BEFORE THE
NEW YORK STATE
PUBLIC SERVICE COMMISSION

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Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Central Hudson Gas & Electric Corporation for Electric Service

Case 17-E-___

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Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Central Hudson Gas & Electric Corporation for Gas Service

Case 17-G-___

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DIRECT TESTIMONY OF THE ACCOUNTING AND TAX PANEL

July 28, 2017

TABLE OF CONTENTS

DIRECT TESTIMONY OF THE ACCOUNTING AND TAX PANEL

I. INTRODUCTION

Q. Please state the names of the members of the Accounting and Tax Panel ("Panel").

A. Our names are Lora J. Gescheidle, Matthew E. Slifstein, Crystal Oakes and Barbara A. Giangaspro.

Q. Ms. Gescheidle, please state your current employer and business address.

A. I am employed by Central Hudson Gas & Electric Corporation ("Central Hudson" or the "Company") and my business address is 284 South Avenue, Poughkeepsie, New York 12601.

Q. Ms. Gescheidle, in what capacity are you employed by Central Hudson and what is your scope of responsibilities?

A. I am employed by Central Hudson as the Controller. In that capacity, I am responsible for the supervision of the Financial Reporting & Research, Plant Accounting and Tax departments.

Q. Ms. Gescheidle, what is your educational background and professional experience?

A. I am a Certified Public Accountant ("CPA") and have a Bachelor of Science Degree in Accounting from Seton Hall University. From 1999 to 2004, I was employed by the public accounting firm Ernst & Young LLP as an auditor. I have been employed by Central Hudson since September 2004. From 2004 to 2007, I worked as an auditor in the Internal Audit

Department and performed various financial and operational audits. From 2007 to March 2009, I worked as an accountant in the Financial Reporting and Research Department. In March 2009, I was promoted to the Director of Financial Reporting and Research. In January 2013, I was promoted to Assistant Manager of General Accounting. In August 2014, I was promoted to Manager of General Accounting and in October 2016, I was promoted to Controller. My work experience in both auditing and accounting has centered primarily on overall accounting theory and reporting.

Q. Ms. Gescheidle, have you previously testified before the New York State Public Service Commission ("PSC" or the "Commission")?

A. Yes. I testified in Central Hudson's last two general rate proceedings in Cases 09-E-0588 and 09-G-0589 and 14-E-0318 and 14-G-0319.

Q. Mr. Slifstein, please state your current employer and business address.

A. I am employed by Central Hudson and my business address is 284 South Avenue, Poughkeepsie, New York 12601.

Q. Mr. Slifstein, in what capacity are you employed by Central Hudson and what is your scope of responsibilities?

A. I am employed by Central Hudson as Director of Financial Reporting, Accounts Payable and Financial Records. In that capacity, my responsibilities include planning, scheduling, supervising and coordinating the functions related to the preparation, validation and integrity of the internal, external and regulatory financial reports of Central Hudson. My responsibilities also include supervising accounting research activities and developing accounting recommendations to ensure compliance with regulatory pronouncements. In addition, my responsibilities also include oversight of the Accounts Payable department ensuring timely payments to vendors and oversight of the monthly accounting close.

Q. Mr. Slifstein, what is your educational background and professional experience?

A. I have a Bachelor of Science Degree in Accounting from Quinnipiac University. From 1999 to 2004, I was employed by the public accounting firm of McGladrey & Pullen LLP as an auditor. Beginning in May 2004 through February 2008, I was the General Manager of the Steel House Restaurant and Catering. I began my Central Hudson career in March 2008 as an accountant in the Financial Reporting and Research Department. In March 2010, I was promoted to a Senior Accountant. In January 2013, I was promoted to the Director of Financial Reporting and Research and in 2016, I was promoted to the Director of Financial Reporting, Accounts Payable and Financial Records, which is my current position at Central Hudson. My work experience in both auditing and accounting has centered primarily on overall accounting theory and reporting.

DIRECT TESTIMONY OF THE ACCOUNTING AND TAX PANEL

Q. Mr. Slifstein, have you previously testified before the Commission?

A. Yes, I testified in Central Hudson's last general rate proceeding in Cases 14-E-0318 and 14-G-0319.

Q. Ms. Oakes, please state your current employer and business address.

A. I am employed by Central Hudson and my business address is 284 South Avenue, Poughkeepsie, New York 12601.

Q. Ms. Oakes, in what capacity are you employed at Central Hudson and what is your scope of responsibilities?

A. I am employed by Central Hudson as Supervisor Tax Accounting. In that capacity, my responsibilities include supervising and coordinating all functions related to tax.

Q. Ms. Oakes, what is your educational background and professional experience?

A. I am a CPA and have a Bachelor of Science Degree in Accounting from Binghamton University. From 2001 to 2011, I was employed by the public accounting firm Vanacore, DeBenedictus, DiGovanni and Weddell LLP in its tax department. I have been employed by Central Hudson since July 2011. I began my career at Central Hudson as a Tax Analyst and was promoted to Supervisor Tax Accounting in February 2015.

Q. Ms. Oakes, have you previously testified before the Commission?

A. No, I have not.

DIRECT TESTIMONY OF THE ACCOUNTING AND TAX PANEL

Q. Ms. Giangaspro, please state your current employer and business address.

A. I am employed by Central Hudson and my business address is 284 South Avenue, Poughkeepsie, New York 12601.

Q. Ms. Giangaspro, in what capacity are you employed at Central Hudson and what is your scope of responsibilities?

A. I am employed by Central Hudson as a Senior Accountant in the Plant Accounting department. In that capacity, I have responsibility for the day-to-day supervision of all accounting activities related to the processing and maintenance of the Company's fixed asset records. I am responsible for the accuracy and coordination of the month-end closing and reporting processes for the Fixed Asset System and I oversee the development of the depreciation and the Allowance for Funds Used During Construction ("AFUDC") budgets based on the Capital Construction Budget along with monthly budget variance reporting.

Q. Ms. Giangaspro, what is your educational background and professional experience?

A. I have an Associate in Science Degree from Dutchess Community College and a Bachelor of Science Degree in Accounting from Mount St. Mary College. I spent 11 years in various accounting positions followed by 17 years in bank auditing. I began my career at Central Hudson in 2009 as an accountant in the Plant Accounting department and was promoted to senior accountant in 2015. My work experience in this area has centered on construction accounting, property record system management and depreciation.

