

DIRECT TESTIMONY
OF
UNCOLLECTIBLE ACCOUNTS PANEL

1 Q. Would each member of the Uncollectible Accounts Panel please state
2 your name and business address.

3 A. (Harrison) My name is Linda M. Harrison and my business address is
4 Central Hudson Gas & Electric Corporation ("Central Hudson" or the
5 "Company"), 284 South Avenue, Poughkeepsie, N.Y. 12601.

6 (Dimisko) My name is Brian N. Dimisko and my business address is the
7 same as Ms. Harrison's.

8 (Wright) My name is Kimberly J. Wright and my business address is the
9 same as Ms. Harrison's.

10

11 Q. By whom is each member of the Panel employed and in what capacity?

12 A. (Harrison) I am employed by Central Hudson as Director of Customer
13 Accounting.

14 (Dimisko) I am employed by Central Hudson as the Manager of Customer
15 Account Services.

16 (Wright) I am employed by Central Hudson as the Controller.

17

18 Q. Ms. Harrison, would you please summarize your education and work
19 experience.

20 A. I received a Bachelor of Science Degree in Business Administration from
21 Marist College in 1982 and a Master in Business Administration from
22 Marist College in 1989. Since 1984 I have been employed continuously
23 by Central Hudson in a variety of positions including Customer Services,

UNCOLLECTIBLE ACCOUNTS PANEL

1 Human Resources and Accounting. In my current position I am
2 responsible for managing our Customer Accounting and Cash Processing
3 areas; included in these responsibilities is the calculation and analysis of
4 the Central Hudson uncollectible accounts expense.

5
6 Q. Mr. Dimisko, would you please summarize your education and work
7 experience.

8 A. I received a Bachelor of Science Degree in Nautical Industrial Technology
9 from the California Maritime Academy in 1985 and a Master of Science in
10 Organizational Leadership from Mercy College in 2000. Since 1987, I
11 have been employed continuously by Central Hudson in a variety of areas
12 including Production, Environmental Services, Engineering Services, ,
13 Transportation and Customer Services. In my current position I am
14 responsible for managing our Customer Account Services area. Included
15 among my current responsibilities is the management of the Collections
16 department.

17
18 Q. Ms. Wright, would you please summarize your education and work
19 experience.

20 A. I received a Bachelor of Science Degree in Accounting in 1989, a Master
21 in Business Administration in 2008 and a Juris Doctorate in 2009. All of
22 my degrees were from the University of Connecticut. I have been
23 employed by Central Hudson as its Controller since 2006 and as CH
24 Energy Group's Vice President – Accounting and Controller since 2008.

UNCOLLECTIBLE ACCOUNTS PANEL

1 Prior to joining Central Hudson I was employed by the public accounting
2 firm of Coopers & Lybrand, LLP (Coopers) for six years in various
3 positions increasing in responsibility to the position of Audit Manager.
4 Following my employment with Coopers I was employed by Northeast
5 Utilities for 11 years. During my employment at NU, I held various
6 positions of increasing responsibility in accounting for NU's regulated and
7 unregulated businesses to the position of Director – Utility Group Budgets
8 and Forecasts.

9

10 Q. What is the scope of the Uncollectible Accounts Panel's (Panel")
11 testimony?

12 A. The purpose of this testimony is to:

- 13 1. Describe the Company's recent experience concerning
14 uncollectible expenses.
- 15 2. Review the Company's efforts to control these costs.
- 16 3. Outline the factors affecting the forecasting of uncollectible
17 expense.
- 18 4. Describe the Company's proposal for an annual deferral of the over
19 or under collection of this expense.
- 20 5. Describe the Company's new model for forecasting its future
21 uncollectibles expense.

