BEFORE THE
NEW YORK STATE
PUBLIC SERVICE COMMISSION

--x

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-____

--x

--x

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-____

--x

DIRECT TESTIMONY OF THE PROPERTY TAX PANEL

July 28, 2017

TABLE OF CONTENTS

DIRECT TESTIMONY OF THE PROPERTY TAX PANEL

I. INTRODUCTION

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

A. Our names are Jessica D. Caserto and Jodi L. Harris.

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

A. I am the Director of Real Property Services for Central Hudson. In that capacity, my responsibilities include the planning, coordinating and development of short- and long-term property tax projections.

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

A. In 2005, I graduated from Northeastern University with a Bachelor of Science Degree in Business Administration and a dual-concentration in both Finance and Accounting. In 2016, I received a Graduate Certificate in Project Management from Boston University. From 2005 through 2009, I worked for Deloitte & Touche. I joined Central Hudson at the end of 2009 as an accountant in the Financial Reporting Department. In 2010 I was promoted to the Internal Audit Department and in 2013 I joined the Real

Property Services Department as Associate Director. In 2014, I was promoted to my current position as Director of Real Property Services.

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

A. No, I have not.

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

A. I am employed by Central Hudson as a Senior Regulatory Planning Analyst in Regulatory Planning. In that capacity, my responsibilities include the development of short- and long-term revenue requirement projections and preparing financial analyses used for a variety of purposes, such as developing business plans and analyzing operating results.

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

A. In 2005, I received a Bachelor of Science degree in Business Administration with a concentration in Accounting from Pace University. From 2005 through 2007, I worked for Ernst & Young, LLC and earned my Certified Public Accountant license. I joined Central Hudson in 2007 as an Associate Accountant in the Plant Accounting Department. In 2009, I was promoted to Accountant and subsequently transferred to the Cost & Rate Department as an Analyst. In 2012, I received a Master of Science degree in Business Administration from Marist College. In 2013, I transferred to Regulatory Planning, and in 2015, I was promoted to my current role of Senior Regulatory Planning Analyst.

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

A. Yes, I have testified before the Commission in Cases 14-E-0318 and 14-G-0319.

II. PURPOSE OF TESTIMONY

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

A. The Panel discusses the following:

- General background information on property taxes;
- The methodology and assumptions used in the Company's electric and gas property tax forecast;
- The Company's efforts and successes achieved in mitigating property tax expense; and
- The limitations on the Company's ability to control, as well as forecast its property tax expense precisely.

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

A. Yes. We are sponsoring three exhibits. Exhibit __ (PTP-1) and Exhibit __ (PTP-2) detail property tax projections for electric and gas, respectively. Exhibit __ (PTP-3) is a cost/benefit analysis related to performing a study of functional obsolescence.

DIRECT TESTIMONY OF THE PROPERTY TAX PANEL

Q. What is the general basis upon which property taxes levied upon the Company have historically been determined?

Property taxes are based generally on the "market value" of property and include taxes on land and the structures and/or equipment erected or affixed to the land. Additionally, utilities also pay special franchise taxes, i.e., property taxes on utility equipment located in the public right-of-way.

In New York State, public utility property is valued under a method known as the "cost approach." Under this approach, the New York State Office of Real Property Tax Services ("ORPTS"), and most of the local assessors in the Company's service territory, determine value by using a Reproduction Cost New Less Depreciation ("RCNLD") methodology for utility property. RCNLD calculates what it would cost to reproduce property at current construction costs based on original cost and a trending index, subtracts an allowance for depreciation and obsolescence, if any, and adds the value of land to arrive at a "value" for the entire property. RCNLD is used only to value certain of the Company's structures and all of its taxable equipment. The value of land and office buildings is determined by comparable sales data, also known as the "market approach."

III. FORECAST METHODOLOGY

Q. What was the amount of the Company's property taxes for the Historic Year Ended March 31, 2017?

A. For the twelve months ended March 31, 2017, the property tax payments allocated to the electric operations and gas operations were $34.4 million and $10.8 million, respectively, for a combined amount of $45.2 million.

