

DIRECT TESTIMONY  
OF  
MICHAEL L. MOSHER

1 Q. Please state your name and business address.

2 A. My name is Michael L. Mosher and my business address is Central Hudson  
3 Gas & Electric Corporation ("Central Hudson" or the "Company"), 284 South  
4 Avenue, Poughkeepsie, New York 12601.

5

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

7 A. I am employed as Vice President - Regulatory Affairs.

8

9 Q. Please summarize your education and experience.

10 A. I received a Bachelor of Science in Electrical Engineering degree from Union  
11 College in 1985. I have been employed continuously by Central Hudson, or  
12 its affiliate, Central Hudson Enterprises Corporation since 1993.

13

14 Q. What are your responsibilities in your present position?

15 A. I have overall responsibility for all matters pertaining to Regulatory Affairs,  
16 Financial Planning, Cost, Rates & Forecasts, Customer Choice, Fuels and  
17 Power Supply. These areas are responsible for forecasting demand for the  
18 Company's products, designing rates and tariffs for both natural gas and  
19 electricity delivery and supply service, revenue requirement determination,  
20 budgeting, fuel and natural gas procurement and power supply purchasing  
21 and commodity supply portfolio management activities.

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1 Q. Have you appeared as a witness before this Commission?

2 A. Yes. I have previously appeared in cases 05-E-0934 and 05-G-0935 –  
3 Proceeding on Motion of the Commission as to the Rates, Charges, Rules  
4 and Regulations for Central Hudson Gas & Electric Corporation for Electric &  
5 Gas Service.

6

7 Q. What is the purpose of your testimony?

8 A. The purpose of my testimony is to describe the background to this filing,  
9 describe the material presented by the Company, and the witnesses that will  
10 be addressing each topic. This filing addresses a Rate Year comprised of the  
11 twelve months ending June 30, 2010.

12

13 Q. Please describe generally the background to this filing.

14 A. New electric and gas rates are necessary to correct inaccurate delivery rates  
15 as soon as possible to allow for recovery of previously Commission-  
16 authorized revenues and to address cost increases. The Company has been  
17 unable to recover its' Commission-authorized revenues, for both gas and  
18 electric delivery service, under the terms of the current Commission three-  
19 year rate plan, which runs through June 30, 2009. Our data indicates that the  
20 average annual residential use per customer is running nearly 5% and 10%  
21 for electric and gas, respectively, below the level of sales used to set rates,

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1 on a weather-normalized basis. The deteriorating gas and electric sales and  
2 resulting revenue shortfalls have meant that Central Hudson has been unable  
3 to fully recover its authorized costs of providing electric and gas service for  
4 the first two rate years under the current rate plan, even as the Company has  
5 been required to expend designated amounts for electric, gas and common  
6 plant additions, electric transmission and distribution tree trimming programs,  
7 and has been further impacted by a number of other non-revenue matched  
8 expense items that require deferral accounting treatment, including stray  
9 voltage testing and MGP site remediation. The Company anticipates a  
10 continuing and severe revenue deficit of nearly \$13.3 million and \$6.7 million  
11 for electric and gas, respectively, from the Company's authorized revenue  
12 requirements for the remaining rate year ending June 2009 under the current  
13 rate plan. Simply returning the Company to the position to recover the  
14 revenue levels previously approved by the Commission represents  
15 approximately 40% of the requested increases above the revenue levels  
16 resulting from the present rates. This situation is expected to persist through  
17 to the expiration of the existing rate plan, unless corrected sooner by the  
18 Commission.

19

20 Q. Are there other reasons for the rate increases?

21 A. Yes. The Company faces higher costs. Without additional revenue support,

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1       there are a number of existing and new cost pressures that cannot be fully  
2       offset by the Company's productivity gains and other efforts to control costs.  
3       The sales shortfalls and cost pressures all contribute to the need for  
4       additional revenues to recover the ongoing costs of providing electric and gas  
5       delivery service.

6

7    Q.    What are the major elements of the requested electric delivery rate increase?

8    A.    As noted, the major driver of the \$35.4 million electric rate increase is  
9       correcting the sales shortfall, to recover previously authorized revenues. The  
10       remaining \$22.1 million of the rate increase is due to the increase in revenue  
11       requirement and is driven by several factors. These include additional  
12       transmission and distribution system infrastructure improvements, consisting  
13       of expansions, upgrades, and replacements to continue to meet safe and  
14       reliable service obligations, as discussed in detail in Mr. Haering's testimony,  
15       as well as certain safety, environmental quality, and compliance related costs.  
16       Additionally, further funding for MGP site remediation expenditures, and  
17       expenditures related to the Company's transmission sag compliance program  
18       contribute to the need for increased revenues. Additional rate drivers include  
19       an increase in depreciation expense, a thicker layer of common equity,  
20       increased costs of debt and equity capital, and Federal and State taxes.