22

23 Q. Is the Panel sponsoring any exhibits as part of its testimony?

UNCOLLECTIBLE ACCOUNTS PANEL

- 1 A. Yes. The Panel sponsors the following exhibits, which were prepared
2 under our direction and supervision:
- 3 1. Exhibit __ (UAP-1) entitled Uncollectible Reserve 3/31/2009,
 - 4 2. Exhibit __ (UAP-2) entitled Unemployment Rate Hudson Valley,
 - 5 3. Exhibit __ (UAP-3, Schedule A) entitled Total A/R w/120 Arrears,
 - 6 4. Exhibit __ (UAP-3, Schedule B) entitled # Accounts w/120 Arrears,
 - 7 5. Exhibit __ (UAP-3, Schedule C) entitled Increases in Arrears 30, 60,
8 90 and 120 day and
 - 9 6. Exhibit __ (UAP-3, Schedule D) entitled Dollars in Arrears on Avg
10 Per Account.
 - 11 7. Exhibit ___ (UAP-4) entitled Write-off Forecast Model

12
13 Q. What was the Company's uncollectible expense for the historic period?

14 A. The uncollectible expense for the historic period ended March 31, 2009
15 was \$8.956M, this included an increase in the reserve of \$1.4M. Exhibit
16 __ (UAP-1) shows the monthly details.

17

18 Q. What has the Company's uncollectible expense experience been over the
19 past four calendar years?

20 A. The uncollectible expense by year is as follows:

UNCOLLECTIBLE ACCOUNTS PANEL

1

Year	Net Write-Offs \$M	Reserve Change \$M	Net Uncollectible Expense \$M
2008	\$6.653	\$1.239	\$7.892
2007 (A)	\$4.860	(\$.010)	\$4.850
2006	\$4.035	\$.400	\$4.435
2005	\$3.992	(\$.400)	\$3.592
(A) Excluding Dynegy write off of \$1.029 for delivery revenues related to billing dispute.			

2

3

4

Q. What is causing the escalation in write-offs?

5

A. A variety of factors are contributing to the escalation in write-offs; during 2008 Central Hudson customers experienced unprecedented increases in energy prices, along with a weakened housing market, deteriorating national and NY state economies, increasing unemployment (shown in Exhibit __ (UAP-2), and financial market credit crisis. Collectively, these events have had significant impacts. Many customers, and particularly low-income customers, have been challenged in their ability to keep account balances current and in paying down balances in arrears, leading to a growing number of accounts in arrears, as well as growing balances in arrears. Exhibit __ (UAP-3, Schedule A) illustrates the growth Central Hudson has experienced in the total 120 Arrears Dollars, as well as the increase shown in Exhibit __ (UAP-3, Schedule B) in the number of customers in the 120 Arrears category. Exhibit __ (UAP-3, Schedule C) outlines the growth in dollars and numbers of customers in the 30, 60, 90 and 120-day category.

20

UNCOLLECTIBLE ACCOUNTS PANEL

1 Q. Does the Company anticipate the trend in increased write-offs to
2 continue?

3 A. Yes. The Company has experienced a continuous growth in arrears in the
4 30-day, 60-day, 90-day and 120-day arrears buckets since the end of
5 2007. The table below summarizes this growth:

Arrears	30-Day	60-Day	90-Day	120-Day
June 2009	\$9,652,988	\$6,398,956	\$4,959,313	\$8,090,178
Dec 2008	\$10,893,670	\$5,078,865	\$3,553,949	\$6,462,901
Dec 2007	\$7,737,153	\$3,731,353	\$2,730,443	\$3,993,230
Dec 08 vs 07 Chge	\$3,156,517	\$1,347,512	\$823,506	\$2,469,671
Dec 08 vs 07 % Chge	40.80%	36.11%	30.16%	61.85%
June 09 vs Dec 08 Chge	(\$434,104)	\$597,679	\$1,458,259	\$3,205,055
June 09 vs Dec 08 % Chg	(4.3%)	10.30%	41.65%	65.61%

6
7 During these same time periods the uncollectible write-offs have
8 increased, from 2007 to 2008 the uncollectible write-offs increased by
9 \$1.793M or 36.9% and the year to date write-offs through June 2009
10 compared to year to date through June 2008 increased by \$1.4M or 51%.

