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 REVENUE REQUIREMENTS PANEL

July 28, 2017

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Q. Please state the names of the members of the Revenue Requirements Panel ("Panel").

A. Our names are David P. Brideau, Christopher D. Thomas, and Jodi L. Harris.

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

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

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

A. I am a 1984 Marist College graduate with a Bachelor of Science Degree in Business Administration and a concentration in Finance. I have been employed by Central Hudson since 1984. During the period 1985 through 1989, I held various positions in the Cash Management, Plant Accounting, and General Accounting Divisions. I was promoted to

Associate Regulatory and Financial Analyst in the Financial Planning Division in 1990, then to Regulatory and Financial Analyst in 1993, and then to Senior Regulatory and Financial Analyst in 1996. I was promoted to Director of Regulatory Planning in 2007 and then to my current position as Senior Director of Regulatory Planning in 2012.

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

A. Yes, I have testified before the Commission in Cases 95-G 1034, 00-E-1273, 00-G-1274, 05-E-0934, 05-G-0935, 08-E-0887, 08-G-0888, 09-E-0588, 09-G-0589, 12-M-0192, 14-E-0318, and 14-G-0319.

Q. Mr. Thomas, 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. Thomas, 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 tracking and forecasting of rate base, 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.

DIRECT TESTIMONY OF THE REVENUE REQUIREMENTS PANEL

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

A. I earned a Bachelor of Science Degree in Accounting from Marist College in 1983. From 1984 to 1987, I worked as a cost accountant at several manufacturing companies. I obtained my Certificate of Management Accounting in 1995. In 1987, I began employment at Central Hudson. I have worked in Financial Reporting, Customer Accounting, Budgets, and Taxes. In 2011, I transferred to Regulatory Planning.

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

A. Yes, I have testified before the Commission in Cases 08-E-0887, 08-G-0888, 09-E-0588, 09-G-0589, 14-E-0318, and 14-G-0318.

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.

DIRECT TESTIMONY OF THE REVENUE REQUIREMENTS PANEL

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 as a Regulatory Planning Analyst and then was promoted to my current role as Senior Regulatory Planning Analyst in 2015.

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.

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

A. The Panel's testimony in these proceedings will address the following:

1. Development of the Company's electric and gas revenue requirements for the twelve months ending June 30, 2019 ("Rate Year");

2. The bases for the projections for a number of specific elements of the cost of providing service;
3. Development of the Company's rate base for the historical twelve-month period ended March 31, 2017, as well as the forecast periods for the twelve-month periods ending December 31, 2017, December 31, 2018 and June 30, 2019; and
4. The disposition of accumulated deferred costs and credits and proposed use of the net credits as a bill credit.

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

A. Yes, we are sponsoring the following exhibits, which were prepared by or under the supervision of the Panel or one of the Panel's members:

1. Exhibit __ (RRP-1) entitled "Projected Change in Delivery Revenue Requirements" which identifies the drivers and offsetting savings reflected in the projected Rate Year Ending June 30, 2019 as compared to the Commission-authorized delivery revenue requirements for the rate year ending June 30, 2018 pursuant to the June 17, 2015 Order Establishing Rate Plan in Cases 14-E-0318 and 14-G-0319 ("2015 Rate Order");
2. Exhibit __ (RRP-2) entitled "Electric Income Statement" which addresses the historical period of the twelve months ended March 31, 2017; the Rate Year of the twelve months ending

June 30, 2019; and the relevant bridge periods of the years ending December 31, 2017 and 2018;

3. Exhibit __ (RRP-3) entitled "Gas Income Statement" which addresses the historical period of the twelve months ended March 31, 2017; the Rate Year of the twelve months ending June 30, 2019; and the relevant bridge periods of the years ending December 31, 2017 and 2018;
4. Exhibit __ (RRP-4) entitled "Direct Labor";
5. Exhibit __ (RRP-5) entitled “Rate Base - Twelve Months Ended March 31, 2017”;
6. Exhibit __ (RRP-6) entitled “Rate Base - Years Ending December 31, 2017 and December 31, 2018, and Twelve Months Ending June 30, 2019”;
7. Exhibit __ (RRP-7) entitled “Net Deferred Balances Available for Moderation”; and
8. Exhibit __ (RRP-8) entitled “Items Subject to Update.”

I. Development of Revenue Requirements

Q. What is the purpose of Exhibit __ (RRP-2)?

A. Exhibit __ (RRP-2) presents the electric delivery base rate revenue requirement for the Rate Year. In other words, it focuses solely on electric delivery and excludes revenues and expenses such as commodity, Sales for Resale, the surcharge for System Benefits Charge (“SBC”), which includes the Clean Energy Fund and the cost of administering the Company's suite of Energy Efficiency programs, the surcharge for the Renewable Portfolio Standard, the Public Service Law § 18-a Temporary Assessment, and all new surcharges proposed in this filing.

Q. Have you prepared a similar exhibit with respect to the gas base rate revenue requirement?

A. Yes, Exhibit __ (RRP-3) pertains to the development of the gas base rate revenue requirement for the Rate Year. It shows the development of the revenue requirement related to establishing a gas delivery rate, which excludes consideration for purchased gas revenues and expense, Sales for Resale, including off-system sales, the surcharge for System Benefits Charge ("SBC"), which includes the Clean Energy Fund and the cost of administering the Company's suite of Energy Efficiency programs, and the Public Service Law § 18-a Temporary Assessment.

Q. Please describe the information shown on Schedule A of Exhibit __ (RRP-2) which is entitled "Electric Operations Income Statement and Rate of Return."

A. Schedule A sets forth the operating revenues, operating revenue deductions, operating income, rate base, and associated rate of return for the electric department for the historical period, the bridge periods, and the Rate Year. It also shows the projected revenue requirement for the Rate Year before and after the effects of the rate changes necessary to establish base rates for the Company's delivery service to provide the overall rate of return of 6.99% addressed in the testimony of the Finance Panel.

Q. Please describe Schedule B of Exhibit __ (RRP-2).

A. Schedule B shows normalization adjustments to the historical period, including those necessary to display operating income related to delivery service only. It also addresses the reclassification as a cost of service certain items that are recorded as non-operating for financial accounting purposes.

Q. What is the purpose of Schedule C of Exhibit __ (RRP-2)?

A. Schedule C of Exhibit __ (RRP-2) shows the actual, normalized and projected amounts, by Commission functional classification, for most of the operating revenue deductions listed in Schedule A of Exhibit __ (RRP-2) for the historical period, the bridge periods, and the Rate Year. Operating revenue deductions not included in Schedule C are Depreciation and Amortization, which are shown on Exhibit __ (ATP-2), and Federal and State Income Taxes which are shown on Exhibit __ (ATP-10). Exhibit __ (ATP-2) and Exhibit __ (ATP-10) are both sponsored by the Accounting and Tax Panel.

Q. Has the Panel prepared a schedule demonstrating the gas revenue requirement similar to schedules A and B of Exhibit __ (RRP-2)?

A. Yes. Schedules A and B of Exhibit __ (RRP-3) show information for the gas revenue requirement in similar form to that for electric set forth in Schedules A and B of Exhibit __ (RRP-2).

Q. Has the Panel prepared a schedule for gas operating deductions similar to Schedule C of Exhibit __ (RRP-2)?

A. Yes, Schedule C of Exhibit __ (RRP-3) presents historical and projected information related to operating deductions for the gas department.

II. Presentation of Revenue Requirements

Q. Is the Company's presentation of revenue requirements in this rate case filing consistent with prior rate cases?

A. Yes. We have continued to follow the spirit and intent of the Commission's Statement of Policy on Test Periods in Major Rate Proceedings issued November 23, 1977 ("1977 Policy Statement"). In fact, we believe that this rate case filing enhances and improves the presentation of the forward-looking Rate Year as envisioned by the Commission in its 1977 Policy Statement. We have accomplished this improvement by redefining certain elements of projected expenses in order to provide greater visibility and clarity to the elements of expense that are causing the need for additional revenues to properly align the projected costs to serve our customers with the revenues collected from customers.

Q. Please elaborate and expand upon the Commission's 1977 Policy Statement as it relates to the development and presentation of expense projections.

A. The Commission was very explicit in how expense projections should be developed. First, the forecast should be developed from the historical base with changes in unit prices and in activity levels fully detailed by element of expense. Further, all assumptions in unit price because of inflation or other factors and changes in activity levels due to modified work practices or other reasons should be separately developed and identified.

Q. Please describe the general methodology that was followed in the Company's preparation of the projections of expense used in developing the electric and gas revenue requirements.

A. The overall determination of revenue requirements generally follows the forecasting methods approved by the Commission in Cases 14-E-0318 and 14-G-0319, with a number of modifications and new elements of expense, which will be noted and explained later in our testimony. As directed by the Commission's 1977 Policy Statement, a number of expense components were forecasted based on factors particular to the individual component that influence its future level. The remaining expense components were forecasted by inflating historical period costs. The Gross Domestic Implicit Price ("GDP") deflators used to inflate historical period costs were 1.5% for 2017 over the historical period, 2.2% for 2018 over 2017, and 1.2% for the Rate Year over 2018. Consistent with prior cases, the Company is seeking update at the time of Brief on Exceptions to reflect the latest known GDP deflators. These inflation rates and the request for update are addressed in the testimony of the Forecasting and Rates Panel. In developing the various forecasts, the historical period was first reviewed to determine actual costs incurred for each expense component and to determine whether any specific costs or activities included should be normalized.

Q. When are specific costs or activities normalized?

A. Specific costs or activities may be normalized if they are related to the Company's commodity activities, excluded from revenue requirements under Commission policy, non-recurring, or only a partial reflection of an annual cost. As previously indicated, normalization adjustments related to electric costs are shown on Exhibit __ (RRP-2), Schedule B and those related to gas costs are shown on Exhibit __ (RRP-3), Schedule B.

Q. How were costs that relate to both electric and gas operations allocated between the two departments?

A. Costs of a common or corporate nature were allocated using the Company's current common cost allocation ratio of 80% electric and 20%

gas, consistent with the allocation method that was utilized to set rates during the term of the 2015 Rate Order. The Accounting & Tax Panel discusses the common allocation methodology in greater detail.

Q. Please explain and identify the new elements of expense that have been included in the development of revenue requirements in these proceedings.

A. The central change relates to the element of expense previously identified as "Expenses Projected Based on Inflation" in our last rate case filing. In Cases 14-E-0318 and 14-G-0319, this element of expense included:

- Miscellaneous Direct Invoices;
- Material & Supplies;
- Office Supplies;
- Stores Handling Expenses;
- Postage;
- Transformer Installations & Removals (Credits);
- Meter Installations (Credits);
- Miscellaneous Expenses; and
- Transportation Excluding Depreciation.

With the exception of Transformer Installations & Removals (Credits), these expenses apply to both electric and gas operations. The revised income statement presentation shows these components as separate elements of expense or included with new elements of expense rather than lumped together and identified as "Expenses Projected Based on Inflation."

Q. Please explain why this change is being proposed and how it better aligns with the Commission's 1977 Policy Statement.

A. First, it should be noted that the following expense items will continue to be projected based on inflation of normalized historical period cost, but separately identified to provide greater visibility of expenses:

- Material & Supplies;
- Office Supplies;
- Stores Handling Expenses; and
- Postage.

The remaining components were either partially projected based on inflation of historical period costs or projected based on anticipated future changes in activity levels due to modified work practices and/or increased regulatory requirements. To reiterate, this change was required to properly align the projected costs of doing business with the revenues collected from customers. Failing to align such costs and revenues greatly diminishes our opportunity to earn the allowed return on common equity and, more importantly, does not adhere or conform to the goals that the Commission advanced in its 1977 Policy Statement.

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Q. Please identify and explain how the remaining expense components formerly within the inflation pool were projected.

A. The remaining components are: 1) Miscellaneous Direct Invoices; 2) Miscellaneous Expenses; 3) Transportation Excluding Depreciation; 4) Transformer Installations & Removals (Credits); and 5) Meter Installations (Credits). The projections of these elements are explained below. Projection methodologies related to transformer and meter credits are included in the discussions on "Transformer Installations and Removals" and "Meter Installations, Removals, and Maintenance," respectively.

A. Miscellaneous Direct Invoices & Expenses

Q. Please explain how Miscellaneous Direct Invoices & Expenses were projected.

A. In our previous rate case filing, this element of expense captured the residual direct invoice and non-labor journal voucher charges incurred during the historic year that were not identified separately. This residual amount is significant and the method of forecasting does not provide visibility into the activities performed in the historic year and planned in the forward-looking Rate Year. In order to provide an increased level of visibility, the Company has identified a number of activities that are identifiable through the Company's system of accounts that can be grouped together into new elements of expense.

The following elements of expense have been identified and projected separately with the method of forecasting addressed later in this testimony or in the testimony of other witnesses:

- Electric & Gas System Engineering & Compliance;
- Electric Substation Testing & Maintenance;
- Electric & Gas T&D Repair & Maintenance;
- Gas Pipeline Integrity & Inspection;
- Electric Transformer Installations & Removals;
- Electric & Gas Meter Installations, Removals & Maintenance;
- Meter Reading & Collections;
- Employee Training, Safety & Education;
- Maintenance of Buildings & Grounds;
- Gas Expansion & Marketing;
- Consumer Outreach & Education; and
- Miscellaneous Charges.

B. <u>Transportation Excluding Depreciation</u>

Q. Please explain how Transportation Excluding Depreciation expenses were projected.

A. In our previous rate case filing, this element of expense captured transportation charges, excluding depreciation charges, which were cleared to expense from the transportation clearing account. Transportation fuel cost represents a significant percentage of the total costs charged to the transportation clearing account. As such, we have identified and projected transportation fuel costs as a separate element of expense and developed a projected unit price and usage (volume) to arrive at the projected Rate Year. The remainder of transportation costs, that is costs not related to depreciation or fuel, that were charged to the clearing account during the historical period were projected based on inflation and then allocated to electric and gas expense. Transportation projection methodologies are further discussed in Section II of this testimony.

C. <u>Internal Labor</u>

Q. Please explain generally how Internal Labor costs were projected.

A. Internal Labor costs were first developed using annual base salaries and wages, by classification, for regular employees on the Company's payroll on March 31, 2017. The salaries and wages were increased, where applicable, by the average premium pay (<u>i.e.</u>, overtime, shift differential, etc.) percentages that occurred during the historical period and then by the applicable salary and wage increase rates set forth in the testimony of Company Witness McGinnis. The regular employee level reflected in the labor cost projection is based on the March 31, 2017 employee level of 1,009 plus an incremental 68 employees planned to be hired during the bridge period and the Rate Year. The incremental work requirements for 68 additional employees are addressed in the testimony of Company Witness McGinnis and other testimonies in this filing.

Requirements for 39 temporary employees (primarily college interns) were also included as provided by Human Resources to arrive at a total Direct Labor cost projection.

Allocations to electric and gas expense were determined based on the normalized distribution of payroll costs for the twelve months ended March 31, 2017.

Q. Do the exhibits sponsored include further information related to the projection of Direct Labor Costs?

A. Yes. Exhibit __ (RRP-4) was prepared to present detailed information related to the projection of Direct Labor costs. Schedule A of that exhibit addresses electric expense, Schedule B addresses gas expense, and Schedule C summarizes labor costs by employee classification and the allocation of labor costs to electric expense, gas expense, construction, and other categories of costs. Schedule C, Page 1 of 6, of Exhibit __ (RRP-2) for electric and Schedule C, Page 1 of 6, of Exhibit __ (RRP-3) for gas provide details of the rate allowance projection for Direct Labor.

Q. Are there any further comments that the Panel would like to make with regard to the projection of Direct Labor costs?

A. Yes. We recommend that Direct Labor costs be updated and based on the latest information known at the time of Brief on Exceptions for the known number of employees and salary information.

Q. Does the Company's filing reflect a productivity adjustment?

A. Yes. We have imputed a 1% productivity credit to capture future productivity gains in a manner similar to that customarily employed by the Commission. The base upon which the 1% productivity adjustment was applied includes labor, employee benefits (including pensions and OPEBs), and payroll taxes and should be updated for latest known information at the time of Brief on Exceptions. This base has been utilized by the Commission since Cases 05-E-0934 and 05-G-0935, where New York State Department of Public Service Staff ("Staff") expanded the base to include non-labor components. This productivity adjustment is in addition to cost reductions identified in the Rate Year, as identified in the Policy testimony of Company Witness Campagiorni. It should also be noted that other forms of productivity are included in the development of revenue requirements that are not in the form of a percentage applied to any particular base, but rather through the Company's adoption of past Commission practices. In our view, these practices result in projected rate allowance levels being lower than the Company's cost of doing business.

For example, the Commission's reliance on artificially limiting the rate of growth for certain elements of expense, such as medical costs, transportation fuel, and certain insurance costs, to the GDP rate of inflation for ratemaking purposes creates a productivity imputation. Another example of an imputed productivity adjustment is the Commission's practice of averaging escalating multi-year expenditures, in lieu of the historic period expenditures, to serve as the historical base to project the Rate Year in the face of an increasing cost trend for certain elements of expense. The Commission's reliance on this type of forecasting methodology is at odds with the Commission's 1977 Policy Statement of setting rates on a forward-looking basis and, in effect, imputes a productivity adjustment. Lastly, the historic period ended March 31, 2017, which serves as the basis to project many of the elements of costs, reflects the productivity gains that the Company has achieved and that are therefore already reflected in the development of revenue requirements.

Q. Does the Company's filing include consideration for incentive compensation?

A. Yes. As described more fully in the testimony of Company Witness McGinnis, we have included executive short term incentive ("STI") pay in the Rate Year projection.

D. Employee Benefits

Q. Please describe how Employee Benefits were forecasted.

A. As shown on Schedule C, Page 1 of 6, of Exhibit __ (RRP-2) with respect to electric and Schedule C, Page 1 of 6, of Exhibit __ (RRP-3) with respect to gas, Employee Benefits are comprised of Medical Insurance (including Dental and Vision), Group Life Insurance, Savings Incentive Plan ("SIP"), Employee Stock Purchase Plan ("ESPP"), and Other Employee Benefits.

With regard to Medical Insurance costs, projections are based on annualized activity for the twelve months ended March 31, 2017. GDP inflation factors were then applied to this base to arrive at the cost projections for the bridge periods and the Rate Year. The projection also incorporates the increased Medical Insurance costs to reflect the projected staffing level supported by Company Witness McGinnis.

Group Life Insurance costs are based on the premium and employee contributions incurred for the month of March 2017 on a per-employee basis, which was then annualized to arrive at a cost-per-employee projection base. Costs were then projected using the GDP inflation factors and an employee level of 1,077 for the Rate Year.

SIP projections are comprised of two components. The first component is the calculation of voluntary employee contributions matched by the Company and the second component is the non-elective contribution made by the Company for all management employees hired on or after January 1, 2008 and for all union employees hired on or after May 1, 2008. The projection for voluntary employee contributions is based on the actual twelve months ended March 31, 2017 contribution level adjusted for applicable wage increases plus an estimated company contribution associated with the voluntary contributions of new hires. Voluntary contributions for new hires were estimated by calculating a weighted average of elected contributions for all new hires in the historic year. For those who chose to contribute a percentage above the maximum matched by the Company (i.e., 8%), it was assumed that their election was 8%. The weighted average percentage calculated was then multiplied by 75%, which represents the Company match portion of the contribution. The resulting percentage was applied to the estimated base salaries for the incremental employees. The projection for non-elective contributions is based on the actual 2017 payout (based on 2016 wages), which is equal to 4% of the base wage of all eligible employees, adjusted for applicable wage increases plus an estimated contribution for new employees included in the "non-elective pool."

As described in the testimony of Company Witness McGinnis, the Company introduced an Employee Stock Purchase Plan ("ESPP") in May 2017. We included incremental expense for this new program that was not incurred during the historic year. Projections and participation assumptions were provided by Company Witness McGinnis and are discussed in that testimony.

Other Employee Benefits were first normalized to remove expenses related to the Company's Credit Union, which ceased operations during the historic year. This normalized historic year expense was then escalated at inflation to project the Rate Year.

The allocation of Medical, Group Life, SIP, and ESPP costs to electric and gas expense is based on the normalized distribution of payroll for the twelve months ended March 31, 2017. The Company proposes that Medical and Group Life costs be updated for the latest known information regarding premiums, claim activity, and employee contribution levels. In addition, the Company proposes that the Company's contribution to SIP and the ESPP be updated for latest known contribution levels. The Company proposes that these and other updates be incorporated at the time the Company files its Brief on Exceptions, which is consistent with prior litigated cases.

E. <u>Pension Plan (FAS 87)</u>

Q. Please describe the basis for the Company's projection of Pension Plan (FAS 87) costs.

A. Schedule C, Page 1 of 6, of Exhibit __ (RRP-2) provides details of the Pension Plan expense projection for electric and Schedule C, Page 1 of 6, of Exhibit __ (RRP-3) addresses the projection for gas. The cost estimate for the Company's Pension Plan is based on the latest estimate provided by the Company's actuary. The projected cost for the Supplemental Executive Retirement Plan ("SERP"), which is included in the expense forecast, is also based on an estimate developed by the Company's actuary and discussed further in the testimony of Company Witness McGinnis. The expense estimate for SERP is allocated to electric and gas expense using the common allocation basis described earlier in our testimony. The allocation of the Pension Plan cost tracks the Company's normalized payroll distribution for the historical period as shown in the testimony of the Accounting and Tax Panel. Consistent with prior cases, the Company is seeking update at the time of Brief on Exceptions to reflect the latest known actuarial estimate for the Company's Pension Plan including SERP.

Q. What level of pension plan expense has been reflected in the development of revenue requirements in this proceeding?

A. The development of revenue requirements for the Rate Year includes $8.4 million and $2.4 million for electric and gas, respectively. These amounts represent the net amount charged to Central Hudson, after an allocation to subsidiaries.

F. <u>Other Post-Employment Benefits (OPEB-FAS 106)</u>

Q. Please provide the Company's expense projections for Other Post-Employment Benefits (FAS 106).

A. Schedule C, Page 1 of 6, of Exhibit __ (RRP-2) provides details of the projection for Other Post-Employment Benefits ("OPEBs") for electric and Schedule C, Page 1 of 6, of Exhibit __ (RRP-3) does so for gas.

Q. What level of OPEB expense has been assumed by the Panel in the development of revenue requirements?

A. The development of revenue requirements for the Rate Year includes a credit of $2.6 million and $784,000 for electric and gas, respectively. These credit amounts are based on an estimate developed by the Company's actuary, which should be updated for latest known information at the time of Brief on Exceptions, and are discussed further in the testimony of Company Witness McGinnis. The allocation of the total accrual estimate to electric and gas expense follows the normalized distribution of labor.

G. <u>Employee Training, Safety & Education</u>

Q. Please describe the Company's projections for Employee Training, Safety & Education Expenses.

A. Schedule C, Page 1 of 6, of Exhibit __ (RRP-2) for electric and Schedule C, Page 1 of 6, of Exhibit __ (RRP-3) for gas provide details of the rate allowance projection for Employee Training, Safety & Education. As previously described, these expenditures were included within "Expenses Projected Based on Inflation" in prior rate case filings. The Rate Year projection was developed by initially reviewing the historic year expense to determine appropriate normalization adjustments. These normalized electric and gas historic year expenses were then escalated at inflation to project the Rate Year. Then, a cost per employee based on the historic year was calculated and applied to the projected number of incremental employees, which was escalated at inflation to project the Rate Year. Lastly, we included incremental expense for new training programs and enhancements to existing programs that were not incurred during the historic year as provided and discussed in the testimony of the Training & Development Panel.

H. Production Maintenance

Q. How did the Company project Production Maintenance expenses?

A. Production Maintenance consists of maintenance performed at the Company's hydro and gas turbine electric generating facilities. Projected costs for the Rate Year were provided by the Company's Production Operations Superintendent consistent with planned operating objectives at these facilities. Further detailed information appears on Exhibit __ (RRP-2), Schedule C, Page 2 of 6.

I. Right of Way Maintenance

Q. Please explain how Right of Way Maintenance projections were developed.

A. Exhibit __ (RRP-2), Schedule C, Page 2 of 6, shows the projection for the Company's Transmission and Distribution line clearance and tree-trimming program. This expense component represents the estimated costs of the program, as addressed in the testimony of Company Witness DuBois.

Q. Do the projections shown on Exhibit __ (RRP-2) reflect the cash requirements to fund the line clearance and tree trimming program as described by Company Witness DuBois?

A. They do in the projected Rate Year, but not for the projected calendar years 2017 and 2018, or the bridge period. As shown on Exhibit __ (DLD-1) sponsored by Company Witness DuBois, the Company is proposing that $1.9 million of existing regulatory liabilities be utilized as a funding vehicle to mitigate the projected cash requirements for the electric transmission right of way maintenance program through the end of the 2015 Rate Order. Likewise, as shown on Exhibit __ (DLD-2) also sponsored by Company Witness DuBois, the Company is proposing that $4.9 million of existing regulatory liabilities be utilized as a funding vehicle to mitigate the projected cash requirements for the electric distribution line clearance program through the end of the 2015 Rate Order. Company

Witness DuBois' testimony explains the need for additional funding in excess of the funding provided for in the 2015 Rate Plan during the bridge periods and the Rate Year. In addition, the Company's May 5, 2017 Petition in Case 17-E-0250, seeking the Commission's approval for deferral accounting authority for incremental funding for distribution line clearance and transmission trimming provides a detailed analysis of why this additional funding during the current 2015 Rate Plan is required.

