

REBUTTAL TESTIMONY  
OF  
JOHN J. BORCHERT  
CASES 09-E-0588 & 09-E-0589

1 Q. Are you the same John Borchert who submitted pre-filed direct  
2 testimony in this proceeding?

3 A. Yes, I am.  
4

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

6 A. The purpose of this rebuttal testimony is to update the MGP forecast,  
7 and to discuss the proposed leak backlog and damage performance  
8 targets. Further, a purpose is to identify issues related to Staff's  
9 revision of the Company's forecasted 2010 year end leak backlog by  
10 establishing a target of 350 total leaks. It is also intended to provide  
11 updates of the Company's leak management statistics to reflect the  
12 number of leaks found, repaired, and in backlog through the end of  
13 November 2009. This rebuttal testimony will be used to discuss the  
14 performance target for mismarks and how it does not appear to be set  
15 based statewide historical performance and does not properly reflect  
16 the performance target set in the previous case.

17 And finally, it will be used to discuss concerns regarding Staff's  
18 proposed performance metric regarding Company and Company  
19 contractor damages which continues to be unreasonably set at 0.3  
20 damages per 1000 mark-out requests.

21

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1 MGP Forecast Update

2 Q. What is the status of the planned remediation at the Newburgh MGP  
3 site?

4 A. As of November 2009, the remediation of the Newburgh site has  
5 begun.

6

7 Q. Have you updated your projected MGP investigation and remediation  
8 costs based on the latest information?

9 A. Yes, I have prepared updated exhibits that address the latest  
10 information on the MGP Site Investigation and Remediation program  
11 and have adjusted the cost projections accordingly. These are shown  
12 on Exhibit \_\_\_\_ (JJB-1R), Rebuttal Schedule A, which summarizes the  
13 non-labor costs for the annual period ending 6/30/11 and Exhibit \_\_\_\_  
14 (JJB-1R), Rebuttal Schedule B, which shows a breakdown of the rate  
15 year costs forecast for the Newburgh site. These updated exhibits  
16 specifically address changes to the MGP cost projections based on  
17 the contracted prices and schedule. As shown in Exhibit\_\_\_\_ (JJB-1R)  
18 Rebuttal Schedule A based on the updates the projected costs for the  
19 upcoming rate year have decreased due to a shift in the costs from  
20 2011 to 2010. The costs for the rate period ending 6/30/2011 have

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1 decreased to \$8,194 million as compared to \$11,744 included in prior  
2 testimony.

3

4 Gas Safety Panel Testimony

5 Q. Do you agree with Staff's assessment regarding the Company's  
6 response to Staff IR's 229, 230, and 231 regarding forecasted  
7 damage targets?

8 A. No. Staff misinterpreted the response stating that the Company was  
9 "uncooperative" or questioned "how the Company can effectively  
10 manage its damage prevention programs without setting goals." The  
11 Company does not develop a forecast of damage prevention targets  
12 but instead manages the program using close (monthly) performance  
13 tracking. The overall goal of the Company is to have no damages,  
14 and to continuously work to improve performance for areas where the  
15 Company has slipped in performance from the past and to improve  
16 the cost effectiveness of the implementation of the damage prevention  
17 program. The Company updates Staff on its effort quarterly through  
18 reporting of results and during quarterly face to face meetings where  
19 the details of the Company's efforts are reviewed. It is not appropriate  
20 for Staff to criticize the Company for meeting the applicable regulatory  
21 requirements and managing its damage prevention program in a way

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1 that is different than what Staff had hoped. The Company feels that  
2 its efforts have been reasonable and have yielded very positive  
3 results, lowering its overall damages from 7.67 damages per 1000  
4 locate requests in 2003 to 2.49 damages per 1000 locate requests in  
5 2008.

6

7 Q. Regarding the Gas Leak Targets proposed by the Gas Safety Panel,  
8 do you agree with the total leak backlog target that has been  
9 proposed?

10 A. No, this target is flawed. The total leak backlog does not account for  
11 the potential that the number of leaks discovered over the course of  
12 2010 and beyond will be higher than what is built into the forecast. It  
13 reflects the existing backlog, but the backlog varies based on not just  
14 the number of leaks repaired, which Central Hudson should be  
15 expected to manage up to the level of funding provided for that  
16 purpose, but also on the number of leaks discovered, which we cannot  
17 manage.

