BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation

Case 15-G-0284 and 15-G-0286

September 2015

Prepared Testimony of:

Staff Common Infrastructure Panel

Aric J. Rider
Utility Supervisor

Joel R. Miranti, P.E.
Utility Engineer 1

OFFICE OF ELECTRIC, GAS & WATER
State of New York
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

Introductions and Qualifications

Q. Mr. Rider, please state your full name and business address.

A. My name is Aric J. Rider. My business address is Three Empire State Plaza, Albany, New York 12223.

Q. By whom are you employed and in what capacity?

A. I am employed by the Department of Public Service (Department) as a Utility Supervisor, currently assigned to the Gas and Water Rates Section of the Office of Electric, Gas and Water.

Q. Mr. Rider, please provide a summary of your educational background and professional experience.

A. I hold a Bachelor of Science Degree in Civil Engineering Technology, which I received in 2001 from the State University of New York Institute of Technology at Utica/Rome. Within the Office of Electric, Gas and Water, I am currently assigned to the Gas and Water Rates Section. I previously have been assigned to the Major Utility Rates, Gas Rates, Gas Safety, Gas Policy and Electric Rates Sections. My duties involve the engineering analysis of utility operations as they relate to the ratemaking process, as well as participating in various reviews of local distribution companies' activities.

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

A. Yes, I have testified in several proceedings before the Commission regarding sales forecasts, revenue imputations, operation and maintenance expenses, depreciation, capital planning, development of net plant, cost of service, revenue allocation, rate design, merchant function charges, revenue decoupling mechanisms, gas safety performance mechanisms and tariff issues.

Q. Mr. Miranti, please state your full name and business address.

A. My name is Joel R. Miranti. My business address is Three Empire State Plaza, Albany, New York 12223.

Q. By whom are you employed and in what capacity?

A. I am employed by the Department as a Utility Engineer 1 in the Gas and Water Rates Section in the Office of Electric, Gas and Water.

Q. Please provide a summary of your educational and professional experience.

A. I graduated from the Clarkson University in Potsdam, New York with a Bachelors of Science in Civil Engineering in 2002. I have worked for the Ulster County and Cortland County Health Departments as a Public Health Engineer, and have also worked as a private consulting engineer. I gained my New York State Professional Engineering License in 2008. In 2012, I accepted employment with the Department of Public Service in the Office of Energy Efficiency and the Environment and, in 2014, began working in the Office of Electric, Gas and Water. My experience includes engineering design and review of water and wastewater infrastructure, land development projects, water quantity and quality projects, and analysis of energy efficiency programs.

Q. Have you previously testified before the Commission?

A. No, I have not.

Scope of the Testimony

Q. What is the scope of your testimony in these proceedings?

A. The purpose of the Staff Common Infrastructure Panel's testimony is to explain our findings and recommendations after reviewing the common capital projects for which New York State Electric and Gas Corporation, or NYSEG, and Rochester Gas and Electric Corporation, or RG&E, have proposed rate recognition in their common capital budgets for the calendar years 2016 and 2017. In addition, we will discuss, among other things, the Companies budgeting process, common capital programs and the allocation of common expenditures to the business units.

Q. Please summarize your recommendations.

A. We recommend a reduction to common capital expenditures in calendar years 2016 and 2017, an improved budgeting process and an update to the common cost allocation factors.

Q. Please summarize your capital expenditure adjustments.

A. We recommend that NYSEG's common capital expenditures be reduced by $17.4 million and

$16.9 million in calendar year 2016 and calendar year 2017, respectively. We recommend that RG&E's common capital expenditures be reduced by $5.0 million and $7.3 million in calendar year 2016 and calendar year 2017, respectively. The budgeting we reviewed is done on a calendar year basis instead of a rate year and we will discuss calendar years in our testimony unless we need to specify a rate year.

Q. Please summarize your common allocation adjustments.

A. NYSEG's allocations will change from 79.2% electric and 20.8% gas to 80.26% electric and 19.74% gas. RG&E's allocations will change from 68.59% electric and 31.41% gas to 71.39% electric and 28.61% gas.

Q. Please summarize the adjustments the Panel provided to the Staff Electric Infrastructure Panel and Staff Gas Infrastructure Panel.

A. We provided the Staff Electric Infrastructure Panel and Staff Gas Infrastructure Panel the gross plant in service, accumulated depreciation reserve balances and depreciation expense for the rate year.

Q. What is the purpose of reviewing the Companies' common capital budgets in this proceeding?

A. The intent of reviewing the Companies' capital expenditure budgets is to recommend an overall level of common capital expenditures to be used in setting rates for the rate year. The security related expenditures are addressed by the Staff Security Panel. We are recommending adjustments to the amount of plant forecast to be added to the Companies' plant in service balances during the rate year. Our adjustments reflect the level of capital additions we believe are reasonable given the Companies' initial rate case presentation and responses to interrogatories, IRs, during the discovery phase of the proceeding. As such, we believe that with our adjustments factored in, Staff has established the level of plant in service that is most appropriate for the Commission to use in setting delivery rates.

Q. What impact will the Panel's recommended calendar years 2016 and 2017 common capital expenditure adjustments have on the amount of electric, gas and common plant used for ratemaking purposes?

A. Overall, the common capital expenditure adjustments we recommend will reduce the amount added to plant in service for the rate year ending March 31, 2017. We incorporated our project specific capital adjustments, which are made on a calendar year basis, and Staff Depreciation Panel’s adjustments into our plant in service forecast model, to develop an average rate year net plant amount that should be used for ratemaking purposes. We provided the allocated average net plant balance and annual depreciation expense to the Staff Electric Infrastructure Panel and Staff Gas Infrastructure Panel.

Q. Are you sponsoring any exhibits?

A. Yes. We are sponsoring the following exhibits:

- Exhibit __(SCIP-1) contains all IRs referenced in our testimony;
- Exhibit __(SCIP-2) contains a historic variance analysis;
- Exhibit __(SCIP-3) contains the Companies’ historic common capital budgets and actual

spending levels, and planned common capital budgets;

- Exhibit __(SCIP-4) contains graphs of the Companies' historic common capital budgets and actual spending levels, planned common capital budgets, and the Panel's recommendations;
- Exhibit __(SCIP-5) contains our proposed common capital expenditure forecast;
- Exhibit __(SCIP-6) contains a summary of our common capital expenditure adjustments;
- Exhibit __(SCIP-7) contains our proposed net plant in service and depreciation expense allocated to each business unit; and
- Exhibit __(SCIP-8) contains our common cost allocation factors.

Q. How are the IRs responded to by the Companies, identified in your testimony and exhibits, organized?

A. When we refer to IR responses, we reference Staff's request number followed by the Companies' assigned number, for example, DPS-401(NYRC-1108). All of the IRs we reference are contained in Exhibit __(SCIP-1).

NYSEG and RG&E Common Capital Investment Plans

Q. Please briefly explain the Companies' common capital investment plans.

A. The Companies explain, beginning on page 55 of the Electric Capital Expenditures Panel's testimony, that they plan to make common investments for customer services, facilities, general services, operation technology, information technology and security that benefit both the electric and gas operations. The testimony offered brief explanations for its forecast common capital expenditures and often referred to its Five Year Capital Investment Plan, or as they refer to it, the Five Year Plan, as contained in Exhibit __(CEE-2), specifically pages 77 through 79. The investments are then allocated to the electric and gas businesses using the common cost allocation factors.

Q. At what levels are the Companies proposing to invest in common capital expenditures over the next five years?

A. NYSEG plans to invest $215 million, and RG&E plans to invest $115 million over the next five years, as shown in Exhibit __(CEE-2), page 77.

Q. Please summarize the Companies' common capital expenditures for calendar year 2015 through calendar year 2017.

A. As shown in the Companies' Exhibit __(CEE-2), page 77, NYSEG's common budgets are $21.1 million, $43.1 million and $51.5 million for calendar years 2015, 2016 and 2017, respectively. RG&E's common budgets are $18.9 million, $23.3 million and $25.1 million for calendar years 2015, 2016 and 2017, respectively.

