,
7 of Exhibit ____(RRP-1) shows these details related to electric expense and
8 Schedule C, Page 1 of 6, of Exhibit____(RRP-2) does so for gas expense.

9

10 Q. Does the Panel have additional comments to make regarding the element of
11 cost labeled “Expense Projections Based on Inflation”?

12 A. Yes. The following expense items that traditionally have been included in the
13 element of costs labeled “Expense Projections Based on Inflation” or
14 commonly referred to as the “Inflation Pool,” were removed and separately
15 projected and identified on Exhibit ____(RRP-1) and/or Exhibit ____(RRP-2):

- 16 - Transportation Fuel Costs
- 17 - Customer Bill Print and Mail
- 18 - Informational & Institutional Advertising
- 19 - Excess Cost of Removal of Gas Services
- 20 - Gas Leak Repairs of Distribution Main

21

22 Q. Why did the Panel remove the above listed items from the Inflation Pool?

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1 A. The rationale for removing these expense items from the Inflation Pool was
2 based on the following reasons, 1) the level of escalation over the recent
3 past is significantly higher than the general rate of escalation and/or 2)
4 anticipated future levels of spending will be significantly higher due to
5 increased regulatory requirements. The ratemaking concept of pooling
6 historic period expenditures and then applying the general rate of inflation to
7 that base amount to arrive at a projection is premised on the underlying
8 assumption that some items in the inflation pool will escalate at a higher rate
9 than inflation and others will be lower than the rate of inflation. In theory, this
10 method of forecasting provides a reasonable outcome as long as the
11 assumption of implicit offsets within the pool occurs such that the pool as a
12 whole generally reflects inflation. As addressed later in this testimony, the
13 Company is proposing an alternative method of forecasting for these
14 expense items in order to properly align the costs of doing business with the
15 revenues collected from customers.

16
17 Q. Has the Panel performed any analyses to demonstrate why the above listed
18 items should be separately projected outside of the inflation pool?

19 A. Yes. Schedule A of Exhibit ____ (RRP-8) provides an analysis for electric
20 operations and Schedule B does so for gas operations. Schedule A of Exhibit
21 ____ (RRP-8) shows for electric operations that the inflation pool used in
22 Company rate cases has escalated at more than twice the assumed rate of
23 inflation and Schedule B shows for gas operations that such pool escalated

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1 by approximately five times the projected rate of inflation. The other
2 schedules in that Exhibit show rates of escalation related to items that have
3 been removed from the pool.
4

5 Q. Please continue providing the basis for the other expense items included in
6 the development of the electric and/or gas revenue requirement.

7 A. Miscellaneous General Expenses

8 Schedule C, Page 2 of 7, of Exhibit ____(RRP-1), provides details of the
9 projection for Miscellaneous General Expenses for electric and Schedule C,
10 Page 1 of 6 of Exhibit____(RRP-2), addresses the gas department. The
11 amounts shown for administrative costs associated with the Company's
12 Pollution Control Bonds and Notes, Pollution Control Fees and Services,
13 Medium Term Note Program, HBSC Bank Service Fees, Revolving Credit
14 Agreement and Rating Agency costs were supplied by the Company's Cash
15 Management Division. The balance of Miscellaneous General Expenses
16 were determined by inflating historical period costs.
17

18 Transportation - Depreciation

19 Schedule C, Page 3 of 7, of Exhibit ____(RRP-1) shows details of the amount
20 of depreciation related to transportation equipment chargeable to electric
21 expense and Schedule C, Page 2 of 6, of Exhibit____(RRP-2) does so for gas
22 expense. The base amount of depreciation was provided by the Accounting
23 Panel.

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Transportation – Fuel Costs

Schedule C, Page 3 of 7, of Exhibit ____(RRP-1) shows details of the amount of fuel costs related to transportation vehicles chargeable to electric expense and Schedule C, Page 2 of 6, of Exhibit____(RRP-2) does so for gas expense. The amount of fuel costs incurred during the historic period was normalized by pricing out the volume of fuel used during the historic period at the latest unit price paid in April 2008, which was escalated at the 2-year average rate of growth in the price of fuel to arrive at the Rate Year projection. Schedule D of Exhibit____(RRP-8) provides the basis for the 11.96% average rate of fuel price escalation.

Fringe Benefits

As shown on Schedule C, Page 3 of 7, of Exhibit__(RRP-1) with respect to electric and Schedule C, Page 2 of 6, of Exhibit____(RRP-2) with respect to gas, Fringe Benefits include Medical Insurance including Dental and Vision, Group Life Insurance, Savings Incentive Plan (SIP) and Other Fringe Benefits.

With regard to Medical Insurance costs, projections for Medical Insurance claims are based on actual activity for the twelve months ended March 31, 2008 normalized to reflect twelve months of activity. Projections for Medical Insurance premiums are based on the March 2008 premiums, which reflect reductions due to the changes in the benefit plan as described by Mr. Brocks. Employee Medical Insurance contributions are based on the actual level of

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1 contributions during the historic period. GDP inflation factors were then
2 applied to those three bases to arrive at the cost projections for the bridge
3 periods and the Rate Year with the exception of costs related to medical
4 services provided by MVP Select Care, Inc. Those costs were escalated at a
5 rate of 6.00% in order to reflect a trend of cost increases above the general
6 rate of inflation over the last three years. We are requesting this treatment in
7 partial recognition of the significant savings in fringe benefits that the
8 Company has produced and is reflected elsewhere in this testimony and
9 forecasted in the results for the Rate Year. The projection also incorporates
10 the increased Medical Insurance costs to reflect the projected staffing level
11 increase discussed by Mr. Brocks.

12 Group Life Insurance costs are based on the premium and employee
13 contributions incurred for the month of March 2008 on a per employee basis,
14 which was then annualized to arrive at a cost per employee projection base.
15 Costs were then projected using the GDP inflation factors and the employee
16 level of 846.

17 SIP projections are based on the actual March 2008 contribution level
18 adjusted for the applicable wage increases set forth in the testimony of Mr.
19 Brocks. Other Fringe Benefits were projected by inflating the historical
20 period costs.

21 The allocation of Medical, Group Life and SIP costs to electric and gas
22 expense is based on the distribution of payroll for the twelve months ended
23 March 31, 2008. The Company proposes that Medical and Group Life be

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1 updated for the latest known information regarding premiums, claim activity
2 and employee contribution levels to more fully capture the effect of the Plan
3 changes implemented during 2008.