Q. What is the projected amount of property tax expense for the Rate Year ending June 30, 2019?

A. For the Rate Year, we have forecasted $39.3 million and $13.3 million of property tax expense for the electric and gas operations, respectively, for a total of $52.6 million.

Q. Please further describe the information presented in Exhibit __ (PTP-1) and Exhibit __ (PTP-2) with respect to property tax projections.

A. These expense projection schedules detail Central Hudson's real estate and special franchise taxes levied by various school districts and by towns, counties, cities, and villages within Central Hudson's service territory. Property tax projections were first developed by applying the three-year average historical growth rate in actual tax expense paid to the most recent actual tax expense which reflects economic obsolescence at 15%. In addition, we included the projected incremental tax expense related to the reduction of the economic obsolescence award on the 2018 tax roll as submitted to ORPTS on March 23, 2017 and discussed later in this testimony. Lastly, we included projected incremental tax expense related to significant capital additions based on a review of the capital expenditure plan sponsored by Company Witness Haering. Consistent with prior cases, we propose that property taxes be updated at the time of Brief on Exceptions to use the latest known taxes, as the 2017/2018 school and 2018 town and county taxes will be known values as opposed to projected amounts.

Q. Is the ratemaking property tax projection methodology just described the same as that employed to project property taxes in the Company's last rate case?

A. The method employed to project property taxes in Cases 14-E-0318 and 14-G-0319 was very similar to that described above. The one notable difference is the number of annual periods used to calculate the growth rate. In this filing, the Company's growth rate is based on a three-year average to be consistent with Staff's recommendation in Cases 14-E-0318 and 14-G-0319, which was ultimately agreed to in the Joint Proposal that was adopted by the Commission in those cases. Additionally, using a three-year average is also consistent with the averaging method used in the determination of projections for other operating expenses in this filing.

Q. What are the three-year average growth rates used for: (1) school taxes; (2) town, county, and city taxes; and (3) village taxes?

A. The three-year average growth rates used are as follows:

School (2014 – 2016)	3.50%
Town, County & City (2015 – 2017)	3.61%
Village (2015 – 2017)	2.59%

Q. On June 24, 2011 the Governor enacted the 2% real property tax cap legislation. As such, how has Central Hudson realized growth rates greater than the allowed 2% real property tax cap rate?

A. There are two reasons: (1) the 2% tax cap excludes certain items such as large court orders, judgments and pension growth costs and (2) the 2% tax cap assumes a relatively constant property value (i.e., residential home).

Unlike a residential homeowner, Central Hudson makes significant investments in its infrastructure on an annual basis. Accordingly, the assessed values to which the tax rate is applied increase; this yields a year-over-year expense growth rate greater than the 2% real property tax cap.

Q. Does the Company propose continuation of the inclusion of additional property tax expense due to incremental plant additions?

A. Yes. The projection of incremental property tax related to incremental plant was calculated in a manner consistent with Staff's recommendation in Cases 14-E-0318 and 14-G-0319, which was ultimately agreed to in the Joint Proposal that was adopted by the Commission in those cases. The table below summarizes the level of actual and projected capital expenditures for fiscal years ending 2012 – 2018, which affects the tax rolls for July 1, 2014 – July 1, 2020. Utilizing the amounts noted in the table, the three-year average level of capital expenditure upon which the growth rate is based, is approximately $107.5 million (2014 – 2016 tax roll year). The fiscal year end 2016 level of capital expenditure, which affects the July 1, 2018 tax roll, is $146.7 million which is approximately $39.2 million, (or 36%) greater than that calculated three-year average. As a result, the property tax projection must capture the additional tax expense related to the incremental capital expenditures not realized during the years upon which the growth rate has been developed. Of the incremental plant of $39.2 million identified, $36.8 million is assumed to be subject to property tax. As such, $36.8 million was the base upon which incremental property tax in the Rate Year was estimated.

Capital Investment ($) – Year Ended						
2018	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**
$ 211.0 M	$ 161.6 M	$ 146.7 M	$ 137.8 M	$ 111.4 M	$ 102.1 M	$ 109.2 M
Tax Roll Year						
2020	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**

Q. Has the Company sought and received any property tax adjustment for economic obsolescence from any State or local entity during any of the last five tax years, including the current tax year?

A. Yes. The Company has received economic obsolescence awards as follows:

Tax Roll Year		Economic Obsolescence Award
2013		16%
2014		14%
2015		16%
2016		15%
2017		14%

Additionally, the Company submitted its request for economic obsolescence for the 2018 tax roll to ORPTS on March 23, 2017, which will impact school taxes for the period of July 1, 2018 through June 30, 2019 and town and county taxes for calendar year 2019. In its petition submitted to ORPTS, the Company requested a 10.5% economic obsolescence award.

Q. Do the property tax projections which are detailed on Exhibit __ (PTP-1) and Exhibit __ (PTP-2) for electric and gas, respectively, include an assumption for economic obsolescence?

A. Yes. The growth rates used in the projections are based on actual tax expense divided by the assessed value of the plant, which has been reduced by the economic obsolescence award for the respective year. As such, a relatively constant economic obsolescence rate of 15% has been imputed into the growth rates used by the Company.

Q. Based on the fact that the economic obsolescence award on the 2018 tax roll is projected to be reduced from historic levels of approximately 15%

down to 10.5%, has the Company quantified and included the projected incremental property tax expense associated with the reduced economic obsolescence award in the projections?

A. Yes. Historically, the Company has received an economic obsolescence award consistent with the amount requested in its annual filing, rounded to the nearest whole percentage. As such, the Company has assumed an economic obsolescence award of 11% and projected an incremental property tax expense amount of approximately $1.2 million ($900,000 for electric and $300,000 for gas) associated with the reduced economic obsolescence award on the 2018 tax roll. The increase of approximately $1.2 million is based upon the equalization rates, inventory reporting and assessed values as per the 2016 final tax roll, and therefore it is an estimate given the limited known variables at this time. Further, this amount would be realized in 2018/2019 school taxes and 2019 town and county taxes.

IV. PROPERTY TAX EXPENSE MITIGATION EFFORTS

Q. Has the Company employed any property tax expense mitigation measures during its current Rate Plan?

A. Yes, the three most significant cost mitigation measures achieved by the Company since its last rate filing include: (1) the annual economic obsolescence awards; (2) a change in reporting to ORPTS for overhead electric service laterals; and (3) the settlement of certain property tax grievances.

DIRECT TESTIMONY OF THE PROPERTY TAX PANEL

Q. Please discuss in greater detail each of these measures and quantify the resultant property tax expense savings associated with each measure.

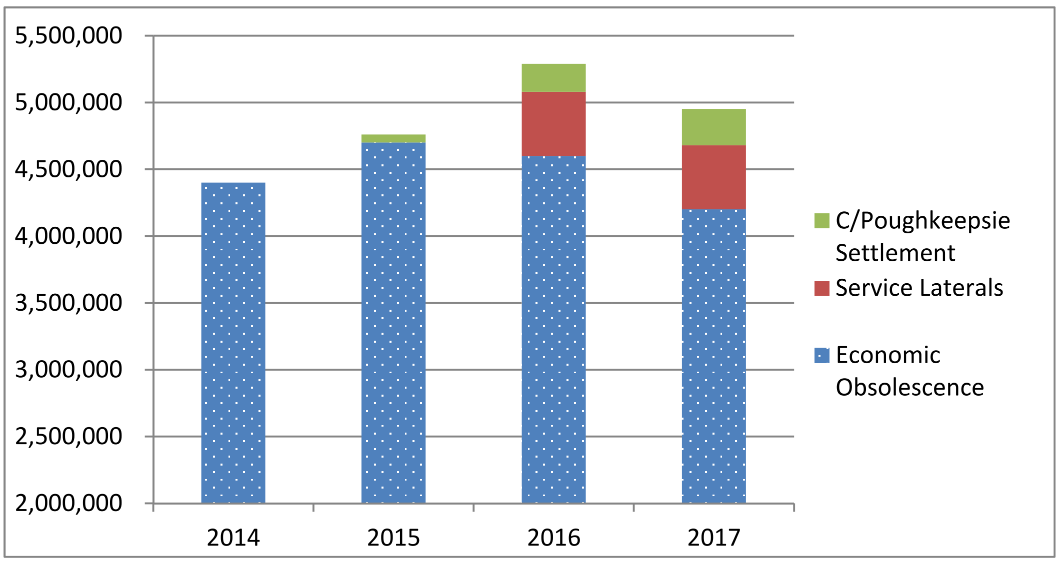
A. First, as previously indicated, since 2014, the Company has on an annual basis filed for and received economic obsolescence awards. The estimated and/or projected tax savings associated with the economic obsolescence awards is as follows:

Tax Roll Year	Economic Obsolescence Award	Projected Tax Savings - Electric	Projected Tax Savings - Gas	Total Projected Tax Savings
2014	14%	$3.3M	$1.1M	$4.4M
2015	16%	$3.6M	$1.1M	$4.7M
2016	15%	$3.4M	$1.2M	$4.6M
2017	14%	$3.1M	$1.1M	$4.2M

Second, during an evaluation of Company policies and practices, Central Hudson determined that it was appropriate to change 75% of its overhead electric service laterals from “in-street” facilities to “out-street” facilities, thereby removing the associated value of the facilities off of the tax roll. After lengthy discussions and meetings with ORPTS, it agreed that the change proposed by the Company was appropriate and ORPTS incorporated the change into the 2016 tax roll. Using the most current tax rates, the change in reporting to ORPTS is estimated to save approximately $480,000 per year in property taxes.

Third, in 2015, the Company reached a settlement with the City of Poughkeepsie regarding grievances it had filed against the City, which challenged the assessed value of certain Company property. Beginning with the 2015 tax roll, the cumulative property tax expense savings associated with the 5-year settlement agreement is approximately $1.2 million. The effect of all three of the aforementioned completed cost mitigation measures is reflected in the 3-year growth rate utilized by the Company in its property tax projection.

The total value of these aforementioned tax savings measures is estimated at $19.6 million for tax roll years 2014 – 2017. The table below illustrates the breakdown of savings:



Q. Please describe other successful cost saving measures achieved by the Company in the recent past.

A. The Company has been successful in several other tax challenges, was party to a class action lawsuit, executed a Payment in Lieu of Tax ("PILOT") Agreement for a new substation, and attempted to reduce required taxes on its vacant land by consolidating its parcels.

Q. Please provide a detailed description and quantify any successful tax challenges, lawsuits, reassessments, or other Company actions described above.

A. Central Hudson and the Town of Newburgh entered into a Settlement Agreement dated February 28, 2013 covering tax years 2001 through 2013. The Settlement provided for both refunds on overpayments in prior years, as well as a reduction in assessed values on a going-forward basis. The Company achieved $2.7 million in total refunds and interest; or $2.3 million net of the cost to achieve. Central Hudson's customers received 85% of this refund, or $1.9 million.

Central Hudson was a participant in a class action law suit brought by other parties against the City of Beacon. The lawsuit claimed that the City of Beacon improperly levied rates against non-homestead tax parcels at tax rates not authorized by law for the tax years 2004 through 2008. A settlement was reached and refunds in the amount of $71,366 were issued to Central Hudson in July 2014.

In December 2011, Central Hudson entered into a ten year PILOT Agreement with the Ulster County Industrial Development Agency for the new Saugerties Substation. This PILOT Agreement provides predictability in tax projections and acts as a hedge to minimize property tax increases. Further, Central Hudson estimates that the Company saved approximately $200,000 in property tax expense from 2013 through 2016 as a result of the PILOT Agreement.

Beginning in 2013 and continuing into 2014, Central Hudson started consolidating tax parcels which, in some cases, resulted in assessment reductions and tax expense savings. Those savings, however, were negligible.

Additionally, on an annual basis the Company reviews its assessments for reasonableness. If the Company determines that it is being over-assessed then it pursues remedies through the grievance process.

Q. Is the Company familiar with tax adjustments for functional obsolescence?

A. Yes. 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 a former Manager of Valuation Support, Utility and Complex Properties at ORPTS, functional obsolescence has only been awarded on "over built" gas main facilities in New York.

Q. Has the Company sought any property tax adjustment for functional obsolescence from any State or local entity during any of the last five tax years, including the current tax year?

