

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of
New York State Department of Public Service
Cases 09-E-0588 and 09-G-0589
November 2009

Prepared Testimony of:

Gas Rates Panel:

Mary Ann Sorrentino
Utility Engineer III

Kevin Manz
Utility Engineer II

Johanna Miller
Utility Engineer I

Office of Electric, Gas and
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. Mary Ann Sorrentino. I am employed by the New
3 York State Department of Public Service, Agency
4 Building Three, Empire State Plaza, Albany, NY
5 12223.

6 Q. In what capacity are you employed by the
7 Department of Public Service?

8 A. I am a Utility Engineer III in the Office of
9 Electric, Gas & Water, Gas Rates Section at the
10 New York State Department of Public Service.

11 Q. Please summarize your education and professional
12 experience.

13 A. I received my Bachelors of Science in
14 Engineering from Clarkson University in 1991. I
15 began employment with the Department in March of
16 1993 as a Junior Engineer and was promoted to a
17 Utility Engineer I in March of 1994. In August
18 of 1997, I was promoted to a Utility Engineer II
19 and in March of 2003, I was promoted to my
20 current position of Utility Engineer III.

21 Q. Have you filed testimony before the Commission
22 in other proceedings?

23 A. I have testified in Case 95-G-1095, Case 96-G-
24 0548, Case 00-G-1274, Case 05-G-0935, Case 06-G-

1 1185, Case 06-G-1186 and in Case 08-G-0888 on
2 various gas rates matters.

3 Q. Please state your name and business address.

4 A. Kevin Manz. I am employed by the New York State
5 Department of Public Service, Agency Building
6 Three, Empire State Plaza, Albany, NY 12223.

7 Q. In what capacity are you employed by the
8 Department of Public Service?

9 A. I have been employed by the New York State
10 Department of Public Service since March 2004.
11 Currently, I am a Utility Engineer 2 in the
12 Office of Electric, Gas and Water.

13 Q. Please summarize your education and professional
14 experience.

15 A. I received a Bachelor of Science degree in Civil
16 Engineering with a minor in Engineering
17 Management from Cornell University in May of
18 2003. Within the Office of Electric, Gas and
19 Water, I am currently working on a temporary
20 rotation assignment in the Gas Rate Section. My
21 work at the Department primarily involved
22 analyzing water utility submittals as they
23 pertain to operation and maintenance expenses,
24 plant costs, and facility construction. My

1 current duties include reviewing utility tariff
2 changes, initial rate filings, rate increase
3 filings, transfer-of-ownership petitions,
4 surcharge petitions, and customer complaints.

5 Q. Have you filed testimony before the Commission
6 in other proceedings?

7 A. Yes. Most recently, I testified in the Niagara
8 Mohawk Power Corporation Gas rate case, Case 08-
9 G-0609.

10 Q. Please state your name and business address.

11 A. Johanna Miller. I am employed by the New York
12 State Department of Public Service, Agency
13 Building Three, Empire State Plaza, Albany, NY
14 12223.

15 Q. In what capacity are you employed by the
16 Department of Public Service?

17 A. I am a Utility Engineer I in the Office of
18 Electric, Gas & Water, Gas Rates Section at the
19 New York State Department of Public Service.

20 Q. Please summarize your education and professional
21 experience.

22 A. I received a Bachelors of Science degree in
23 Mechanical Engineering from the University of
24 Delaware in January of 2008. I began employment

1 with the Department in May of 2008 as a Junior
2 Engineer and was promoted to my current position
3 of Utility Engineer I in May of 2009.

4 Q. Have you filed testimony before the Commission
5 in other proceedings?

6 A. Yes, I have testified in a previous Central
7 Hudson rate case, Case 08-G-0888.

8 Q. What is the purpose of the Gas Rates Panel's
9 testimony in this proceeding?

10 A. The Gas Rates Panel will present the following
11 topics with respect to gas service: 1) base
12 delivery revenues for all service classes for
13 the period July 1, 2010 through June 30, 2011;
14 2) development of the projection of
15 interruptible sales and revenues and the
16 mechanism for sharing interruptible profits; 3)
17 the gas operations Cost of Service (COS)
18 information, including the development of
19 Merchant Function Charges (MFC); 4) the
20 interclass revenue allocation of the Panel's
21 proposed delivery rate changes; 5) the Panel's
22 proposed changes in the Company's gas rates and
23 the revenue effect of those changes, including
24 MFCs; 6) the gas factor of adjustment; 7) the

1 proposed gas plant targets; 8) the level of
2 materials and supplies related to working
3 capital; and 9) the expense level associated
4 with the excess cost of removal for Plant
5 Accounts 376 and 380.

6 Q. Did you rely on any information produced during
7 the discovery phase of this proceeding?

8 A. Yes. We relied on responses to numerous
9 interrogatory requests. Specifically, we
10 utilized Central Hudson's responses to Staff
11 Interrogatories 17, 32, 129, 219, 220, 345, 347,
12 348, and 373 in the current filing. We also
13 relied on Central Hudson's responses to Staff
14 Interrogatories 94 and 96 from Case 08-G-0888.

