

REBUTTAL TESTIMONY OF
REVENUE REQUIREMENT PANEL
CASES 08-E-0887 & 08-G-0888

1 Q. Are you the same David P. Brideau who submitted pre-filed direct testimony in this
2 proceeding as a member of the Revenue Requirement Panel?

3 A. Yes, I am.
4

5 Q. Are you the same Gina M. Smith who submitted pre-filed direct testimony in this
6 proceeding as a member of the Revenue Requirement Panel?

7 A. Yes, I am.
8

9 Q. What is the purpose of the Panel's rebuttal testimony?

10 A. The purpose of our rebuttal testimony is to respond to the following revenue
11 requirement adjustments included in the testimony and exhibits of the Staff
12 Accounting Panel: (1) the use of averaging for certain elements of costs that serve as
13 the base to project rate allowances (2) the use of GDP inflation rates in lieu of
14 historical rates of growth for certain elements of costs (3) the expansion of the
15 productivity base in the calculation of the proposed 1% productivity adjustment (4)
16 the discontinuation of deferral accounting for property taxes (5) placing the
17 Company at financial risk related to the mandatory New York State Commission
18 assessment levied upon the Company (6) limiting the gas informational and
19 institutional advertising rate allowance to 0.04% of revenues (7) the correct amount
20 of variable pay related to the foremen employee classification included in the
21 Company's projection of Labor (8) Staff's incorrect conclusion that the Company's
22 Labor projection includes two full time employees dedicated to the Energy
23 Efficiency Program and (9) the correct amount of payroll taxes to track Staff's

REVENUE REQUIREMENT PANEL

1 proposal regarding variable pay. In addition, we are proposing that deferral
2 accounting treatment be allowed for the extent to which actual bad debt net write-
3 offs exceed the rate allowance established in these proceedings. Lastly, we are
4 clarifying our intention of when the latest known information will become available
5 to incorporate into the final determination of revenue requirements as it relates to the
6 items subject to update.

8 1) Use of Averaging

9 Q. For what elements of cost did the Company's Revenue Requirement Panel use
10 averaging to determine the historic year value of the element of cost that is then used
11 as a cost basis to project expenditures?

12 A. The Company's Revenue Requirements Panel has used an averaging technique for
13 the following elements of costs: 1) Storm Restoration, 2) Worker's Compensation
14 Claims, 3) Personal and Property Damages Claims, 4) Accident and Safety
15 Activities, and 5) Hazardous Waste Tax. The averaging that we did was to historic
16 information from the Company's books and records, which was then further
17 analyzed and adjusted if appropriate, for the purpose of determining the proper base
18 for projecting these five cost elements forward into the rate year.

19
20 Q. What type of averaging technique has the Company employed for these five types of
21 expenditures for ratemaking purposes?

REVENUE REQUIREMENT PANEL

1 A. The Company consistently employed a four-year average for these elements of costs
2 in the instant proceedings and has consistently employed the same method for the
3 last several rate cases.

4
5 Q. Has Staff proposed any modifications to the forecasting methodology for the
6 elements of costs previously identified?

7 A. Yes. Staff is proposing a three-year average rather than a four-year average for the
8 following three elements of costs: Worker's Compensation Claims, Personal and
9 Property Damages Claims and Accident and Safety Activities. For Storm
10 Restoration Costs and Hazardous Waste Tax, Staff proposes the use of a four-year
11 average.

12
13 Q. What is Staff's basis for deviating from the four-year average method employed by
14 the Company?

15 A. The Staff Accounting Panel claims that the Company has employed an averaging
16 technique "ranging between a two-year average and a five-year average" and has
17 implied an inconsistent application of averaging by the Company.

18
19 Q. Did the Company employ a two-year average?

20 A. Yes, we did. We employed a two-year average only once. That was to determine
21 the growth rate, not the cost base to which the growth rate would be applied, for
22 transportation fuel. This use was explained on page 69 of our direct testimony:
23 "The normalized historic test year was then escalated by a two year average growth

REVENUE REQUIREMENT PANEL

1 rate of 11.96%.”

2

3 Q. Did the Company employ a three-year average?

4 A. Yes, we did. We employed a three-year average only once. That was to determine
5 the growth rate, not the cost base to which the growth rate would be applied, for
6 medical services provided by MVP Select Care Inc. This use was explained on page
7 16 of our direct testimony: “Those costs were escalated at a rate of 6.00% in order to
8 reflect a trend of cost increases above the general rate of inflation over the last three
9 years.”

10

11 Q. Did the Company employ a five-year average?

12 A. No, we did not.

13

14 Q. Did the Company employ anything other than a four-year average for the purpose of
15 establishing the base for projecting costs forward into the rate year?