Overview of the Capital Budgeting Process

Q. Please explain how the Companies generally develop their annual capital budget.

A. The Companies claim that the investment planning group meets with sections responsible for certain functions to develop project scopes, reasons and benefits for projects, and with sections that implement the capital projects. They discuss current projects, upcoming projects and projected needs, and details such as scope, investment reason, number of customers served, load, cost, capital cash flow, investment prioritization category, etcetera. The projects that are the highest priorities based on the risk ranking process are incorporated into the Five Year Plan. Senior management reviews and discusses the proposed capital plan, including the capital investment level, as well as the projects that were excluded from the investment plan. Once all internal stakeholders are satisfied the cash flows are input into the SAP budgeting system by project and by internal/external cost categories as detailed in the Companies' response to DPS pre-filed IR NYSEG Electric-59(NYRC-0059).

Q. After the capital investment plan is complete, who signs off on it?

A. The Board of Directors approves the capital plan for the upcoming year. The additional four years are used for informational and planning purposes.

Q. How do the Companies prioritize their capital plan?

A. The Companies follow a capital investment prioritization strategy, as stated in the response to DPS pre-filed IR NYSEG Electric-59 (NYRC-0059). The Companies claim they use the strategy to meet key objectives of: (1) meeting needs of customers, (2) achieving best in class reliability and quality, (3) replacing obsolete equipment and facilities through modernization, (4) improving effectiveness and efficiency of the network through automation, (5) sustaining the environment, and (6) safely completing the objectives.

Q. Were the calendar year 2015 budgets approved by the Board of Directors?

A. Yes, the Companies' calendar year 2015 budgets were approved by the Board of Directors.

Review of the Common Capital Budget

Q. Please explain the scope of the Panel's review of the proposed common capital expenditures.

A. We are testifying to the level of common capital spending for the rate year. We also reviewed all of the plans and projects through calendar year 2019. The Companies develop capital expenditures by calendar year and the rate year to which we are testifying covers calendar year budgets for both 2016 and 2017. We, therefore, provide specific adjustments to the calendar years 2016 and 2017 capital budgets. We then incorporated those adjustments into our plant in service model.

Q. Please explain how the Panel typically conducts a capital investment review.

A. Staff typically reviews how a company plans and controls its major capital expenditures by reviewing and evaluating the company's process and procedures. We also review to determine whether the company is pursuing its budget priorities with sufficient oversight from the Board of Directors with executive management then measuring the project's progress during the year. We also analyze how load forecasting impacts capital planning in terms of meeting current and future loads. The capital budgeting process should be both a top-down and bottom-up process. The top-down perspective should represent the goals and objectives for the company and be incorporated into both the capital and maintenance budgets. The company should incorporate these strategic goals and objectives in the planning process. The bottom-up budgeting consists of identifying capital requirements on a project-by-project basis at the departmental level. However, the capital budget should be developed primarily from the bottom-up assessment of system needs giving due consideration to top-down financial considerations.

Q. What else can you tell us about the process?

A. The approval of the capital budget by the Board of Directors does not constitute authorization to proceed on the individual projects. Project managers should complete design engineering and preparation work to be submitted for formal budget approval, which should then be followed by a funding authorization. Our review tried to determine whether this process is being followed. After the authorization is granted, the company should closely track, on a monthly basis, the actual expenditures for each project to the initial authorized planned expenditures. Variance reports should provide sufficient detail as to why projects are over or under spent, or if there exists a need for a project with a greater priority to supersede the need for spending on any other particular project. Management should closely track the company's expenditures and inform the Board of Directors on a timely basis of any issues that come to management's attention.

Q. What common capital information did the Panel attempt to review in these proceedings?

A. Our plan was to review the Companies' process and procedures, including historic expenditures, forecast expenditures and changes to Operation and Maintenance, or O&M, expenses related to changes to the forecast expenditures. We believe the Companies are required to justify each and every capital program or project, and related projected O&M change.

Q. Please explain why the Panel conducts a historic review of expenditures.

A. The purpose of a historic review is twofold, it provides insight as to the company's capital spending performance and it is a final review of actual expenditures before they are incorporated into rate base.

Q. What does the Panel request from a company to conduct a historic review?

A. We expect that, on the day a company files its rate case, it provide the actual capital expenditure amounts for the last five historic years, including the test year, in aggregate and, for mass activities, by blanket project grouping or otherwise by specific project. Historic budgeted expenditure levels should be the levels approved by the company's Board of Directors for each historic period. We expect that the reporting format stay consistent from year to year. We also expect in a rate case that the company be able to provide a fully descriptive analysis to detail for each project line item, by year, whether project schedule slippage, scope change or cost variance or combination thereof was the basis for deviations from budget.

Q. Please explain how the Panel typically reviews a company's forecast capital expenditure budget.

A. We review each capital expenditure project or blanket grouping line item, provide a fully detailed description, including all studies and alternative analysis of project or blanket grouping; a justification of project and expenditure; a cost breakdown; the current schedule, with major milestones and in-service dates; the cost/benefit analysis; and the associated corporate management project authorization.

Q. Why is the review of this information important?

A. Proper documentation is how we verify that a company developed its plans to spend its capital budget in the best interest of customers.

Q. Does the Panel also review the related and potential O&M costs and savings associated with the forecasted capital expenditures?

A. Yes. We typically review by program or project, either aggregated by blanket or individual project, each O&M program change in line with the capital plan. We also typically ask for a detailed description of the related O&M program; the related actual and budgeted O&M expenditure amounts for the last five historic years by program; the related O&M for both actual and planned units of work completed on annual basis for the last five years; a justification for the related O&M program change; a cost breakdown of the related O&M; and, the planned units of related O&M work to be completed in future annual periods.

Q. Why is the O&M documentation necessary and important?

A. Like the forecast capital expenditure documentation, there are usually impacts to O&M expenses when changes to the capital budgets are made. Without the documentation, we cannot be sure that the associated forecast O&M costs are appropriate in the rate year.

Q. How will the Panel address the Companies' common expenditures in their Five Year Plan?

A. We will discuss our historical review, management audit findings, our review of the forecast and the common allocations.

Historical Review

Q. Are there a series of standard, or pre-filed, IRs that are given to a company prior to filing for rates that are expected to be provided when the rate case is filed?

A. Yes.

Q. What pre-filed IRs are applicable to your review in these proceedings?

A. The applicable ones here are Electric pre-filed IRs 56, 57, 58, 59 and 60, as shown in Exhibit __(SCIP-1).

Q. Did the Companies file responses to the pre-filed IRs?

A. Yes.

Q. Did the Panel review the Companies' historical variance reports for common capital expenditures?

A. Yes, the Panel reviewed the responses to DPS pre-filed IRs NYSEG Electric-56(NYRC-0056), RG&E Electric-56(NYRC-0507), and NYSEG Gas-83(NYRC-0176) which contained the Companies' calendar year 2010 through 2014 history of planned and actual common capital expenditures by grouping and in total. We also review the responses to DPS-358(NYRC-0973) and DPS-480(NYRC-1217).

Q. What did the Panel discover?

A. We have several observations. First, the variance report format was not consistent over the five year period. Second, the reports show common projects allocated to each business unit.

Third, there were, at times, significant variances between planned and actual spending. And, fourth, the reasons for variances are not well documented.

Q. What variance report was not consistent in the requested time frame?

A. The calendar year 2010 variance report is in a different format than the variance reports for calendar years 2011, 2012, 2013 and 2014, which makes it impossible to line up all of the project categories in the review period.

Q. How are common projects shown in the variance reports for calendar years 2011, 2012, 2013 and 2014?

A. The allocated portion of the common budget is shown in line items under each business unit.

Q. Do you have any concerns with this approach?

A. Yes. The common projects should have their own section in the reports and should not be shown allocated to each business unit. While these projects benefit both electric and gas business units, they are distinct projects and should be tracked in their entirety under a separate heading in the report. Moving forward, the

Commission should require that the variance reports be filed in the same format as the table shown on Exhibit __(CEE-2), page 77, further broken down by program or project, and not allocated to each business unit.