4 5 Other Post Employment Benefits (OPEB-FAS 106)

6 Schedule C, Page 3 of 7, of Exhibit ___(RRP-1) provides details of the
7 projection for Other Post Employment Benefits for electric and Schedule C,
8 Page 2 of 6, of Exhibit__(RRP-2) does so for gas. This element of cost was
9 included in the projections of electric and gas expense on the basis of the
10 annual accrual amount and accounting allocation presented in the testimony
11 of the Accounting Panel.

12 13 Pension Plan

14 Schedule C, Page 3 of 7, of Exhibit__(RRP-1) provides details of the
15 Pension Plan expense projection for electric and Schedule C, Page 2 of 6, of
16 Exhibit ___(RRP-2), addresses the gas department. The cost estimate for
17 the Company's Pension Plan is based on the latest estimate provided by the
18 Company's actuary. The projected cost for the Supplemental Executive
19 Retirement Plan (SERP), which is included in the expense forecast, is based
20 on an estimate developed by the Company's actuary. The expense estimate
21 for SERP is allocated to electric and gas expense using the common
22 allocation basis described earlier in our testimony. The allocation of the

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1 Pension Plan cost tracks the Company's payroll distribution for the historical
2 period as set forth in the testimony of the Accounting Panel.

3 4 Contract Rents

5 Schedule C, Page 3 of 7, of Exhibit ___(RRP-1) shows the details of the
6 forecast for Contract Rents for electric and Schedule C, Page 2 of 6, of
7 Exhibit ___(RRP-2) does so for gas. The forecast was prepared by
8 identifying significant existing lease and rental agreements which are
9 expected to be ongoing, expiring or changing.

10 11 Uncollectible Accounts

12 The development of the projection for Uncollectible Accounts is based on the
13 net charge-off amount as a percentage of revenues subject to bad debt for
14 the historical period. The ratio was .57% for electric and 1.13% for gas.
15 These ratios were applied to projected total revenues subject to bad debt by
16 department, excluding ECAM and GSC revenues, for the bridge periods and
17 the Rate Year to arrive at the projections for Uncollectible Accounts Expense.
18 Schedule C, Page 3 of 7, of Exhibit___(RRP-1) shows projected
19 Uncollectibles for electric and Schedule C, Page 3 of 6, of Exhibit ___(RRP-
20 2) does so for gas.

21 22 Regulatory Commission Expenses

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1 Schedule C, Page 3 of 7, of Exhibit __ (RRP-1) shows the details of the
2 forecast for Regulatory Commission Expenses for electric and Schedule C,
3 Page 3 of 6, of Exhibit __ (RRP-2) does so for gas. The expense projection
4 is based on the Department of Public Service Statement of Estimated
5 Assessment for the fiscal year ending March 31, 2009, which represents the
6 latest known assessment. A four-year average rate of growth , which is
7 based on the assessments from 2003 through 2007, was applied to the latest
8 known assessment to develop the forecasts for the bridge periods and the
9 Rate Year.

Information Technology Expense

10
11
12 Schedule C, Page 4 of 7, of Exhibit __ (RRP-1) for electric and Schedule C,
13 Page 3 of 6, of Exhibit __ (RRP-2) for gas provide details of the forecast of
14 Information Technology expense developed by the Company's Manager of
15 Information Technology. The projection relates to the Company's current
16 and projected information systems requirements primarily related to
17 hardware maintenance, software maintenance and license costs. The
18 amortization of software costs is included in the depreciation schedules
19 sponsored by the Accounting Panel consistent with the Company's current
20 accounting method which became effective January 2006.

Other Operating Insurance

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1 Exhibit __ (RRP-4) shows the types of insurance included in this cost
2 category and projected costs. Cost projections were based on inflation of the
3 most recent known premiums. The principal allocation factor applicable to
4 these costs is the common allocation ratio. Schedule C, Page 4 of 7, of
5 Exhibit __ (RRP-1) shows the details for electric and Schedule C, Page 3 of
6 6, of Exhibit __ (RRP-2) does so for gas.

7 8 Telephone Expense

9 The types of costs included in Telephone Expense are listed on
10 Exhibit __ (RRP-1), Schedule C, Page 4 of 7 and Exhibit __ (RRP-2),
11 Schedule C, Page 3 of 6. Projections were based on a review of historical
12 charges and current billing rates for communication expenses and the
13 application of inflation factors.

14 15 Legal Services

16 Schedule C, Page 4 of 7, of Exhibit __ (RRP-1) and Schedule C, Page 3 of 6,
17 of Exhibit __ (RRP-2) show the information related to the projection of Legal
18 Services Expense. The projection is based on inflation of historical period
19 costs.

20
21 Q. Does the Company propose any changes to the manner in which Legal
22 Services costs are reflected in the Company's revenue requirements or how
23 the Company accounts for those costs?

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1 A. Yes. The Company proposes that legal costs incurred in connection with
2 property tax challenges be treated in a new manner. Currently legal costs for
3 that purpose are included in the overall legal services costs incurred during
4 the historical period of a rate case and then escalated at the applicable rates
5 of inflation to establish a rate year level to be included in the revenue
6 requirement. As costs for that purpose are incurred they are charged to
7 operating expense. In this proceeding such costs projected on that basis are
8 included in the Rate Year revenue requirements in the amount of \$156,000
9 for electric and \$27,000 for gas for a total of \$183,000.

10

11 Q. Please explain the ratemaking treatment regarding property tax litigation that
12 the Company is proposing.

13 A. The Company is proposing that property tax litigation costs be afforded the
14 same regulatory treatment provided under the current Rate Plan for property
15 taxes, that is a sharing of the difference between actual expense and the rate
16 allowance with 90% deferred for future return or charge to customers and
17 10% being at the expense of or benefit to the Company.

18 The Company believes that because 90% of property tax savings due to
19 successful property tax challenges inure to the benefit of customers, the
20 proper alignment of related costs or the risk associated with an unsuccessful
21 challenge be shared in the same proportion. The Company proposes,
22 therefore, that the sharing mechanism be applied to the sum of actual
23 property tax expense and actual property tax challenge legal costs in

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1 comparison to the sum of the property tax expense rate allowance and the
2 rate allowance related to property tax challenge legal expenses and that the
3 Commission authorize the Company to employ deferral accounting as
4 necessary to achieve that result.

5
6 Q. Please continue providing the basis for the other expense items included in
7 the development of the electric and/or gas revenue requirement.