16 A. No, we did not.

17

18 Q. How did the Company develop the cost base for its historic test year for the five
19 elements of cost that you have identified?

20 A. To reiterate, the Company has consistently employed a four-year average to project
21 these five elements of costs, where an averaging technique is utilized, and has done
22 so in a manner consistent with in prior rate cases.

23

REVENUE REQUIREMENT PANEL

1 Q. Did the Staff Accounting Panel present any basis for its proposed use of three-year
2 averages other than the incorrect assertion that the Company had employed
3 inconsistent averaging methods?

4 A. No.

5
6 Q. For how many of the five elements of cost did the Staff Accounting Panel use its
7 three-year average?

8 A. For three of the five.

9
10 Q. What was the result of Staff's method of a three-year average versus the Company's
11 four-year average?

12 A. Exhibit __ (RRP-1R) shows the effect of Staff's proposed change in the forecasting
13 methodology.

14
15 Q. Did the Staff Accounting Panel employ a three-year average consistently?

16 A. No. The Staff Accounting Panel did not consistently apply their averaging technique
17 to all five elements of costs where an averaging technique is employed.

18
19 Q. Where was Staff inconsistent in their application?

20 A. The Company employed a four-year averaging technique to project Storm
21 Restoration and Hazardous Waste Tax expense and Staff did not employ its three-
22 year average for two of the five. Exhibit __ (RRP-2R) shows that Staff should have

REVENUE REQUIREMENT PANEL

1 increased its projection of Storm Restoration by \$339,000 in order to apply their
2 proposed three-year averaging method consistently.

3

4 Q. Other than the five elements of cost that we have been discussing, has Staff proposed
5 an averaging technique for any other elements of costs?

6 A. Yes. Staff has proposed a three-year average rather than the historic test year for the
7 following elements of costs: Environmental; Legal Services; and Bill Print & Mail to
8 Customer. Exhibit__(RRP-3R) compares the proposed Staff method to project these
9 elements of costs versus the Company's method.

10

11 Q. Was averaging of any type employed for these additional elements of cost in prior
12 Central Hudson rate cases?

13 A. No.

14

15 Q. Please explain the Staff Accounting Panel's adjustment to Environmental expense.

16 A. The Staff Accounting Panel has proposed to use a three-year average of expense
17 (calendar year 2005 through 2007 values) as the basis to project Environmental
18 expense and then apply inflation to arrive at the Rate Year projection, rather than the
19 Company's "verifiable link" method of applying inflation to the historic year and the
20 inclusion of incremental and new initiatives forecasted by the Company's Director of
21 Environmental Affairs to arrive at the Rate Year projection.

22

REVENUE REQUIREMENT PANEL

1 Q. Does the Revenue Requirement Panel have any comments with regard to Staff's
2 proposed method of projecting Environmental Expense?

3 A. Yes. As indicated in the Company's responses to Staff IR's 310 and 311, the
4 information provided for fiscal (calendar) years 2004, 2005, 2006 and 2007 as it
5 relates to environmental electric and gas expense are not on the same basis as the
6 historic year workpapers. The historic period workpapers were developed for the
7 purpose of the instant proceeding through an analysis of environmental expenses
8 incurred during the historic period to determine if expenditures were of a non-
9 recurring nature, a partial reflection of an annual cost, or should be reclassified to
10 another element of cost, such as labor. This level of analysis was not performed for
11 the fiscal years requested in Staff's IRs, and the Company's response specifically
12 noted this caveat.

13
14 Q. Did Staff address this issue in developing their three-year average?

15 A. In reviewing Staff's workpaper, it appears that the fiscal years were adjusted to
16 remove expense items that Staff apparently deemed to be of a non-recurring nature
17 or related to other elements of costs, such as labor. Since Staff did not, however,
18 audit the Company's accounts payable and journal vouchers charges that comprise
19 the amount of Environmental expense, the validity of Staff's adjustments is
20 questionable. For example, Staff did not include environmental expense incurred
21 during 2005 through 2007 related to the Company's hydro and gas turbine units. In
22 addition, Staff removed MGP outside services expenditures that were incurred
23 during 2005 and 2006.

REVENUE REQUIREMENT PANEL

1 Q. Did Staff incorporate the incremental and new initiatives anticipated by the
2 Company's Director of Environmental Affairs in arriving at the Rate Year
3 projection?

4 A. No. In response to Staff IR's 634 and 635, the Company had provided
5 documentation in support of these incremental and new initiatives. However, the
6 Staff Accounting panel dismissed the information with the statement that "the
7 information provided does not meet the burden of proof necessary to support the
8 projected increases," without any explanation of what was lacking. Since no
9 explanation has been provided by Staff for its position, that position is lacking in
10 substantiation and cannot be accepted as reliable.

