

CENTRAL HUDSON GAS & ELECTRIC CORPORATION

CASE 17-E-      & CASE 17-G-

PROPERTY TAX PANEL

SCHEDULE OF EXHIBITS

ELECTRIC PROPERTY TAX PROJECTION	(PTP-1)
GAS PROPERTY TAX PROJECTION	(PTP-2)
COST BENEFIT ANALYSIS OF FUNCTIONAL OBSOLESCENCE	(PTP-3)

CENTRAL HUDSON GAS & ELECTRIC CORPORATION  
CASE 17-E-\_\_\_\_ & 17-G-\_\_\_\_  
ELECTRIC PROPERTY TAXES PROJECTION

	Twelve Months Ended March 31, 2017	Projected Calendar 2017	Projected Calendar 2018	Projected RY Ended 06/30/19
<b><u>SCHOOL TAXES:</u></b>				
Real Estate - School	13,878,855	14,103,249	14,577,279	14,820,477
Special Franchise - School	<u>8,684,717</u>	<u>8,840,948</u>	<u>9,150,040</u>	<u>9,307,241</u>
Subtotal - School Taxes	22,563,572	22,944,198	23,727,319	24,127,718
Projected Incremental Tax Expense - EO		72,361	361,807	578,891
Projected Incremental Tax Expense - Capital	-	<u>330,472</u>	<u>978,754</u>	<u>1,296,564</u>
Total - School Taxes	<u>22,563,572</u>	<u>23,347,031</u>	<u>25,067,880</u>	<u>26,003,173</u>
<b><u>COUNTY, TOWN &amp; CITY TAXES:</u></b>				
Real Estate - County, Town & City	6,929,646	7,027,712	7,254,887	7,377,528
Special Franchise - County, Town & City	<u>4,573,484</u>	<u>4,659,047</u>	<u>4,827,412</u>	<u>4,914,636</u>
Subtotal - County, Town & City	11,503,130	11,686,759	12,082,299	12,292,165
Projected Incremental Tax Expense - EO		-	78,012	195,029
Projected Incremental Tax Expense - Capital	-	-	<u>350,567</u>	<u>517,618</u>
Total - County, Town & City Taxes	<u>11,503,130</u>	<u>11,686,759</u>	<u>12,510,877</u>	<u>13,004,812</u>
<b><u>VILLAGE TAXES:</u></b>				
Real Estate - Village	139,880	142,627	147,438	147,525
Special Franchise - Village	<u>183,978</u>	<u>186,600</u>	<u>192,894</u>	<u>193,009</u>
Subtotal - Village	323,858	329,227	340,332	340,534
Projected Incremental Tax Expense - EO		-	423	907
Projected Incremental Tax Expense - Capital	-	-	<u>-</u>	<u>-</u>
Total - Village Taxes	<u>323,858</u>	<u>329,227</u>	<u>340,755</u>	<u>341,441</u>
<b><u>TOTAL PROPERTY TAXES:</u></b>				
Subtotal Property Taxes	34,390,560	34,960,184	36,149,949	36,760,417
Projected Incremental Tax Expense - EO	-	72,361	440,242	774,827
Projected Incremental Tax Expense - Capital	<u>-</u>	<u>330,472</u>	<u>1,329,321</u>	<u>1,814,182</u>
Total Property Taxes	<u>34,390,560</u>	<u>35,363,017</u>	<u>37,919,512</u>	<u>39,349,425</u>