8 A. Special Services

9 The types of costs included in the Special Services category are shown on
10 Exhibit__(RRP-1), Schedule C, Page 4 of 7 and Exhibit__(RRP-2),
11 Schedule C, Page 4 of 6. The projection is based on inflation of historical
12 period costs, with the exception of auditing services, which includes a
13 provision in the Rate Year for anticipated additional services related to review
14 of compliance with the new International Financial Reporting Standards.

15
16 Injuries and Damages

17 Schedule C, Page 5 of 7, of Exhibit__(RRP-1) and Schedule C, Page 4 of 6,
18 of Exhibit__(RRP-2) detail the expense components which comprise Injuries
19 and Damages. The projected costs for brokerage fees and excess liability
20 insurance, shown on Exhibit__(RRP-4), were provided by the Company's
21 Senior Risk Management Administrator. The cost estimate for workers
22 compensation is based on the latest known actual premium and claims paid
23 based on a four-year average (Twelve months ended March 31, 2005; 2006;

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1 2007 and 2008) adjusted to March 2008 dollars. These amounts were then
2 inflated to produce the cost projections. The projected costs were allocated
3 on the basis of the Company's payroll distribution for the historical period.

4 The cost projection for excess liability insurance is based on the latest known
5 premiums and program enhancements, which were escalated based on the
6 expectation that past increases by the Company's primary insurance carrier
7 will continue at the same rate of increase in the future. The allocation factor
8 applicable to these costs is the common allocation ratio.

9 Projections for personal and property damage claims were derived by taking
10 a four-year average (Twelve months ended March 31, 2005; 2006; 2007 and
11 2008) of claim payments adjusted to March 2008 dollars; reduced by known
12 and expected insurance recoveries; and then inflated. Accident and safety
13 activities expense was projected by taking a four-year average (Twelve
14 months ended March 31, 2005; 2006; 2007 and 2008) of expense adjusted
15 to March 2008 dollars and then inflated.

16 17 Storm Restoration Expense

18 The projections for Storm Restoration Expense were derived by use of the
19 four-year average (Twelve months ended March 31, 2005; 2006; 2007 and
20 2008) of storm expenditures adjusted to March 2008 dollars which were then
21 inflated. Schedule C, Page 5 of 7, of Exhibit__(RRP-1) shows the expense
22 projections.

23

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Environmental

Schedule C, Page 5 of 7, of Exhibit ____(RRP-1) reflects the forecast for Environmental Expense related to electric operations as provided by the Company's Director of Environmental Affairs . Schedule C, Page 2 of 6, of Exhibit ____(RRP-2) reflects projections for gas environmental costs that were also provided by the Company's Director of Environmental Affairs and include consideration for costs related to activities similar to those for electric operations. Costs related to the remediation of former gas manufacturing sites are presented separately on Exhibit ____(RRP-1) and Exhibit ____(RRP-2) and are not included within the expense item labelled "Environmental" in our exhibits.

Enhanced Powerful Opportunities Program

Schedule C, Page 5 of 7, of Exhibit ____(RRP-1) for electric and Schedule C, Page 4 of 6, of Exhibit____(RRP-2) for gas provide details of the forecast for the Enhanced Powerful Opportunities Program as developed by Ms. Royce.

Expenses Allocated to Affiliates

Schedule C, Page 5 of 7, of Exhibit ____(RRP-1) and Schedule C, Page 4 of 6, of Exhibit____(RRP-2) show the information related to the projection of Expenses Allocated to Affiliates. The projection is based on inflation of historical period credits to Central Hudson due to costs determined to be chargeable to its affiliates. In addition to the credits shown on these Exhibits,

REVENUE REQUIREMENT PANEL

1 an additional \$3.6 million of expense (\$2.9 million for labor and fringe
2 benefits and \$.7 million for insurance) has been directly allocated to affiliates
3 rather than to Central Hudson during the Rate Year.

4 5 Stray Voltage Testing

6 Schedule C, Page 5 of 7, of Exhibit__(RRP-1) shows the expense
7 projections for Stray Voltage Testing as discussed in the testimony of Mr.
8 DuBois.

9 10 MGP Remediation Cost Recovery

11 Schedule C, Page 6 of 7, of Exhibit ____(RRP-1) and Schedule C, Page 4 of 6,
12 of Exhibit____(RRP-2) show the information related to the projection of MGP
13 Remediation Cost Recovery. Projected costs were provided by Mr. Borchert.

14 15 Customer Bill Print and Mail

16 Schedule C, Page 6 of 7, of Exhibit ____(RRP-1) for electric and Schedule C,
17 Page 5 of 6, of Exhibit____(RRP-2) for gas provide details of the forecast for
18 the printing and mailing of customer bills, excluding postage, by an outside
19 company. Schedule E of Exhibit____(RRP-8) reflects the four-year average
20 rate of growth, based on charges from 2003 through 2007, that was applied
21 to the historic year level of expense to develop the forecasts for the bridge
22 periods and the Rate Year.

23

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Informational & Institutional Advertising

Schedule C, Page 6 of 7, of Exhibit __ (RRP-1) and Schedule C, Page 4 of 6, of Exhibit __ (RRP-2) show the the projection of Informational and Institutional Advertising. Projected costs for the bridge periods and the Rate Year are based on .07% of projected total revenues including commodity in accordance with the Commission's policy.

As previously indicated, this element of cost has been removed from the inflation pool. The advertising allowance should not be limited to inflation-capped increases over the historical period. An allowance limited in that fashion falls too far behind the Commission's Policy Statement, which anticipates that 0.7% of revenues will be expended for appropriate advertising. The Company requests that its advertising allowance be recalibrated to the Policy Statement, in light of the benefits of informing customers about the increasing complexities of the energy business, as illustrated by evolutions of the retail markets, the development of the fully unbundled rate structures that are currently employed, and the benefits of solar and other renewable forms of energy.

Transmission Enhanced Infrastructure Maintenance

Schedule C, Page 5 of 7, of Exhibit __ (RRP-1) shows the expense projections for the T&D Enhanced Infrastructure Maintenance Program, which has been projected to cost \$0.7 million for the Rate Year. The Company's proposal is discussed in the testimony of Mr. DuBois.

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1 Transmission Sag Mitigation

2 Schedule C, Page 6 of 7, of Exhibit__(RRP-1) shows the expense
3 projections for the Transmission Sag Mitigation Program, which has been
4 projected to cost \$1.1 million for the Rate Year. The Company's proposal is
5 discussed in the testimony of Mr. Haering.