11

12 Q. Turning now to Legal Services, please explain the Staff Accounting Panel's
13 adjustment.

14 A. The Staff Accounting Panel has proposed to use a three-year average as the basis to
15 project Legal Services rather than the historic test year. Staff justifies this method by
16 claiming that "it appears that the actual costs for legal services tend to fluctuate, and
17 therefore, an average is a more accurate representation of legal services costs the
18 Company is likely to incur in the rate year because it evens out the fluctuation."

19

20 Q. Does the Revenue Requirement Panel have any comments with regard to this
21 adjustment?

22 A. Yes. As explained in the Company's response to Staff IR 599, unlike the historic
23 period work papers, the twelve-month periods provided in the response were on a per
24 books basis. As such, there were no analyses performed to determine if

REVENUE REQUIREMENT PANEL

1 normalization adjustments were necessary. As a result, Staff's three-year average
2 and the historic year are not on the same basis and simply taking the IR 599 amounts
3 as is, and without any attempt to determine the representativeness of the amounts
4 lacks the proper foundation upon which to determine an appropriate rate allowance.
5

6 Q. Lastly, please explain the Staff Accounting Panel's adjustment to the Company's
7 projection of Bill Print & Mail to Customer.

8 A. The Staff Accounting Panel has proposed to use a three-year average of expense
9 from 2005 through 2007 as the basis to project Bill Print & Mail to Customer rather
10 than the historic test year to "even out any fluctuation in costs for bill print and mail
11 expense."
12

13 Q. Does the Revenue Requirement Panel have any comments with regard to Staff's
14 reasoning for employing an averaging method as the basis to project this element of
15 cost?

16 A. Yes. Staff's use of an averaging method is misplaced for this element of cost. As
17 demonstrated in Exhibit __ (RRP-3R), the three years used by Staff show a consistent
18 year over year increase in costs, which contradicts the logic used by Staff to support
19 the use of an averaging technique that is predicated on the basis that fluctuation in
20 expense levels are present.
21
22
23

REVENUE REQUIREMENT PANEL

1 2) Use of GDP Index in lieu of Growth Rate

2 Q. Please identify the elements of cost that the Revenue Requirement Panel will address
3 that were escalated at a rate of growth in excess of the general rate of inflation that
4 the Staff Accounting Panel has rejected.

5 A. The Revenue Requirement Panel will address the following elements of costs;
6 Transportation Fuel; Fringe Benefits - Medical Insurance Claims and Other Taxes –
7 Sales & Use Taxes.

8

9 Q. Please describe the proposed growth rate that the Company developed related to
10 Transportation Fuel.

11 A. The Company proposed using a two-year growth rate of 11.96% based on data from
12 2005 through 2007. This two-year average was discussed previously and was
13 distinguished from the four-year average applied consistently by the Company to the
14 determination of the base for forecasting the five elements of cost discussed
15 previously.

16

17 Q. Why did the Company only use a two-year average rather than the four-year average
18 that was employed on a consistent basis elsewhere?

19 A. During the preparation of the rate filing, the Revenue Requirement Panel was
20 informed within the Company that the Materials Management System only kept
21 transportation fuel records on a rolling 48-month basis. That meant that as of the
22 second quarter of 2008, only annual periods back to March of 2004 were available.
23 However, during Staff's audit of the Company's filing the Revenue Requirement

REVENUE REQUIREMENT PANEL

1 Panel became aware that data for prior periods could be retrieved from the
2 Company's Financial Accounting System.

3

4 Q. Please explain why it became necessary to retrieve prior period data.

5 A. In order to be responsive to Staff IR's 187 and 503, the Company had to have its
6 Information Systems group develop a program to retrieve transportation fuel data for
7 calendar years 2002, 2003 and 2004.

8

9 Q. With this data could a four-year average growth rate based on data from 2003
10 through 2007 be developed in order to provide a uniform method of averaging?

11 A. Yes. The data produce a growth rate of 18%.

12

13 Q. Why should an average rate of growth be employed to project Transportation Fuel
14 rather than the general rate of inflation?

15 A. The concept of an inflation pool is premised on the underlying assumption that some
16 items within the pool will escalate faster than the rate of inflation, while others more
17 slowly, but overall the collective amount within the pool will approximate the
18 inflation rate. The Company believes that the concept of the inflation pool no longer
19 applies to Transportation Fuel as the four-year average rate of growth in cost
20 demonstrates.