CENTRAL HUDSON GAS & ELECTRIC CORPORATION  
CASE 17-E-\_\_\_\_ & 17-G-\_\_\_\_  
GAS PROPERTY TAXES PROJECTION

	Adjusted Twelve Months Ended March 31, 2017	Projected Calendar 2017	Projected Calendar 2018	Projected RY Ended 06/30/19
<b><u>SCHOOL TAXES:</u></b>				
Real Estate - School	2,575,289	2,659,407	2,747,624	2,793,018
Special Franchise - School	4,096,984	4,243,112	4,391,457	4,466,904
Subtotal - School Taxes	<u>6,672,273</u>	<u>6,902,519</u>	<u>7,139,081</u>	<u>7,259,921</u>
Projected Incremental Tax Expense - EO		25,393	126,967	203,147
Projected Incremental Tax Expense - Capital	-	144,102	563,652	839,100
Total - School Taxes	<u>6,672,273</u>	<u>7,072,014</u>	<u>7,829,700</u>	<u>8,302,168</u>
<b><u>COUNTY, TOWN &amp; CITY TAXES:</u></b>				
Real Estate - County, Town & City	1,305,121	1,271,123	1,310,361	1,331,926
Special Franchise - County, Town & City	2,635,100	2,863,665	2,967,150	3,020,762
Subtotal - County, Town & City	<u>3,940,221</u>	<u>4,134,788</u>	<u>4,277,511</u>	<u>4,352,688</u>
Projected Incremental Tax Expense - EO		-	27,376	68,440
Projected Incremental Tax Expense - Capital	-	-	152,865	298,770
Total - County, Town & City Taxes	<u>3,940,221</u>	<u>4,134,788</u>	<u>4,457,752</u>	<u>4,719,898</u>
<b><u>VILLAGE TAXES:</u></b>				
Real Estate - Village	39,118	40,771	42,147	42,172
Special Franchise - Village	192,325	197,820	204,492	204,614
Subtotal - Village	<u>231,443</u>	<u>238,591</u>	<u>246,639</u>	<u>246,786</u>
Projected Incremental Tax Expense - EO		-	148	318
Projected Incremental Tax Expense - Capital	-	-	-	-
Total - Village Taxes	<u>231,443</u>	<u>238,591</u>	<u>246,787</u>	<u>247,104</u>
<b><u>TOTAL PROPERTY TAXES:</u></b>				
Subtotal Property Taxes	10,843,937	11,275,898	11,663,230	11,859,395
Projected Incremental Tax Expense - EO	-	25,393	154,491	271,905
Projected Incremental Tax Expense - Capital	-	144,102	716,517	1,137,870
Total Property Taxes	<u>10,843,937</u>	<u>11,445,394</u>	<u>12,534,239</u>	<u>13,269,170</u>

CENTRAL HUDSON GAS & ELECTRIC CORPORATION

CASE 17-E-      & CASE 17-G-

PROPERTY TAX PANEL

COST/BENEFIT ANALYSIS OF FUNCTIONAL OBSOLESCENCE

(PTP-3)

**Confidential Attorney Client Privileged Communication**

No longer asserting confidential privilege



To: Charles A. Freni, Senior Vice President; Paul A. Colbert, Associate General Counsel

From: Jessica D. Caserto, Director – Real Property Services

RE: Functional Obsolescence – Cost/Benefit Analysis

Date: November 15, 2016

**Background**

The Office of Real Property Tax Services (“ORPTS”), a division within the New York State Department of Taxation and Finance, oversees local property tax assessment administration. Their responsibilities include determining special franchise values for utility property in the public right-of-way, and providing utility property advisory appraisals to municipalities conducting reassessments.

In determining special franchise values, ORPTS utilizes the “Reproduction Cost New, Less Depreciation” (“RCNLD”) methodology. A factor for functional obsolescence and/or economic obsolescence will then be applied to further reduce the value of the special franchise property, provided that the utility applies for and is granted such an allowance.

**Economic Obsolescence**

Economic obsolescence represents the reduction in property value caused by an impairment of its intended purpose or useful life resulting from factors external to the property. The loss in value can be measured several ways; however, ORPTS has devised a model for determining economic obsolescence based on information from the Annual Report to the Public Service Commission. Utilizing the template form created by ORPTS, this method determines a five-year average achieved rate of return on rate base and compares that to a modified five-year average required rate of return based on the capital structure. If the modified required rate of return exceeds the achieved rate of return, the difference is divided by the modified required rate of return to determine an economic obsolescence factor.

If the economic obsolescence factor is approved by ORPTS, it is then applied to the special franchise assessments to all annual advisory appraisals. Below is a table illustrating Central Hudson’s application and award history, relative to economic obsolescence.

<b>Tax Roll Year</b>	<b>Economic Obsolescence Award</b>	<b>Applicable Facility Type</b>
2012	7%	Gas Only
2013	16%	Electric & Gas
2014	14%	Electric & Gas
2015	16%	Electric & Gas
2016	15%	Electric & Gas
2017	14%	Electric & Gas

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### **Functional Obsolescence**

Functional obsolescence is the impairment of operating capacity or efficiency resulting in a loss in value brought about by (1) the failure of the tangible property to meet present or projected needs or (2) where the capacity of the tangible property exceeds reasonable anticipated demands. Based on discussions with Jack Moodie, Manager, Valuation Support, Utility and Complex Properties at ORPTS, functional obsolescence has only been awarded on "over built" gas main facilities in New York.