6

7 Economic Development

8 Schedule C, Page 6 of 7, of Exhibit__(RRP-1), shows Economic
9 Development costs for electric and Schedule C, Page 5 of 6, of
10 Exhibit_(RRP-2) shows this expense for gas, as they appear on Schedule A
11 of (RRP-1) and (RRP-2), respectively. Projected costs for the Rate Year
12 were provided by Mr. Glusko.

13

14 Competition Education Program

15 Schedule C, Page 6 of 7, of Exhibit ____(RRP-1) for electric and Schedule C,
16 Page 5 of 6, of Exhibit__(RRP-2) for gas provide details of the forecast for
17 the Competition Education Program as developed by Mr. VanTassell.

18

19 Excess Cost of Removal – Gas Services

20 Schedule C, Page 5 of 6, of Exhibit__(RRP-2) provides the projection for
21 the portion of gas cost of removal charged to expense based on the
22 accounting established in Case 05-G-0935, as a placeholder pending

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1 Commission consideration of the treatment proposed in the Accounting
2 Panel's testimony.

3 4 Gas Leak Repairs – Distribution Main

5 Schedule C, Page 5 of 6, of Exhibit___(RRP-2) provides the projection for
6 gas leak repairs as more fully discussed in the testimony of Mr. Haering. In
7 addition, Schedule C of Exhibit___(RRP-8) provides the basis for the
8 development of the projected growth rate for gas leak repairs of distribution
9 main.

10 11 Taxes Other than Income Taxes

12 Schedule C, Page 6 of 7, of Exhibit ___(RRP-1) reflects Taxes Other Than
13 Income Tax, with details, as to type of tax, for electric and Schedule C, Page
14 5 of 6, of Exhibit___(RRP-2) does so for gas.

15 Revenue taxes, consisting of Utility Services, Metropolitan Transportation
16 Business Tax (MTA), Local Municipality Tax and MTA Tax on State Income
17 Taxes, were calculated by applying the existing tax rates to revenues
18 projected for the bridge periods and the Rate Year.

19 Payroll taxes, consisting of Federal Insurance Contributions Act (FICA) and
20 federal and state unemployment insurance, were calculated by applying the
21 appropriate tax rates to the related taxable wages projected for the
22 applicable periods.

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1 Other taxes include sales and use taxes and hazardous waste taxes for
2 electric operations. Sales and use taxes were projected by applying a four-
3 year average rate of growth (Twelve months ended March 31, 2005; 2006;
4 2007 and 2008) to the historic year level of expense adjusted to remove audit
5 adjustments. The hazardous waste tax is based on applying inflation factors
6 to a four-year average (Twelve months ended March 31, 2005; 2006; 2007
7 and 2008) of hazardous waste tax which was first adjusted to twelve months
8 ended March 31, 2008 dollars and allocated 100% to electric operations
9 consistent with the Company's accounting practice.

10 Property tax projections are detailed on Schedule C, Page 7 of 7, of Exhibit
11 __ (RRP-1) and Schedule C, Page 6 of 6, of Exhibit __ (RRP-2) for electric
12 and gas respectively, as to real estate and special franchise taxes levied by
13 school districts and by towns, counties, cities and villages. Property Taxes
14 were first developed by applying the inflation factors to the most recent actual
15 taxes to arrive at the projection. In addition, the Company received
16 notification from the New York State Office of Real Property Services, by
17 letters dated March 26, 2008 and May 6, 2008, of the final Special Franchise
18 values for city and town assessment rolls filed in 2008. The indicated result is
19 an increase in assessed value of 12% for Special Franchise Tax. That
20 assessed value increase was then incorporated into the projection of Special
21 Franchise Tax expense. Additionally, the Company included projected
22 incremental assessments related to significant capital additions based on a
23 review of the capital expenditure plan sponsored by Mr. Haering.

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1 **DEVELOPMENT OF RATE BASE**

2

3 Q. Referring to Schedule A of Exhibit __ (RRP-5) entitled "Rate Base -
4 Summary," what does this schedule show?

5 A. This schedule shows the total rate base by department for the historical
6 period of the twelve months ended March 31, 2008 and summarizes the
7 components which make up the rate base.

8

9 Q. Are any items included in the rate base for the historical and forecast periods
10 supported by a witness other than the Panel?

11 A. Yes. The rate base amounts for Net Plant and Noninterest-Bearing
12 Construction Work in Progress for the historical period and all projected
13 periods were provided by the Accounting Panel and are addressed in their
14 testimony.

15

16 Q. Please describe the amount labeled "Customer Advances for Under-
17 grounding" appearing on Schedule A of Exhibit __ (RRP-5).

18 A. The amount represents the average balance of advances to the Company by
19 customers for underground construction for the historical period.

20

21 Q. Please describe the amounts labeled "Deferred Charges" as shown on
22 Schedule A of Exhibit __ (RRP-5).

23 A. The deferred charge items which have been summarized on Schedule A are

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1 shown on Schedule B of this Exhibit. They generally represent costs incurred
2 by the Company or credits due customers which, in accordance with the
3 Uniform System of Accounts or by permission granted by the Commission,
4 are deferred when they occur and are reflected as an expense or income in a
5 subsequent period.

6

7 Q. Please describe the items appearing on Schedule B of Exhibit __ (RRP-5).

8 A. The deferral of "Research and Development Costs" results from the
9 accounting treatment set forth in Commission Opinion No. 78-3. In general,
10 such deferrals result from the monthly matching of expense to revenues
11 collected for the Research and Development Program.

12 The amounts shown for "MTA Tax" represent the unrecovered portion of the
13 Company's payments of the Temporary Metropolitan Transportation
14 Business Tax Surcharge.

15 The amounts shown for "Unamortized Debt Expense" are amortized over the
16 terms of the various securities to which they are related in accordance with
17 the Uniform System of Accounts. The amounts shown on Schedule B
18 represent the average unamortized balance of this item during the historical
19 period and it has been allocated 76% to the Electric Department and 24% to
20 the Gas Department based on the proportional shares of the historical period
21 earnings base.

22 "Unamortized Discount Long-Term Debt" is amortized over the terms of the
23 various securities to which the discounts are related in accordance with the

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1 Uniform System of Accounts. The amounts shown on Schedule B represent
2 the average unamortized balance of this item during the historical period and
3 it has been allocated 76% to the Electric Department and 24% to the Gas
4 Department based on the proportional shares of the historical period
5 earnings base.