18

19 The concern with the total backlog target by the end of 2010 is that it  
20 assumes that the projection of the number of leaks discovered is  
21 entirely exact and that the number of repairs to reach that total

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1 backlog target is also exact. However, if the number of leaks  
2 discovered between now and the end of 2010 increases beyond the  
3 projection, the number of repairs necessary to reach to the backlog  
4 target also increases and the costs required to make those repairs  
5 increases. This required increase in leak repairs would be beyond the  
6 rate allowance and the Gas Safety Panel does not address this  
7 situation. This is particularly surprising because we have already  
8 experienced just this situation in 2008. In that instance, the Company  
9 spent a substantially higher amount on leak repairs than what had  
10 been allowed for in rates burdening the shareholders with these  
11 expenditures. The Company requested deferral treatment for these  
12 increase leak repair expenditures but was denied.

13

14 Q. Do you have an alternative proposal to the total gas leak backlog  
15 target?

16 A. Yes, a more appropriate leak management target would be related to  
17 the number of repairs made. The rate allowance for leaks defines the  
18 number of leaks for which funding is provided. Therefore, the  
19 Company recommends that the target associated with leak backlog be  
20 tied to the number of repairs completed and not to a leak backlog.

21 The number of leak repairs for 2010 related to the capital and expense

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1 proposed by the Company in this filing is 539 (net of repairs due to dig  
2 in damages). The Company recommends that a target for leak  
3 management for calendar year 2010 be established that the Company  
4 repair a minimum of 539 leaks. This is a similar arrangement to the  
5 rate case settlement agreement reached in 2006, where the backlog  
6 level was set at 250 but that the Company had to repair a minimum  
7 number of leaks of 340. The only major difference is that in this case  
8 the 539 leak repairs are aligned with the rate allowance. The  
9 Company has requested an increase in funding to address the  
10 increasing leak backlog, however, it cannot be held accountable for  
11 the number or accuracy of the forecasted number of leaks to be  
12 discovered. The Company is not opposed to repairing these potential  
13 additional leaks, but the funding should be coming from the ratepayers  
14 and not the shareholders.

15  
16 Q. With regard to the proposed target level for damages due to  
17 mismarks, do you agree with the target level proposed by the Gas  
18 Safety Panel?

19 A. No, I do not. Central Hudson's recent rate proceeding actually set the  
20 performance target at the 2008 statewide average performance level  
21 of 0.53. Central Hudson response to Staff IR 230 incorrectly stated

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1 that the performance target was 0.50 damaged per 1000 locate  
2 requests. This was wrong and should have stated the target as 0.53  
3 as the ALJ recommended in that case.

4

5 Q. Do you have a proposed gas safety target for damages due to  
6 mismarks that you would recommend?

7 A. Yes, I recommend that this target be set at the 2008 statewide  
8 average of 0.53 damages due to mismarks per 1000 one-call tickets,  
9 per the record of the prior rate case.

10

11 Q. With regard to the proposed target level for damages due to Company  
12 or Company Contractor Damages, do you agree with the target level  
13 and the associated penalty proposed by the Gas Safety Panel?

14 A. No, I do not. The number of damages that occur in this category is  
15 historically the smallest contributor to the overall damages and should  
16 not be weighted so highly in the number of basis points that have  
17 been assigned to it. The establishment of this target also needs to  
18 recognize the increased exposure that the Company continues to  
19 experience as it operates at an increased level of gas infrastructure  
20 replacement and repair work. The numbers of leak repairs are  
21 proposed to increase by 34% from 2008 to 2010. The amount of gas

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1 capital spent on gas safety infrastructure enhancement is proposed to  
2 increase by 16% from 2008 to 2010. Both of these efforts will  
3 increase our exposure to damages due to Company crews or  
4 Company Contractor crews, increasing the likelihood that in 2010  
5 reasonable performance in this area will not achieve this proposed  
6 target.

7

8 Q. Do you have a proposed gas safety target for damages due to  
9 Company and Company Contractors that you would recommend?

10 A. Yes, I recommend that this target be set closer to the Company's  
11 performance at a target of 0.4 damages per 1000 one-call tickets. A  
12 target at this level will prevent backsliding of performance by the  
13 Company.

14

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

16 A. Yes, it does.