

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

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

Prepared Testimony of:
Electric Rates Panel

Colonel Dickens
Utility Engineer 3

Aric Rider
Utility Engineer 3

Office of Electric, Gas & Water
State of New York
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

1 Q. Please state your name and business address.

2 A. Colonel Dickens, 3 Empire State Plaza, Albany,
3 New York 12223-1350.

4 Q. Mr. Dickens, what is your position with the
5 Department of Public Service?

6 A. I am a Utility Engineer 3 in the Electric Rates
7 & Tariffs Section of the Office of Electric, Gas
8 and Water.

9 Q. Mr. Dickens, please state your professional
10 experience with the Department and educational
11 background.

12 A. I graduated from Alfred University with a
13 Bachelors of Science in Ceramic Engineering. I
14 also have a Masters in Business Administration
15 from Sage College.

16 Q. Mr. Dickens, what are your duties in the
17 Electric Rates and Tariff Section?

18 A. I am a Utility Engineer 3 in the Office of
19 Electric, Gas and Water in the Electric Rates
20 and Tariff Section. My responsibilities include
21 analysis of electric utility applications for
22 rate increases, analysis of rate design and

1 revenue allocation proposals, and the analysis
2 of various utility petitions and tariff filings.

3 Q. Have you previously testified in proceedings
4 before the Commission?

5 A. Yes. I have testified in numerous proceedings
6 regarding revenue allocation, rate design,
7 depreciation and other revenue requirement
8 issues.

9 Q. Mr. Rider, please state your full name and
10 business address.

11 A. Aric J. Rider, 3 Empire State Plaza, Albany, New
12 York 12223-1350.

13 Q. By whom are you employed and in what capacity?

14 A. I am a Utility Engineer 3, currently assigned to
15 the Electric Rates & Tariffs Section of the
16 Office of Electric, Gas and Water of the New
17 York State Department of Public Service.

18 Q. Please provide a summary of your educational and
19 professional experience.

20 A. I hold a Bachelor of Science Degree in Civil
21 Engineering Technology, which I received in 2001
22 from the State University of New York Institute

1 of Technology at Utica/Rome. Within the Office
2 of Electric, Gas and Water, I am currently
3 assigned to the Electric Rates & Tariffs
4 Section. I have been assigned to the Gas Rates,
5 Gas Safety and Gas Policy Sections. My work
6 involves the engineering analysis of utility
7 operations as they relate to the ratemaking
8 process, as well as, participating in various
9 reviews of local distribution companies'
10 activities.

11 Q. Have you previously testified in proceedings
12 before the Commission?

13 A. Yes, I have testified in several proceedings
14 before the New York State Public Service
15 Commission regarding cost of service, capital
16 expenditures, depreciation, sales forecasts,
17 revenue allocation, rate design, merchant
18 function charges (MFC), revenue decoupling
19 mechanisms (RDM), gas safety performance
20 mechanisms and tariff issues.

21 Q. What is the scope of the Electric Rates Panel's
22 testimony in this proceeding involving Central

1 Hudson Gas and Electric Corporation (Central
2 Hudson or the Company)?

3 A. We are testifying on: (1) the electric delivery
4 revenues at current rates for the rate year
5 ending June 30, 2011; (2) the cost of service
6 (COS) studies which supports revenue allocation,
7 rate design, and unbundled rates for competitive
8 services; (3) Merchant Function Charge (MFC)
9 modifications; (4) revenue allocation; (5) rate
10 design including the Service Classification (SC)
11 No. 6 Time of Use tariff change proposed by the
12 Company; (6) a Revenue Decoupling Mechanism
13 (RDM) modification; and (7) Hourly Pricing
14 Provision (HPP).

15 Q. Are you presenting any exhibits?

16 A. Yes. We are sponsoring 9 exhibits.

17 Q. Would you briefly describe each exhibit?

18 A. Exhibit ___(ERP-1) contains our referred to
19 interrogatories (IRs) and Company responses.
20 Exhibit ___(ERP-2) contains Staff's sales
21 forecast priced out at current rates and our
22 proposed rates.

1 Exhibit ___(ERP-3) contains our proposed revenue
2 allocation factors if the Commission were to
3 determine an incremental revenue requirement
4 above Staff's recommendation was warranted.

5 Exhibit ___(ERP-4) contains our MFC calculations
6 and proposed rates.

7 Exhibit ___(ERP-5) contains a comparison of our
8 proposed customer charges with the results of
9 the cost of service study.

10 Exhibit ___(ERP-6) contains a summary of our
11 proposed delivery rates by SC.

12 Exhibit ___(ERP-7) contains our proposed bill
13 impacts.

14 Exhibit ___(ERP-8) contains our estimation of
15 the SC No. 6 Residential Time of Use bill
16 impacts from Company's rate design proposal.

