BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

IN THE MATTER OF

FORTIS INC. ET AL.

AND

CH ENERGY GROUP, INC.

CASE 12-M-0192

October 2012

Prepared Testimony of:

ACCOUNTING & FINANCE RATES PANEL

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Introductions and Qualifications

Q. Please state your names, employer, and business address.

A. We are Debbie Evans, Christopher Grim, David Shahbazian, and Dongning Sun. We are employed by the New York State Department of Public Service (Department). Our business addresses are Three Empire State Plaza, Albany, NY 12223 (Evans, Shahbazian and Sun) and 90 Church Street, New York, NY 10007 (Grim).

Q. Ms. Evans, what is your position in the Department?

A. I am employed as a Public Utility Auditor III in the Office of Accounting and Finance.

Q. Please describe your educational background and professional experience.

A. I graduated from the State University of New York at Plattsburgh in 2003 and have Bachelor of Science degrees in Accounting and Business. I have been employed by the Department since June 2005.

Q. Have you previously testified before the Public Service Commission?

A. Yes. I testified before the Commission in the following recent proceedings: New York State Electric and Gas & Rochester Gas and Electric proceedings (Cases 09-E-0715, 09-G-0716, 09-E-0717 and 09-G-0718) and the Central Hudson Gas and Electric Corporation proceedings (Cases 08-E-0887 and 08-G-0888). I have also testified before the Commission in the Village of Freeport proceeding (Case 06-E-0911) and the United Water New York proceedings (Cases 06-W-0131 and 06-W-0244). I have also been involved in several municipal electric and small water rate proceedings.

Q. Mr. Grim, what is your position in the Department?

A. I am employed as a Public Utilities Auditor II in the Office of Accounting and Finance.

Q. Please describe your educational background and experience.

A. I graduated from Baruch College, C.U.N.Y. in 1979 with a Bachelors Degree in Business Administration with a major in Accounting. I have been employed by the Department of Public Service since December 1979. Since that time I have been involved in numerous accounting examinations involving the companies regulated by the Commission, including rate cases filed by a municipal electric company, various small and large water companies and a gas and electric utility.

Q. Have you previously testified before the Public Service Commission?

A. Yes. I have testified in rate cases involving water companies, a municipal electric company and a gas and electric utility.

Q. Mr. Shahbazian, what is your position in the Department?

A. I am employed as a Senior Auditor in the Office of Accounting and Finance.

Q. Mr. Shahbazian, please summarize your education and work experience.

A. I graduated from Bryant College in May 1984 with a Bachelor of Science degree in Business Administration, with a concentration in accounting. Upon graduation, I began working for the IBM Corporation and did so until July 1992. In 1992, I joined Deegan Development Group, a commercial real estate developer where I was employed as the Office / Project

Accountant and Property Manager. In 1998, I returned to IBM as a sub-contract financial analyst, working in their Global Service and Real Estate Divisions. In December 2003, I earned my Masters of Business Administration from Marist College. In 2004, I earned my Certified Internal Audit certificate. I began employment with the Department of Public Service in May 2008.

Q. Mr. Shahbazian, have you previously testified before the Public Service Commission?

A. Yes. I testified before the Commission in Central Hudson’s last two rate case proceedings: Cases 08-E-0887 and 08-G-0888; and Cases 09-E-0588 and 09-G-0589. I also testified before the Public Service Commission in National Grid’s rate filing Case 10-E-0050.

Q. Ms. Sun, what is your position in the Department?

A. I am employed as a Public Utilities Auditor Trainee 2 in the Office of Accounting and Finance.

Q. Please describe your educational background and professional experience.

A. I graduated from Branch Campus of Peking University (Beijing Union University) in Beijing China in 1992 with a Bachelor of Science degree in Chemistry. I have experience working as an engineer with the Research Institute of Petroleum Processing. I received a Master of Science degree in Accounting from the State University of New York at Albany in 2007. I have experience working as an analyst with Huron Consulting Group. I have been employed by the Department since March 2012.