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1 Q. What are the major elements of the requested gas delivery rate increase?

2 A. Similar to the electric rate increase, the major driver of the \$14.7 million gas  
3 rate increase is fixing the delivered unit shortfalls. The \$8 million increase in  
4 revenue requirement is driven primarily by repairs associated with additional  
5 gas leaks on the distribution system and further funding for MGP site  
6 remediation. There are also construction expenditures related to gas system  
7 expansions to serve new customers, as well as system repairs, upgrades,  
8 and replacements, which are similarly discussed in more detail by witness  
9 Haering. Additional rate drivers include an increase in depreciation expense,  
10 additional equity as well as increased costs of debt and equity capital, and  
11 Federal and State taxes.

12  
13 Q. Has the Company achieved any notable productivity gains that have been  
14 reflected in the forecast rate year ending June 30, 2010 in this filing to  
15 mitigate the rate increases?

16 A. Yes. The Company has made significant progress in lowering its cost  
17 structure through compensation and benefit plan reforms. The table below  
18 demonstrates significant cost reductions of over \$6.0 million in total labor,  
19 pensions, Other Post Employment Benefit (OPEB) plans, and fringe benefit  
20 costs in the forecast rate year, compared to rate year three of the current rate  
21 plan.

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(\$000)	Rate Year Ended June 2010	Rate Year Three Current Rate Plan	Rate Year Ending June 2010 vs. Current Plan
Total Labor	82,855	75,613	7,242
Pensions	14,314	18,392	(4,078)
OPEB's (net)	6,350	14,899	(8,549)
Fringe Benefits	10,311	10,955	(644)
TOTAL	113,830	119,859	(6,029)

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Specifically, and as more fully addressed in the testimony of Mr. Brocks, plan changes made recently to the Company's defined benefit pension and OPEB plans are expected to generate savings of approximately \$8 million in the forecast year and over \$75 million over the next five years, as calculated by the Company's actuarial consultant, when compared to the status quo continuation of the plans. As also described by Mr. Brocks, these gains are partially offset by additional staffing requirements resulting from incremental work obligations. On a net expense basis, there is a decrease of about \$1.5 million in total labor expense and benefit costs in the new rate year compared to rate year three of the existing rate plan as a result of these efforts.

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2 Q. What additional steps has the Company taken to further mitigate the electric  
3 rate increase?

4 A. The Company is proposing an Electric Bill Credit to mitigate the effect of the  
5 rate increase during the forecast rate year. The Electric Bill Credit will be  
6 funded by the actual regulatory liability on June 30, 2009 remaining after the  
7 offset of the various electric deferred balances and recovery of the net  
8 electric plant book to theoretical reserve deficiency. The electric reserve  
9 deficiency, which includes an allocation of the common plant deficiency, was  
10 identified in the Company's depreciation study and is addressed more fully by  
11 the Accounting Panel. This net credit is currently estimated at \$21.2 million,  
12 and the amount available to customers will be based on the actual net  
13 regulatory liability remaining after all offsets as of June 30, 3009. The credit  
14 will be returned to all customers through a fixed delivery credit during the  
15 course of the rate year, effectively mitigating approximately 60% of the  
16 electric rate increase in the forecast rate year. Specific detail on the  
17 allocation and return to customers of the net deferred credit is more  
18 specifically addressed in the Electric Forecasting Panel.

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21 Q. Has the Company also sought to further mitigate the gas rate increase?

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1 A. Yes, but unlike the electric balance sheet offset list which contains a balance  
2 for the benefit of customers, the gas balance sheet offset list consists  
3 primarily of an unrecovered regulatory asset established during the  
4 Company's last rate case, which was established to be recovered over a 7  
5 year period beginning in July 2007. In evaluating opportunities to mitigate the  
6 rate increase, the Company identified a net gas book to theoretical excess  
7 reserve of \$4.5 million that it utilized to reduce the remaining deferred  
8 balance. The gas excess reserve, which includes an allocation of the  
9 common plant deficiency, was identified in the Company's depreciation study  
10 and is addressed more fully by the Accounting Panel. The pre-tax credit of  
11 \$4.5 million reduces the gas net regulatory asset remaining after offset of  
12 various gas deferred balances which will be recovered over the remaining 5-  
13 year term of the amortization schedule. This mitigation represents an  
14 ongoing annual reduction of \$141,000 over the remaining five-year term of  
15 the amortization period of the gas net regulatory asset.