17 Exhibit ___(ERP-9) contains an example of how
18 pro-ration effects the RDM.

19 Q. How are the IRs identified in your testimony and
20 exhibits?

1 A. When we refer to IRs, we reference the DPS
2 assigned IR number (e.g., DPS-345), all of which
3 are contained in Exhibit ____ (ERP-1).

4 **Rate Year Operating Revenue at Current Rates**

5 Q. Please describe how the Company determined the
6 amount of delivery revenue in the rate year at
7 current rates.

8 A. The Company took the rate year forecast for the
9 period of July 1, 2010 through June 30, 2011 and
10 allocated the customers and volumes to the SCs
11 based on historic data. Then, the Company
12 priced out its sales forecast for each of the
13 SCs by applying the existing rates to yield the
14 annual rate year delivery revenue at current
15 rates.

16 Q. Does the Panel agree with how the Company
17 allocated the customers and volumes to its rate
18 SCs?

19 A. It is a reasonable approach.

20 Q. Did the Panel develop a revenue allocation and
21 rate design spreadsheet to verify the Company's
22 presentation?

1 A. Yes. We took an approach similar to the
2 Company, except that our customer forecast is
3 allocated to each of the SCs using an annual
4 allocation in lieu of a monthly allocation. We
5 recognize that this step is simpler, but believe
6 it provides reasonable results.

7 Q. Did the Staff Forecasting Panel provide you with
8 Staff's rate year customer and sales forecast by
9 market category?

10 A. Yes, and we incorporated the forecast into our
11 revenue allocation and rate design spreadsheet.
12 The spreadsheet allocates the forecast into the
13 SCs, which we priced out at current rates to
14 arrive at our forecasted rate year revenues at
15 current rates.

16 Q. What was the result of your price out?

17 A. As shown on Exhibit ___(ERP-2), Staff's rate
18 year base delivery revenues at current rates are
19 \$258,689,699, instead of the \$254,323,955 as
20 calculated by the Company, shown on Company
21 Exhibit ___(FRP-2), Schedule A, Sheet 2 of 3.
22 As a result, we recommend that the rate year

1 revenues be adjusted upward by \$4,365,744
2 including taxes. This adjustment was provided
3 to the Staff Accounting Panel.

4 **Cost of Service Studies**

5 Q. Did the Company file an electric COS study in
6 this proceeding?

7 A. Yes. The Company filed three studies in this
8 proceeding: a COS study based on 12 months ended
9 December 31, 2007, as shown in Company Exhibit
10 ___(COSP-2), Schedule A; a pro forma COS study
11 based on 12 months ended June 30, 2011, as shown
12 in Company Exhibit ___(COSP-2), Schedule B; and,
13 a delivery only COS study based on 12 months
14 ended December 31, 2007, as shown in Company
15 Exhibit ___(COSP-3).

16 Q. How are the COS studies utilized by the Company?

17 A. The Company calculated the rate of return on
18 rate base by SC in each of the COS studies. The
19 pro forma COS study's rates of return per SC
20 were used as a guide to allocate the incremental
21 revenue requirement and to develop unbundled
22 MFCs applicable in the rate year.

1 Q. Please briefly explain how the COS studies were
2 performed?

3 A. The Company performed the basic three step
4 process of functionalization, classification and
5 allocation among the SCs for each of its PSC
6 accounts, using many allocation factors in the
7 three step process. The Company referred to
8 NARUC's "Electric Utility Cost Allocation
9 Manual" dated January 1992, as well as,
10 engineering records, the Company's 2007 PSC
11 annual report, load research data and billing
12 records in the development of the historic COS
13 study. When the Company developed the pro forma
14 COS study, it relied on the Company's Revenue
15 Requirements and Forecasting and Rates Panels,
16 and it's Accounting department for inputs.

17 Q. Do you have any concerns with the rate of return
18 results shown in the COS studies?

19 A. We are concerned that the unitized rates of
20 return for some SCs have very different outcomes
21 between the historic, delivery only and pro
22 forma COS studies, as shown on Exhibit ____ (ERP-

1 3). This is important because SC impacts will
2 vary depending on the COS study that is utilized
3 in the revenue allocation process.

4 Q. Why does the unitized rate of return results
5 vary between the COS studies?

6 A. We are unsure why they vary to such a degree.
7 We asked the Company for an explanation in Staff
8 IR DPS-246, attached in Exhibit ___(ERP-1), and
9 the Company stated that shifts in the unitized
10 rates of return between the studies result from
11 changes in levels of rate base, revenues and
12 expenses, and changes in the allocations of
13 those items. However, we do not think the
14 response justifies the use of the pro forma COS
15 study exclusively in the revenue allocation
16 process.

17 Q. In this case do you prefer to utilize the all of
18 the COS studies to guide you in the revenue
19 allocation process?

20 A. Yes. Even though some historic COS studies can
21 be dated, they reflect what actually occurred.
22 We believe a pro forma COS study introduces

1 another potential layer of error because it
2 reflects forecast levels of revenue, expenses,
3 and rate base, along with forecast customer and
4 demand allocators. In the event the forecasts
5 of these items change, the entire results of the
6 study are also subject to change.

7 Q. How did the Panel use the COS studies in this
8 proceeding?

9 A. We used the all of the Company's COS studies as
10 a tool to aid in the revenue allocation and rate
11 design process. Since there are many
12 assumptions used in the development of COS
13 studies of this nature, the studies should be
14 used as guides for the purpose of revenue
15 allocation to the Company's SCs.

16 Q. Do you believe the Company should file a
17 delivery only study in its next base rate
18 filing?

19 A. Yes, because of its usefulness as a guide in the
20 revenue allocation process.

21

22

1 **Merchant Function Charge**

2 Q. What is the purpose of the Panel's testimony on
3 unbundling in this proceeding?

4 A. We recommend modifications to the MFC rates
5 because customers can avoid charges under
6 different billing scenarios for which those
7 customers should be charged.

8 Q. What is the purpose of unbundling?

9 A. The goal of unbundling is to implement rates
10 that are both cost-based and representative of
11 services that customers receive.

12 Q. What guidance or directive has the Commission
13 provided on the topic of energy-related
14 unbundling?

15 A. On August 25, 2004, the Commission issued its
16 Statement of Policy on Unbundling and Order
17 Directing Tariff Filings in Case 00-M-0504.
18 Therein, the Commission provided guidance on the
19 allocation of utility costs between regulated
20 and competitive functions.

21 Q. Did the Company file a COS study that developed
22 MFC rates?

1 A. Yes, the Company's Cost of Service Panel filed a
2 pro forma COS study that developed MFC rates.

3 Q. Does the Company currently have merchant
4 function rates?

5 A. Yes. The Company has unbundled eight components
6 for the electric department which are:
7 procurement; credit and collections;
8 uncollectibles; bill printing, mailing and
9 receipt services; competitive energy services;
10 meter ownership; meter services; and meter data
11 services.

12 Q. What are the MFCs developed to recover?

13 A. The Company has three meter related MFCs, which
14 we do not take issue with, and a MFC
15 administration rate and a MFC supply rate. The
16 MFC administration rate currently recovers
17 delivery related credit and collections,
18 delivery related uncollectibles and an allocated
19 portion of delivery related call center function
20 costs, along with associated administrative and
21 general (A&G) and rate base items. The MFC
22 supply rate recovers commodity related credit

1 and collections, procurement, delivery related
2 advertising and promotions and an allocated
3 portion of commodity related call center costs,
4 along with associated A&G and rates base items.
5 Commodity uncollectibles are recovered via the
6 Energy Cost Adjustment Mechanism.

7 Q. Can you explain how, under the different billing
8 scenarios, a customer would either be charged
9 for or avoid the MFC administration rate and MFC
10 supply rate?

11 A. Yes. A full service customer would be charged
12 both the MFC administration rate and MFC supply
13 rate. A retail access customer that is issued a
14 single bill by Central Hudson would be charged
15 the MFC administration rate and would avoid the
16 MFC supply rate. A retail access customer that
17 is billed for delivery service by the Company
18 and billed for commodity service by the ESCO, or
19 a dual billed customer, would avoid the MFC
20 administration rate and MFC supply rate.

21 Q. Under the current procedures, do some customers
22 avoid charges that they should not?

- 1 A. Yes. As explained in the Company's response to
2 DPS-345, shown in Exhibit ___(ERP-1), delivery
3 related advertising and promotions costs are
4 being collected through the MFC supply rate and
5 should be recovered through base delivery rates.
6 Further, a retail access customer that is issued
7 a single bill by the Company is billed the MFC
8 administration rate and avoids the MFC supply
9 rate. Under this billing scenario, a customer
10 is avoiding commodity related credit and
11 collections recovered in the MFC supply rate,
12 and should not. A retail access customer that
13 is issued a dual bill will avoid the MFC
14 administration rate and MFC supply rate. Under
15 this billing situation, a customer avoids
16 delivery related credit and collections and
17 delivery related uncollectibles recovered in the
18 MFC administration rate, and should not. To
19 rectify this rate issue, a MFC design
20 modification is required.
- 21 Q. How should this problem be corrected?

1 A. We propose all delivery related expenses be
2 collected in base rates and the MFC
3 administration rate and MFC supply rate be
4 designed to collect commodity related expenses.
5 We believe this methodology is consistent with
6 other utilities' MFC rates.

7 Q. Under your proposal, what would the MFCs be
8 developed to recover?

9 A. The MFC administration rate would recover
10 commodity related credit and collections and an
11 allocated portion of the commodity related call
12 center function costs, along with associated A&G
13 and rate base items. The MFC supply rate would
14 recover procurement, commodity related
15 advertising and promotions and an allocated
16 portion of the commodity related call center
17 function costs, along with associated A&G and
18 rate base items.

19 Q. Under the proposed procedure, will customers
20 avoid charges for which they should be charged?

21 A. No. A retail access customer that is issued a
22 single bill by the Company would be billed the

1 MFC administration rate and avoid the MFC supply
2 rate. When the customer avoids the MFC supply
3 rate, that customer would properly avoid the
4 revenue requirements associated with
5 procurement, commodity related advertising and
6 promotions and an allocated portion of commodity
7 related call center expenses. A retail access
8 customer that is issued a dual bill will
9 properly avoid the MFC administration rate and
10 MFC supply rate. Along with the components of
11 the MFC supply rate just mentioned, the customer
12 would avoid the MFC administration rate, which
13 includes the revenue requirement associated with
14 commodity related credit and collections and an
15 allocated portion of the commodity related call
16 center expenses.

17 Q. How did the Staff Panel develop the revised MFC
18 rates?

19 A. We met with the Company to try and understand
20 how to modify the pro forma COS study to
21 accomplish our goal of correcting the MFC rates.
22 Studies of this nature are very complex and

1 involve multiple spreadsheets. We believe that
2 Exhibit ___(ERP-4) reasonably develops our
3 revised MFC rates based on those discussions and
4 should be charged to customers in the rate year.

5 Q. Did you ask the Company to calculate the MFC
6 charges using your proposed parameters?

7 A. Yes, and the Company's response to IRs DPS-347
8 and DPS-348, shown in Exhibit ___(ERP-1), stated
9 that Staff should re-run the study.

10 Q. Do you believe the Company should verify the MFC
11 rates you developed?

12 A. Yes. The Company should be required to re-run
13 the study because of the complexity of the task.
14 We want to make sure that our assumptions are
15 reasonable and the MFC rates are correct.

16 Q. Is the Staff Policy Panel addressing a potential
17 staged filing for rate years ending June 30,
18 2012 and June 30, 2013, or rate years two and
19 three?

20 A. Yes.

21 Q. If the Commission were to adopt a staged filing,
22 would you propose changes to the MFC rates in

1 rate years two and three?

2 A. We recommend that the target MFC revenue
3 requirement for each SC be frozen, and the MFC
4 rates be updated each year for the approved
5 sales forecast.

6 **Revenue Allocation**

7 Q. Please describe Central Hudson's overall revenue
8 allocation methodology?

9 A. Central Hudson allocated its proposed total
10 increase in base rates of approximately \$14.8
11 million for the twelve months ending June 30,
12 2011, as shown on Company Exhibit ____ (FRP-10),
13 Schedule A, by first assigning this increase to
14 the firm SC numbers 1 Residential, 2 Non-Demand,
15 2 Secondary Demand, 2 Primary Demand, 3 Primary,
16 5 Area Lighting, 6 Residential Time of Use, 8
17 Street Lighting, 9 Traffic Lighting, 13
18 Substation and 13 Transmission based on each SCs
19 contribution to base delivery rates in the rate
20 year at current rates. That allocated amount
21 was then adjusted based on each SC's rate of
22 return result in the pro forma COS study in an

1 attempt to correct for discrepancies outside of
2 the tolerance band in the rate year. Next, a
3 test was employed to determine if the
4 incremental revenue requirement and the pro
5 forma adjustment exceeded 25% of the overall
6 average increase to limit bill impacts. If the
7 increase exceeded the test, as it did for SC No.
8 2 Secondary Demand, the increase to any SC was
9 constrained by 25%. Finally, incremental MFC
10 revenues were subtracted from each SCs
11 incremental revenue requirement allocated thus
12 far to result in the final incremental base
13 delivery rate increase.

14 Q. Do you have any recommendations with respect to
15 the overall revenue allocation?

16 A. Yes. We recommend a simpler approach which
17 relies on the guidance provided by the COS
18 studies, tied to the overall percentage increase
19 net of revenue taxes (overall net percentage
20 increase) allocated to each SC.

21 Q. Did the Staff Accounting Panel provide you with
22 the recommended electric incremental base

1 delivery rate increase?

2 A. Yes, the Staff Accounting Panel indicated that
3 Staff would be recommending no increase to base
4 delivery rates. Therefore, as shown in Exhibit
5 ____ (ERP-3), no incremental revenue is allocated
6 to the SCs.

7 Q. If the Commission adopts an amount that differs
8 from Staff's proposal, how would the Panel
9 allocate the incremental revenue requirement?

10 A. If the Commission determines that additional
11 revenues above those recommended by Staff are
12 justified, we would allocate the incremental
13 revenue requirement to each of the firm SCs
14 using our revenue allocation factors, which are
15 consistent with the results of the COS studies.

16 Q. Please explain how the Staff Panel developed the
17 revenue allocation factors shown on Exhibit
18 ____ (ERP-3).

19 A. To err on the side of caution, we recommend that
20 if both the historic and pro forma COS studies
21 unitized rates of return show a deficiency or
22 surplus, relative to the tolerance bands, then

1 that class would receive a higher or lower
2 allocation of the incremental revenue
3 requirement. However, if the COS studies show
4 varying results in the unitized rates of return
5 of a SC, then that SC would have the incremental
6 revenue requirement allocated to it using the
7 overall system average percent increase. If the
8 unitized rates of return in the COS studies
9 exceeded plus 15 percent of the system average
10 unitized rate of return, then an allocation
11 factor of 0.75 would be used to allocate the
12 incremental revenue requirement. If the
13 unitized rates of return in the COS studies
14 exceeded minus 15 percent of the system average
15 unitized rate of return, then an allocation
16 factor of 1.25 would be used to allocate the
17 incremental revenue requirement.

18 Q. Will the use of revenue allocation factors fully
19 correct for the rate of return discrepancies
20 between the SCs?

21 A. Not entirely. However, it is a step in the
22 right direction and will help to mitigate

1 discrepancies in the future.

2 Q. Why not allocate a proposed increase to fully
3 correct for discrepancies between SCs?

4 A. Rate design is not an exact science and other
5 factors have to be considered. For instance, a
6 cost of service study does not provide
7 definitive results and customer impacts must be
8 considered in the revenue allocation and rate
9 design process. If the Commission finds that
10 the Company is entitled to some rate relief that
11 differs from Staff's filed amount, the revenue
12 allocation factor should be applied in rate year
13 one. However, the decision to apply the revenue
14 allocation factors should also consider the
15 resulting customer bill impacts of the final
16 base rate increase determination.

17 Q. Please explain why you recommend a 1.00 revenue
18 allocation factor for SC No. 1 Residential, SC
19 No. 2 Primary Demand, SC No. 13 Substation and
20 SC No. 13 Transmission.

21 A. The resulting unitized rates of return from the
22 historic and pro forma COS studies had outcomes

1 that were divergent. Therefore, a 1.00 revenue
2 allocation factor assigns the overall percent
3 increase to these SCs.

4 Q. Why do you recommend that a 1.25 revenue
5 allocation factor be used for SC No. 2 Non-
6 Demand and SC No. 5 Area Lighting?

7 A. These classes' unitized rates of return were
8 below the system rate of return in the historic
9 and pro forma COS studies; we therefore
10 recommend a 1.25 revenue allocation factor to be
11 applied to the overall percent increase to bring
12 these classes closer to the system wide unitized
13 rate of return.

14 Q. Please explain why you recommend a 0.75 revenue
15 allocation factor for SC No. 2 Primary Demand,
16 SC No.3 Primary Demand, SC No.6 Residential Time
17 of Use and SC No. 9 Traffic Signals.

18 A. These SCs were over earning according to the
19 results of the historic and pro forma COS
20 studies. We therefore believe that a 0.75
21 revenue allocation factor is reasonable for
22 these SCs.

1 Q. If the Commission determine that incremental
2 revenues are allowed in either rate years two
3 and or three, how would you allocate it to the
4 SCs?

5 A. We recommend that the incremental revenue
6 requirement be allocated on an equal percentage
7 basis across the SCs.

8 Q. Please explain.

9 A. We do not know the final incremental revenue
10 requirement the Commission will approve in rate
11 year one of this proceeding and we recommended
12 allocating rate year one using our revenue
13 allocation factors, if the Commission were to
14 adopt an increase. If the recommended revenue
15 allocation factors are used in rate year one,
16 corrections for discrepancies will be made.
17 However, we do not know the extent of the
18 corrections. Using the overall percentage
19 increase, or a revenue allocation factor of one,
20 to allocate incremental revenue requirement
21 would therefore protect against over correcting
22 the discrepancies indicated in the COS studies

1 in rate years two and three.

2 **Rate Design**

3 Q. Since Staff is recommending no increase to base
4 delivery rates, do you propose any rate design
5 changes in rate year one?

6 A. Yes, because of the modifications to the MFC
7 rates. As previously explained, the Company is
8 collecting revenue requirement associated with
9 delivery related functions in the MFC
10 administration rate and MFC supply rate. Our
11 MFC design recommendations shift the collection
12 of revenue back to base delivery rates which
13 lowers the MFC rates.

14 Q. How do you propose to modify base delivery rates
15 to account for your recommendations?

16 A. To the extent possible, we propose to modify the
17 kilowatthour rates in each of the classes that
18 have changes to the MFC rates. This rate design
19 proposal has no bill impact for most customers
20 because the reduction in the MFC rates should
21 equal the increase in the kilowatthour charge.
22 We believe this process should be done prior to

1 any other changes in base rates.

2 Q. If the Commission determines that additional
3 revenues above those recommended by Staff are
4 justified, how would the Panel design rates?

5 A. After the incremental revenue requirement was
6 allocated to each of the SCs and the MFC design
7 change was completed, we recommend the class
8 incremental revenue requirement be absorbed by
9 increasing the customer charge to reflect the
10 results of the historic COS study, up to an
11 increase per year of \$2.00 for SC No. 1 and SC
12 No. 6 and SC No. 2 Non-Demand, \$10.00 for SC No.
13 2 Secondary Demand, \$50.00 for SC No. 2 Primary
14 Demand, \$180.00 for SC No. 3 Primary Demand, and
15 \$200.00 for SC No. 13 Sub-Transmission and SC
16 No. 13 Transmission. If there were additional
17 revenues not absorbed by the increase to the
18 customer charge, we recommend that the energy
19 and or demand charges be increased on an equal
20 percentage basis.

21 Q. Do you agree with the general concept of setting
22 the customer charge based on the indications of

1 a marginal or embedded COS study?

2 A. In this proceeding the Company only filed
3 embedded studies, we therefore only used the
4 historic COS study as a guide and also
5 considered customer bill impacts in the rate
6 design process. SCs are made up of customers
7 that can have very different usages. Impacts
8 for low use customers in each class should also
9 be considered in the rate design process.

10 Q. Why do you believe your recommendations for the
11 customer charge increases are reasonable?

12 A. The customer charge recommendations are closer
13 to the embedded historic COS study customer
14 charge results than the existing rates, which
15 are shown on Exhibit ___(ERP-5).

16 Q. How did you price out your proposed rates?

17 A. Our Exhibit ___(ERP-2) shows the development of
18 rates for each SC. We used Staff's forecasted
19 sales volumes and customer counts for rate year
20 one and priced out the forecast at our proposed
21 rates to determine if the revenue requirement
22 target was met for each of the SCs, in this case

1 a total of \$0.

2 Q. Please describe Exhibit ____ (ERP-6).

3 A. Exhibit ____ (ERP-6) shows a summary of our
4 proposed rates by SC.

5 Q. What are the customer impacts of your revenue
6 allocation and rate design proposals?

7 A. Exhibit ____ (ERP-7) indicates the monthly bill
8 impacts of our recommendations for firm SCs
9 numbers 1 Residential, 2 Non-Demand, 2 Secondary
10 Demand, 2 Primary Demand, 3 Primary, and 6
11 Residential Time of Use. These exhibits reflect
12 Staff's recommended revenue requirement level
13 for various usages.

14 Q. Did the Company propose any rate structure
15 changes?

16 A. Yes. The Company would like to eliminate the
17 on- and off-peak volumetric rates of SC No. 6,
18 as explained by the Company's Forecasting and
19 Rates Panel.

20 Q. Do you agree with the Company's proposal?

21 A. We agree that the split between on- and off-peak
22 should be eliminated, but we are concerned about

1 the potential customer bill impacts of the
2 proposal.

3 Q. Did the Panel estimate the Company's proposed
4 impacts on SC No. 6 customers?

5 A. Yes. As shown on Exhibit ___(ERP-8), the
6 impacts to some customers could be extremely
7 large, ranging from approximately plus or minus
8 15%, assuming Staff's correction to the MFC
9 rates.

10 Q. How do you propose to ameliorate the bill
11 impacts of the rate design proposal?

12 A. We propose a phase in of the removal of the rate
13 split between on- and off-peak. Exhibit
14 ___(ERP-7) shows the impact of our
15 recommendation to move the rate 25% of the
16 Company's proposed single rate in the rate year.

17 **Revenue Decoupling Mechanism**

18 Q. What is the purpose of a revenue decoupling
19 mechanism (RDM)?

20 A. The purpose of an RDM is to break the link
21 between utility sales and its delivery revenue

1 to eliminate the disincentive to promote energy
2 efficiency.

3 Q. Does the Company currently have a RDM in
4 operation?

5 A. Yes. In Case 08-E-0887, the Commission ordered
6 the Company to implement a revenue per class RDM
7 for specific electric service classes. The
8 delivery revenues are reconciled annually with
9 any accumulated balance surcharged or refunded
10 over a subsequent 12 month period. In addition,
11 a \$4 million circuit breaker was adopted to
12 ameliorate customer bill impacts.

13 Q. Does the Panel believe an adjustment is needed
14 to the RDM?

15 A. Yes.

16 Q. Please explain.

17 A. Currently, there is a mismatch between allowed
18 monthly revenue and actual monthly billed
19 revenue. The allowed monthly revenue assumes
20 that the customer and the energy charges are
21 assessed at rate year rates. However, in the
22 first few months of the rate year a transition

1 occurs where customers' bills are pro-rated to
2 account for service taken prior to the beginning
3 of the rate year.

4 Q. Why does billed rate year revenue include
5 revenue from a prior period?

6 A. The Company has 21 monthly meter reading and
7 billing cycles, or batches, because of the shear
8 number of customers taking service. A
9 customer's bill reflects the service taken
10 between meter read dates, which in most cases
11 does not match the calendar months. In the
12 first few months of the rate year billed revenue
13 is pro-rated to reflect service rendered prior
14 to the rate year at the rates that were in
15 effect and service rendered in the rate year at
16 the new effective rates. The Company is
17 aligning the customer's service dates with the
18 effective rates. In total, due to the billing
19 and meter reading cycles, the reported monthly
20 billed revenue is not associated with service
21 rendered purely within the month.

22 Q. How are rates designed in the rate year?

1 A. For simplicity, monthly billing and meter
2 reading cycles are ignored and 12 months of
3 forecast sales are priced out at the new rate
4 year rates. However, if billing cycles were
5 factored in, the resulting rate year rates would
6 be the same because 12 months of sales would be
7 used.

8 Q. How is the Company currently reconciling the
9 RDM?

10 A. The reconciliation compares monthly billed
11 revenue with the monthly revenue target set in
12 the last rate case.

13 Q. Why is there a problem?

14 A. Since it was assumed that the actual monthly
15 revenue would be billed at rate year rates and
16 this is not the case, the Company is surcharging
17 for the difference in the RDM reconciliation.
18 The current RDM reconciliation in the first few
19 months of the rate year reverses the pro-ration
20 which accounts for the change in delivery rates.
21 The associated RDM surcharge has nothing to do

1 with the reduction of sales in the rate year,
2 which is the purpose of having an RDM.

3 Q. Do you have an exhibit that shows this problem?

4 A. Yes, Exhibit ____ (ERP-9) shows an example of pro-
5 ration and its effect on the monthly revenue.

6 The example shows that if there is no
7 conservation between the forecast and the actual
8 usage there will be a RDM surcharge.

9 Q. How can the RDM reconciliation be modified to
10 correct this problem?

11 A. We recommend a solution of comparing billing
12 determinants to determine differences in usage
13 and then price out the differences at effective
14 rate year rates. This correction would be less
15 burdensome on the Company than tracking pro-
16 ration and provide more timely results of the
17 RDM reconciliation.

18 **Hourly Pricing Provision**

19 Q. What does the Staff panel recommend?

20 A. We recommend customers with maximum demands
21 greater than 300 kW be required to take service

1 under the Company's Hourly Pricing Provision
2 (HPP).

3 Q. Why does the Commission endorse the HPP?

4 A. The benefits of hourly pricing are potential
5 reductions to peak period prices, enhanced peak
6 period reliability, wholesale market power
7 mitigation, and a reduction in New York State's
8 dependence on natural gas fueled generation.
9 The Commission has noted that hourly pricing
10 yields more equitable customer bills than does
11 the existing, less exact, average energy rate.

12 Q. Did the Commission require Central Hudson to
13 file a plan to reduce the applicability of HPP
14 from 1,000 kW to 500 kW?

15 A. Yes. In Case 08-E-0887 the Commission required
16 the Company to submit plans to expand Hourly
17 Pricing to customers with demand of 500 kW and
18 above.

19 Q. Has Central Hudson proposed to expand its HPP
20 such that customers with maximum demands less
21 than 500 kW would be required to do so under the

1 HPP, if they purchase their energy supply
2 requirements from the Company?

3 A. No.

4 Q. Are you recommending that Central Hudson expand
5 its HPP such that customers with maximum demands
6 less than 500 kW would be required to do so
7 under the Company's HPP, if they purchase their
8 energy supply requirements from the Company?

9 A. Yes. We are proposing that all Central Hudson
10 customers with maximum demands greater than 300
11 kW in any two months of the previous twelve-
12 month period be required to do so under the
13 Company's HPP, if they purchase their energy
14 supply requirements from the Company.