21

22 Q. Now turning to Fringe Benefits, please describe the Staff Accounting Panel's
23 proposed adjustment to Medical Insurance claims.

REVENUE REQUIREMENT PANEL

1 A. The Staff Accounting Panel removed the Company's escalation rate of 6.00% for
2 medical insurance claim payments, which was based on a three-year average of costs
3 from 2004 through 2007, and replaced it with the GDP inflation rates used to project
4 other fringe benefits.

5
6 Q. Should the Commission adopt Staff's proposed adjustment?

7 A. No. The Company, with the exception of medical insurance claim payments, based
8 the projection of fringe benefits on the premise that the application of inflation to the
9 historic year produces a reasonable result. In contrast, the growth trend of medical
10 insurance claim payments has far exceeded the rate of inflation and the three-year
11 average rate of growth of 6.00% provides ample evidence.

12
13 Q. What steps has the Company taken to mitigate the medical insurance growth rate
14 related to claim payments?

15 A. As described in the pre-filed testimony of Mr. Brocks, the Company has increased
16 the level of employee responsibility by having employees pay for 25% of the health
17 care plan and prescription drug program as well as increasing the level of deductibles
18 and co-pays effective January 1, 2008 for non-union employees including executives
19 and May 1, 2008 for union employees.

20
21 Q. Will the increased level of employee contributions be reflected in the projection of
22 fringe benefits even though it occurred after the end of the historic year?

REVENUE REQUIREMENT PANEL

1 A. Yes. Since the Company was proposing using a growth rate in excess of inflation, it
2 was determined that the increased employee contribution level should be reflected,
3 since it represents a mitigation measure to offset the medical insurance claim growth
4 rate. As described in the Company's responses to Staff IR's 85 and 86 subpart C, the
5 increased employee contribution level will be reflected in the final determination of
6 revenue requirements at the time of Brief on Exceptions under the provision for
7 updates.

8

9 Q. If the Commission were to adopt Staff's adjustment, what would be the
10 consequences to the Company?

11 A. Adoption of Staff's adjustment would provide the Company with a rate of growth
12 that is less than the actual rate of growth for medical insurance.

13

14 Q. Does the Revenue Requirement Panel agree with Staff's contention that Fringe
15 Benefits are included within the "Inflation Pool?"

16 A. No. Those elements of costs included within the inflation pool have been identified
17 by the Company in Exhibit__(RRP-1), Schedule C, page 2 of 7 for electric
18 operations and Exhibit__(RRP-2), Schedule C, page 1 of 6 for gas operations.

19

20 Q. Does the Revenue Requirement Panel have any comments regarding Staff's reliance
21 on past Commission decisions to project Fringe Benefits?

22 A. Yes. The historical rate of growth for medical insurance claim payments, even with
23 all of the Company's efforts to control its rate of growth, has far outpaced the rate of

REVENUE REQUIREMENT PANEL

1 inflation and to assume that other elements of costs will produce savings to offset
2 increases in medical insurance claim payments is an unreasonable expectation.

3

4 Q. Why is this an unreasonable expectation?

5 A. The three-year average growth rate of 6.00% includes mitigation measures taken by
6 the Company such as increasing employee responsibility with regard to deductible
7 limits and co-pays in an attempt to shift more responsibility of these costs to
8 employees. Unfortunately, these mitigation measures pale in comparison to the rate
9 of growth in medical insurance claims, which has outpaced the historical rate of
10 inflation by over 300 percent.

11

12 Q. What should be the basis for the projection of medical insurance claims?

13 A. As requested in our direct testimony, the projection for medical insurance claim
14 payments should be updated for the latest twelve months of data at a later time in this
15 proceeding consistent with past practice in previous rate proceedings.

16

17 Q. Lastly, please explain the Company's rational for using a four-year average rate of
18 growth to project Sales & Use Tax rather than the general rate of inflation.

19 A. This is an element of costs which the Company has minimal ability to control. The
20 Company is simply paying local and state taxes on the goods and services that it uses
21 to provide service. As the rate of growth suggests, these taxes are escalating at a rate
22 in excess of the general rate of inflation and the rate allowance established for Sales
23 & Use Tax should reflect this reality. It should also be noted that the historical rates

REVENUE REQUIREMENT PANEL

1 of actual growth may understate the actual future rates of growth as the State and
2 localities seek to find new revenue sources. The State's efforts in this regard are
3 exemplified by Governor Paterson's budget proposal to increase the Commission
4 regulatory assessment from about \$2.4 million to about \$14.7 million, for an increase
5 of over 500%.

6 7 3) 1% Productivity Adjustment Base

8 Q. Please describe the productivity adjustment that the Staff Accounting Panel is
9 proposing in these proceedings.

10 A. The Staff Accounting Panel is proposing that the base to calculate a productivity
11 adjustment be expanded to include fringe benefits, pensions, OPEB's and payroll
12 taxes. Staff's expanded productivity base was then applied to the 1% productivity
13 factor to arrive at Staff's productivity adjustment.

14
15 Q. Is the Staff Accounting Panel proposal consistent with past determinations of a
16 productivity adjustment in prior Central Hudson litigated rate proceedings?

17 A. No. In the Company's last litigated rate proceeding, the productivity adjustment was
18 based on 1% of total payroll to capture productivity improvements not explicitly
19 reflected in the revenue requirement. The productivity can come in the form of
20 reduced contractor costs, reduced outside services, reduced insurance premiums, etc.
21 As such, the labor base is used as a surrogate to capture these unrealized savings and
22 not purely to reflect future headcount reductions and to the extent the savings are
23 driven by non-labor there are no payroll costs.

REVENUE REQUIREMENT PANEL

1 Q. What would be the effect of the Staff Accounting Panel's proposal to include
2 Pension & OPEB amounts in the base for the "productivity" adjustment?

3 A. Staff is actually proposing to eliminate 1% of the Company's FAS 87 and FAS 106
4 expenses. That proposal violates the Commission's Statement of Policy and Order
5 Concerning the Accounting and Ratemaking Treatment for Pensions and
6 Postretirement Benefits Other than Pensions (OPEB's) issued September 7, 1993.
7 The Commission's Policy Statement calls for 100% of the actuarial determinations
8 for pension (FAS 87) and OPEB (FAS 106) to be reflected in rates, and not 99% as
9 proposed by Staff. The Staff attempt to label this exclusion of pension/OPEB costs
10 that the Commission has stated are fully recoverable as a "productivity" adjustment
11 does not change the financial reality.

12
13 Q. Are there any other reasons why the Pension and OPEB amounts should be excluded
14 from the productivity base?

15 A. Yes. The pension/OPEB item has changed over time from credit to debit and may
16 well change back again. As an example, in Cases 00-E-1273 and 00-G-1274, the
17 Company could have proposed to include the pension amount in the productivity
18 base, which would have significantly reduced the productivity adjustment, since the
19 pension amount was a substantial credit.

20

21 4) Property Tax Deferral

22 Q. What has Staff proposed in regard to the deferral accounting treatment related to
23 property taxes that the Company has requested to continue?

REVENUE REQUIREMENT PANEL

1 A. Staff has proposed to discontinue the deferral accounting treatment presently allowed
2 under the Commission's current rate plan. Staff states that deferred accounting
3 treatment is not warranted "in the context of a one year rate case."

4
5 Q. Has Staff provided any other reasons why deferral accounting is not warranted for
6 this element of cost?

7 A. Yes. In response to interrogatories CH-140 and CH-222, which are identified as
8 Exhibit_(RRP-4R), Staff has implied that the Company's request to update property
9 taxes for the latest known assessment available at the time of brief on exceptions
10 should minimize the Company's risk for significant fluctuations from the rate
11 allowance.

12
13 Q. Does the Company agree with the position taken by Staff?

14 A. No. The Company believes that with the current downturn in the economic
15 environment, deferral accounting treatment for property taxes is still warranted since
16 its unknown how property taxes will be impacted as it is a source of funds to New
17 York State and as a result the full expense may not be included in the rate allowance
18 due to timing. The Company's continued concern has been reinforced and validated
19 by the recently released Executive Budget from the Office of Governor Paterson on
20 December 16, 2008, which outlined the Governors vision on how to mitigate the
21 current year projected \$1.7 billion deficit through the March 31, 2009 fiscal period
22 and the expected \$13.7 billion deficit for the April 1, 2009 through March 31, 2010
23 fiscal period.

REVENUE REQUIREMENT PANEL

1

2 Q. Please elaborate.

3 A. Although Staff has agreed to the Company's proposal to update property taxes for
4 the latest known information, the update provision for property taxes will not include
5 the actual school taxes that will be incurred in the rate year. For example, the update
6 for school taxes is based on the Fall of 2008, which covers the period of July 2008
7 through June 2009, which is prior to the start of the rate year. Therefore, actual
8 school taxes for the rate year will not be known until the Fall of 2009, well after the
9 start of the rate year. To reiterate, deferral accounting should continue for property
10 taxes for the following reasons: 1) minimal ability to control or influence taxes
11 levied upon the Company; 2) uncertainty with the current slow-down in the NY State
12 economy; 3) update for latest known assessments will not properly capture the
13 amount incurred during the rate year; and 4) current deferral accounting has been to
14 the benefit of customers.

15

16 Q. Why is the timing of actual school taxes a concern of the Company?

17 A. Historically, New York State has used the funding provided for schools to "bridge"
18 any differences in the NY State budget, resulting in higher school taxes. In effect the
19 Company becomes a "provider of last resort" and should not be financially harmed
20 by the actions of New York State. For example, Governor Paterson's Summary of
21 the Executive Budget, calls for a \$698 million reduction in 2009-10 School Aid,
22 while maintaining a commitment to long-term increases in education investments.

23

REVENUE REQUIREMENT PANEL

1 Q. Please further elaborate how the current deferral accounting treatment for property
2 taxes has been to the benefit of customers?

3 A. Under the current rate agreement the Company has deferred to the benefit of
4 customers \$ 3.2 million as of November 2008. Absent this deferral provision, only
5 the shareholders of the Company would have benefited. The Company believes that
6 the circumstances that warranted deferral accounting in the prior case still exist today
7 and therefore should continue.

8

9 5) Regulatory Commission Assessment

10 Q. How did the Company project the regulatory assessment levied upon Central Hudson
11 by the NYS Public Service Commission in this proceeding?

12 A. The projection is based on the latest known assessment inflated at the four-year
13 average rate of growth, which was based on the assessments from 2003 through 2007.

14

15 Q. What adjustments did the Staff Accounting Panel make to the Company's projection?

16 A. Staff is proposing use of the latest known assessment escalated by the GDP index
17 growth rate, rather than the four-year average growth rate.

18

19 Q. Is the regulatory assessment considered an element of cost that can be controlled by
20 the Company and has Staff acknowledged that Central Hudson has no ability to
21 control it?

22 A. In response to interrogatory CH-35, identified as Exhibit_(RRP-5R) Staff
23 acknowledged that the level of regulatory commission expense is determined by the

REVENUE REQUIREMENT PANEL

1 Commission and therefore has agreed to reflect the latest known PSC assessment at
2 the time of update.

3

4 Q. Will this update provision provide the necessary rate allowance to recover the
5 expense incurred during the rate year?

6 A. No.

7

8 Q. Should Central Hudson financially benefit or be harmed for the difference between
9 the actual assessment assessed and the amount allowed for in rates?

10 A. No. The Company is simply a collection agency for the NYS Public Service
11 Commission/State of New York for funding of its operating expenses. This is akin to
12 the Company's collection of NYSERDA fees and the System Benefits Charge,
13 which are collected through a surcharge and remitted with no financial benefit or
14 harm to the Company.

15

16 Q. Absent collection via a surcharge, what other recovery mechanisms are available to
17 the Company to remedy the situation?

18 A. The Company is proposing deferral accounting for the difference between the actual
19 assessment and the rate allowance in order to make this element of cost revenue
20 neutral.

21

22 Q. Are there any other reasons why deferral accounting is appropriate for the NY State
23 regulatory assessment?

REVENUE REQUIREMENT PANEL

1 A. Yes. As previously referenced, Governor Paterson's Executive Budget calls for a
2 proposed mitigation measure of "permanently increasing the assessment on utility
3 companies from 1/3 of one percent to one percent of gross intrastate revenues plus an
4 additional one percent temporary surcharge on those revenues." These proposals
5 amount to an incremental \$12.4 million in the rate year, based on the assessment
6 received on August 8, 2008. Absent the availability of deferral accounting, this
7 additional assessment would be shouldered solely by the Company's shareholders,
8 which violates the principle that rates should be set to recover a utilities' prudently
9 incurred costs of doing business.

10

11 Q. Does the Company have any additional proposals in light of Governor Paterson's
12 proposal to increase the utility assessment?

13 A. Yes. Exhibit_(RRP-6R) demonstrates the magnitude of the likely change in the
14 assessment rate. In light of this new information, the Company is requesting that the
15 Regulatory Commission Assessment rate allowance be set at \$11.9 million for
16 electric and \$2.7 million for gas which is consistent with the guidelines established
17 in the Policy Statement on Tests Period.

18

19 6) Gas Informational & Institutional Advertising

20 Q. What has the Staff Accounting Panel recommended for Gas Informational &
21 Institutional Advertising?

REVENUE REQUIREMENT PANEL

1 A. Staff has recommended that a 0.04% factor be applied to the projected total gas
2 revenues to determine the rate allowance for Gas Informational & Institutional
3 Advertising.

4
5 Q. Does the Company agree with this recommendation?

6 A. No. Staff's analysis in support of the 0.04% is structurally flawed and contradicts
7 their reasoning for the use of an averaging method to project elements of costs.