11
12 Q: Is there a time delay or lag between the increase in arrears and the actual
13 write-offs?

14 A. Yes. The Company's write-offs lag the growth of arrears as a normal
15 course of business. The Company expects, from the continued growth in
16 arrears, that we will see a continued growth in write-offs lagging the

UNCOLLECTIBLE ACCOUNTS PANEL

1 growth in arrears which continues to be fueled by the overall poor
2 economic conditions.

3

4 Under the Company's practices, outstanding balances are generally not
5 written off until (1) the account has "finalized," and (2) the entire outstanding
6 balance is aged 120 days or more. However, if an account is finalized and
7 the customer has made arrangements to pay the final balance over a
8 period of time, the account will be held in accounts receivable until paid off
9 rather than writing it off to bad debt.

10

11 There are two ways for an account to be considered finalized. First, a
12 customer can request this action. In this case, the customer has notified
13 the Company that they no longer require service at the location (for
14 example, the customer is moving) and requests that the account be
15 finalized. Second, when Customer Services has exhausted all collections
16 efforts on an account that has been disconnected for non-payment and
17 determines that the account should be assigned finalized status. This
18 determination follows a review of the account which is completed 30 to 90
19 days following the original disconnect by a Customer Service collections
20 representative.

21

22 Q. Is there any other information that suggests that the uncollectible expense
23 will continue to grow in the future?

UNCOLLECTIBLE ACCOUNTS PANEL

1 A. Yes. From the most recent information received from the Office of
2 Temporary & Disability Assistance (OTDA) it is expected that the federal
3 funding level for the HEAP year 2009/2010 will be reduced significantly.
4 The estimated allocation to the State of New York is forecasted to be
5 reduced by \$298.7M, which is a 54.3% reduction from the prior year.
6 Central Hudson's customers received HEAP funding of \$5.8M through the
7 end of June 2009 for the 2008/2009 heating season, and the reduction in
8 federal funding could mean a reduction to our customers of \$3.2M. In
9 addition to this funding, the one time supplemental credit that was
10 provided to customers this past heating season was \$2.4M, but a similar
11 supplemental credit for the upcoming heating season has been approved
12 in our most recent rate case, however the funding is significantly reduced
13 to \$0.5M. These funding mechanisms assist low income or income
14 eligible customers in paying their bills during the winter season. These
15 reductions in funding for the 2009/2010 heating season will likely have a
16 significant impact on the uncollectible expense.
17 In addition, the economic recovery is expected to be later in 2009 or into
18 2010; this slow economic recovery will also have negative impacts on our
19 uncollectible experience and expense.

20

21 Q. Did the Company take any steps in 2008 or during the 2008/2009 heating
22 season to control its uncollectible expense?

23 A. Yes. Central Hudson's winter outreach plan includes frequent
24 communications to our customers about payment options as well as

UNCOLLECTIBLE ACCOUNTS PANEL

1 programs and services available to customers for assistance in paying
2 their utility bill and minimizing the cost of their bills. We utilize an array of
3 communication vehicles to convey messages about Home Energy
4 Assistance Program (HEAP), Enhanced Powerful Opportunity Program
5 (EPOP), the Good Neighbor Fund (fuel fund), weatherization services and
6 other community programs. In addition, this past winter season we
7 received approval from the Commission to provide customers with an
8 additional assistance of a one-time credit of either \$300 or \$200 per
9 customer, based on HEAP eligibility and/or our EPOP (Low Income
10 Program) eligibility. This past HEAP season we were able to credit our
11 customers through the end of June 2009 over \$5.8M in HEAP dollars and
12 over \$2.4M in the additional supplemental credit approved by the PSC. In
13 our most recent Case 08-E-0887 and 08-G-0888, we took proactive
14 measures to assist low-income heating customers. We were approved for
15 a number of revisions to the Company's EPOP program, which will
16 improve the Program to give participants a greater opportunity to receive
17 the maximum benefits available. In 2008 Central Hudson also recognized
18 that our collection efforts needed to be increased to lower both the number
19 of accounts and dollars in arrears. We increased our temporary collectors
20 in the field by 30 percent for a six-month period during 2008. However, the
21 increased staffing level was initially unable to alleviate the overwhelming
22 negative impact of customer arrearage and bad debt due to the magnitude
23 of collections issues facing the Company. During this timeframe the
24 Company and its customers were facing unprecedented increases in