15 Q. Is the Panel sponsoring any exhibits?

16 A. Yes.
17 Exhibit ___(GRP-1) consists of Company responses
18 to the interrogatory requests used by the Panel.
19 Exhibit ___(GRP-2) contains two schedules that
20 summarize the aggregate customer counts as
21 reported by the Company billing system compared
22 to the customer counts and throughputs used in
23 the econometric model for forecasting; and
24 Staff's allocation of 132 incremental customers

1 to the rate year.

2 Exhibit ___(GRP-3) contains the Panel's

3 projected base delivery revenues and customers

4 for the twelve-month period ending June 30,

5 2011.

6 Exhibit ___(GRP-4) contains a three year history

7 of net of fuel revenues associated to

8 interruptible customers.

9 Exhibit ___(GRP-5) contains two rate of return

10 comparison schedules for residential,

11 commercial, SC 11 DLM, SC 11 Transmission and SC

12 11 Distribution customers. One schedule is for

13 the historic COS year, and one is for the pro-

14 forma COS study.

15 Exhibit ___(GRP-6) shows a summary of our

16 recommended MFCs.

17 Exhibit ___(GRP-7) contains the Panel's proposed

18 revenue requirement and allocation to firm

19 service classifications.

20 Exhibit ___(GRP-8) summarizes ECOS supported

21 customer costs versus current minimum charges

22 and the Panel's proposed minimum charges.

23 Exhibit ___(GRP-9) shows the Staff's sales

24 forecast priced out at current rates and our

1 proposed rates.

2 Exhibit ___(GRP-10) shows the Panel's proposed

3 rates.

4 Exhibit ___(GRP-11) shows the monthly and

5 annual bill impacts of the Panel's

6 recommendations on a typical customer for each

7 firm service classification.

8 Exhibit ___(GRP-12) shows our proposed loss

9 factor and factor of adjustment.

10 Exhibit ___(GRP-13) contains a description of

11 the gas plant target calculation.

12 Exhibit ___(GRP-14) shows the proposed gas plant

13 targets.

14 Exhibit ___(GRP-15) shows the historic excess

15 cost of removal for Plant Account 376 (Mains)

16 and Plant Account 380 (Services).

17 **Base Delivery Revenues**

18 Q. Please summarize how the Panel developed base

19 delivery revenues for all service classes for

20 the period July 1, 2010 through June 30, 2011.

21 A. Monthly gas sales by forecasting group, which

22 were provided by the Staff Forecasting Panel,

23 were allocated between heating and non-heating

24 sub-classes. The heating and non-heating

1 subclasses include: residential heat,
2 residential non-heat, commercial heat,
3 commercial non-heat, OPA heat, OPA non-heat,
4 industrial heat and industrial non-heat. Then,
5 the allocated monthly gas sales by sub-class
6 were further adjusted. We utilized the same
7 block billing determinants as the Company. The
8 block billing determinants were calculated based
9 on a curve fitting analysis of the actual bill
10 distribution for calendar years 2007 and 2008 to
11 determine heating and non-heating sub service
12 class block consumption. The heating and non-
13 heating sub-service class block consumption was
14 priced at current rates to obtain total base
15 revenue.

16 Q. How were monthly gas sales by heating and non-
17 heating sub-classes developed?

18 A. The Staff Forecasting Panel developed the
19 monthly gas sales by forecasting group, which
20 were allocated between heating and non-heating
21 sub-classes. The heat and non-heating sub-
22 classes were then further adjusted.

23 Q. Please explain why the heat and non-heating sub-
24 classes were further adjusted.

1 A. As can be seen in Exhibit ___(GRP-2), page 1 of
2 2, there is a difference in the customer counts
3 used in the econometric forecast models compared
4 to those reported by the Company's billing
5 system. The customer counts in the econometric
6 model were lower than those reported by the
7 billing system for the period January 2006 -
8 December 2007.

9 Q. Why would the customer counts used in the
10 econometric forecast models be different than
11 those reported by the Company's billing system?

12 A. The Company's billing system reports summarize
13 monthly sales and customer counts by customer
14 type: Residential Heat, Residential Non-Heat,
15 Commercial Heat, and Commercial Non-heat. The
16 categories of customer types used in the
17 econometric forecast models are: Residential
18 Non-Heat Sales, Residential Non-Heat
19 Transportation, Residential Heat Sales,
20 Residential Heat Transportation, Commercial Non-
21 Heat Sales, Commercial Non-Heat Transportation,
22 Commercial Heat Sales, Commercial Heat
23 Transportation, Industrial Sales, Industrial
24 Transportation, Public Authorities Sales, and

1 Public Authorities Transportation. In aggregate
2 the customer counts and throughput as reported
3 by the billing system should be the same as
4 those used in the forecasting model models. As
5 seen in response to Staff DPS 373, the Company
6 believes that the reason for the difference in
7 customer counts is that "the programs that
8 aggregate customer months as utilized in the
9 data files perform the rounding function
10 differently from the programs that aggregate
11 customer months for the Bill Distribution Detail
12 Reports."

13 Q. Please explain how the Gas Rates Panel adjusted
14 the heating and non-heating sub-classes to
15 compensate for this difference.

16 A. We added an additional 132 customers to the rate
17 year customer forecast. The 132 customers are
18 the difference between the aggregate customer
19 counts, as reported by the billing system and
20 those in the forecasting models for the two year
21 period of 2006 and 2007. The 132 customers were
22 allocated to heat and non-heating sub-classes
23 based on the Staff Forecasting Panel's customer
24 forecast for the rate year. A summary of the

1 allocation of the 132 customers is provided in
2 Exhibit ___GRP-2, page 2 of 2. We multiplied
3 the additional customer counts by the average
4 use per customer for each heat and non-heating
5 sub-classes to determine the additional
6 associated throughput.