Q. Can you briefly explain some of the variances that you observed in the variance reports?

A. Yes. As shown in Exhibit __(SCIP-2), which was developed using the response to pre-filed IR NYSEG Gas-83(NYRC-0176), at times there were significant variances between planned and actual spending. For example, in calendar year 2010 NYSEG over spent its General Land and Structures budget by 268% and, in 2012, RG&E over spent its Other Common budget by 157%. We also used the response to IR DPS-480(NYRC-1217) to develop a more detailed variance review and, again, found significant variances by program, as shown in Exhibit __(SCIP-2).

Q. What is the Panel’s opinion of the Companies’ historic under- and over-spending in common capital expenditure groupings?

A. Our variance analysis clearly shows that the Companies try to manage to the overall common budget and allocates funds between projects, but all without formal documentation.

Q. What does the Panel believe this omission of formal documentation implies?

A. The Panel believes the omission of such documentation demonstrates evidence of poor planning, poor cost controls and/or poor project estimation. Furthermore, the Companies have not produced any formal documentation that justifies the transfers of spending from the approved expenditures from one project to another.

Q. If the reason for significant variances is project estimation, how would the Panel define "accurate project estimation?"

A. We believe an accurate project estimate needs to encourage efficiency by providing a reasonable and realistic estimate of the resource requirements of a project considering the inter-relationships between project scope, cost, and schedule as well as project constraints and circumstances. In this respect, we believe project estimation accuracy should be improved through better-defined and refined work scopes, through benchmarking by taking into account differences in circumstances, and through experience gained through competitively bid projects. Ideally, an estimate would be slightly low, but realistic, to encourage innovation and discipline. Importantly, if an estimate is unreasonably high, it will encourage unnecessary scope expansion, cost over-runs and/or schedule over-runs. Similarly, if an estimate is unreasonably low, it may be ignored as a credible limit, encouraging over-runs. The need for reasonable and realistic estimates is most important during the planning and decision making approval stage of a project, and again at project construction initiation to facilitate project management and cost control.

Admittedly, the ability to produce a more accurate resource estimate improves as the project progresses; but unfortunately, a more accurate estimate near the completion date of a project is much less useful from a project management perspective. To summarize, we would define an “accurate resource estimate” process as a timely, at the beginning rather than completion of a capital project, consistent, reasonable and realistic approximation of the requirements for a project that encourages planning and decision making efficiency and provides project management discipline.

Q. Do you agree with the Companies' current process and procedures on managing its common capital budgets?

A. No. We do not agree with the Companies lack of documentation and informality, at least in terms of documentation, of moving common capital expenditures between projects or programs.

Q. How can the process be improved?

A. We recommend that the Companies develop a written procedure that shall be followed for variances and reallocations in project expenditure that are greater than 15%. The document should go through a reauthorization process that management formally approves, and can be provided to the Commission upon request.

Forecast Review

Q. How did the Panel begin to review the Companies' common Five Year Plan?

A. We started by reviewing the testimony, exhibits and pre-filed IR responses.

Q. What is the Panel’s opinion of the response to the pre-filed IRs 58 and 60?

A. The Panel believes the data provided is overly general and inadequate to support the Companies forecast common capital plan.

Q. Is there basis to support this opinion?

A. Yes. The responses to pre-filed IRs NYSEG Electric-58(NYRC-0058) and RG&E Electric-58(NYRC-0509), shown in Exhibit __(SCIP-1) asked for each common capital expenditure project or blanket grouping, a detailed description including all studies and alternative analysis of project or blanket grouping; a justification of project and expenditure; a cost breakdown; a current schedule, with major milestones and in-service dates; and a cost/benefit analysis. The Companies’ response merely refers to their Five Year Plan in Exhibit __(CEE-2).

Q. Do the IR response and the information referenced in Exhibit __(CEE-2) fully answer the requests of pre-filed IRs NYSEG Electric-58(NYRC-0058) and RG&E Electric-58(NYRC-0509)?

A. No, they do not. The Five Year Plan, and related information with respect to common capital expenditures, is fully contained in pages 77 through 79 of Exhibit __(CEE-2), “NYSEG and RG&E Capital Investment Plan 2015-2019.” The Five Year Plan includes information for seven groupings of common projects. Some very general descriptions or justifications are provided. However, no studies, alternative analyses, cost-benefit analyses, major milestones or in-service dates are provided.

Q. Did the Panel follow-up with the Companies regarding the lack of information in their responses to pre-filed IRs NYSEG Electric-58(NYRC-0058) and RG&E Electric-58(NYRC-0509)?

A. Yes. We asked IRs, including DPS-481(NYRC-1218), which requested detailed and specific information for all common projects. Unfortunately, the response, presented in Exhibit __(SCIP-1), does not provide the derivation of cost estimates with specific supporting documents, or cost/benefit analyses, feasibility studies, historical cost studies, etcetera, for each common project. The Companies stated that the detailed information requested is not available for the majority of projects.

Q. Why does the Panel believe the information, which has been requested but not provided by the Companies, is important?

A. We believe the information is important to demonstrate to the Commission that the Companies were diligent while making their planning and capital investment decisions.

Q. How does the Companies’ general lack of information regarding forecasted common capital projects impact the Panel’s opinion regarding the forecast common capital projects?

A. The Panel believes that the general lack of information is a clear indication that these forecasted common projects are not responsibly supported by the Companies. They indicate a lack of attention to detail and do not allow us to verify how closely the Companies follow their procedures for project planning, implementation and completion. Therefore, we cannot be support the Companies’ forecasts.

Q. Were similar findings or concerns found in the electric and gas budgeting areas?

A. Yes. We contacted the Staff assigned to the electric and gas infrastructure review and they informed us that they have concerns with the documentation submitted to support the Companies' capital plans.

Management Audit

Q. Did the Commission require the Companies to submit a management audit implementation plan?

A. Yes. On August 28, 2012, the Commission required, in Case 10-M-0551, the Companies to submit an implementation plan based on the findings of a comprehensive management audit.

Q. Were there recommendations adopted in the management audit that pertain to the capital budgeting process?

A. Yes. Recommendation 10.1 was to complete a major overhaul of the capital budgeting process and activities, in order to produce a more structured, realistic and supported approach to capital budget development and monitoring. Recommendation 10.2 was to develop a five-year and ten-year IUSA strategic plans and strong link with rate plan forecasts and annual budgets. Recommendation 10.3 was to enhance the IUSA Board's role in overseeing capital budget formation and monitoring.

Q. Have the Companies submitted implementation plan reports on these recommendations?

A. Yes. Recommendations 10.1 and 10.2, were closed out as complete in February of 2015, according to Staff witness Leak.

Q. Do you have any concerns with the status of completed~~ with~~ recommendations 10.1 and 10.2?

A. Yes. While the Companies have implemented the improvement steps described in their audit implementation plan, additional improvements are needed, with the ultimate goal being that through their capital budgeting development, approval and execution process the Companies can clearly demonstrate that they optimized their investment dollars.

Q. What additional information should be included moving forward?

A. We recommend the following documented information be provided by the Companies for all common capital programs or projects for the next budgeting cycle: (1) sufficient program or project detail, such as background, drivers, business issues and any other pertinent information, for the Commission to determine why the program or project should be done and at the projected cost; (2) a proper description sufficiently detailed so that the company and the Commission can understand the scope, goals, tasks and deliverables that the program or project is going to solve; (3) detailed explanation of the program or project that explains the project's operational, customer, environmental and intangible benefits; (4) a review of any business or customer issues that relate to the program or project; (5) all considered alternatives, including do nothing or delay, with the associated costs and reasons why alternatives were rejected; (6) identify how the investment will be recovered, in delivery rates or some other mechanism; (7) identify how the program or project will impact customers, customers who benefit from the program or project and/or the customer base; (8) the document should detail if there is a previous history of the program or project; (9) the type of investment strategy should be listed, mandatory, capacity, reliability, etcetera; (10)

an indication of the risk assessment score, if applicable; (11) identify if the program or project is straight forward typical work or is unique and complex; and (12) a signature of an executive sponsor.

Q. Why is it critical to document that alternatives have been considered?

A. It is necessary to show the Commission that the Companies evaluated alternative projects because such evaluation results in a greater confidence that the best projects are properly chosen, and that poor projects are properly rejected. It is also necessary to confirm that the Companies performed adequate research to develop and design innovative, lower cost, alternatives and/or components within alternatives due to an increased confidence in scope, cost and schedule relationships. This would include the ability and or option to decide to defer a project to continue to seek better alternatives. It is also necessary to show that discipline has been instilled in the cost control and project management process and that project estimations have been performed accurately. Such a process will in turn provide a check and balance for projects that are bid out for contract, particularly if performance incentives are included.

The Panel's Proposed Common Capital Budgets

Q. How do the Companies break down their common capital budgets?

A. The Companies break down their common budgets into seven categories: customer services, building projects and space management, general services, fleet – transportation equipment, operations technologies, information technology and security, and are shown on Exhibit __(CEE-2), page 77.

Q. Is the Panel proposing adjustments to the Company's planned common capital expenditures?

A. Yes, we are proposing adjustments to the common expenditures in each of the categories, except security. A summary of our adjustments for all common capital projects are shown in Exhibit ___(SCIP-6).

Q. How did the Panel review the projected common capital budgets?

A. As we mentioned before, we reviewed the historic variances and compared the results to the projected spending. We developed graphs to clearly show the Companies’ plans, shown in Exhibit __(SCIP-4). We also reviewed the Companies’ IR responses.

Q. What were the results of your analysis?

A. Due to the fact that the supporting documentation was lacking, we propose to use a historic average, adjusted for inflation as the common budgets for fleet, operations technology, buildings projects and space management, general services and customer services in calendar year 2016 and 2017. The information technology category was further adjusted to normalize out a major project. The calculations are shown on Exhibit __(SCIP-5).

Q. Why did the Panel use the historic averages to set the forecast budgets?

A. We acknowledge that the Companies will have to make investments in the common budget categories. Given the circumstances, we believe the historic spending levels were the best option to determine the Companies’ needs.

Q. Did the Panel make any adjustments to the security category of common capital expenditures?

A. No. These projects and expenditures have been reviewed by Staff’s Security Panel. The Staff Security Panel informed us that they recommend no adjustments to NYSEG or RGE’s proposed security capital expenditures.

Q. Please further explain the Panel’s observations of the proposed changes to fleet.

A. The Companies’ Five Year Plan includes a forecast for fleet expenditures as shown in Exhibit __(SCIP-3). NYSEG forecasts a three-fold increase in fleet expenditures capital in 2017 that continues to grow in 2018 and 2019. RG&E appears to forecast a steady increase in fleet expenditures over the Five Year Plan. According to the Companies, these increases are the result of a proposed phase-in of new vehicles to bring the Companies’ fleet toward the industry average ages as per a study performed by the benchmarking agency, Utilimarc. According to work papers provided by the Companies, the phase-in of new vehicles should reduce existing repair and maintenance costs.

Q. Did the Panel request the Utilimarc study?

A. Yes, as well as other information in IRs DPS-221(NYRC-0791), 367(NYRC-1008), 400(NYRC-1107) and 401(NYRC-1108).

Q. Did the Companies provide the study?

A. In response to the Panel's requests for the Utilimarc study, the Companies responded with a tabulation of vehicle types and ages. No information to support the tabulations, or actual study was provided.

Q. What was provided?

A. The Companies provided a detailed spreadsheet with a line item listing of each and every vehicle currently owned by the Companies, with several details, including each vehicle's estimated replacement cost and recommendations of whether the vehicle should be replaced based on specific test criteria. The Companies' spreadsheet, although detailed, does not provide support to the proposed related expenditures. With the spreadsheet data, the Companies were able to state which vehicles should be replaced, but not which or how many vehicles would be replaced, by year.

Q. Are there any other notable changes being proposed by the Companies?

A. Yes. The Companies are proposing to change to leasing rather than owning light duty vehicles. In response to Staff requests for workpapers, details, etcetera, to support this change, the Companies' submitted a one page summary table of high level findings and benefits, and a one page summary spreadsheet showing costs in comparison. The Companies stated these two pages are their support for the proposed leasing program.

Q. Did the Companies support the leasing program?

A. Not at this time. That said, should the Companies decide to pursue the leasing program they should fully document their decision process and basis for doing so.

Q. Please explain what the Panel discovered in the review of the forecasted information technology expenditures.

A. The Panel found that the responses were also not specific enough to support the forecasted information technology expenditures, and were either completely lacking or inadequate in cost-benefit analysis, consideration of alternatives, etcetera.

Q. Please summarize the Panel’s recommend adjustments to the Companies’ forecasted common capital expenditures?

A. We recommend that NYSEG’s common capital expenditures be reduced by $17.4 million and $16.9 million in calendar year 2016 and calendar year 2017, respectively. We recommend that RG&E’s common capital expenditures be reduced by $5.0 million and $7.3 million in calendar year 2016 and calendar year 2017, respectively. A summary of are adjustments is shown in Exhibit __(SCIP-6). We also recommend that these same budgets, adjusted for inflation, be used beyond calendar year 2017.

Q. Did the Panel develop the rate year net plant in service and depreciation expense associated with common expenditures for the Companies?

A. Yes, as shown on Exhibit __(SCIP-7).

Q. Did the Panel provide the results to Staff Electric Infrastructure Panel and Staff Gas Infrastructure Panel?

A. Yes we did.

Common Plant Allocations

Q. Did the Companies propose a change to the allocation method of expenditures for common capital projects?

A. Yes. NYSEG proposes to change its allocation from 79.20% electric and 20.80% gas to 79.67% electric and 20.33% gas. RG&E proposes to change its allocation from 68.59% electric and 31.41% gas to 69.48% electric and 30.52% gas. According to the Companies, the current allocation method was derived from the relationship between electric and gas gross utility plant balances at June 30, 2009, as reported in SAP, Plant in Service Account 101 plus Completed Construction Not Classified (CCNC) Account 106. The Companies are proposing to update these percentages using the test year ending balances at December 31, 2014 for the same Plant in Service and CCNC accounts, and propose to also include an adjustment for Production Facilities.

Q. Why did the Companies propose a change to the allocation methodology and make an adjustment for Production Facilities?

A. The Companies’ response to IR DPS-373(NYRC-1014) explained that amounts related to Production Facilities are removed in the calculation of NYSEG’s common plant allocator to be consistent with the calculation of RG&E’s common plant allocator.

Q. Do you agree with the Companies proposal?

A. No. The response to IR DPS-373(NYRC-1014) is inconsistent with the response to DPS pre-filed IR NYSEG Electric-18(NYRC-0018), where the Companies stated that the current methodology does not remove Production Facilities. Moreover, a general statement about being consistent does not support such a change. The Companies should fully explain why common expenditures provide no benefit to Production Facilities and, therefore, should be removed from the calculation. We recommend that the allocation factors be determined without the adjustment to Production Facilities, like the response to pre-filed IR NYSEG Electric-18(NYRC-0018) states the calculation is currently done.

Q. Has the Panel calculated the allocation factors using the test year balances at December 31, 2014?

A. Yes. Exhibit __(SCIP-8) shows three allocation scenarios: (1) the current allocations, (2) the new allocations using the Companies proposed methodology, and (3) the proposed allocations without Production Facilities adjustment. Using data supplied in the Attachment 1 of the response to pre-filed IR NYSEG Electric-18(NYRC-0018), NYSEG’s allocations would change from 79.2% electric and 20.8% gas, to 80.26% electric and 19.74% gas; RG&E’s allocations would change from 68.59% electric and 31.41% gas, to 71.39% electric and 28.61% gas.

Q. Does this conclude your testimony?

A. Yes, at this time.