15 Q. Why are you proposing an expansion of Hourly
16 Pricing to customers with maximum demands
17 greater than 300 kW?

18 A. The Commission's Order Denying Petitions for
19 Rehearing and Clarification in Part and Adopting
20 Mandatory Hourly Pricing Requirements (MHP
21 Order), in Case 03-E-0641 (issued April 24,
22 2006), pointed out the potential reductions to

1 peak period prices, enhanced peak period
2 reliability, wholesale market power mitigation,
3 a reduction in dependence on natural gas fueled
4 generation, and more equitable pricing of
5 customer bills than provided by the existing,
6 less exact, average energy rate.

7 Q. How many electric customers would be affected by
8 your proposed expansion?

9 A. As identified in the Company's response to DPS-
10 339, shown in Exhibit ___(ERP-1), there are 108
11 customers that have a demand level above 300 kW,
12 but below 500 kW. Of those 108 customers, 66
13 receive their commodity from an ESCO, so 42 full
14 service customers would be switched to the HPP
15 tariff. The 66 customers receiving supply
16 service from ESCOs would remain on the rate they
17 have agreed to with their ESCO. Approximately
18 100 of the 108 customers would need interval
19 meters to record each individual customer's
20 hourly consumption.

21 Q. Would the service to customers of ESCOs be
22 changed by this expansion of HPP?

1 A. No. ESCO customers would continue to receive
2 service at the rates agreed to with their ESCO.
3 However, because individual customer hourly load
4 data is available, the ESCO will be billed by
5 the New York Independent System Operator for
6 their customer's actual load instead of a class
7 average load shape. This will give ESCOs an
8 incentive to develop time sensitive rates for
9 their customers, although that decision would be
10 up to the ESCOs and their customers.

11 **Meter Roll-Out and Data Requirements**

12 Q. What would drive the schedule for placing these
13 new customers on HPP?

14 A. The schedule would be driven by how quickly
15 Central Hudson could deploy new interval meters,
16 outreach and education, and any required changes
17 to back-office systems.

18 Customers transferring to Hourly Pricing should
19 first be informed about how an Hourly Pricing
20 tariff would work. Because the customers moving
21 to the Hourly Pricing tariff will not have
22 previously experienced time sensitive rates, it

1 is important that they gain an understanding
2 about their current load shapes and how Hourly
3 Pricing would affect their commodity bill.
4 These customers will need to access their hourly
5 load shapes, which can only be accessed after an
6 interval meter is installed. Ideally, customers
7 should have access to a year's worth of hourly
8 load data before moving onto the Hourly Pricing
9 tariff, so they could examine their load
10 patterns, and make adjustments in anticipation
11 of the new Hourly Pricing tariff. In this way,
12 customers would be able to see how their load is
13 affected by season, production patterns,
14 weather, and lighting needs. This would give
15 customers the greatest ability to prepare for
16 the tariff implementation. Also, in the MHP
17 Order, the Commission stated that customers
18 "need access to as much interval load data as
19 possible to aid them in making informed
20 decisions about hourly pricing."

21

22

1 Cost of Expansion

2 Q. Have you estimated the cost of expanding the HPP
3 tariff to customers with demands above 300 kW?

4 A. No. Staff has not undertaken an estimation of
5 these costs at this time, as it would be more
6 appropriate to do this evaluation when Central
7 Hudson files its plan to implement the expanded
8 application of its HPP. The costs will be
9 scrutinized at that time.

10 Cost Recovery and Implementation

11 Q. How would you recommend that Central Hudson
12 recover the cost of these meters?

13 A. We recommend that the meter costs be recovered
14 via a tariffed incremental meter charge in
15 conformance with the Commission's MHP Order. On
16 page 31 of that Order, the utilities were
17 directed to "recover incremental metering costs
18 from the affected customers over time in
19 conformance with normal amortization periods."
20 The Commission subsequently approved National
21 Grid's proposal to recover metering costs
22 through an incremental metering charge. It is

1 appropriate for Central Hudson to recover its
2 metering costs in a similar manner in this case.

3 Q. Do you have any further recommendations
4 regarding cost recovery and implementation?

5 A. Yes. We propose that Central Hudson be directed
6 to file an implementation plan within 60 days of
7 a Commission Order in this case to expand its
8 hourly pricing program. The plan should include
9 draft tariff amendments to effectuate the
10 expansion to all customers with maximum demands
11 greater than 300 kW in any two months of the
12 previous twelve-month period, an outreach and
13 education program consistent with our
14 discussions above, an estimate of costs and
15 proposed cost recovery terms, and meter data
16 provisions consistent with our discussions
17 above. Once filed, the plan will be subject to
18 comments and Commission approval before
19 implementation. We estimate based on our
20 discussions above, that customers with demand in
21 excess of 300 kW will be placed on mandatory
22 hourly pricing in early 2012.

1 Q. Does this conclude your testimony at this time?

2 A. Yes.

3