7 Q. Has the Panel made any adjustments to the
8 delivery service revenue increases?

9 A. Yes, like Central Hudson, the Panel reduced the
10 delivery service revenue increase for each
11 service class by the estimated increase in
12 revenue to be collected through the MFCs for
13 that class.

14 Q. Please summarize the Panel's resulting base
15 delivery revenues for the rate year.

16 A. Exhibit ___(GRP-3) shows the Panel's projected
17 base delivery revenues, volumes and customers
18 for the twelve-month period ending June 30,
19 2011. Staff's rate year base delivery revenues
20 at current rates are \$69,637,000, instead of the
21 \$67,627,000 calculated by the Company and shown
22 in Company Exhibit ___(FRP-3), Schedule A. As a
23 result, we recommend that the rate year revenues
24 be adjusted upward by \$2,210,000. This

1 adjustment was provided to the Staff Accounting
2 Panel.

3 **Interruptible Sales and Transportation Revenue**
4 **Imputation**

- 5 Q. Please explain the interruptible sales and
6 transportation imputation and assumptions made
7 with respect to interruptible sales and
8 transport service (S.C. Nos. 8 and 9) and sales
9 to generating facilities (S.C. No. 14)?
- 10 A. The Company's base delivery rates include a
11 credit derived from the net of fuel revenues
12 received from interruptible sales (S.C. Nos. 8
13 and 9) and sales to generating facilities (S.C.
14 No. 14). Current base delivery rates include a
15 profit imputation of \$1.95 million to be
16 received from such sales. As a result, Central
17 Hudson is permitted to retain the first \$1.95
18 million in net of fuel revenue in each rate year
19 from interruptible service and service to
20 generating facilities. If the net of fuel
21 revenue, or margin, is less than \$1.95 million
22 in any rate year, the Company is authorized to
23 surcharge firm customers for 90 percent of the
24 shortfall. If the margin exceeds \$1.95 million

1 in any rate year, the Company will credit to
2 firm customers 90 percent of the excess. Any
3 such surcharges or credits are applied through
4 the gas cost adjustment factor.

5 Q. Is the Company proposing any changes to this
6 interruptible profit level of imputation or
7 sharing mechanism?

8 A. No, the Company has not proposed any
9 modifications to the level of imputation or to
10 the sharing mechanism.

11 Q. Is the Panel proposing any changes to the
12 interruptible imputation profit level or sharing
13 mechanism?

14 A. Yes. The Panel is proposing to increase the
15 imputation level, but proposes no modifications
16 to the sharing mechanism.

17 Q. How has the Panel reflected its proposal in this
18 proceeding?

19 A. The Panel has reflected an interruptible profit
20 imputation of \$2.4 million, which is the most
21 recent three year average. Exhibit ___(GRP-4)
22 depicts the most recent three years experience
23 of the net of fuel revenues received from
24 interruptible sales and sales to generating

1 facilities on a monthly basis. We believe this
2 amount is more representative of rate year
3 profits than the existing level.

4 **Cost of Service**

5 Q. Did the Company file a Gas Cost of Service (COS)
6 Study in this proceeding?

7 A. Yes. The Company filed two gas cost studies in
8 this proceeding: an embedded cost of service
9 study based on 12 months ended December 31,
10 2007, the results of which are shown in Company
11 Exhibit ___(COSP-1), Schedule A, and a pro forma
12 cost of service study based on 12 months ended
13 June 30, 2011, the results of which are shown
14 in Company Exhibit ___(COSP-1), Schedule B.

15 Q. How are the cost studies utilized by the
16 Company?

17 A. The Company calculated the rate of return on
18 rate base by service classification in each of
19 the studies. The pro forma rates of return
20 results were used as a guide to allocate the
21 incremental revenue requirement. The pro forma
22 COS was also used to develop unbundled MFCs
23 applicable in the rate year.

24 Q. Please summarize how Central Hudson's Gas

- 1 Embedded Cost of Service (ECOS) Study was
2 performed.
- 3 A. As stated in the Company's Cost of Service Panel
4 direct testimony at pages six thru nine, Central
5 Hudson used a three step process of (1)
6 functionalization as production, transmission,
7 distribution, or customer related (2)
8 classification of investment and expenses as
9 demand or customer related; and, (3) allocation
10 of those "costs" among the service subclasses.
11 Central Hudson also functionalized costs
12 associated with the merchant function including:
13 procurement, delivery service related
14 uncollectible amounts and credits and
15 collections, bill printing and mailing, and
16 competitive energy services. Allocators were
17 used in each of the three steps and were based
18 on Company studies.
- 19 Q. For what service sub-classifications did Central
20 Hudson perform a rate of return calculation
21 utilizing the ECOS study results?
- 22 A. The Company used the ECOS study results to
23 calculate sub service-classification rates of
24 return for residential heat, residential non-

1 heat, commercial and industrial heat, commercial
2 and industrial non-heat, Service Classification
3 11 DLM, Service Classification 11 Transmission
4 and Service Classification 11 Distribution.

