BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

Central Hudson Gas and Electric Corporation

CASES 17-0459 and 17-G-0460

November 2017

Prepared Testimony of:
Accounting Operating Expense and Payroll Tax Panel

Daniel Pohoreckyj
Public Utility Auditor 2

Pooja Oberoi
Senior Auditor

Nicholas Turan
Auditor Trainee 2

Sean Malpezzi
Public Utility Auditor 3

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State of New York
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

Q. Please state your names and business address.

A. Our names are Daniel Pohoreckyj, Pooja Oberoi, Nicholas Turan, and Sean Malpezzi. Mr. Pohoreckyj’s and Ms. Oberoi’s business address is 125 E Bethpage Rd, Plainview, NY 11803. Mr. Turan’s business address is 89 East Ave, Rochester, New York 14649. Mr. Malpezzi’s business address is Three Empire State Plaza, Albany, New York 12223.

Q. Mr. Pohoreckyj, by whom are you employed and in what capacity?

A. I am employed by the New York State Department of Public Service (Department) as a Public Utility Auditor 2.

Q. Please summarize your education and work experience.

A. I possess a bachelor’s degree from the State University of New York-College at Old Westbury specializing in Accounting and a Masters of Business Administration specializing in Finance from Dowling College. I have 23 years of utility experience with LILCO, Keyspan Energy, and National Grid, including nine years in Customer Relations, five years in Corporate Regulatory and Financial Reporting, five years as a Fixed Asset Accounting Supervisor, and four years as a Budget Analyst in Electric Generation Finance.

Q. Have you previously testified before the New York State

Public Service Commission (Commission)?

A. Yes, I testified before the Commission in PSEGLI/LIPA Matter Number 15-E-0262.

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

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

Q. Ms. Oberoi, please describe your educational background and experience.

A. I graduated from the University of Delhi in Delhi, India with a Master degree in Commerce. I received a Master of Science degree in Accounting and Finance from Keller Graduate School of Management of DeVry University in New York. Previously, I was working as a Staff Accountant/Auditor with Dean Archer CPA's & Co. I have been employed by the Department since October 2016.

Q. Have you previously testified before the Commission?

A. No, I have not.

Q. Mr. Turan, by whom are you employed and in what capacity?

A. I am employed by the Department in the Office of Accounting, Audits and Finance as an Auditor Trainee 2.

Q. What is your educational background and experience?

A. I graduated from the State University of New York at Geneseo in December 2014 with a Bachelor of Science degree in Accounting. I have been employed by the

Department of Public Service since May of 2016 as an Auditor Trainee. Since joining the Department, my work has involved examinations in telephone proceedings, compliance filing audits and other general accounting matters.

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

A. No, I have not.

Q. Mr. Malpezzi, by whom are you employed and in what capacity?

A. I am employed by the Department in the Office of Accounting, Audits and Finance as a Public Utility Auditor 3.

Q. Mr. Malpezzi, please describe your educational background and professional experience.

A. I graduated from Siena College, Loudonville, New York and have a B.B.A. degree with an Accounting Major. I have been employed by the Department since September of 2005. Previously, I was employed as an Auditor for the NYS Credit Union League.

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

A. Yes, I have testified in several rate proceedings before the Commission including Con Edison Company of New York, Inc., Case 07-E-0523; Village of Freeport, Case 06-E-0911; Plattsburgh Municipal Lighting Department, Cases 05-E-1496 and 08-E-1227; New York State Electric & Gas Corporation for Electric Service, Case 15-E-0283; New York State Electric & Gas Corporation for Gas Service, Case 15-E-0284; Rochester Gas and Electric Corporation for Electric Service, Case 15-E-0285; and, Rochester Gas and Electric Corporation for Gas Service Case 15-E-0285.

Q. Panel, please generally describe your responsibilities within the Department.

A. Our responsibilities include examination of accounts, records, documentation, policies and procedures of utilities that are regulated by the Commission and the development from that information of various analyses and recommendations to the Commission.

Q. What is the purpose of your testimony in this proceeding?

A. We are testifying to the projections and related proposals made by Central Hudson Gas and Electric Corporation (Central Hudson or the Company) in these proceedings for certain operating expenses and payroll taxes.

Q. Which Company Operating Expenses are you recommending adjustments to?

A. Labor expense, Employee Benefits, Major Storm Reserve funding, Non-Major Storm Restoration, Maintenance of Buildings and Grounds, Uncollectible accounts expense and Fees for Payment by Debit/Credit cards.

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

A. Yes. We relied upon a number of the Company's responses to Staff Interrogatories (IRs). These are attached as Exhibit___(AOEPT-1).

Q. Are you sponsoring any other exhibits in this proceeding?

A. Yes. Exhibit___(AOEPT-2) contains a summary of our adjustments related to the 12 month period of July 1, 2018 to June 30, 2019 (Rate Year) labor expense and a Workpaper showing Staff's positions on the Company's requested incremental employees.

Labor Expense

Q. Briefly describe how Central Hudson developed its projected labor expense for the Rate Year in these proceedings.

A. As discussed in the pre-filed Direct Testimony of the Company's Revenue Requirements Panel, beginning at page 16, and in the pre-filed Direct Testimony of Sharon A. McGinnis, beginning at page 6, the Company developed its projected Rate Year labor expense by annualizing its known base wages for the last pay period of the historic test year (the 12 months ended March 31, 2017) for its 1,009 permanent employees. The Company then increased the annualized payroll by the average premium pay (overtime, unused vacation, educational reimbursement and various other employee payments) percentages experienced during the historic test year. To this amount, the Company added wages for temporary employees.

The result was then increased by contractual wage increases of 2.75% in 2018 and 3.0% in 2019 for Union employees, and increased by 3.2% for executives and non-union non-executive employees, to develop a Rate Year projection of gross wages for permanent and temporary employees.

Q. Is the Company proposing to hire additional employees?

A. Yes, the Company added the costs of 68 full time equivalent (FTE) incremental employees between April 1, 2017 and June 30, 2018, for a total Rate Year headcount of 1,077.

Q. How did the Company forecast the gross payroll costs of these incremental employees?

A. The Company projected the gross payroll costs of these new employees using a similar methodology to the one it used for its current employees. Central Hudson assumed all new employees would be hired before the start of the Rate Year. The Company took estimated annual base wages for each category of employee (i.e., Officers, Foreman, Semi-monthly and Union) and increased them by premium pay and estimated wage increases for each category as described above.

Q. How did the Company allocate its total forecasted gross payroll to expense, capital (plant), affiliates and others?

A. The Company used the actual historic test year allocations and modified them for various normalizing adjustments and the effect of clearing accounts. The Company's normalizing adjustments had an overall effect of raising the percentage expensed in the Rate Year and lowered the amount forecasted to be charged to construction.

Q. Are you proposing any adjustments to the Company's projection of labor expense?

A. Yes, we are proposing and/or quantifying the following five adjustments: 1) revise the Company's historic test year normalization to reclassify labor for additional training, 2) reduce the wage increase for management, as referenced in the Direct Testimony of Staff witness Daniel Gadomski, 3) reduce the number of incremental employees requested by the Company, 4) reflect the Company's latest employee count, and 5) revise the allocation of total labor payroll to electric & gas expense, construction, affiliates and others.

Q. What is your first adjustment to labor expense?

A. Our first adjustment to labor expense is to correct a normalization adjustment the Company made.

Q. Explain Central Hudson's normalization adjustment.

A. The Company adjusted the actual historic test year allocation percentages of labor to expense and construction accounts for various forecasted changes in its labor allocations. The adjusted expense/capital percentages were then applied to forecasted gross labor for the Rate Year. One of the numerous normalizing adjustments the Company made was to reclassify labor from construction to expense in an attempt to account for additional employee training expected, an expense activity to occur during the Rate Year, which effectively raised the percentage of forecasted labor being allocated to expense.

Q. Did the Company explain the purpose of its adjustment?

A. Yes, in response to DPS-601 (Exhibit__(AOEPT-1)), the Company explained it had to make some assumptions to quantify the labor hours and financial impacts of the planned increase in training during the Rate Year. The Company made a series of broad assumptions regarding the increased projected training hours for various personnel. Based on these broad assumptions, Central Hudson attempted to quantify the financial impact on expense of increased training labor hours. The purpose of the adjustment is to move a larger portion of these salaries assumed to be primarily construction to expense (electric and gas), since it is expected that during the Rate Year these employees will be in more training (time charged to expense) instead of working on capital projects (time charged to construction).

Q. How did the Company calculate the adjustment?

A. Central Hudson calculated projected new training hours by employee position/group, and divided the new hours by the total work hours in one year, to calculate what it calls a "full time equivalent." The Company then multiplied the "full time equivalent" by the average salary per employee position/group, and added the results together to determine the amount of salary that should be reclassified from construction to expense.

Q. Do you agree with Central Hudson's training normalization concept?

A. Yes, but we believe the Company made an error in the calculation. When calculating the average salary per employee position/group, Central Hudson's calculation assumes that all the employees taking the additional training are charging 100% of their time to construction and does not reflect that a portion of the salaries is already expensed to electric and/or gas operations. The portion already charged to expense does not need to be reallocated.

Q. How do you know that the employees taking this new training have salaries that are not 100% capitalized?

A. The Company's response to DPS-554, Attachment 1 (Exhibit__(AOEPT-1)) shows a listing of incremental employees by position/group and how their salaries are allocated between expense and construction. Some of the position titles in this response, which have time charged to both expense and capital, directly align with the position titles that will be getting increased training during the Rate Year.

Q. How did you calculate your proposed adjustment?

A. We used the historic test year percentage of labor charged to construction of 33.04% and applied it to the salaries the Company included in its calculation. We did not change any other assumptions regarding expected training time in the Company's calculation. By first determining the amount of salaries actually charged to construction, we then determined the amount of that portion that should be reallocated to electric and gas expense.

Q. What is your proposed adjustment to total labor expense to correct the Company's normalization adjustment?

A. Our adjustment results in a reduction to electric Rate Year labor expense of about $380,000 and $101,000 for gas.

Q. Explain your second adjustment to labor expense.

A. Our second adjustment to labor expense reflects the adjustment to management wage increases made by Staff Witness Daniel Gadomski. As recommended in the testimony of Staff Witness Gadomski, we applied a 3.0% salary rate increase, effective January 1, 2018, for management and temporary employees to develop a Rate Year projection.

Q. What is your proposed adjustment to labor expense for the revision to the management wage increases?

A. The lower wage increase results in a $74,000 reduction in electric labor expense and a $22,000 reduction in gas expense.

Q. What is your third adjustment to labor expense?

A. We are providing the dollar quantification of the reduction to labor expense for incremental employees that the Company requested that various Staff panels are disallowing.

Q. Which Staff Panels are reviewing the 68 incremental positions?

A. Exhibit__(AOEPT-2) details the Company's requested positions, the Staff witness reviewing the position, and Staff's allowances. The various Staff panels identified on the exhibit recommend disallowance of 15 of the 68 FTEs.

Q. What specific positions is this Panel responsible for reviewing?

A. The seven positions we are reviewing include four to be hired in 2017: one Accountant, one Director of Plant and Taxes, one Accounting Technician, and one Tax Analyst; as well as three positions to be filled in 2018: one Accounting Technician, one Junior Treasury & Risk Analyst and one Cleaning Worker.

Q. To date, has the Company filled any of these positions?

A. Yes, to date, the Company has hired one, a Tax Analyst.

Q. Has the Company provided internal documentation showing management approval for any of the other positions?

A. In response to DPS-538 (Exhibit__(AOEPT-1)), the Company provided a personnel requisition for an accountant position dated March 23, 2017. However, over six months later, the position remains vacant.

Q. Has the Company demonstrated a need for the other positions, which are currently vacant?

A. No. The Company states which areas the new employees will support, but does not specify how workload has grown or what specifically necessitates the incremental position.

Q. What is the Panel's recommendation for the seven positions it is reviewing?

A. Since the Tax Analyst position was filled, this position will be included in our adjusted Rate Year labor forecast. The Accountant position has an internal personnel requisition that was approved in March. Since the requisition was approved over six months ago, and the position has yet to be filled, we recommend that this position be removed from Rate Year labor expense. We propose that the other five positions also be removed from Rate Year labor expense. These positions have not been filled and Central Hudson has not provided internal personnel requisitions or other documentation to support the need for these additional positions.

Q. Have you calculated the adjustment to labor expense for the 15 disallowed employees?

A. Yes. The decreased level of incremental employees results in a reduction of electric labor expense of about $676,000 and a reduction to gas expense of about $204,000.

Q. What is your next adjustment?

A. We propose to reflect an updated actual labor count as of October 31, 2017.

Q. What is Central Hudson's current employee count?

A. In response to DPS-537 Updated November 3, 2017, the Company's current labor count as of October 31, 2017, was 1,004 FTEs. This is less than the 1,009 it had in the historic test year ended March 31, 2017.