6 “Adjustable Rate PCB Notes” represents the deferral of the under recovery of
7 the interest associated with various issues of such pollution control notes. In
8 the Company's last several rate cases the Commission authorized
9 accounting and ratemaking treatment of such interest to ensure recovery of
10 actual costs. The amount shown on Schedule B represents the average
11 deferred balance of the under recovery resulting from the Commission's July
12 24, 2006 Order in Cases 05-E-0934 and 05-G-0935. These amounts have
13 been allocated to the electric and gas departments in proportion to the rate
14 base amounts by department as is reflected in the above referenced Order.

15 “Software Purchases” are deferred and amortized over a 60-month period.
16 The accounting method and period of amortization for computer software are
17 the same as required for federal income tax purposes by the Internal
18 Revenue Code. Unless a software package is dedicated to exclusive use in
19 either electric or gas operations, it is considered applicable to both and its
20 cost, therefore, is allocated to both departments. The allocation ratio so
21 applied is 85% electric and 15% gas based on the Company's standard
22 allocation ratio for common costs.

23 The next item appearing on Schedule B is “NMP-2 Settlement Agreement

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1 Costs.” The amount shown represents the average deferred balance of
2 carrying charges during the historical period related to the accounting and
3 ratemaking for NMP-2 costs as previously established by the Commission in
4 the NMP-2 Global Settlement and related orders.

5 “Deferred Revenues - Attachment Rents” results from the Company's
6 accounting treatment that recognizes the attachment rents as revenues
7 during the period to which they pertain rather than when they are received.

8 “Service Quality Penalty” represents the average deferred balance during the
9 historical period for an assessment under the Electric Reliability Standards
10 established in Case 05-E-0934.

11 “Executive Deferred Compensation Plan” represents the balance sheet effect
12 of the timing difference between the accrual of expense and the payment of
13 benefits.

14 The next item appearing on Schedule B is “Carrying Charge on Asbestos
15 Litigation” representing the interest due the Company on legal costs incurred
16 related to mitigating claims and seeking insurance recoveries.

17 “Unamortized Loss on Reacquired Debt Expense” is amortized over the
18 terms of the various securities to which it is related in accordance with the
19 Uniform System of Accounts. The amounts shown on Schedule B represent
20 the average unamortized balance of this item during the historical period and
21 the balance has been allocated 76% to the Electric Department and 24% to
22 the Gas Department based on the proportional shares of the historical period
23 earnings base.

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1 “Carrying Charge on Deferred New York State Taxes – Tax Law Change”
2 represents the average deferred balance during the historical period resulting
3 from the accrual of carrying charges on deferred New York State taxes as
4 required by a Commission order issued June 28, 2001 in Case 00-M-1556.

5 “AMR Meters – Interruptible SC #8 and #9” represents the average deferred
6 balance during the historical period resulting from the Commission’s
7 authorization to defer the costs of installing real-time metering devices for all
8 of the Company’s interruptible customers at no direct charge to the customer
9 as required per Case 04-G-0463.

10 “Preferred Stock Costs & Redemption Premium” represent costs and
11 premiums that are amortized over the terms of the various securities to which
12 they are related in accordance with the Uniform System of Accounts. The
13 amounts shown on Schedule B represent the average unamortized balance
14 of this item during the historical period and it has been allocated 76% to the
15 Electric Department and 24% to the Gas Department based on the
16 proportional shares of the historical period earnings base.

17 The next item is “Survivor Programs of the Customer Benefit Fund,” which
18 represents the average deferred balance during the historical period of the
19 funding that was earmarked for the Economic Development and Competitive
20 Metering initiatives as approved by the Commission in Cases 05-E-0934 and
21 05-G-0935.

22 “Competition Education Program” represents the deferral of the over
23 recovery of funding to promote and educate customers on the potential

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1 benefits of selecting an alternate supplier as approved by the Commission in
2 Cases 05-E-0934 and 05-G-0935.

3 “Carrying Charge on Enhanced Powerful Opportunities Program” represents
4 the average balance during the historical period of the accumulated interest
5 due customers related to the funding for the program established by the
6 Commission in Cases 05-E-0934 and 05-G-0935.

7 “Carrying Charge on MGP SIR Costs & Recoveries” represents the average
8 balance during the historical period of the accumulated interest due
9 customers related to the funding for such costs established by the
10 Commission in Cases 05-E-0934 and 05-G-0935.

11 “Carrying Charge on Interest Bearing Gas Deferred Balance” represents the
12 average balance during the historical period of the accumulated interest due
13 the Company related to the portion of the unrecovered net regulatory asset
14 that was deemed interest bearing with recovery over a seven-year period as
15 authorized in Case 05-G-0935.

16 “Carrying Charge on Gas Balancing Software Costs” represents the average
17 balance during the historical period of the accumulated interest due the
18 Company related to the requirement that the Company purchase software for
19 the purpose of monthly and daily balancing of interruptible, firm
20 transportation and aggregated transportation accounts as established by the
21 Commission in Case 05-G-0935.

22 “Stray Voltage Testing” represents the deferral of the over recovery of the
23 funding that was earmarked for this purpose by the Commission in Case 05-

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1 E-0934.

2 “Excess Depreciation Reserve” represents the average balance during the
3 historical period related to the unused portion of the fund established and
4 used as a rate moderator by the Commission in Case 05-E-0934.

5 The next item is “Gain on Sale of Beacon Parcel,” representing the average
6 balance during the historical period of the proceeds related to a sale of
7 property pursuant to Commission order in Case 07-E-0155.

8 “Carrying Charge on Property Taxes” represents the average balance during
9 the historical period of the accumulated interest due customers related to the
10 deferral of the over recovery of property taxes as required by the
11 Commission in Cases 05-E-0934 and 05-G-0935.

12 “Carrying Charge on Shared Earnings” represents the average balance
13 during the historical period of the accumulated interest due customers related
14 to electric earnings that have been deferred for pass back to customers
15 under the earnings sharing provisions established by the Commission by its
16 July 24, 2006 Order in Case 05-E-0934.

17 The last item is “Carrying Charge on Groveville Sale,” which represents the
18 average balance during the historical period of the accumulated interest due
19 customers as required by the Commission in its April 23, 2007 Order in Case
20 07-E-0136 related to the proceeds from the Company's sale of the Groveville
21 Hydro generating facility.

22

23 Q. Would the Panel please explain what is shown on Schedule C of Exhibit ___

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1 (RRP-5) entitled "Deferred Federal Taxes."

2 A. Schedule C shows the accumulated deferred federal taxes for the historical
3 period. Some of the items listed represent the deferred federal income tax
4 associated with the deferred charges shown on Schedule B. Other items
5 listed on Schedule C result from deferred tax accounting authorized or
6 required by the Commission.