16  
17 Q. Please provide an overview of Central Hudson's presentation in this filing.

18 A. The Company has submitted operating results, with appropriate normalization  
19 adjustments, for the historical base period of the twelve months ended March  
20 31, 2008. The Company has also submitted projected operating results for  
21 the Rate Year. The Company has also provided data linking the historical

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1 period and the Rate Year. Operating results for the Electric and Gas  
2 Departments for the twelve-month period ended March 31, 2008, the bridge  
3 years of 2008 and 2009 and the Rate Year ending June 30, 2010 are set forth  
4 in the exhibits sponsored by the Revenue Requirements Panel.

5 Generally speaking, the Company is not proposing changes to the structure,  
6 format or practices reflected in its existing tariffs. Tariff changes are limited to  
7 changing the price levels to reflect the forecast revenue requirements as  
8 allocated to the various service classes, proposals for modest increases in  
9 customer and demand charges, and a revenue decoupling mechanism  
10 (“RDM”) for most electric and gas service classifications that is required to  
11 eliminate disincentives to implementing energy efficiency programs. Please  
12 note that we are proposing the use of the same RDM mechanism for electric  
13 and gas services. In our judgment, there does not appear to be any basis in  
14 principle to use differing RDM mechanisms within the same utility.

15

16 Q. Please describe the areas of testimony of the various witnesses in this filing.

17 A. Mr. Renner will testify in support of the cost of capital data required by the  
18 Commission’s Statement of Policy, the Company’s cash requirements and  
19 policies with regard to financial matters. Dr. Roger Morin, will testify in  
20 support of the cost of common equity capital. The Company is proposing that  
21 rates be set using a common equity ratio of 48% and an allowed cost of

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1 common equity of 10.25%, with a resulting overall rate of return of 7.81%. It  
2 should be noted that the ROE is net of any adjustment for risk reduction  
3 attributable to RDMs.

4 An Accounting Panel, consisting of Mr. Ortlieb and Ms. Komar, will testify to  
5 the Company's accounting practices, the accounting charges for pensions  
6 and OPEBs, matters related to the use of deferral accounting, Plant-in-  
7 Service, Construction Work In Progress, and Depreciation, including the  
8 results of the new depreciation study that the Company completed in  
9 response to a requirement of the existing rate plan.

10 A Revenue Requirements Panel testimony sponsored by Mr. Brideau and Ms.  
11 Smith addresses the development of the electric and gas revenue  
12 requirements, including the historical rate base and related normalization  
13 adjustments, all operating expenses not addressed by others and any  
14 required adjustments related to operating expenses.

15 Mr. Brocks supports the Company's forecast labor requirement, and testifies  
16 with regard to the Company's labor and fringe benefit costs and  
17 compensation practices.

18 Mr. Haering will support projected construction expenditures, and related  
19 matters for the forecast rate year.

20 Mr. DuBois will testify in support of electric transmission and distribution line  
21 clearance practices and expenditures as well as the transmission right of way

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1 management program, the costs of the stray voltage testing program during  
2 the forecast rate year and the costs for new electric-system related programs.  
3 An Energy Efficiency Panel, consisting of Ms. VanBuren, Mr. Kiszkiel, and Mr.  
4 Spector will provide testimony in support of the Company's role in providing  
5 energy efficiency programs and services, and the proposed suite of energy  
6 efficiency offerings for which the Company seeks approval.

7 Mr. Borchert will provide testimony and schedules supporting MGP site  
8 remediation expenditures.

9 Mr. Thomas will testify as to income taxes.

10 Mr. Valleau will testify as to electric and gas commodity procurement  
11 methods.

12 An Electric Forecasting Panel, consisting of Ms. Bunt and Ms. Powers, will  
13 support the projections of electric sales and related revenues and address the  
14 continuation of the mechanism for billing customers for the cost of electricity  
15 purchased on behalf of those customers that remain as full service  
16 customers. The Panel will testify to the proposed interclass electric revenue  
17 allocation, electric rate design, and the design, methodology and operation of  
18 the proposed electric RDM and RDM adjustment factors.

19 A Gas Forecasting Panel, consisting of Ms. Bunt and Ms. Patel, will provide  
20 testimony in support of the projections of gas sales and related revenues and  
21 address the continuation of the mechanism for billing customers for the cost

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1 of gas purchased on behalf of those customers that remain as full service  
2 customers. The Panel will testify to the proposed interclass gas revenue  
3 allocation, gas rate design, and the design, methodology and operation of the  
4 proposed gas RDM and RDM adjustment factors. As mentioned previously,  
5 the structure of the electric and gas RDMs is the same.