Q. Explain your proposed adjustment.

A. Central Hudson has hired 17 of the 68 incremental employees that it proposed to hire in 2017 and 2018, however the Company's headcount is currently 1,004, which is five less than the 1,009 employees they had in March 2017. Presumably, the Company has experienced employee losses and not replaced those losses, and the 17 employees they have hired have only replaced some of the employees who have left the Company between April 2017 and October 2017.

Q. What has the Company assumed about losses from attrition?

A. The Company has assumed that any employees lost from retirement, or for other reasons, will be replaced.

Q. What is the Panel proposing?

A. The starting FTE count of 1,009 has gradually decreased to 1,004 during a period of seven months, despite the Company hiring 17 new employees. Therefore, we propose to reduce the Company’s Rate Year forecast by the 17 FTEs who have been hired during the seven-month period because we assume their salaries are adequately reflected in Central Hudson’s base of 1,009 FTEs.

Q. Have you quantified your proposed adjustment?

A. Yes. Our proposal to remove their salaries from the incremental base wages results in an adjustment to Labor expense of about $834,000 for electric and $251,000 for gas.

Q. What is your final adjustment to labor expense?

A. We propose to revise the allocation of total labor costs to electric, gas, construction and others.

Q. Describe the allocation used by the Company.

A. To calculate the Rate Year allocation percentages for total payroll, the Company used its normalized and adjusted historic payroll amounts for electric and gas expense, construction, and other, divided by total labor expense. This methodology does not consider the effect of the incremental employees that are projected to be hired before the Rate Year and how their expected wage distributions will change the overall allocation percentages.

Q. What is the Panel proposing?

A. We propose that the allocation percentages be updated to reflect the expected work of the incremental employees.

Q. Has the Company provided its expected labor distribution changes?

A. Yes, in response to DPS-554 (Exhibit__(AOEPT-1)), the Company showed a revised labor distribution of 51.24% Electric, 15.27% Gas, 33.40% Construction, 0.04% Allocation to affiliates and 0.05% disability benefits.

Q. Have you quantified the adjustment?

A. Yes. Changing the allocation percentage to include the incremental employees that Staff proposes be allowed in rates and removing those which have already been hired or recommended to be denied by Staff results in a decrease to total labor expense of $152,000 for electric and $241,000 for gas.

Q. How much is your total adjustment to labor expense.

A. As shown in Exhibit__(AOEPT-2), our adjustments to labor expense are a decrease of about $2.1 million for electric expense and a decrease of about $819,000 for gas expense.

Q. How many employees is Staff proposing be allowed for the Rate Year, compared to Central Hudson's request of 1,077?

A. We started with the Company's base employee FTE count of 1,009, and added salaries for 36 additional employees, for a total of 1,045 FTEs. Our recommendation is reasonable, given that Central Hudson's FTE headcount at October 31, 2017 was 1,004. As discussed in the various Staff Panels' testimony, the 36 additional employees above the base employee FTE count are necessary during the Rate Year for additional workload needs.

Employee Benefits

Q. What is included within Central Hudson's Employee Benefits Operating Expense category?

A. As discussed in the pre-filed Direct Testimony of the Company's Revenue Requirements Panel, beginning at page 20, and in the pre-filed Direct Testimony of Sharon A. McGinnis, beginning at page 3, Employee Benefits are comprised of Medical Insurance (Health, Dental, Long term disability, Vision, Employee Contributions net of COBRA fees and credits), Group Life Insurance, Savings Incentive Plan (SIP), Employee Stock Purchase Plan (ESPP) and Other Fringe Benefits. The Company's SIP plan is a defined contribution savings plan, made up of a voluntary employee contribution plan and a non-elective contribution plan, which the Company makes for all management employees hired after January 1, 2008 and all union employees hired after May 1, 2008. The ESPP is a new voluntary benefit, which began in May 2017, that allows employees to purchase shares of Fortis Inc. common stock on the Toronto Stock Exchange.

Q. Briefly describe how Central Hudson developed its projected Employee Benefits expense.

A. The Company calculated its projected employee benefit expense using annualized actual costs for each component from the historic test year ending March 31, 2017. The Company then applied gross domestic product (GDP) inflation factors to each component's annualized cost, except for SIP and ESPP, to arrive at the cost projections for the Rate Year. The projection also reflects the increase in staffing levels and salary and wage increases. The SIP Rate Year projection is the sum of the Company's contribution to employees voluntary and non-voluntary contributions. Projected voluntary contributions for existing employees are based on historical expenses multiplied by the projected wage growth rate. For incremental employees', the Company's projected contribution rate is applied to the estimated base pay for those employees. The non-elective portion of SIP was calculated using a total estimated salary multiplied by the contribution rate and added to the previous year's payout which was increased by wage growth rates. The ESPP is a new program at Central Hudson, and therefore, the Company based its projection on the experienced average contribution and participation levels at Fortis subsidiaries in Canada, who have similar programs. Employees are allowed to enroll and make stock purchases on a quarterly basis (on the first day of March, June, September and December). Central Hudson matches 10% of the cost for its employee's stock purchases. They also pay 10% on all dividends paid to employees, if they stay in the program. Central Hudson applied the average participation and contribution levels from its subsidiaries to its headcount to develop its Rate Year forecast.

Q. Are you proposing any adjustments to Central Hudson's Rate Year Employee Benefits expense forecast?

A. Yes. We are proposing four adjustments: 1) an adjustment to track Staff's adjustments to employee head count, 2) an adjustment to SIP for an update the Company mentioned in its direct testimony but did not include in its revenue requirements, 3) an adjustment to ESPP, and 4) an adjustment to track the change to the allocation of benefits expense to electric, gas, construction and other to match the distribution of labor.

Q. Explain your adjustment related to the Rate Year employee count.

A. Central Hudson's forecasted Rate Year Fringe Benefits expense reflects an employee headcount of 1,077. As stated above, staff has proposed an employee headcount of 1,045. Therefore, we are updating the fringe benefits forecast to reflect Staff's headcount projections.

Q. What is your proposed adjustment to total Fringe Benefits expense?

A. Tracking our adjustment to employee headcount results in a reduction to Fringe Benefits expense of about $259,000 for electric expense and $78,000 for gas expense.

Q. Explain your adjustment related to the Savings Incentive Plan.

A. The pre-filed Direct Testimony of Sharon A. McGinnis, at page 4, states that the Company's new collective bargaining agreement modified the matching contribution that Central Hudson makes to the defined contribution plan and that this change is not reflected in the revenue requirements. In response to DPS-555, (Exhibit__(AOEPT-1)), the Company estimates that the incremental cost due to the change in contribution would be about $33,000 in the Rate Year. This amount is allocated based on the distribution of labor using labor expense allocation rates of 51.42% for electric and 15.47% for gas.

Q. Have you quantified the impact of your adjustment on electric and gas operations?

A. Yes. The estimated incremental contribution rate results in an increase in Fringe Benefits expense for electric of about $17,000 and for gas expense of about $5,000.

Q. Explain your adjustment relating to the Employee Stock Purchase Plan.

A. Central Hudson projected its Rate Year expense for ESPP based on the average participation and contribution rates of Fortis subsidiaries located in Canada because this program began at Central Hudson in May 2017. The Company's response to DPS-371, Exhibit__(AOEPT-1), shows that the actual amount of participation and the percentage of employee contributions experienced at Central Hudson between June 2017 and September 2017 are lower than the amounts used to project the Rate Year expense for ESPP. Since the Company's actual contributions and participation are lower than its projected expense, the Company is over estimating the ESPP expense included in Employee Benefits for the Rate Year projection. Staff uses the actual contribution percentage and participation rates, using the same Company methodology, to calculate a more accurate ESPP expense. We agree with the Company's request to update the ESPP expense to the latest levels for the Company's contribution to ESPP, as requested in Company Exhibit__(RRP-8), as long as this update includes changes for the latest known level of participation and contribution percentage.

Q. What is your proposed adjustment to Fringe Benefits expense for the ESPP?

A. Our adjustment results in a reduction in electric Fringe Benefits expense of $137,000 and a reduction to gas Fringe Benefits expense of $41,000.

Q. Explain your adjustment to Fringe Benefits expense for the change in allocation percentages for electric, gas, construction and other.

A. Following the adjustment to expense distribution percentages made in the labor adjustments, Fringe benefits expense will need to be adjusted to reflect the change in distribution of labor to electric and gas expense.

Q. How much is your proposed adjustment to Fringe Benefits expense for the change in allocation rates?

A. Our adjustment results in a reduction to fringe benefits electric expense of about $81,000 and a reduction to gas expense of about $50,000.