Q. Have you previously testified before the Public Service Commission?

A. No.

Q. Please briefly describe the Panel's responsibilities with the Department.

A. We have general responsibility for accounting and ratemaking matters related to the companies regulated by the New York State Public Service Commission (the Commission). Our direct responsibilities include examination of accounts, records, documentation, policies and procedures of utilities regulated by the Commission and the development from that information of various analyses and recommendations to the Commission.

Summary of Testimony

Q. What is the purpose of the A&F Rates Panel's testimony in this proceeding?

A. The Panel is discussing the results of our examination of Central Hudson Gas and Electric Corporation's (Central Hudson or Company) revenue requirement information provided to Staff on June 21, 2012, for the year the Company proposes to freeze rates in this proceeding, that being the twelve months ending (TME) June 30, 2014. We are presenting Staff's adjusted cost of service exhibits for the TME June 30, 2014 and discussing the value to Central Hudson's ratepayers of the proposed rate freeze in the context of this proceeding. Additionally, we are discussing the projected net deferred debit and deferred credit offset as of June 30, 2013 and June 30, 2014.

Q. Please summarize your findings.

A. Based on our review of Central Hudson's revenue requirement information and adjustments being proposed by this Panel, the Infrastructure Panel and the Policy Panel, we believe that if the Company had sought a rate increase for the TME June 30, 2014, a rate increase would have been warranted due to increasing expenses incurred by the Company. However, as discussed in more detail below, many of those expenses have prior approved deferral treatment, meaning that even if Central Hudson does not request a rate increase for this time period, it will ultimately be made whole for the difference between certain actual expense levels incurred during this time period and the level collected through rates the next time it seeks a rate increase. Therefore, we believe that Central Hudson's proposed rate freeze during the TME June 30, 2014 does not represent any value or benefit to ratepayers. Additionally, Central Hudson shareholders are not losing out on cost recovery because they will ultimately be made whole for the majority of the increasing expenses. This is discussed in further detail in the Policy Panel's Testimony.

Exhibits

Q. Has the Panel prepared any exhibits in this proceeding?

A. Yes. Exhibit__(ARP-1) and Exhibit__(ARP-2) are Staff's electric and gas Cost of Service Schedules for the TME June 30, 2014. Exhibit__(ARP-3) and Exhibit__(ARP-4) are Staff's electric and gas Cost of Service Schedules for the TME June 30, 2014, with additional adjustments necessary to value the Company's proposed rate freeze.

Q. In your testimony, will you refer to, or otherwise rely upon, any information produced during the discovery phase of this proceeding?

A. Yes. We relied upon a number of the Company's responses to Staff Information Requests (IR). These are attached as Exhibit__(ARP-5).

Q. Please describe the Exhibit__(ARP-1) Cost of Service Exhibit - Electric.

A. Exhibit__(ARP-1) Cost of Service Exhibit-Electric consists of 12 Schedules:

Schedule 1	Income Statement & Rate of Return
Schedule 2	Federal Income Taxes
Schedule 3	Additional Income & Unallowable Deductions / Additional Deductions and Non-taxable Income

Schedule 4	Deferred Federal Income Taxes
Schedule 5	State Income Taxes
Schedule 6	Deferred State Income Taxes
Schedule 7	Rate Base Summary
Schedule 8	Deferred Rate Base Items
Schedule 9	Working Capital
Schedule 10	Capital Structure
Schedule 11	Revenue Requirement Calculation
Schedule 12	Summary of Staff's Adjustments

Q. Please summarize what is shown in Exhibit__(ARP-1).

A. Schedule 1 of Exhibit__(ARP-1) is a summary of the Staff adjusted Income Statement and Rate of Return calculation. This schedule begins with the amounts in the column in the Company's Revenue Requirement entitled "With Moderation & Before Proposed Rate Change." Schedules 2-11 are the various supporting schedules that provide input to Schedule 1. Schedule 12 summarizes the various adjustments proposed by all Staff witnesses that are reflected in the Staff forecasted revenue requirement for electric.