5 Q Does the Panel have any concerns with the
6 service sub-classifications rate of return
7 calculations?

8 A. Yes. Since residential heat and non-heat
9 customers pay the same rates, the Panel combined
10 heat and non-heat sub-classes to develop an
11 aggregate service class rate of return. This
12 was also done for the commercial heat and non-
13 heat customer groups. These aggregate rates of
14 return were then used to determine if a service
15 class contributed more or less than the system
16 rate of return, and were ultimately used in cost
17 allocation.

18 Q. What are the results of the aggregation process
19 made by the Panel on the ECOS study?

20 A. The impacts of these modifications can be seen
21 in Exhibit ___(GRP-5). Exhibit ___(GRP-5), page
22 1 of 2 shows residential customers having a rate
23 of return of 6.42% and commercial customers
24 having a rate of return of 6.62%, as compared to

1 the system average return of 6.34% in the pro
2 forma COS study. Exhibit ___(GRP-5), page 2 of
3 2, shows residential customers having a rate of
4 return of 5.42% and commercial customers having
5 a rate of return of 7.24%, as compared to the
6 system average return of 6.35% in the ECOS
7 study.

8 Q. Did the Panel use the sub-classification rate of
9 return calculations from the ECOS studies?

10 A. Yes, Staff used them as a guide for the class
11 specific rate design. We also used the ECOS
12 study as a tool to aid in the revenue allocation
13 and rate design process. Since there are many
14 assumptions used in the development of a study
15 of this nature, the cost studies can be used as
16 a guide for the revenue allocations within the
17 Company's service classifications.

18 Q. Has the Company performed a marginal cost of
19 service study?

20 A. No. The Company will be providing a gas
21 marginal cost of service study at a later date.

22 Q. How does the Gas Rates Panel plan to utilize the
23 gas marginal cost of service study?

24 A. The Panel plans to use the study as a guide for

1 setting tail-block rates in this proceeding.
2 However, we are unable to do so at this time, as
3 the results of the study are not yet available.
4 The Company indicated the marginal cost of
5 service study would be ready on December 1,
6 2009.

7 Q. Please explain Central Hudson's residential
8 delivery service rate structure.

9 A. Residential customers in Central Hudson's
10 service territory have a three part rate
11 consisting of a minimum charge, a penultimate
12 block and a tail block.

13 Q. What is the current Central Hudson residential
14 heat (SC-1) tail block rate compared to other
15 New York State LDCs?

16 A. The current tail block rate for Central Hudson
17 is \$0.39440 per Ccf. The Commission approved
18 residential heat tail block rate for KEDLI is
19 \$0.3468 per therm, KEDNY is \$0.2890 per therm,
20 National Fuel Gas is \$0.49 per Ccf, NYSEG is
21 \$0.1318 per therm, National Grid (Niagara
22 Mohawk) is \$0.05902 per therm, and Orange and
23 Rockland is \$0.32995 per Ccf. All of the above
24 mentioned companies have a three part rate

1 structure for residential customers consisting
2 of a minimum charge, a penultimate block and a
3 tail block.

4 Q. How does the Gas Rates Panel propose to
5 incorporate the results of the marginal cost of
6 service study?

7 A. The Gas Rates Panel reserves the right to modify
8 its' proposed rate design modifications based on
9 the results of the study and submit supplemental
10 testimony and/or revised exhibits incorporating
11 any such modifications.

12 **Merchant Function Charge**

13 Q. What is the purpose of the Panel's testimony on
14 MFC rate development in this proceeding?

15 A. We recommend modifications to the current MFC
16 rates because customers can avoid charges under
17 the different billing scenarios in which the
18 customers should be charged.

19 Q. What is the purpose of unbundling?

20 A. The goal of unbundling is to implement rates
21 that are both cost-based and unbundled so that
22 customers pay for the services that they
23 receive.

- 1 Q. What guidance or directive has the Commission
2 provided on the topic of energy-related
3 unbundling?
- 4 A. On August 25, 2004, the Commission issued its
5 Statement of Policy on Unbundling and Order
6 Directing Tariff Filings in Case 00-M-0504.
7 Therein, the Commission provided guidance on the
8 allocation of utility costs between regulated
9 and competitive functions.
- 10 Q. Did the Company file a cost study that developed
11 MFC rates?
- 12 A. Yes, the Company's Cost of Service Panel filed a
13 pro forma cost study that developed MFC rates.
- 14 Q. Does the Company currently have merchant
15 function rates?
- 16 A. Yes. The Company has unbundled five gas service
17 components which are: procurement; credit and
18 collections; uncollectibles; bill printing,
19 mailing and receipt services; and competitive
20 energy services.
- 21 Q. What are the MFCs developed to recover?
- 22 A. As previously stated, the Company has a MFC
23 administration charge and a MFC supply charge.
24 The MFC administration charge currently recovers

1 delivery related credit and collections,
2 delivery related uncollectibles and the delivery
3 related call center function costs, along with
4 associated A&G and rates base items. The MFC
5 supply charge recovers commodity related credit
6 and collections, procurement, delivery related
7 advertising and promotions and an allocated
8 portion of commodity related call center costs,
9 along with associated A&G and rates base items.
10 Commodity related uncollectibles are recovered
11 via the GAC.