Storm Restoration Costs

Q. What accounting and ratemaking treatment is Central Hudson currently afforded regarding storms costs?

A. For electric operations, Central Hudson recovers two amounts through its base rates related to storm restoration – one for non-major storm O&M expense and one to fund a major storm reserve. For routine costs incurred in restoration efforts from non-major storm events, the Company records actual costs incurred to O&M expense. For major storm events, which meet specific criteria, Central Hudson was granted approval to use reserve accounting beginning in July 2015, in Case 14-E-0318. Prior to that, if an individual storm event required significant restoration costs, the Company could petition the Commission for permission to defer material incremental costs not recovered in rates. For gas operations, the Company does not recover costs through base rates, but can petition the Commission for permission to defer material storm restoration costs.

Major Storm Reserve – Electric Operations

Q. Generally, describe how Central Hudson's Major Storm Reserve operates.

A. The Company receives a fixed dollar amount through base rates, which it credits to the reserve as received. If the Company incurs storm restoration expenses that meet the established criteria, the Company debits the reserve for those actual expenses incurred. Based on actual storm restoration costs and funding, the storm reserve could be overfunded, with the monies deferred until offset by future storm restoration expenses, or underfunded, with the monies deferred until the Commission approves future recovery. Variances between the accruals and actual expenditures creates a regulatory asset or liability. The disposition of these regulatory assets or liabilities is usually adjudicated in the next rate case.

Q. Is Central Hudson's Major Storm Reserve currently overfunded or underfunded?

A. The Company collected $1.4 million through rates between July 1, 2015 and June 30, 2017, and charged restoration costs from two storm events to its storm reserve during that time, totaling approximately $3.6 million per DPS-498, Attachment 1 (Exhibit__(AOEPT-1)). As of June 30, 2017, Central Hudson's storm reserve was underfunded by approximately $2.2 million. The Company has proposed that this balance be included in the regulatory asset/regulatory liability offset list. This offset is addressed by the Staff Accounting Policy and Revenue

Requirements Panel.

Q. Is the Company requesting any changes to its existing rate allowance, major storm threshold or criteria surrounding the use of the Major Storm Reserve in this case?

A. No. As discussed on page 50 of the Revenue Requirement Panel's pre-filed Direct Testimony, the Company is proposing to continue reserve accounting for major storms with the same provisions and expense amount of $700,000 per year, consistent with Case 14-E-0318.

Q. Has Staff determined this to be reasonable?

A. Partially. Staff agrees with continuing the existing threshold and criteria for qualifying costs to be charged to the Major Storm Reserve, but has determined that the allowance to fund the reserve should increase to about $1.6 million.

Q. Why does Staff believe the rate allowance for the Major Storm Reserve should be increased?

A. Major storms are volatile and unpredictable, but over time, the Company should not be left with a storm reserve that is significantly over or under funded. The Commission generally adopts an averaging approach of historic actual costs to determine a reasonable rate allowance. A historical average approach is a reasonable way to allow customers to fund unpredictable future expenses in a more predictable manner. Although Central Hudson has only had a storm reserve for just over two years, it has actual cost information for previous large storms for which the Company filed deferral petitions. Based on this historic actual cost information, as provided in response to DPS-499 (Exhibit__(AOEPT-1)), the Company has incurred ten major storms over the last ten winter seasons. Beginning with the total restoration costs, we removed four anomaly storms costs for Hurricane Lee, Tropical Storm Irene, Hurricane Sandy and the October 2011 snow storm, and averaged the remaining costs during the number of years they occurred.

Q. Explain why the four anomaly amounts were removed from the calculation.

A. Storms of this magnitude are not expected to occur on a yearly basis, and therefore, including them in the average would potentially overfund the storm reserve. If a storm of similar magnitude did occur, the Company would charge the costs incurred to the reserve, and recovery of the underfunded reserve would be dealt with in a future rate proceeding.

Q. Why is it important to set rates based on a reasonable allowance for the Major Storm Reserve?

A. Since the Company could request recovery of the regulatory asset, if approved by the Commission, the Company would recover any under-collection in future rates. A reasonable amount should be built into base rates to avoid pushing expected costs into the future.