J. Stray Voltage Testing

Q. Please describe the Company's cost projections for Stray Voltage Testing

A. Schedule C, Page 2 of 6, of Exhibit __ (RRP-2) shows the expense projections for Stray Voltage Testing. The forecast for Stray Voltage Testing (Mitigation and Non-Mitigation) was prepared by first reviewing the historic period expense to determine if normalization or other adjustments were necessary. In regard to non-mitigation expenses, based on information provided by the Company's Electric Distribution and Standards Division, the cost for stray voltage testing of the distribution system was normalized to reflect a change in the vendor performing the work. The projections for the distribution testing expense for 2017 were provided by that group; the projections for 2018 and the Rate Year were projected based on inflation. In addition, all other costs associated with the distribution stray voltage testing program were projected based on inflation of historic year expenses. In regard to transmission testing, as a result of timing of testing, the historic year expense is not representative of annual expense. In order to project this expense, Company Witness DuBois provided historical expense data by month that was used to calculate a three year average of transmission stray voltage testing expense, adjusted to 2017 dollars, for the calendar year 2017. Projections for 2018 and the Rate Year were projected based on inflation of the 2017 estimate. In regard to mitigation, expenses are assumed to be $52,000 in the Rate Year, which is consistent with the currently approved rate allowance. Finally, the Company is proposing continuation of full symmetrical deferral accounting as authorized in the 2015 Rate Order.

K. <u>System Engineering & Compliance</u>

Q. Please describe the Company's projected expenses for System Engineering & Compliance.

A. Schedule C, Page 2 of 6, of Exhibit __ (RRP-2) for electric and Schedule C, Page 1 of 6, of Exhibit __ (RRP-3) for gas provide details of the rate allowance projection for System Engineering & Compliance. These expenses relate to the preparation of engineering studies, analyses, planning, and compliance with standards of our T&D system. In previous rate cases, these activities were included within the element of expense identified as "Expenses Projected Based on Inflation." The forecast for System Engineering & Compliance was prepared by first reviewing the historic period expense to determine if normalization adjustments were necessary. For electric operations, there were two adjustments needed. The first normalizing adjustment was to remove a one-time credit received related to reimbursement of work performed for the “STARS” study. The second adjustment relates to the application fee that the Company is allowed to charge when a large (greater than 50 kW) photovoltaic installation is submitted. The fee is established by the Commission within the New York State Standardized Interconnection Requirements. The projection was adjusted to assume 50 applications per year at the established fee based on information provided by the Company’s Electric Distribution and Standards Division, which is responsible for managing and reporting for this program. For gas operations, there were also two adjustments needed. The first normalizing adjustment was to remove a credit to expense for out-of-period charges that ultimately were capitalized. The second adjustment relates to a one-time credit received for reimbursement of work performed on a specific load analysis project. These normalized historic expense levels were then escalated at inflation to develop the forecasts for the bridge periods and the Rate Year.

L. Substation Testing & Maintenance

Q. Please explain the Company’s projected revenue requirements for Substation Testing & Maintenance.

A. Schedule C, Page 2 of 6, of Exhibit __ (RRP-2) shows the expense projections for Substation Testing & Maintenance. These expenses relate to the inspection, testing, and maintenance of our substations and, in previous rate cases, were included within the element of expense identified as "Expenses Projected Based on Inflation." The projection is based on inflation of historical period costs.

M. <u>T&D Repair & Maintenance</u>

Q. Please explain the Company's projected revenue requirements for T&D Repair & Maintenance.

A. Schedule C, Page 2 of 6, of Exhibit __ (RRP-2) for electric and Schedule C, Page 1 of 6, of Exhibit __ (RRP-3) for gas provide details of the rate allowance projection for T&D Repair & Maintenance. These expenses and related activities center around the daily work of repairing and maintaining our electric and gas T&D system and in previous rate cases were included within the element of expense identified as "Expenses Projected Based on Inflation."

1. Electric Transmission Repair & Maintenance

Q. What are the Company's projected expenses for Electric Transmission Repair & Maintenance?

A. The forecast of electric transmission repairs and maintenance was developed by first reviewing the historic expense to determine if normalizations were required. A normalization adjustment was identified and removes the expense associated with the Sag Mitigation program from projections, as this expense is no longer expected to be incurred.

Normalized historic year expenses were then inflated to arrive at the Rate Year projections, with the exception of one specific function number. The one expense function that was not projected based on inflation includes work activities that trend the Category 12 (Electric Transmission) capital budget as set forth by Company Witness Haering. The Direct Testimony of Company Witness DuBois explains the correlation of the expense work to the capital program. In order to project these expenses, Company Witness DuBois provided projected contractor hours and an estimated contractor hourly cost for 2018. The hourly cost was inflated to arrive at the cost per hour used to calculate Rate Year contractor expense, which was ultimately calculated by multiplying the forecasted hours by the calculated rate.

Additionally, the historic year expense did not include costs associated with inspection repair work. In order to project the expense associated with this work in the Rate Year, Company Witness DuBois provided a three year average of annual findings to be repaired on expense by severity ranking and condition, the backlog of expense repairs at March 31, 2017, and the average hours to repair each condition. With the information provided, the average number of annual expense repair hours was calculated and is assumed to be the number of hours of work to be completed annually in order to remain current on newly identified inspection repairs. The calculated number of annual hours was multiplied by the contractor hourly rate to arrive at the Rate Year expense. Further, expense to resolve the growing backlog was calculated and included in the development of the revenue requirement. As further explained by Company Witness DuBois, until rates are reset on July 1, 2018, there is no funding available to complete expense inspection repair work. As such, the backlog of repair hours is projected to grow at the assumed annual repair hours resulting from new findings. The backlog of repair work is proposed to be completed in the Rate Year for repairs classified as major (severity 4 or 5) and over a five year period beginning July 1, 2018 for those classified as minor (severity 1, 2 and 3). The number of hours incurred to accomplish this reduction of the backlog was multiplied by the hourly contractor rate to determine the funding required.

2. Electric Distribution Repair & Maintenance

Q. Please explain the basis for the projected expenses for Electric Distribution Repair & Maintenance.

A. The forecast of electric distribution repairs and maintenance was developed by first reviewing the historic expense to determine if normalization adjustments were required. Normalization adjustments were made to remove out-of-period expenses and to reflect work not fully captured in the historic year. Normalized historic year expenses were then inflated to arrive at the Rate Year projection, with the exception of two specific function numbers. Similar to electric transmission repair and maintenance, the expenses not projected based on inflation include work activities that trend the capital budget and inspection repair work. With distribution, there is an expense component of work planned as part of the Category 15 (Electric Distribution Improvement) capital plan as set forth by Company Witness Haering. Company Witness DuBois provides explanation of the correlation of the expense work to the capital program. In order to project these expenses, Company Witness DuBois provided projected contractor hours and an estimated contractor hourly cost for 2018. The hourly cost was inflated to arrive at the cost per hour used to calculate Rate Year contractor expense, which was ultimately calculated by multiplying the forecasted hours by the calculated rate.

In order to project the expense associated with inspection repair work in the Rate Year, Company Witness DuBois provided a three year average of annual findings to be repaired on expense by severity ranking and condition, a three year average of actual annual expense repairs, the backlog of expense repairs at March 31, 2017, and the average hours or cost to repair each condition (depending on the condition type). For condition types estimated by hours per repair, the average number of annual expense repair hours was calculated and is assumed to be the number of hours of work to be completed annually in order to remain current on newly identified inspection repairs. The calculated number of annual hours was multiplied by the contractor hourly rate to arrive at the

Rate Year expense. For condition types estimated by cost per repair, the average number of annual expense repairs was calculated and is assumed to be the number of repairs to be completed annually in order to remain current on newly identified inspection repairs. The number of repairs was multiplied by a weighted average cost per repair to arrive at the Rate Year expense. Further, expense to resolve the backlog was calculated and included in the development of the revenue requirement. In order to determine the backlog at the beginning of the Rate Year, the backlog at March 31st was increased for the proportionate number of annual repair hours or findings and reduced by the proportionate number of annual repair hours or repairs completed. The backlog of repair work is proposed to be completed over a three year period beginning July 1, 2018. The number of hours incurred or repairs to be completed to accomplish this reduction of the backlog were multiplied by the hourly contractor rate or the weighted average cost per repair to determine the funding required.

3. Gas Transmission & Distribution Repair & Maintenance

Q. Please explain the Company’s forecast for Gas Transmission & Distribution Repair & Maintenance.

A. The forecast of gas transmission and distribution repairs and maintenance was developed by first reviewing the historic expense to determine if normalization adjustments were required. Normalization adjustments were made to remove out-of-period expenses, remove non-recurring work, transfer expenses to other elements of expense, incorporate expense not included in the historic year as a result of timing, and reflect other accounting adjustments. Normalized historic year expenses were then inflated to arrive at the Rate Year projection, with the exception of one specific function number. The one expense function that was not projected based on inflation includes work activities associated with performing gas mark-outs and incorporates expense for a second patroller beginning in May of 2017, as discussed in the testimony of the Gas Safety Panel. The Rate Year projection was developed by reviewing historic year expense for the one existing patroller, annualizing the expense, as it only reflected the payment of 11 months of invoices as a result of timing, applying inflation to the cost to arrive at the Rate Year cost for one patroller, and then doubling the expense to incorporate the cost of two patrollers.

N. <u>Transformer Installations & Removals</u>

Q. How were expenses for Transformer Installations & Removals forecasted?

A. Schedule C, Page 2 of 6, of Exhibit __ (RRP-2) shows the expense projections for Transformer Installations & Removals. The expense in this cost element captures work related to installing and removing electric transformers along with the associated credits to expense for first time installations and removals. Initially the installation and removal costs are charged to expense. Then, if the work is related to a first time installation or removal of a transformer, a credit is recorded to expense to either capitalize the installation or to charge the removal to the depreciation reserve. In previous rate cases, these expenses were included within the element of expense identified as "Expenses Projected Based on Inflation." The projection related to the installation and removal of transformers is based on the Category 15 (Distribution) capital plan as set forth by Company Witness Haering. Projected contractor hours were received from Company Witness Dubois along with an estimated hourly cost for 2018. The hourly cost was inflated to arrive at the cost per hour used to calculate Rate Year contractor expense. In order to calculate the projected credits to expense, internal labor related to transformer work was also considered. The historic year labor was escalated at the weekly payroll contractual increases to arrive at the estimated labor in the Rate Year. The transformer credits were calculated by assuming full offset of the contractor costs and estimated internal labor.

O. <u>Meter Installations, Removals & Maintenance</u>

Q. How were expenses forecasted for Meter Installations, Removals & Maintenance?

A. Schedule C, Page 2 of 6, of Exhibit __ (RRP-2) for electric and Schedule C, Page 2 of 6, of Exhibit __ (RRP-3) for gas provide details of the rate allowance projection for Meter Installations, Removals & Maintenance.

These expenses and related activities are the daily work of installing, removing and maintaining electric and gas meters along with the associated credits to expense for first time installations. Initially the installation costs are charged to expense and, if the work relates to a first time installation, a credit is recorded to expense to capitalize the installation. In previous rate cases, these expenses were included within the element of expense identified as "Expenses Projected Based on Inflation."

1. Electric

Q. What are the Company's forecasted expenses for electric meter installations, removals, and maintenance?

A. The forecast of electric meter installations, removals, and maintenance was developed by first reviewing the historic year expense to determine if normalizations were required. The historic year level of meter credits was normalized to reflect the planned number of meters purchased at the latest known meter credit amount. The normalized historic year was then inflated to arrive at the projected Rate Year.

2. Gas

Q. What are the Company's forecasted expenses for gas meter installations, removals, and maintenance?

A. The forecast of gas meter installations, removals, and maintenance was developed by first reviewing the historic year expense to determine if normalizations were required. The historic year level of meter credits was normalized to reflect the planned number of meters purchased at the latest known meter credit amount. The normalized historic year was then inflated to arrive at the projected Rate Year with the exception of one specific function number. The meter work function number that was not projected solely based on inflation includes the scaling down of expenses related to the Coupling Replacement Program, which is expected to conclude in the Rate Year.

P. <u>Research & Development</u>

Q. What are the Company's forecasted expenses for Research & Development ("R&D")?

A. Schedule C, Page 3 of 6, of Exhibit __ (RRP-2) shows R&D costs for electric and Schedule C, Page 2 of 6, of Exhibit __ (RRP-3) shows this expense for gas, as they appear on Schedule A of Exhibit __ (RRP-2) and Exhibit __ (RRP-3), respectively. Projected costs for the Rate Year were provided by the Company's R&D Administrator and are consistent with current program goals and objectives. These costs are subject to revenue matching accounting and deferral, as required by the Commission's Technical Release #16.

Q. Economic Development

Q. What are the Company's forecasted expenses for Economic Development?

A. Schedule C, Page 3 of 6, of Exhibit __ (RRP-2) for electric and Schedule C, Page 2 of 6, of Exhibit __ (RRP-3) for gas provide details of the rate allowance projection for Economic Development, which is proposed at zero for the Rate Year.