UNCOLLECTIBLE ACCOUNTS PANEL

1 commodity costs combined with the rising unemployment rate followed by
2 the downturn in the financial markets.

3

4 Q. Is the Company taking any additional steps in 2009 to control its
5 uncollectible expense?

6 A. Yes, the Company has put into place an enhanced collection plan which
7 began in May 2009 that is designed to reduce the number of accounts in
8 arrears and the dollars. This plan is made up of an additional staff of nine
9 Collectors, and seven Customer Service Representatives, along with three
10 contract Customer Service Representatives. The goal of these efforts is
11 to reduce the growth in account receivable in arrears. These efforts will
12 increase the number of field visits we make, along with increasing our
13 outbound calls. Increasing field collections and increasing outbound
14 phone contacts enables us to contact more customers in arrears and over
15 time it allows us to contact the customers before the accounts get too far
16 into arrears.

17 In the case of field collections these increased contacts present customers
18 with the need to do one of three things: (1) pay their bill in full (2) make a
19 payment arrangement or (3) get locked for nonpayment. In the short term,
20 increased collectors in the field can result in increased write-offs and in the
21 long term they serve to keep customers from getting too far into arrears,
22 therefore keeping balances lower; if a customer gets locked it would be for
23 a lower amount that then gets written off to uncollectible. It is expected
24 over time that these additional collectors and customer service

UNCOLLECTIBLE ACCOUNTS PANEL

1 representatives should reduce the rate of the increase in the amount
2 written off to uncollectible expense, but we do not expect the increased
3 field collection efforts to level off or reverse the trend of increasing
4 uncollectible expense.

5

6 Q. What were the financial impacts on the Company due to the increases in
7 the uncollectible expense during the calendar year 2008?

8 A. The amount of uncollectibles recovered from our customers during 2008
9 through our electric and gas commodity mechanisms and the rate
10 allowances established in Cases 05-E-0934 and 05-G-0935 for delivery
11 service was \$4.825M compared to our actual net write off to expense of
12 \$6.646, the Company under collected from customers by \$1.821M.
13 Inherently, the Company's cash flow has been adversely affected by the
14 fact that the level of actual uncollectible write-offs (expense) has far
15 exceeded the amounts collected from customers (revenues).

16

17 Q. Has the Company requested deferral treatment for this under recovery?

18 A. Yes. The Company had filed a "Petition for Authority to Defer Bad Debt
19 Net Write-off Expense For Year Ended December 31, 2008" on February
20 11, 2009 (Case #09-M-0140) As of the date of preparation of our
21 testimony no decision has been reached on that petition.

22

23 Q. What has been the Company's actual experience thus far in 2009?

UNCOLLECTIBLE ACCOUNTS PANEL

1 A. The actual write-offs for January - June 2009 were \$4.022M compared to
2 the amount collected from our customers through our electric and gas
3 commodity mechanisms and the rate allowances for delivery service
4 established in Cases 05 – E-0934 and 05-G0935, the Company has under
5 collected \$1.749 M (\$4.022- \$2.273) for the period January – June 2009.

6 Q. Is the Company requesting deferral treatment in this proceeding?

7 A. Yes. The Company is requesting that a deferral mechanism be
8 established for the Uncollectible Expense. We request that the rate
9 allowance for uncollectible accounts be set based on the most recent
10 experience available prior to an order and be subject to deferral and
11 reconciliation for both the delivery component and the commodity
12 component. The Company proposes to defer both the delivery and
13 commodity over/under collection of the uncollectible with carrying charges
14 at the pre-tax authorized rate of return.