7

8 Q. Would the Panel please explain those deferred federal tax items included in
9 Schedule C of Exhibit __ (RRP-5) which are in addition to those directly
10 related to the items shown on Schedule B?

11 A. "Investment Tax Credit" results from the normalization of the tax benefits
12 associated with the Investment Tax Credit related to plant investment as
13 required by tax law and adopted by the Commission.

14 "Contributions In Aid of Construction" is the result of normalizing the tax
15 effect of such contributions from customers being considered a reduction of
16 plant cost for book purposes but an item of income for tax purposes.

17 "Unbilled Revenue" represents the average balance for the historical period
18 resulting from the taxation of unbilled revenues under the Tax Reform Act of
19 1986 and the related accounting and ratemaking requirements established
20 by the Commission in a policy statement issued July 7, 1987 in Case 29465.

21 The amount shown as "Construction Overheads" in Schedule C is the
22 average unamortized deferred tax balance for the historical period resulting
23 from expensing for tax purposes but capitalizing as plant investment for

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1 financial accounting purposes certain overhead costs. Deferred tax
2 accounting and normalization of the federal income tax benefits related to
3 construction overheads was first authorized by the Commission in Opinion
4 No. 82-21 and was continued by subsequent Orders in Company rate
5 proceedings. The Tax Reform Act of 1986 eliminated this deduction and
6 required the capitalization of the construction overheads for tax purposes.
7 As a result, there have been no deferrals since December 1986 but prior
8 deferrals are not yet fully amortized.

9 "Deferred Avoided Cost Interest Capitalized" represents the average balance
10 for the historical period of deferred federal income tax resulting from the
11 capitalization of rather than the current deduction of construction-related
12 interest costs under the Tax Reform Act of 1986 and the related accounting
13 and ratemaking for such change in tax treatment established by the
14 Commission in its related policy statement issued in Case 29465.

15 The amount shown as "Bonds Redeemed" represents the deferred income
16 tax on both the unamortized redemption premium and deferred mortgage
17 recording taxes related to redeemed bonds.

18 Deferred tax accounting for the federal income tax effect of plant removal
19 costs has been reflected in Commission opinions in the Company's last
20 several rate cases. The average deferred tax balance for the historical
21 period associated with removal costs is identified in Schedule C as "Cost of
22 Removal".

23 The amount shown on Schedule C for "Repair Allowance" represents the

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1 average balance for the historical period resulting from normalization of
2 certain income tax benefits. Such benefits stem from the ability to expense
3 for tax purposes certain replacements of plant which are capitalized for book
4 purposes. Deferred accounting for such tax benefits has been reflected in
5 the Company's last several rate cases.

6 “Normalized Depreciation” results from the normalization of the federal
7 income tax benefits of tax depreciation related to plant investment as
8 required by tax law and adopted by the Commission.

9 The amount shown on Schedule C for “ACRS Method Change” represents
10 the continued amortization of the deferred overcollection which resulted from
11 a change in depreciation methods as required by tax law during 1981. The
12 overcollection amount was established in Opinion 82-21 and is being
13 amortized to expense over a 30-year period.

14 “Use of Customer Benefit Account – Capital Reliability Program” and
15 “MACRS – Capital Reliability Program” represents the average balances for
16 the historical period for deferred tax benefits related to depreciation of
17 electric reliability projects the book costs of which, were recovered from the
18 Customer Benefit Fund.

19 “Statutory Rate Adjustment” represents the average balances for the
20 historical period for 2004 and 2006 federal income taxes paid at the 34%
21 rate. The difference between taxes paid at the 34% rate for these two years
22 and the normal 35% were deferred and are included on the Offset List as
23 shown on Exhibit____(RRP- 7).

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1 The last item is "Gas Balancing Software – Tax Depreciation," which
2 represents the average balance for the historical period resulting from the
3 normalization of the federal income tax benefits of tax depreciation. Although
4 there is generally no deferral of the tax benefit of software purchases as we
5 will explain later, there is with respect to this software because the book
6 costs of the software were fully deferred as authorized in Case 05-G-0935
7 while for tax purposes, this item is amortized over a five-year period.

8
9 Q. Are there any other comments that the Panel would like to make regarding
10 the deferred tax items shown on Schedule C of Exhibit __ (RRP-5)?

11 A. Yes. Schedule C does not include amounts related to software purchases,
12 with the exception of Gas Balancing Software as previously explained,
13 unamortized discount on long-term debt, unamortized debt expense
14 (excluding mortgage recording tax) and unamortized loss on reacquired debt
15 because the amortization periods for these costs are the same for both book
16 and tax purposes and, therefore, no deferred taxes result. In addition,
17 executive deferred compensation and preferred stock costs and redemption
18 premium are non deductible for tax purposes and, therefore, no deferred
19 taxes result.

20
21 Q. Please explain what is shown on Schedule D of Exhibit __ (RRP-5) entitled
22 "Deferred State Taxes".

23 A. Schedule D shows the accumulated deferred New York State taxes for the

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1 historical period. As with Schedule C, some of the items listed represent the
2 deferred state income tax associated with the deferred charges shown on
3 Schedule B. Other items listed on Schedule D result from deferred tax
4 accounting authorized or required by the Commission as previously
5 described regarding federal income taxes on Schedule C.

6

7 Q. Please describe the amounts labeled "Working Capital" as shown on
8 Schedule A of Exhibit __ (RRP-5).

9 A. The working capital items which have been summarized on Schedule A are
10 shown on Schedule E of Exhibit__(RRP-5). This schedule sets forth the
11 working capital component of rate base for the twelve months ended March
12 31, 2008. The schedule identifies the standard items that make up the
13 working capital rate base in accordance with established Commission
14 practice. Included are materials and supplies, prepayments and an allowance
15 for operation and maintenance expenses.

16

17 Q. How were the amounts shown on Schedule E of Exhibit __ (RRP-5)
18 developed?

19 A. Monthly balances for materials and supplies and prepaid expenses were
20 derived from the Company's monthly balance sheets. The allowance for
21 operation and maintenance expenses was developed from the departmental
22 income statements by applying the Federal Energy Regulatory Commission
23 (FERC) formula as approved by the Public Service Commission. Since

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1 bimonthly revenues as a percent of own territory revenues, excluding those
2 from interdepartmental sales, were determined to be 57% for electric and
3 64% for gas during the historical period, a one-seventh (1/7) factor was used
4 to determine the working capital related to operation and maintenance
5 expenses other than fuel (hydro and gas turbine) and purchased power for
6 electric operations and purchased gas for gas operations. The Commission's
7 Order in the Niagara Mohawk Power Corporation Case 26088 established
8 the 1/7 factor as appropriate, "when bimonthly billings, measured in dollars,
9 account for more than 30% but less than 70% of revenues."