Q. Why is the Company not seeking an allowance in this rate filing for Economic Development?

A. As part of the Fortis, Inc. ("Fortis") acquisition of CH Energy Group, Fortis contributed $5 million for Central Hudson's economic development programs as part of the $40 million of public benefits Fortis committed to under the Order Authorizing Acquisition Subject to Conditions ("Acquisition Order"), issued on June 26, 2013 in Case 12-M-0192. As of March 31, 2017, the end of historic year in this filing, Central Hudson's Economic Development Program Fund had $3.98 million of available funding for its programs. It is projected that this balance will provide adequate funding through the Rate Year and, therefore, the Company is not seeking an allowance at this time. As addressed and explained in the testimony of the Business Development Panel, the Company is proposing deferral accounting should program expenditures exceed the remaining fund balance prior to the next time delivery rates are reset.

R. Customer Outreach & Education

Q. Please describe the Company's forecast for Customer Outreach & Education.

A. Schedule C, Page 3 of 6, of Exhibit __ (RRP-2) for electric and Schedule C, Page 2 of 6, of Exhibit __ (RRP-3) for gas provide details of the rate allowance projection for Customer Outreach & Education.

Q. Are these expenses included in current electric and gas delivery rates?

A. Yes, but these expenses were previously included in the element of expense identified as "Informational & Institutional Advertising" or in other elements of expense.

Q. Why was the name of this element of expense changed?

A. It has been changed to reflect that the types of costs included in this element of expense are related to performing effective outreach aimed at informing and educating customers about ways to use electricity and gas in a safe and efficient manner and to increase awareness of public policy objectives.

Q. Is there consideration of promotional advertising in this projection?

A. No. This expense projection is solely related to the outreach and education efforts as described above. There is nothing included in these expenditures that promote the increased usage of electricity or gas through advertising efforts. In fact, the opposite holds true, as the focus is now placed on educating and informing customers on how to use less by making informed decisions on how to conserve and manage their usage.

Q. Is promotional advertising included elsewhere in the development of revenue requirements?

A. Yes. The element of expense identified as "Gas Expansion & Marketing" includes consideration of promotional advertising efforts geared towards encouraging customers to replace their existing alternative fuel heating source to natural gas.

Q. Please explain how the projection for Customer Outreach & Education was developed.

A. First, a review of the historic period expenses that have been traditionally classified as outreach and education was performed for possible normalization. That review found one biannual outreach effort that did not occur during the historic period which was included in the normalized historic year at one half the expense, allocated to electric and gas based on the common allocation. These normalized electric and gas historic year expenses were then escalated at inflation to project the Rate Year.

Q. Did any outreach and education expenses previously included elsewhere until June 30, 2018 become part of this projection?

A. Yes. Outreach and education related to the Low Income Program that was previously included within that allowance is now reflected here in compliance with the Commission's February 17, 2017 Order Approving

Implementation Plans with Modifications in Case 14-M-0565 ("February 17, 2017 Order"). In addition, outreach and education costs that will be deferred through June 30, 2017, as authorized in Case 14-M-0101, have now been reflected here as well. Lastly, outreach, education, and public awareness for matters related to gas transmission and distribution that were previously accounted for as "Pipeline Integrity & Inspection" are now included in this allowance.

S. Meter Reading & Collections

Q. What are the Company's forecasted expenditures for Meter Reading & Collections?

A. Schedule C, Page 3 of 6, of Exhibit __ (RRP-2) for electric and Schedule C, Page 2 of 6, of Exhibit __ (RRP-3) for gas provide details of the forecast of the non-internal labor expense incurred to read meters and related collection efforts. The projection is based on inflation of historical period costs.

T. Bill Print

Q. What is the Company's forecast for Bill Print expenses?

A. Schedule C, Page 3 of 6, of Exhibit __ (RRP-2) for electric and Schedule C, Page 2 of 6, of Exhibit __ (RRP-3) for gas provide details of the forecast for the printing and mailing of customer bills, excluding postage, by an outside vendor. The historic year level of bill print expense was normalized to reflect the full transition to monthly billing that commenced in July 2016. This normalized historic expense level was then escalated at inflation to develop the forecasts for the bridge periods and the Rate Year.

U. <u>Postage</u>

Q. Please describe the Company's projected expenses for Postage.

A. Schedule C, Page 3 of 6, of Exhibit __ (RRP-2) and Schedule C, Page 3 of 6, of Exhibit __ (RRP-3) show the information related to the projection of Postage. The historic year level of postage expense was normalized to reflect the full transition to monthly billing that commenced in July 2016. This normalized historic expense level was then escalated at inflation to develop the forecasts for the bridge periods and the Rate Year.

V. <u>Payment by Credit/Debit Card</u>

Q. How did the Company project expenses for Payments by Credit/Debit Card?

A. Schedule C, Page 3 of 6, of Exhibit __ (RRP-2) for electric and Schedule C, Page 3 of 6, of Exhibit __ (RRP-3) for gas provide details of the forecast aimed at providing customers the option to make payment of their utility bill through means of a credit or debit card without being assessed a fee to do so. The forecast was provided by and is addressed in the testimony of the Customer Service Panel. The allocation to electric and gas is based on the projection of delivery revenues in relation to total delivery revenues.

W. <u>Low Income Program</u>

Q. Please describe the projected expenses associated with the Company's Low Income Program.

A. Schedule C, Page 3 of 6, of Exhibit __ (RRP-2) for electric and Schedule C, Page 3 of 6, of Exhibit __ (RRP-3) for gas provide details of the forecast for the Low Income Program that follows the guidance and direction as outlined in the Commission's February 17, 2017 Order. Subsequent to the issuance of the Order, the Company reached out to the Department of Public Service's Office of Consumer Services to discuss how the changes to the Low Income Program could best be implemented and reflected in the Company's delivery rates. The forecast presented was developed based on discussions with Office of Consumer Services Staff by members of this Panel and the Low Income Panel and includes: 1) the new Low Income Bill Discount Program; 2) the phase-out of the Arrears Forgiveness Program; and 3) the continuation of the Waiver of the Reconnection Fee Program.

X. <u>Uncollectible Accounts</u>

Q. Please describe the projected expenses for Uncollectible Accounts.

A. The development of the projection for Uncollectible Accounts is based on the net charge-off amount as a percentage of revenues subject to bad debt for the historical period. The ratio was 0.83% for electric and 0.99% for gas. These ratios were applied to projected total delivery revenues subject to bad debt by department for the bridge periods and the Rate Year to arrive at the projections for Uncollectible Accounts Expense. Schedule C, Page 3 of 6, of Exhibit __ (RRP-2) shows projected Uncollectibles for electric and Schedule C, Page 3 of 6, of Exhibit __ (RRP-3) does so for gas. Consistent with prior cases, the Company is seeking update at the time of Brief on Exceptions to reflect the latest known twelve months of information to develop the ratios. In addition, the Company is proposing a deferral mechanism to limit the potential financial gain or loss in the actual experience of net write-offs compared to the amount billed to customers through delivery rates, supply charge, and various surcharges that are subject to bad debt. The justification for this proposal and method of measurement is explained in the testimony of the Customer Services Panel.

Y. <u>Regulatory Commission General Assessment</u>

Q. Please describe the Company's projected expenses for the Regulatory Commission General Assessment.

A. Schedule C, Page 3 of 6, of Exhibit __ (RRP-2) shows the details of the forecast for Regulatory Commission Expenses for electric and Schedule C, Page 3 of 6, of Exhibit __ (RRP-3) does so for gas. The expense projection is based on the Staff Statement of Estimated General Assessment for the fiscal year ending March 31, 2018, which represents the latest known assessment. GDP factors were applied to the latest known assessment to develop the forecasts for the bridge periods and the Rate Year. The Company recommends that the latest known information at the time of Brief on Exceptions be used in developing the rate allowance and that the deferral authority granted in the Commission's June 19, 2009 Order in Case 09-M-0311 continue.

Z. <u>Environmental Expenses</u>

1. Environmental - SIR Cost Recovery

Q. How did the Company project expenses for Environmental – SIR Cost Recovery?

A. Schedule C, Page 3 of 6, of Exhibit __ (RRP-2) and Schedule C, Page 3 of 6, of Exhibit __ (RRP-3) show the information related to the projection of Environmental Site Investigation and Remediation ("SIR") Cost Recovery. The Company is proposing that the rate allowance in these proceedings be based on a three-year average (twelve months ended March 31, 2015; 2016; and 2017) of expense adjusted to March 2017 dollars and then inflated. This projection methodology is consistent with the method of averaging proposed by Staff in Cases 08-E-0887 and 08-G-0888 and is consistent with other elements of expense where an averaging technique is employed to develop a historical base upon which to project the forward-looking Rate Year.

2. Environmental - All Other

Q. Please describe the Company's projected expenses for Environmental – All Other.

A. Schedule C, Page 4 of 6, of Exhibit __ (RRP-2) and Schedule C, Page 3 of 6, of Exhibit __ (RRP-3) show the information related to the projection of Environmental (Non-SIR) Expense. The historic year expense was adjusted to remove internal labor that was erroneously classified as non-labor and to exclude electric damage claim credits not expected to recur. The projection is based on inflation of the adjusted historical period expense.

AA. <u>Information Technology</u>

Q. What are the Company's projected expenses for Information Technology?

A. Schedule C, Page 4 of 6, of Exhibit __ (RRP-2) for electric and Schedule C, Page 3 of 6, of Exhibit __ (RRP-3) for gas show details of the forecast of Information Technology costs charged to expense. The projection relates to the Company's current and projected information technology requirements primarily related to hardware maintenance, software maintenance, and license costs, as addressed in the testimony of Company Witness Holtermann. The amortization of software costs is included in the depreciation schedules sponsored by the Accounting and Tax Panel.

BB. Telephone

Q. Please describe the Company's projected Telephone expenses.

A. The types of costs included in Telephone Expense are listed on Exhibit __ (RRP-2), Schedule C, Page 4 of 6 and Exhibit __ (RRP-3), Schedule C, Page 3 of 6 for electric and gas, respectively. Projections were based on a review of historical charges and current billing rates for communication expenses and the application of inflation factors. In addition, savings in telecommunication expense have been reflected in the Rate Year for the planned capital investment related to the build-out of network strategy. Based on information provided by business owners, it was assumed that the increase in tower rental space due to these capital investments that is included in Rental Agreements expense will be offset with a 15% reduction in telecommunication expenses.

CC. Rental Agreements

Q. Please describe the Company's projected expenses for Rental Agreements.

A. Schedule C, Page 4 of 6, of Exhibit __ (RRP-2) shows the details of the forecast for Rental Agreements for electric and Schedule C, Page 4 of 6, of Exhibit __ (RRP-3) does so for gas. The forecast for Rental Agreements was prepared by first reviewing the historic period expense to determine rental agreements that are expected to be ongoing, expiring or changing pursuant to contract terms. The balance of historic year (not related to Network Strategy) rental agreements was projected by inflating normalized historical period expense. Lastly, historic year and incremental rental expense due to the build-out of network strategy was identified by location and projected based on terms, conditions, and costs noted in existing rental arrangements and type and quantity of the planned facilities to be installed with consideration of where and who owns the property being utilized.

DD. <u>Security of Infrastructure</u>

Q. What are the Company's projected expenses for Security of Infrastructure?

A. Schedule C, Page 4 of 6, of Exhibit __ (RRP-2) reflects Security of Infrastructure expense for electric and Schedule C, Page 4 of 6, of Exhibit __ (RRP-3) does so for gas. The cost projection was provided by and is addressed in the testimony of Company Witness Nuzzo, the Company's Director of Corporate Security.

EE. <u>Maintenance of Buildings & Grounds</u>

Q. Please describe the Company's projected expenses for Maintenance of Buildings & Grounds.

A. Schedule C, Page 4 of 6, of Exhibit __ (RRP-2) shows the details of the forecast for Maintenance of Building & Grounds for electric and Schedule C, Page 4 of 6, of Exhibit __ (RRP-3) does so for gas. These expenses and related activities relate to the day-to-day work of maintaining our office buildings and property. In previous rate cases, the expenses were included within the element of expense identified as "Expenses Projected Based on Inflation." The forecast for Maintenance of Buildings & Grounds was prepared by first reviewing the historic period expense to determine if normalization adjustments were necessary. Normalizations reflect the reclassification of expense to appropriate cost elements. Normalized historic year expenses were then inflated to arrive at the Rate Year projections. The revenue requirement also considers incremental expense in this cost element to allow the Company to employ a preventative maintenance program at the district offices. The projection assumes this new program to be on a five year cycle.

FF. <u>Storm Expenses</u>

1. Major Storm Reserve

Q. Please explain the Company's forecast for the Major Storm Reserve.

A. A major storm reserve for incremental expense incurred for weather events that qualify as chargeable to the reserve was established in Case 14-E-0318. Exhibit __ (RRP-2), Schedule C, Page 4 of 6, provides the amount included in the development of electric revenue requirements at $700,000, which is the current amount included in delivery rates.

2. Non Major Storm Restoration

Q. What is the Company's forecast for expenses related to Non-Major Storm Restoration.

A. The projection for Non-Major Storm Restoration Expense was derived by use of a three-year average (twelve months ended March 31, 2015; 2016; and 2017) of non-major storm expenditures adjusted to March 2017 dollars, which were then inflated by the GDP factors. The three-year average excludes storm events that would qualify as chargeable to the major storm reserve. Schedule C, Page 4 of 6, of Exhibit __ (RRP-2) shows the expense projections. The Company is seeking update at the time of Brief on Exceptions to reflect the latest known information in development of the three-year average.

GG. <u>Material & Supplies</u>

Q. What are the Company's forecasted expenses for Materials & Supplies?

A. Schedule C, Page 4 of 6, of Exhibit __ (RRP-2) shows details of the amount of material and supplies charged directly to electric expense and Schedule C, Page 4 of 6, of Exhibit __ (RRP-3) does so for gas expense. The historic year level of material & supplies ("M&S") expense required several adjustments in order to arrive at a normalized historic year expense. First, historic year amounts had to be adjusted for accounting entries processed through journal vouchers that were related to M&S. Then, the balance was adjusted to remove an approximate amount related to stores inventory that was applied as an overhead during the historic year and amounts of M&S that are included in other elements of expense. For electric operations, further adjustments were made to reflect 1) a minor reclassification of a JV related to use of tools as M&S; 2) a reclassification of a JV from to Distribution Maintenance and Repairs related to M&S overheads as M&S; 3) inclusion of M&S expense related to street lighting maintenance not reflected in the historic year; and 4) removal of credit in expense that occurs as a result of timing and the balancing of M&S. No further adjustments were required to the M&S for gas operations. The adjusted and normalized historic expense levels were then escalated at inflation to develop the forecasts for the bridge periods and the Rate Year.

HH. Stores Clearing to Expense

Q. What is the Company's forecast for Stores Clearing to Expense?

A. Schedule C, Page 5 of 6, of Exhibit __ (RRP-2) shows details of the amount of stores clearing to expense allocated to electric expense and Schedule C, Page 4 of 6, of Exhibit __ (RRP-3) does so for gas expense. The expenses contained in this element of expense are those charged to the stores clearing account that are not allocable to other cost elements. In previous rate cases these expenses were included within the element of expense identified as "Expenses Projected Based on Inflation." The forecast for stores clearing to expense was prepared by first reviewing the historic period expense to determine if normalization adjustments were necessary and none were found. Historic year expenses were then inflated to arrive at the projections for the bridge period and Rate Year.

II. <u>Transportation Expenses</u>

1. Transportation Depreciation

Q. Please describe the Company's forecast for Transportation Depreciation.

A. Schedule C, Page 5 of 6, of Exhibit __ (RRP-2) shows details of the amount of depreciation related to transportation equipment chargeable to electric expense and Schedule C, Page 4 of 6, of Exhibit __ (RRP-3) does so for gas expense. The base amount of depreciation was provided by the Accounting and Tax Panel.

2. Transportation Fuel

Q. What is the basis for the Company's forecast for Transportation Fuel expense?

A. Schedule C, Page 5 of 6, of Exhibit __ (RRP-2) shows details of the amount of vehicle fuel costs chargeable to electric expense and Schedule C, Page 4 of 6, of Exhibit __ (RRP-3) does so for gas expense. In previous rate cases Transportation Fuel was included within the element of expense identified as "Expenses Projected Based on Inflation." The forecast for Transportation Fuel was prepared by first reviewing the historic period expense to determine if normalization adjustments were necessary. Gallons consumed in storms that were deferred to the Storm

Reserve were removed. Normalized Historic Year gallons were separated between gallons purchased on contract at lock-in prices and gallons purchased at market price. To forecast 2017, normalized gallons were either priced at the lock-in contract prices at the end of the Historic Year or at current market prices adjusted for inflation. All projections beyond 2017 were based on inflation.

3. Transportation All Other

Q. Please describe the Company's forecast for all other expenses related to Transportation.

A. Schedule C, Page 5 of 6, of Exhibit __ (RRP-2) shows details of the amount of all other transportation related costs, that is to say excluding depreciation and fuel costs, that are charged to the transportation clearing account and allocated to electric expense and Schedule C, Page 4 of 6, of Exhibit __ (RRP-3) does so for gas expense. In previous rate cases, Transportation All Other was included within the element of expense identified as "Expenses Projected Based on Inflation." The forecast for Transportation All Other was prepared by first reviewing the historic period expense to determine if normalization adjustments were necessary. Duplicative expense due to a change in vendor was removed from the Historic Year and then inflation was applied to develop the Rate Year projection.

JJ. <u>Rate Case Expenses</u>

Q. Please describe the Company's forecasted Rate Case expenses.

A. Schedule C, Page 5 of 6, of Exhibit __ (RRP-2) and Schedule C, Page 5 of 6, of Exhibit __ (RRP-3) detail the expenses that are traditionally incurred related to a rate case application. The filing assumes continuation of the deferral accounting and three-year amortization of these costs as authorized in the 2015 Rate Plan to arrive at the forward looking Rate Year. In addition, we have included the projected deferred balance with assumed costs and recovery in the development of Rate Base.

KK. <u>Legal Services</u>

Q. What are the Company's projected expenses for Legal Services?

A. Schedule C, Page 5 of 6, of Exhibit __ (RRP-2) and Schedule C, Page 5 of 6, of Exhibit __ (RRP-3) show the information related to the projection of Legal Services expense. The forecast for Legal Services expense was prepared by first reviewing the historic period expense to determine if normalization adjustments were necessary. Normalization adjustments reflect the reclassification of legal expenses from other cost elements and removal of non-recurring or out-of-period items. Normalized historic year expenses were then inflated to arrive at the Rate Year projections. The revenue requirement also considers incremental expense in this cost element to reflect anticipated additional work to be performed by

Thompson Hine to supplement the work of the Company's in-house attorney.

LL. <u>Consulting & Professional Services</u>

Q. What are the Company's forecasted expenses for Consulting & Professional Services?

A. The types of costs included in the Consulting & Professional Services category are shown on Exhibit __ (RRP-2), Schedule C, Page 5 of 6, and Exhibit __ (RRP-3), Schedule C, Page 5 of 6. The forecast for Consulting and Professional Services expense was prepared by first reviewing the historic period expense to determine if normalization adjustments were necessary. Normalizations included annualizing expenses for selected services, reversal of out-of-period expenses, and removal of non-recurring expenses. Normalized historic year expenses were then inflated to arrive at the Rate Year projections. Additionally, incremental expense is included for the following services:

- Outside support services in conjunction with the expansion and development of employee education and training program;
- Transition to a new external auditor based on communicated fee structure;

- Non-auditing services related to the increased level of activity and complexity of FASB updates to accounting standards and other regulatory activity, including PSC Orders and potential tax reform;
- Services to assist the human resources group in identifying and expanding the pool of potential candidates for hire; and
- Anticipated incremental expenses associated with continued system modernization efforts as directed by the Commission. In regard to this specific incremental expense, the Company is requesting full symmetrical deferral as further discussed in the direct testimony of the DSP Panel.

MM. <u>Miscellaneous General Expenses</u>

Q. What Miscellaneous General Expenses are forecasted by the Company?

A. Schedule C, Page 5 of 6, of Exhibit __ (RRP-2) provides details of the projection for Miscellaneous General Expenses for electric and Schedule C, Page 5 of 6, of Exhibit __ (RRP-3) provides these details for gas. The forecast for Miscellaneous General expense was prepared by first reviewing the historic period expense to determine if normalization adjustments were necessary. There were five normalization adjustments required. The first adjustment was to reclassify an industry association fee that relates to the gas industry that was incorrectly charged to electric operations. The second and third adjustments relate to financial fees with the inclusion of a rating agency fee that was not billed during the historic year and another fee removed as a non-recurring expense. The fourth adjustment relates to recognizing the scheduled July 2017 increases for Board of Director fees charged to Central Hudson. The fifth adjustment was to reclassify software related expense to Information Technology. Normalized historic year expenses were then inflated to arrive at the projections for the bridge period and Rate Year with the exception of certain administrative costs allocated from Fortis, Inc. to Central Hudson. Central Hudson's allocation of these Fortis administrative costs for the bridge period and the Rate Year were projected based on the first quarter 2017 billing which was then annualized and escalated at inflation.

NN. <u>Injuries and Damages</u>

Q. Please describe the Company's projections for expenses related to Injuries and Damages.

A. Schedule C, Page 6 of 6, of Exhibit __ (RRP-2) and Schedule C, Page 5 of 6, of Exhibit __ (RRP-3) show insurance coverage for workers' compensation, excess liability, personal and property damage claims and accident and safety activities, which comprise Injuries and Damages.

The cost estimate for workers compensation is based on the latest known actual premiums and claims paid based on a three-year average (twelve months ended March 31, 2015; 2016; and 2017) adjusted to March 2017 dollars. The projected costs were allocated on the basis of the Company's payroll distribution for the historical period. Consistent with prior cases, the Company is seeking update at the time of Brief on Exceptions to reflect the latest known premiums; the three-year average of claims paid; and any surcharges and assessments imposed by the New York State Workers' Compensation Board.

Q. How did Central Hudson project costs for excess liability insurance?

A. The projected costs for excess liability insurance are based on the most recent known premiums that were provided by the Company's Senior Risk Management Administrator. Cost projections were based on inflating normalized historical period costs. The Company is seeking update at the time of Brief on Exceptions to reflect the latest known premiums.

Q. How were costs for personal and property damage claims developed?

A. Projections for personal and property damage claims were derived by taking a three-year average (twelve months ended March 31, 2015; 2016; and 2017) of claim payments adjusted to March 2017 dollars and inflating to arrive at the Rate Year projection. The Company is seeking update at the time of Brief on Exceptions to reflect the latest known information in development of the three-year average.

Q. What costs are included in Accident and Safety Activities expense?

A. Accident and Safety Activities expense is made up of Cyber Insurance, Miscellaneous Accident Expense, and Claims Billing Credits. With the exception of Miscellaneous Accident Insurance, cost projections were based on inflating normalized historical period costs. Miscellaneous

Accident Expense was projected by taking a three-year average (twelve months ended March 31, 2015; 2016; and 2017) of expense adjusted to March 2017 dollars and then applying inflation.

OO. Other Operating Insurance

Q. What costs has the Company projected for Other Operating Insurance?

A. Schedule C, Page 6 of 6, of Exhibit __ (RRP-2) shows the details for Other Operating Insurance for electric and Schedule C, Page 5 of 6, of Exhibit __ (RRP-3) does so for gas. Cost projections are based on the most recent known premiums that were provided by the Company's Senior Risk Management Administrator. Other Operating Insurance includes Directors and Officers ("D&O") Insurance, All Risk Property Insurance, Miscellaneous Other Insurances, and Brokerage Fees. With the exception of All Risk Property Insurance, cost projections were based on inflating normalized historical period costs. Regarding All Risk Property Insurance, the cost of the insurance is based on the value of the property being insured. For the purposes of cost projections, the property is classified into three groups: 1) dams; 2) gas regulator stations/electric substations; and 3) other. The insured values for July 1, 2017 represent an increase of $34.9 million over the value insured at July 1, 2016. To arrive at the Rate Year projection, the insured value of the dams was increased at inflation and the insured value of the gas regulator stations/electric substations and other property was grown at 4.5%, which is consistent with the average annual increase experienced since 2014. The insured value was then multiplied by the rate per million of insured value, which was calculated by escalating the July 1, 2016 rate by inflation. All Risk Property Insurance also includes other miscellaneous insurances that were projected based on inflating normalized historic year expenses.

PP. <u>Office Supplies</u>

Q. Please describe the forecasted expenses for Office Supplies.

A. Schedule C, Page 6 of 6, of Exhibit __ (RRP-2) shows the details for Office Supplies for electric and Schedule C, Page 5 of 6, of Exhibit __ (RRP-3) does so for gas. The historic year level of Office Supplies (PSC Account 921.00) expense was first adjusted to reclassify certain activities to other elements of expense. The adjusted historic year was then normalized to transfer expenses related to IT software and employee training to those elements of expense. The projection is based on inflation of normalized historical period costs.

QQ. <u>Management & Operational Audit Costs</u>

Q. What costs are projected for Management & Operational Audit Costs?

A. Schedule C, Page 6 of 6, of Exhibit __ (RRP-2) for electric and Schedule C, Page 5 of 6, of Exhibit __ (RRP-3) for gas show the details of the Company's actual and projected management and operational audits expenditures amortized over a five-year period. The Company is proposing to net the over collection of $282,074 from Case 09-M-0764 (2009 Management Audit), the deferred costs of $45,006 associated with Case 13-M-0314 (Service & Field Operations Audit), the deferred costs of $54,208 associated with Case 13-M-0449 (Staffing Core Function Audit), and the current Management Audit (Case 16-M-0001) and amortize the net regulatory asset balance over 60 months. In addition, the Company is proposing continuation of full deferral accounting as authorized in the 2015 Rate Order.

RR. <u>Expenses Allocated to Affiliates</u>

Q. What are the Company's projected Expenses Allocated to Affiliates?

A. Schedule C, Page 6 of 6, of Exhibit __ (RRP-2) and Schedule C, Page 6 of 6, of Exhibit __ (RRP-3) show the information related to the projection of Expenses Allocated to Affiliates for electric and gas, respectively. The projection is based on inflation of normalized historical period credits to Central Hudson due to costs determined to be chargeable to its affiliates.

SS. <u>Miscellaneous Charges</u>

Q. What are the Company's projected Miscellaneous Charges?

A. Schedule C, Page 6 of 6, of Exhibit __ (RRP-2) and Schedule C, Page 6 of 6, of Exhibit __ (RRP-3) show the information related to the projection of Miscellaneous Charges for electric and gas, respectively. The historic year level consists of the activities and expenses that have not been identified elsewhere within an element of expense discussed in this testimony. In other words, it represents the residual accounts payable and non-labor journal voucher transactions incurred during the historic year. The projection initially is based on historic year expenses which were then escalated at inflation to project the Rate Year. Then, effective with the start of the new Rate Year, we included miscellaneous expenses related to the Low Income Program that previously were included within that allowance but are now reflected here in compliance with the Commission's February 17, 2017 Order. Lastly, we included incremental expense for additional resources (contractor labor) to process the anticipated increase in manual billing from the Value of DER (Case 15-E-0751) proceeding as described in the testimony of the Accounting and Tax Panel.

TT. <u>Gas System Expenses</u>

1. Gas Pipeline Integrity & Inspection

Q. Please describe the expenses forecasted for Gas Pipeline Integrity & Inspection.

A. Schedule C, Page 2 of 6, of Exhibit __ (RRP-3) show the information related to the projection of Gas Pipeline Integrity & Inspection Expense. The forecast was prepared by first reviewing the historic period expense to determine if normalization adjustments were necessary. Normalization adjustments reflect the reclassification of expenses to other cost elements and an adjustment for expenses not fully reflected in the historic year as a result of timing of inspections and surveys. Information for the latter normalization was provided by the Gas Safety Panel and is further discussed in that testimony. Normalized historic year expenses were then inflated to arrive at the Rate Year projections. The Gas Safety Panel's testimony also addresses the Company's proposal to update for the anticipated new contract terms and anticipated changes in costs and qualification requirements for external contractors performing required gas leakage surveys. Consistent with all other requests for update, it should be updated at the time of the Company's Brief on Exceptions. The revenue requirement also considers incremental expense in this cost element to reflect implementation of the Super Rule and the requirements of the April 20, 2017 Order in Case 15-G-0244 with regard to inspection of indoor meter sets. These projections were provided by the Gas Safety Panel and are further explained in that Panel's testimony.

2. Gas Leak Repairs – Distribution Main

Q. Please describe next the expenses forecasted for Gas Leak Repairs – Distribution Main.

A. Schedule C, Page 2 of 6, of Exhibit __ (RRP-3) shows the projection for gas leak repairs. The projection was developed by calculating a cost per repair for the twelve months ended March 31, 2017, which was normalized to reflect expense not included as a result of timing. The cost per repair was then inflated to arrive at the cost for the Rate Year and was multiplied by the leak repair projection provided by the Gas Safety Panel. All other expenses included in this cost element were projected by applying inflation to historic year expenses. Further, the Company is proposing a deferral mechanism related to the expense for gas leak repairs, which is addressed in more detail in the direct testimony of the Gas Safety Panel.

3. Gas Expansion & Marketing

Q. How were the expenses forecasted for Gas Expansion & Marketing?

A. Schedule C, Page 2 of 6, of Exhibit __ (RRP-3) provide details of the rate allowance projection for Gas Expansion & Marketing. As previously described, these expenditures were included within “Expenses Projected Based on Inflation” in prior rate case filings. The Rate Year projection was developed by parsing historic year expenses into three categories: 1) ICF, the vendor responsible for managing the gas expansion program; 2) Mailings & Printing; and 3) All Other. The historic year ICF costs were annualized to reflect a full twelve months’ worth of expense and were then inflated to arrive at the Rate Year projection. Next, in order to project the cost of mass mailings and associated printing, a three year average of costs associated with residential communications, adjusted to March 2017 dollars, was calculated based on information provided by the Director of Marketing and Sales. Estimated costs for incremental non-residential mailings were also provided, and the total cost of residential and non-residential communications was inflated to arrive at the projected Rate

Year expense. Lastly, projections of the group of “All Other” costs was based on applying inflation to historic year expenses.

UU. <u>Taxes Other than Income Taxes</u>

Q. Please describe the Company’s forecast for Taxes Other than Income Taxes.

A. Schedule C, Page 6 of 6, of Exhibit __ (RRP-2) reflects Taxes Other Than Income Taxes, with details as to type of tax, for electric and Schedule C, Page 6 of 6, of Exhibit __ (RRP-3) does so for gas.

1. Revenue Taxes

Q. What are the Company’s projected revenue taxes?

A. Revenue taxes are a surcharge applied to delivery rates and are collected in the same manner as other surcharges. As such, the income statement presentation shows Revenue Taxes as both a revenue line item within Operating Revenues and as an expense line item within Other Deductions. The projection of revenues taxes were provided by the Forecasting and Rates Panel.

2. Payroll Taxes

Q. What are the Company’s projected payroll taxes?

A. Payroll taxes, consisting of Federal Insurance Contributions Act (“FICA”), federal and state unemployment insurance, and Medicare tax were calculated by applying the appropriate tax rates to the related taxable wage base projected for the applicable periods. The Company is requesting update to reflect known FICA taxes/surtaxes at the time of Brief on Exceptions. The Metropolitan Commuter Transportation Mobility Tax on payrolls within the Metropolitan Transit Authority ("MTA") region is being deferred and collected through the existing MTA tax surcharge mechanisms and, as such, no allowance for this tax is included in the payroll tax rate allowance. In addition, as discussed in the testimony of the Accounting and Tax Panel, the Company is seeking deferral accounting for potential taxes that may be incurred in the future that were not included in the development of payroll taxes.

3. Other Taxes

Q. What other taxes are included in the Company's forecast?

A. Other taxes include sales and use taxes and hazardous waste taxes (electric operations only). Sales and use taxes were projected by first applying inflation to normalized historical period costs. As further discussed in the testimony of the Accounting and Tax Panel, normalizations are for removal of sales tax related to audit findings. As also referred to by the Accounting and Tax Panel, incremental sales tax above inflated levels was included in the projection of the Rate Year in order to reflect an increased sales tax expense directly correlated to incremental O&M expense in select cost elements. The hazardous waste tax projection is based on applying inflation factors to a three-year average (twelve months ended March 31, 2015; 2016; and 2017) of hazardous waste tax adjusted to March 2017 dollars and is allocated 100% to electric operations consistent with the Company's accounting practice.

4. Property Taxes

Q. What property taxes are projected by the Company?

A. Property taxes were projected and are explained in the testimony of the Property Tax Panel. The testimony of that Panel also includes the Company's request for update of latest known property taxes at the time of Brief on Exceptions. Details of the projections are provided on Exhibit __ (PTP-1) and Exhibit __ (PTP-2) for electric and gas, respectively, which are sponsored by the Property Tax Panel. The projection schedules detail real estate and special franchise taxes levied by school districts and by towns, counties, cities and villages.

III. <u>Development of Rate Base</u>

Q. Referring to Schedule A of Exhibit __ (RRP-5), what does this schedule show?

A. This schedule shows the total rate base by department for the historical period of the twelve months ended March 31, 2017 and summarizes the components that make up the rate base.

DIRECT TESTIMONY OF THE REVENUE REQUIREMENTS PANEL

Q. Are any items included in the rate base for the historical and forecast periods supported by a witness other than this Panel?

A. Yes. The rate base amounts for Net Plant and Noninterest-Bearing Construction Work in Progress for the historical period and all projected periods were provided by the Accounting and Tax Panel and are addressed in that Panel's testimony.

Q. Please describe the amount labeled "Customer Advances for Under-grounding" appearing on Schedule A of Exhibit __ (RRP-5).

A. The amount represents the average balance of advances to the Company by customers for underground construction for the historical period.

Q. Please describe the amount labeled "Preliminary Survey & Investigation" appearing on Schedule A of Exhibit __ (RRP-5).

A. The amount represents the average balance of charges incurred during the historic year related to the preliminary work of the proposed training center.

Q. Please describe the amounts labeled "Deferred Charges" as shown on Schedule A of Exhibit __ (RRP-5).

A. The deferred charge items which have been listed on Schedule A are shown in detail on Schedule B of this Exhibit. They generally represent costs incurred by the Company or credits due customers which, in accordance with the Uniform System of Accounts or by permission granted by the Commission, are deferred when they occur and are reflected as an expense or income in a subsequent period.

Q. Please describe the items appearing on Schedule B of Exhibit __ (RRP-5).

A. These deferred balances represent the average balance during the historical period of each item.

The deferral of “Research and Development Costs” results from the accounting treatment set forth in Commission Opinion No. 78-3, issued on March 6, 1978 in Case 27154. In general, such deferrals result from the monthly matching of expense to revenues collected for the Research and Development Program.

The amounts shown for “MTA Tax” represent the unrecovered portion of the Company's payments of the Temporary Metropolitan Transportation Business Tax Surcharge.

The amounts shown for “Unamortized Debt Expense” are amortized over the terms of the various securities to which they are related in accordance with the Uniform System of Accounts. The amounts shown on Schedule B were allocated 75% to the Electric Department and 25% to the Gas Department based on the proportional shares of the historical period earnings base.

“Carrying Charge on NMP-2 Settlement Agreement Costs” is related to the accounting and ratemaking for certain Nine Mile Point 2 (“NMP-2”) insurance policyholder distributions as previously authorized by the Commission in its Order Authorizing Asset Transfers issued on October 6, 2001 in Case 01-E-0011, which approved the Joint Proposal between Central Hudson and Staff ("Central Hudson NMP-2 Joint Proposal"), (See Central Hudson NMP-2 Joint Proposal at pgs. 5 and 6).

"Deferred Revenues - Attachment Rents" result from the Company's accounting treatment recognizing the attachment rents as revenues during the period to which they pertain rather than when they are received.

"Electric Reliability Metric" is the amount due to customers related to the Electric Reliability Negative Revenue Adjustment ("NRA") and associated reporting requirements defined in Case 14-E-0318 (2015 Rate Order, Joint Proposal at pg. 47).

"Gas Dig In Penalty-2016" and "Gas Dig In Penalty-2015" are the NRAs assessed for gas excavation damages as defined in Case 14-G-0319 (2015 Rate Order, Joint Proposal at pgs. 48-49).

"Gas Compliance Metric 2014" and "Gas Compliance Metric 2015" and "Gas Compliance Metric 2013 PSC Adj" are the NRAs assessed for gas safety violations performance measures as described in Case 14-G-0319 (2015 Rate Order, Joint Proposal at pgs. 49-51).

"Mismark Penalties" are the NRAs assessed for gas mismarks as described in Case 14-G-0319 (2015 Rate Order, Joint Proposal at pg. 49).

"Part 255/261 Liability Gas" represents the gas safety violations accrued but not yet assessed. The accrued liability balance has been removed from the Rate Year projection.

"Gas Expansion Program Incentives" was recorded during the historic year and then later reversed based on a determination that we did not achieve this incentive. The balance shown is due to averaging during the historic year.

"Executive Deferred Compensation Plan" represents the balance sheet effect of the timing difference between the accrual of expense and the payment of benefits.

"Carrying Charge on Asbestos Litigation" represents the interest due to the Company on legal costs incurred related to mitigating claims and seeking insurance recoveries.

"Unamortized Loss on Reacquired Debt" is amortized over the terms of the various securities to which it is related in accordance with the Uniform System of Accounts. The amounts shown on Schedule B were allocated 75% to the Electric Department and 25% to the Gas Department based on the proportional shares of the historical period earnings base.

"Economic Development" represents the remaining funding earmarked for Economic Development, as approved by the Commission in Cases 05-E-0934 and 05-G-0935, an additional $4.5 million of funding from Fortis, and a transfer of $0.5 million from the Competition Education Fund as directed in the Acquisition Order (pg. 26).

"Competition Education Program – Over/Under Collection" represents the deferral of the over-recovery of funding to promote and educate customers on the potential benefits of selecting an alternate supplier as approved by the Commission's July 24, 2006 Order Establishing Rate Plan ("2006 Rate Order") in Cases 05-E-0934 and 05-G-0935 (2006 Rate Order at pg. 17). Additionally, $0.5 million was transferred from this fund to Economic Development as directed in the Acquisition Order (pg. 26).

"Carrying Charge on Enhanced Powerful Opportunities Program" represents the accumulated interest due to or from customers related to the funding for the program established by the Commission in Cases 05-E-0934 and 05-G-0935 (2006 Rate Order at pgs. 13-14).

"Carrying Charge on Environmental SIR Costs & Recoveries" represents the average balance during the historical period of the accumulated interest due from customers related to the funding for such costs established by the Commission in Cases 05-E-0934 and 05-G-0935 (2006 Rate Order at pg. 69).

The next item appearing on Schedule B is "Carrying Charge on Property Taxes" which represents the accumulated interest due to and from customers related to the deferral of the over- and under-recovery of property taxes as authorized by the Commission in Cases 14-E-0318 and 14-G-0319 (2015 Rate Order, Joint Proposal at pg. 20).

"Carrying Charge on 18A Temporary Assessment – Over/Under" represents the accumulated interest due from customers related to the deferral of the over- and under-recovery of the Commission 18A temporary assessment as authorized in Cases 14-E-0318 and 14-G-0319 (2015 Rate Order, Joint Proposal at pg. 18 and Appendix E).

"Carrying Charge on PSC General Assessment – Over Under" represents the accumulated interest due customers related to the deferral of the over- and under-recovery of the Commission general assessment as authorized by the Commission in Cases 14-E-0318 and 14-G-0319 (2015 Rate Order, Joint Proposal at pg.18).

"Carrying Charge on RDM" represents the accumulated interest due to and from customers related to the deferral of the difference between the targeted delivery revenue for each applicable service class versus the actual revenue collected.

"Carrying Charge on Storm Costs" represents the accumulated interest due from customers related to the deferral of incremental storm restoration costs related to the Snowbird Storm in November 2014 as authorized in the Order Approving Deferred Accounting Treatment for Incremental Storm Restoration Costs, issued January 22, 2016 in Case 15-E-0464 (at pg. 6, Ordering Paragraph 1), as well as the accumulated interest due to customers related to sales tax adjustments for previously deferred storms.

"Carrying Charge on Management Audit Costs" represents the accumulated interest due from customers related to the deferral of actual Management Audit expenses authorized in Cases 14-E-0318 and 14-G-0319 (2015 Rate Order, Joint Proposal at pg. 20).

"Carrying Charge on Stray Voltage Overcollection - Electric" represents the accumulated interest due to customers related to underspending of testing and mitigation costs as established in Case 14-E-031 (2015 Rate Order, Joint Proposal at pg. 21).

"Federal Research Credit" represents the amount due to customers for federal research and development income tax credits received by the Company.

"Carrying Charge on Deferred Interest (Variable)" represents the accumulated interest due to customers related to deferral of the difference between the actual interest rate and the interest rate assumed in setting rates related to variable rate debt as authorized in Cases 14-E-0318 and 14-G-0319 (2015 Rate Order, Joint Proposal at pg. 17).

"Carrying Charge on MFC Overcollection - Gas" represents the accumulated interest due to customers on overcollected revenues as provided in Case 05-G-0935 (2006 Rate Order, Joint Proposal at pgs. 19-22).

"CC-Energy Efficiency Incentives-CYE 2015" and "CC-Energy Efficiency Incentives-2011" represent the accumulated interest due from customers related to the Company achieving Energy Efficiency targets as authorized in Cases 14-E-0318 and 14-G-0319 (2015 Rate Order, Joint Proposal at pg. 25).

"Carrying Charge on Deferral on Overcollection of Interest" represents the accumulated interest due to customers related to the deferral of interest on new debt previously addressed and identified as "Interest Overcollection – New Debt Issuances" as established in Cases 14-E-0318 and 14-G-0319 (2015 Rate Order, Joint Proposal at pg. 18).

"Def Low Income Bill Disc./Fortis Funded" represents available funding for programs identified and established in the Acquisition Order (Acquisition Order at pgs. 25-27).

"Competitive Metering Initiative" represents the funding made available under the Customer Benefit Fund ("CBF") related to the sale of generating assets as established and approved by the Commission in Cases 05-E-0934 and 05-G-0935 (2006 Rate Order, Joint Proposal at pg. 31).

"Deferred Accretion Expense" represents the amount due from customers for accretion expenses that have been deferred as established in Cases 14-E-0318 and 14-G-0319 (2015 Rate Order, Joint Proposal at pg. 26).

"Net Plant/Depreciation Target Shortfall-Gas" represents the amount due to customers that has been accrued under the assumption that the Company will not achieve the cumulative Net Plant/Depreciation Target for the Rate Plan Ended June 30, 2018 as established in Cases 14-E-0318 and 14-G-0319 (2015 Rate Order, Joint Proposal at pgs. 15-17 and Appendix C).

"CC-Net Plant/Depreciation Target Shortfall-Electric" represents the accumulated interest due to customers that has been recorded related to the Company not achieving the Net Plant/Depreciation Target for the Rate Year Ended June 30, 2015 as established in the Acquisition Order (Joint Proposal at pgs. 34-35).

"CC-Gas Threat Assessment-Horseheads Order" represents the accumulated interest due from customers that has been recorded as a result of complying with the Commission's February 20, 2014 Order Requiring Risk Assessments and Remediation of New York Gas Facilities, its May 14, 2014 Order Readopting Emergency Action and Modifying Order, its June 27, 2014 Order Making Permanent Risk Assessment Order and Clarifying Requirements, and its April 17, 2015 Order Directing Implementation of Best Practices of New York Gas Facilities in Case 11-G-0565. Deferral of these costs is authorized in Case 14-G-0319 (2015 Rate Order, Joint Proposal at pg. 20).

"CC-Bulk Electric System" represents the accumulated interest due to customers that has been recorded related to new compliance requirements resulting from North American Electric Reliability Corporation's changes to the definition of the Bulk Electric System approved by the Federal Energy Regulatory Commission. Deferral of these costs is authorized in Case 14-E-0318 (2015 Rate Order, Joint Proposal at pg. 20).

"Rate Case Deferral" represents the balance of rate case expenses incurred and the amortization of such as authorized in Cases 14-E-0318 and 14-G-0319 (2015 Rate Order, Joint Proposal at pg. 22).

"CC-Storm Reserve" represents the accumulated interest due to customers that has been recorded related to the difference between the Major Storm rate allowance and actual Major Storm Costs as authorized in Case 14-E-0318 (2015 Rate Order, Joint Proposal at pg. 23).

"CC-Rate Moderators" represents the accumulated interest due to customers on the net deferred regulatory credits available for rate moderation as authorized in Cases 14-E-0318 and 14-G-0319 (2015 Rate Order, Joint Proposal at pg. 27).

"CC-Danskammer Gas Revenue" represents the accumulated interest due to customers on the actual delivery revenues associated with providing gas service to Danskammer as authorized in Case 14-G-0319 (2015 Rate Order, Joint Proposal at pg. 25).

"PRA-Service Terminations" represents the positive revenue adjustment ("PRA") the Company receives of 5 basis points for each Rate Year in which it has reduced service terminations in occupied buildings below 11,000 terminations as authorized in Cases 14-E-0318 and 14-G-0319 (2015 Rate Order, Joint Proposal at pgs. 46-47).

"PRA-Leak Prone Pipe" represents the PRA the Company receives of 2 basis points per mile of replacement of Leak Prone Pipe in excess of the applicable target per calendar year, capped at a maximum of 5 miles, as authorized in Case 14-G-0319 (2015 Rate Order, Joint Proposal at pgs. 25-26).

"CC- Waiver of Reconnection Fee" represents the accumulated interest due to customers related to the over-collection of the allowance to forgive the reconnection fee as a component of the Low Income Discount Program as authorized in Cases 14-E-0318 and 14-G-0319 (2015 Rate Order, Joint Proposal at pgs. 31-32).

"CC-Low Income Bill Discount" represents the accumulated interest due to customers related to the underspending of the Low Income Bill Discount Program, excluding the Waiver of Reconnection Fee, as authorized in Cases 14-E-0318 and 14-G-0319 (2015 Rate Order, Joint Proposal at pgs. 31-32).

"REV Demonstration Projects" represents the incremental revenue requirement effect of the Company's Reforming the Energy Vision ("REV")

Demonstration Project capital expenditures up to $10 million as authorized in Cases 14-E-0318 and 14-G-0319 (2015 Rate Order, Joint Proposal at pgs. 23-24).

"CC-REV Demonstration Projects" represents the accumulated interest due from customers on the incremental revenue requirement effect of the Company's REV Demonstration Project capital expenditures up to $10 million as authorized in Cases 14-E-0318 and 14-G-0319 (2015 Rate Order, Joint Proposal at pgs. 23-24).

"CC-Cost to Achieve Tax Refund" represents accumulated interest due to customers related to a tax return adjustment on the costs incurred by the Company obtaining significant tax refunds related to the change in tax treatments for certain repair allowances associated with its 2009 federal tax return.

"Bonus Depreciation Deferral" represents accumulated interest due from customers on the revenue requirement effect of the bonus depreciation reduction to rate base as authorized in Cases 14-E-0318 and 14-G-0319 (2015 Rate Order, Joint Proposal at pg. 25).

"CC-Empire Zone Rate – Lost Revenues" represents the accumulated interest due from customers for the deferred lost revenues of the Empire Zone Rate as authorized in the Commission's Order Approving the Provision for an Empire Zone Rate with Modifications and

Recovery of Associated Lost Revenues, issued on January 22, 2016 in Case 15-E-0569 (at pg. 11, Ordering Paragraph 4).

"CC-Distributed System Implementation Plan (DSIP)" represents the accumulated interest due from customers on the deferral of the incremental cost of DSIP as authorized in Cases 14-E-0318 and 14-G-0319 (2015 Rate Order, Joint Proposal at pg. 45).

"CC-NYS Tax Rate Change" represents the accumulated interest due from customers on the deferred expense effect of a change to the New York State income tax rate as authorized in Cases 14-E-0318 and 14-G-0319 (2015 Rate Order, Joint Proposal at pg. 20).

"NYS Capital Base Tax" represents the incremental state income tax expense for the non-net income based calculation of state income taxes as authorized in Cases 14-E-0318 and 14-G-0319 (2015 Rate Order, Joint Proposal at pg. 24).

"CC-NYS Capital Base Tax" represents the accumulated interest due from customers on the incremental state income tax expense for the non-net income based calculation of state income taxes as authorized in Cases 14-E-0318 and 14-G-0319 (2015 Rate Order, Joint Proposal at pg. 24).

"CC-NYSERDA CEF/Internal EET" represents the accumulated interest due to customers on difference between actual expenses incurred in connection with the Clean Energy Fund (including SBC, EEPS and

RPS) and internal EET programs to the costs collected from customers as authorized in Cases 14-E-0318 and 14-G-0319 (2015 Rate Order, Joint Proposal at pgs. 22-23).

“CC-Bonus Depreciation Deferral” represents the accumulated interest due to customers on the revenue requirement effect of the bonus depreciation reduction to rate base as authorized in Cases 14-E-0318 and 14-G-0319 (2015 Rate Order, Joint Proposal at pg. 25).

“Revenue Requirement – Leak Prone Pipe” represents the deferred revenue requirement due from customers for miles of leak prone pipe replaced in excess of the actual 2016 and projected 2017 targets as authorized in Case 14-G-0319 (2015 Rate Order, Joint Proposal at pgs. 25-26).

“CC-Revenue Requirement – Leak Prone Pipe” represents the carrying charge on the deferred revenue requirement due from customers for miles of leak prone pipe replaced in excess of the actual 2016 and projected 2017 targets as authorized in Case 14-G-0319 (2015 Rate Order, Joint Proposal at pgs. 25-26 and Appendix E).

Q. Would the Panel please explain what is shown on Schedule C of Exhibit __ (RRP-5) entitled "Deferred Federal Taxes?"

A. Schedule C shows the average balance of accumulated deferred federal taxes for the historical period. The majority of the items listed represent the deferred federal income tax associated with the deferred charges shown on Schedule B. Other items listed on Schedule C result from deferred tax accounting authorized or required by long-standing Commission policy.

Q. Would the Panel please explain those deferred federal tax items included in Schedule C of Exhibit __ (RRP-5) that are not directly related to the items shown on Schedule B?

A. "Investment Tax Credit" results from the normalization of the tax benefits associated with the Investment Tax Credit related to plant investment as required by tax law and adopted by the Commission.

"Contributions In Aid of Construction" is the result of normalizing the tax effect of such contributions from customers being considered a reduction of plant cost for book purposes, but an item of income for tax purposes.

"Unbilled Revenue" represents the taxation of unbilled revenues under the Tax Reform Act of 1986 and the related accounting and ratemaking requirements established by the Commission in a policy statement issued July 7, 1987 in Case 29465 (Statement of Policy on Accounting and Ratemaking Procedures to Implement Requirements of the Tax Reform Act of 1986 at pgs. 26-29).

"Deferred Avoided Cost Interest Capitalized" represents the deferred federal income tax resulting from the capitalization of construction-related interest costs under the Tax Reform Act of 1986 and the related accounting and ratemaking for such change in tax treatment established by the Commission in its related policy statement issued in Case 29465 (Statement of Policy on Accounting and Ratemaking Procedures to Implement Requirements of the Tax Reform Act of 1986 at pgs. 40-42).

The amount shown as "Bonds Redeemed" represents the deferred income tax on both the unamortized redemption premium and deferred mortgage recording taxes related to redeemed bonds.

"Cost of Removal" is the deferred federal income tax associated with the costs of retiring plant in service.

The amount shown on Schedule C for "Repair Allowance" represents the deferred federal income tax benefits resulting from the ability to expense for tax purposes certain replacements of plant which are capitalized for book purposes.

"Normalized Depreciation" results from the normalization of the federal income tax benefits of tax depreciation related to plant investment as required by tax law and adopted by the Commission.

"Use of Customer Benefits Acct – Capital Reliability Program" and "MACRS – Capital Reliability Program" represents the deferred tax benefits related to depreciation of electric reliability projects, the book costs of which were recovered from the Customer Benefit Fund.

"Prepaid Insurance" represents the deferral of federal income tax benefits associated with the deduction of prepaid insurance.

"Repair Deduction" represents the deferred taxes related to the reclassification of certain assets from capital to expense for federal and state income tax purposes. This is a timing difference and will reverse over the book life of the asset.

"NOL Carryforward" represents the federal Net Operating Loss ("NOL") that was calculated for Calendar Year 2016. That NOL will be carried forward to be applied against future taxable income. The NOL Carryforward reverses when there is taxable income to absorb it.

The last item is "Interest Expense on Tax Reserve" which represents the deferred taxes on the interest payable on the reserve for the gas repair deduction deemed to be at risk while awaiting final tax regulations.

Q. Are there any other comments that the Panel would like to make regarding the deferred tax items shown on Schedule C of Exhibit __ (RRP-5)?

A. Yes. Schedule C does not include amounts related to unamortized debt expense (excluding mortgage recording tax) and unamortized loss on reacquired debt because the amortization periods for these costs are the same for both book and tax purposes and, therefore, no deferred taxes result. In addition, executive deferred compensation is non-deductible for tax purposes and, therefore, no deferred taxes result. Also, the Company has created federal contra tax accounts to recognize the federal benefits of deferred state income taxes. The Company previously recorded deferred federal taxes at 35% and deferred state income taxes at the net of federal tax benefit rate, that is to say 6.5% times 35%. This change has no effect on the overall deferred taxes of the Company.

Q. Please explain what is shown on Schedule D of Exhibit __ (RRP-5) entitled "Deferred State Taxes."

A. Schedule D shows the accumulated deferred New York State taxes for the historical period. As with Schedule C, some of the items listed represent the deferred state income tax associated with the deferred charges shown on Schedule B. Other items listed on Schedule D result from deferred tax accounting authorized or required by the Commission as previously described regarding federal income taxes on Schedule C.

Q. Please explain what is shown on Schedule E of Exhibit __ (RRP-5), entitled “Working Capital.”

A. The working capital items which have been summarized on Schedule A are shown on Schedule E of Exhibit __ (RRP-5). This schedule sets forth the working capital component of rate base for the twelve months ended March 31, 2017. The schedule identifies the standard items that make up the working capital rate base in accordance with established Commission practice. Included are Other Materials and Supplies, Prepayments and an allowance for operation and maintenance ("O&M") expenses, excluding uncollectibles.

Q. How were the amounts shown on Schedule E of Exhibit __ (RRP-5) developed?

A. Monthly balances for materials and supplies and prepaid expenses were derived from the Company's monthly balance sheets. The allowance for operation and maintenance expenses was developed from the departmental income statements by applying the Federal Energy Regulatory Commission ("FERC") formula, as approved by the Commission. Since the Company began billing all customers monthly effective July 2016, a one-eighth (1/8) factor was used to determine the cash working capital related to operation and maintenance expenses other than fuel (hydro and gas turbine) and purchased power for electric operations and purchased gas for gas operations. The Commission's Order issued on December 22, 1971 in the Niagara Mohawk Power Corporation Case 26088 (Order at pgs. 5-9) established the 1/8 factor as appropriate, since the "FPC (Federal Power Commission) method comprehends a working capital cash allowance of 1/8 of annual operating expenses based on service being billed on a monthly basis." The historic year level of cash working capital was normalized to recognize the adjustments made to O&M expense excluding commodity costs and uncollectibles.

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Q. How were common components of working capital allocated between the Electric and Gas Departments?

A. Common items in the materials and supplies portion of working capital were allocated 74% to the Electric Department and 26% to the Gas Department based on the ratio of average electric and gas gross utility plant, excluding common and future use plant for the historical period. Prepaid property taxes were allocated 76% to the electric department and 24% to the gas department based on the sum of the property taxes charged to electric and gas expense for the period 2014 through 2016.

All other prepayments were allocated 80% to the electric department and 20% to the gas department as authorized in Cases 14-E-0318 and 14-G-0319 (2015 Rate Order, Joint Proposal at pg. 10.)

Q. Please explain the derivation of the amounts labeled "Capitalization Adjustment to Rate Base" appearing on Schedule A of Exhibit __ (RRP-5).

A. These amounts are developed on Schedules F through H of Exhibit __ (RRP-5). Schedule F shows the average capitalization per the Company's books for the twelve months ended March 31, 2017. Schedule G shows the average corporate earnings base for the twelve months ended March 31, 2017. The amounts developed on Schedules F and G are used on Schedule H, which compares the historical period earnings base and capitalization in order to determine the extent to which the unadjusted rate base must be adjusted so that the final earnings base and capitalization are in balance.

Q. Please explain the derivation of earnings base as shown on Schedule G of Exhibit __ (RRP-5).

A. The earnings base shown on Schedule G is the earnings base for the historical period before the application of the earnings base-capitalization adjustment to rate base. It, therefore, consists of the unadjusted rate base – shown on Schedule A of Exhibit __ (RRP-5) – and a series of items on which interest or carrying charges are accrued. The latter items are: interest-bearing construction work in progress (shown on Schedule A of Exhibit __ (ATP-1)); the average net deferred balance for the historic period of Asbestos Litigation; Enhanced Powerful Opportunities and Low Income Bill Discount Programs; Environmental SIR Costs and Recoveries; Property Taxes; Gas Net Lost Revenue – MFC Overcollection; § 18-a Surcharge and General Assessment; Revenue Decoupling Mechanism ("RDM") Surcharge; Management Audit Costs; Stray Voltage; Long Term Variable Rate Debt; Gas Threat Assessment – Horseheads Order; Bulk Electric System; Net Plant/Depreciation Target Shortfall-RY5; Energy Efficiency Incentives – CYE 2011; Energy Efficiency Incentives-CYE 2015; Storm Deferral Costs; Rate Moderator; Storm Reserve; Waiver of Reconnection Fee; REV Demonstration Projects; Cost to Achieve Tax Refund; NYS Tax Rate Change; Empire Zone Rate-Lost Revenues;

Distribution Service Installation Plan ("DSIP"); NYSERDA CEF/Internal EET, where CEF includes SBC, EEPS and RPS; Bonus Depreciation Deferral; Capital Base Tax; FIT-SIT Contra Accounts; NMP-2 Settlement Agreement Costs; the earnings base effects, for the historical period, of the average liability to the pension fund, the internal reserve, the over/under collection of pension costs, carrying charges and applicable deferred tax balances; and, the earnings base effects, for the historical period, of the average liability to the OPEB fund, internal reserve, over/under collection of OPEB costs, carrying charges and applicable deferred tax balances.

Q. Why has the total capitalization shown on Schedule F been adjusted on Schedule H prior to comparing it to the earnings base?

A. Capitalization has been adjusted for several purposes. The first is to recognize that capital has been used to support non-earnings base items. Adjustments shown in Schedule H to reflect this are those related to the Company's average investment in non-utility property and temporary cash investments.

The second purpose of adjusting capitalization is to more accurately reflect the flow of cash available to the Company from the various sources of capital than is indicated by the monthly average capitalization shown on Schedule F. In this regard, capitalization was decreased to reflect the average daily, rather than monthly, balance of long-term debt; increased for short-term debt; with no change for common equity.

Lastly, the third purpose for adjusting capitalization relates to recognizing that short term deferred and working capital costs are collected through the Energy Cost Adjustment Mechanism (“ECAM”) and Gas Supply Charge (“GSC”). Adjustments shown in Schedule H to reflect this are those identified as “Deferred Gas Supplier Refunds”; “Deferred Gas Costs”; “Working Capital – Material & Supplies Inventory”; “Deferred Electric Fuel Costs”; and “Deferred Long Term Gas R&D/GRI Costs.”

Q. What is the result of the comparison on Schedule H of Exhibit __ (RRP-5) of the historical period earnings base and adjusted capitalization?

A. The comparison shows that earnings base exceeds adjusted capitalization by $557,000. Accordingly, the unadjusted rate base has been decreased by this amount as shown and identified as "Capitalization Adjustment to Rate Base" appearing on Schedule A of Exhibits __ (RRP-5) and __ (RRP-6). This adjustment reflects the consistent application of the method used by the Company and endorsed by the Commission in previous rate cases.

Q. How has the capitalization adjustment to rate base been allocated between the Electric and Gas Departments?

A. The capitalization adjustment to rate base has been allocated 75% to the Electric Department and 25% to the Gas Department based on their respective contributions to the total earnings base for the historical period as calculated on Schedule G of Exhibit __ (RRP-5).

Q. Turning now to the subject of forecasting various components of the rate base and referring to Exhibit __ (RRP-6), Schedule A, please explain how the amounts labeled "Customer Advances for Undergrounding" and “Preliminary Survey & Investigation” were forecasted.

A. The amounts shown on Schedule A for these items represent the balances at March 31, 2017, which were held constant throughout the bridge period and Rate Year.

Q. Please explain the method used to develop the projected amounts shown on Schedules B, C and D, of Exhibit __ (RRP-6), entitled "Deferred Charges," “Deferred Federal Income Taxes,” and "Deferred State Income Taxes," respectively.

A. The amounts shown on Schedules B, C and D were developed by projecting monthly balances for the items shown and then determining the average monthly balance for each twelve-month period. For those items appearing on all three schedules, the deferred tax balances shown on Schedules C and D track the projected balances for the item as shown on Schedule B.

Balances for the items were generally projected by using cost or credit deferrals provided to us by other areas of the Company, along with the related income statement effects for the items included in Exhibit __ (RRP-2) and Exhibit __ (RRP-3).

Certain Electric and Gas Department projected deferred balances at the beginning of the Rate Year were reset to zero and included on the net regulatory balances available for rate moderation.

Q. How was the amount shown on Schedule A of Exhibit __ (RRP-6), related to "Working Capital," for the projected periods calculated?

A. The calculation of working capital as summarized on Schedule A is shown on Schedule E of Exhibit __ (RRP-6).

Q. Referring to Schedule E, please explain how the working capital components were projected.

A. Working Capital related to prepaid insurance, other prepayments and other material and supplies was forecasted by inflating the historical period monthly amounts by 1.015 for April through December 2017, 1.022 for January through December 2018 and 1.022 for January through December 2019 based on projections of the GDP Implicit Price Deflator provided by the Forecasting and Rates Panel.

The amounts related to prepaid property taxes were projected to increase in proportion to the increases projected for property tax expense as shown in Exhibits __ (RRP-2) and __ (RRP-3). The projection of when the tax payment is made is based on a three-year average of actual payments for calendar years 2014 through 2016.

The operation and maintenance cash working capital component was developed by applying the FERC formula as described in this testimony regarding the historical period cash working capital allowance.

Q. What is the projected rate base by Department for the Rate Year?

A. As shown on Schedule A of Exhibit __ (RRP-6), the projected rate base for the Rate Year is $983.4 million for Electric and $380.4 million for Gas.

IV. Disposition of Deferred Items

Q. What is the Company's proposal related to the deferred balances identified as available for moderation?

A. Schedule A and B of Exhibit __ (RRP-7) show the projected deferred balances available for moderation for electric and gas on a pre-tax basis, respectively. The projected electric balance as of July 1, 2018 is a regulatory credit of $22.0 million and a regulatory credit of $10.1 million for gas.

The Company is proposing a balanced phase-in approach to moderate the bill impact of the delivery rate increase in order to provide relief to customers while also recognizing that the Company's delivery rates are in need of a change to align revenues with the cost to serve our customers in a safe and reliable manner. The Company is proposing that this moderation be provided to customers in the form of a bill credit similar to the method employed in Cases 14-E-0318 and 14-G-0319. The

Company is open to further discussion regarding the amount and duration of the rate moderation to be utilized.

We also propose that the final makeup and disposition of these balances, including the recognition of unanticipated items, and any necessary related rate base adjustments be addressed at the time of Brief on Exceptions based upon actually known items and balances at that time.

V. Provision for Updates

Q. Please specify the areas of data that the Revenue Requirements Panel and other Company witnesses have proposed to update later in this proceeding.

A. Exhibit __ (RRP-8) provides a listing of all proposed items subject to update. The majority of the proposed update items have been included in the last several Company rate cases. These updates have traditionally been performed for inclusion in the Company's Brief on Exceptions.

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

A. Yes, it does.