A. No. The Company has not filed for functional obsolescence for the period noted, as it was determined based on an internal review that the cost of an outside expert necessary to file for functional obsolescence would likely not be recaptured in tax savings.

Q. Has the Company performed a cost/benefit analysis to support this conclusion?

A. Yes. Please refer to Exhibit __ (PTP-3).

V. PROPOSED ACCOUNTING TREATMENT

Q. Does the Company propose continuation of deferral accounting for property tax expense?

A. Yes. The Company proposes to continue deferral accounting treatment with modification.

Q. Please explain the Company's current deferral treatment for property tax expense.

A. Currently, Central Hudson is authorized to defer for future recovery from or pass back to customers 90% of any difference between actual property tax expense and the rate allowances for each Rate Year. Additionally, under the Company's current three-year rate plan, the Company's pre-tax gain/loss is limited to 10 basis points (on each electric and gas) in Rate Year 1, and limited to 5 basis points (on each electric and gas) in Rate Year 2 and Rate Year 3.

Q. Please explain your proposed modification to the current deferral mechanism.

A. Property taxes remain one of the most difficult expenses to manage and control and represent a significant component of the Company's revenue requirement. Staff acknowledged this fact in their Statement in Support of the Joint Proposal in Case 09-E-0588 et al., by stating that property taxes are a “significant reason” for the rate increase, “which to a large extent is out of the Company’s control” (pgs. 24 and 25). Each year, Central Hudson relentlessly pursues numerous measures to reduce property tax expense and has been successful in those efforts. In light of the decreased amount of economic obsolescence in future years and despite Central Hudson’s numerous efforts to reduce property tax expense the Company’s property tax burden continues to escalate at significant levels and is impacted by numerous factors outside of the Company’s control. Therefore, Central Hudson is requesting 100% symmetrical deferral accounting on property tax expense.

Q. Should there be a concern that a fully symmetrical property tax reconciliation mechanism will lessen the Company's incentive to take action to minimize its property tax expense?

A. No. The Company has continually demonstrated its commitment to reducing the level of its property taxes and the property tax burden placed upon customers, even with very little financial incentive to do so. Providing full reconciliation for differences is a balanced ratemaking approach.

Q. Should the deferral provision be provided under a one year litigated outcome?

A. Yes.

Q. Has the Commission previously approved the full deferral of property taxes for a one-year litigated rate case?

A. Yes. In Case 08-E-0539, a rate case in which the Commission established electric rates on a litigated rather than settled basis (and for a single rate year) the Commission granted Con Edison full property tax expense deferral.

Q. Did the Commission contemplate whether such a deferral would damper Con Edison's incentive to minimize its property tax expense?

A. Yes. The Commission concluded that would not be the case. On pages 106-107 of the Commission's Order Setting Electric Rates, issued April 24, 2009 in Case 08-E-0539, the Commission held:

> We share DPS Staff's concern about removing an incentive for the Company to minimize its property tax expenses. However, the record in these cases shows that the Company has aggressively sought to minimize its property tax assessments. Indeed, there is no assertion to the contrary. Moreover, our long standing policy is that a utility will be allowed to retain a share of property tax refunds, frequently in the 10-15% range, to the extent it can be established conclusively that the utility's efforts contributed to that outcome. Taking these two factors into account, we conclude that the Company already has and will retain an incentive to minimize its property tax assessments.

DIRECT TESTIMONY OF THE PROPERTY TAX PANEL

Q. Have there been other recent cases in which the Commission approved the full deferral of property taxes?

A. Yes. In Cases 14-E-0493 and 14-G-0494, the Commission approved a Joint Proposal that established a three-year rate plan for Orange and Rockland Utilities, Inc., which included a full and symmetrical property tax reconciliation mechanism.

Q. What do you propose regarding the sharing between the Company and its customers of any property tax savings the Company might obtain from refunds and assessment reductions?

A. Consistent with the terms of the Order Allocating Property Tax Refund issued on October 24, 2014 in Case 13-M-0505, the Commission should grant the 85% customer / 15% Company sharing mechanism for property tax refunds and assessment reductions (net of incremental non-labor costs incurred to achieve them).

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

A. Yes, it does.