15

16 We are seeking deferral authority because the economic conditions that
17 our customers will face in the future are uncertain, as are the resulting
18 impacts they may have on uncollectibles. The price of energy, or
19 commodity supply, is only one of the many variables that impact our
20 customers ability to pay their bills. In 2008, our customers experienced
21 unprecedented increases in commodity costs but most recently we have
22 seen significant decreases in commodity costs, which in non –
23 recessionary conditions would be expected to favorably impact our
24 uncollectible expense. However, our uncollectible expense continues to

UNCOLLECTIBLE ACCOUNTS PANEL

1 be unfavorably affected, even after our increased collection efforts in 2008
2 and 2009. In addition, as noted previously, the economic recovery is not
3 expected to begin until late 2009 and into 2010 and, given the lags
4 between reductions in the rate of growth of arrears and reductions in the
5 rate of growth of write-offs, we anticipate on-going ramifications of the
6 current recession on our uncollectible experience into the Rate Year in
7 these cases.

8

9 Q. Has the Company analyzed the level of uncollectible expense for the rate
10 year for which it is requesting a rate increase?

11 A. Yes, in light of the significant increase in write-offs the Company has
12 experienced over the last 18 months the Company has developed a new
13 model to attempt to improve the forecast of future uncollectible expense
14 rather than relying on a linear trend of historical results as the sole
15 predictor of future costs.

16

17 Q. How did the Company develop the model?

18 A. The Company developed the model through the following steps.

19 a. First, the Company identified independent variables that would
20 impact the level of uncollectible expense. These variables included
21 (1) the level of revenue recorded on a monthly basis; (2) the
22 number of collectors the Company had in the field attempting to
23 collect past-due accounts; (3) the average unemployment rate in

UNCOLLECTIBLE ACCOUNTS PANEL

1 the Company's service territory; and (4) whether or not winter rules
2 are in effect in a given month.

3 b. Second, for each variable, the Company performed simple linear
4 regression analyses on various lags between the independent
5 variable and the actual monthly write-offs from November 2004
6 through June 2009. The Company evaluated the results for each
7 regression, identifying a lag period as statistically significant if the
8 p-value was 0.05 or less and selected the lag with the smallest p-
9 value.

10 c. Third, the Company performed a multiple regression analysis on
11 the independent variables and lags selected in the second step.

12

13 Q. Did the Company use the model to develop the uncollectible expense for
14 the revenue requirement included in this filing?

15 A. No. The model has recently been developed, and the Company believes
16 that it would be prudent to evaluate the predictive capability of the model
17 by comparing the model's forecast of write-offs to the Company's actual
18 write-offs prior to the use of the model for the purpose of establishing a
19 rate allowance. Therefore, we propose to update it prior to the other
20 parties' testimony and provide the updated information to the parties at
21 that time to reflect a comparison of actual results (to the extent known at
22 that time) to the model provided herein. In addition, if the additional
23 information that becomes available in the interim suggests improvements
24 to the model, we propose to also make those improvements.

UNCOLLECTIBLE ACCOUNTS PANEL

1

2 Q. Please describe the model?

3 A. As shown on Exhibit _____ (UAP-4), monthly write-offs are calculated
4 using the model produced by the multiple regression analysis described
5 above using the following forecast of independent variables:

6 a. The number of collectors forecasted for the period.

7 b. Revenue based on a combination of actual recorded revenue and
8 forecasted revenue. Based on the current model, because the
9 most statistically significant lag between revenue and write-offs was
10 10 months, when we update the model actual revenues available
11 later this year would be used together with a monthly forecast of the
12 rate year.

13 c. The unemployment rates were developed using forecasted
14 unemployment rates for New York State from Moody's weighted for
15 the Company's service territory.

16

17 Q. Does this conclude your pre-filed direct testimony?

18 A. Yes.