Non-Major Storm Restoration Expense

Q. Briefly describe how Central Hudson developed its Rate Year projection for non-major storm restoration expense.

A. As discussed on page 51 of the Direct Testimony of the Company's Revenue Requirements Panel, the Company is requesting a Rate Year allowance of about $5 million, based on a three-year average of non-major storm expenditures, inflated by the projected GDP factor.

Q. Is the Company's methodology for forecasting non-major storm costs in this rate case consistent with the methodology it has used in prior rate cases?

A. No. Non-major storm expense has been forecast since 2008 using a four-year average of historic costs. This was the methodology used in previous rate proceedings, Cases 08-E-0887, 09-E-0588 and 14-E-0318.

Q. Has the Company offered any explanation for changing to a three-year average in this rate case?

A. Yes. The Company's response to DPS-632 (Exhibit__(AOEPT-1)) stated that the three-year average was proposed to provide a consistent method of averaging all elements of expenses where an averaging technique was employed. The Company also referred to the Staff Accounting Panel Testimony in Case 08-E-0887 where, conversely, Staff was supporting use of a three-year average and the Company was proposing a four-year average.

Q. What was the outcome for that issue?

A. The Commission ruled in Central Hudson's favor and used a four-year average in computing non-major storm costs in the revenue requirement.

Q. Has this issue been discussed in subsequent Central Hudson rate proceedings?

A. No.

Q. Does the Panel agree with changing the methodology for determining non-major storm expense at this time?

A. No, we do not. Non-major storm restoration costs have been forecast using a four-year average for at least the past eight years. A consistent averaging approach in an expense item allows the Company to reasonably recover its costs. Changing forecast methodologies from case-to-case can cause over- or under-recovery of historic costs.

Q. Is there another reason to not change methodology of projecting non-major storm expenses at this time?

A. Yes. The Major Storm Reserve and non-major storm expenses are interrelated. Storm restoration costs are charged to non-major storm expense, unless they are large enough to meet specific defined criteria, and then they are charged to the Major Storm Reserve. Changing methodologies of forecasting non-major storm expense or major storm reserve can impact one another. As discussed previously, Central Hudson has had a storm reserve in place for just over two years. Central Hudson and Staff are not proposing changes to the major storm reserve threshold or criteria at this time, and therefore, we see no need to use a different forecasting methodology for non-major storms at this time.

Q. Based on the four-year average adjusted for inflation for non-major storm expense, what do you recommend to be a reasonable amount for the revenue requirement in this proceeding?

A. The amount we are proposing for non-major storm expense is about $4.5 million, which is a reduction of about $720,000 to Central Hudson’s request.

Maintenance of Buildings and Grounds

Q. How much has the Company forecasted for the Maintenance of Buildings & Grounds expense?

A. About $1.6 million for electric and $300,000 for gas, or a total of about $1.9 million.

Q. Does Central Hudson's forecast include the impact of any programs?

A. Yes, a new five-year Preventative Maintenance Program at Central Hudson's district offices costing a total of $100,000.

Q. Did the Company explain its basis for the $100,000 forecast?

A. In response to DPS-586, Question 1 (Exhibit__(AOEPT-1)) the Company responded that, "[t]he incremental maintenance to accomplish the listed work functions such as painting and masonry sealing, ductwork cleaning, carpet and tile cleaning, etc. at the various facilities is needed since historically there have been minimal amounts of these activities performed at our facilities."

Q. Has Central Hudson performed these activities as part of routine operations?

A. Yes. In response to DPS-586, Question 1 (Exhibit__(AOEPT-1)), the Company provided specific examples of the maintenance performed at its district offices.

Q. Are the work functions similar to the activities the Company is requesting the $100 thousand for?

A. Yes.

Q. Are you proposing an adjustment to the Company's Rate

Year forecast of Maintenance of Buildings and Grounds?

A. Yes, the Company's proposed incremental preventative maintenance program includes costs that have been historically performed as a function of routine operations. We propose the removal of the $100,000 for the five-year Preventative Maintenance Program. The adjustment should be allocated to electric and gas using the 80%/20% electric/gas common allocation ratio proposed by Central Hudson.

Uncollectible Expense

Q. Please describe the Company's method of forecasting uncollectible accounts expense.

A. Central Hudson's projection for uncollectible expense is based on the net-charge off amount as a percentage of revenues subject to bad debts. The ratio for the historic year was 0.83% for electric and 0.99% for gas. These ratios were applied to projected total delivery revenues subject to bad debt to arrive at the Rate Year expense of about $2.5 million for electric and $961,000 for gas. Consistent with prior cases, the Company is seeking to update at the time of Brief on Exceptions to reflect the latest known twelve months of information to develop the ratios.