Q. Does Exhibit__(ARP-2) (Cost of Service Exhibit-

Gas) also contain 12 Schedules and represent the same type of information represented in Exhibit__(ARP-1)?

A. Yes. Exhibit__(ARP-2) (Cost of Service Exhibit-Gas) contains 12 Schedules similar to the format in Exhibit__(ARP-1), except they present the cost of service for Central Hudson’s gas operations.

Q. Please summarize what is shown in Exhibit__(ARP-3) and Exhibit__(ARP-4).

A. Exhibit__(ARP-3) and Exhibit__(ARP-4) contain the same schedules and information as Exhibit__(ARP-1) and Exhibit__(ARP-2), for electric operations and gas operations, respectively, with additional information necessary to value the proposed rate freeze. Exhibit__(ARP-3) and Exhibit__(ARP-4) contain an additional column of adjustments showing adjustments necessary to value the proposed rate freeze, and contain an additional schedule, Schedule 13, Summary of Staff's Adjustments to Value the Rate Freeze.

Q. Please summarize the revenue requirement needs that Staff computed for electric and gas operations for the TME June 30, 2014, as shown in Exhibit__(ARP-1) and Exhibit__(ARP-2).

A. Exhibit__(ARP-1), Schedule 1 shows the derivation of Staff’s forecasted electric revenue increase of $24.4 million, or 8.9%, for the TME June 30, 2014. Exhibit__(ARP-2), Schedule 1 shows the derivation of Staff’s forecasted gas revenue increase of $0.6 million, or 0.8%, for the TME June 30, 2014.

Q. Please summarize the Panel’s computation of the actual value of the rate freeze for the TME June 30, 2014.

A. Schedule 1 of Exhibit__(ARP-3) and Exhibit__(ARP-4) show the values of the rate freeze for the TME June 30, 2014, of a negative $3.2 million, or -1.2%, for electric operations and $0.9 million, or 1.1%, for gas operations.

Background

Q. Is Central Hudson currently operating under a Rate Plan?

A. Yes, Central Hudson is currently operating under a three year rate plan that expires June 30, 2013, as approved by the Commission in the Order Establishing Rate Plan issued June 18, 2010 in

Cases 09-E-0588 and 09-G-0589 (Rate Plan).

Q. Is Central Hudson proposing to freeze rates for a period of time as part of this proceeding?

A. Yes, as discussed in its petition, at page 27, the Company is proposing a one-year rate freeze based on the same terms as rate year three of its Rate Plan. The one-year rate freeze would be effective in the year after its Rate Plan expires, July 1, 2013 through June 30, 2014.

Q. Did Central Hudson quantify the value of the rate freeze for its ratepayers?

A. Page 7 of the petition states, “Petitioners have not attributed a quantified dollar value to the rate freeze, although it is apparent that it has significant economic value.”

Q. Did Central Hudson file rate case information in this proceeding?

A. Central Hudson did not initially file rate case information with its petition filed on April 20, 2012. However, on April 26, 2012, Staff submitted 93 general interrogatories related to electric operations and 179 general interrogatories related to gas operations. Through informal discussions with Staff and as discussed at the May 16, 2012 Procedural Conference, the Company agreed to file a revenue requirement and supporting workpapers detailing what the Company would have asked for had it filed a rate case filing for the TME June 30, 2014. Central Hudson provided this rate case data on June 21, 2012.

Q. Please summarize the Company's revenue requirement and supporting workpapers provided on June 21, 2012.

A. Central Hudson provided revenue requirement calculations and supporting workpapers which reflected alleged revenue needs of $39.2 million, or 14.2% of delivery revenue for electric operations and $3.8 million, or 5.0% of delivery revenue for gas operations. These projections include a delay in some capital expenditures for both electric and gas operations.

Q. How did Central Hudson forecast its projections?

A. In general, as described in its cover letter and workpapers provided on June 21, 2012, to project each cost element, Central Hudson followed the format and methodologies of its current Rate

Plan. Central Hudson added two new expense items that were not in its Rate Plan: a Major Strom Restoration Reserve and a projection of rate case expenses, amortized over three years.

Q. Do the revenue needs for electric and gas operations stated above represent savings to consumers because of the proposed rate freeze?

A. No, the revenue requirements filed by Central Hudson represent what the Company estimates it would have requested if it filed a formal detailed rate case for the TME June 30, 2014 absent the Merger. In order to value the rate freeze, the impact on the revenue requirement of proposed changes to expenses with previously approved deferral treatment and new proposals not currently in the Rate Plan would have to be removed. Additionally, the impact on the revenue requirement of proposed changes to the amount of delivery revenues considered in setting base rates must be eliminated since such changes are offset by amounts recovered in the Revenue Decoupling Mechanisms (RDM) approved by the Commission in prior rate proceedings.

Q. Does the Policy Panel further discuss this matter?

A. Yes, and it provides a schedule detailing the value of the proposed rate freeze based solely on the information provided by Central Hudson in Exhibit__(PP-6).

Q. Did this Panel compute a value of the proposed rate freeze?

A. Yes, as discussed in further detail below, the Panel reviewed Central Hudson's projections for the TME June 30, 2014, and we are proposing some adjustments. We then reflected those adjustments, as well as other Panels' adjustments, as shown in Exhibit__(ARP-1) and Exhibit__(ARP-2), to derive Staff's proposed revenue requirement for the TME 6/30/14, as if the Merger did come to fruition. Finally, we reviewed that proposed revenue requirement to estimate the value of the Company's proposed rate freeze.

Q. How did the Panel review Central Hudson's forecast?

A. We reviewed the forecast and workpapers provided by Central Hudson in the same manner that we would examine a major rate filing.

Q. As a result of the Panel’s examination of Central Hudson's Operating Expenses; Taxes Other Than Income; Federal Income Taxes; and certain Rate Base components, what adjustments is the Panel proposing?

A. We are proposing adjustments to the following: pension expense, Manufactured Gas Plant Site Remediation (MGP SIR), and revenue taxes. Additionally, for the purposes of valuing the rate freeze in this proceeding, we are also proposing adjustments to the major storm reserve proposal.

Q. Are adjustments being proposed by other Panels in this proceeding?

A. Yes. The Infrastructure Panel is proposing adjustments to enhanced transmission infrastructure maintenance expense, depreciation expense, plant in service and accumulated depreciation. The Policy Panel is proposing an adjustment to Central Hudson’s Return on Surplus.

Adjustments to TME June 30, 2014

<u>Pension</u>

Q. Is the Panel proposing any adjustment to the

Company’s forecasted pension expense?

A. Yes. The Panel is proposing to eliminate the Supplemental Executive Retirement Plan (SERP) portion of pension expense from the Company’s forecast.

Q. What is a SERP?

A. A SERP is a non-qualified deferred compensation plan that provides benefits above and beyond those covered in the Company’s qualified pension plan.

Q. How was the SERP portion of pension reflected in the current Rate Plan?

A. Central Hudson stated that it followed the same methodologies for expense items as contained in the current Rate Plan; however, in Central Hudson’s current Rate Plan, SERP was excluded from the revenue requirement.

Q. Did the Company provide any data or other information in this proceeding to support how the SERP directly benefits ratepayers?

A. No, Central Hudson did not provide any information detailing how SERP would benefit ratepayers or explaining why it should be included in rates.

Q. Did the Panel quantify its adjustment?

A. Yes. The elimination from the SERP in rates is a reduction to electric operating expenses of $1,398,000 and gas operating expenses of $247,000, as shown in Exhibit__(ARP-1) Schedule 1 and Exhibit__(ARP-2) Schedule 1.