Q. Ms. Giangaspro, have you previously testified before the Commission?

A. No, I have not.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of the Panel's testimony in these proceedings?

A. The purpose of the Panel's testimony is to:

1). Present the historical amounts and projections related to book depreciation and plant items, including rate base amounts related to Net Plant and Noninterest-Bearing Construction Work in Progress ("NIBCWIP");

2) Present the historical financial accounting information required under the Commission's Rules and Regulations;

3) Set forth the following accounting and ratemaking proposals, which are reflected in the development of the revenue requirement or otherwise addressed in these proceedings:

   i. Rate Base, Depreciation and Amortization and other Plant related accounting changes included in the forecast of the revenue requirement;

   ii. Apportionment of Operating and Maintenance Expenses and Operating Taxes reflected in the revenue requirement;

iii. Accounting for Pension and Other Post-Employment Benefits ("OPEBs") under Accounting Standards Codification ("ASC") 715 Compensation - Retirement Benefits, the amount incorporated in the forecast of the revenue requirement and the proposal for change if Accounting Standard Update ("ASU") 2017-07, Improving the Presentation of the Net Periodic Pension Cost and Net Post Retirement Benefit Costs, is adopted by the Commission;

iv. Accounting for Incentives Earned and other revenue items under ASC 606 – Revenues from Contracts with Customers and ASC 980 – Regulated Operations ("ASC 980");

v. Accounting for the Equity return component of carrying charges on certain regulatory asset balances under ASC 980 and proposal for change;

vi. Accounting for Unbilled Revenues not incorporated in the forecast of the revenue requirements and error in the Commission's July 20, 2016 Order Approving Accounting Change with Modification;

vii. Listing of Deferral Accounting that will either continue, cease, proposed modification or new deferral mechanisms; and

4) Need for additional internal and contractor labor requirements in the accounting group related to incremental work.

Q. Is the Panel sponsoring any exhibits in support of its testimony?

A. Yes. This Panel is sponsoring the following exhibits that were prepared by or under the supervision of the Panel or one of its members:

<u>Exhibits Pertaining to Book Depreciation and Plant Items</u>

1) Exhibit __ (ATP-1) entitled "Rate Base Noninterest-Bearing Construction Work In Progress”;
2) Exhibit __ (ATP-2) entitled “Statement of Depreciation and Amortization Accruals”;
3) Exhibit __ (ATP-3) entitled “Proposed Depreciation Factors and Rate Changes”;
4) Exhibit __ (ATP-4) entitled “Depreciation and Amortization Accrual Forecast”;

<u>Exhibits Pertaining to Historical Financial Accounting Information</u>

5) Exhibit __ (ATP-5) entitled “Financial Statements”;
6) Exhibit __ (ATP-6) entitled “Electric Operation and Maintenance Expenses”;
7) Exhibit __ (ATP-7) entitled “Electric Operating Taxes”;
8) Exhibit __ (ATP-8) entitled “Gas Operation and Maintenance Expenses”;
9) Exhibit __ (ATP-9) entitled “Gas Operating Taxes”;

10) Exhibit __ (ATP-10) entitled “Calculation of Federal and State Income Taxes;

<u>Exhibits Pertaining to Accounting and Rate Making Proposals</u>

11) Exhibit __ (ATP-11) entitled “Listing of Existing Deferrals”; and

12) Exhibit __ (ATP-12) entitled “Proposed New Additional Deferrals”.

III. <u>PLANT ACCOUNTING AND RELATED ITEMS</u>

Q. Beginning with utility plant and depreciation, please describe the information contained in Exhibit __ (ATP-1) which bears the caption “Rate Base Noninterest-Bearing Construction Work in Progress”.

A. The amounts of the noninterest-bearing portion of Construction Work in Progress (“CWIP”) included in rate base for the historical and forecast period are developed in Exhibit __ (ATP-1). For the historical period on Schedule A, the total AFUDC charged to CWIP is divided by the average AFUDC rate used for the twelve-month period to arrive at the twelve-month average interest-bearing CWIP balance. The twelve-month average interest-bearing CWIP balance was then deducted from the corporate twelve-month average CWIP balance to determine the average non-interest-bearing CWIP balance for the period. This same method was used to determine the non-interest-bearing CWIP balance for the projected period shown on Schedules B and C of Exhibit __ (ATP-1).

DIRECT TESTIMONY OF THE ACCOUNTING AND TAX PANEL

Q. Referring to Exhibit __ (ATP-2) which bears the caption “Statement of Depreciation and Amortization Accruals”, please explain what is shown on Schedules A, B, and C of that Exhibit.

A. These Schedules show the Company’s depreciation and amortization accruals for the historic, bridge, and Rate Year periods, as allocated to electric and gas expense. Schedule A reflects the depreciation and amortization accruals for the historic period. Schedules B and C are related to the bridge and Rate Year periods.

Q. What is the basis for allocating depreciation of common plant to electric and gas expense in Exhibit __ (ATP-2)?

A. Common plant depreciation expense was allocated consistent with the common allocation ratio, which we describe later in the Panel’s testimony.

Q. Would the Panel briefly describe the Company’s method of accruing depreciation?

A. Yes. The Company’s annual provisions for depreciation are generally computed and accrued on a straight-line basis using the half-year convention and rates based on estimated average service lives and estimated net salvage, with the exception of software which does not use the half-year convention, but rather is amortized on a straight-line basis over the estimated average service life beginning with the in-service month. A depreciation rate is established for each depreciable plant account. This method is consistent with the method utilized in prior Company rate cases.

Q. Has the Company reviewed the adequacy of the depreciation factors currently being used?

A. Yes. The Company had a depreciation study performed by an outside consultant, Gannett Fleming, including an analysis of average service life, net salvage factors, and retirement dispersion patterns using historical data through December 31, 2016.

Q. Please describe the depreciation study the Panel mentioned.

A. The study that was completed contains the elements required for a new depreciation study that is comparable to the study that was used to set depreciation rates, as set forth in the Joint Proposal at pages 23 and 25, adopted by the Commission in Cases 05-E-0934 and 05-G-0935, Order Establishing Rate Plan Issued and Effective July 24, 2006. These elements include: 1) rolling and shrinking band analyses for each account; 2) the width of the rolling and shrinking bands analyzed (not to be greater than 10 years and not less than 5 years); 3) the shrinking band analyses starting with all data and decreasing to one year of data; 4) statistical results regarding Average Service Life of each account including analysis of “h-type” or “Iowa-type” curve fitting analysis, the related “fit index” and plots of the observed and smoothed survivor curve for each account along with the fitted “h-type” or “Iowa-type” survivor curve; and 5) a net salvage study for each plant account showing historical gross salvage, cost of removal and net salvage for each year of historical data included in the net salvage study along with rolling band analysis results, with the width of the rolling band being five years. The consultant's report associated with the study indicates that in addition to the mathematical or statistical aspects of reviewing average service lives and net salvage factors, the consultant also considered other factors including Company plans and operating policies and the consultant's general knowledge of service lives and net salvage factors experienced and estimated by the electric and gas industries.