12 Q. Can you explain how, under the different billing
13 scenarios, a customer would either be charged
14 for or avoid the MFC administration and MFC
15 supply charges?

16 A. Yes. A full service customer would pay both the
17 MFC administration and MFC supply. A retail
18 access customer that is issued a single bill by
19 Central Hudson would be charged the MFC
20 administration rate and would avoid the MFC
21 supply rate in their bill. A retail access
22 customer that is dual billed would avoid both
23 the MFC administration and MFC supply charges.

- 1 Q. Under the current procedure, do some customers
2 avoid charges that they should not?
- 3 A. Yes. As explained in the Company's response to
4 DPS 345, as shown in Exhibit ___(GRP-1),
5 delivery related advertising and promotions
6 costs are being collected through the MFC supply
7 charge and should be recovered through base
8 delivery rates. Further, a retail access
9 customer that is issued a single bill by the
10 Company is billed the MFC administration charge
11 and avoids the MFC supply charge. Under this
12 billing scenario, a customer is avoiding the
13 commodity related credit and collections
14 recovered in the MFC supply charge, and should
15 not. A retail access customer that is issued
16 dual bills will avoid the MFC administration
17 charge and the MFC supply charge. Under this
18 billing situation, a customer avoids the
19 delivery related credit and collections and
20 delivery related uncollectibles recovered in the
21 MFC administrations charge, and should not. A
22 MFC design modification is required.
- 23 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 and MFC supply charges 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 charge 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 rates base items. The MFC supply charge
14 would 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 rates base items.

19 Q. Under the proposed procedure, would customers
20 avoid charges that they should not?

21 A. No. A retail access customer that is issued a
22 single bill by the Company would be billed the
23 MFC administration charge and avoid the MFC
24 supply charge. When the customer avoids the MFC

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

15 Q. How did the Panel develop the revised MFC rates?

16 A. We had technical discussions with the Company to
17 try and understand how to modify the pro forma
18 cost of service study to accomplish our goal of
19 correcting the MFC rates. Studies of this
20 nature are very complex and involve multiple
21 spreadsheets. We believe that Exhibit ___(GRP-
22 6) reasonably develops our revised MFC rates
23 based on those conferences and should be charged
24 to customers in the rate year.

1 Q. Did you ask the Company to calculate the MFC
2 charges using the proposed parameters?

3 A. Yes. The Company's response to Staff IRs DPS
4 347 and 348, as shown in Exhibit ___(GRP-1),
5 stated that Staff should re-run the study.

6 Q. Is the Staff Policy Panel addressing a potential
7 staged filing for rate years two and three?

8 A. Yes.

9 Q. If the Commission were to adopt a staged filing,
10 would you propose changes to the MFC rates in
11 rate years two and or three?

12 A. Yes. We recommend that the target revenue
13 requirement for each of the MFC rates be frozen,
14 and the MFC rates be calculated using the
15 approved sales forecast.

16 **Revenue Allocation**

17 Q. Could you describe Central Hudson's overall
18 revenue allocation methodology?

19 A. Yes. Central Hudson requested a total increase
20 in base gas rates of approximately \$3.9 million
21 for the twelve months ending June 30, 2011.

22 This increase was first allocated to the firm
23 Service Classifications: SCs 1 and 12 -
24 Residential Heat, SCs 1 and 12 - Residential

1 Non-Heat, SCs 2, 6 and 13 - Non-Residential
2 Heat, SCs 2, 6 and 13 - Non-Residential Non-
3 Heat, SC 11 Transmission, SC 11 Distribution,
4 and SC 11 Distribution Large Main based on each
5 SCs contribution to base delivery rates in the
6 rate year at current rates. Next, the allocated
7 amount was adjusted based on the results of the
8 pro forma COS study rates of return per SC in an
9 attempt to correct for return discrepancies in
10 the rate year. Next, a test was employed to
11 determine if the incremental revenue requirement
12 and the pro forma adjustment exceeded 25% of the
13 overall average increase to limit bill impacts.
14 If the increase exceeded the test, the increase
15 to any SC was constrained by the 25%. Finally,
16 incremental MFC revenues were subtracted from
17 each service class' incremental revenue
18 requirement allocated thus far to result in the
19 final incremental base delivery rate increase.
20 This is shown in Company Exhibit ___(FRP-11),
21 Schedule A.

22 Q. Do you have any recommendations with respect to
23 the overall revenue allocation?

24 A. Yes. We recommend a simpler approach which

1 relies on the guidance provided by the COS
2 studies tied to the overall percentage increase
3 net of revenue taxes (overall net percentage
4 increase) allocated to each SC.

5 Q. Did the Staff Accounting Panel provide you with
6 the recommended gas incremental base delivery
7 rate?

8 A. Yes, they indicated that Staff would be
9 recommending a decrease to base delivery rates
10 of \$800,000. As addressed in the direct
11 testimony of the Staff Accounting Panel, Staff
12 is not proposing to reduce rates. Therefore, in
13 Exhibit ___(GRP-7), we do not allocate
14 incremental revenues to the SCs.

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

18 A. If the Commission were to determine that
19 additional revenues above those recommended by
20 Staff were justified, we would first allocate
21 the incremental revenue requirement to each of
22 the firm SCs using our revenue allocation
23 factors which are consistent with the results of
24 the COS studies. Next, we would make minimum

1 charge adjustments and then adjust the remaining
2 block rates on an equal percentage basis.

3 Q. Please explain how the Panel developed the
4 revenue allocation factors shown on Exhibit
5 ____ (GRP-7).

6 A. To err on the side of caution, we recommend that
7 when the historic and pro forma COS studies
8 unitized rates of return show a deficiency or
9 surplus, then that class would receive a higher
10 or lower allocation of the incremental revenue
11 requirement. However, if the COS studies show
12 varying results in the unitized rates of return
13 of a SC, then that class would be allocated the
14 overall system average. If the unitized rates
15 of return in the COS studies exceed plus 15
16 percent of the system average, then an
17 allocation factor of 0.75 would be used to
18 allocate the incremental revenue requirement.
19 If the unitized rates of return in the COS
20 studies exceed minus 15 percent of the system
21 average, then an allocation factor of 1.25 would
22 be used to allocate the incremental revenue
23 requirement.

24 Q. Will the use of revenue allocation factors fully

1 correct for the rate of return discrepancies
2 between the SCs?

3 A. Not entirely. However, it is a step in the
4 right direction and will help to mitigate
5 discrepancies in the future.

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

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

21 Q. Please explain why you are recommending a 1.00
22 revenue allocation factor for SC 1 Residential
23 and SC 2 Non-Residential.

24 A. SC 1 Residential showed a unitized return of .85

1 and 1.01 in the embedded and pro-forma COS
2 respectively. SC 2 Non-Residential showed a
3 unitized return of 1.14 and 1.04 in the embedded
4 and pro-forma COS respectively. Therefore a
5 revenue allocation factor was applied to both
6 service classifications.

7 Q. Please explain why you are recommending a 1.00
8 revenue allocation factor for SC 11
9 Distribution.

10 A. This class showed a unitized rate of return
11 above the system rate of return in the historic
12 COS study, but below the system rate of return
13 in the pro forma COS study. Therefore, we
14 recommend a 1.00 revenue allocation factor to be
15 applied to the overall percent increase to bring
16 these classes closer to the system wide unitized
17 rate of return.

18 Q. Why should a 1.25 revenue allocation factor be
19 used for SC 11 Distribution Large Main?

20 A. This class showed a unitized rate of return
21 below the system rate of return in both the
22 historic and pro forma COS studies; therefore,
23 we recommend a 1.25 revenue allocation factor to
24 be applied to the overall percent increase to

1 bring these classes closer to the system wide
2 unitized rate of return.

3 Q. Please describe why you would recommend a 0.75
4 revenue allocation factor for SC 11
5 Transmission.

6 A. This SC shows a unitized rate of return above
7 the system rate of return in both the historic
8 and pro forma COS studies. Therefore, we
9 believe that a 0.75 revenue allocation factor is
10 reasonable in this case.

11 Q. If the Commission were to determine that
12 incremental revenue was allowed in either rate
13 years two and or three, how would you allocate
14 it to the SCs?

15 A. We recommend that the incremental revenue
16 requirement be allocated on an equal percentage
17 basis across the service classes.

18 Q. Please explain.

19 A. We do not know the final incremental revenue
20 requirement the Commission will approve in rate
21 year one of this proceeding, and we recommend
22 allocating rate year one using our revenue
23 allocation factors, if the Commission were to
24 adopt an increase. If the revenue allocation

1 factors were used in rate year one, corrections
2 for discrepancies will be made. However, we do
3 not know the extent of the corrections. Using
4 the overall percentage to allocate incremental
5 revenue requirement would protect against over
6 correcting the discrepancies indicated in the
7 COS studies in rate years two and three.

8 **Rate Design**

9 Q. Since Staff is recommending no increase to base
10 delivery rates, do you propose any rate design
11 changes?

12 A. Yes, because of the modifications to the MFC
13 rates as proposed by this panel. The Company
14 was collecting revenue requirement associated
15 with delivery related functions in the MFC
16 administration rate and MFC supply rate. Our
17 MFC proposal shifts the collection of those
18 components back to base delivery rates and
19 lowers the MFC rates.

20 Q. How do you propose to modify base delivery rates
21 to account for the proposed changes?

22 A. To the extent possible, we propose to modify the
23 block delivery service rates in each of the
24 classes that have changes to the MFC rates.

1 This rate design proposal will have no bill
2 impact for most customers because the reduction
3 in the MFC rates equals the increase in the
4 block rate charge. We believe this process
5 should be done prior to any other changes in
6 base rates.

7 Q. If the Commission were to determine that
8 additional revenues above those recommended by
9 Staff were justified, how would the Panel design
10 rates?

11 A. After the incremental revenue requirement was
12 allocated to each of the SCs and the MFC design
13 change was completed, we would recommend the
14 class incremental revenue requirement be
15 absorbed by increasing the customer charge to
16 reflect the results of the historic COS study,
17 up to an increase per year of \$2.00 for
18 residential customers; \$5.00 for commercial, OPA
19 and industrial customers; and \$75 for SC 11
20 customers. If there were additional revenues
21 not absorbed by the increase to the customer
22 charge, we would allocate the increase to the
23 energy charges on an equal percentage basis.

24 Q. Do you agree with the general concept of setting

1 the minimum charge based on the indications of
2 the embedded historic cost of service study?

3 A. Yes, however, we only used the study as a guide
4 and also considered customer bill impacts in the
5 rate design process. SCs are made up of
6 customers that can have very different usages.
7 Impacts for low use customers in each class
8 should be considered in the rate design process.

9 Q. Why do you believe your recommendations for the
10 minimum charge increases are reasonable in rate
11 year one?

12 A. The minimum charge recommendations are closer to
13 the embedded historic COS study customer charge
14 results than the existing rates which are shown
15 on Exhibit ___(GRP-8).

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

17 A. Exhibit ___(GRP-9) shows the development of
18 delivery service revenues at current rates and
19 our proposed rates for each SC. We used Staff's
20 forecasted sales volumes and customer counts for
21 rate year one and priced out the forecast at our
22 proposed rates to determine if the revenue
23 requirement target was met for each of the SCs,
24 in this case a total of \$0.

1 Q. Please describe Exhibit ____ (GRP-10).

2 A. Exhibit ____ (GRP-10) shows a summary of our
3 proposed rates by SC.

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

6 A. Exhibit ____ (GRP-11) indicates the monthly bill
7 impacts of our recommendations for firm SCs 1
8 and 12 Residential: and 2, 6 and 13 Non-
9 Residential. These exhibits reflect the Staff's
10 recommended revenue requirement level for
11 illustrative purposes.

12 **Factor of Adjustment**

13 Q. What is "Lost and Unaccounted For" (LAUF) gas?

14 A. LAUF gas is system sendout, less all known
15 system dispositions of gas.

16 Q. What is the lost and unaccounted for (LAUF)
17 factor?

18 A. A LAUF factor is LAUF divided by sendout.

19 Q. How is an allowed LAUF factor developed?

20 A. An allowed LAUF factor is determined in rate
21 proceedings based on historic experience.

22 Q. What is the factor of adjustment?

23 A. The factor of adjustment is the multiplier
24 utilized to gross up dispositions to properly

1 adjust sendout for the loss factor;
2 mathematically it is 1 divided by 1 minus the
3 LAUF factor.

4 Q. What is the LAUF adjustment mechanism?

5 A. The LAUF adjustment mechanism is designed as an
6 incentive to motivate gas utilities to control
7 losses on their system. If the Company's actual
8 LAUF gas is greater than allowed LAUF gas, the
9 Company must absorb the difference. Conversely,
10 if Company's actual LAUF gas is less than
11 allowed LAUF gas, the Company retains the
12 difference.

13 Q. Did the Company propose any modifications to the
14 allowed LAUF factor or the factor of adjustment?

15 A. The Company proposes to continue to utilize a
16 three-year average to strike the balance between
17 reflecting current loss activity without
18 producing a high degree of volatility. The
19 Company recommended that this factor be reviewed
20 prior to the Commission's decision in this
21 proceeding to reflect the most recent three
22 years of data ending August 31, 2009, available
23 at the time of the update.

24 Q. Does the Gas Rates Panel agree with the

1 Company's proposal to update the gas loss factor
2 and factor of adjustment?

3 A. Yes, Staff also proposes updating the allowed
4 LAUF factor and the fixed factor of adjustment
5 to reflect the most recent three year average.
6 This would produce a LAUF factor of 1.07% and a
7 fixed factor of adjustment of 1.0108, as
8 compared to the current allowed LAUF factor of
9 1.15% and the fixed factor of adjustment of
10 1.0117. Development of the proposed loss factor
11 and factor of adjustment can be seen in Exhibit
12 ____ (GRP-12).

13 **Gas Capital Construction Forecast Adjustments**

14 Q. How much did the Company forecast for gas
15 construction expenditures?

16 A. In its filing, the Company's rate year average
17 net plant was derived based on a gas capital
18 construction forecast of \$13,536,000 in 2010 and
19 \$14,135,000 in 2011, as shown in Central Hudson
20 Exhibit ____ (PEH-2). In addition to the capital
21 forecasts that directly impact the rate year,
22 the Company also presented annual forecasts
23 through 2014.

24 Q. How has the Panel analyzed the forecasts

1 presented by the Company?

2 A. The Panel examined the forecasts from both an
3 overall perspective compared to historic
4 experience, as well as a project by project
5 review. We reviewed projects with a forecasted
6 cost of \$100,000 or more. This review was
7 preformed for the period 2010 through 2013.

8 Q. What has the Panel found for gas capital
9 expenditures?

10 A. The Panel has found that the forecasted gas
11 capital expenditures appear reasonable.

12 Q. Does the Panel have any adjustments to the gas
13 rate year forecasts?

14 A. Not at this time.

15 **Plant Target/Plant Cap**

16 Q. Does the current Rate Plan established in Case
17 08-G-0888 hold the Company accountable for its
18 rate allowance for net gas plant in service?

19 A. Yes. The current Rate Plan has a mechanism that
20 holds the Company accountable for the level of
21 its net gas plant.

22 Q. Does the Panel recommend a similar mechanism in
23 this rate case?

24 A. Yes. We propose a gas plant target for the rate

1 year.

2 Q. Please describe the calculation of your proposed
3 'plant target.'

4 A. A description of how we propose to calculate
5 plant targets is included in Exhibit___(GRP-13).
6 The methodology we propose is the same
7 methodology used by the Company to develop its
8 net plant balances that they proposed for the
9 rate year.

10 Q. Are you proposing a downward reconciliation for
11 the Company's gas plant?

12 A. Yes. It is our intent that the plant levels
13 proposed with this testimony should be the cap,
14 or maximum level, on the amount of gas plant
15 used for ratemaking purposes. We believe that
16 if the actual results added to the Company's
17 plant account at the conclusion of the rate year
18 are less than our recommended levels contained
19 in Exhibit___(GRP-14), then Central Hudson
20 should be required to credit customers the
21 revenue requirement associated with the
22 shortfall relative to our recommended plant
23 targets. If the amount of added plant is more
24 than the levels recommended in our testimony and

1 provided in Exhibit___(GRP-14), we recommend
2 that the Company only be allowed to recover the
3 revenue requirement associated with the plant
4 upon inclusion of the plant in rate base in its
5 next rate case where the Company would be
6 required to fully justify the cause of exceeding
7 the plant target levels proposed in our
8 testimony.

9 Q. In addition to plant targets for the rate year
10 ending June 30, 2011, have you provided plant
11 targets for the rate years ending June 30, 2012
12 and June 30, 2013?

13 A. Yes, these have also been provided in
14 Exhibit___(GRP-14). As proposed by the Staff
15 Policy Panel, the Company should submit a staged
16 filing for the rate years ending June 30, 2012
17 and 2013, which would include capital
18 expenditure forecasts. However, we propose that
19 the Company's staged filing forecasts should not
20 result in plant targets that exceed those shown
21 in Exhibit___(GRP-14), and that the downward
22 reconciliation be applied to rate years 2 and 3.

23 **Materials & Supplies (M&S)**

24 Q. How did Central Hudson forecast the rate year

1 M&S inventory?

2 A. Central Hudson's rate year M&S forecast is
3 derived by taking historic year inventory levels
4 and applying an inflation factor to derive its
5 rate year M&S inventory balance.

6 Q. Does the Panel agree with this methodology of
7 applying an inflation factor to project the rate
8 year average M&S balance?

9 A. No. The Commission has determined in past rate
10 cases that the M&S balances that are used to
11 calculate rate base are not to be arbitrarily
12 inflated (for example, see Cases 29191, 29428,
13 94-G-0100, and 07-G-0141 where inflation on M&S
14 was not allowed by the Commission). Although
15 the Panel recognizes that new M&S purchases
16 could be subject to inflation because they could
17 reflect the replacement cost for items used
18 previously, the total balance would not
19 necessarily increase as a consequence of items
20 being subject to inflation. The best estimate
21 of what could reasonably be expected for the
22 rate year M&S balances would be the latest known
23 twelve month actual average, without inflation.

24 Q. Does the Panel have any other modifications to

1 the Company's filed M&S inventory?

2 A. Yes. The Company's filing reflects an error in
3 its January 2009 Common Coded Stock balance -
4 account 154.40. The error was a keying error in
5 which an incorrect unit price was entered into
6 the system which produced a Common Coded Stock
7 element of \$8,005,750 which should have been
8 \$122.50. The Company corrected the mistake in
9 February 2009; however, the incorrect ending
10 balance for January 2009 was carried over into
11 the Company workpapers and analysis.

12 Q. What does the Panel recommend?

13 A. We recommend making the downward
14 adjustment/correction of approximately \$8
15 million to the January 2009 Common Plant account
16 balance and then applying the most recent twelve
17 month average, which is through August 2009.
18 This will determine the M&S allowance for both
19 Electric and Gas to be used in determining the
20 appropriate working capital to be included in
21 rate base. This correction and methodology
22 reduces the Company's filed rate year rate base
23 by \$230,000 for electric and \$188,000 for gas.

1 **Excess Cost of Removal - Mains and Services**

2 Q. What did the Company propose for an expense
3 level associated with excess cost of removal
4 association with Plant Account 376 and 380?

5 A. The Company proposed an expense level of
6 \$951,000. As seen in response to Staff IR DPS
7 129 which is included in Exhibit ___(GRP-1),
8 this level was developed by first developing a
9 ratio of retirements to additions utilizing a 3-
10 year historical average for calendar years 2006,
11 2007 and 2008. This ratio was used to determine
12 rate year retirements. The Projected Cost of
13 Removal was calculated based on the ratio of the
14 3-year historical average of cost of removal to
15 the 3-year historical average of retirements.
16 This ratio was multiplied by the projected
17 retirements to come up with the projected cost
18 of removal.

19 Q. Does the Panel agree with the Company?

20 A. No. The Panel is proposing an expense level of
21 \$439,000 in the rate year.

22 Q. Can you please explain how the Gas Rates Panel
23 developed its adjustment to the excess cost of
24 removal associated with Mains and Services for

1 the rate year?

2 A. The Gas Rates Panel utilized the most recent
3 available five year average of excess cost of
4 removal, which can be seen in Exhibit ___(GRP-
5 15). The resulting \$439,000 reflects \$131,000
6 of mains expenses and \$308,000 associated to
7 service expenses. This is consistent with the
8 current treatment, which was approved by the
9 Commission in Case 05-G-0935. Currently,
10 negative net salvage in excess of the negative
11 60% rate included in depreciation rates is
12 expensed by the Company as a current O&M expense
13 rather than being booked to the depreciation
14 reserve.

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

16 A. Yes.