MGP SIR

Q. How did the Company develop its MGP SIR forecast?

A. The Company's forecast follows the methodology employed in the Rate Plan, which was based on an inflation adjusted three-year average of actual expenditures. Using this methodology for the years 2009-2011, the Company's projection for the TME 6/30/14 for both electric and gas MGP SIR totals $8.4 million. This is an 82% increase over the allowance authorized in rate year three of the current Rate Plan.

Q. Did the Panel review the Company's three-year average calculation and actual expenditures during the years 2009–2011 by year and by site?

A. Yes. As shown in the Company's workpapers, total spending at all sites during 2009, 2010, and 2011 were $5.9 million, $15.8 million and

$1.4 million, respectively. The large increase in spending in 2010 was due to $14.6 million in work at the Newburgh site. Spending at the Newburgh site decreased to $632,000 in 2011.

Q. Does the Panel agree with the Company's methodology and projection for the TME 6/30/14?

A. We do agree with the use of an inflation adjusted three-year average as a method of projecting a rate allowance for MGP SIR expenses. However, after reviewing the Company's workpapers which show actual spending levels, it appears that increased spending at the Newburgh site during 2010 is skewing the three-year average and results in a projection significantly greater than necessary.

Q. Did the Panel review the Company's current MGP SIR Accrual for future projected expenditures, in total, and by site?

A. Yes. In response to IR DPS-M-244 (DPS-444), included in Exhibit__(ARP-5), Central Hudson provided its projected annual expenditures by year and by site from 2012 through 2041. As shown by the projections, work at the Newburgh site is expected to be only $100,000 to $200,000 per year in the future.

Q. What does Staff propose?

A. Staff proposes that the rate allowance be based on the same three-year inflation adjusted average, with the exception of removing the anomaly of the $14.6 million in expenditures for the Newburgh site in 2010. This calculation results in an MGP SIR projection for electric and gas operations of $3.5 million. This amount is a better reflection of average MGP SIR spending and is much more in line with the Company’s current accrual projections on its books as of June 30, 2012 for MGP SIR for calendar years 2013 and 2014.

Q. Please quantify Staff’s adjustment.

A. Staff’s projection for MGP SIR for electric operations of $2,990,000 results in a downward adjustment of $4,055,000. Staff’s projection for MGP SIR for gas operations of $527,000 results in a downward adjustment of $784,000. These adjustments are reflected in Exhibit__(ARP-1), Schedule 1 and Exhibit__(ARP-2), Schedule 1.

Q. Are MGP SIR costs one of the items you are eliminating for valuing?

A. Yes, these costs must be eliminated for valuing the rate freeze because the Rate Plan allows Central Hudson to defer the difference between actual SIR costs and the related amounts allowed in rates for future collection from customers.

Major Storm Reserve & Non Major Storm Restoration

Q. Did Central Hudson request a new recovery mechanism for storm related expenses in its forecast for the TME June 30, 2014?

A. Yes, the Company included a new O&M expense of $9.2 million for a major storm reserve as well as a $6.4 million O&M expense for non major storm restoration. Central Hudson has typically had an expense allowance for non-major storm restoration, but the request for a major storm reserve is new in this proceeding.

Q. Why is the Company proposing a major storm reserve?

A. In its June 21, 2012 cover letter and accompanying financial statements, Central Hudson explained that it experienced three significant storm events during its current Rate Plan. As a result, the Company is looking to establish a reserve to fund future major storm activity.

Q. How does Central Hudson currently recover costs related to major storms?

A. As described in its Rate Plan, the Company is able to petition the Commission for authorization to defer extraordinary expenses. Two of the three storms Central Hudson referenced have related deferral petitions currently pending before the Commission. The Company did not petition the Commission for authorization to defer expenses incurred related to the third storm.

Q. How did Central Hudson calculate its projections for the major storm reserve and the non-major storm restoration forecasts?

A. As explained in response to IR DPS M-243 (DPS-443), included in Exhibit__(ARP-5), the Company's major storm reserve forecast of $9.2 million reflected a three-year amortization of three storm events that occurred during its existing Rate Plan of $7.2 million, as well as an additional allowance of $2 million to fund future major storm activity. The non-major storm restoration forecast of $6.4 million was developed using a four-year inflation adjusted average, the same methodology as is utilized in the existing Rate Plan.

Q. Did the Company provide any details of how the major storm reserve would work, or how a storm would be classified as major or non-major?

A. No, in response to IR DPS M-243 (DPS-443), included in Exhibit__(ARP-5), the Company stated that specific criteria have not yet been developed.

Q. How does Staff propose to handle the major storm reserve allowance in the current proceeding?

A. The major storm reserve is a new proposal of a large expense recovery mechanism for future expected costs. Since there are no existing costs in rates per Central Hudson’s existing Rate Plan, the projection for a major storm reserve does not count in our valuation of Central Hudson’s proposed rate freeze.

Q. Please summarize the adjustment.

A. We are removing the proposed allowance for major storm reserve in this proceeding for purposes of valuing the rate freeze. Additionally, the

Company has not proposed specific details, criteria or parameters regarding the reserve and differentiating between major and non-major storms, which would be necessary in a new proposal. This results in a $9.2 million downward adjustment to electric operations. The Panel is not proposing an adjustment to the projection for non-major storm restoration.

Revenue Taxes

Q.   Did Central Hudson include revenue taxes in its historic test year or in its forecast for the TME June 30, 2014 in its revenue requirements?

A.   No, the Company removed revenue taxes as well as associated revenue from its revenue requirement for the historic test year ending March 31, 2012. The Company also did not include a projection of revenue taxes for the TME June 30, 2014 in its revenue requirement.

Q.   Why should the Company have reflected revenue taxes in its revenue requirement?

A.   Central Hudson should have reflected revenue taxes in its revenue requirement because the additional revenue need calculated in the revenue requirement has associated revenue taxes. By not including revenue taxes, the Company is not showing the true rate increase, which creates a misleading customer bill impact.

Q. Please describe the Panel's adjustment to revenue taxes.

A. We reflected the actual revenue taxes incurred during the historic test year ended March 31, 2012, of $4,666,000 for electric operations and $1,428,000 for gas operations, as provided in the Company's workpapers. We also reflected the appropriate retention factors in our revenue requirement calculations, as provided in the Company's response to IR DPS M-267 (DPS-467), included in Exhibit__(ARP-5). This reflects an increase in revenue taxes associated with the revenue increase.

Q. Has the Panel quantified its proposed adjustment to revenue taxes to track the changes in revenues?

A. Yes. The adjustments result in an increase to the Company's revenue taxes in the rate year by $628,000 for electric operations and $19,000 for gas operations, as reflected in Exhibit__(ARP-1), Schedule 1 and Exhibit__(ARP-2), Schedule 1.

Valuation of the Company's Proposed Rate Freeze

Q. Explain the Panel's process of valuing Central Hudson's proposed rate freeze.

A. The proposed rate freeze impacts both customers and shareholders. We believe that items that are deferred and reconciled provide no harm to shareholders and no benefit to customers. Shareholders will recover the costs with interest and customers will pay for the costs with interest. To value the rate freeze to determine the true benefit to Central Hudson's consumers and shareholders of the proposed delayed rate increase, we first identified all expense items included in the revenue requirement that currently have deferred accounting treatment allowed in Central Hudson's current Rate Plan. We then adjusted all of these expense items to the level currently included in rate year three rates per the Rate Plan.

Q. Please list the expense items that are afforded deferral treatment in the current Rate Plan that need to be adjusted in order to value the rate freeze in this proceeding.

A. The deferral items we adjusted, as shown on Schedule 1 of Exhibit__(ARP-3) and Exhibit__(ARP-4) are: Other Post Employment Benefits (OPEB), pension expense, regulatory commission expense, information technology expense, Enhanced Powerful Opportunities Program, MGP SIR, and property taxes. Specific adjustments are explained on Schedule 13 of the exhibits.

Q. Were other adjustments necessary in order to value the rate freeze?

A. Yes, additionally, we made an adjustment to revenues because Central Hudson has an RDM in place for both electric and gas operations. As discussed above, we also removed the Company’s new proposal of a major storm reserve.

Q. Please explain why these items needed to be adjusted in order to accurately value the rate freeze in this proceeding.

A. The provisions of the current Rate Plan will continue, and therefore, any expense items provided deferral treatment will continue to have deferral treatment. The shareholders are protected from any expense increases related to these deferrals and will ultimately be made whole for the difference between actual expense levels incurred, and the level collected through rates. Additionally, the base revenue adjustment is necessary because any difference in revenues between the amount actually experienced and the amount set in current rates will be captured by the RDM, and Central Hudson ultimately will be made whole for the difference.

Q. Please summarize your findings.

A. As reflected on Schedule 1 of Exhibit__(ARP-3) and Exhibit__(ARP-4), our valuation of the proposed rate freeze to consumers is -$3.2 million for electric operations and $0.9 million for gas operations, or effectively no value.

Disposition of Deferred Items

Q. Did the Company provide projected deferred debit and credit balances that it anticipates will be offset against each other as of June 30, 2013?

A. Yes, in its workpapers, Central Hudson provided a projection of deferred debit and credit balances at June 30, 2013. The net electric deferred debit was estimated at $12.5 million, and the net gas deferred debit was estimated at $759,000. In response to IR DPS M-245(DPS-445), included in Exhibit__(ARP-5), Central Hudson provided some updates to the pension and OPEB deferred debit and credit projections. This information increased the projected net electric deferred debit to $21.5 million and the projected net gas deferred debit to $3.3 million.

Q. Does the Panel agree with the deferred debits and credits the Company included on its list of offset items?

A. For the most part, yes. Included in the electric offset list is $14.8 million related to two storm deferral petitions that are currently pending before the Commission. These petitions will be handled in separate proceedings, and therefore it is premature to include them on the offset list. Additionally, the Company included a $2.7 million electric regulatory asset related to EEPS incentives earned during calendar year 2011. The final calculation of the incentives and exact recovery treatment has not yet been decided and approved by the Commission.

Q. How did Central Hudson propose to treat any actual net regulatory asset remaining after offset?

A. The Company provided the information on projected balances, but did not make a proposal in this proceeding.

Q. What will happen to the deferral balance during the Company’s proposed rate freeze period?

A. The deferral balance will continue to grow during the proposed rate freeze period because the deferral provisions contained in the Company’s Rate Plan continue. The deferral adjustments we highlighted to value the rate freeze, as shown on Schedule 1 of Exhibit__(ARP-3) and Exhibit__(ARP-4), will be building up during the rate freeze period and will be added on to the current deferred balance and essentially will cause a significantly higher rate increase at the time of Central Hudson’s next rate filing.

Q. Did the Company project the balance of the deferrals at the end of the proposed rate freeze period?

A.   No, in response to IR DPS M-245 (DPS-445), included in Exhibit__(ARP-5), the Company stated that it did not perform an analysis of regulatory assets and liabilities beyond June 30, 2013, and doing so would require considerable time and effort.

Q.   Did the Panel project the balance of the deferrals at the end of the proposed rate freeze period?

A.   We do not have enough information to project the balances of all deferrals at June 30, 2014. However, simply reviewing the projections of pension and property taxes at June 30, 2014 shows significant increases to the net deferred debit balance for both electric and gas operations.

Q.   Does this conclude the Panel's testimony at this time?

A.   Yes, it does.