STATE OF NEW YORK

PUBLIC SERVICE COMMISSION

Case 23-E-0418 – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Central Hudson Gas & Electric Corporation for Electric Service.

Case 23-G-0419 – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Central Hudson Gas & Electric Corporation for Gas Service.

EVIDENTIARY HEARING

DATE: February 5, 2024

TIME: 10:05 a.m. to 11:57 a.m.

LOCATION: Empire State Plaza
Agency Building 3, 19th Floor
Albany, New York 12223

BEFORE: ALJ Ashley Moreno
ALJ James Costello

Reported by: Danielle Christian

APPEARANCES:

FOR CENTRAL HUDSON GAS & ELECTRIC CORPORATION

CULLEN & DYKMAN, LLP

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FOR THE NEW YORK STATE DEPARTMENT OF PUBLIC SERVICE:

BY: JUSTIN FUNG, ESQ.

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FOR MULTIPLE INTERVENORS:

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FOR UTILITY INTERVENTION UNIT:

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(The hearing commenced at 10:05 a.m.)

A.L.J. MORENO: Let's go on the record. Good morning again, everyone. We are going -- continuing on with our evidentiary hearing for the Central Hudson Gas and Electric rate proceedings. And our first Panel of the day will be the Department of Public Service Trial Staff Policy Panel.

MR. FITZGERALD: And your Honor, off the record for one moment.

A.L.J. MORENO: Oh, sure. Let's go off record.

(Off the record at 10:06 a.m.)

(On the record at 10:06 a.m.)

A.L.J. MORENO: Appearances then. Let's start with Central Hudson.

MR. FITZGERALD: Your Honor, on behalf of Central Hudson Gas and Electric Corporation, the law firm of Cullen and Dykman, LLP by Brian FitzGerald, Greg Nickson, and Mike Lloyd.

A.L.J. MORENO: Great. Thanks very much. Department of Public Service Trial Staff.

MR. FUNG: Good morning, your Honor. It's Justin Fung, Ryan Coyne, and Steve Kramer from the Department.

A.L.J. MORENO: Great. Thank you. And for PULP.

MS. WHEELOCK: Good morning, your Honors, Lori Wheelock with the Public Utility Law Project.

A.L.J. MORENO: Thank you. For multiple interveners.

MR. GOODMAN: Good morning, your Honors, Jay Goodman of the Law Firm Couch White, appearing on behalf of Multiple Intervenors.

A.L.J. MORENO: Great, thank you. And for UIU?

MR. RUFAI: Good morning, your Honors. Abiodun Rufai for the UIU. Appearing on behalf of UIU today will be John Roswick too, he is currently on his way and he should be joining us very soon.

A.L.J. MORENO: Great.

MR. RUFAI: Thank you.

A.L.J. MORENO: Thank you. And is there anyone else who is in the room that we didn't get, who would like to make an appearance? Okay, hearing none then we will begin with the Department of Public Service Staff Policy Panel. So if I could ask you each to give your name and business address, and then we'll go from there.

MR. CHOWDHURY: Good -- good morning. My name is Shahriar Chowdhury. My business address is three Empire State Plaza, Albany, New York, 12223.

MS. LAQUITARA. Chelsea Laquitara, business address is three Empire State Plaza, Albany, New York.

MR. TUSHAJ: Good morning, Michael Tushaj. Business address, Three Empire State Plaza, Albany, New York, 12223.

MR. TURAN: Nicholas Turan, State of New York, Department of Public Service, three. Empire State Plaza, Albany, New York 12223.

MS. MAMMEN: Kathryn Mammen. Three Empire State Plaza, Albany, New York, 12223.

MR. RIEBEL: And Andy Riebel. Three Empire State Plaza, Albany, New York, 12223.

A.L.J. MORENO: Great, thank you. And could you all please stand and raise your right hand? And do you each swear or affirm that the testimony that you'll give today is the truth and nothing but the truth?

A. (Panel) Yes.

Shahriar Chowdhury; Sworn.

Chelsea Laquitara; Sworn.

Michael Tushaj; Sworn.

Nicholas Turan; Sworn.

Kathryn Mammen; Sworn

Andy Rebel; Sworn.

A.L.J. MORENO: Thank you. Please be seated. Okay, counselors.

DIRECT EXAMINATION

BY MR. FUNG:

Q. Thank you, your Honors. And good morning Panel. Panel, do you have before you a 95-page document plus cover entitled, prepared corrected testimony of Staff Policy Panel identified as corrected January 16th, 2024?

A. (Panel) Yes.

Q. Was this document prepared by you or under your direction?

A: (Panel) Yes.

Q. Do you have any substantive additions or corrections to make to that testimony?

A: (Panel) No.

Q. If I were to ask you the questions contained in the document, would your answers be the same as those contained therein?

A. (Panel) Yes.

MR. FUNG: Your Honor. I move that the testimony be placed in the record as if given orally.

A.L.J. MORENO: The motion is granted. And at this point in the transcript, we will insert the DPS Staff Corrected Initial Testimony of the Staff Policy Panel.

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

Central Hudson Gas & Electric Corporation

Cases 23-E-0418 & 23-G-0419

CORRECTED January 16, 2024

Prepared Corrected Testimony of:
Staff Policy Panel

Kathryn Mammen
Utility Supervisor
Office of Markets & Innovation

Michael Tushaj
Utility Engineering Specialist 2

Shahriar Chowdhury
Assistant Engineer (Electrical)

Andrew Riebel
Utility Engineering Specialist 3

Office of Energy System
Performance & Preparedness

Chelsea Laquitara
Utility Consumer Program
Specialist 4
Office of Consumer Services

Nicholas Turan
Auditor 3 (Public Utilities)
Office of Accounting, Audits
And Finance

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

Q. Members of the Staff Policy Panel, referred to as the Panel, please state your names, employer, and business address.

A. Our names are Kathryn Mammen, Michael Tushaj, Shahriar Chowdhury, Andrew Riebel, Chelsea Laquitara, and Nicholas Turan. We are employed by the New York State Department of Public Service, also referred to herein as the Department. Our business address is Three Empire State Plaza, Albany, New York 12223-1350.

Q. Ms. Mammen, please state your position at the Department.

A. I am a Utility Supervisor in the Efficiency and Innovation Section of the Office of Markets and Innovation, or OMI.

Q. Ms. Mammen, please state your educational background.

A. I received a Bachelor of Arts Degree in Sociology from Fordham University in 2006. I also received a Master of Public Administration from Rockefeller College of Public Affairs & Policy at the University at Albany, State University of New York in 2010.

Q. Ms. Mammen, describe your professional experience and your position at the Department.

A. I joined the Department in 2009, first as an intern for the Secretary to the Commission, and later as a Utility Analyst in the Office of Energy Efficiency and the Environment where I was responsible for overseeing the implementation and evaluation of energy efficiency, referred to as EE, programs offered under the Energy Efficiency Portfolio Standard, referred to as EEPS. Currently, my relevant responsibilities include reviewing and monitoring utility EE programs and developing policy recommendations for the Public Service Commission, referred to as Commission, consideration related to EE, and other clean energy activities.

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

A. Yes. I testified to energy efficiency and building electrification, or BE, issues in numerous rate proceedings, including Cases 23-G-0025, 23-G-0026, 15-G-0058 and 15-G-0059, KeySpan Gas East Corp. d/b/a National Grid, referred to as KEDLI, and The Brooklyn Union Gas

Company d/b/a National Grid NY, referred to as KEDNY; Cases 22-E-0064, 22-G-0065, 19-E-0065 and 19-G-0066, Consolidated Edison Company of New York, Inc., or Con Edison; Cases 21-G-0073 and 21-E-0074, Orange and Rockland Utilities, Inc., or O&R; Cases 19-E-0378, 19-G-0379, 19-E-0380 and 19-G-0381, New York State Electric & Gas Corporation, referred to as NYSEG, and Rochester Gas and Electric Corporation, referred to as RG&E. I also testified on water conservation programs in Case 16-W-0130, Suez Water New York Inc.; Case 23-W-0111, Veolia Water New York, Inc.; and Case 23-W-0235, Liberty Utilities Corporation.

Q. Messrs. Tushaj and Chowdhury, are you the same Michael Tushaj and Shahriar Chowdhury testifying as part of the Staff Electric Infrastructure and Operations Panel in these proceedings?

A. Yes, our credentials are provided in the Staff Electric Infrastructure and Operations Panel's testimony.

Q. Mr. Riebel, are you the same Andrew Riebel that is submitting individual testimony in this gas proceeding under this name?

A. Yes, my credentials are provided in that individual testimony.

Q. Ms. Laquitara, are you the same Chelsea Laquitara testifying as part of the Staff Consumer Services Panel in these proceedings?

A. Yes, my credentials are provided in the Staff Consumer Services Panel's testimony.

Q. Mr. Turan, are you the same Nicholas Turan testifying as part of the Staff Accounting Panel in these proceedings?

A. Yes, my credentials are provided in that Panel's testimony.

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

A. First, we will summarize Central Hudson Gas & Electric Corporation's, referred to as Central Hudson or the Company, current rate plan under which the Company is operating, and the revenue requirement requests the Company made in these proceedings for the Rate Year, the 12 months ending June 30, 2025. We will also discuss the background and regulatory context in which the Company filed its instant rate cases, including other proceedings currently pending before the

Commission that are relevant to these rate filings. We then discuss Staff’s recommendations regarding revenue requirements for the Rate Year, including discussing specific drivers of Staff’s recommended rate increases. Finally, we will discuss broader policy matters as they relate to the Company’s rates and operations, including compliance with the Climate Leadership and Community Protection Act, referred to as the CLCPA, customer service and Staff’s recommendations for related tariff modifications, and executive compensation.

Q. Will the Panel refer to any information provided by Central Hudson during the discovery phase of these proceedings in your testimony?

A. Yes, we will refer to, and have relied upon, responses to Information Requests, or IRs, provided by Central Hudson. These responses are contained in Exhibit__(SPP-1). We will refer to these IR responses by the designation given to them by the Department, for example, DPS-123.

Q. Are you sponsoring any additional exhibits?

A. Yes. We are sponsoring three additional exhibits. Exhibit__(SPP-2 Corrected) contains two schedules. Schedule 1 is a reconciliation between current rates as established in the third Rate Year of the Company's Joint Proposal approved and issued by the Commission on November 18, 2021 in Cases 20-E-0428 and 20-G-0429, and Staff's recommended revenue requirements. Schedule 2 is a reconciliation between the Company's revenue requirement requests per its October 2, 2023, Update and Staff's recommended revenue requirements.

Q. Please describe Exhibit__(SPP-3).

A. Exhibit___(SPP-3) contains our recommended modifications to the Company's tariff schedules, P.S.C. No. 15 – Electricity and P.S.C. No. 15 - Gas, to improve the requirements regarding Central Hudson's billing processes in its tariffs.

Q. Please describe Exhibit___(SPP-4).

A. Exhibit__(SPP-4) contains the WorldatWork Salary Budget Survey that includes compensation escalation rate forecasts. WorldatWork is a non-profit human resources association and a leading compensation authority for professionals and organizations focused on compensation, benefits, and total rewards.

**Central Hudson's Current Rate Plan**

Q. Is the Company currently operating under a rate plan approved by the Commission?

A. Yes. In Cases 20-E-0428 and 20-G-0429, Trial Staff in those proceedings, the Company, and several involved parties submitted a Joint Proposal on August 24, 2021. We will refer to this as the Filed Joint Proposal.

Q. Did the Commission take action regarding the Filed Joint Proposal?

A. The Commission adopted the Filed Joint Proposal on November 18, 2021, in its Order Adopting Terms of Joint Proposal and Establishing Electric and Gas Rate Plan. We will refer to this order and the Filed Joint Proposal that was adopted as the 2021 Rate Plan. The 2021 Rate Plan is effective from July 1, 2021 through June 30, 2024.

**Central Hudson’s Current Rate Filing**

Q. When did the Company file its current rate cases?

A. On July 31, 2023, the Company submitted electric and gas rate filings based on actual data from the Historic Test Year, or HTY, the 12 months ended March 31, 2023. The basis for the proposed rate increases are revenue requirement forecasts for the Rate Year.

Q. Did the Company provide an update to its July filing?

A. Yes. The Company filed an update on September 15, 2023, accompanied by a narrative statement. In accordance with a directive of the Administrative Law Judges assigned to these rate cases, on October 2, 2023, the Company refiled its update as updated testimony and exhibits from the Company's Policy Panel.

Q. Summarize Central Hudson's filing in these proceedings.

A. In its initial filing, Central Hudson filed revised tariff leaves intended to increase its base electric revenues by $139.479 million, a 31.6 percent increase over the base electric delivery revenues, and a 13.3 percent increase over the Company's total electric revenues. In its October 2, 2023, update, it modified the request to increase its base electric revenues by $141.967 million, a 32.1 percent increase over the base electric delivery revenues, and a 13.5 percent increase over the Company's total electric revenues. For gas, the Company initially filed revised tariff leaves intended to increase its base gas revenues by $41.478 million, a 29.8 percent increase over the base gas delivery revenues, and a 14.2 percent increase over the Company's total gas revenues. In its October 2, 2023, update, it modified the request to increase its base gas revenues by $42.002 million, a 30.2 percent increase over the base gas delivery revenues, and a 14.3 percent increase over the Company's total gas revenues.

Q. Did Central Hudson propose to moderate its requested rate increases?

A. Although it described available rate moderators, as we will discuss later in our testimony, it did not propose how much of them to use during the Rate Year.

Q. Did Central Hudson include financial information for periods beyond the Rate Year in its original filing?

A. Yes, the Company included forecasted financial information for the two years beyond the Rate Year – the twelve months ending June 30, 2026, and June 30, 2027, respectively. These forecasts are summarized in Attachment B of the cover letter to the Company's July 31, 2023, filings.

Q. Does the Company propose the Commission set rates for more than one year in these proceedings?

A. No. The Company's filing only seeks Commission approval for rates effective for the Rate Year. The Company stated that it included forecasted financial information for the two years beyond the Rate Year in the event the parties opt to enter settlement negotiations to consider a multi-year rate plan.

Q. Is Staff recommending a multi-year rate plan?

A. No. Staff's complete examination and recommendations to determine revenue requirements only address the Rate Year.

## **Central Hudson's Pending Proceedings**

Q. At the time of Central Hudson's July 31 rate filing, was the Company the subject of any other proceedings currently pending before the

Commission?

A. Yes. Of note, there are two pending proceedings before the Commission in Case 21-M-0541 and Case 22-M-0645. We would also like to discuss Matter 22-00666.

Q. What is addressed in Case 21-M-0541?

A. Case 21-M-0541 relates to the Comprehensive Management and Operations Audit of Central Hudson’s operations. We will refer to this case as the Audit Proceeding.

Q. Describe the Audit Proceeding.

A. As discussed in the Staff Management Audit Panel’s initial testimony, Case 21-M-0541 is a comprehensive management and operations audit of Central Hudson, which examined the Company’s electric and gas operations. The scope included follow-up review of certain issues from the previous management audit, information systems planning and implementation, elements of customer operations, gas safety, and improvements to electric load forecasting processes to support grid modernization goals. The audit also reviewed how the Company incorporates the State’s CLCPA goals and other regulatory objectives into its performance management and construction program planning processes. On March 16, 2022, the Commission selected Overland Consulting, or Overland, to perform the audit. On April 20, 2023, the Commission issued an order releasing Overland's final audit report, which included 37 recommendations for improvement. In accordance with the Order, Central Hudson filed its initial implementation plan on May 22, 2023, which accepted 31 recommendations and proposed modifications to 6 recommendations.

Q. What is addressed in Case 22-M-0645 and Matter 22-00666?

A. Case 22-M-0645 was initiated by the Commission to investigate Central Hudson's development and deployment of its Customer Information System, or CIS, including but not limited to the prudency of the Company's spending, billing issues arising as a result thereof, and other issues. We will refer to this case as the Investigation and Enforcement Proceeding. Matter 22-00666 is the Department's review of specific consumer complaints regarding billing issues, which were submitted as public comments, following the Company's deployment of its CIS. We will refer to this matter as the Review of Customer Complaints Matter. The Investigation and Enforcement Proceeding is separate and apart from the Review of Customer Complaints Matter.

Q. Please provide an overview of and background on Central Hudson's CIS implementation.

A. As discussed in the Staff Consumer Services Panel's testimony, the Company launched a new CIS on September 1, 2021, to replace its 30-year-old legacy mainframe customer billing system. On page 9 of the direct testimony of its Customer Experience Panel, the Company states that following the new CIS launch, several issues arose that impacted "... a portion of Central Hudson's customers, including through delayed and inaccurate invoices, confusion, and anxiety." The Customer Experience Panel also states on page 9 that the Company put forth its "best efforts to correct the issues," but experienced an increase in customer complaints and "... harsh criticism from politicians."

Q. Describe the Review of Customer Complaints Matter.

A. Matter 22-00666, In the Matter of Staff's Investigation into Central Hudson's Customer Information System Implementation and Resulting Billing Errors, was established on March 28, 2022, in response to an influx of inquiries and complaints from elected officials and Central Hudson customers to the Department. The Public Utility Law Project, or PULP; Agway Energy Services, LLC; and the Town of Philipstown submitted various letters to the Commission and the Department under this matter urging the Department to investigate the Company’s billing issues. To date, over 4,500 public comments have been filed under the Review of Customer Complaints Matter, most of which allege the Company overcharged them, did not provide them with a bill for several months, or inaccurately billed.

Q. How has the public comments filed in Matter 22-00666 impacted the Investigation and Enforcement Proceeding?

A. As a result of the increasing number of customer complaints received by the Department after Central Hudson implementation of its new CIS, on April 5, 2022, the Department’s Office of Investigation and Enforcement, or OIE, commenced an investigation into the cause of the complaints and complications related to Central Hudson’s new CIS. On December 15, 2022, the Commission initiated the Investigation and Enforcement Proceeding in response to a report issued by OIE on its findings regarding the Company’s implementation of CIS. Among other things, the OIE report stated that Central Hudson’s CIS had a significant amount of defects when launched, causing overcharges and delayed bills for thousands of customers. The OIE report stated that the Company failed to adequately test the CIS, properly allocate resource to the project, properly train employees, consider the warnings of its own employees, and be candor with its customers and the public.

Q. What is the scope of the Investigation and Enforcement Proceeding?

A. The Investigation and Enforcement Proceeding was initiated by the Commission to address whether Central Hudson acted prudently with respect to expenditures related to the CIS development, functionality, and deployment and whether the Company also violated the Public Service Law, or PSL, regulations, and Commission orders before and following the launch of the new CIS. In the Investigation and Enforcement Proceeding, the Commission is considering civil penalty action and/or an administrative penalty action.

Q. What is the status of the Investigation and Enforcement Proceeding?

A. On July 27, 2023, the Department filed an Interim Agreement between Central Hudson and OIE, which was approved by the Commission in the Order Adopting Terms of Interim Agreement issued August 18, 2023. According to the Interim Agreement, Central Hudson will: (1) continue to investigate complaints of billing errors and promptly refund overpayments to customers who have been overcharged; (2) subject itself to testing and verification of its CIS for stability and capability by an independent third-party selected by the Department and funded by shareholders; (3) read customer meters on a monthly basis with testing to begin as early as August of 2023 and full implementation in calendar year 2024; (4) file a monthly report with the Department on defects and billing exceptions trends; (5) monitor customer service performance metrics and report changes to the trends on bills issued, bills requiring adjustments, actual bills replaced with estimates, call service levels, average wait times, and calls abandoned; (6) continue Customer Experience Training Enhancement Initiatives commenced in January 2023; and (7) provide quarterly written updates to the Department on program development and proficiency measures. The Interim Agreement is not a final resolution of the issues raised in the Commission's initiating order for the Investigation and Enforcement Proceeding, it does not preclude or forestall any potential enforcement or prudence actions.

**Principles Supporting Staff's Revenue Requirements**

Q. What principles did Staff consider in developing the recommended revenue requirements in these proceedings?

A. Staff kept in mind the reality that these continue to be trying times in the wake of the COVID-19 Pandemic. In particular, we recognize that customers of Central Hudson presently face higher than historic levels of inflation and continued economic uncertainty. Nonetheless, we also recognize that the Company needs certain levels of revenue in order to allow it to provide safe, adequate, and reliable service in accordance with the PSL and in a manner that comports with the State’s climate and energy policies.

Q. Did Staff consider Case 21-M-0541, Case 22-M-0645 and Matter 22-00666 when developing revenue requirements?

A. Yes. We are aware of the management audit recommendations and acknowledge that the Company’s CIS implementation has resulted in unprecedented levels of customer dissatisfaction within Central Hudson’s service territory, with numerous complaints from customers regarding the accuracy and timeliness of billing, and the level of customer service provided by Central

Hudson, as further discussed in the Staff Consumer Services Panel's direct testimony. Indeed, both the Review of Customer Complaints Matter and the Investigation and Enforcement Proceeding were commenced to address billing and related issues stemming from the Company's CIS implementation. We recognize that the Investigation and Enforcement Proceeding is currently pending before the Commission, and the outcomes the proceeding could impact the Company's revenues, including potentially resulting in monetary penalties for the Company. We further acknowledge that the timing of the Company's request for rate increases, in the face of all of the existing billing issues, has further exacerbated customer concerns about the ability of Central Hudson to provide safe and reliable service at just and reasonable rates.

Q. In that context, how did Staff develop its revenue requirements?

A. As stated previously, we strove to develop revenue requirements that provide the Company only the revenues necessary to provide safe, adequate, and reliable service in a manner that comports with the State’s climate and energy policies. Additionally, we recommend revenue requirements that allow the Company to generally recover costs incurred in the Rate Year during the Rate Year. Our revenue requirements further recognize and account for the ongoing proceedings regarding the Company’s CIS implementation by recommending the Commission disallow certain proposals given the timing of proceedings such as the Investigation and Enforcement Proceeding. These recommendations are further discussed by this Panel and the Staff Consumer Services Panel.

**Overview of Staff's Revenue Requirements**

Q. Please summarize the revenue requirement needs Staff computed for Central Hudson’s electric and gas operations for the Rate Year.

A. Staff recommends an increase to Central Hudson’s electric delivery revenues of $65.516 million for the Rate Year, which is a 14.5 percent increase on delivery revenues and a 6.2 percent increase on the Company’s total revenues over what the Company’s revenues would be without any revenue change. For gas, Staff recommends a

$24.943 million revenue increase, which is an 18.4 percent increase on delivery revenues and an 8.6 percent increase on the Company's total revenues over what the Company's revenues would be without any revenue increase.

Q. Do these recommended revenue increases include the effects of any rate moderation from the available regulatory credits at the start of the Rate Year?

A. No, rate moderation is not included in these figures, however we will discuss the use of rate moderators later in our testimony.

Q. Please identify the major differences between Staff and Central Hudson's calculated electric revenue requirement.

A. Differences are identified in Exhibit___(SPP-2 Corrected), Schedule 2. The largest differences between Central Hudson and Staff are related to labor and benefits, capital structure, removal of the Company's retention factors for low income and rate change timing, major storm costs, and low income programs.

Q. Please describe the major drivers of Staff's recommended electric increases.

A. Drivers between current revenues and Staff's recommendation for the Rate Year are identified in Exhibit___(SPP-2 Corrected), Schedule 1. This schedule identifies the specific increases and decreases to costs that support the electric revenue increase. The largest drivers include increases for net plant and depreciation, labor and benefits, storm costs, and energy efficiency and heat pump programs.

Q. Please identify the major differences between Staff and Central Hudson's calculated gas revenue requirement.

A. Differences are identified in Exhibit___(SPP-2 Corrected), Schedule 2. The largest differences between Central Hudson and Staff are related to labor and benefits, the capital structure, and amortization of the excess depreciation reserve.

Q. Please describe the major drivers of Staff's recommended gas increases.

A. Drivers between current revenues and Staff's recommendation for the Rate Year are identified in Exhibit___(SPP-2 Corrected), Schedule 1. This schedule identifies the specific increases and decreases to costs that support the gas revenue increase. The largest drivers include increases for net plant and depreciation, revenues, labor and benefits, and capital structure changes.

Q. What is the value of one basis point for Central Hudson, per Staff's Rate Year revenue requirement?

A. The value of one basis point for Central Hudson's electric operations is approximately $113,000 and for Central Hudson's gas operations is approximately $47,800.

**Rate Moderation**

Q. What is Central Hudson's position on rate moderation in these proceedings?

A. The direct testimony of the Company's Revenue Requirements Panel discusses the deferral balance available for rate moderation at page 82. Central Hudson projects that it will have net regulatory credits at the start of the Rate Year totaling $21.976 million for electric and $12.102 million for gas.

Q. Does Central Hudson propose any additional sources of moderation?

A. Yes. In the direct testimony of the Company's

Policy Panel, at page 22, the Company proposes three other sources of moderation. The first additional source of potential moderation for electric customers is approximately $32 million associated with an electric rate base credit that originated from the sale of the Danskammer and Roseton generating plants, as well as Central Hudson's interest in the Nine Mile Point No. 2 generating plant. The second is to use the over-funding from the Company's Voluntary Employees' Beneficiary Association, or VEBA, trust to decrease medical expense by an estimated $5 million. Third, Central Hudson suggests reflecting a revised forecast of Environmental Site Investigation and Remediation, or SIR, costs in the Rate Year, which would result in a combined reduction to the electric and gas revenue requirements of approximately $4 million.

Q. Did Central Hudson propose a method of utilizing the available moderators to reduce bill impacts for its customers?

A. No, the Company's testimony did not propose a specific methodology. However, in the direct testimony of the Company's Policy Panel, at pages 22-23, the Company states it would be open to those discussions in settlement negotiations.

Q. Does the Panel agree with the net regulatory credit balances identified by Central Hudson?

A. Generally, yes; however, we recommend adjusting the balances slightly, consistent with a recommendation by the Staff Clean Energy Panel's testimony, and a recommendation by the Staff Consumer Services Panel's testimony. The Staff Clean Energy Panel recommends an adjustment that reduces the electric balance and increases the gas balance by $89,810 each. The Staff Consumer Services Panel recommends an adjustment which increases the electric balance by $1.412 million and increases the gas balance by $0.605 million.

Q. What is Staff's quantification of the total net regulatory credits available at the start of the Rate Year?

A. Staff's adjusted total net regulatory credits at the start of the Rate Year are estimated to be $23.299 million for electric and $12.796 million for gas.

Q. Does the Panel agree that the other rate moderators identified by Central Hudson are available for use in these cases?

A. The Panel agrees that the rate base credit related to prior generating assets could be available for use as a rate moderator, if needed, for electric. This determination should be made when Rate Year revenue requirements are finalized in the electric proceeding. We disagree on the availability of the VEBA credit as it is premature at this time. The direct testimony of the Company's Accounting and Tax Panel, at page 30, indicates that additional analysis of the impacts would be needed before this could be used as a rate moderator, and further states, "...given the complexity of this change the Company would also propose deferral accounting around this treatment." The Panel also agrees with the Company's proposal regarding the Rate Year forecast of Environmental SIR costs, which is further discussed in the Staff SIR Panel's testimony.

Q. Does the Panel propose a specific methodology of using rate moderators?

A. We recommend that the estimated regulatory credits on the Company's books at the start of the Rate Year be amortized over a three-year period. This will significantly mitigate any hockey-stick effect, meaning the automatic rate increase customers will experience when the credits have been fully used. The Commission could revise this methodology to provide additional rate moderation during the Rate Year, based on the finalized Rate Year revenue requirements it adopts in these proceedings.

Q. Quantify Staff's recommended revenue increases in the Rate Year for electric and gas, after the Panel's rate moderation recommendation.

A. As summarized in the Staff Accounting Panel, Staff recommends an increase to Central Hudson's electric delivery revenues after rate moderation of $57.750 million for the Rate Year, which is a 12.8 percent increase on delivery revenues and a 5.4 percent increase on the Company's total revenues over what the Company's revenues would be without any revenue change. For gas, the Panel's recommended rate increase after rate moderation is $20.677 million, which is a 15.2 percent increase on delivery revenues and 7.1

percent increase on the Company's total revenues over what the Company's revenues would be without any revenue increase.

**Return on Equity**

Q. What ROE and common equity ratio did Central Hudson request?

A. The Company requested a 9.8 percent ROE and a 50 percent common equity ratio. Together with the other components of Central Hudson's capital structure, the Company proposes an overall pre-tax rate of return of 7.23 percent.

Q. What ROE and common equity ratio does Staff recommend?

A. Staff Witness Hale recommends a 9.2 percent ROE and a 48 percent common equity ratio. Together with the other components of Central Hudson's capital structure, Staff recommends an overall pre-tax rate of return of 6.74 percent.

Q. What is the impact of Staff's recommended rate of return on the Company's requests?

A. As shown in Exhibit__(SPP-2 Corrected), Schedule 2, the impact of Staff's recommended rate of return is a decrease in revenue requirement of approximately $9.390 million for electric and

$4.023 million for gas.

**CLCPA**

Q. Are you very familiar with the CLCPA?

A. We are generally familiar with the CLCPA. However, we note that, as non-attorneys, our testimony is not intended to address questions of legal interpretation regarding the CLCPA.

Q. What major obligations does the CLCPA impose on the Commission?

A. The CLCPA establishes deadlines by which Commission-established programs must meet specific clean energy goals. For example, the CLCPA added PSL Section 66-p, which requires, among other things, the Commission to establish a renewable energy program for the State's jurisdictional load serving entities, or LSEs, to procure a minimum of 70 percent of the State's electric load from renewable sources by 2030. It also requires the Commission to establish a program by which the statewide electrical demand system is zero emissions by 2040. Other requirements under PSL Section 66-p include that the Commission shall, no later than July 1, 2024, establish programs to require the procurement of nine gigawatts, or GW, of offshore wind by 2035, six GW of photovoltaic solar generation by 2025, and three GW of statewide energy storage capacity by 2030.

Q. Prior to CLCPA, did the Commission commence programs that help to achieve the CLCPA electric system targets that you referenced?

A. Yes. Before the passage of the CLCPA, the Commission was already pursuing ambitious clean energy objectives under several programs, including: (1) the original Clean Energy Standard, or CES, which the Commission adopted pursuant to its Order Adopting a Clean Energy Standard, issued on August 1, 2016, in Case 15-E-0302, referred to as the CES Order; and (2) the Offshore Wind Standard, which the Commission adopted pursuant to its Order Establishing Offshore Wind Standard and Framework for Phase 1 Procurement, issued on July 12, 2018, in Case 18-E-0071.

Q. Please describe the requirements of the original CES.

A. The CES requires that, by 2030, 50 percent of the electricity to be generated in the State must come from renewable sources, referred to as the 50 by 30 target.

Q. What actions has the Commission undertaken to meet the clean energy targets specified under the CLCPA?

A. On October 15, 2020, the Commission issued its Order Adopting Modifications to the Clean Energy Standard in Case 15-E-0302, referred to as the CES Modification Order, which modified the CES to comply with the CLCPA targets related to: (1) ensuring that 70 percent of the statewide electricity generated in the State by 2030 is from renewable energy resources; (2) ensuring that the statewide electrical demand system is zero emissions by 2040; and (3) requiring nine GW of offshore wind to be procured by 2035. The CES Modification Order, among other things, accelerated the rate of New York State Energy Research and Development Authority, or NYSERDA, procurements to meet these targets.

Q. Does the CLCPA impose electric delivery system mandates on utilities, like Central Hudson?

A. Not directly. As noted above, PSL Section 66-p directs the Commission to implement the renewable and clean energy targets through obligations imposed on LSEs, which includes utilities like Central Hudson. The CES Modification Order complies with this requirement by imposing an obligation on each of the LSEs to purchase Renewable Energy Credits, or RECs, and Offshore Wind Energy Credits, or ORECs, from NYSERDA equivalent to each of the LSE's share of overall State electrical load.

Q. Do the targets you summarized need to be addressed through this and other rate cases?

A. No. As noted, the Commission's CES Modification Order imposed an obligation on each of the LSEs to meet the renewable and clean energy targets summarized above through the purchase of RECs and ORECs. That is a statewide program that is being implemented outside of these rate cases.

Q. Please explain the Panel's understanding of CLCPA Section 7(2).

A. CLCPA Section 7(2) requires all State agencies, including the Commission, to take into consideration whether certain specified final agency actions are inconsistent with or will interfere with the attainment of the statewide greenhouse gas, or GHG, emission limits established by the Department of Environmental Conservation, or DEC, under Environmental Conservation Law, or ECL, Article 75. Thus, final Commission decisions are subject to the evaluation required under Section 7(2).

Q. If a decision is determined to be inconsistent with the attainment of emissions limits established in Article 75, what course of action does the CLCPA require?

A. CLCPA Section 7(2) states that where a decision is deemed to be inconsistent with, or to interfere with, the attainment of the statewide GHG emissions limits, the deciding agency, office, authority, or division must provide a detailed statement of justification as to why such limits/criteria may not be met and identify alternatives or GHG mitigation measures to be required where such project is located.

Q. Has the Commission issued any orders addressing Section 7(2) of the CLCPA specific to rate plans?

A. Yes. On August 12, 2021, the Commission issued an Order Approving Joint Proposal, As Modified, and Imposing Additional Requirements in Cases 19-G-0309 and 19-G-0310, referred to as the KEDNY and KEDLI Rate Order, which adopted a Joint Proposal establishing rate plans for KEDNY and KEDLI. In the KEDNY and KEDLI Rate Order, the Commission found that Section 7(2) of the CLCPA applies to rate cases. The Commission has since undertaken the analysis required under Section 7(2) in recent rate cases regarding Niagara Mohawk Power Corporation d/b/a National Grid, or Niagara Mohawk, in Cases 20-E-0380 and 20-G-0381; O&R in Cases 21-G-0073 and 21-E-0074; Con Edison in Cases 22-E-0064 and 22-G-0065; and NYSEG and RG&E in Cases 22-E-0317, 22-G-0318, 22-E-0319, and 22-G-0320. The Commission also addressed CLCPA Section 7(2) in Central Hudson’s most recent rate proceedings, Cases 20-E-0428 and 20-G-0429.

Q. Has the Commission addressed other CLCPA provisions in recent rate cases?

A. Yes. In the KEDNY and KEDLI Rate Order, the Commission found that Section 7(3) of the CLCPA also applies to rate cases. The Commission has applied this provision in the other recent rate cases we just identified.

Q. Describe the Panel's understanding of what is required under Section 7(3) of the CLCPA.

A. Section 7(3) provides that, in issuing certain administrative approvals and decisions, the State's agencies and public authorities shall not disproportionately burden Disadvantaged Communities and must also prioritize reductions of GHG emissions and co-pollutants in Disadvantaged Communities.

Q. Are there any further CLCPA provisions regarding Disadvantaged Communities that are applicable to rate cases?

A. Yes. There are provisions of ECL Article 75 and PSL Section 66-p that require the Commission to ensure that its clean energy programs also provide specific benefits to Disadvantaged Communities.

Q. What role, if any, do the prior Commission orders that have applied CLCPA Sections 7(2) and 7(3) play with respect to Staff's review of the Company's rate filings?

A. Staff considers prior relevant orders to guide its analysis of proposed rate plans. Applied here, we reviewed the Company's rate filings, as modified by Staff, in the context of determining its consistency with prior Commission orders on rate cases to the extent related to examining compliance with Sections 7(2) and 7(3) of the CLCPA.

Q. Are there other Commission programs that will help to meet the goals of the CLCPA to reduce GHG emissions?

A. Yes, there are numerous other programs already in place that will help meet the CLCPA's climate goals, including: (1) the statewide New Efficiency New York, or NE:NY, electric and gas energy efficiency programs authorized in Case 18-M-0084, In the Matter of a Comprehensive Energy Efficiency Initiative, or the EE/BE Proceeding; (2) the statewide Clean Heat Program, an electric heat pump program authorized in Case 18-M-0084; (3) statewide electric Demand Response, or DR, programs; (4) gas DR programs implemented at several utilities; (5) the statewide electric vehicle, or EV, charging infrastructure Make-Ready Program authorized in Case 18-E-0138, referred to as the EV Proceeding; (6) the statewide EV managed charging program in Case 18-E-0138; (7) operating cost relief for commercial EV charging customers under Public Service Law §66-s, and an EV Demand Charge Rebate program, in Case 18-E-0138; (8) statewide implementation of non-wires alternatives, or NWA, projects and non-pipes alternatives, or NPA, projects; (9) the statewide New York Sun, or NY-Sun, program, which the Commission recently expanded to achieve a goal of 10 GW of solar capacity installed in the State by 2030; (10) a statewide electric transmission and distribution system planning process to identify necessary infrastructure upgrades needed to effectively move renewable generation around the State; (11) statewide bulk energy storage dispatch rights procurements authorized in Case 18-E-0130; (12) statewide energy storage incentive program (retail and bulk) administered by NYSERDA and through utility storage dispatch rights procurements to achieve 1,500 megawatts, or MW, of energy storage by 2025 and 3,000 MW by 2030, as authorized in Case 18-E-0130; and (13) statewide Clean Energy Standard as authorized in Case 15-E-0302 to achieve 70% electricity from renewable generation by 2030, 9,000 MW od offshore wind by 2035, and 100% zero-emission electricity by 2040.

Q. Are there other ongoing efforts that have not been considered by the Commission yet?

A. Yes. In addition to the continuing work in the projects and programs already approved by the Commission, there are a number of ongoing efforts that we anticipate will be brought to the Commission for consideration soon, including the following: (1) load management technology incentives program and a Commercial Managed Charging Program for EVs; (2) New York's 6 GW Energy Storage Roadmap: Policy Options for Continued Growth in Energy Storage, in Case 18-E-0130; and (3) the development of a Statewide Solar For All program, designed to streamline low income customer participation in distributed solar projects, in Case 19-E-0735.

Q. Are any of these programs that you mentioned being addressed through separate proceedings?

A. Yes. Many of the initiatives noted above were initiated through a statewide proceeding or are currently being considered in a statewide proceeding. In addition to the programs noted above, the Commission commenced a CLCPA proceeding through the May 12, 2022, Order on Implementation of the Climate Leadership and Community Protection Act in Case 22-M-0149, referred to as the CLCPA Order.

Q. Please describe the CLCPA Order.

A. The CLCPA Order has several purposes. First, it instituted the new proceeding as a forum to track and assess the advancements made towards meeting the CLCPA mandates and to provide policy guidance, as necessary, for additional actions necessary to help achieve the CLCPA mandates. Second, the CLCPA Order directed Staff to present an annual informational item to the Commission regarding that progress. Third, it initiated the process to, among other things, establish statewide GHG Emissions Inventory Reports guidelines to be adopted by the State's utilities.

Q. Please explain the statewide GHG emissions reporting guidelines.

A. The Commission directed the investor-owned utilities, including Central Hudson, to build on GHG emission inventory requirements from recent rate cases by working with Staff to develop a proposal regarding the content of utility-specific GHG emissions inventory reports that include an inventory of total gas system-wide emissions, following the method required in the CLCPA and by DEC to calculate their system emissions. The goal is for the utilities to assess the current direct and indirect GHG emissions, including upstream emissions from imported fossil fuels, local distribution emissions, and end-use or customer meter emissions and file a report on an annual basis. The proposed method used to calculate emissions for the annual GHG Emissions Inventory Report was filed for public comment on December 1, 2022.

Q. Did the Commission require any utilities to provide a GHG Emissions Inventory Report in any prior rate cases?

A. Yes. Some of the recent rate orders mentioned earlier and issued before the CLCPA Order required the subject utilities to provide information that would be similar to what is included in such a report.

Q. Does the process regarding the GHG Emission Inventory Report established in the CLCPA Order differ from the process approved by the Commission in recent rate cases?

A. Yes. The Commission required each of the utilities to prepare their reports either during the term of the rate plan or by the next rate filing. The CLCPA Order requires the utilities, in consultation with Staff, to propose a more refined method in a proposal and, after the Commission approves that proposal, for the utilities to file their reports by a date to be determined by the Commission. Until the Commission approves a uniform state-wide method, Staff is being guided in Central Hudson's pending rate cases by the prior Commission orders that approved the aspects of Joint Proposals related to preparation of GHG emission inventory reports.

Q. Does the CLCPA Order require the utilities to document emissions associated with the electric side of their business?

A. No. As explained in the CLCPA Order, DEC is already maintaining an inventory related to GHG emissions from the power plant sector, and the renewable and clean energy targets discussed earlier will gradually result in reduced emissions as renewable generation displaces fossil-fuel fired generation.

Q. Does the CLCPA Order require the utilities to assess the impacts of their investments, capital expenditures, programs, and initiatives on GHG emissions from their gas networks?

A. Yes. Ordering Clause 3 of the CLCPA Order specifically states that each utility is directed to include, "in all future rate filings, an assessment of the impacts that the utility's specific investments, capital expenditures, programs and initiatives included in the rate filing will have on its greenhouse gas emissions from its gas network, specifying the potential emissions impacts of each...."

Q. Earlier, you mentioned the recent Gas Planning Order. Please describe it.

A. The purpose of the Gas Planning Order is to ensure more thoughtful, strategic, and comprehensive planning for natural gas usage and investments. It also presents a regulatory planning roadmap to enable gas utilities to maximize the use of energy efficiency, new technologies such as electric heat pumps and demand response programs, as well as minimize — and even potentially eliminate — new gas infrastructure investments while maintaining safe, adequate, and reliable service, consistent with the CLCPA and PSL. The Gas Planning Order also requires gas utilities, including Central Hudson, to make filings to propose: (1) screening criteria to be used to identify the most likely gas infrastructure projects to be successfully deferred or avoided through implementation of NPA projects; (2) an NPA project cost recovery mechanism; and (3) a NPA shareholder incentive mechanism. Central Hudson, and other gas utilities, have made these required filings. The proposals are being considered by the Commission in the Gas Planning Proceeding.

**Electric Capital Investments & Programs**

Q. Has the Company proposed any electric investments as part of this rate case that are intended to support the State's CLCPA objectives?

A. Yes. The Company's Climate Leadership and Sustainability Panel, referred to as the Climate Panel, proposes CLCPA-related investments in its testimony, including but not limited to projects related to building electrification, geothermal heating, and transportation electrification. These investments are discussed in more detail by the Staff Clean Energy Panel.

Q. Besides the investments described in the Climate Panel's testimony, has Central Hudson proposed any electric system investments that would help facilitate the achievement of the State's CLCPA goals and targets?

A. Yes. As shown in Exhibit__(ECOP-6), the Company proposed 22 electric capital projects identified as CLCPA Phase 1 projects. The Panel notes that the "P & MK 115 kV" project is broken out and listed as two projects within the Company's Transmission and Substation Categories, and thus, for purposes of this testimony, we will consider those to be a single project, and will assume that the Company proposed 21 CLCPA Phase 1 projects.

Q. How does the Company describe its 21 CLCPA-related projects?

A. On page 12 of the testimony of its Electric Capital and Operations Panel, referred to as the ECOP, the Company generally states that its 2024-2028 Capital Budget Book filed on June 30, 2023, in Cases 20-E-0428 and 20-G-0429, referred to as the Five-Year Capital Plan, contains a number of projects that, when completed, will advance the sustainability initiatives identified by and in support of the CLCPA. Additionally, and discussed in more detail beginning on page 18 of the ECOP's testimony, the Company states that its suite of projects specifically classified as CLCPA Phase 1 projects satisfy "Reliability, Safety and Compliance" obligations, address system "bottlenecks and constraints that limit renewable energy delivery" or "include the added benefit of increasing the capacity to host additional distributed energy resources (DERs)."

Q. What is the impetus for the CLCPA electric system projects proposed by the Company?

A. In Case 20-E-0197, the Commission issued its May 14, 2020 Order on Transmission Planning Pursuant to the Accelerated Renewables Energy Growth and Community Benefit Act, referred to as the Accelerated Renewables Order, directed Central Hudson, Con Edison, NYSEG, Niagara Mohawk, O&R, and RG&E to conduct a study to identify local transmission and distribution upgrades that are necessary to timely achieve the CLCPA targets and to prepare plans for integrating these projects into their ongoing capital programs.

Q. How did the utilities respond to the Commission's Accelerated Renewables Order?

A. The utilities and the Long Island Power Authority, together referred to as the Utilities, filed the results of their study and their proposals for system upgrades in their Utility Transmission and Distribution Investment Working Group Report, referred to as the UT&D Report in Case 20-E-0197, on November 2, 2020. In their filing, the Utilities defined CLCPA

Phase 1 projects as investments needed to meet traditional reliability, safety, and compliance objectives but that also address bottlenecks or constraints that limit the delivery of renewable energy. The Utilities defined Phase 2 projects as those whose driving justification is the support of the CLCPA goals.

Q. Did the Commission issue any orders addressing the Utilities' filing?

A. Yes. The Commission issued two orders in Case 20-E-0197. On February 11, 2021, the Commission issued its Order on Phase 1 Local Transmission and Distribution Project Proposals, or the Phase 1 Order. On September 9, 2021, the Commission issued its Order on Local Transmission and Distribution Planning Process and Phase 2 Project Proposals, or Phase 2 Order.

Q. Please describe the Phase 1 Order.

A. The Phase 1 Order, among other things, confirmed the Utilities' distinction between Phase 1 and Phase 2 projects and provided guidance on the process for cost recovery of Phase 1 projects. As stated on pages 13 to 14 of the Phase 1 Order, the allocation and recovery of Phase 1 project costs should be consistent with typical capital projects that address system reliability or aging assets. The Phase 1 Order indicated that Phase 1 projects may include the following upgrades, each of which could increase energy deliverability from resources to loads by increasing throughput capabilities on the power system: (1) circuit rebuilds with larger current carrying conductors; (2) circuit rebuilds at higher operating voltages, for example, from 69 kilovolts, or kV, to 115 kV, to transmit higher levels of energy on the same conductors; (3) replacement of existing transformers with higher capability transformers; (4) reconfigurations and additions of new circuits or substation transformers to increase overall transfer capability; (5) addition or capability upgrades of phase angle regulators, or series reactors, each of which help control and balance power system flows to make more effective use of the system increase overall system transfer capability; and (6) replacement and upgrade of existing weak-link equipment, such as in substations, that currently act as choke-points that restrict overall transfer capability.

Q. Please describe the Phase 2 Order.

A. The Phase 2 Order directed the Utilities to propose Phase 2 projects.

Q. Did Central Hudson respond to the Phase 2 Order?

A. Yes. The Company jointly filed a Phase 2a Petition with Niagara Mohawk, NYSEG, and RG&E on March 8, 2022.

Q. Describe the Phase 2a Petition.

A. The Phase 2a Petition identified areas of concern and the utilities recommended transmission solutions. On page one of the petition, the Company requested that the Commission "...(i) authorize the development and construction of the Companies' transmission solution recommendations for each Area of Concern planning region ("Phase 2A Projects") 2; (ii) approve the use of regional cost allocation and recovery through the New York Independent System Operator ("NYISO") Tariff as proposed in the Joint Utilities January 7, 2022 filing in this matter for each approved Phase 2 Project; and (iii) approve deferral for future recovery of incremental operating expenses and related taxes associated with investments, return on capital investment (including initial and ongoing cost of removal), and depreciation associated with the Phase 2A Projects, which costs are not recovered regionally through a NYISO Tariff or through an existing rate plan."

Q. Has the Commission acted on the Phase 2a Petition in Case 20-E-0197?

A. Yes, the Commission addressed the Phase 2a Petition in its February 16, 2023 Order Approving Phase 2 Areas of Concern Transmission Upgrades. Because the costs of the Phase 2 projects are recovered through the NYISO tariff and not through the Company's electric base rates, the Phase 2 projects are not at issue in these rate proceedings.

Q. Please describe your review of the CLCPA Phase 1 electric investments identified by the Company in this electric rate proceeding.

A. First, the Panel reviewed the Company's Phase 1 transmission and distribution solutions identified within the UT&D Report. Figures 20 and 22 of the UT&D Report highlight the Company's proposed Phase 1 project estimates.

In that report, the Company analyzed its transmission and distribution system to determine its load serving capability and identify system constraints and bottlenecks to new DERs. Within its five-year electric capital forecast, the Company identified specific transmission and distribution solutions aimed to address load growth, infrastructure replacement, and increase capacity on the electric system to allow for new renewable generation resources. As part of the UT&D Report, Central Hudson identified the need for 18 Phase 1 CLCPA projects, with order of magnitude, or OOM, costs estimates totaling approximately $290 million and increases in headroom capacity of approximately 565 MW.

Q. Please explain the concept of OOM cost estimations.

A. OOM cost estimations are used to estimate how much a project is likely to cost when all cost variables or specific cost details are not known. It provides a wider range of proposed project costs, is best used at the start of project estimation to gauge project costs, and is refined later in the cost estimation process as cost variables become more known.

Q. What is headroom?

A. Headroom represents the ability of the power system to deliver additional energy output from generators to load under a specific set of circumstances. Increases in headroom generally result in decreased levels of generator curtailment, though not necessarily total elimination of curtailments. Headroom may vary seasonally and over the course of the day due to changes in system configurations, load levels, generation outputs, and power flows. A generator’s potential output will be curtailed to the extent it exceeds the prevailing headroom capability. Existing headroom describes the amount of generation output that can be delivered to load by the existing transmission and distribution system facilities. Incremental headroom describes the additional amount of generation output that an upgraded transmission and/or distribution facility can deliver.

Q. What was the next step in the Panel’s review of the CLCPA Phase 1 electric investments identified by the Company in this electric rate proceeding?

A. Next, the Panel reviewed and compared the evolution of the CLCPA Phase 1 projects identified within the UT&D Report, to the CLCPA Phase 1 electric projects identified and included within the Company's Exhibit__(ECOP-6) for adherence to the Commission's Phase 1 Order, and their efficacy in providing incremental headroom to enhance the deliverability of renewable resources.

Q. Has the Company, to date, completed any of the 18 projects?

A. Yes. As indicated in its response to DPS-570, Central Hudson has completed one project, the Knapps Corners Substation Replacement – high-capacity circuit exits project, out of the 18 CLCPA Phase 1 projects initially identified in its UT&D Report. Additionally, the Company confirmed in its response to DPS-758 that it is scheduled to put the Coxsackie Transformer Replacement Project into service by the end of calendar year 2023.

Q. Is the Company proposing any new CPCLA Phase 1 projects in this electric rate proceeding?

A. Yes. The Company identified the need for five additional CLCPA Phase 1 projects. Described in more detail in the Company's response to DPS-570, these projects are the: (1) 5 Line 115 kV Line rebuild; (2) Maybrook Transformer upgrade; (3) Pulvers Corners 13.8 kV Transformer replacement; (4) Ancram Transformer replacement; and (5) Wiccopee Substation Upgrade. These newly introduced CLCPA Phase 1 projects, along with the revised and updated list of CLCPA Phase 1 projects identified within the UT&D Report, are described in more detail within the Company's Exhibit__(ECOP-6), as well as the Company's Five-Year Capital Plan.

Q. What are the estimated costs and headroom increases of these projects?

A. The Company has further refined its project cost estimates, scopes of work, and headroom increases for the CLCPA Phase 1 projects identified within Exhibit__(ECOP-6), bringing the total estimated cost for these 21 projects to approximately $204 million. While the Company estimated 664 MW of incremental headroom to be added by all 21 projects, two projects have estimated in service dates that are outside of the Company’s Five-Year Capital Plan. When these two projects are filtered out, the estimated headroom increases total approximately 547 MW. In its response to DPS-388, the Company notes that “...this MW level of headroom increase (547 MW) represents approximately two times Central Hudson's total currently interconnected renewable nameplate capacity....”

Q. Does the Panel agree with the Company’s CLCPA Phase 1 project proposals identified within Exhibit__(ECOP-6)?

A. Yes. As described in Appendix A of the Company’s Five-Year Capital Plan, and the responses to DPS-388 and DPS-570, the Company’s revised CLCPA Phase 1 project proposals represent typical capital projects that address system reliability or aging infrastructure and asset conditions while expanding or enhancing the existing system’s ability to realize the benefits of renewable resources, consistent with the types of projects identified on page 8 of the Commission’s Accelerated Renewables Order.

In addition, the Company's proposed CLCPA Phase 1 projects represent "business as usual" projects that would have been completed under traditional transmission and distribution planning processes, consistent with the Commission's directives specified on page 14 of the Phase 1 Order. It is for these reasons that we agree with the Company's CLCPA Phase 1 projects.

**Gas Capital Investments & Programs**

Q. Briefly describe the Panel's understanding of the CLCPA as it relates to gas service.

A. The CLCPA looks at how New York can reduce its overall carbon footprint and GHG emissions in a variety of sectors which include energy usage through utility service. Natural gas is a fossil fuel and, as such, is considered a contributor to emissions for which the CLCPA sets overall reduction targets.

Q. Has the Commission established any requirements related to the impact of a utility's gas-related investments on GHG emissions?

A. Yes. As previously noted, the CLCPA Order directs each utility, as part of all future rate filings, to assess the impacts that the utility's specific investments, capital expenditures, programs, and initiatives included in the rate filing will have on its GHG emissions from its gas systems.

Q. Does the Company discuss how its gas system proposals align with the goals and directives of the CLCPA?

A. Both the Company's Climate Panel and Policy Panel address how the Company is incorporating CLCPA requirements into its gas plans. The Company's Climate Panel specifically states, on page 7 of its testimony, that Exhibit__(CLSP-1) includes impacts on Central Hudson's gas network from gas energy efficiency programs; the development of a thermal network; Responsibly Sourced Gas, or RSG, purchases; and replacement of leak-prone pipe, or LPP.

Q. Does the Company discuss any other investments, programs, projects, or initiatives as they relate to the CLCPA?

A. Yes. On pages 25 to 27 of the Climate Panel's testimony, the Company discusses its proposal for a Clean Hydrogen Feasibility Study. On page

49 of Company’s Forecasting and Rates Panel testimony, the Company discusses its proposal regarding elimination of declining block rates and discounts for high volume non-residential customers. The Company’s Climate Panel, on pages 16 to 17 of its testimony, and Electric and Gas Procurement Panel, on page 17 of its testimony, also reference the Company’s upcoming long-term gas plan, which will address various items related to the Gas Planning Order, including 20-year forecasts, demand response programs, renewable natural gas, or RNG, reliability standards in addition to exploring a no-infrastructure option, NPA screening processes, and handling of LPP. Page 17 of the Climate Pane’s testimony further notes that the Company is working with other New York gas utilities on a proposal for revising and updating emissions inventory reporting.

Q. Describe the Company’s capital investments for its gas system that are related to the CLCPA.

A. The Company proposes to continue removal of 15 miles per year of LPP mains. The Company also proposes a new Leak Prone Services replacement program for services not connected to a LPP main. Typically, LPP services are replaced when the associated LPP main is replaced. As the services targeted in the Company's new Leak Prone Services proposal are not connected to an LPP main, they would not be included and replaced as part of the LPP main replacement program.

Q. Does the Panel recommend these programs?

A. Yes. Staff's recommended mileages of pipe replacement and levels of capital expenditures associated with the LPP and Leak Prone Services programs are discussed in more detail in the Staff Pipeline Safety Panel and Staff Gas Infrastructure and Operations Panel's direct testimonies.

Q. Do these gas capital investments demonstrate the Company's alignment with the requirements of the CLCPA?

A. The continuation of the LPP replacement program aligns with the goals of the CLCPA, since it will reduce methane emissions that would otherwise be released to the atmosphere when a leak develops. This program is also very important to address the safety and reliability aspects of the gas system.

Q. What is Staff’s position on these efforts by the Company?

A. The Company’s continuing work on programs and efforts like demand response, NPAs, RSG, and other non-traditional infrastructure work indicate that the Company is making efforts to reduce GHG emissions. These topics are addressed in more detail in the testimony of Staff witness Riebel.

**Common Capital Investments & Program**

Q. What is the Company’s common capital investment related to the CLCPA?

A. The Company, in its Common Capital and Operations Panel testimony, proposes capital improvements for onsite solar generation infrastructure, and EV charging stations at existing Company’s facilities. The Company’s common capital plan also includes expenditures to replace gas powered fleet vehicles with electric vehicles or plug-in electric vehicles where feasible. These initiatives are discussed in more detail in the Staff Common Capital

Panel's direct testimony. As explained in the Staff Common Capital Panel's testimony, Staff supports the EV charging station capital project and the level of expenditures associated with EV fleet proposal, and recommends a minor adjustment to the onsite solar generation project.

**Additional CLCPA-related Activities**

Q. Has the Commission initiated any proceedings outside of utility rate cases that nonetheless relate to utility efforts to support the CLCPA's objectives?

A. Yes, as described in the direct testimony of the Staff Clean Energy Panel, or SCEP, as well in earlier in out testimony, there are several generic proceedings applicable to Central Hudson and New York's other investor-owned utilities, through which the Commission directs efforts that support the objectives of the CLCPA.

Q. What clean energy initiatives has the Commission initiated within such generic proceedings?

A. Briefly, the Company is required to pursue energy efficiency and building electrification targets within Case 18-M-0084, the EE/BE

Proceeding. In addition, the Company is required to engage in efforts to increase EV adoption and EV Make-ready programs to ensure the necessary infrastructure is in place to support the State's significant EV goals. These EV activities are required under Case 18-E-0138, the EV Proceeding.

Q. Are these proceedings described in further detail within the testimony of other Staff Panels?

A. Yes, the direct testimonies of the SCEP and the Staff Earnings Adjustment Mechanism Panel, or SEAMP, describe these two proceedings in greater detail.

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

A. While the framework and policies for these efforts are determined within the generic, state-wide proceedings, these are important components of the Company's efforts to support the CLCPA objectives. In assessing whether the outcome of these rate cases, a rate order, is in overall alignment with CLCPA, it is important to note that these generic proceedings are key initiatives in the State's efforts to reduce greenhouse gas emissions and mitigate the effects of climate change.

Q. Are there specific elements of the EE/BE Proceeding that help to address the CLCPA's requirements related to Disadvantaged Communities?

A. Although the EE/BE Proceeding does not explicitly address investments in Disadvantaged Communities, the Commission has established a requirement that 20 percent of a program administrator's incremental EE/BE budgets be dedicated to EE/BE programs that directly serve Low- to moderate-income, or LMI, customers, as discussed most recently in the Commission's Order Directing Energy Efficiency and Building Electrification Proposals issued July 20, 2023. Further, the Commission is in the process of a mid-term review, through which it is assessing performance to date and modifying the portfolio framework in order to ensure an effective implementation of the EE/BE programs. In particular, in its July 20, 2023, Order Directing Energy Efficiency and Building

Electrification Proposals, or Order Directing Proposals, the Commission assessed the design and effectiveness of the current LMI Portfolio and modified the statewide LMI portfolio structure to improve effectiveness of the EE/BE LMI programs. These ongoing efforts to improve the EE/BE framework and program design and performance, clearly demonstrate the Commission’s commitment to ensuring the State’s EE/BE program administrators are implementing their LMI and non-LMI portfolios in a manner that best meets the goals and objectives of the CLCPA.

Q. Are there specific elements of the EV Proceeding that help to address the CLCPA’s requirements related to Disadvantaged Communities?

A. Yes. The Order Approving Midpoint Review Whitepaper’s Recommendations with Modifications, or Midpoint Review Order, issued November 16, 2023, stated on page 31 that this was the first opportunity for the Commission to take actions that would more fully align the Make-Ready Program budget with the goals of the CLCPA. In the Midpoint Review Order, the Commission specifically supports Disadvantaged Communities with the transition to vehicle electrification by requiring that Disadvantaged Communities not be overlooked in the light-duty EV charging infrastructure and other clean transportation solutions.

Q. Describe how the Midpoint Review Order supports Disadvantaged Communities.

A. In the Midpoint Review Order, the Commission directed that thirty-five percent of the overall Make-Ready budget address the needs and priorities of Disadvantaged Communities. This includes funding designated to a Light-Duty Make-Ready Program, Clean Transportation Prizes, Transit Authority Make-Ready Micromobility program, Medium Heavy Duty Vehicle Make-Ready Pilot Program, and a Micromobility Program.

**Alignment with Commission Determinations on CLCPA Sections 7(2) and 7(3)**

Q. Please identify the specific aspects of the prior rate orders in which the Commission addressed compliance with CLCPA Section 7(2).

A. The Commission’s rate orders since the CLCPA’s enactment have adopted joint proposals that contained specific utility actions that are intended to reduce GHG emissions associated with utility operations and advance the CLCPA's objectives. These actions are numerous and often specific to the particular case. Items the Commission has assessed when determining if a rate plan is consistent with or will not interfere with achieving the GHG emissions reduction targets of the CLCPA include: providing funding for electric transmission and distribution system investments consistent with CLCPA electric system targets; facilitating Community Distributed Generation enrollment; prioritizing the retirement, replacement, and repair of LPP and, where possible, considering NPAs instead of replacement; deploying methane detection technologies; eliminating gas marketing efforts and oil-to-gas conversion incentives; eliminating gas declining block rates; targeting a reduction in gas sales volumes; and taking steps toward company fleet electrification and facility efficiency.

Q. Is Central Hudson's rate filing in these proceedings, as modified by Staff's recommendations, consistent with what the Commission previously approved with respect to Compliance with CLCPA Section 7(2)?

A. Yes. As discussed previously, the Company's rate proposal, as modified by Staff's recommendations include many of these features. In addition to those we have already discussed, we note that, as part of its 2021 Rate Plan, Central Hudson discontinued its gas marketing efforts and oil-to-gas conversion incentives. Furthermore, in this case, the Company is proposing changes to continue moving towards fully eliminating gas declining block rates and eliminating the high-volume usage rate discount offering for firm non-residential gas transportation service customers under Service Classification No. 6 to simplify and align the delivery rate price signal with the goals of the CLCPA. Staff supports the Company's rate design proposals with certain modifications to reduce the bill impact on customers. Further details regarding Staff's recommendation on these rate design issues are found in the Staff Rate Panel's testimony.

Q. What features of prior rate cases has the Commission cited when discussing compliance with Section 7(3) of the CLCPA?

A. In discussing compliance with CLCPA Section 7(3), the Commission has referred to analysis performed by the subject utilities to determine whether any of their proposed capital projects are situated in Disadvantaged Communities, as designated by DEC, and whether those projects are expected to impose additional environmental burdens on those communities or, to the contrary, to reduce emissions in those areas. For example, in the National Grid rate proceedings, Cases 20-E-0380 and 20-G-0381, the Commission pointed to the utility’s leak prone pipe replacement program, which included plans to eliminate older main segments in environmental justice communities. The Commission considers the overall rate plan of a utility to determine whether a rate plan does or does not disproportionally burden Disadvantaged Communities.

Q. What are some key aspects of projects that would determine its impact on Disadvantaged

Communities?

A. Project impacts vary depending on several factors including, but not limited to, the type and scope of work, length of construction period, emissions resulting from project construction and required vehicles, alternation of natural aesthetics, environmental noise impacts, and others.

Q. How did Staff assess Central Hudson's proposed capital expenditures?

A. As part of Staff's typical electric capital expenditures review process, Staff reviewed the need for the projects and programs included within the Company's electric capital plan from a safety and reliability perspective. After performing this review, Staff reviewed the Company's electric capital portfolio from the perspective of each project's location within, and impact on, Disadvantages Communities, based on the Company's response to DPS-388. If 25 percent or more of a project would be located within a Disadvantaged Community, Staff reviewed the project from the perspective of its potential impacts on Disadvantaged Communities.

Q. What did the Panel find when it reviewed the impacts of the Company's electric capital plan on Disadvantaged Communities?

A. We reviewed Central Hudson's response to DPS-388, which identified the capital programs and projects that would be located partially or completely within Disadvantaged Communities along with the key reason for the investment such as condition-based replacement of existing, aged infrastructure. We found projects within Disadvantaged Communities and system-wide that increase headroom, replace end-of life equipment and facilities, improve system remote monitoring, and create a hardened and resilient electrical system. Therefore, we conclude that the Company's forecasted electric system capital investments have an overall positive impact to Disadvantaged Communities as these investments would support additional installation of renewable energy, support a safe operation of the electrical system, and improve the reliability of the system. Based on our review of the response to DPS-388, we agree with Central Hudson's statement, beginning on page 17 of the ECOP’s direct testimony, that the key driver of its Five-Year Capital Plan is condition-based infrastructure replacements necessary to maintain reliability.

Q. Can the Panel identify any specific electric capital project that may impact Disadvantaged Communities?

A. Yes, the Company’s proposal for its Tilcon – Tap Station.

Q. Describe the Company’s proposal for this project.

A. Described in more detail on page 34 of the ECOP testimony, and included within its Five-Year Capital Plan, the Company’s inspections and condition-based assessments highlighted the need to fully rebuild the 69 kV TR Line. In this electric proceeding, the Company proposed to construct a new substation tapped off the existing 115 kV SC Line to supply the needs of Tilcon quarry, a crushed stone supplier south of Poughkeepsie. Tilcon is currently being served via the 69 kV TR Line, which was initially built in 1929 and is in need of a full rebuild. The Company’s proposal would also install a new 115 kV breaker at the Sand Dock Substation and retire the existing TR Line that currently serves Tilcon.

Q. Did the Company perform any alternative analysis to its proposed solution to serve Tilcon?

A. Yes, in part. Continuing in its ECOP testimony and Five-Year Capital Plan, the Company states its proposal is a lower cost solution to the alternative option of fully rebuilding the existing TR Line.

Q. Please describe the potential impacts to surrounding Disadvantaged Communities of the Company's proposal to build a new substation to tap into the existing 115 kV SC Line.

A. One concerning issue regarding the Company's proposal is that the new substation would be built within a Disadvantaged Community, and the substation would not directly serve that Disadvantaged Community. On the other hand, and in Panel's opinion, the alternative solution to rebuild the TR Line in-kind presents more concerns regarding potential impacts to surrounding Disadvantaged Communities.

Q. Please elaborate on your concerns regarding potential impacts to Disadvantaged Communities from the Company's alternative solution.

A. To fully rebuild the TR Line, in-kind, the Company's Five-Year Capital Plan highlights potential impacts to Disadvantaged Communities. First, rebuilding the TR Line in-kind would significantly increase the required construction time, which in turn would presumedly yield higher levels of overall emissions, higher levels of environmental noise impacts, and a longer impact to surrounding natural aesthetics. Additionally, the Company states that this alternative solution would be costly, which would create additional financial burden on both the Disadvantaged Communities as well as the rest of the Company's customer base. Moreover, the Company's proposal does provide a benefit to the Disadvantaged Communities by removing the existing TR line.

Q. Considering the Company's entire electric system capital investments, is it consistent with prior rate cases that the Commission has deemed compliant with Section 7(3) of the CLCPA?

A. Overall, yes. The Company's electric system capital expenditures proposal, in its entirety, includes business as usual type work that is necessary for maintaining safety and reliability of the Company's electric transmission and distribution system. These investments generally do not increase burdens on the communities in which the work takes place, as they generally address already existing infrastructure.

Q. Should the Company provide any additional information regarding Disadvantages Communities in its rebuttal testimony?

A. Yes, in its rebuttal testimony the Company should provide any and all updated and additional information on the potential impacts to Disadvantaged Communities of the Tilcon – Tap Station project, and any other capital project.

Q. Did the Panel review the impacts of the Company's proposed gas capital investment on Disadvantaged Communities?

A. Yes. We also reviewed the Company's response to DPS-388 to determine how Central Hudson's gas investments would impact Disadvantage Communities. Similar to the Company's proposed electric system capital investments, we found that majority of Central Hudson's forecasted funding is allocated to projects that replace existing infrastructure such as the LPP program and Regulator Station Rebuild program, which may improve the safety, and reduce the emissions, in Disadvantage Communities. We also found that many gas investments are for system-wide programs such as the installation of valves.

## Customer Service

Q. Please briefly summarize the Company's Customer Service Performance Indicators, or CSPI, for customer service as recommended by the Staff Consumer Services Panel in these proceedings.

A. The Staff Consumer Services Panel recommends continuing the CSPI presently in place for Central Hudson, with modifications. The CSPI presently includes targets for: PSC Complaint Rate; Residential Customer Satisfaction Survey; and Percent of Calls Answered by a Representative within 30 Seconds. The CSPI includes potential negative revenue adjustments, referred to as NRAs, which are incurred should Central Hudson fail to meet the minimum performance targets in each measure. A total of 42 basis points in potential electric and gas revenue adjustments are currently at risk for the Company for the three performance measures. Because of the Company's ongoing billing issues, the Staff Consumer Services Panel recommends maintaining the current metrics targets, adding an Estimated Bills metric with an NRA, increasing the amount of NRAs, and several metrics that would provide bill credits to customers at shareholders' expense. The Staff Consumer Services Panel also proposes enhanced reporting on certain data points related to estimated bills and the number of customer calls to the Company.

Q. Please describe Staff's recommended incentive for terminations and uncollectibles.

A. Due to the COVID-19 pandemic and associated moratorium on service terminations, as well as the Company's billing issues related to the CIS transition, the Staff Consumer Services Panel recommends continuing the pause on this performance mechanism. When operational, this mechanism provides the Company the opportunity to earn a positive revenue adjustment if it reduces residential service terminations and uncollectibles over a historical average for the Rate Year. The Company also proposed to continue the pause of this mechanism.

**Tariff Language Regarding Billing**

Q. Please describe the Company's current tariff language regarding billing.

A. Presently, the Company's electric tariff leaf 54 states, "A monthly billing period will be considered as 26-34 days, and a bill for any shorter or longer period shall be prorated based on a 30-day billing period." The tariff language does not limit the number of adjusted bills that can be issued within one billing period for residential or non-residential customers. The tariff leaves also provide that the Company can estimate a customer's bill for six months before contacting the customer or the person who controls access to the meter to offer an appointment for a meter reading.

Q. What are the Company's options if actual usage data cannot be obtained?

A. If actual usage data cannot be obtained, the

Company can estimate the usage data in accordance with estimated billing procedures pursuant to PSL Section 39, which provides that a utility may render an estimated bill to residential customers if "the procedure used by such utility or municipality for calculating estimated bills has been approved by the Commission, and the bill clearly indicates that it is based on an estimated reading." Further, Sections 11.13(a)(1) and (h) of the Commission's regulations, Title 16 of the New York Codes, Rules and Regulations, which are applicable to residential customers, allow a utility to "render an estimated bill for any billing period if: the estimated bill is calculated in accordance with a procedure approved by the Commission and clearly states that it is based on an estimated reading" and "may establish other reasonable procedures designed to reduce the number of estimated bills."

Q. Has the Commission approved any procedures for Central Hudson related to estimated billing?

A. On December 23, 2020, the Company filed a petition to revise its estimated billing procedures in Case 21-M-0045, In the Matter of the Petition of Central Hudson Gas and Electric Corporation to Revise the Heating and Non-Heating Procedures Used to Calculate Bill Estimates. In the petition, the Company requested Commission approval to revise its bill estimation methods for its legacy computer system and for bimonthly billing, to methods that would work with its new CIS, and would be more standardized and easier to explain to customers. In its Order Approving Revised Bill Estimation Methods, issued August 16, 2021, the Commission approved these revised procedures, but stated that it was "... necessary to address and monitor the following concerns: (1) lack of studies and analysis; (2) a reduction in the number of estimating methods; (3) using estimated bills to create future bill estimates; and, (4) lack of a set date in the petition noting when the new CIS will go-live and require the procedures to change."

Q. Does the Panel have any concerns with Central Hudson's approved procedures?

A. Yes. Considering the experience since Central

Hudson’s new CIS went live, including the information discussed in OIE report and summarized in the Staff Consumer Services Panel’s testimony, the current procedures are too vague, should be re-examined and should be improved.

Q. Does the Panel have any recommendations regarding the Company’s estimated billing procedures?

A. Yes. We recommend the Commission require the Company to work with Staff to revise its estimated billing procedures that were previously approved by the Commission in Case 21-M-0045. The Commission should require that the Company file revised estimated billing procedures within 60 days of the Commission’s rate order in these proceedings.

Q. Did the Company propose any modifications to its tariffs specifically on customer billing in these rate cases?

A. Yes. In its rate filings, the Company submitted redlined tariff amendments to electric tariff leaves 54 and 55 and gas tariff leaf 25 amending these tariffs to replace references to customer meter reading submissions through a post card to the Company, with language that a customer can submit the reading on its website. The proposed tariff amendments also state, "By December 31, 2024, meters of customers will ordinarily be read by the Company on a monthly basis."

Q. Does the Panel have any recommended revisions to the Company's tariffs for customer billing?

A. Yes. We recommend that the Company modify its tariffs with several amendments, as shown in Exhibit__(SPP-3), regarding estimated and adjusted bills.

Q. Why does the Panel recommend these modifications?

A. As discussed in the Staff Consumer Services Panel's testimony, Central Hudson's billing system transition caused customer confusion due to customers receiving multiple bills in one billing period, delayed bills, or seemingly inaccurate bills. As a result, the Department saw an increase in customer complaints to the Commission regarding the Company's billing practices. To avoid excessive delays and an undue burden to customers, we recommend tariff modifications to provide clarity to customers regarding the billing process.

Q. Does the Panel have any recommendations regarding the Company's tariff language regarding bi-monthly meter reading?

A. Yes. Depending on the outcome of the ongoing billing investigation in Case 22-M-0645, we recommend that the Commission require the Company to submit tariffs amendments that incorporate the conversion to monthly meter reading if and when a resolution is reached in that case.

**CLCPA Deferral**

Q. Is the Company seeking deferral of costs associated with CLCPA?

A. Yes. On page 33 of its Accounting and Tax Panel testimony, and further discussed on page 9 of the Climate Panel's testimony, the Company is seeking to defer the revenue requirement effect of any Commission orders or actions taken as a result of the CLCPA or in alignment with NYS Energy Policy goals. The Company seeks recovery for related O&M expenses, new capital expenditures and changes to depreciation rates associated with the useful lives of investments made to maintain the reliability and sustainability of the system.

Q. Why is the Company seeking a deferral mechanism for costs related to CLCPA compliance?

A. The Company states that to meet near and mid-term milestones set forth in the CLCPA, it is likely that new legislation and/or regulations will require accelerated development of new programs, technologies, projects, and other compliance efforts beyond what the Company proposed in this proceeding, the total costs of which are unknown, currently uncertain and outside the control of the Company.

Q. Does the Panel agree with the Company's proposal to defer costs associated with CLCPA compliance?

A. No. The Company's Five-Year Capital Plan already includes capital cost estimates for the suite of its CLCPA Phase 1 projects, with total costs in the Rate Year nearing approximately $50 million. Additionally, we believe that the Company should be able to reasonably forecast its capital and CLCPA related costs during the Rate Year. Furthermore, if the Company did incur significant incremental expenses during the Rate Year, the Company has the ability to file a deferral petition with the Commission seeking authority to defer the incremental costs.

**Executive Compensation**

Q. Please summarize the Company's request for recovery of executive compensation elements in these rate filings.

A. The Company proposes to recover base pay and a portion of its short-term incentive pay for executives. The amount of executive variable pay included in the Company's rate request totals $922,000 for electric and $230,000 for gas.

Q. What are the Commission's requirements regarding cost recovery of utility incentive compensation programs?

A. Generally, a utility must demonstrate its total level of management compensation, inclusive of incentive pay, is reasonable relative to peer companies. In addition, a utility must demonstrate the targets underlying its incentive compensation program will support the provision of safe and adequate service and will have no potential to adversely affect ratepayer interests or to promote results that are inconsistent with Commission policies. The Staff Accounting Panel testimony summarizes the Commission's requirements for variable pay cost recovery, as well as its review of the supporting documentation provided by the Company.

Q. In addition to the areas outlined in the Staff Accounting Panel's review, what other topics does the Panel believe should be considered in the evaluation of executive compensation levels in these rate filings?

A. We believe the disturbances from the billing issues and immense rate pressures, as discussed early in our testimony, should be considered. In addition, the 2021 comprehensive management and operations audit of Central Hudson, in Case 21-M-0541, contained significant critical findings about the Company's executive management practices.

Q. Please provide an overview of the critical findings outlined in the management audit report.

A. The selected consultant, Overland, criticized Central Hudson's executive management in its audit report, "Comprehensive Management and Operations Audit of Central Hudson," referred to as the Final Report. Generally, Overland finds that the Company does not base some decision-making on meaningful analyses and does not employ common utility best practices. Further, Overland's audit report also includes findings that indicate Central Hudson does not use its executive incentive compensation program to benefit ratepayers.

Q. What are some critical findings from the Final Report related to Central Hudson's executive management?

A. As stated on page 2-1 of the Final Report, Overland found the "current composition of the executive management team is not optimal. Some senior executives have multiple areas of responsibility that should be segregated, while the CEO has too many direct reports." Further, Overland found that the Company's formal strategic plans did not identify business opportunities linked with climate change initiatives, and climate goals are not included in yearly business plans or the team goals that determine payouts under the Company's executive incentive compensation program.

Q. Can the Panel provide examples of Overland's findings concerning Central Hudson management deficiencies related to decision-making processes?

A. Yes. As stated on page 3-2 of its Final Report, Overland explains that Central Hudson management's "past decisions to issue fixed or variable-rate debt are not based on any objective analysis," and the Company "acknowledges that it does not retrospectively review these decisions to determine whether it has chosen the low-cost alternative." Overland also noted "Central Hudson has been historically deficient in documenting capital spending variance explanations in a comprehensive manner," and "the Company did not produce any relevant explanations for the actual-to-budget variances of its most significant projects in recent years." With respect to customer service, Overland noted on page 8-3 of its Final Report that "Central Hudson does not have a formal process in place to analyze complaints to identify root causes that might assist in reducing or avoiding future complaints," adding that "the Company's approach to complaint management appears to be more reactive than proactive."

Q. Can the Panel provide examples of Overland's findings concerning Central Hudson management deficiencies related to benchmarking?

A. Yes. As stated on page 8-12 of the Final Report, Overland found that Central Hudson "does not benchmark its customer operations performance against other utilities" and does not share best practices with other utilities outside of its parent organization. Overland also found that Central Hudson stopped participating in J.D. Power surveys in 2018, which provide benchmarking data for key customer service metrics.

Q. Did Overland review the Company's performance targets?

A. Yes. Overland reviewed the extent to which

Central Hudson's performance management processes promote corporate goals, grid modernization, safety and reliability standards, environmental and climate goals, and Commission objectives.

Q. What did Overland find?

A. Overland found that Central Hudson had improved its alignment of team goals with individual employee performance since the prior management audit. Overland noted the Company's performance against its team goal targets since 2017 had been mixed, and the targets did not demonstrate an expectation of continuous improvement. For several team goals, nine out of sixteen, Overland noted that 2021 targets were lower than 2017 targets. Overland recommended that the Company set team goal targets to require continuous improvement in all measurements of Company performance.

Q. What outcomes are expected from the Company regarding this recommendation?

A. The Company addressed this recommendation in its initial audit implementation plan for Case 21-M-0541, which was filed on May 22, 2023. The implementation plan is currently under review by Staff. As a consequence of Staff's review, utilities often submit a revised implementation plan. Once that review process is complete, the Commission will consider whether to approve the plan as filed or modify the implementation plan. In its initial implementation plan, Central Hudson accepted this recommendation with modification, stating that "Central Hudson does not believe it is appropriate to require continuous improvement in all measurements of performance." Central Hudson further states that it will "consider continuous improvement criteria" going forward.

Q. Do you agree with Central Hudson that it is not appropriate to require continuous improvement in all measurements of performance?

A. Partially. The Company is correct that improvement in some performance measures can be met with diminishing returns, and therefore a blanket assumption that performance can improve substantially in all areas may not be reasonable. However, Overland did not find this consideration to be a factor in how Central

Hudson sets its performance targets.

Q. What were Overland's notable findings concerning Central Hudson's team goals?

A. As stated in the Final Report, at page 2-38, Overland found "targets were influenced by the Company's performance in the previous year or threshold expectations set in rate cases." Overland also found that the Company's 2023 Business Plan includes financial metrics that are progressively more challenging through 2027 but that customer-focused metrics such as Customer Average Interruption Duration Index, System Average Interruption Frequency Index, complaint rates, and customer satisfaction results are not expected to improve through 2027. This suggests that Central Hudson expects its team goals to improve its financial performance but not its customer-focused performance.

Q. Should Central Hudson try to improve its performance on customer-focused metrics as well as financial performance metrics?

A. Yes. The purpose of an incentive compensation program is to motivate employee performance to help an organization achieve its goals. If ratepayers fund the incentive compensation program, the goals should align with ratepayer interests.

Q. Is setting performance targets at the minimum thresholds established in a rate case an effective way to promote ratepayer interests?

A. No. The minimum thresholds protect ratepayers from unacceptably poor service. But ratepayers are better served when utility performance exceeds those minimums. Setting employee incentive performance targets at the minimum thresholds established in rate cases is not the most effective way to promote ratepayer interests. Incentive compensation programs should strive for continuous improvement in all areas where improvement can benefit ratepayers. Staff expects to work with Central Hudson throughout the implementation process to ensure the Company sets team goals to improve customer-focused performance where feasible.

Q. Do the performance targets in the Company's incentive program promote results that are potentially averse to ratepayer interests?

A. The Company's incentive compensation program is comprised of goals related to safety, reliability, customer service, and the environment, which are consistent with Commission policies. However, as we have described, Overland's audit findings suggest Central Hudson does not use its incentive compensation program to benefit ratepayers.

Q. Does the Panel recommend an adjustment to the Company's rate request for executive management compensation?

A. Yes. In consideration of Overland's management audit findings, as well as the billing system issues and significant rate pressures discussed in our testimony, we recommend denying the Company recovery of its executive incentive compensation program.

**Management Wage Escalation Factor**

Q. What factor did the Company use to project management wage increases?

A. As stated in the direct testimony of the Company's Workforce, Compensation, and Benefits Panel, at page 33, the Company's Rate Year forecast includes a 4.5 percent overall compensation increase for non-executive management employees, effective March 1, 2024. Similarly, the Company’s Rate Year forecast includes a 4.5 percent merit wage increase for its executives, effective January 1, 2025.

Q. Did Staff review the reasonableness of the Company’s proposed escalation rates for management compensation?

A. Yes, we reviewed the WorldatWork organization’s 2023-24 forecast of “Total Salary Budget Increases, by Employee Category,” which indicates a four percent escalation rate is appropriate for management employees across the United States. The WorldatWork forecast is provided in Exhibit___(SPP-4). Under ordinary circumstances, Staff would recommend a reduction of 0.5 percent from the Company’s proposed overall executive and non-executive management wage increases, as these increases exceed the 2023-24 WorldatWork Salary Budget forecast.

Q. Is the Panel making a different recommendation due to any particular circumstances in these proceedings?

A. Yes. Given the disturbances from the billing issues and the rate pressures as previously discussed, we cannot justify requiring ratepayers to pay for the requested management wage increases during the Rate Year.

Q. What does the Panel recommend?

A. We recommend zero percent wage increases be imputed into the labor forecasts for executives. For other non-union management employees, we recommend limiting rate recovery of wage increases to 2.25 percent in 2024 and three percent in 2025. Our recommended management wage increases are consistent with the wage increases for Central Hudson's employees represented by the International Brotherhood of Electrical Workers Local 320 union. The resulting adjustments are calculated by the Staff Accounting Panel.

Q. Does this conclude your testimony at this time?

A. Yes.

MR. FUNG: And I believe the exhibits were previously entered into the evidentiary record. So at this time, the witnesses are available for cross.

A.L.J. MORENO: Great. Thanks very much. And we will start cross-examination with Central Hudson.

CROSS-EXAMINATION

BY MR. FITZGERALD:

Q. Thank you, your Honor. Good morning Panel. My name is Brian FitzGerald. I'm with the law firm of Cullen and Dykman. We represent the Company here today, so good morning.

A. (Panel) Good morning

Q. Panel. In your testimony on page 12, starting around line 13, you reference case 22-M-0645 in matter 22-00666. Is that right?

A. (Laquitara) Yes.

Q. Are any members of this Policy Panel personally are directly involved in case 22-M-0645 or Matter 00666?

MR. KRAMER: Your Honors, we're going to object as to the Matter number, that's a -- that's an investigation that the Commission is doing. The internal, excuse me, the -- the internal administration of that particular investigation really isn't a matter before this -- this -- before the your Honors. And so we -- we ask that -- that those -- those sorts of questions not be imposed asked of these -- these -- this Panel.

MR. FITZGERALD: Your Honor, I just asked if they were personally involved in it. You know, and if -- if it is a separate unit as counsel has indicated, it's fine. I think they -- I -- I would like to just have an answer that they're not involved in it.

MR. KRAMER: Well, again, I think that goes to the internal administration of that particular investigation, and I don't think that's a -- a fair subject matter for this -- these proceedings.

A.L.J. MORENO: And Mr. FitzGerald, can you explain why that is relevant to this case?

MR. FITZGERALD: Well, your Honor, just, they -- they discussed a lot about the background of it. As to the Matter or the objection, I'm willing to, to move on and just have my answer. The question that I posed regarding case 22-M-0645 responded to.

A.L.J. MORENO: And I'm sorry, could you remind me what that was?

MR. FITZGERALD: Yeah, the 22-M-0645 was the investigation proceeding.

A.L.J. MORENO: And your question that remains was related to the -- the staffing of that case?

MR. FITZGERALD: Yes. Are any members of the Policy Panel personally or directly involved in case 22-M-0645?

A.L.J. MORENO: And again, I'm sorry, I -- I understand that your question is -- is regarding the subject matter. Is there -- my question, I guess is the relevancy of the particular witnesses as I -- I don't believe there's a trial Staff in that case yet listed.

MR. FITZGERALD: Yeah, Your Honor, I was really just trying to get to -- they have testimony on what's being addressed in those cases, and I just wanted to check to see what the -- if they had personal knowledge of what's being addressed in those cases.

A.L.J. MORENO: Okay. So with regards

to the question then, I think it's fair to ask whether you have personal knowledge or the information is generated from public documents issued in that case.

BY MR. FITZGERALD: (Cont'g.)

A. (Laquitara) The information was generated from public documents available in that case.

Q. Okay. Thank you. Now, the Panel also references at different times some of the billing issues or conversion issues and the -- and the life of the current mainframe system at the Company. Is that correct?

A. Do you have a specific page number we could refer to?

Q. Yes. I'm looking in specific on page 13. And there you reference I believe on lines nine to 14. The age of the Company's mainframe customer billing system. Do you see that?

A. Yes, we see that.

Q. Does any member of the Staff Policy Panel have experience in implementing a migration from a legacy mainframe system to a new SAP system?

A. Could you elaborate on what you mean by experience implementing those programs?

Q. Have you ever supervised or participated in the migration from a legacy mainframe system to an SAP system?

A. No.

Q. Has any member of the Staff Policy Panel ever participated in an RFP process to -- to select an SAP system integrator?

A. No, but we reviewed the Company's documents for that.

Q. Is any member of the Panel aware of situations involving other New York utilities where problems have arisen with implementation of SAP?

A. Could you define other utilities?

Q. Any of the other New York utilities.

A. Any major utility?

Q. Any of the other New York utilities?

A. No. We're aware of the Company's problems with the SAP system though.

Q. