

DIRECT TESTIMONY
OF
JOHN J. BORCHERT

1 Q. Please state your name and business address for the record.

2 A. My name is John J. Borchert. I am employed by Central Hudson Gas &
3 Electric Corporation "Central Hudson" and my business address is 284
4 South Avenue, Poughkeepsie, New York 12601.

5

6 Q. What is your educational background?

7 A. I graduated from State University of New York Maritime College in 1985 with
8 a Bachelors of Engineering degree in Electrical Engineering and from
9 Polytechnic University in 1991 with a Master of Science degree in Electrical
10 Engineering. I am a Professional Engineer in the State of New York.

11

12 Q. In what capacity are you employed at Central Hudson?

13 A. I am the Manager of Gas & Mechanical Engineering. In that capacity, I am
14 responsible for the engineering plans and designs for Central Hudson's gas
15 transmission and distribution system and for Central Hudson's Manufactured
16 Gas Plant ("MGP") Site Investigation and Remediation ("SIR") Program.

17

18 Q. Please summarize your professional experience.

19 A. I joined Central Hudson in 1985 as a Junior Engineer in the Electric Planning
20 Section of Engineering performing fuel forecasting, generation planning, and
21 various system studies. In 1989, I was transferred to the Energy Efficiency
22 Division where I developed demand side management programs and

1 forecasts. In 1995, I was transferred to the position of Power Quality
2 Services Engineer in Customer Service where I was the customer liaison to
3 IBM and other large or high tech customers in the service territory. In 1996, I
4 was transferred to the position of Supervisor of New Business in the Mid-
5 Hudson Division in Customer Service and in 1999 promoted to the position of
6 Customer Service Manager of the Mid-Hudson Division, where I oversaw all
7 aspects of Customer Service Operations for the area. In 2005, I was
8 promoted to my current position of Manager of Gas & Mechanical
9 Engineering.

10

11 Q. Have you previously testified before the Commission?

12 A. Yes. Most recently, I have submitted testimony in Cases 08-E-0887 & 08-
13 G-0888 however; I have also submitted testimony in Cases 92-E-1055 and
14 92-G-1056, and Cases 05-E-0934 and 05-G-0935.

15

16 Q. What is the purpose of your testimony in this proceeding?

17 A. The purpose of my testimony is to describe Central Hudson's program for the
18 investigation and remediation of former manufactured gas plant sites. I will
19 provide 1) an overview of the Central Hudson's MGP SIR Program and 2)
20 cost projections for Central Hudson's MGP Remediation Program
21 expenditures mandated by consent orders, regulations, or agreements.

22

1 In addition, I will discuss non labor expense related expenditures linked to
2 the Company's gas leak repair program.

3

4 Q. What are the expected expenditures related to the MGP SIR Program?

5 A. In total, we expect \$11.7 million in MGP SIR expenditures in the forecast rate
6 year. The site-by-site rate year forecasts are shown on Exhibit ____ (JJB-1),
7 Schedule A. Exhibit ____ (JJB-1) Schedule A summarizes the non-labor
8 costs for the annual period ending 6/30/11.

9 I also note that Central Hudson expects to expend an additional \$13.9
10 million for the MGP SIR Program in the two years following the rate year.

11 The increase in rate year and following period expenditures is principally
12 attributable to the continuation of remediation at the Newburgh MGP site
13 that began in 2007 with source removal at the upland "Area A" and will
14 continue through the commencement of a three-year period of remediation
15 at the Newburgh MGP site for Areas "B" and "C", which are in or adjoining
16 the Hudson River.

17

18 Q. Please provide an overview of Central Hudson's MGP SIR Program.

19 A. Central Hudson has an ongoing program for the management of its MGP
20 sites, verifying that the required remedial response measures (site
21 investigations followed, in some cases, by remedial actions) are properly
22 performed for sites containing wastes from a number of former MGP

1 facilities.

2

3 Q. Please provide a brief background on MGP facilities.

4 A. Manufactured gas plants were operated until the mid 1900s to produce
5 combustible gases from coal and oil for Municipal Street lighting systems and
6 for lighting and other uses in homes and businesses in densely populated
7 regions of the United States. When these plants were removed from service,
8 some by-products of the gas production process remained. The DEC, which
9 regulates the timing and extent of remediation of MGP sites in New York
10 State, has notified Central Hudson that it believes Central Hudson or
11 predecessor organizations at one time owned and/or operated MGPs at eight
12 sites in Central Hudson's franchise territory. The DEC has further requested
13 that Central Hudson investigate and, if necessary, remediate these sites
14 under a Consent Order, Voluntary Clean-up Agreement, or Brownfield Clean-
15 up Agreement. A number of the sites are now owned by third parties and
16 have been redeveloped for other uses.

17

18 Q. Please identify the eight MGP sites that have been identified by the DEC for
19 investigation and potential remediation by Central Hudson.

20 A. There are four sites in Dutchess County (River St. in Beacon, and Bayeux
21 St., Laurel St., and North Water St. in Poughkeepsie); two sites in Ulster
22 County (East Strand in Kingston and Ferry St. in Saugerties); one site in

1 Greene County (in Catskill); and one site in Orange County (Water St. in
2 Newburgh). The DEC has required Central Hudson to investigate and, when
3 believed necessary by DEC to protect human health and the environment, to
4 undertake remedial actions for these eight sites.

5

6 Q. What is the current status of each of these sites?

7 A. For the Newburgh (Water St.) site the remediation has been completed in
8 one area (Area A) and the final remedial design has been submitted to the
9 NYSDEC for approval for the other two areas (Areas B & C); for Laurel St-
10 Poughkeepsie, the remediation has been completed under a Voluntary
11 Cleanup Agreement and is awaiting NYSDEC review and approval of the
12 remediation work completed; for North Water St-Poughkeepsie the site
13 investigation is currently underway under a NYSDEC-approved Brownfield
14 Clean-up Agreement; for the Kingston site the investigation work is currently
15 underway under a NYSDEC-approved Brownfield Clean-up Agreement; for
16 the Catskill site the investigation is currently underway under a NYSDEC-
17 approved Brownfield Clean-up Agreement; and for the Saugerties (Ferry St.)
18 and the Bayeaux St.-Poughkeepsie sites, Central Hudson has informed DEC
19 that it believes it does not have any liability.

20 For the Beacon (River St.) site the remediation is complete.

21

22 Q. What sites are currently included in the Company's MGP SIR Program?

1 A. Sites currently included in the SIR Program include: Newburgh,
2 Poughkeepsie-Laurel St., Poughkeepsie-North Water St., Kingston, and
3 Catskill.

4
5 Q. Of the \$11.7 million in forecast rate year MGP SIR costs, what portion is due
6 to the Newburgh site?

7 A. As shown on Exhibit ____ (JJB-1), Schedule A, approximately \$10.6 million
8 (or 90%) is due to the Newburgh site.

9
10 Q. Please explain how you developed the forecast rate year expenditures for
11 the Newburgh site.

12 A. I have been intimately involved with activities at the Newburgh site since
13 assuming my current position in 2005. Following over 10 years of
14 investigation under the terms of a 1995 DEC Consent Order, the DEC issued
15 a Proposed Remedial Action Plan ("PRAP") in February 2005. DEC held a
16 Public Hearing on the PRAP and has completed a public comment period.
17 DEC issued a Record of Decision ("ROD") in December 2005. The Company
18 requested in April 2006 that the Remedial Design schedule of 180 days as
19 specified in the Consent Order be extended until September 2006 for the
20 upland "source" area of the project and extended until December 2007 for
21 the shore and river areas of the project. The Remedial Work Plan for the
22 remediation of the upland "source" area of the Newburgh Site known as Area

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1 A was filed and approved in November 2006. The work on this area started
2 in November 2006 and was completed in August 2007. The Project Manager
3 for this work reported to me. A construction completion report was submitted
4 to the DEC in February 2008 and approved.

5 The Company has been working with the DEC to complete the remedial work
6 plan for the shore and river areas, or areas B and C, of the Newburgh site.

7 In December 2008, the Company requested a further extension of the
8 deadline to complete the remedial work plan. The pre-investigation design
9 and remedial work plan for the remaining areas identified by DEC in the ROD
10 were completed under my supervision and direction and a final remedial
11 work plan was submitted to DEC on June 1, 2009. In a letter dated July 10,
12 2009, the DEC provided comments to the work plan and has indicated that
13 they are prepared to approve the final remediation work plan pending our
14 response to their comments and completion of a citizen participation
15 meeting. Central Hudson has filed responses to the comments on July 24,
16 2009 and expects the required public meeting to be held by September 15,
17 2009.

18 In Exhibit ____ (JJB-1), Schedule B, I have shown a breakdown of the rate
19 year costs forecast for the Newburgh site. This is based on the remedial
20 work plan that was submitted to DEC. The forecasts shown in Exhibit ____
21 (JJB-1) Schedule B reflect my best current estimates of the activities that will
22 be required at the Newburgh site, the costs for those activities and the timing

1 of the incurrence of those costs. In Exhibit ____ (JJB-1), Schedule B, I have
2 shown the major activities and costs on a quarterly basis.

3 Assuming that the remedial work plan is approved by the DEC September
4 2009, as is currently anticipated, we expect that costs will be incurred in 2009
5 through 2011 for the remediation project, to be constructed over a three-year
6 period beginning in 2009. Following completion of construction, a post-
7 construction operating and monitoring program is expected to be required.

8

9 Q. Please explain how your present forecast for the Newburgh Site for the
10 period July 2010-June 2011 compares to the forecasts that you developed in
11 Cases 08-E-0887 and 08-G-0888 for that same period.

12 A. The present forecast for the Newburgh site for the period July 2010 – June
13 2011 projects expenditures of \$10,620,000 for this period. The prior
14 forecast shown in my rebuttal testimony and exhibits in Cases 08-E-0887
15 and 08-G-0888 for the same period showed expenditures of \$10,005,000.
16 The schedule of the work to be completed during this time has not changed
17 and the differences in costs are related to refinements in the costs related to
18 construction oversight.

19

20 Q. What would happen if the DEC authorization to proceed is not received in
21 2009, as you have assumed, but sometime in 2010, would that necessarily
22 cause the costs you have forecast to be incurred during the rate year to be

1 delayed until after the rate year?

2 A. No. The major activity identified on Exhibit ____ (JJB-1) Schedule B during
3 the second half of 2009 and the first half of 2010 is the pre-construction
4 activities, construction of the access roads, soil/sediment storage areas, and
5 construction of a barrier wall that is needed to permit removal of sediment in
6 the Hudson River. The construction window for the barrier wall placement is
7 between November and April, and the likely duration of the in-river
8 construction portion of the task is approximately 20 weeks. If there were a
9 delay of less than about six months, there should be no significant impact on
10 completing the work planned during the second half of 2009 and the first half
11 of 2010 and the work to be completed during the rate year. If the delay were
12 to be longer than six months, it would shift this work into the rate year and
13 timing of other tasks to complete river work would be shifted out to beyond
14 the rate year, however, there would be little change in the rate year cost
15 projections.

16

17 Q. What is the current status of the Laurel St. site?

18 A. The Company has completed site remediation of the upland "source" area
19 under the terms of a Voluntary Consent Order with DEC. The construction
20 completion report is being prepared for submittal to the DEC. The DEC has
21 informed us that a post-construction operating and monitoring program is
22 required and it is currently being developed by Central Hudson and is

1 expected to be completed and filed during 2009.

2

3 Q. Are other costs expected to be incurred at the Laurel St. site?

4 A. Yes. It is likely that additional costs will be incurred to conduct additional site
5 investigations the DEC may require for down gradient areas along the
6 property line and under NYS Route 9. It is possible that the additional
7 investigations will indicate that additional remediation may be required.

8

9 Q. What is the current status of the North Water St. MGP site?

10 A. The Company has conducted site investigations at the North Water St. MGP
11 site under the terms of a Voluntary Clean-up Agreement with the DEC. In
12 May 2005, the agreement was converted to a Brownfield Clean-up
13 Agreement. Continued site investigation and remediation is required under
14 the Brownfield Clean-up Agreement. Based on the status of the
15 investigation, which is in the remedial investigation stage, remediation
16 construction is expected to begin in 2013 on the upland "source" area of the
17 site. The proposed remediation action plan, pre-design investigation, and
18 remedial design all remain to be completed prior to any remediation work
19 commencing.

20

21 Q. What is the status of the Kingston site?

22 A. DEC has requested that the Company conduct additional site investigations

1 and remediation, if necessary, at this site. Based on the status of the
2 investigations at this site, which are in the early site investigation stage, and
3 the time generally required to complete the DEC-required processes,
4 remediation construction is not anticipated to occur prior to the end of 2015.
5 The proposed remediation action plan, pre-design investigation, and
6 remedial design all remain to be completed prior to any remediation work
7 commencing.

8

9 Q. What is the status of the Catskill site?

10 A. DEC has requested that the Company conduct additional site investigations
11 and remediation, if necessary, at this site. Based on the status of the
12 investigations at these sites, which are in the final site investigation stage,
13 and the time generally required to complete the DEC-required processes,
14 remediation construction is anticipated to begin in 2012. The proposed
15 remediation action plan, pre-design investigation, and remedial design all
16 remain to be completed prior to any remediation work commencing.

17

18 Q. Have you developed the actual costs incurred by Central Hudson for the
19 MGP SIR Program during the test year?

20 A. Yes. The actual costs incurred during the period 4/1/06 through 3/31/09
21 exclusive of Company labor are shown in Columns 2, 4, and 6 of Exhibit ____
22 (JJB-1), Schedule A, and amount to \$12.7 million. On average, this amount

1 is \$4.23 million per year and when adjusted for inflation is \$4.3 million per
2 year, which is greater than the existing annual cash rate allowance of \$2.815
3 million for MGP costs.

4

5 Q. Have you developed a recommendation for the rate allowance for the costs
6 incurred by Central Hudson for the MGP SIR for the rate period July 1, 2009
7 through June 30, 2010?

8 A. Yes. I propose to use the actual three-year average costs from April 1, 2006
9 through March 31, 2009 of \$4.23 million; adjusted for inflation as the basis for
10 the rate allowance. The actual expenditures in excess of the rate allowance
11 should be deferred for future recovery, with carrying charges, per the prior
12 rate plan and the latest Commission Order in June 2009. The proposed
13 treatment of these deferrals is discussed in the testimony of the Revenue
14 Requirements Panel.

15

16 Q. Please summarize your expectations of the costs that the Company will incur
17 during the rate year for the MGP SIR Program.

18 A. My cost forecasts are shown on Schedule A of Exhibit ____ (JJB-1), which
19 summarizes the non-labor costs for the annual period ending 6/30/10. These
20 forecasts are based on the expected scope of activities at each of the five
21 sites and on the expected level of costs for those activities. The unit costs
22 were developed based on my experience in managing the MGP Program

1 since 2005 and on information provided by the Company's consultants. As
2 discussed previously, the increased level of spending is primarily due to the
3 implementation of the Newburgh Remediation Work Plan. The shoreline and
4 river areas of this remediation project will be completed in 2009, 2010, and
5 2011. The other major project will be the completion of the investigation and
6 start of the remediation at the North Water Street site. Finally, continuing
7 investigations at the Laurel Street, Kingston, & Catskill sites and ongoing
8 O&M Activity at the sites are also included.

9

10 Q. Can you describe Central Hudson's gas leak repair program?

11 A. Yes, Central Hudson is continuing to propose an enhanced gas leak repair
12 program which will 1) reduce the total leak backlog, 2) align the current leak
13 repair plan with the current Gas Safety target for leak management, and 3)
14 reflect in the Company's rate case forecast and capture in the Rate Plan the
15 trend of the increase in gas leak expenses and the increase in the level of
16 leaks discovered.

17

18 Q. What is the current Gas Safety target for gas leak management?

19 A. The calendar year 2009 Gas Safety Targets are the same as the calendar
20 year 2008 Gas Safety targets set in the prior rate plan that expired in June
21 2009. For the Leak Management target, Central Hudson will incur a rate
22 adjustment if a year-end 2009 total leak backlog of 250 is exceeded, unless

1 the Company repairs 340 leaks during the calendar year 2009. The rate
2 adjustment if the target thresholds are not met is 8 basis points.

3

4 However, these targets were recently changed and new Gas Safety Targets
5 have been set for calendar year 2010 in the Commission's June 2009 Order.

6 The new gas leak management targets are a repairable leak backlog of 30
7 leaks at year-end 2010 and total leak backlog of 350 leaks at year-end 2010.

8 The rate adjustment if the target thresholds are not met is 9 basis points for
9 the repairable leak target and 5 basis points for the total leak target.

10

11 Q. What are the projected costs for this program?

12 A. The expense related costs for this program are shown on Exhibit __ (JJB-2),
13 Leak Repairs of Distribution Main (Non-Labor). These costs include the
14 increases in gas leak repair costs related to the higher cost of materials for
15 restoration efforts such as paving and blacktop of which the Company cannot
16 control. These costs also include an increase in the number of leaks
17 repaired beginning in 2009 through the use of contractors through 2014. This
18 cost projection will completely replace the non-labor AP costs from the
19 inflation pool.

20

21 Q. What is the basis for the leak repair costs projected for the rate period and
22 the period 2010 through 2014?

1 A. The basis of the leak repair costs for the rate period and the period beyond
2 was an average of the leak repair costs for the period 2006 through 2008,
3 inflated at a rate consistent with the GDP Index.

4
5 Q. Is this consistent with gas leak repair expenditures experienced during the
6 test year?

7 A. No, the test year understates the AP costs related to leak repairs. Several
8 factors caused this test period to be understated. The first is an increase in
9 the number of leaks repair in the last six months of the test period than
10 during the first six months, during the last six months 225 leaks were
11 repaired (62%). Second is a lag in the payment for leaks repaired due to the
12 contract requirement that the leak be repaired, rechecked, and closed before
13 payment is rendered. Third is the restoration costs for leaks repaired during
14 the winter months are not seen until April or May when the restoration can be
15 completed. Finally, is the reduction in fuel costs during the winter reduced
16 our contract repair cost, but now that fuel costs have again increased,
17 contract costs for repairs since the test year have also increased. With this
18 proposed cost projection and basis, Central Hudson is projecting gas leak
19 expenses of \$1,370,000 for the rate year, which is lower than the \$1,502,000
20 amount allowed in the recently approved rate case.

21
22 Q. What is the growth rate used on the base cost of leak repair established

1 using the three year average?

2 A. The growth rate is the same as the inflation rate filed in this case.

3

4 Q. Why has the company proposed this increase in the number of leak repairs?

5 A. The Company has proposed this increase for two reasons. First, there was a
6 substantial increase in the level of leaks discovered from the period 2004
7 through 2008. The number of leaks discovered increased from 444 in 2004,
8 to 519 in 2005, 649 in 2006, 576 in 2007, and 626 in 2008. Second is that
9 during the period 2004 through 2008, although the Company has consistently
10 repaired between 446 and 544 leaks, during the period 2004 through 2008,
11 Central Hudson experienced an increase of its year-end backlog from 286 to
12 486 as a result of increased effort and improved methods adopted by the
13 Company to identify leaks. As we have been finding more leaks, we believe
14 that funding an increased annual level of leak repairs is desirable.

15

16 Q. Does this conclude your pre-filed testimony?

17 A. Yes, it does.