Unlike economic obsolescence, ORPTS has not devised a systematic model, with inputs based on the Annual Report to the Public Service Commission, for determining functional obsolescence. Rather, it is a somewhat subjective assessment and the Company would have to engage an outside consultant to review the existing gas system to assess the likelihood of qualifying for functional obsolescence.

The consultant would measure the system's present maximum capacity versus the current existing load, on a line by line basis. Based on this calculation, where it is demonstrated that a smaller size pipe would sufficiently serve customers, the price differential between the actual pipe size versus the projected reduced pipe size would be quantified (the same material type must be assumed); that value is essentially the value of the functional obsolescence award.

### **Discussion and Evaluation**

To determine whether it would be prudent and beneficial for the Company to pursue a functional obsolescence award, an internal Cost Benefit Analysis was performed and is attached hereto as Appendix 1.

To perform the analysis, a full inventory of the Company's gas main pipe was obtained, which captured characteristics such as the pipe diameter, material type, length in feet, and in-service date. The total population of pipe was reduced to the pipe eligible for functional obsolescence (pipe 8" or larger and less than 50 years old); based on length, approximately 8.38% of total pipe, is eligible for functional obsolescence.

The assessed value of the pipe eligible for functional obsolescence was then estimated to be \$14,406,000, using values from the July 1, 2016 tax assessment roll. Based on discussions with an outside consultant who has prepared functional obsolescence filings for other NYS utilities, a 10% reduction in assessed values for gas mains is a reasonable assumption. As such, the assumed 10% reduction in assessed value was multiplied by the 2015/2016 combined (school and town/county) property expense rate to derive the gross value of the functional obsolescence award. The gross value was then reduced by projected consultant expenses to arrive at the net savings associated with functional obsolescence in the amount of approximately \$22,000. With all other parameters remaining constant, if a 15% reduction in assessed value was utilized the net annual benefit projected is approximately \$45,000; if a 5% reduction in assessed value was utilized the cost of implementation would actually exceed the benefits by approximately \$1,700.

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An additional consideration which was not quantified, as it would further reduce the benefit of functional obsolescence, is how the allowance granted on gas facilities for functional obsolescence would affect Central Hudson's economic obsolescence award. The reduction to gas main assessed values as a result of functional obsolescence would be an adjustment to the Company's rate base in the economic obsolescence calculation; this would lower the value of the economic obsolescence award which is applied to both electric and gas facilities.

Lastly, as previously mentioned, functional obsolescence also represents the impairment of operating capacity or efficiency resulting in a loss in value brought about by the failure of the tangible property to meet present or projected needs. While an award has not been granted in New York on this basis, Central Hudson assessed the portion of the gas distribution system that has been identified by Engineering as "constrained."

Based on pipe length, the constrained segments of our gas distribution system represent less than 4% of the total pipe in the distribution system. Therefore, the portion of the pipe that would potentially be eligible for functional obsolescence based on the fact that it is "under built," is insignificant.

**Recommendation**

Based on the de minimis projected net financial benefit of a functional obsolescence award and its potential harm to the determination and award of economic obsolescence, it is not recommended to pursue such a filing.

*Approved  
So Jones  
11/21/16*

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**Appendix 1: Functional Obsolescence – Cost Benefit Analysis**

Inservice Date (All)

Sum of Length (ft) Row Labels	Column Labels 8	10	12	16	Grand Total
Plastic	74,455	5,036	29,074		108,565
Steel	173,389	97,324	949	1,157	272,818
<b>Grand Total</b>	<b>247,843</b>	<b>102,360</b>	<b>30,023</b>	<b>1,157</b>	<b>381,383</b>

Total Feet of Large Diameter (>8") Pipe < 50 Years 381,383  
 Total Feet of All Pipe < 50 Years 4,553,586

% of Large Diameter (>8") Pipe < 50 Years 8.38%

Assessed Value of "Gas Distribution" Property 29,787,987  
 Assessed Value of Allocated Gas "Special Franchise" Property 142,219,666  
 Total Approximate Assessed Value of All Gas Mains 172,007,653

Assessed Value of the Portion of Gas Mains Eligible for FO 14,406,400

Assumed 10% FO reduction in Assessed Values 1,440,640  
 Average Combined Property Tax Expense Rate 4.32%  
 Gross Value of FO Reduction 62,181

**Cost of Consultant**

Fixed Fee 25,000  
 25% of Savings 15,545  
 Total Cost 40,545

**Net "Benefit" of Projected FO Award \$ 21,636**