10
11 Q. How were common components of working capital allocated between the
12 Electric and Gas Departments?

13 A. Common items in the materials and supplies portion of working capital were
14 allocated 76% to the Electric Department and 24% to the Gas Department
15 based on the ratio of average electric and gas gross utility plant excluding
16 common and future use plant for the historical period. Prepaid property taxes
17 were allocated 79% to the electric department and 21% to the gas
18 department based on the sum of the property taxes charged to electric and
19 gas expense for the period 2004 through 2007.

20 All other prepayments were allocated 85% to the electric department and
21 15% to the gas department based on the Company's current basis for
22 allocating common expenses.

23

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1 Q. Please explain the derivation of the amounts labeled "Capitalization
2 Adjustment to Rate Base" appearing on Schedule A of Exhibit__(RRP-5).

3 A. These amounts are developed on Schedules F through H of Exhibit__(RRP-
4 5). Schedule F shows the average capitalization per the Company's books
5 for the twelve months ended March 31, 2008. Schedule G shows the
6 average corporate earnings base for the twelve months ended March 31,
7 2008. The amounts developed on Schedules F and G are used on Schedule
8 H which compares the historical period earnings base and capitalization in
9 order to determine the extent to which the unadjusted rate base must be
10 adjusted so that the final earnings base and capitalization are in balance.

11
12 Q. Please explain the derivation of earnings base as shown on Schedule G of
13 Exhibit__(RRP-5).

14 A. The earnings base shown on Schedule G is the earnings base for the
15 historical period before the application of the earnings base-capitalization
16 adjustment to rate base. It, therefore, consists of the unadjusted rate base
17 shown on Schedule A of Exhibit__(RRP-5) and a series of items on which
18 interest or carrying charges are accrued. The latter items are: interest-
19 bearing construction work in progress shown on Schedule A of Exhibit__(AP-
20 6); the average net deferred balance for the historic period of New York State
21 Taxes; Asbestos Litigation; Enhanced Powerful Opportunities Program; the
22 Interest Bearing and Non-Interest Bearing components of the Gas Net
23 Regulatory Asset; Gas Balancing Software; MGP SIR Costs and Recoveries;

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1 Electric Shared Earnings; Gain on Sale of the Groveville Mills Hydro Station;
2 Property Taxes; Lost Net Revenues resulting from Photovoltaic (PV) Net
3 Metering; NMP-2 operation and maintenance expenses as addressed
4 previously; the earnings base effects, for the historical period, of the average
5 liability to the pension fund, the internal reserve, the over/under collection of
6 pension costs, carrying charges and applicable deferred tax balances; and,
7 the earnings base effects, for the historical period, of the average liability to
8 the OPEB fund, internal reserve, over/under collection of OPEB costs,
9 carrying charges and applicable deferred tax balances.

10
11 Q. Why has the total capitalization shown on Schedule F been adjusted on
12 Schedule H prior to comparing it to earnings base?

13 A. Capitalization has been adjusted for several purposes. The first is to
14 recognize that capital has been used to support non-earnings base items.
15 Adjustments shown in Schedule H to reflect this are those related to the
16 Company's average investment in subsidiary companies and non-utility
17 property.

18 The second purpose of adjusting capitalization is to more accurately reflect
19 the flow of cash available to the Company from the various sources of capital
20 than is indicated by the monthly average capitalization shown on Schedule
21 F. In this regard, capitalization was decreased to reflect the average daily,
22 rather than monthly, balance of short-term debt, preferred stock and long-
23 term debt.

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1 The third purpose of adjusting capitalization relates to removing the effects of
2 costs associated with the replacement of cast iron main pursuant to the
3 settlement reached in Case 93-G-1083. Specifically, the adjustment labeled
4 "Catskill Gas Settlement" on Schedule G reflects the average extent during
5 the historical period to which the tax benefits associated with such plant,
6 although recognized in income at the time the Company absorbed the related
7 expense, had not yet been realized through tax depreciation deductions on
8 the Company's tax returns. This adjustment serves to result in such deferred
9 taxes having no effect on rate base in the Rate Year.

10 Lastly, the fourth purpose for adjusting capitalization relates to recognizing
11 that short term deferred and working capital costs are collected through the
12 ECAM and GSC. Adjustments shown in Schedule H to reflect this are those
13 identified as "Deferred Gas Costs"; "Working Capital – Material & Supplies
14 Inventory"; "Working Capital – Prepayments to NYISO"; "Deferred Electric
15 Fuel Costs"; and "Deferred Long Term Gas R&D/GRI Costs."

16
17 Q. What is the result of the comparison on Schedule H of Exhibit __ (RRP-5) of
18 the historical period earnings base and adjusted capitalization?

19 A. The comparison shows that adjusted capitalization exceeds earnings base
20 by \$8.894 million. Accordingly, the unadjusted rate base has been increased
21 by this amount as shown and identified as "Capitalization Adjustment to
22 Rate Base" appearing on Schedule A of Exhibits __ (RRP-5) and __ (RRP-6).
23 This adjustment reflects the consistent application of the method used by the

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1 Company and endorsed by the Commission in previous rate cases.

2

3 Q. How has the capitalization adjustment to rate base been allocated between
4 the Electric and Gas Departments?

5 A. The capitalization adjustment to rate base has been allocated 76% to the
6 Electric Department and 24% to the Gas Department based on their
7 respective contributions to the total earnings base for the historical period as
8 calculated on Schedule G of Exhibit __ (RRP-5).

9

10 Q. Turning now to the subject of forecasting various components of the rate
11 base and referring to Exhibit __ (RRP-6), Schedule A, please explain how
12 the amounts labeled "Customer Advances for Undergrounding" were
13 forecasted.

14 A. The amounts shown on Schedule A for "Customer Advances for
15 Undergrounding" represents the average balance for the historical period.
16 These amounts were held constant for the forecast periods of the twelve-
17 month periods ending December 31, 2008, December 31, 2009 and June
18 30, 2010.

19

20 Q. Please explain the method used to develop the projected amounts shown on
21 Schedules B, C and D, of Exhibit __ (RRP-6), labeled "Deferred Charges" ,
22 "Deferred Federal Taxes" and "Deferred State Taxes," respectively.

23 A. The amounts shown on Schedules B, C and D were developed by projecting

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1 monthly balances for the items shown and then determining the average
2 monthly balance for each twelve-month period. For those items appearing
3 on all three schedules, the deferred tax balances shown on Schedules C and
4 D track the projected balances for the item as shown on Schedule B.

5 Balances for the items were generally projected by using cost or credit
6 deferrals provided to us by other witnesses or other individuals in the
7 Company, along with the related income statement effects for the items
8 included in Exhibit __ (RRP-1) and Exhibit __ (RRP-2).

9 The projected deferred balances at the beginning of the Rate Year for
10 several Electric and Gas Department items were assumed to be offset
11 against one another so as to eliminate the deferred balances. These items
12 are identified on Exhibit __ (RRP-7) and discussed later in our testimony.

13
14 Q. How was the amount shown on Schedule A of Exhibit __ (RRP-6), related to
15 "Working Capital," for the projected periods calculated?

16 A. The calculation of working capital as summarized on Schedule A is shown on
17 Schedule E of that Exhibit.

18
19 Q. Referring to Schedule E, please explain how the working capital components
20 were projected.

21 A. Working Capital related to prepaid insurance, other prepayments and other
22 material and supplies were forecasted by inflating the historical period
23 monthly amounts by 1.024 for April through December 2008, 1.046 for

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1 January through December 2009 and 1.069 for January through December
2 2010 based on projections of the GDP Implicit Price Deflator provided by the
3 Electric Forecasting Panel.

4 The amounts related to prepaid property taxes were projected to increase
5 from the historical period average in proportion to the increases projected for
6 property tax expense as shown in Exhibits __ (RRP-1) and (RRP-2).

7 The operation and maintenance cash working capital component was
8 developed by applying the Federal Energy Regulatory Commission formula
9 as described in this testimony regarding the historical period cash working
10 capital allowance.

11
12 Q. What is the projected rate base by Department for the Rate Year?

13 A. As shown on Schedule A of Exhibit __ (RRP-6), the projected rate base prior
14 to moderation for the Rate Year Ending June 30, 2010 is \$665.5 million for
15 Electric and \$180.1 million for Gas.

16 17 **DISPOSITION OF DEFERRED ITEMS**

18
19 Q. Please explain the purpose of Exhibit __ (RRP-7) entitled "Disposition of
20 Deferred Items".

21 A. Exhibit __ (RRP-7) consists of two schedules. Schedule A shows Electric
22 Deferred Items for Offset and Schedule B shows Gas Deferred Items for
23 Amortization. Schedules A and B set forth deferred balances projected as of

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1 the beginning of the Rate Year for a variety of items. Those Schedules relate
2 to Company proposals as to the disposition of those deferred balances.

3

4 Q. Please describe the Company's proposal with respect to the electric deferred
5 items shown on Schedule A of Exhibit ____(RRP-7).

6

7 A. The Company proposes that actual deferred credit and debit balances as of
8 June 30, 2009 be netted against each other. The Company is also proposing
9 that the book depreciation reserve deficiency addressed in the testimony of
10 the Accounting Panel be offset by an equal amount of the projected deferred
11 credit balance. Finally, the net actual balance remaining after the above be
12 utilized as described by Mr. Mosher as a bill moderator during the rate year.
13 Schedule A of Exhibit____(RRP-7) reflects the Company's best current
14 estimate of the projected net deferred balance at June 30, 2009, as a credit
15 balance of \$21.2 million.

15

16 Q. Please explain the Company's proposals regarding disposition of the
17 deferred balances that pertain to gas operations?

17

18 A. The revenue requirement in this filing reflects the proposal that actual
19 deferred balances related to the items shown on Schedule B of Exhibit __
20 (RRP-7) as of June 30, 2009, be aggregated and the aggregate net balance
21 be amortized, including interest on the unamortized balance, over a five-year
22 period.

22

23

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1 Q. Should the net electric and gas deferred balance amounts be considered
2 subject to update later in this proceeding?

3 A. Yes. It is proposed that the final makeup and disposition of the charges and
4 credits, including the recognition of unanticipated deferred balances, and any
5 necessary rate base adjustments be addressed at a later point in this
6 proceeding based upon actually known items and balances at that time.

7

8 **PROVISION FOR UPDATES**

9

10 Q. Please specify all areas of data that the Revenue Requirement Panel
11 proposes be updated later in this proceeding.

12 A. The following updates, all of which have been performed in the last several
13 Company rate cases, are proposed:

14

15 Labor

16 To update for the latest known number of employees as described in the
17 testimony of Mr. Brocks and for later known salary increases and premium
18 pay percentages.

19

20 Interest on Pollution Control Bonds

21 To update the Company's cost of capital for the latest known actual interest
22 rates on its variable rate pollution control bonds as described in the testimony
23 of Mr. Renner.

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1 Fringe Benefits

2 To update for the most recent twelve months of actual medical plan
3 premiums, claim activity and employee contributions, and group life
4 premiums.

5

6 OPEBs/Pension Plan

7 To update for any known changes supplied by the Company's actuaries for
8 OPEB and Pension Plan cost estimates.

9

10 Uncollectible Accounts

11 To update the ratio of net write-offs to own territory revenues for the most
12 recent twelve months of activity.

13

14 Regulatory Commission Assessment

15 To update for the latest PSC assessment and four-year average rate of
16 growth.

17

18 Other Operating Insurance

19 To update for the latest GDP factors and the most recent twelve months of
20 actual premiums for all risk and directors and officers liability insurance.

21

22 Injuries and Damages

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1 To update for the latest GDP factors and also to update 1) workers
2 compensation insurance for the most recent twelve months of premiums and
3 the four-year average of claims paid; 2) excess liability for the most recent
4 twelve months of actual premiums and 3) personal and property damage
5 claims to include the latest known information in the four-year average
6 serving as the basis for projections.

7

8 Storm Restoration Expense

9 To update for the latest known information in the four-year average serving
10 as the basis for projections and GDP factors.

11

12 Taxes Other Than Income Taxes

13 To update for the latest GDP factors, latest known sales and use taxes and
14 latest known property taxes.

15

16 Other Inflation Based Expense Components

17 The following cost components should also be updated for the latest GDP
18 factors:

- 19 - Expenses Projected Based on Inflation
- 20 - Miscellaneous General Expenses
- 21 - Legal Services
- 22 - Special Services
- 23 - Telephone Expense

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1 Deferred Balances

2 To reflect later known balances and items for offset or amortization.

3

4 Q. Does this conclude the direct testimony of the Revenue Requirement Panel?

5 A. Yes, it does.