Q. Do you propose any adjustments to the Company's Rate Year uncollectible expenses?

A. Yes. We are proposing to increase the Company's Rate Year uncollectible expense by $139,000 for Electric and $65,000 for Gas to track the staff Electric and Gas Rates Panels purposed Rate Year total delivery revenues, subject to bad debt.

Q. Has Central Hudson proposed a deferral request for uncollectible write-offs?

A. Yes.

Q. Briefly describe the Company's proposed deferral request for uncollectible write-offs.

A. The Customer Services Panel on pages 22-25 of its testimony is requesting a deferral of costs over/under rate allowance exceeding five basis points. Specifically, the Company is proposing that a dead band of five basis points on common equity be established as the maximum amount of pretax loss or gain to be realized when comparing the amount of actual net write-offs to the rate allowance. The amount in excess of the dead band would be deferred for future pass back to or collection from customers.

Q. Do you agree with Central Hudson's proposal?

A. No. In a one-year rate case, the Commission adopts a rate allowance based on the record for that proceeding.

If the Company incurs additional costs in the Rate Year, it can file a deferral petition for any extraordinary incremental and material amounts not allowed in rates. Moreover, automatic deferral of uncollectible write-off costs over/under the rate allowance exceeding five basis points would create a disincentive to collect uncollectible amounts once the amount has exceeded five basis points over the rate allowance.

Payment by Debit/Credit Card Fees

Q. Are you familiar with the Staff Consumer Policy Panel's testimony recommending the Commission adopt the Company's proposal to allow customers to pay their bill by debit/credit card at no additional fee?

A. Yes.

Q. Does Central Hudson's request have an accounting element?

A. Yes. The Company request includes being allowed to apply deferral accounting for the credit/debit card program, "…since both the volume of use and cost for the program are currently being forecasted based on the best information available but could ultimately be impacted by many variables."

Q. Do you agree with that element of Central Hudson's request?

A. Given the Company has no previous experience with a such a program, we agree applying deferral accounting treatment for these costs is appropriate in this instance even though the amounts involved don't otherwise qualify for deferral accounting treatment under the criteria generally applied by the Commission for receiving such treatment. Therefore, while this program is in its infancy, we agree with the proposal to apply deferral accounting.

Payroll Taxes

Q. Briefly describe how Central Hudson developed its Payroll Taxes projection.

A. As discussed in the pre-filed Direct Testimony of the Revenue Requirements Panel, beginning at page 66, the Company projected Payroll Taxes by applying the appropriate tax rates for State Unemployment Tax Assessment (SUTA), Federal Unemployment Tax Act (FUTA), Medicare and Federal Insurance Contribution Act (FICA) to the related taxable wages projected for the period.

Q. Do you agree with the Company's methodology?

A. Yes.

Q. Are you proposing any adjustments to Payroll Taxes expense?

A. Yes. An adjustment is needed to track the decrease in total labor expense and headcount relating to the adjustments described earlier in this testimony.

Q. How much is your total proposed adjustment to Payroll Tax expense?

A. The adjustment results in a decrease in electric payroll tax expense of about $144,000 and a reduction in gas payroll tax expense of about $55,000.

Q. Does the Company propose any new deferrals for payroll taxes?

A. Yes, on page 21 of its testimony, the Accounting and Tax Panel requests that the Company be allowed to automatically defer for future rate recovery any amounts it may owe New York State as a result of the State not repaying its outstanding Federal Unemployment Insurance loan in a timely manner.

Q. Do you agree with Central Hudson's proposal?

A. No. In a one-year rate case, the Commission adopts the best projections on the record to set rates but the additional payroll tax at issue is uncertain at this time and the Company did not explain when the additional tax may be incurred. If Central Hudson incurs these costs in the future, it can file a deferral petition if the amount involved is material. Additionally, as shown on the Revenue Requirement Panel's Exhibit__(RRP-8), the Company proposes to update payroll taxes to reflect the latest known additional taxes at the time of Briefs on Exception. As discussed above, we agree with this proposal. If the additional paid taxes at issue are known by the time of that update, they can be reflected in the Rate Year revenue requirement.

Q. Does this conclude your testimony?

A. Yes, at this time.