Q. Has the Panel attached the study as an exhibit to your prepared direct testimony?

A. No, but consistent with the prior rate proceedings where a depreciation study was prepared, the study will be separately filed with the Commission concurrent with this filing.

Q. Based on this depreciation study, does the Company propose any changes to the depreciation factors and rates currently in use?

A. No. Despite a change in the factors that would increase delivery rates, the Company has maintained the same average service lives, net salvage factors and depreciation rates that are included in current delivery rates in the revenue requirements for the Rate Year, which will benefit customers as a rate moderator. Exhibit __ (ATP-3) has been prepared to show the details of the existing rates and the proposed new factors from the study.

Q. What effect would the depreciation study's proposed depreciation rates have on the projected depreciation accruals if they were to be adopted?

A. Exhibit __ (ATP-4), titled "Depreciation and Amortization Accrual Forecast", calculates the projected annual impact on the depreciation accrual if the depreciation study's proposed depreciation rates were adopted. The impact on the depreciation accrual if the depreciation study's proposed rates were adopted is estimated to be approximately $6.8 million for the Rate Year, of which $4.5 million relates to electric and $2.3 million to gas. Specifically, this impact was quantified based on forecasted plant balances for the Rate Year and utilizing composite rates developed based on current depreciation rates compared to composite rates developed based on proposed depreciation factors. The forecasted plant balances were developed using the Rate Year capital forecasts provided by Company Witness Haering. The information is shown for each major category in the Electric Department, the Gas Department and the Common category.

Q. Was an analysis of the adequacy of the accumulated book depreciation reserve balance performed?

A. Yes. Exhibit __ (ATP-3), Schedule A, titled "Summary of Depreciation Reserve", calculates and compares the book to theoretical reserve as of

December 31, 2016 using both current depreciation factors and the depreciation study's proposed depreciation rates. Based on the depreciation study's proposed rates, the Company's accumulated depreciation reserve balance is under-reserved by approximately $54.8 million, which is 10.2% of the December 31, 2016 balance, comprised of $44.2 million for electric, which is 13.5% of its respective balance, $7.6 million for gas, which is 6.3% of its respective balance, and $3.0 million for common, which is 4.6% of its respective balance.

Q. Is the Company proposing a recovery of this under-reserved amount in the filing?

A. No. Despite the under-reserve amount being in excess of 10% of the December 31, 2016 balance, the Company is not proposing a recovery of this amount in the rate filing. A recovery of this under-reserved balance would increase rates, and therefore in this instance the Company has decided to defer recovery until a future date, which will benefit customers as a rate moderator at this time.

Q. Please explain the development of the rate base amounts for book cost of utility plant and the accumulated provision for depreciation and amortization for the historical twelve-month period ended March 31, 2017 and projected periods including calendar years ended December 31, 2017, 2018 and the Rate Year.

A. The historical book cost and the accumulated provision for depreciation and amortization were developed from the Company's monthly balance sheet using the average of the monthly averages method. The historical and projected periods are included in the Rate Base Summary exhibits sponsored by the Revenue Requirements Panel in these proceedings. For projected periods, the same method was used in these proceedings as was used in prior Company rate cases. Projected cash construction expenditures by month for electric, gas and common plant were provided by Company Witness Haering, and are summarized on an annual basis in Exhibit __ (PEH-2). Witness Haering also supplied the anticipated in-service date for each major construction project having an estimated cost of $1 million or more. This information was used to determine plant additions and AFUDC amounts related to these projects. For minor projects estimated to cost less than the $1 million average, the historical relationship for calendar years 2014 through 2016 of plant additions, book cost of retirements, removal costs, and salvage were used to make projections of those items.

Q. Were there any changes to the historical accounting for plant related items or new initiatives that required different accounting treatment?

A. Yes. There is one item that we would like to discuss, which relates to certain information technology ("IT") projects where it has been determined that a cloud-based solution is the best option. The Company has included in its IT capital forecast an assumption that a certain percentage of its IT solutions will be met with software as a service ("SaaS") solutions that qualify as capital under the current accounting rules and has assumed a three-year amortization period for these assets.

Q. Please discuss the accounting rules for capitalizing cloud-based solutions.

A. Accounting rules governing capitalization of cloud-based or SaaS IT solutions require the arrangement to include a software license and that the Company must have the contractual right to take possession of the software from the vendor at any point during the hosting period without significant penalty and have the ability to either run the software on its own hardware or contract with another party unrelated to the vendor to host the software.

Q. Does the Company currently have any cloud-based solutions that qualify as capital under the current accounting rules?

A. The Company is currently developing the Interconnection portal as required under the Distribution System Implementation Plan as a SaaS solution. The arrangement meets the qualifications for capitalization, however, the term of the hosting period is three years and as such the asset will be amortized over this life. This term is typical in the industry for these types of arrangements.

Q. Are there any other changes to how the Company accounts for plant accounting assets that you would like to address at this time?

A. No.

IV. HISTORICAL INFORMATION, OPERATION AND MAINTENANCE EXPENSES AND TAXES

Q. Turning now to the historical financial information presented, please describe the information contained in Exhibit __ (ATP-5), entitled "Financial Statements."

A. Schedule A of Exhibit __ (ATP-5) contains the Company's balance sheets, by prime accounts of the Uniform System of Accounts, at the end of calendar years 2014, 2015, 2016, and at March 31, 2017. Schedule B contains the Company's income statements, per books, for calendar years 2014, 2015, 2016, and the twelve months ended March 31, 2017. The income statements show operating revenues and expenses and the resulting operating income for the Electric Department and Gas Department. The income statements also show the development of net income on a corporate basis. Schedule C shows, for each period, the Company's beginning and ending balances of unappropriated retained earnings. The change in the balance during each period is identified in terms of the effects of net income and the declaration of common stock dividends.

