

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of
Central Hudson Gas & Electric Corporation
Cases 09-E-0588 & 09-G-0589
November 2009

Prepared Redacted Testimony of:
Accounting Panel

Michael Summa
Public Utility Auditor II

George Abraham
Senior Auditor

Dave Shahbazian
Senior Auditor

Office of Accounting & Finance
State of New York
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

1 Q. Please state your names, employer, and business
2 address.

3 A. We are Michael Summa, George Abraham, and Dave
4 Shahbazian. We are employed by the New York
5 State Department of Public Service (Department).
6 Our business addresses are Three Empire State
7 Plaza, Albany, NY 12223 (Summa and Shahbazian)
8 and 90 Church Street, New York, NY 10007
9 (Abraham).

10 Q. Mr. Summa, what is your position in the
11 Department?

12 A. I am employed as a Public Utility Auditor II in
13 the Office of Accounting and Finance.

14 Q. Please describe your educational background and
15 professional experience.

16 A. I graduated from the State University of New
17 York at Plattsburgh in 1999 and have Bachelor of
18 Science degrees in Accounting and Business. I
19 have been employed by the Department since early
20 2004. Previous to this, I was employed as a
21 Senior Auditor at the State Education Department
22 for three years.

23 Q. Have you previously testified before the Public
24 Service Commission?

1 A. Yes. I testified before the Commission in
2 Central Hudson Gas and Electric Corporation's
3 (Central Hudson or the Company) last two rate
4 proceeding (Cases 08-0887 and 08-G-0888 as well
5 as 05-E-0934 and 05-G-0935). I also testified
6 in the rate filing made by Jamestown Board of
7 Public Utilities in Case 04-E-1485.

8 Q. Mr. Abraham, what is your position in the
9 Department?

10 A. I am employed as a Senior Auditor in the Office
11 of Accounting and Finance.

12 Q. Please describe your educational background and
13 professional experience.

14 A. I graduated from Sri Venkateswara University,
15 India in 1978 with a Masters of Arts degree in
16 Commerce. I have been employed by the
17 Department since March 1982.

18 Q. Have you previously testified before the Public
19 Service Commission?

20 A. Yes, I have testified in various cases with the
21 most recent including Case 04-W-0665, a New York
22 Water Service Corporation rate case; Cases 06-M-
23 0878, 06-G-1185 and 06-G-1886, which primarily
24 related to the merger of National Grid PLC and

1 KeySpan Corporation; and Case 08-M-1445, which
2 involved the treatment of certain property tax
3 and special franchise tax refunds received by
4 National Grid.

5 Q. Mr. Shahbazian, what is your position in the
6 Department?

7 A. I am employed as a Senior Auditor in the Office
8 of Accounting and Finance.

9 Q. Please describe your educational background and
10 professional experience.

11 A. I graduated from Bryant College in May 1984 with
12 a Bachelor of Science degree in Business
13 Administration, with a concentration in
14 Accounting. Upon graduation, I began working
15 for the IBM Corporation and did so until July
16 1992. In 1992, I joined Deegan Development
17 Group, a commercial real estate developer where
18 I was employed as the Office / Project
19 Accountant & Property Manager. In 1998, I
20 returned to IBM as a sub-contract financial
21 analyst, working in their Global Service & Real
22 Estate divisions. In December 2003, I received
23 my Masters of Business Administration from
24 Marist College. In 2004, I earned my Certified

1 Internal Audit (CIA) certificate. I began
2 employment with the Department in May 2008.

3 Q. Have you previously testified before the Public
4 Service Commission?

5 A. Yes. I testified before the Commission in
6 Central Hudson's last rate proceeding (Cases 08-
7 0887 and 08-G-0888).

8 Q. Please briefly describe the Panel's
9 responsibilities with the Department.

10 A. We have general responsibility for accounting
11 and ratemaking matters related to the companies
12 regulated by the New York State Public Service
13 Commission (the Commission). Our direct
14 responsibilities include examination of
15 accounts, records, documentation, policies and
16 procedures of utilities regulated by the
17 Commission and the development from that
18 information of various analyses and
19 recommendations to the Commission. In the
20 instant proceeding, we have the overall
21 responsibility for the accounting examination of
22 Central Hudson's rate filing.

23 Q. What is the purpose of the Accounting Panel's in
24 this proceeding?

1 A. The Accounting Panel is presenting Staff's cost
2 of service exhibits for the twelve-month rate
3 year ending June 30, 2011 for Central Hudson.
4 We will also make recommendations based on our
5 examination of certain areas of Central Hudson's
6 rate year forecast of Operating Expenses; Taxes
7 Other Than Income; Federal Income Taxes; and
8 certain Rate Base components.

9 Q. As a result of the Accounting Panel's
10 examination of Central Hudson's Operating
11 Expenses; Taxes Other Than Income; Federal
12 Income Taxes; and certain Rate Base components,
13 is the Panel proposing any adjustments?

14 A. Yes. The Panel is proposing adjustments or
15 changes to the following Operating Expenses:
16 Labor, Productivity, Fringe Benefits, Pensions,
17 Other Operating Insurance, Injuries and Damages
18 Insurance, Prepaid Insurance, Stray Voltage
19 Testing, Legal Services, Special Services,
20 Regulatory Commission Expense, Uncollectible
21 Expense, Smart Grid/AMI Expense, and Right of
22 Way Maintenance Distribution. We are also
23 proposing adjustments to Property taxes, Prepaid
24 Property taxes, Other Taxes (Sales & Use Tax,

1 Revenue Taxes, and Payroll Taxes) Federal and
2 State Income Taxes, and Other Operating
3 Revenues.

4 Q. Will the Panel be making any other
5 recommendations?

6 A. Yes, we will also be making recommendations
7 regarding Central Hudson's proposed disposition
8 of certain deferred items; deferral requests
9 made by the Company; and items Central Hudson
10 proposes be subject to update.

11 Cost of Service Schedules

12 Q. Has the Panel prepared any exhibits related to
13 Central Hudson's Revenue Requirement Panel's
14 Exhibit_ (RRP-1) and Exhibit_ (RRP-2)?

15 A. Yes. The Panel has prepared Exhibit ___ (AP-1)
16 (Cost of Service Exhibit-Electric), and Exhibit
17 ___ (AP-2) (Cost of Service Exhibit-Gas).

18 Q. Please describe the Exhibit ___ (AP-1) Cost of
19 Service Exhibit-Electric.

20 A. Exhibit ___ (AP-1) Cost of Service Exhibit-
21 Electric consists of 12 schedules:

22 Schedule 1 Income Statement & Rate of Return

23 Schedule 2 Federal Income Taxes

24 Schedule 3 Additional Income & Unallowable

1 Deductions / Additional
2 Deductions and Non-taxable
3 Income
4 Schedule 4 Deferred Federal Income Taxes
5 Schedule 5 State Income Taxes
6 Schedule 6 Deferred State Income Taxes
7 Schedule 7 Rate Base Summary
8 Schedule 8 Deferred Rate Base Items
9 Schedule 9 Working Capital
10 Schedule 10 Capital Structure
11 Schedule 11 Revenue Requirement Calculation
12 Schedule 12 Summary of Staff's Adjustments
13 Q. Please summarize what is shown in Exhibit __
14 (AP-1).
15 A. Schedule 1 of Exhibit __ (AP-1) is a summary of
16 the Staff adjusted Income Statement and Rate of
17 Return calculation. This schedule begins with
18 the amounts in the column in the Company's
19 Revenue Requirement Panel's Exhibit_ (RRP-1),
20 Schedule B entitled "With Moderation & Before
21 Proposed Rate Change." Schedule 1 then shows
22 the derivation of Staff's proposed electric
23 revenue decrease of \$17,000 for the rate year
24 ending June 30, 2011. We are proposing to defer

1 the decrease with carrying charges and not
2 modify rates. Schedules 2-11 are the various
3 supporting schedules that provide input to
4 Schedule 1. Schedule 12 summarizes the various
5 adjustments proposed by all Staff witnesses that
6 are reflected in the Staff proposed revenue
7 requirement for electric.

8 Q. Does Exhibit __ (AP-2) (Cost of Service Exhibit-
9 Gas) also contain 12 Schedules?

10 A. Yes. Exhibit __ (AP-2) (Cost of Service
11 Exhibit-Gas) contains 12 Schedules similar to
12 the format in Exhibit __ (AP-1).

13 Q. Do the Schedules in Exhibit __ (AP-2) represent
14 the same type of information represented in
15 Exhibit __ (AP-1)?

16 A. Yes. The schedules contained in Exhibit __ (AP-
17 2) mirror the schedules in Exhibit __ (AP-1),
18 except they present the cost of service for
19 Central Hudson's gas operations.

20 Q. Please summarize what is shown in Exhibit __
21 (AP-2).

22 A. Schedule 1 of Exhibit __ (AP-2) is a summary of
23 the Staff Adjusted Income Statement and Staff
24 Rate of Return calculation. Schedule 1 of

1 Exhibit __ (AP-2) begins with the amounts in the
2 column in the Company's Revenue Requirement
3 Panel's Exhibit__ (RRP-2), Schedule B entitled
4 "With Moderation & Before Proposed Rate Change."
5 This Schedule then shows the derivation of
6 Staff's proposed gas revenue decrease of \$800,
7 000 for the rate year ending June 30, 2011. We
8 are proposing to adjust the amortization of the
9 gas net regulatory asset and not modify rates.
10 Schedules 2-11 are the various supporting
11 schedules that provide input to Schedule 1.
12 Schedule 12 summarizes the various adjustments
13 proposed by all Staff Witnesses that are
14 reflected in the Staff proposed revenue
15 requirement for gas.

16 **Labor**

- 17 Q. Briefly describe how Central Hudson developed
18 its projected labor expense.
- 19 A. The Company developed its projected labor
20 expense by utilizing the base salaries and wages
21 for regular employees for the pay period ending
22 May 31, 2009. The Company used the May 31, 2009
23 pay period, instead of the historic test year
24 ending March 31, 2009, because the May 31, 2009

1 pay period reflects the current headcount and
2 the 2009 pay increase scheduled for employees
3 other than executives. The May 31, 2009 base
4 salaries and wages were then increased by the
5 average premium pay percentages experienced
6 during the historic test year. This amount was
7 multiplied by the number of pay periods per
8 employee class to arrive at a normalized full
9 year 2009 labor projection. The 2009 labor
10 projection was then escalated by the contractual
11 union pay increase of 4% and the estimated 3.6%
12 increase for semi-monthly employees and foreman
13 employees to develop a rate year projection.
14 Central Hudson's labor projection also reflects
15 an increase in employee count of four employees
16 over its May 31, 2009 headcount of 856.
17 Finally, the Company includes wages and salaries
18 for temporary employees to arrive at the
19 projected labor expense for the rate year.

20 Q. Does the Panel take issue with the manner in
21 which the Company developed its projected labor
22 expense?

23 A. Yes. The Company used a different historic test
24 year period for the labor projection than was

1 otherwise used for the entire rate filing.

2 Q. Please explain why using two different test year
3 periods within the same rate filing is
4 inappropriate.

5 A. The Company's use of a May 31, 2009 violates the
6 Commission's Statement of Policy on Test Periods
7 in Major Rate Proceedings (issued November 23,
8 1977) (Test Year Policy Statement), which
9 states:

10 Clearly, in view of our stated
11 intention to set rates on the
12 basis of the utility's projected
13 rate base, revenues and expenses
14 in the first 12 months of new
15 rates, such a wide choice of test
16 years served no useful purpose;
17 indeed it created an unnecessary
18 and time consuming burden for all
19 participants in the rate
20 proceedings.

21 This requirement is based on the need to be able
22 to compare data from uniform periods for the
23 sake of making projections for a 12 month period
24 in the future.

25 Q. Did using a different test year period impact
26 the Company's labor projection?

27 A. No. Staff verified the Company's projection and
28 determined that although the Company should have
29 reflected the current headcount and the 2009 pay

1 increase scheduled for employees other than
2 executives as a normalization adjustment to the
3 historic test year, there was no impact to the
4 final rate year projection. However, the
5 Company should be advised that future rate case
6 projections should be filed with a single,
7 common test year, in compliance with the
8 Commission's Test Year Policy Statement.

9 Q. Did the Company provide any justification in
10 their filing in terms of workload studies, labor
11 reports, internal memorandums, etc. to justify
12 the increase from 840 headcount reported as of
13 March 31, 2009 and the 856 headcount reported as
14 of the May 31, 2009 as part of the rate filing?

15 A. No.

16 Q. Does the Panel agree with the Central Hudson's
17 rate year projection?

18 A. No, it does not.

19 Q. Did the Panel make any adjustments to the
20 Company's labor projection?

21 A. Yes. The Panel corrected some timing errors
22 related to the union wage increases and adjusted
23 the Company's projected headcount.

24 Q. Please explain the adjustment made by the Panel

1 to correct the timing errors related to the
2 union wage increases.

3 A. The Panel realigned the Company's wage increases
4 for union employees to mirror their contract
5 which provides for a 3.5% pay increase effective
6 May 1, 2009 and a .5% increase effective
7 November 1, 2009, with those same raises
8 mirrored for 2010.

9 Q. Please explain how the Panel developed its rate
10 year projected employee headcount.

11 A. The Panel used a three year historic average of
12 the Company's actual headcount to arrive at a
13 rate year head count of 843 employees, as shown
14 in Exhibit __ (AP-3).

15 Q. Please explain why the Panel used a three year
16 historical average employee headcount.

17 A. First, the employee headcount tends to fluctuate
18 throughout a rate year. For example, as
19 provided in Exhibit __ (AP-3), the employee
20 headcount for calendar year 2007 fluctuated
21 between an employee headcount high of 855
22 employees and an employee headcount low of 835
23 employees, which is a change of 20 employees in
24 a one year period. The use of an average takes

1 into account the hiring of new employees that
2 lead to increases, as well as, decreases in
3 employee headcount due to attrition that cause
4 this fluctuation. Second, the Panel compared
5 the three calendar years from 2006 to 2008, the
6 three historic year periods from April 1, 2006
7 to March 31, 2009 and the three rate year
8 periods from July 1, 2006 to June 30, 2009, and,
9 as shown in Exhibit __ (AP-3), each average is
10 within one headcount of each other. Finally,
11 Central Hudson's actual headcount has been
12 historically lower compared to the headcount
13 provided for in rates. For example, the
14 Company's was provided funding in rates for 855
15 employees for the period of 2005 to 2007;
16 however, the average number of employees, per
17 Company provided employee count reports, for the
18 period of 2005 to 2007 was 845 employees, which
19 resulted in an increase in earnings equivalent
20 to the labor expense of ten employees.

21 Q. Does the Company's filing reflect any offsets to
22 their labor projection such as decreases in sub-
23 contractor costs or an increase in their
24 productivity adjustment?

1 A. No, which provides further support for our
2 proposed productivity adjustment.

3 Q. Has Central Hudson proposed that labor costs be
4 updated at some point later in these
5 proceedings?

6 A. Yes. Per the pre-filed Direct Testimony of the
7 Revenue Requirements Panel at page 50, the
8 Company proposes to update the employee count to
9 the latest known number of employees at time of
10 brief on exceptions.

11 Q. Does the Panel agree with this update?

12 A. No. Without substantial justification for an
13 increased employee count and inclusion of all
14 potential off-setting savings, the Panel
15 proposes the Commission reflect the actual
16 employee level only to the extent it does not
17 exceed the Panel's rate year projected average
18 of 843 employees, except for the inclusion of
19 the employees associated with the Company's new
20 legal team. Furthermore, it must comply with
21 the rules for such updates as stated at pages 8-
22 9 of the Commission's Test Year Policy
23 Statement.

24 Q. Has the Panel quantified their proposed

1 adjustment to Central Hudson's labor expense?

2 A. Yes. Staff's labor projection results in a
3 reduction to electric operating expenses of
4 \$976,974 and a reduction of \$240,183 for gas
5 operating expenses as reflected in Exhibits__
6 (AP-1) and (AP-2).

7 **Productivity**

8 Q. Do the Company's rate year projections include a
9 specific adjustment for productivity?

10 A. No.

11 Q. Did the Company provide any rationale as to why
12 a specific productivity adjustment was not
13 included?

14 A. Yes. Page 11 of the Revenue Requirement Panel's
15 testimony contends that a productivity
16 adjustment has been included not as a
17 percentage, but rather as a result of the
18 Company's adoption of past Commission practices
19 which, in their view, result in projected rate
20 allowances at levels lower than Central Hudson's
21 cost of doing business. The Company further
22 claims:

23 The Commission's reliance on this
24 type of forecasting methodology
25 is at odd's with the Commission's
26 Policy Statement of setting rates

1 on a forward looking basis and in
2 effect imputes a productivity
3 adjustment. Lastly, the historic
4 period ending March 31, 2009,
5 which serves as the basis to
6 project many of the elements of
7 costs reflects the productivity
8 gains the Company has achieved
9 and therefore is reflected in the
10 development of revenue
11 requirements.

12 Q. Does the Panel agree with the Company's
13 assertions related to productivity?

14 A. No. The "past Commission practices" referred to
15 by the Revenue Requirement Panel were in reality
16 Commission decisions against Central Hudson
17 regarding specific expense levels forecast by
18 the Company and challenged by Staff. The
19 Commission's decisions were based on the record
20 evidence before it regarding the specific
21 expense forecasts made by Central Hudson.
22 Therefore, these were not indirect productivity
23 adjustments, as the Company implies.

24 Q. Did the Company identify any new productivity
25 gains it aims to achieve and that are reflected
26 in the rate year forecasts in this case?

27 A. No. For example, the Company's response to
28 Multiple Intervenor Interrogatory 27, shown as
29 Exhibit __ (AP-4), describes reduced spending

1 levels in the prior case due to austerity, but
2 fails to identify savings in the current case.
3 Further, the Company's forecasts reflect
4 substantial capital expenditures without any
5 specific adjustments for cost savings that could
6 stem from those expenditures.

7 Q. Has the Commission spoken on the failure by a
8 jurisdictional utility to specifically identify
9 productivity in a rate case?

10 A. Yes, in Opinion 80-10, Case 27503, National Fuel
11 Gas Corporation (issued March 13, 1980) the
12 Commission stated at page 13:

13 However, we cannot accept what
14 amounts to a mere assertion that
15 productivity has been factored
16 into its forecast of expenses.

17 Q. What is the Commission's general policy on
18 productivity?

19 A. The Commission's general policy stated in Case
20 06-E-1433, Order Setting Permanent Rates,
21 Reconciling Overpayments during Temporary Rate
22 Period, and Establishing Disposition of Property
23 Tax Refunds (issued October 18, 2007), at pages
24 18-19, is to apply a 1% productivity adjustment
25 to labor, fringe benefits, pension, OPEBs, and
26 payroll tax. The general practice of applying a

1 1% productivity adjustment has been endorsed by
2 the Commission in numerous cases including
3 Opinion 81-12, Cases 27826 and 27827, Central
4 Hudson Gas and Electric Corporation (issued
5 July, 14,1981); Opinion 84-21, Case 28656, New
6 Rochelle Water Company (issued August 16,1984);
7 Opinion 90-20, Case 89-G-179, National Fuel Gas
8 Distribution Corporation (issued July 19,1990);
9 and most recently in Cases 08-E-0887, 08-G-0888,
10 and 09-M-0004, Central Hudson Gas and Electric
11 Corporation (issued June 22, 2009).

12 Q. Has Central Hudson recently acknowledged the
13 Commission's general policy of applying a 1%
14 productivity adjustment?

15 A. Yes, the rate year forecasts in the Company's
16 initial filing in its recently decided rate case
17 (Cases 08-E-0887, 08-G-0888, and 09-M-0004)
18 reflected the Commission's traditional 1%
19 productivity factor.

20 Q. Is the Panel proposing a productivity adjustment
21 in this proceeding?

22 A. Yes. We propose a 2% productivity adjustment be
23 applied to labor, fringe benefits, pension,
24 OPEBs, and payroll tax.

- 1 Q. Please explain why you are proposing 1% more
2 than the Commission's standard 1% productivity
3 adjustment?
- 4 A. We are proposing an additional 1% productivity
5 adjustment for two reasons. First, in the
6 development of the labor expense for the rate
7 year the Company included a 4% wage increase for
8 union employees and a 3.6% wage increase for
9 management employees, while during that same
10 time period the Gross Domestic Product (GDP)
11 inflation factor is roughly estimated to be
12 1.5%. In Opinion 81-18, Case 27882, New York
13 State Electric and Gas Corporation (issued
14 October 20, 1981), and Opinion 83-8, Cases
15 28225, 28226, 28227 and 2325, Niagara Mohawk
16 Power Corporation (issued March 24, 1983), the
17 Commission adopted a productivity adjustment
18 greater than 1% based on the fact that wage
19 increases exceeded the GDP inflation rate, and
20 therefore, some corresponding increase in
21 productivity should be expected. Second, in
22 light of the current economic conditions and the
23 fact that the Commission is requiring utilities
24 to find austerity measures (Case 09-M-0435,

1 Notice Requiring The Filing Of Utility Austerity
2 Plans (issued May 15, 2009)), the Panel believes
3 it is reasonable to expect the Company to find
4 additional productivity savings.

5 Q. Does the Panel have any further comments
6 regarding productivity?

7 A. Yes, as shown in Exhibit (AP-1) Schedule 1 and
8 (AP-2) Schedule 1, our proposed productivity
9 adjustment does not even amount to 1% of the
10 Company's operating expenses and other
11 deductions. Also, Department of Labor
12 statistics reveal that U.S. worker productivity
13 for the Electric Power Generation, Transmission,
14 and Distribution industry has returned a 2.7%
15 compounded productivity over the 20-year period
16 of 1987-2007, as shown in Exhibit __ (AP-5), and
17 the Natural Gas Distribution industry has
18 returned a 2.8% compounded productivity over the
19 same period of time. While there may not be a
20 direct correlation between these percentages and
21 corresponding expected expense reductions, it
22 demonstrates that there is productivity in the
23 utility industry.

24 Q. Other than the cases cited previously, has the

1 Commission ever supported a productivity
2 adjustment greater than 1%?

3 A. Yes. The Commission has supported a
4 productivity adjustment greater than 1% in many
5 cases including the following: Opinion 95-8,
6 Case 93-E-1123, Long Island Lighting Company
7 (issued July 3, 1995); Opinion 96-28, Case 95-G-
8 1034, Central Hudson Gas and Electric
9 Corporation (issued October 3, 1996); and Case
10 7-G-0409, St. Lawrence Gas Company (issued
11 January 22, 1998).

12 Q. Has Staff quantified its adjustment for electric
13 and gas operations?

14 A. Yes. The productivity adjustment for electric
15 operations is \$1,664,000 and for gas operations
16 it is \$394,000 as shown in Exhibit __ (AP-1),
17 Schedule 1 and Exhibit __ (AP-2), Schedule 1.

18 **Fringe Benefits**

19 Q. In what area of fringe benefits is the Panel
20 proposing an adjustment?

21 A. The Panel is proposing an adjustment to the
22 medical insurance and group life insurance
23 portion of fringe benefits.

24 Q. Please explain the Panel's proposed adjustment?

1 A. Central Hudson's forecasted rate year fringe
2 benefits reflect an employee headcount of 860
3 employees. The Panel has proposed an employee
4 headcount of 843 employees. Therefore, the
5 Panel adjusted fringe benefits to reflect a
6 reduction in employee headcount of 17 employees.

7 Q. What is the Panel's total proposed adjustment to
8 fringe benefits?

9 A. The Panel's adjustment results in a reduction to
10 electric operating expenses of \$87,079 and a
11 reduction to the gas operating expenses of
12 \$19,750, as reflected on Exhibits__ (AP-1),
13 Schedule 1 and (AP-2), Schedule 1.

14 **Pension Expense**

15 Q. Is the Panel proposing any adjustment to the
16 Company's forecasted pension expense?

17 A. Yes. The Panel is proposing to eliminate the
18 Supplemental Executive Retirement Plan (SERP)
19 portion of pension expense from the Company's
20 forecast.

21 Q. What is a SERP?

22 A. A SERP is a non-qualified deferred compensation
23 plan that provides benefits above and beyond
24 those covered in the Company's qualified pension

1 plan.

2 Q. How is a SERP structured?

3 A. Typically the employer chooses who participates,
4 the level of the benefits, the types of
5 benefits, and the plan provisions.

6 Q. How many employees are included in Central
7 Hudson's SERP?

8 A. Per the Company's confidential response to Staff
9 Interrogatory DPS-36, shown as Exhibit __ (AP-
10 6), [REDACTED]
11 [REDACTED].

12 Q. What is the total cost for the SERP in the
13 Company's forecasted pension expense?

14 A. Per the Company's confidential response to Staff
15 Interrogatory DPS-36, shown as Exhibit __ (AP-
16 6), [REDACTED]
17 [REDACTED].

18 Q. Did the Company provide any data or other
19 information in its filing to support how a SERP
20 directly benefits ratepayers?

21 A. No.

22 Q. Did the Company make any potential off-setting
23 adjustments in its filing to reflect the
24 inclusion of this additional benefit?

1 A. None that the Panel is aware of.

2 Q. Did the Company provide any data or other
3 information in its filing to indicate that not
4 providing this benefit would impede the
5 Company's ability to retain their current
6 executives or hire new executives?

7 A. No.

8 Q. Has the Commission required Central Hudson to
9 achieve austerity savings?

10 A. Yes. In the previous Central Hudson rate case
11 (Cases 08-E-0887 and 08-G-0888, Order Adopting
12 the Recommended Decision with Modifications
13 (issued June 22, 2009)) the Commission stated at
14 page 10:

15 . . . we conclude that the
16 austerity adjustment goal for
17 Central Hudson in this case
18 should be in the amount of \$2.4
19 million for electric operations
20 and \$.6 million for gas
21 operations.

22 Q. Has the Company achieved the austerity
23 adjustment goals imposed on them by the
24 Commission?

25 A. A filing made by the Company on July 7, 2009 in
26 Cases 08-E-0887 and 08-G-0888, and revisions
27 made to that filing by the Company, indicate

1 that Central Hudson believes it achieved the
2 austerity adjustment goal for its electric
3 operations, but not for its gas operations.
4 However, the Commission has yet to rule on that
5 filing.

6 Q. Was the elimination of the SERP from rates part
7 of the Company proposed austerity filing?

8 A. No, it was not.

9 Q. Does the Panel believe the Company could have
10 included the elimination or postponement of SERP
11 benefits from rates as an austerity measure?

12 A. Yes.

13 Q. Please explain why the Panel is proposing to
14 eliminate the SERP from rates?

15 A. The Panel believes the SERP is an added benefit
16 akin to a bonus provided to a small group of
17 executives and that it would be inappropriate to
18 include the SERP in rates in light of the
19 current economic conditions and the fact that
20 the Commission is requiring utilities to
21 implement austerity measures. Further, the
22 Company did not reflect any off-setting
23 adjustments related to the SERP in its rate year
24 projections. Finally, it did not provide any

1 data or other information to support that
2 providing a SERP directly benefits ratepayers or
3 that indicates not providing this benefit would
4 impede the Company's ability to retain their
5 current executives or hire new executives.

6 Q. Did the Panel quantify its adjustment?

7 A. Yes. The elimination from the SERP in rates is
8 a reduction to electric operating expenses of
9 \$860,356 and gas operating expenses of \$151,827,
10 as shown in Exhibit __ (AP-1) Schedule 1 and
11 (AP-2) Schedule 1.

12 **Other Operating Insurance**

13 Q. Could you please provide an overview of Central
14 Hudson's other operating insurance?

15 A. Yes. Central Hudson's other operating insurance
16 consists of directors and officers (D&O)
17 liability, all risk property insurance, other
18 insurance and fidelity and felony insurance.
19 The D&O liability consists of the following six
20 insurance policies: CHUBB insurance, AEGIS
21 insurance, EIM insurance, US Speciality
22 Insurance, Travelers Insurance, and Houston
23 Casualty Insurance. The all risk property
24 Insurance consists of one insurance policy with

1 AIG/Unitech Insurance. The other insurance
2 category is comprised of a pension trust policy,
3 an employment practices policy, an advertisers
4 liability policy and an employed lawyers policy.
5 The fidelity and felony insurance consists of
6 one insurance policy with Zurich American
7 Insurance.

8 Q. How did the Company develop its rate year
9 projection for other operating insurance?

10 A. Per Central Hudson's response to Staff
11 Interrogatory DPS-125, provided in Exhibit__
12 (AP-7), depending on the insurance policy the
13 Company escalated the most recent known premiums
14 either by the GDP inflation factor or by an
15 anticipated inflation factor that was greater
16 than the rate of inflation.

17 Q. Which insurance policies did the Company
18 escalate at a rate greater than inflation?

19 A. The Company escalated the AEGIS and EIM D&O
20 liability insurance polices at 5% for the 2010
21 and 2011 policy renewals. The all risk property
22 Insurance with AIG/Unitech Insurance was
23 escalated at 5% for the 2010 policy renewal.
24 The pension trust policy and the employment

1 practices policy were escalated at 5% for the
2 2010 policy renewal and the employed lawyer's
3 policy was escalated by 20% for the 2010 policy
4 renewal.

5 Q. How did the Company develop the anticipated
6 inflation factors?

7 A. Per Central Hudson's response to Staff
8 Interrogatory DPS-125, provided in Exhibit__
9 (AP-7), the factors represent the Company's
10 estimate of the increases expected based on the
11 insurance carriers' current financial situation.

12 Q. Did Central Hudson provide any other support or
13 rationale for escalating these policies at a
14 rate greater than inflation?

15 A. The Company provided its rationale for how it
16 determined its cost estimates in response to
17 Staff Interrogatories DPS-322 through DPS-326,
18 provided in Exhibit__ (AP-8) through (AP-12).

19 Q. Does any of the rationale or information
20 provided by the Company support a rate greater
21 than inflation?

22 A. No. The majority of the information is
23 speculative and provides no assurance or
24 definitive information that the premium will be

1 increased; except for the response to Staff
2 Interrogatory DPS-324, provided in Exhibit__
3 (AP-10) that indicated a 4.5% premium rate
4 increase based on the recently renewed property
5 policy with AIG on October 1, 2009.

6 Q. What is the basis for your conclusion that the
7 majority of the information is speculative and
8 provides no assurance or definitive information
9 that the premium will be increased?

10 A. The information provided by the Company reflects
11 the anticipated 2009 outlook for the Company's
12 insurance carriers and the insurance industry,
13 but provides no concrete information in the form
14 of actual premiums received from their insurance
15 carriers.

16 Q. Does the Panel propose to adjust the escalation
17 rates used by the Company to project other
18 operating insurance?

19 A. Yes. Other than the all risk property Insurance
20 with AIG, which the Panel proposes to use 4.5%,
21 the Panel proposes that the most recent known
22 premiums be escalated using the GDP inflation
23 factor.

24 Q. Why does the Panel believe the GDP inflation

1 factor to be an appropriate rate to escalate the
2 insurance premiums?

3 A. Other than the fact that the Company has
4 provided no definitive information that the
5 premium will be increased, the Panel believes
6 other operating insurance should be treated no
7 differently than the manner in which the
8 Commission has treated health insurance costs.

9 Q. How does the Commission escalate health
10 insurance costs?

11 A. The Commission escalates health insurance costs
12 using GDP inflation rates.

13 Q. What is the basis for escalating health
14 insurance costs using GDP inflation rates?

15 A. Commission policy established in Opinion 84-27,
16 Case 28695, Rochester Telephone Corporation
17 (issued October 12, 1984) and reaffirmed in
18 numerous Commission decisions stated at page 13:

19 The treatment of medical
20 insurance costs as one factor in
21 a large pool of expenses subject
22 to inflation should produce a
23 reasonable result, because some
24 items will increase at a rate
25 greater than inflation and others
26 at a lower rate.

27 Q. Has the Commission recently reaffirmed its

1 decisions to use inflation to forecast medical
2 insurance expenses?

3 A. Yes, in Case 07-E-0523, Consolidated Edison
4 Company of New York, Inc. (issued March 25,
5 2008), the Commission reaffirmed its decision to
6 include medical care expenses in the inflation
7 pool. At pages 42-43 of the Order, the
8 Commission stated:

9 The practice uses the recent
10 costs and the current employee
11 count to capture the present
12 operating conditions. It also
13 acknowledges that the costs in
14 this and many other categories
15 are expected to increase.
16 Overall, the Company is expected
17 to manage the cost increases in
18 the entire group and to keep
19 them, as best it can, to the
20 general inflation rate. By this
21 time, we would expect the utility
22 companies to have accepted the
23 standard practice and to apply
24 their resources more productively
25 to other matters.

26 Q. Has the Commission ever supported the use of
27 inflation to forecast other operating insurance
28 costs similar to how we forecast medical
29 insurance expenses?

30 A. Yes. In Case 08-E-0539 and 08-M-0618,
31 Consolidated Edison Company of New York, Inc.,

1 Order Setting Electric Rates (issued April 24,
2 2009) the Commission stated at page 93:

3 We see no good reason on the
4 record to treat the costs of the
5 Company's general insurance
6 differently from the way we
7 treated health insurance cost in
8 the 2008 Rate Order and the way
9 the judges recommended health
10 insurance costs be treated here.
11 Our standard practice groups
12 these costs with a number of
13 other costs that might increase
14 or decrease. As we explained in
15 the 2008 Rate Order, we expect
16 the Company, like other
17 utilities, to manage the grouped
18 costs as a whole within the
19 general rate of inflation.

20 Q. Is Staff proposing any other adjustments to the
21 other operating insurance premiums?

22 A. Yes. The Company indicated in response to Staff
23 Interrogatory DPS-125, provided in Exhibit__
24 (AP-7), that the forecast periods for the AEGIS
25 premium related to D&O liability insurance
26 reflected the removal of a continuity credit
27 received from AEGIS. The Panel is proposing to
28 include a continuity credit in the forecast
29 periods related to AEGIS.

30 Q. What is the Panel's basis for making this
31 proposed adjustment?

- 1 A. The AEGIS 2009 Outlook provided by the Company
2 as a confidential response to Staff
3 Interrogatory DPS-323, provided in Exhibit__
4 (AP-9) stated that AEGIS's Board had approved
5 continuity credits at 2.5% [REDACTED]
6 [REDACTED]
7 [REDACTED]. Further, the
8 Company provided a supplemental response to
9 Staff Interrogatory DPS-125, Exhibit__ (AP-7)
10 confirming it was going to receive a continuity
11 credit.
- 12 Q. Is the Panel proposing any other adjustments to
13 other operating insurance expense?
- 14 A. Yes. The Panel is proposing to eliminate half
15 of the cost associated with D&O Insurance?
- 16 Q. What is D&O Insurance?
- 17 A. D&O Insurance indemnifies the Company and its
18 directors and officers for "wrongful acts" in
19 performing their respective corporate
20 capacities.
- 21 Q. Could the Panel further explain "wrongful acts"?
- 22 A. As defined in the Company's insurance policy
23 provided in response to Staff interrogatory DPS-
24 118, provided in Exhibit__ (AP-13), "wrongful

1 acts" are any error, misstatement, misleading
2 statement, act, omission, neglect, or breach of
3 duty committed, attempted, or allegedly
4 committed or attempted by an insured person,
5 individually or otherwise, in his insured
6 capacity, or any matter claimed against him
7 solely by reason of his serving in such insured
8 capacity.

9 Q. Did Central Hudson include the full cost of D&O
10 Insurance in rate year projection?

11 A. Yes. Per the pre-filed Direct Testimony of
12 Michael Mosher at page 8, the Company's filing
13 seeks to recover all projected costs related to
14 D&O liability insurance coverage, rather than
15 half the costs as approved in the recent Rate
16 Order in Cases 08-E-0887 and 08-G-0888.

17 Q. Did the Company base its decision to recover all
18 the projected costs related to D&O liability
19 insurance coverage, rather than half the costs
20 as approved in the recent Rate Order, on any
21 empirical study?

22 A. No, it did not based upon the response to Staff
23 interrogatory DPS-294, provided in Exhibit__
24 (AP-14), which stated:

1 . . . the decision is based on
2 the necessity for adequate D&O
3 insurance coverage to permit it
4 to operate and on the fact that,
5 as a public utility, its
6 necessary costs of operation
7 should be funded through rates.

8 Q. Could you please explain the Panel's proposed
9 adjustment to D&O Insurance?

10 A. Yes. The Panel is proposing to continue to
11 split the cost of D&O insurance 50/50 between
12 ratepayers and shareholders.

13 Q. Does the Panel have any empirical data to
14 support splitting the cost of D&O insurance
15 50/50 between ratepayers and shareholders?

16 A. Yes. Per a 2007 Towers Perrin Directors and
17 Officers Liability survey of insurance
18 purchasing and claim trends, provided as
19 Exhibit__ (AP-15), it was found that 53% of the
20 claims brought against Public Companies was done
21 by shareholders; thus, it is only appropriate
22 that shareholders bear half of the cost of D&O
23 insurance.

24 Q. Is there any Commission precedent related the
25 allocation of D&O Insurance between ratepayers
26 and shareholders?

27 A. Yes. In the previous Central Hudson rate cases

1 08-E-0887 and 08-G-0888, the Commission stated
2 at page 16:

3 . . . we direct that one-half the
4 cost of the premiums for D&O
5 liability insurance be excluded
6 from rates.

7 Q. Has the Commission adopted 50/50 sharing of D&O
8 insurance between ratepayers and shareholders
9 for any other utilities?

10 A. Yes. For Consolidated Edison Electric in Case
11 08-E-0539 and 08-M-0618, Order Setting Electric
12 Rates (issued April 24, 2009) at p. 91.

13 Q. Has the Panel quantified its adjustments to
14 other operating insurance?

15 A. Yes. The Panel's adjustments result in a
16 reduction of \$441,436 for electric operations
17 and \$78,528 for gas operations. This adjustment
18 is reflected in Exhibits__ (AP-1), Schedule 1
19 and (AP-2), Schedule 1.

20 **Injuries and Damages**

21 Q. In what area of Injuries and Damages Insurance
22 is the Panel proposing an adjustment?

23 A. The Panel proposes an adjustment to the excess
24 liability insurance projection portion of
25 injuries and damages.

26 Q. Please explain how the Company forecasted its

1 excess liability insurance projection.

2 A. Per the pre-filed Direct Testimony of the
3 Revenue Requirements Panel at page 23, the cost
4 projection for excess liability insurance is
5 based on the latest known premiums, which were
6 escalated based on the expectation that past
7 increases by the Company's insurance carriers
8 will continue at the same rate in the future.

9 Q. Did the Company provide any data to support
10 escalating the latest known premiums based on
11 past increases?

12 A. Other than the Company's response to Staff
13 Interrogatories DPS-54 and DPS 55, provided as
14 Exhibit__ (AP-16) and (AP-17), which show the
15 AEGIS policy increased from the 2008-2009 policy
16 period to the current 2009-2010 period, no.

17 Q. Does the Panel believe the AEGIS policy should
18 be increased at a rate other than the GDP
19 inflation factor based upon the Company's
20 response to Staff Interrogatories DPS-54 and DPS
21 55.

22 A. No. The Company provided no definitive
23 information that the premium will be increased
24 in the future at a rate greater than the GDP

1 inflation factor.

2 Q. Does the Panel agree with the Company's
3 methodology?

4 A. No, similar to the rationale previously
5 discussed related to other operating insurance,
6 the Panel believes excess liability insurance
7 should be inflated using the GDP inflation
8 factor.

9 Q. Please explain the Panel's adjustment to excess
10 liability insurance.

11 A. We escalated the Company's historic test year
12 excess liability insurance by the GDP inflation
13 factor, except for the excess liability
14 insurance policy with AEGIS, in which we
15 utilized the actual 2008-2009 and 2009-2010
16 premium policy amounts to calculate an actual
17 2009 and 2010 projection. We then escalated
18 that amount by the GDP inflation factor to
19 arrive at our rate year projection.

20 Q. Did the Panel quantify its adjustment to
21 injuries and damages?

22 A. Yes, our adjustment results in a reduction to
23 rate year operating expenses for electric
24 operations of \$234,548 and a reduction of

1 Stray Voltage

2 Q. How did Central Hudson develop its projected
3 stray voltage expense for the rate year?

4 A. The Company used their budget projections for
5 fiscal years 2009 and 2010 to develop forecasted
6 expenditures for the bridge period (March 31,
7 2009 to July 1, 2010), and the rate year.

8 Q. Did Central Hudson adjust the stray voltage
9 expenditures for inflation as part of the
10 forecast?

11 A. No. The Company used escalation factors instead
12 of inflation.

13 Q. What escalation factors are used in the
14 Company's forecasted expenditures?

15 A. According to Exhibit (DLD-1) provided by the
16 Company, for expenditures related to
17 Distribution, Street Lights/Traffic Signals, and
18 Standby Central Hudson used an escalation factor
19 of 3% per year. For Transmission expenditures,
20 an escalation factor of 3.8% per year was used,
21 and for expenditures related to Quality
22 Assurance/Quality Control and Mitigation, a 5%
23 per year escalation factor was used.

24 Q. How did the Company develop the escalation

1 factors related to the forecasted expenditures?

2 A. According to Exhibit (DLD-1), by reviewing the
3 hourly stray voltage contractor pricing.

4 Q. Did the Company provide contractor pricing data
5 to support the above escalation factors?

6 A. In response to Staff Interrogatory DPS-142,
7 provided as Exhibit__ (AP-18), the Company
8 provided a confidential response that contained
9 the contractor bid pricing used to forecast the
10 expenditures; [REDACTED]

11 [REDACTED]

12 [REDACTED]

13 [REDACTED].

14 Q. What did the Company forecast it would incur in
15 the rate year related to the stray voltage
16 expenditures?

17 A. The Company forecasted stray voltage
18 expenditures to be \$2,564,765 in the rate year.

19 Q. Does the Panel agree with Company's forecast?

20 A. Based on a review of actual stray voltage
21 expenditures for three full testing and
22 inspection cycles (2005/2006 cycle, 2007 cycle,
23 and 2008 cycle), as provided by the Company in
24 the pre-filed Direct Testimony of Donald Dubois

1 at page 8, as well as, the Stray Voltage Test
2 and Facility Inspection reports, submitted to
3 the Commission pursuant to Case 04-M-0159, for
4 fiscal years 2005, 2006, 2007, and 2008, the
5 Panel does not agree with the Company's
6 forecast.

7 Q. Please describe in more detail the Panel's
8 review of stray voltage expenditures.

9 A. Our review of actual expenditures for the last
10 three testing and inspection cycles revealed the
11 rate allowance exceeded the actual expenditures
12 in each of the testing and inspection cycles.

13 Q. Are stray voltage expenditures subject to
14 deferred accounting treatment?

15 A. Yes. Currently, the difference between the rate
16 allowance and the actual expenditures by the
17 Company are deferred for either future rate
18 recovery or future ratepayer benefit. As of
19 September 31, 2009, Central Hudson had deferred
20 on its books \$35,602 that it owes ratepayers.

21 Q. What does the Panel conclude and propose based
22 on its review of the Stray Voltage Test and
23 Facility Inspection reports.

24 A. We conclude that from 2005 to 2008, Central

1 Hudson completed three full testing cycles and
2 we propose to average the costs of those testing
3 cycles.

4 Q. Why does the Panel believe this to be a more
5 appropriate method of calculating the rate year
6 expenditures?

7 A. This method more accurately forecasts
8 expenditures by reflecting the actual
9 expenditures experienced by Central Hudson
10 related to stray voltage.

11 Q. Did the Panel quantify its proposed adjustment
12 to stray voltage?

13 A. Yes. The total of the proposed averages
14 adjusted for inflation from 2008 to the end of
15 the rate year is \$1,791,533, compared to the
16 Company's rate year amount of \$2,564,765, which
17 results in a reduction of electric operating
18 expenses of \$773,232 as reflected in Exhibit__
19 (AP-1), Schedule 1.

20 Q. Does the Panel propose the rate year stray
21 voltage amount be updated later in these
22 proceedings?

23 A. Yes. In response to Staff interrogatory DPS-
24 140, provided in Exhibit__ (AP-19), the Company

1 indicated that the first full testing cycle
2 complying with the new Commissions requirements
3 will be completed at the end of 2009. Data
4 related to the full testing cycle will be
5 available early in 2010. The Panel believes in
6 order to capture the expenditures related to the
7 new Commission requirements it would be
8 appropriate to update the rate year expense for
9 the actual level of expenses for a full testing
10 cycle under the new Commission requirements, and
11 inflate that amount by the GDP inflation rate to
12 arrive at the rate year level of expense.

13 Q. You indicated above that stray voltage
14 expenditures currently are subject to deferred
15 accounting treatment. Does the Panel propose
16 this treatment be continued?

17 A. No, deferred accounting treatment for this item
18 is no longer necessary or appropriate. As our
19 proposed rate allowance is based on actual
20 expenditures experienced by the Company for
21 Stray Voltage in recent years, it provides a
22 reasonable forecast of expenditures in the rate
23 year. Deferred accounting is an extraordinary
24 measure and the information provided by Central

1 Hudson related to this cost component does not
2 provide a basis for continuing deferred
3 accounting treatment. Further, in Cases 08-E-
4 0887, 08-G-0888, and 09-M-0004, at page 24 of
5 the Rate Order, the Commission stated:

6 Given the uncertainty associated
7 with the new requirements, it is
8 reasonable to do so for one
9 testing cycle, after which better
10 estimates should be possible.

11 Therefore, the Commission only envisioned the
12 deferred accounting treatment would continue for
13 one testing cycle.

14 **Legal Services**

15 Q. How did Central Hudson calculate legal services
16 expense for the rate year?

17 A. The Company's rate year amount was projected by
18 increasing historical period costs by the
19 estimated inflation factor.

20 Q. Does Central Hudson plan to update or make any
21 changes to the legal services expense prior to
22 the rate year?

23 A. Yes. Per the Revenue Requirement Panel's pre-
24 filed Direct Testimony at pages 21-22, the
25 Company intends to establish an internal legal
26 team to address corporate and regulatory

1 matters. Therefore, according to the Company,
2 the filed legal services expense represents a
3 placeholder to be updated later in these
4 proceedings to reflect an internal legal team.

5 Q. How does the Company intend to reflect this
6 change?

7 A. Per the Revenue Requirement Panel's pre-filed
8 Direct Testimony at page 22, the proposed update
9 of direct labor costs will include the internal
10 legal team as part of the update.

11 Q. Does the Company intend to offset the filed
12 legal expenses to reflect the increase in labor
13 costs?

14 A. Yes. Per the Revenue Requirement Panel's pre-
15 filed Direct Testimony at page 22, the Company
16 anticipates that the labor requirement related
17 to the internal legal team will offset a to be
18 determined portion of the legal expenses.

19 Q. Did Central Hudson perform a study or a cost
20 benefit analysis to determine whether the
21 implementation of an internal legal team is more
22 cost effective than the current practice of
23 employing outside legal services?

24 A. No. According to response to Staff

1 interrogatory DPS-281, provided in Exhibit__
2 (AP-20), the Company did not perform a study or
3 a cost benefit analysis to determine whether the
4 implementation of an internal legal team is more
5 cost effective than the current practice of
6 employing outside legal services.

7 Q. Does the Panel take issue with Central Hudson's
8 proposal?

9 A. Not as long as the offset to legal expenses
10 encompasses all the increases associated with
11 the new internal legal team.

12 Q. Please explain in more detail.

13 A. Any increase to the Company's labor projection,
14 fringe benefits, including Pensions & OPEBs, and
15 payroll taxes associated with the internal legal
16 would be fully offset with a corresponding
17 reduction to legal services expense; thus, the
18 impact of this update would be revenue
19 requirement neutral.

20 Q. Please explain the Panel's rationale for
21 proposing that all expenses associated with the
22 internal legal team be offset with a
23 corresponding reduction to legal services.

24 A. Based on the fact that the Company did not

1 perform a study or a cost benefit analysis to
2 determine whether the implementation of an
3 internal legal team is more cost effective, it
4 would only be appropriate that any expense
5 associated with the internal legal team be
6 offset with a corresponding reduction to legal
7 services expense; otherwise, the implementation
8 of this internal legal team would not be
9 reasonable and prudent.

10 **Special Services**

11 Q. How did Central Hudson calculate special
12 services expense for the rate year?

13 A. The Company's rate year amount was projected by
14 increasing historical period costs by the
15 estimated inflation factor, with the exception
16 of auditing services, which includes a provision
17 in the rate year for anticipated additional
18 services related to review of compliance with
19 new International Financial Reporting Standards
20 (IFRS).

21 Q. What are IFRS?

22 A. BusinessDictionary.com defines IFRS as follows:

23 Guidelines and rules set by the
24 International Accounting
25 Standards Board (IASB) that
26 companies and organizations can

1 follow when compiling financial
2 statements. The creation of
3 international standards allows
4 investors, organizations and
5 governments to compare the IFRS-
6 supported financial statements
7 with greater ease. Over 100
8 countries currently require or
9 permit companies to comply with
10 IFRS standards.

11 Q. Did the Company provide a dollar amount
12 associated with the increase in auditing
13 services due to the review of compliance with
14 new IFRS?

15 A. Yes. Per the Company's workpapers, Special
16 Services expense would increase in the rate year
17 by \$212,500 for the electric operations and
18 \$37,500 for the gas operations.

19 Q. Did the Company provide documentation to support
20 the additional \$250,000 rate year increase?

21 A. The Company's response to Staff Interrogatory
22 DPS-113, shown at Exhibit__ (AP-21), provided
23 the following estimates: \$100,000 for consultant
24 support to develop new procedures and controls,
25 \$25,000 for employee training and related
26 materials and \$125,000 for incremental
27 PricewaterhouseCoopers fees for review of
28 procedures and controls.

1 Q. Does the Panel agree with the additional
2 increase in Special Services expense associated
3 with the implementation of the new IFRS?

4 A. No, it does not for several reasons. First, per
5 Staff Interrogatory DPS-352, provided in
6 Exhibit__ (AP-22), the Company is not currently
7 required by United States Securities and
8 Exchange Commission (SEC) to provide financial
9 Statements that comply with IFRS. Second, the
10 forecasted expenditures are based on best
11 estimates, and therefore, there is no assurance
12 or certainty concerning the actual level of
13 costs that will be experienced in the rate year.
14 In response to Staff interrogatory DPS-113,
15 provided in Exhibit__ (AP-21), Central Hudson
16 acknowledged the costs are uncertain when it
17 stated:

18 The Company continues to
19 evaluate, with assistance from
20 PriceWaterhouseCoopers, the scope
21 of work associated with the
22 implementation of International
23 Financial Reporting Standards.
24 We have estimated the following
25 costs associated with its
26 implementation.

27 Finally, in Case 08-E-0539, Proceeding on Motion
28 of the Commission as to the Rates, Rules and

1 Regulations of Consolidated Edison Company of
2 New York, Inc. for Electric Service, Order
3 Establishing Rates For Electric Service (issued
4 April 24, 2009), at page 342, the Commission
5 stated:

6 Expenditures that are reasonable
7 during average or good economic
8 times are not necessarily
9 reasonable when economic
10 conditions are extremely poor.
11 When consumers are experiencing
12 the extraordinary harsh economic
13 realities we see today, a certain
14 measure of frugality is properly
15 expected from utilities and a
16 reprioritizing of expenditures
17 may be needed.

18 The implementation of the new IFRS is an
19 unnecessary cost at this time and is an example
20 of the frugality and reprioritizing of
21 expenditures that the Commission expects from
22 utilities during these difficult economic
23 conditions.

24 Q. Did the Panel quantify its proposed adjustment
25 to Special Services Expense?

26 A. Yes. The removal of the additional funding
27 related to implementation of the new IFRS from
28 rates is a reduction to operating expense in the
29 amount of \$212,500 for electric operations and

1 \$37,500 for gas operations, as reflected in
2 Exhibits__ (AP-1), Schedule 1 and (AP-2),
3 Schedule 1.

4 **Regulatory Commission Expense**

5 Q. Please explain how Central Hudson developed its
6 Regulatory Commission Expense projection?

7 A. Per the pre-filed Direct Testimony of the
8 Revenue Requirements Panel at page 19-20, the
9 forecast is based on the Company's "Department
10 of Public Service Statement of Estimated General
11 Assessment for fiscal year ending March 31,
12 2010." The Company then escalated the
13 assessment amount based upon a four-year average
14 growth rate to arrive at the rate year
15 projection.

16 Q. Does the Panel agree with Company's forecast
17 methodology?

18 A. No. We propose to escalate the historic year
19 data at the GDP inflation factors. The use of a
20 four year average rate of growth to escalate the
21 historic year data is not appropriate or
22 necessary since we are proposing to update the
23 historic year costs a few months prior to the
24 beginning of the rate year. Furthermore, the

1 Commission in Case 09-M-0311, Order Implementing
2 Temporary State Assessment (issued June 19,
3 2009), at page 10 stated:

4 The delayed recovery of these
5 expenses will require the use of
6 a deferral accounting mechanism
7 that will allow the full recovery
8 of the additional revenue
9 requirement caused by the
10 imposition of the Temporary State
11 Assessment. We authorize the
12 electric, gas, steam, and water
13 corporations and municipal
14 electric and gas corporations to
15 defer the difference between
16 their total assessment expense
17 (Temporary State Assessment and
18 General Assessment) and the
19 amount collected from customers.

20 As a result, there is no need to apply a growth
21 rate in the Company's projections because it is
22 allowed deferred accounting treatment for this
23 expense.

24 Q. Has the Panel quantified its proposed
25 adjustment?

26 A. Yes. The adjustments result in a reduction to
27 the Company's Regulatory Commission Expense rate
28 year projection of \$244,372 for the electric
29 operations and \$30,700 for the gas operations as
30 reflected shown in Exhibits __ (AP-1) and (AP-2),
31 Schedule 1, respectively.

1

Uncollectibles

2 Q. How does the Company develop the projection of
3 uncollectible expense in the rate year?

4 A. Per the pre-filed Direct Testimony of the
5 Revenue Requirements Panel at pages 18-19,
6 Central Hudson's projection for uncollectible
7 expense is based on the net charge-off amount as
8 a percentage of revenues subject to bad debt for
9 the historical period. The ratios are then
10 applied to projected total revenues subject to
11 bad debt for the rate year to arrive at the
12 projected uncollectible expense.

13 Q. What was the net charge-off amount used by the
14 Company used to develop the rate year
15 projection?

16 A. The net charge-off amount used by Central Hudson
17 to develop the rate year projection, per the
18 Company workpaper as provided in Exhibit__ (AP-
19 23), was the net charge-offs for the historic
20 test year ended March 31, 2009 of \$7,547,067.

21 Q. Does the Panel agree with the use of the net
22 charge-off amount of \$7,547,067?

23 A. No. The net charge-off amount for the historic
24 test year is overstated.

- 1 Q. Please explain in more detail why the historic
2 test year is overstated.
- 3 A. The net charge-off amount for the historic test
4 year of \$7,547,067 was calculated by using the
5 net charge-off amount for the twelve months
6 ended December 31, 2008, eliminating the net
7 charge-off amount for the three months ended
8 March 31, 2008 and including the net charge-off
9 amount for the three months ended March 31,
10 2009. However, Central Hudson petitioned the
11 Commission in February 2009 and was granted
12 authorization on August 24, 2009, in Case 09-M-
13 0140, Petition of Central Hudson Gas and
14 Electric Corporation for the Authority to Defer
15 Bad Debt Net Write-off Expense for the Year
16 Ended December 31, 2008, to defer the
17 incremental gas net charge-off of \$541,000;
18 thus, the net charge-off amount for the twelve
19 months ended December 31, 2008 should be
20 adjusted downward to reflect the actual net
21 charge-off.
- 22 Q. Did the Panel adjust the historic test year net
23 charge-off amount to reflect the actual net
24 charge-off amount for the twelve months ended

- 1 December 31, 2008?
- 2 A. Yes. The historic test year net charge-off
3 amount as adjusted by the Panel is \$7,006,067.
- 4 Q. Is the Company requesting the net charge-off
5 amount be updated later in this proceeding?
- 6 A. Yes. Per the pre-filed Direct Testimony of the
7 Uncollectible Accounts Panel at page 12, Central
8 Hudson requests that the rate allowance for
9 uncollectible accounts be set based on the most
10 recent experience available at brief on
11 exceptions.
- 12 Q. Does the Panel agree with the Company that the
13 rate allowance for uncollectible accounts be set
14 based on the most recent experience available at
15 brief on exceptions?
- 16 A. Yes. The Panel agrees that setting the rate
17 allowance for uncollectible accounts based upon
18 the most recent twelve months of data available
19 at brief on exceptions is a reasonable method
20 for establishing the rate year rate allowance.
- 21 Q. Did the Panel make any other adjustments to the
22 Company's projection of uncollectible expense
23 for the rate year?
- 24 A. Yes. The Panel adjusted the manner in which

1 Central Hudson allocated net write-offs between
2 the electric and gas operations.

3 Q. How does Central Hudson allocate net write-offs
4 between the electric and gas operations?

5 A. Per the Company workpaper, as provided in
6 Exhibit__ (AP-24), Central Hudson allocates the
7 net write-offs between the electric and gas
8 operations based on a four year average of net
9 write-offs.

10 Q. What was the allocation of net write-offs
11 between the electric and gas operations used by
12 the Company to develop the rate year projection?

13 A. The use of a four year average of net write-offs
14 results in an allocation of 67% to the electric
15 operations and 33% to the gas operation.

16 Q. How does the Panel propose to allocate net
17 write-offs between the electric and gas
18 operations?

19 A. The Panel proposes to allocate the net write-
20 offs between the electric and gas operations,
21 based on the most recent actual net write-offs
22 for the electric and gas operations
23 respectively.

24 Q. Please explain why the Panel is proposing to

1 adjust the manner in which Central Hudson
2 allocates net write-offs between the electric
3 and gas operations.

4 A. The Panel is proposing the adjustment for two
5 reasons. First, the use of the most recent
6 actual net write-off data for the electric and
7 gas operations is a more accurate and up to date
8 representation of the amount that should be
9 allocated to the electric and gas operations
10 respectively. Second, the Company in response to
11 Staff Interrogatory DPS-291, provided in
12 Exhibit__ (AP-25), stated that the accruals
13 recorded on the Company's books associated with
14 net write-offs are allocated based on the same
15 allocation percentages used to set rates; thus,
16 the amount recorded as an accrual on the
17 Company's books does not reflect the most recent
18 data. The use of the most recent net-write off
19 data would ensure a more accurate and up to date
20 accrual.

21 Q. Does the Company track the accounts written-off
22 separately between the electric and gas
23 operation?

24 A. Yes. Per Central Hudson's response to Staff

1 Interrogatory DPS-292, provided in Exhibit__
2 (AP-26), the Company tracks the accounts written
3 off as bad debts separately between electric and
4 gas.

5 Q. What are the most recent actual net write-offs
6 for the electric and gas operations,
7 respectively?

8 A. Per Central Hudson's response to Staff
9 Interrogatory DPS-115, provided in Exhibit__
10 (AP-27), the actual net write-offs for the
11 period of January 2009 through August 2009 are
12 \$3,973,704 for the electric operations and
13 \$1,690,158 for the gas operations, which
14 supports an allocation of 70% to the electric
15 operations and 30% to the gas operation.

16 Q. What allocation did the Panel use to allocate
17 net write-offs between the electric and gas
18 operations?

19 A. The Panel allocated 70% of the net write-offs to
20 the electric operations and 30% of the net
21 write-offs to the gas operation to reflect the
22 most recent data available.

23 Q. Does the Panel believe the allocation should be
24 updated later on in this proceeding?

1 A. Yes. The Panel believes the allocation of the
2 net write-offs between the electric and gas
3 operations should be updated to reflect the
4 actual net write-offs for most recent twelve
5 months of data available at brief on exceptions.

6 Q. Is the Company requesting deferral treatment in
7 this proceeding related to uncollectible
8 expense?

9 A. Yes, per the pre-filed Direct Testimony of the
10 Uncollectible Accounts Panel at page 12, Central
11 Hudson requests that the uncollectible accounts
12 be subject to deferral and reconciliation for
13 both the delivery component and the commodity
14 component.

15 Q. Does the Company explain why it is seeking
16 deferral authority?

17 A. Yes. The Uncollectible Accounts Panel, at pages
18 12-13, states the Company is seeking deferral
19 authority because of the uncertain economic
20 conditions, the price of energy or commodity
21 supply, and once economic recovery does occur a
22 lag exists between reductions in the rate of
23 growth of arrears and reductions in the rate of
24 growth of write-offs.

1 Q. Does the Panel agree with the Company's request
2 that a deferral authority be established for the
3 uncollectible expense?

4 A. No, for several reasons. First, two of the
5 factors causing the increase in the
6 uncollectible accounts, according to the
7 Company, have changed over the last six months.
8 In response to Consumer Protection Board (CPB)
9 Interrogatory 31, provided in Exhibit__ (AP-28),
10 the Company acknowledged that commodity costs
11 have been decreasing over the last six months.
12 This is significant because according to the
13 Company's response to Consumer Protection Board
14 Interrogatory 36, provided in Exhibits__ (AP-
15 29), commodity costs represent over half of the
16 amount collected from customers in rates.

17 Second, the Company per the pre-filed Direct
18 Testimony of the Uncollectible Accounts Panel at
19 pages 8-10, discusses numerous steps taken by it
20 to control the uncollectible expense including
21 changes to the Enhanced Powerful Opportunities
22 Program to assist low income heating customers,
23 increasing the number of collectors in the field
24 by 30%, and an enhanced collection plan that is

1 designed to reduce the number of accounts in
2 arrears and dollars. Third, allowing Central
3 Hudson a deferral mechanism may reduce the
4 Company's incentive to control the level of
5 uncollectible expenses because they would be
6 guaranteed recovery. Finally, deferral
7 accounting treatment for an ordinary operating
8 expense is inappropriate. Deferred accounting
9 treatment is typically reserved for instances in
10 which an event has occurred during the current
11 period that is unusual in nature and of
12 infrequent occurrence that is significantly
13 different from the ordinary and typical
14 activities of the Company and which would not
15 reasonably be expected to recur in the
16 foreseeable future. If Central Hudson is
17 adversely affected by the level of
18 uncollectibles accounts expense in the rate year
19 rates it can follow the normal procedure of
20 filing a deferral petition with the Commission.

21 Q. Has the Commission recently addressed the issue
22 of providing a deferral mechanism for
23 uncollectible expense?

24 A. Yes. The Commission in the most recent Central

1 Hudson rate case Order in Cases 08-E-0887, 08-G-
2 0888, 09-M-0004 (issued June 22, 2009), at pages
3 26-27 stated:

4 The Recommended Decision was
5 correct in explaining that
6 automatic deferral authority,
7 while frequently provided in
8 negotiated multi-year rate plans,
9 is normally not necessary for a
10 one-year rate case, absent
11 unusual circumstances. Basing the
12 rate allowances for
13 uncollectibles on the Company's
14 most recent experience ensures
15 that the amount is reasonable.
16 The Company also has access to
17 our normal procedures for
18 requesting deferral authority,
19 should that become necessary.

20 **AMI/SmartGrid**

21 Q. Did the Commission direct Central Hudson to file
22 an Advanced Metering Infrastructure (AMI) pilot
23 proposal?

24 A. Yes. In Case 09-M-0074, Order Adopting Minimum
25 Requirements For Advanced Metering
26 Infrastructure Systems and Initiating An Inquiry
27 Into Benefit-Cost Methodologies (issued February
28 12, 2009) at page 21, the Commission directed
29 Central Hudson to file an AMI pilot proposal.

30 Q. Did the Company file a proposal as directed by
31 the Commission?

1 A. Yes. Central Hudson filed an AMI proposal on
2 April 14, 2009.

3 Q. Has the Company made any changes to its proposal
4 since the filing made with the Commission in
5 April?

6 A. Yes. Per the Smart Grid Panel's pre-filed
7 direct testimony at page 4, the AMI proposal has
8 evolved into a Smart Grid Initiative.

9 Q. How does Central Hudson propose to fund its AMI
10 proposal/Smart Grid Initiative?

11 A. Per the Smart Grid Panel's pre-filed direct
12 testimony at page 9-10, the Company is seeking
13 to recover 50% of the project cost through
14 American Recovery and Reinvestment Act (ARRA)
15 funding and to recover the remaining funding
16 from customers.

17 Q. If the Company were to receive less than 50% of
18 the project cost from ARRA funding how does the
19 Company propose to recover the cost shortfall?

20 A. Per the Smart Grid Panel's testimony at page 10,
21 Central Hudson intends to seek Commission
22 approval to recover the costs from customers.

23 Q. How does the Company propose the costs be
24 recovered from customers?

1 A. Per the Smart Grid Panel testimony at page 10,
2 the Company claims that the Commission has not
3 specified a funding mechanism for these costs,
4 and therefore, the Company is requesting
5 deferral authority for all incremental costs.

6 Q. Has the Company included any costs associated
7 with the AMI proposal/Smart Grid Initiative in
8 base rates?

9 A. Yes. The Company has included AMI/Smart Grid
10 expenses of \$386,000 for the electric operations
11 and \$59,000 for the gas operations to cover
12 internal start up and incremental costs
13 associated with developing the project,
14 exploring technologies, meeting with vendors and
15 preliminary design.

16 Q. Does the Accounting Panel agree with Central
17 Hudson's assertion that the Commission has not
18 specified a funding mechanism for the AMI/Smart
19 Grid expenses?

20 A. No, it does not. In Cases 09-E-0310 and 09-M-
21 0074, Order Authorizing Recovery Of Costs
22 Associated with Stimulus Projects (issued July
23 27, 2009) at page 3, the Commission stated:

24 We approve certain of the project
25 proposals filed by the utilities,

1 and authorize the recovery by
2 utilities of eligible projects
3 costs through the imposition of a
4 surcharge, while reserving our
5 ability to judge the prudence of
6 the project expenditures.

7 Q. Does the Accounting Panel agree with the
8 Company's request for deferral authority for all
9 incremental costs?

10 A. No. Based on the above referenced Order, the
11 Panel believes deferred accounting treatment
12 would be inappropriate. The Commission has
13 clearly stated that AMI/Smart Grid initiative
14 costs should be recovered via a surcharge.

15 Q. Has Central Hudson acknowledged that the proper
16 funding mechanism for the AMI/Smart Grid
17 initiative expenses is via a surcharge?

18 A. Yes. In response to Multiple Intervenors
19 Interrogatory MI-92, provided in Exhibit__ (AP-
20 30), the Company acknowledged the costs related
21 to the AMI/Smart Grid initiative should be
22 recovered through a surcharge mechanism, rather
23 than a deferral process.

24 Q. Does the Accounting Panel agree with the
25 Company's inclusion of certain costs in base
26 rates related to the AMI/Smart Grid initiative?

27 A. No. As previously stated, the Commission has

1 clearly mandated that AMI/Smart Grid initiative
2 costs should be recovered via a surcharge.

3 Q. Has the Commission specified how the surcharge
4 related to the AMI/Smart Grid initiative should
5 be implemented?

6 A. Yes. In Cases 09-E-0310 and 09-M-0074, the
7 Commission stated at page 59:

8 Since the facts and circumstances
9 may differ significantly at each
10 utility, we will require that
11 each company proposing a
12 surcharge mechanism do so in
13 future filings, which will be
14 noticed for public comment that
15 will consider the impact of the
16 proposed surcharge on customers.
17 . .

18 In the same Order at page 59, the Commission
19 further stated:

20 A final implementation decision
21 will be made after the United
22 States Department of Energy (DOE)
23 grants are approved,
24 consideration is given to the
25 parties inputs, customer impacts
26 are considered, and the
27 individual company's facts and
28 circumstances are analyzed.

29 Q. Does the Accounting Panel believe the surcharge
30 mechanism should be implemented as part of the
31 current rate proceeding?

32 A. No. The Commission's Order clearly describes

1 the process as one in which utilities are to
2 make subsequent filings in the above referenced
3 proceeding, outside of this rate proceeding,
4 which will be noticed for public comment,
5 consider the impact of the proposed surcharge on
6 customers, and the individual company's facts
7 and circumstances will be analyzed.

8 Q. Did the Accounting Panel make any adjustments to
9 the Company's filing related to the AMI/Smart
10 Grid initiative?

11 A. Yes.

12 Q. Please describe the Panel's adjustment the
13 Company's filing related to the AMI/Smart Grid
14 initiative?

15 A. Based on the above referenced Commission Order,
16 the Panel removed the costs associated with the
17 AMI/Smart Grid initiative from base rates.

18 Q. Has the Panel quantified its proposed adjustment
19 to the AMI/Smart Grid initiative?

20 A. Yes. The adjustments result in a decrease to
21 the Company's rate year projection by \$386,000
22 for the electric operations and \$59,000 for the
23 gas operations, as reflected in Exhibits__ (AP-
24 1) and (AP-2), Schedule 1, respectively.

1 **Right of Way Maintenance Distribution**

2 Q. Please describe the Company's proposed funding
3 level for Right of Way Maintenance Distribution.

4 A. Per the pre-filed direct testimony of the
5 Revenue Requirement Panel at page 13, the
6 Company proposes to include \$11,000,000 in base
7 rates and fund an additional \$5,700,000 via
8 existing regulatory liabilities for a total
9 funding level of \$16,700,000.

10 Q. Does the Panel agree with the Company's
11 proposal?

12 A. No. The Staff Electric Infrastructure Panel
13 Staff is proposing a total funding level of
14 \$12,567,330. In addition, in the Company's
15 recent Rate Order the Commission ordered the
16 Company to use the regulatory liabilities after
17 offset to fund electric bill credits and it is
18 not certain whether any existing electric
19 regulatory liabilities will exist as a result of
20 the deferred balance sheet offsets in this
21 proceeding.

22 Q. What does the Panel propose?

23 A. The Panel proposes to fund \$11,000,000 in base
24 rates and the additional \$1,567,333 either be

1 funded by offsetting the amount against any
2 electric regulatory liability, if one exists as
3 a result of the deferred balance sheet offsets
4 in this proceeding, or to defer the amount for
5 future rate recovery.

6 **Property Taxes**

7 Q. How did Central Hudson develop its property tax
8 projection?

9 A. The Company's property tax projection is
10 developed by applying GDP inflation factors to
11 the most recent actual property tax statements.
12 In addition, the Company's forecast also
13 included a component for incremental tax
14 assessments due to significant capital
15 infrastructure improvements that have already
16 been approved and in some cases already begun.

17 Q. Is the Panel proposing any adjustments to the
18 Company's property tax projection?

19 A. Yes. The Panel is proposing adjustments to the
20 Company's incremental tax projections.

21 Q. Please explain the Panel's adjustment to the
22 incremental property tax projections.

23 A. The Panel's adjustment relates to a timing
24 difference that exists between the in-service

1 date of a plant addition and the recognition of
2 that plant addition on the Company's property
3 tax roles. The basis of this timing difference
4 relates to the date when taxing authorities
5 establish their tax roles. The taxing
6 authorities in the Company's service territory
7 will establish their tax roles on July 1, 2010
8 for the 2010/2011 school tax, as well as, the
9 2011 county and property tax. Thus, plant
10 additions that occur between July 1 and December
11 31, 2010 would not be included on the Company's
12 tax role until the 2011/2012 school tax and the
13 2012 county tax. However, the Company included
14 plant additions between July 1 and December 31,
15 2010 on the tax roles for 2010/2011 school tax
16 and the 2011 county tax. Therefore, the Panel
17 shifted the incremental tax projection
18 associated with plant additions that occur
19 between July 1 and December 31 to the following
20 tax year.

21 Q. Is the Panel proposing any other adjustments to
22 property taxes?

23 A. Yes, based on the Company's response to Staff
24 Interrogatories DPS-76 and DPS-257 through DPS-

1 261 provided as Exhibits__ (AP-31) through (AP-
2 36), the Panel made the following other
3 adjustments to the projected incremental
4 assessment. First, we removed the new Kingston
5 headquarters from the projected incremental
6 assessment because it is already reflected on
7 the Company's tax role. Second, we removed the
8 Frost Valley Substation because this substation
9 was funded through research and development.
10 Third, we removed a double count related to the
11 Fishkill and Spackenkill substations. In
12 addition, we made an adjustment to the Fishkill
13 Headquarter expansion which was shifted to the
14 2012-2013 calendar year. Next, we made an
15 adjustment to the Eltings Corner facility due to
16 a change in the anticipated timing of the sale
17 of the facility and the purchase of a
18 replacement facility. Finally, we adjusted
19 property taxes to reflect the changes made by
20 the Electric Infrastructure Panel to plant
21 associated with Transmission Sag Mitigation.

22 Q. Has the Panel quantified its adjustments?

23 A. Yes. The impact of the Panel's adjustments
24 result in a reduction to the rate year electric

1 operations of \$943,569 and a reduction to the
2 rate year gas operations of \$64,897 as shown in
3 Exhibits__ (AP-1), Schedule 1 and (AP-2),
4 Schedule 1.

5 **Prepaid Property Taxes**

6 Q. Is the Panel proposing any adjustments to
7 prepaid property taxes?

8 A. Yes. The Panel is proposing an adjustment to
9 the rate year prepaid property tax portion of
10 cash working capital in rate base.

11 Q. Please explain the Panel's adjustment to rate
12 year prepaid property tax portion of cash
13 working capital in rate base.

14 A. The Company's forecast assumes 31% of the
15 property taxes are prepaid in the rate year for
16 the electric operations and 32% are prepaid in
17 the rate year for the gas operations. Our
18 reduction to prepaid property tax of \$295,000
19 for the electric operations and \$21,000 for the
20 gas operations tracks our adjustments to rate
21 year property tax expense. This adjustment is
22 reflected in Exhibits__ (AP-1) and (AP-2),
23 Schedule 9, respectively.

24 **Sales & Use Tax**

1 Q. Please explain how Central Hudson developed its
2 sales & use tax expense projection.

3 A. Per the pre-filed direct testimony of the
4 Revenue Requirement Panel at page 29, the
5 Company escalated the historic year data by a
6 four-year average growth rate.

7 Q. Does the Panel agree with the Company's
8 methodology?

9 A. No. As explained above, the use of a four year
10 average rate of growth to escalate the historic
11 year data is not appropriate or necessary since
12 the Panel is proposing to update the historic
13 year costs a few months prior to the beginning
14 of the rate year. Further, the year to year
15 changes in sales and use tax used to develop the
16 four-year average growth rate fluctuate widely
17 ranging from a negative 15.96% to a positive
18 20.97% for the electric operations and a
19 negative 12.08% to a positive 23.39% for the gas
20 operations, as shown in Exhibits__ (AP-37), and
21 are more indicative of spending levels than
22 increases and sales & use tax. In fact, the
23 Commission addressed this same issue in the
24 recent Rate Order in Cases 08-E-0887, 08-G-0888,

1 and 09-M-0004 and agreed with the Recommended
2 Decision in that proceeding, which stated at
3 page 56:

4 We agree with Staff. The rate of
5 change in sales and use tax
6 expense are inconsistent with any
7 trend in the rates of these
8 taxes. Allowing an update with
9 the most recent data available,
10 escalating using the GDP
11 inflation factor, provides a
12 reasonable allowance for this
13 expense.

14 Q. Does the Panel propose an adjustment?

15 A. Yes. The Panel proposes that rate year
16 projected Sales and Use Taxes be determined by
17 applying the GDP inflation factors to the
18 updated sales & use tax base. The adjustments
19 result in a reduction to the Company's Taxes
20 Other Than Income (sales & use tax) rate year
21 projection by \$171,034 for the electric
22 operations and \$12,800 for the gas operations,
23 as reflected Exhibits__ (AP-1) and (AP-2),
24 Schedule 1, respectively.

25 **Revenue Taxes**

26 Q. How did Central Hudson calculate revenue taxes?

27 A. According to the Revenue Requirement Panel pre-
28 filed direct testimony at page 29, Central

1 Hudson calculated revenue taxes by applying the
2 existing tax rates to revenues projected for the
3 bridge period and the rate year.

4 Q. Please describe the Panel's adjustment to
5 revenue taxes?

6 A. Since Staff has adjusted revenues there is a
7 corresponding adjustment to revenue taxes. The
8 Panel's adjustment tracks the change in revenues
9 to determine the revenue taxes reflected in the
10 rate year.

11 Q. Has the Panel quantified its proposed adjustment
12 to revenue taxes to track the changes in
13 revenues?

14 A. Yes. The adjustments result in an increase to
15 the Company's revenue taxes in the rate year by
16 \$107,000 for the electric operations and \$66,000
17 for the gas operations, as reflected in
18 Exhibits__ (AP-1), Schedule 1 and Exhibit__ (AP-
19 2), Schedule 1.

20 **Payroll Taxes**

21 Q. How did Central Hudson calculate payroll taxes?

22 A. Central Hudson calculated payroll taxes by
23 applying the appropriate tax rates for Federal
24 Insurance Contributions Act (FICA) and federal

1 and state unemployment insurance to the related
2 taxable wages projected for the applicable
3 periods.

4 Q. Please describe the Panel's adjustment to
5 payroll taxes?

6 A. Since the Panel adjusted the Company's taxable
7 wages when it adjusted labor expense, there is a
8 corresponding adjustment to payroll taxes. The
9 Panel's adjustment reflects the change in
10 taxable wages to payroll taxes in the rate year.

11 Q. Has the Panel quantified its proposed adjustment
12 to payroll taxes?

13 A. Yes. The adjustments result in a decrease to
14 the Company's payroll taxes in the rate year by
15 \$72,604 for the electric operations and \$16,471
16 for the gas operations, as reflected in
17 Exhibits__ (AP-1) and (AP-2), Schedule 1,
18 respectively.

19 **Federal and State Income Taxes**

20 Q. In what area of taxes is the Panel proposing to
21 adjust Central Hudson's income tax calculations?

22 A. We are proposing an adjustment to Central
23 Hudson's rate year "Vacation Accrual" income tax
24 deduction. We are also proposing tracking

1 adjustments related to our SERP proposal and the
2 Electric Infrastructure Panel's changes to plant
3 related to Transmission Sag Mitigation.

4 Q. Where did the Company reflect Vacation accrual
5 costs in its federal and state income tax
6 calculations?

7 A. For the electric operations, Central Hudson's
8 proposed reflection of the income tax
9 ramifications of Vacation Accrual costs in the
10 rate year are reflected on Exhibit__ (CDT-1),
11 Schedule D, Sheet 3 of 4, in the line entitled
12 "Vacation Accrual-Additional Tax Deduction."
13 For the gas operations, the Company's proposed
14 reflection of the income tax ramifications of
15 Vacation Accrual costs are reflected on
16 Exhibit__ (CDT-1), Schedule D, Sheet 4 of 4, in
17 the line entitled "Vacation Accrual-Additional
18 Tax Deduction".

19 Q. Please explain the Panel's adjustment.

20 A. The Panel discovered a math error in the
21 Company's rate year calculation associated with
22 the Vacation Pay Deduction. The correction
23 results in an additional tax deduction for the
24 electric operations of \$27,391 as opposed to the

1 Company's deduction of \$11,027 and for the gas
2 operations a deduction of \$4,834 as opposed to
3 \$1,946. These adjustments are reflected in
4 Exhibits__ (AP-1) and (AP-2), Schedule 3.

5 Q. Where did the Company reflect SERP costs in its
6 federal and state income tax calculations?

7 A. For the electric operations, Central Hudson's
8 proposed reflection of the income tax
9 ramifications of SERP costs in the rate year are
10 reflected on Exhibit__ (CDT-1), Schedule D,
11 Sheet 3 of 4, in the line entitled "Officers
12 Pension Expense FAS 87." For the gas
13 operations, the Company's proposed reflection of
14 the income tax ramifications of SERP costs are
15 reflected on Exhibit__ (CDT-1), Schedule D,
16 Sheet 4 of 4, in the line entitled "Officers
17 Pension Expense FAS 87".

18 Q. Please summarize how Central Hudson reflected
19 SERP costs in its federal and state income tax
20 calculations.

21 A. These calculations indicate a projected
22 difference between: 1) the amount the Company
23 will be allowed in rates in this proceeding and
24 actually recovered from customers for SERP costs

1 in the rate year; and 2) the amount it will
2 actually incur in the rate year for SERP costs
3 that can be reflected as a deduction on its
4 income tax returns. These calculations also
5 reflect the impacts of this difference being
6 deferred on Central Hudson's books, to be
7 reflected in future rate cases. In theory, this
8 should result in no impact on the revenue
9 requirement.

10 Q. Does the Panel agree with the manner in which
11 Central Hudson reflected SERP costs in its
12 federal and state income tax calculations?

13 A. Yes, however as previously discussed in our
14 testimony, the Panel proposes to eliminate SERP
15 costs from base rates in the rate year, and
16 therefore, it is necessary to make an adjustment
17 to eliminate the tax effects associated with the
18 SERP costs.

19 Q. Please explain the Panel's adjustment.

20 A. We are proposing to eliminate all of the
21 Company's proposed rate year tax adjustments and
22 related deferrals for SERP costs. These
23 adjustments are reflected in Exhibits__ (AP-1)
24 and (AP-2), Schedules 3, 4, and 6, respectively.

- 1 Q. Where did the Company reflect depreciation on
2 plant in its federal and state income tax
3 calculations?
- 4 A. For the electric operations, on Exhibit__ (CDT-
5 1), Schedule D, Sheet 3 of 4, in the line
6 entitled "Depreciation." For the gas
7 operations, on Exhibit__ (CDT-1), Schedule D,
8 Sheet 4 of 4, in the line entitled
9 "Depreciation".
- 10 Q. Please summarize what is reflected by Central
11 Hudson in the federal and state income tax
12 calculations related to depreciation on
13 forecasted plant additions.
- 14 A. These calculations reflect that the amounts the
15 Company projects it will be able to deduct on
16 its tax return for depreciation on forecasted
17 plant additions will exceed the corresponding
18 amounts it records on its books for depreciation
19 expense. The reason for the difference is that
20 the Internal Revenue Service (IRS) allows
21 companies to depreciate plant quicker for income
22 tax purposes than the Commission allows the
23 Company to recover that plant for rate purposes.
24 Under IRS regulations, the tax savings resulting

1 from these timing differences are deferred and
2 reflected in rates through a rate base
3 reduction.

4 Q. Please explain the Panel's adjustment.

5 A. The Panel adjusted the Company's tax
6 depreciation to correspond with the changes made
7 by the Electric Infrastructure Panel's
8 adjustments to Plant associated with
9 Transmission Sag Mitigation. These adjustments
10 are reflected in Exhibits__ (AP-1) and (AP-2),
11 Schedules 3, 4, 6 and 8, respectively.

12 **Disposition of Deferred Items**

13 Q. Is the Company proposing to net the actual
14 deferred credit and debit balances against each
15 other at the beginning of the rate year?

16 A. Yes. According to the pre-filed direct
17 testimony of the Revenue Requirement Panel at
18 page 49, Central Hudson proposes that actual
19 deferred credit and debit balances as of June
20 30, 2010 be netted against each other.

21 Q. Did the Company provide projected deferred
22 credit and debit balances that the Company
23 anticipates will be offset against each other as
24 of June 30, 2010.

1 A. No. In response to Staff interrogatory DPS-114,
2 provided in Exhibit__ (AP-38), the Company
3 stated that at this time it is premature to
4 project the final makeup and deferred balances,
5 but it will provide an estimate of the final
6 makeup and deferred balances at the time of
7 brief on exceptions.

8 Q. Did the Company provide a list of items that it
9 believes should be offset against each other as
10 of June 30, 2010?

11 A. Yes. In response to Staff interrogatory DPS-
12 218, provided as Exhibit (AP-39), the Company
13 provided a proposed list of items that it
14 believes should be offset against each other as
15 of June 30, 2010.

16 Q. Does the Panel agree with the Company's proposal
17 to net the actual deferred credit and debit
18 balances against each other as of June 30, 2010?

19 A. Yes.

20 Q. Does the Panel agree with the Company's proposed
21 list of items that it believes should be offset
22 against each other as of June 30, 2010?

23 A. Yes, with two caveats. First, the Company
24 indicated in response to Staff interrogatory

1 DPS-114, that they reserve the right to revise
2 the list. It should be understood that the
3 Panel reserves the right to oppose any revision
4 to the list that it believes should not be
5 offset. Second, although not currently listed on
6 the list provided by the Company, the Panel
7 believes the deferred balances associated with
8 Central Hudson's Competition Education Campaign
9 not be included as part of the offsets and
10 instead should be preserved for its intended
11 purpose.

12 Q. How does the Panel propose to treat any actual
13 net regulatory liability remaining after offset
14 be treated?

15 A. The Panel proposes that any gas net regulatory
16 liability remaining after offsets be deferred
17 for future ratepayer benefit to be determined by
18 the Commission at some point in the future and
19 that any electric net regulatory liability
20 remaining after offsets, as previously
21 discussed, first be used to fund the right of
22 way maintenance distribution program up to the
23 Staff proposed level and the remainder be
24 deferred for future ratepayer benefit to be

1 determined by the Commission at some point in
2 the future.

3 Q. How does the Panel propose to treat any actual
4 net regulatory asset remaining after offsets?

5 A. The Panel proposes to amortize the balance,
6 including interest on the unamortized balance,
7 over a five-year period.

8 Q. Does the Panel have any other proposals related
9 to the Company's net regulatory assets or
10 liabilities you would like to address?

11 A. Yes. As previously mentioned, the Panel's
12 Exhibit__ (AP-2) shows a rate decrease for the
13 gas operations of \$800,000. The Panel proposes
14 rates not be modified at this time and to adjust
15 the amortization of the gas net regulatory
16 asset. The Panel proposes that the gas net
17 regulatory amortization be increased to
18 \$5,335,000 annually from \$4,554,000, which has
19 the effect of eliminating the rate decrease.

20 **Deferral Requests**

21 Q. Is the Company requesting deferred accounting
22 treatment in this proceeding related to various
23 items?

24 A. Yes. Per the pre-filed direct testimony of the

1 Accounting Panel at page 13, the Company is
2 requesting that the Commission authorize the
3 continuation of existing deferred accounting
4 treatment, except to the extent that any such
5 authorization will not, or cannot, by their
6 terms survive the expiration of the rate year
7 established in Cases 08-E-0887 and 08-G-0888.
8 Further, the Company is requesting the use of
9 deferral accounting without limitation of the
10 amount allowed or required to be deferred and
11 that the deferral accounting authorizations or
12 requirements survive the end of the Rate Year.

13 Q. Did the Company provide a list of the items it
14 is seeking deferred accounting treatment and, if
15 applicable, the associated carrying charges on
16 those items?

17 A. Yes. In response to Staff Interrogatory DPS-12,
18 provided as Exhibit__ (AP-40), the Company
19 provided a complete list of the items it is
20 seeking deferred accounting treatment and, where
21 applicable, the associated carrying charges on
22 those items.

23 Q. Does the Panel agree with the items the Company
24 is seeking deferred accounting treatment and the

1 associated carrying charges on those items, as
2 provided in response to Staff Interrogatory DPS-
3 12?

4 A. Not entirely. The Panel, as discussed
5 previously, does not believe the deferred
6 accounting treatment associated with stray
7 voltage expense should continue, nor does it
8 agree with the Company's request to apply
9 deferred accounting treatment to uncollectible
10 expense. In addition, the Panel is proposing a
11 one way true-up related to gas leak repairs
12 expense. Under the Panel's proposal, the
13 Company would defer the difference between the
14 actual gas leak repair expenditures and any
15 portion of the gas leak repair rate allowance
16 that was unused, with carrying charges at the
17 pre-tax rate of return, for the same purpose in
18 the future. Also, as previously discussed, if
19 an electric regulatory liability does not exist
20 after the deferred balances are offset, the
21 Company should be allowed to defer the right of
22 way maintenance distribution expenditures up to
23 the Staff proposed funding level. Other than
24 those items, the Panel agrees with the items the

1 Company is seeking deferred accounting treatment
2 and the associated carrying charges on those
3 items.

4 Q. Does the Panel have any other deferral proposals
5 it would like to address?

6 A. Yes. As previously mentioned, the Panel's
7 Exhibit__ (AP-1) shows a rate decrease for the
8 electric operations of \$17,000. The Panel
9 proposes rates not be modified at this time and
10 instead the Company defer the \$17,000 annually
11 with carrying charges at the pre-tax rate of
12 return until rates are modified by the
13 Commission at some time in the future.

14 **Update Items**

15 Q. Does the Panel agree with the Company's request
16 that updates be provided later in this
17 proceeding?

18 A. Yes.

19 Q. Does the Panel agree with items that the Company
20 has requested to update, as described in the
21 pre-filed direct testimony of the Revenue
22 Requirement Panel at pages 50-52?

23 A. Yes, however, we have a few modifications to
24 some of the updates.

1 Q. Please describe your modifications in more
2 detail.

3 A. As addressed previously in our testimony, labor
4 should be updated to reflect the actual employee
5 level only to the extent it does not exceed
6 Staff's proposed employee headcount of 843
7 employees, except for the inclusion of the
8 employees associated with the Company's new
9 legal team. Uncollectible accounts should be
10 updated to reflect the ratio of net write-offs
11 to own territory revenues for the most recent
12 twelve months of activity and allocated between
13 the electric and gas operations based on the
14 most recent actual net write-offs for the
15 electric and gas operations, respectively.
16 Regulatory Commission Assessment should be
17 updated to reflect the latest PSC assessment.
18 Storm Restoration expense should be updated for
19 the latest known information in the four-year
20 average serving as the basis for projections,
21 exclusive of any anomalies, and GDP inflation
22 factors. All of the updates should be made by
23 the Company in compliance with the Commission
24 rules for updates enunciated at pages 8 and 9 of

1 the Commission's Test Year Policy Statement.

2 Q. Are there any other items that may require
3 revision/update?

4 A. Yes, our examination revealed discrepancies with
5 certain Noninterest-Bearing Construction Work in
6 Progress amounts reflected on the Company's
7 Revenue Requirements Panel's Exhibit__ (RRP 5)
8 and the Company's Accounting Panel's Exhibit__
9 (AP-6) that we asked the Company to explain in
10 Staff Interrogatory DPS-385, provided as
11 Exhibit__ (AP-41), on October 27, 2009. The
12 Company's recent response indicated that "a
13 review of the workpapers in support of the
14 Company's Exhibit __ (AP 6), the Accounting Panel
15 discovered errors in the calculated average
16 interest bearing CWIP value and therefore errors
17 in the arrived at value for average non-interest
18 bearing CWIP." The response further claims
19 correcting these errors has the effect of
20 increasing the electric operations rate base
21 \$2,726,000 and the gas operations rate base
22 \$4,000. As the calculations underlying the
23 Company's calculation are very complex, we have
24 not yet had the opportunity to review them and

1 ascertain the accuracy of the Company's claims.

2 Therefore, we reserve the right to perform our

3 review and report the results at the time of

4 hearings.

5 Q. Does this conclude the Panel's testimony at this

6 time?

7 A. Yes, it does.