8
9 Q. How did the Revenue Requirement Panel come to this conclusion?

10 A. The Staff Accounting Panel based its analysis on a three-year average ratio of
11 advertising expenditures to total operating revenues. First, the basis of this analysis is
12 self-fulfilling in that past spending activity was influenced by the fact that the rate
13 allowance was based on inflation of the historic period in the last two rate
14 proceedings. As such, the Company was mindful of the amount allowed in rates and
15 managed its expenditures to the level allowed in rates. Secondly, Staff's use of a
16 three-year average of advertising expense is misplaced. Staff stated in its testimony
17 that an averaging approach is best utilized "in order to normalize one-time expenses
18 and fluctuating expense levels." A review of Staff Exhibit (AP-47) shows that gas
19 advertising expenditures have continually increased since 2005 and there is no
20 fluctuation. Staff has used the three-year average of gas advertising expenditures to
21 support the calculation of 0.04%, which contradicts the upward trending of spending
22 for this element of cost.

23

REVENUE REQUIREMENT PANEL

1 Q. Are there any other comments regarding Staff's analysis?

2 A. Yes. In reference to the projection methodology used to forecast advertising expense,
3 the Staff Accounting Panel testimony on page 78 states "The Company did not
4 employ, and the Commission did not adopt, that methodology in the Company's last
5 two previous rate case, 00-E-1273 and 00-G-1274, and 05-E-0934 and 05-G-0935. In
6 these cases, Central Hudson's rate allowance was based on the historic test year
7 advertising expenses, increased by the projected inflation factor." The Company
8 finds it interesting that Staff relied upon the rate allowances established in Cases 00-
9 E-1273, 00-G-1274, 05-E-0934 and 05-G-0935 to support its conclusion. However,
10 Staff has indicated in numerous responses to Company interrogatories, which are
11 identified in Exhibit_(RRP-7R), that those outcomes were the result of settlement
12 agreements and "the terms and provisions of the Joint Proposal should not be cited or
13 relied upon as precedent."

14

15 7) Variable Pay for Foremen Employee Classification

16 Q. Please explain Staff's proposed adjustment to the foreman employee classification as
17 it relates to the projection of labor.

18 A. The Staff Accounting Panel's testimony indicates that they are opposed to the
19 inclusion of any form of variable pay in rates. In reviewing Staff's "Labor &
20 Productivity Expense Workpapers," they attempted to accomplish this for the
21 foreman employee classification by removing the premium pay rate that is applied to
22 base pay.

23

REVENUE REQUIREMENT PANEL

1 Q. Please explain the ramifications of Staff's adjustment.

2 A. Staff's adjustment has the effect of not only removing the variable component of
3 employee compensation, but the overtime that the foremen are paid as well.

4

5 Q. Is Staff aware that the premium pay rate for the foremen employee classification
6 used in the projection of labor included overtime pay?

7 A. No. In response to interrogatory CH-133, identified as Exhibit_(RRP-7R, page 1 of
8 3) the Staff Accounting Panel indicated that the Company's labor workpapers "did
9 not separate out and distinguish that a portion of the premium payroll rate is related
10 to overtime not variable pay."

11

12 Q. Is Staff's contention correct?

13 A. No. First, the Revenue Requirement Panel's testimony on page 8, line 22 through
14 page 9, line 1 states that "The salaries and wages were then increased where
15 applicable by the average premium pay (i.e.- overtime, shift differential, variable
16 pay, etc.) Percentages, which occurred during the historical period." Secondly, the
17 workpapers identified the amount paid to the foremen employee classification as
18 variable pay during the historic year. Lastly, if Staff were uncertain as to what
19 comprised the amount of premium pay as it relates to the foremen employee
20 classification, an interrogatory would have clarified its composition.

21

22 Q. Did Staff acknowledge that premium pay in the form of overtime for the foremen
23 employee classification has been recovered in rates in prior rate cases?

REVENUE REQUIREMENT PANEL

1 A. Yes.

2

3 Q. What is the Company proposing related to this issue?

4 A. For overtime pay, the foreman employee classification premium pay rate should be
5 established at 18.64% in the determination of the labor rate allowance.
6 Exhibit__(RRP-8R) shows the calculation of this premium pay rate, which is
7 consistent with the methodology employed in prior litigated and settlement
8 agreement rate cases.

9

10 8) Labor Projection: Inclusion of Two Full Time Employees Dedicated to the Energy
11 Efficiency Program

12 Q. Please describe the adjustment that the Staff Accounting Panel is proposing related
13 to the two full time employees dedicated to the Energy Efficiency Program.

14 A. The Staff Accounting Panel is proposing that the Company's Labor projection be
15 adjusted to reflect the removal of these two full time employees upon the
16 commencement of any Central Hudson administered energy program.

17

18 Q. Does the Company agree with this adjustment?

19 A. No. The Company had already removed the labor requirement of these two full time
20 employees via the distribution of payroll.

21

22 Q. Please explain how this was accomplished.

REVENUE REQUIREMENT PANEL

1 A. In the development of the allocation of payroll to electric and gas expense, the
2 Company adjusted those allocation percentages for labor that is included in other
3 elements of costs, such as Research & Development, Storm Restoration, Enhanced
4 Powerful Opportunities Program, Transformer and Meter Installation credits and the
5 Energy Efficiency Program.

6

7 Q. Why are the payroll allocation percentages to electric and gas expense adjusted in
8 this manner?

9 A. These adjustments are required in order to avoid a double recovery of the labor
10 component of these elements of costs. Absent making such an adjustment, the
11 Company would be collecting the projected labor requirement in the related element
12 of cost and the labor projection.

13

14 Q. Has Central Hudson informed Staff of this adjustment to the projection of electric
15 and gas labor expense?

16 A. Yes. In response to interrogatory CH-24, Staff indicated that they do not agree that
17 the Company's projected electric and gas labor expense reflects the exclusion of
18 labor charged to the Energy Efficiency program during the historic year. This
19 conclusion is based on an apparent lack of understanding of the Company's work
20 papers and exhibits, which clearly identified the exclusion within the Labor
21 workpapers and Exhibit (RRP-3), Schedule A for electric expense and Schedule B
22 for gas expense. However, Staff has not attempted to reconcile its position with those
23 workpapers.

REVENUE REQUIREMENT PANEL

1 Q. If Staff's proposed adjustment were to be adopted, what would be the result?

2 A. The exclusion of the two full time employees dedicated to the Energy Efficiency
3 Program from the projection of electric and gas expense would be recognized twice.

4

5 9) Payroll Taxes

6 Q. Did Staff make the correct adjustment to payroll taxes when they removed variable
7 pay from the projection of labor?

8 A. No. The Company's projected calculation of FICA tax included variable pay within
9 the gross wage amounts that were used to determine the percent of payroll under the
10 FICA tax limitation.

11

12 Q. What adjustment is required to payroll taxes to align to Staff's position of removing
13 variable pay from the labor forecast?

14 A. The gross wage amount used to determine the percent of payroll under the FICA tax
15 limitation should be adjusted to exclude the amount of variable pay.

16

17 Uncollectibles (Bad Debt Net-Writeoffs)

18 Q. Please briefly describe the ratemaking approach utilized to project uncollectibles.

19 A. The rate allowance for uncollectibles is based on the application of the net charge-off
20 amount as a percentage of total revenues subject to bad debt, based on the latest
21 known information, applied to the projected delivery revenues subject to bad debt.

22

REVENUE REQUIREMENT PANEL

1 Q. Please briefly describe how the latest known information is incorporated into the
2 development of the rate allowance.

3 A. The Company has customarily requested that the determination of the net charge-off
4 amount as a percentage of total revenues be updated later in the proceeding to reflect
5 latest known information.

6

7 Q. Has the Staff Accounting Panel agreed to this request?

8 A. Yes.

9

10 Q. Please explain why the Company is requesting deferral accounting for uncollectibles
11 when the rate allowance will be based on latest known information.

12 A. The update provision does not capture the full extent to which uncollectibles have
13 been growing since at least 2004. In response to Staff IR 472, the Company
14 provided data that indicates that the four-year average rate of growth in actual bad
15 debt net write-offs has increased by approximately 16%. This dramatic increase is
16 the result of the continued weakening of the NY State and local economies.

17

18 Items Subject to Update

19 Q. Please turn your attention to the Company's proposal to update items later in these
20 proceedings. When does the Company propose to do these updates?

21 A. In response to various Company interrogatories regarding the appropriate time for
22 update, Staff has been elusive in responding by stating that the policy statement on
23 test periods provides for the necessary guidance and "speaks for itself." The

REVENUE REQUIREMENT PANEL

1 Company is proposing that the updates be provided at the time the Company files its
2 Brief on Exceptions, which is consistent with the Company's last litigated cases 92-
3 E-1055, 92-G-1056 and 95-G-1034. In those proceedings, Staff was provided ample
4 time to review the updates and incorporate the updates into the determination of final
5 revenue requirements. In addition, this will allow for the first quarter of 2009 data to
6 be incorporated into the update.

7

8 Q. Does this conclude the rebuttal testimony of the Revenue Requirement Panel?

9 A. Yes, it does.