6 Mr. Arvidson will sponsor the embedded and pro forma cost-of-service  
7 studies for electric and gas.

8 Mr. Glusko will address additional economic development activities and the  
9 expansion of a regional marketing effort.

10 Ms. Royce will address the status of the Company's existing Enhanced  
11 Powerful Opportunities low-income assistance program.

12 Mr. VanTassell sets forth information related to the current status of retail  
13 access and presents recommendations for continuing the collaborative for the  
14 development of the retail markets.

15

16 Q. Has the Company submitted testimony in compliance with the Rules and  
17 Regulations of the Public Service Commission, 16 NYCRR, Chapter I, Part  
18 61.3 relating to gas purchasing policies and load management practices?

19 A. Yes, it has. Mr. Valleau's testimony addresses the Company's gas  
20 purchasing policies and load management practices including explanation of  
21 Company efforts that have resulted in gas cost savings for customers.

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2 Q. Has the Company addressed electric, gas and low income energy efficiency  
3 in this filing?

4 A. Yes. Central Hudson believes that its customers want Central Hudson to be  
5 extensively involved in delivering energy efficiency programs. The Company  
6 had submitted a comprehensive energy efficiency filing to the Commission in  
7 September 2007, but that filing did not progress to a point where it was  
8 considered substantively by the parties. We have reviewed the Commission's  
9 Order of June 23, 2008 in the Generic Energy Efficiency Portfolio Case (07-  
10 M-0548) and are proposing an expedited way of implementing that Order in  
11 the Central Hudson territory.

12 The Order addressed "fast track" energy efficiency programs and identified  
13 "an estimated \$74.2 million in funding for utility-administered electric  
14 programs and \$16.8 million in total for utility-administered gas programs that  
15 will receive expedited approval if they meet conditions specified" in the Order.

16 The Order also stated that it "reflects a policy decision that 20% of the  
17 residential fast track programs should be oriented toward low-income  
18 customers."

19 The Company already has developed a suite of "expedited" energy efficiency  
20 programs that are capable of very quick implementation and includes " low  
21 income components based on the work it had already done to develop the

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1 Central Hudson energy efficiency/RDM filing now pending before the  
2 Commission in Case 07-M-1139. These programs were developed in mid-  
3 2007 in response to customer focus groups and customer surveys and were  
4 designed based on a number of existing “best practice” residential, small  
5 commercial and industrial, and low-income programs. They were filed in  
6 September 2007 with the Commission. That comprehensive filing included a  
7 detailed description of the programs, forecasted customer participation,  
8 program expenditures, an outreach and marketing plan, and a stipulated  
9 savings measurement and verification plan. The filing also included a  
10 demonstration of the programs’ overall cost effectiveness using the  
11 Commission approved Total Resource Cost test methodology.

12 The programs include “residential heating, ventilation and air conditioning  
13 (HVAC)” programs. An outreach, education/marketing program was part of  
14 the Company’s proposal as well. Central Hudson met with NYSERDA prior to  
15 the filing of these programs. Central Hudson filed these programs in  
16 September of 2007, so that, among other things, they could be approved  
17 before the 2007-2008 heating season. With reference to the “jurisdictional  
18 gap” and the additional programs intended to fill the “jurisdictional gap”  
19 identified by the Commission, the Order spells out a number of criteria. For  
20 example, utilities must provide the information designated in Appendix 3 to  
21 the June 23 Order and “[e]ach utility proposal must provide in the aggregate

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1 for efficiency savings not lower than its Cumulative Through 2011 target  
2 identified in column 6 of Table 11” of the June 23 Order.

3 The testimony of the Energy Efficiency Panel contains both “expedited” and  
4 “gap” programs being proposed by Central Hudson at this time to address the  
5 91 GWh in energy efficiency savings between now and the end of 2011  
6 assigned to Central Hudson in the EEPS Order. The general breakdown is  
7 that 55 GWh are forecast to be achieved through the “expedited” programs, 5  
8 GWh through a set-aside for independent administrator bid-in programs and  
9 31 GWh through Central Hudson-administered resource savings programs.

10 Most of the information called for by the EEPS Order accompanies the  
11 Energy Efficiency Panel testimony, although Central Hudson will supplement  
12 this filing with the additional information required by the EEPS Order on or  
13 before August 22, 2008. Sufficient details are available at this time to permit  
14 other parties to efficiently review the Company’s approach.

15 The Company’s approach is fully described by the Energy Efficiency Panel,  
16 made up of Ms. Van Buren, Mr. Kiszkiel, and Mr. Spector.

17

18 Q. Are there any qualifications that are part of the Company’s energy efficiency  
19 proposals?

20 A. Yes. There are two. First, while Central Hudson supports the objectives of  
21 the Commission and the 15x15 Policy, as a for-profit business we must

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1 approach these activities from a business-like standpoint. As of the  
2 preparation of this filing and my testimony, the Commission has not identified  
3 lost revenue recoveries or incentive structure that will be applicable to utility  
4 administration of energy efficiency programs. We are assuming that the  
5 Commission will establish a realistic opportunity for the Company to recover  
6 lost revenues and to earn a reasonable profit on the basis of the all of efforts  
7 we make to serve the public and all of the social benefits we produce. We  
8 reserve the right to alter our proposals should we find that our assumption is  
9 not correct. Second, the ALJ in Case 07-M-1139 has directed that  
10 collaboration concerning the gas “expedited” programs commence so as to  
11 seek to launch these portions as soon as possible. The ALJ considered this  
12 as a “head start” and it was not intended to foreclose any procedure for  
13 consideration of the remainder of Central Hudson’s proposals that the  
14 Commission might direct.

15

16 Q. Does the Company’s filing include a proposal for an Advanced Metering  
17 Infrastructure (AMI) pilot program?

18 A. No, the Company’s filing does not include an AMI pilot proposal. The  
19 Company is awaiting Commission action on the adoption of certain minimum  
20 functionality criteria and standards to be used in the development of AMI pilot  
21 programs. The Company is required under Order by the Commission in its

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1 current rate plan to develop and file an AMI pilot plan within 60 days of  
2 Commission adoption of a set of standard. At that time, the Company's AMI  
3 pilot proposal will comply with the Commission's functionality standards and  
4 address methods for measuring all of the costs and benefits associated with a  
5 AMI system, including a proposal and mechanism for current cost recovery.  
6 As the full scope and schedule of an AMI pilot is unknown at this time, the  
7 Company is seeking to defer for future recovery all costs related to the  
8 development and implementation of the AMI pilot project.

9

10 Q. Does the present filing address implementation of solar and other renewable  
11 technologies?

12 A. Yes, it does. Central Hudson has long been a supporter of implementing  
13 solar photovoltaic (PV) and other renewable technologies, provided the  
14 Company is allowed to defer and recover lost revenues so that the  
15 implementation is not done at shareholders' expense.

16 Central Hudson is the only utility in NYS to have exceeded its previously  
17 legislated residential photovoltaic ceiling, established at 0.1% of 1996 peak  
18 demand, or 800 kW, and the only utility to voluntarily raise its' cap. The  
19 Company was honored by the New York State Solar Industry Association and  
20 Sustainable Hudson Valley in 2007 in recognition of its leadership in  
21 advancing net metering and solar technologies. In 2007, the Commission

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1 ordered the Company to increase the photovoltaic net-metered ceiling to 10.0  
2 MW and provided the Company with deferral authorization for recovery of all  
3 lost revenues associated with solar installations above the 800 kW initial cap.  
4 The future development of PV and other renewable technologies remains  
5 difficult to predict, as the technology matures and the costs of oil and gas  
6 continue to change. In the present filing, the Company has made  
7 adjustments to its sales forecast to reflect assumed reductions in deliveries  
8 due to an expansion of residential solar installations on its system, but the  
9 Company has not made estimates of the reduced deliveries due to future  
10 increases in the existing limits on the size of residential photovoltaic systems,  
11 nor the expansion of net metering technologies authorized in recent pending  
12 legislation to non-residential customers. As such, to be able to continue to  
13 fully support the expansion of eligible net-metered technologies, the Company  
14 requests deferral authority for lost delivery revenues associated with all  
15 additional net metered systems not reflected in the forecast, should those lost  
16 revenues not be within the scope of any RDMs approved in this case.

17

18 Q. Is Central Hudson requesting any changes to the parameters specified in the  
19 Company's existing tariffs that define customer responsibility for line  
20 extensions?

21 A. No, we are not because we have consistently enforced the provisions of our

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1 existing tariffs so as to place cost responsibility properly on developers or  
2 others who wish to connect under conditions that exceed the existing  
3 parameters. However, in view of the fact that these issues continue to arise,  
4 it may be appropriate for the Commission to consider providing confirmation  
5 concerning customer responsibility for line extensions. Central Hudson  
6 intends to continue its enforcement of the tariff absent a different directive  
7 from the Commission.

8

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

10 A. Yes, it does.