Q. Please describe the information contained in Exhibit __ (ATP-6), entitled "Electric Operation and Maintenance Expenses" and Exhibit (ATP-8), entitled "Gas Operation and Maintenance Expenses."

A. Schedule A of Exhibit __ (ATP-6) sets forth, by functional classification, the Company's electric operation and maintenance expenses for the calendar years 2014, 2015, 2016, and the twelve months ended March 31, 2017. Schedule B of Exhibit __ (ATP-6) provides the Company's electric operation and maintenance expenses set forth in Schedule A by prime account of the Uniform System of Accounts. Schedule A of Exhibit __ (ATP-8) sets forth by functional classification the Company's gas operation and maintenance expenses for the calendar years 2014, 2015, 2016, and the twelve months ended March 31, 2017. Schedule B of Exhibit __ (ATP-8) provides the Company's gas operation and maintenance expenses set forth in Schedule A by prime account of the Uniform System of Accounts.

Q. Please explain the manner in which the Company apportions operation and maintenance expenses that are not directly assignable to electric or gas operations to those departments.

A. Expenses not directly assignable to a particular department, but closely related to other expenses charged to that department, are distributed in proportion to such other expenses. For example, pension costs and fringe benefit costs are related to payroll costs. They are, therefore, allocated between electric and gas operations in a manner that tracks the distribution of payroll dollars. Other operation and maintenance expenses that are not assignable to a particular department ("common" costs) are apportioned to electric and to gas based on a common cost allocation ratio.

Q. What was the total amount of expense to which the common cost allocation ratio was applied in the twelve months ended March 31, 2017?

A. For the twelve months ended March 31, 2017, total common expenses were approximately $59.5 million.

Q. In what areas do these common expenses occur?

A. The overwhelming majority of these common expenses were in the areas of Customer Services and Administrative and General Expenses.

Q. What common cost allocation ratio was used by the Company during the historical periods addressed in your exhibits and what ratio has been applied in the development of forecasts in these proceedings?

A. Beginning July 2015, the Commission approved a change in the common cost allocation ratio of 80% to electric and 20% to gas, which has continued without modification since that time. We have reviewed the metrics used to calculate this allocation and, based on the current data, have concluded that this allocation ratio remains appropriate.

Q. Please describe the information contained in Exhibit __ (ATP-7), entitled "Electric Operating Taxes" and Exhibit __ (ATP-9), entitled "Gas Operating Taxes."

A. Exhibit __ (ATP-7) shows for the calendar years 2014, 2015, 2016, and the twelve months ended March 31, 2017, the amount of Central Hudson's Federal, State, and local taxes, excluding Federal and State income tax, charged to electric operations. Exhibit __ (ATP-9) shows for the calendar years 2014, 2015, 2016, and the twelve months ended March 31, 2017, the amount of Federal, State, and local taxes, excluding Federal and State income tax, charged to gas operations.

Q. How are operating taxes apportioned to the Electric Department and Gas Department?

A. The Company has apportioned operating taxes between the Electric and Gas Departments in a consistent manner for several years. Payroll related taxes are apportioned between the electric and gas operating expenses in a manner that tracks the distribution of payroll dollars. Revenue-related taxes are apportioned to the departments on the basis of revenues subject to the respective taxes. The sale and use tax is charged on the basis of related taxable items. The state hazardous waste tax is charged to the Electric Department only. Distribution of property taxes to the Electric and Gas Departments is based on the relative book values of the property within each political district. Property taxes are further categorized into real estate tax and special franchise tax. Real estate tax is allocated to "out street" facilities, and special franchise tax is allocated to "in street" facilities.

Q. Please explain the components of payroll taxes projected in these filings.

A. The payroll tax projection includes a projection for expense related to the Federal Unemployment Tax Act ("FUTA"), the State Unemployment Tax Act ("SUTA"), Medicare, and the Federal Insurance Contributions Act ("FICA"). The forecast of each component takes into consideration the rate that is presumed to be in effect for each period and the appropriate taxable wage base, if applicable.

Q. Are there any potential payroll taxes that were not included in the projection of revenue requirements?

A. Yes. There are potential taxes that may be incurred in the future that were not included in the development of payroll taxes due to their uncertain status.

Q. Please explain these additional payroll taxes.

A. New York State is one of many states that has historically had an outstanding Federal Unemployment Insurance ("UI") loan. For every year that the loan is not paid back, the FUTA credit that the Company receives, which is generally 5.4%, is decreased by 0.3%. In addition, there are provisions for additional credit reduction in the fourth and subsequent calendar years in which a state has outstanding loans.

Q. Why did Central Hudson not include these potential taxes in the development of revenue requirements?

A. The Company believes that a different method of recovery is appropriate given the uncertainty of these potential taxes, their financial impact, and the Company's inability to control the outcome.

Q. In lieu of their inclusion in delivery rates, what is the Company proposing?

A. The Company is proposing that deferral accounting be allowed should the Company incur these additional taxes without being subject to the Commission's traditional three-part test. Doing so would allow the Company to recover its cost of doing business should these taxes be imposed and, conversely, not gain financially should the tax not be imposed (presuming the taxes were included in revenue requirements).

Q. Please explain the methodology used to calculate the forecasted sales tax in the development of revenue requirements in these filings.

A. Sales tax expense for the historic period reflects a normalization to remove additional sales tax expense recorded based on an audit by New York State and a finding related to inaccurate charging of sales tax on billings to customers. This sales tax is typically recorded directly to a payable when billed to the customer and then remitted to the state. However, if the New York State sales tax audit identifies additional taxes due, the Company does not bill the customer retrospectively and therefore records the additional sales tax as expense. These amounts were excluded from the historic period expense and this adjusted historical base was then escalated at inflation. In addition, the Company has included incremental sales tax expense related to projected incremental Operating and Maintenance ("O&M") expense in select cost elements. The projection of Sales and Use tax expense is included in the work papers of the Revenue Requirements Panel.

Q. Please describe the information contained in Exhibit __ (ATP-10), entitled "Calculation of Federal and State Income Taxes."

A. Exhibit __ (ATP-10) shows the computation and allocation of the Company's Federal and State income tax for the historical period (the twelve months ending March 31, 2017) as well as projections for the bridge period (the calendar years 2017 and 2018) and the Rate Year.

Q. Please explain the nature of the items included under the heading "Additional Income and Unallowable Deductions" and "Additional Deduction and Nontaxable Income" summarized on Sheet 1 of each of the Schedules in Exhibit __ (ATP-10).

A. The items included here are adjustments to book income in order to arrive at taxable income. They are referred to as Schedule M-1 adjustments. The adjustments to book income are due to: 1) timing differences, which relate to items recorded as income or expense on the Company's books in one period and included in the computation of taxable income in a different period; or 2) permanent differences, which relate to items that are recorded for either book or tax purposes, but not for both such purposes. An example of a timing difference is the Mortgage Bond Redemption Premium, which is deducted from taxable income when incurred, but deducted from book income over the life of the new bond. An example of a permanent difference is the business meals and entertainment expense, which is fully deductible for book purposes, but only 50% deductible for tax purposes. The 50% not allowed for tax purposes is a permanent difference.

Q. Briefly describe how Federal income tax was calculated for the projected bridge periods and the Rate Year.

A. The calculation of Federal income tax for the projected period is consistent with the method approved in prior Company rate cases, which is on an income based tax method and reflects a provision for deferred tax expense in accordance with normalization rules under the Tax Reform Act of 1986.

Q. Briefly describe how New York State income tax is calculated.

A. The New York State (“NYS”) income tax is calculated based on the application of one of three different methods: 1) the income based tax method; 2) the fixed dollar minimum method; or 3) the capital based tax method. The Company’s tax liability is based on the highest of the three different methods. The NYS income taxes included in Exhibit __ (ATP-10) are based on the income based tax method. A summary of the three methods is below:

1) The income based tax method starts with Federal taxable income and is adjusted to exclude NYS income taxes. NYS tax law provides for adjustments for qualified public utilities for depreciation on transition property. Transition property is property placed in service prior to January 1, 2000. With respect to such property, a deduction is allowed for the depreciation expense shown on the books and records of the taxpayer rather than the Federal depreciation deduction. Additionally, the amortization of certain regulatory assets, deferred prior to January 1, 2000, currently deducted on the books, can be deducted from income to arrive at NYS taxable income. These adjustments have been reflected in the calculation of NYS income taxes in Exhibit __ (ATP-10).
2) The fixed dollar minimum is a sliding–scale minimum tax based on a corporation’s New York receipts and is capped at $200,000.
3) The capital based tax is based on a percentage of average capital and is capped at a maximum of $5 million.

Q. Please describe the information contained in Exhibit __ (ATP-11), entitled “Listing of Existing Deferrals.”

A. Exhibit __ (ATP-11) sets forth Central Hudson’s currently provided for deferral authority which should continue, expire or be modified.

Q. Please describe the information contained in Exhibit __ (ATP-12), entitled "Proposed New Additional Deferrals."

A. Exhibit __ (ATP-12) sets forth Central Hudson's recommendations for additional deferral authority, which we will discuss later in more detail.

V. ACCOUNTING AND RATEMAKING FOR PENSION AND OPEB

Q. Turning now to other accounting matters, please explain the manner in which accounting for OPEBs have been reflected in these filings.

A. The Company's accounting for OPEBs other than pensions are reflected in this filing in the same manner that those items were accounted for in the June 17, 2015 Order Approving Rate Plan in Cases 14-E-0318 and 14-G-0319 ("2015 Rate Plan"). Specifically, the Company follows generally accepted accounting principles ("GAAP"), which is currently covered under ASC 715 Compensation – Retirement Benefits ("ASC 715"). Previously, there were separate Statement of Financial Accounting Standards ("SFAS") for pension and OPEBs, including SFAS No. 87, Employer's Accounting for Pensions and SFAS 106, Employer's Accounting for Retirement Benefits Other Than Pensions, both of which were subsequently amended by SFAS No. 158. Since pension and OPEB costs are related to the compensation of employees, the annual costs have been projected to be distributed to expense, construction, and other accounts in relation to the normalized distribution of payroll costs for the historical period. The amounts charged to expense are recorded in

Account 926, Employee Pensions and Benefits within the Uniform System of Accounts. Pursuant to the Statement of Policy and Order Concerning the Accounting and Ratemaking Treatment for Pensions and Postretirement Benefits Other Than Pensions, issued September 7,1993 by the Commission in Case 91-M-0890 ("Policy Statement"), the differences between the amounts of postemployment benefits included in Company rates and the amounts of the postemployment benefit costs charged to expense as determined by the Company's outside actuary, Mercer, under ASC 715 – Compensation – Retirement Benefits and following the payroll distribution are deferred as either a regulatory asset or liability, as appropriate.

Q. Have there been any recent changes to ASC 715? If so, has the impact of the changes been incorporated in revenue requirements within these filings?

A. In March 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Post Retirement Benefit Costs, which amends ASC 715 and is effective January 1, 2018. This update requires a change in the base amount to which payroll distribution can be applied and therefore changes the amount reported as expense. The update allows for only a portion of the cost (that is the service cost component) of pension and OPEB costs to be capitalized. Non-service cost components must be fully expensed in the current period and require special presentation for GAAP reporting. Due to the uncertainty of whether the Commission will adopt this accounting change in the determination of delivery rates, it has not been reflected in revenue requirements at this time.

Q. What should be done in the development of delivery rates if the Commission adopts this accounting update?

A. If the Commission adopts this accounting update, revenue requirements should be adjusted to include the expense portion of the service costs and 100% of the non-service cost component. In addition, the corresponding change to the capitalized portion should be incorporated in the development of Rate Base and Net Plant Targets if applicable. The current deferred accounting should recognize the full amount charged to expense, including the non-service component, recorded in Account 926, pursuant to the Policy Statement, and should continue through and beyond the forecast periods in these proceedings.

Q. What is the amount of the annual charge for pension, including the Supplemental Executive Retirement Plan (“SERP”), and OPEBs that has been projected by the actuary in these filings?

A. Based on estimates of the annual pension and OPEB costs for 2018 and 2019 by Mercer, the estimated costs for the Rate Year utilizing the historic method for capitalization of a portion of the total cost is a credit of

$(5,066,600) for OPEBs, which includes the effects of the Prescription Drug and Medicare Improvement Act of 2003 ("2003 Medicare Act"), and a charge of $14,954,384 for pensions, which includes the Supplemental Executive Retirement Plan ("SERP").

These total charges using the accounting without the update discussed above were allocated based on the normalized distribution of payroll from the historic year, with the exception of SERP which was allocated based on the common allocation. The projected costs for pension and OPEBs for the Rate Year are shown in Table 1.

Table 1 – Allocation of Charges Prior to Update

	OPEB	Pension
Electric Expense	$(2,605,246)	$8,373,286
Gas Expense	(783,803)	2,421,818
Construction & Other	(1,677,551)	4,159,278
Total	**$(5,066,600)**	**$14,954,384**

Q. What would be the amount of the annual charge for pension and OPEBs if the accounting update were adopted?

A. There would be no change in the total annual costs of pension, including SERP, and OPEBs, including the effects of the 2003 Medicare Act, as calculated by Mercer. However, the payroll distribution would only be applied to the service cost component of each. The common allocation basis would be used for the non-service cost components, as well as the total SERP expense. Based on the calculation from Mercer, the total OPEB credit of $(5,066,600) is comprised of a charge of $1,705,250 for annual service costs and a credit of $(6,771,850) for non-service cost component. The total pension cost of $14,954,384 is comprised of $11,295,186 for the annual service costs and $3,659,198 for the non-service cost component.

The allocation of these total charges using the accounting update effective January 1, 2018 assuming Commission adoption and based on the normalized distribution of payroll for the twelve months ended March 31, 2017, is shown in Table 2, below:

Table 2 – Allocation of Charges After Update

	OPEB	Pension
Allocation of Service Cost		
Electric Expense	$876,840	$5,954,110
Gas Expense	263,802	1,770,527
Construction & Other	564,608	3,570,549
Total Service Cost	**$1,705,250**	**$11,295,186**
Allocation of Non-Service Cost		
Electric Expense	$(5,417,480)	$2,927,358
Gas Expense	(1,354,370)	731,840
Total Non-Service Cost	**$(6,771,850)**	**$3,659,198**
Total		
Electric Expense	$(4,540,640)	$8,881,468
Gas Expense	(1,090,568)	2,502,367
Construction & Other	564,608	3,570,549
Total Costs	**$(5,066,600)**	**$14,954,384**

Q. Was this information provided to other panels in this proceeding?

A. Yes. This information was provided to the Revenue Requirements Panel and Company Witness McGinnis, but was not included in the development of revenue requirements.

Q. Assuming that the Commission adopts the accounting update, what is the projected impact on the O&M expense component of the revenue requirements for the Rate Year?

A. The O&M expense component of the revenue requirements are projected to decrease by approximately $1.7 million ($1.43 million for electric and $0.23 million for gas). However, as previously noted, if the Commission adopts the accounting update, the change in the portion capitalized will have other impacts on the revenue requirements once it is incorporated in Rate Base, Net Plant targets, depreciation and income taxes. This impact has not been quantified at this time.

VI. ACCOUNTING AND RATEMAKING FOR INCENTIVES, CARRYING CHARGES AND PROPOSED RATE ADJUSTMENT MECHANISM

Q. Have there been any other recent accounting changes that were issued, but not yet effective, in the historic period?

A. Yes. Numerous ASUs have been issued which will amend and replace the guidance in ASC 606, Revenue from Contracts with Customers, and will be effective in January 2018. ASC 606 references ASC 980, Regulated Operations, with regard to the timing of the recognition of certain revenue items. Specifically, the recording of deferred revenue related to alternative revenue programs, which are programs to allow utilities to defer for future recovery the revenue effects of weather abnormalities, broad external factors, demand-side management initiatives, conservation efforts, and incentive based programs for achieving certain objectives, are not permitted to be recorded for GAAP reporting until the collection is determined to be within the next 24 months. For Central Hudson, these programs currently include, but are not limited to Revenue Decoupling Mechanisms, Non-Wire Alternative ("NWA") Initiatives and other programs associated with Case 14-M-0101 and related proceedings and Orders, Energy Efficiency Portfolio Standard ("EEPS") incentives, Leak Prone Pipe Replacement program miles in excess of targets, positive revenue adjustments earned related to service terminations below threshold levels, and Empire Zone Rate net lost revenues. Additionally, despite the Commission's regulatory authorization, the recording of deferred revenues for the equity component of the pre-tax weighted average cost of capital carrying charge on other regulatory asset balances and the equity return component of the return on capital investments authorized for deferral is not permitted for GAAP reporting until the amounts are collected either by inclusion in rates or through balance sheet offset. For Central Hudson, these balances include, but are not limited to, the carrying charges on the pension and OPEB reserve, deferred environmental site investigation and remediation ("SIR") costs, and other deferred costs.

Q. Does the Company have any of these types of deferred revenue items impacted by the timing of recognition under this guidance?

A. Yes, Central Hudson has a few different revenue items impacted by this accounting guidance. First, Central Hudson has incentives earned related to the NWA Initiatives, for which the current recovery period is defined as 60 months. As such, the Company is unable to record all the incentives when earned, which is not the intent of providing for such incentives. Additionally, the Company has met the targets and recorded positive revenue adjustments related to service terminations and exceeding the mileage targets for leak prone pipe replacement. These positive revenue adjustments must be collected within 24 months in order to meet the qualifications of an Alternative Revenue Program and therefore allow revenue recognition in accordance with GAAP. Finally, the Company currently accrues for carrying charges at the pretax weighted average cost of capital on various regulatory asset balances that accumulate during the term of the rate plan as indicated in Exhibit __ (ATP-11), entitled “Listing of Existing Deferrals”. The item with the greatest potential for causing variation in regulatory reporting compared to GAAP under this accounting guidance include the carrying charge on the Pension and OPEBs reserve, which tracks the cash difference of amounts funded into the plans compared to the amounts incorporated in rates.

Q. What does the Company propose as a solution to these issues?

A. First, the Company requests that the Commission consider this guidance with respect to defining the collection period for future incentive programs in order to avoid volatility in GAAP reporting of earnings that is utilized by the financial community to assess the credit worthiness of the Company. Second, the Company requests that the projected reserve balances for pension and OPEBs be incorporated into the projection of rate base to allow for current period recovery of estimated carrying charges during the term of the Rate Plan, with full, symmetrical deferral accounting for any differences. The Company is requesting this treatment only for pension and OPEBs, as the reserve balances to which the carrying charges are applied are not included on the balance sheet offset list and are projected to have a significant impact and cause volatility to GAAP earnings reported to the financial community. Additionally, the Company is proposing a new deferral for the difference of the actual amount of carrying charges compared to the level included in rate base for the purpose of setting delivery rates to ensure that the Company and customers neither benefit nor are harmed by the incorporation of these carrying charges in rate base.

Q. Have the aforementioned deferred balances been provided to the Revenue Requirement Panel for inclusion in rate base and the development of the revenue requirement in these filings?

A. Due to the uncertainty of how the Commission will respond to this proposal, this has not been incorporated at this time. In the event that the Company's proposal is adopted, then the projection of rate base and the determination of revenue requirements require update for inclusion.

Q. Is the Company proposing any other mechanisms for recovery of deferred balances that build during the term of the rate period, including any positive revenue adjustments earned?

A. Yes. The Company proposes the institution of a Rate Adjustment Mechanism ("RAM") that will allow for timely recovery from customers for certain deferred balances and certain carrying charges based on the uncertainty of the balances and the impact large variations could cause on GAAP earnings reported to the financial community. Specifically, the RAM is requested for: 1) environmental SIR costs in excess of amounts collected in rates and the related carrying charges; 2) incremental costs associated with Case 14-M-0101 and related proceedings; 3) revenue requirement impact of Non-Pipes Alternative projects; 4)incremental costs for major storm restoration in excess of amount collected through the major storm reserve and related carrying charges; 5) property tax expense in excess of amounts collected in rates; 6) revenue requirement effect that is deferred for cloud based IT solutions implemented in excess of amounts incorporated in rates; 7) positive revenue adjustments earned for achieving certain objectives defined and; 8) incremental costs deferred as a result of new regulatory or legislative action, including Tax Reform. The Company proposes the RAM be evaluated at the end of the Rate Year to determine if the under-collected balances are in excess of a certain threshold to warrant timely collection. The threshold, timing and method of recovery of the proposed RAM are further discussed in the testimony of the Forecasting and Rates Panel.

Q. Have there been any other recent changes in accounting?

A. Yes. There was a change in the accounting related to unbilled revenue as prescribed by the Commission's July 20, 2016 Order Approving Accounting Change with Modifications in Cases 14-E-0318 and 14-G-0319 ("Unbilled Order").

Q. Do you agree with the accounting change related to unbilled revenue?

A. Not in its entirety. The Unbilled Order correctly approved the change in accounting to begin recording all unbilled revenues through the income statement in accordance with GAAP. However, the Commission ordered the Company to defer any net earnings impact in July 2016, the month of transition, citing that the Company did not provide any reason why this amount should not be set aside for customers. In accordance with the Unbilled Order, the Company recorded full unbilled revenues in July 2016, with only a portion being recorded through the income statement and the remaining portion being recorded as a regulatory liability. This is where the Company takes exception to the Unbilled Order. Unbilled revenues are required to be recorded to the income statement under GAAP for the proper matching of revenues and expenses. These non-cash revenues represent electric or gas usage by customers between the most recent bill or meter-read date through the end of the month, and therefore unbilled revenues represent the non-cash revenues recorded under accrual accounting for services rendered to customers but not yet billed. There is no basis for an amount due back to customers resulting from services rendered to customers. From an accounting perspective, the only way the accounting treatment in the Unbilled Order would be appropriate is if payment was received from the customer in advance of service being rendered, which is an accounting liability. Furthermore, the unbilled revenues are reversed out of revenues under accrual accounting in the subsequent month once the amounts are billed. However, as a result of the Unbilled Order, the reversal of July unbilled revenues in August 2016 did not result in a reversal of this regulatory liability.

Q. What proposal does the Company make concerning the accounting for unbilled revenues?

A. As there is no basis for amounts due back to customers related to unbilled services rendered, the Company proposes this regulatory liability be reversed and properly recorded through the income statement in accordance with GAAP. Furthermore, the Company proposes that non-cash unbilled revenues recorded under accrual accounting should be excluded from the calculation of regulatory earnings as the amounts represent a timing issue and are automatically reversed in full the following month.

VII. EXISTING AND PROPOSED NEW DEFERRALS

Q. What proposals, if any, does the Company make concerning existing deferral accounting in these proceedings?

A. The Company is currently authorized or required by the Commission, because of generic policies or Company-specific determinations, to employ deferral accounting with regard to various incurred costs, expenses, and revenues as needed to implement a variety of Commission ratemaking and accounting objectives and policies. Exhibit __ (ATP-11), entitled “Listing of Existing Deferrals”, provides a summary of deferrals approved in Cases 14-E-0318 and 14-G-0319 and Case 17-E-0113. The Company requests that the Commission continue such authorizations and requirements, except to the extent that any such authorizations or requirements will not or cannot by their terms survive the expiration of RY3 of the 2015 Rate Plan and noted in the exhibit. The Company also requests the use of deferral accounting with respect to such costs, expenses, and revenues without limitation of the amount allowed or required to be deferred and that the deferral accounting authorizations or requirements survive the end of the Rate Year.

Q. What proposals, if any, does the Company make concerning new deferral accounting requested in this proceeding?

A. In addition to the above deferral accounting authorizations and requirements, the Company requests authorization in these proceedings to use deferral accounting related to new additional deferrals as listed on Exhibit __ (ATP-12), entitled “Proposed New Additional Deferrals” and certain modifications to the existing deferrals as indicated under Proposed Treatment on Exhibit_(ATP-11), entitled “Listing of Existing Deferrals”.

Q. Please explain all proposed new additional deferrals, which have not been previously addressed in this testimony, beginning with the Company’s proposal to defer the impacts of the potential Tax Reform.

A. Similar to Bonus Depreciation, the Company cannot control the outcome of the potential Tax Reform proposed by the new presidential administration, including changes in federal income tax rates, allowable deductions, and impacts on state income tax. These changes could have a significant impact on the Company’s tax expense, rate base, and cash flows. As such, the Company requests deferral similar to the deferral mechanism for Bonus Depreciation, which is currently authorized.

Q. Please explain the Company’s proposal for the deferral for new legislative, governmental, and Commission and other regulatory actions subsequent to the proceeding, without regard to the Commission's traditional three part test for deferral authority.

A. Pursuant to the 2015 Rate Plan, the Company is authorized to defer the revenue requirement effect of new legislative, governmental, and Commission or other regulatory actions that individually have material (i.e., 10 basis points or more of return on common equity by department) consequences for any element of cost, with carrying charges at the pre-tax rate of return. The Company is requesting deferral authority for all new legislative, governmental, and Commission or other regulatory actions subsequent to this proceeding, without regard to the traditional three part test because neither the Company nor customers should be harmed by or benefit from such actions, since neither has the ability to control these actions. This is particularly important during the term of this rate proceeding, given the recent increase in Commission Orders and FASB pronouncements.

Q. Please explain the Company's proposal to continue to defer the General Assessment regardless of changes in the Temporary State Assessment.

A. The PSC General Assessment is an assessment charged and apportioned to the Company by the Commission related to its costs to regulate the utility industry in New York. The assessment represents a cost of service that the Company does not manage and does not have the ability to control. As such, the Company should not benefit nor be harmed by differences between the actual assessment imposed by the Commission and the amount incorporated in rates. Although deferral authorization was provided for this General Assessment within the NYS Temporary State Assessment Order issued June 19, 2009 in Case 09-M-0311, the NYS Temporary State Assessment has been reduced beginning in 2016 and will ultimately cease. The Company is requesting continuation of the deferral for the PSC General Assessment.

Q. Please explain the Company's proposal to defer the revenue requirement effects of Cloud Based or SaaS solutions chosen as optimal IT solutions compared to estimates incorporated in forecast.

A. As previously discussed, accounting rules for capitalizing SaaS arrangements are very specific. Costs of SaaS solutions that do not meet the requirements must be expensed as incurred. Additionally, the term over which these SaaS solutions are amortized is based on the term of the arrangement, which is typically three years. Based on the trends in the industry, which are further discussed in the testimony of Company Witness Holtermann, these types of arrangements are increasing in availability and may offer more optimal solutions for various IT projects. As such, we have assumed a portion of our IT Capital forecast will be these types of solutions. The Company is requesting deferral authority for the revenue requirement effect of accounting for any differences in the actual SaaS solutions implemented given the potential impact this could have with strict accounting rules and a short amortization period. The Company evaluates IT solutions based on the most optimal solution to meet our customers' expectations in a cost effective manner while taking into consideration resource availability, including IT infrastructure and support staff, and overall IT Strategy. The Company should not be harmed for selecting the optimal IT solution.

Q. What other new or modified deferrals is the Company proposing?

A. The Company is proposing new or modified deferrals of the following expenses:

1. Property tax expense as described in the testimony of the Property Tax Panel;
2. Economic development grants as described in the testimony of the Business Development Panel;
3. Net bad debt write-offs (Uncollectible Accounts) as described in the testimony of the Customer Service Panel;
4. Credit/debit card fees as described in the testimony of the Customer Service Panel;
5. Leak repair expense as described in the testimony of the Gas Safety Panel;
6. Safety of Gas Transmission & Gathering Lines Rule, Plastic Pipe Rule, or other legislative changes as discussed in the testimony of the Gas Safety Panel;

7. Incremental expense related to Operator Qualifications, the Training Center and the Primary Control Center as discussed in the testimony of the Training and Development Panel and the Distributed System Platform Panel; and
8. Transmission and Distribution ROW Maintenance as discussed in the testimony of Company Witness DuBois.

Q. Please explain the Company's proposals to 1) defer the revenue requirement effect of any incremental costs associated with Case 14-M-0101 and related proceedings, including consultant services to support the Joint Utility Effort, costs to prepare the updated DSIP filing and revenue requirement effect of energy storage projects; and 2) defer the revenue requirement effect of Non-Pipes Alternative Projects.

A. These proposals are further explained in the testimony of the Distributed System Platform Panel.

VIII. ACCOUNTING STAFFING REQUEST

Q. Are there any other matters this Panel wishes to discuss?

A. Yes. The Panel would like to address the impact of increased regulatory activity from the Commission and the FASB, as well as the impact of the Company's increased capital program on accounting resources.

Q. Please discuss the impact of recent regulatory activity on accounting resources.

A. Increased activity from the Commission, including all the aspects of Case 14-M-0101 and the subsequent Orders such as the Value of Distributed Energy Resources proceeding and Order, has resulted in an increase in the volume and complexity of manual billing to customers. To date, this manual billing has been handled by our Customer Accounting internal resources; however, the anticipated impacts and customers expressing interest in the proposed Community Distributed Generation and Community Aggregation programs will result in an increase in manual billing beyond the capacity of the Company's current resources. Due to the uncertainty of successful completion of projects and customer enrollment levels at this time, the Company is requesting additional expense allowance to cover this workload with external contractor resources for the Rate Year instead of additional resources in the Customer Accounting department. This cost estimate was provided to the Revenue Requirement Panel and has been included in the element of expense identified as "Miscellaneous Charges".

Q. Please discuss the impact of the increased capital program on accounting resources.

A. Based on the increased capital forecast and the current resource capacity of our Plant Accounting and Accounts Payable departments, an additional

Plant Accounting technician and an additional Accounts Payable technician are required in order to ensure the timely closing of plant asset records and payment to external parties for materials and contract services, respectively. In 2016, the Company's Plant Accounting technicians closed approximately $137.6 million from work orders to Plant in Service, which equates to $23 million per year per technician. The capital forecast is expected to increase approximately $67 million or 39% from 2016 to the forecasted Rate Year. This growth in capital projects will require additional resources to ensure accuracy of the books and records. In 2016, the Company's Accounts Payable technicians processed 35,000 invoices for payment, which equates to approximately 7,000 invoices per technician per year. This has increased 18% over the past five years and has been handled with the current resource levels through overtime. Based on the projected increase in the capital forecast from 2016 to the Rate Year as previously discussed, it is anticipated that the number of invoices will increase to over 49,000 per year. This increase in invoices driven by a growth in capital projects is beyond a reasonable level that can be managed through overtime and productivity and therefore will require additional resources to ensure timely payment to external parties for materials and services.

Additionally, a newly created Director of Plant and Taxes position will be filled based on recent organizational changes following the retirement of the former Financial Controller. The organizational changes also resulted in the replacement of the General Accounting Manager position with two Director positions to better manage the various accounting areas. The Director of Financial Reporting and Accounts Payable was filled in 2016 based on the need for a more direct focus on the activity from the Commission on regulatory matters and financial reporting, as well as the recent activity from the FASB, including Revenue Recognition, Leases, and Benefit Cost Reporting. A new position, Director of Plant and Taxes, will be added in order for the Company to be appropriately staffed to meet work load associated with the growing capital forecast.

Q. What did the Panel do with this information?

A. We informed Company Witness McGinnis of this need for additional internal resources, which are included in the projection of incremental hires and summarized in the exhibits of Company Witness McGinnis.

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

A. Yes, it does.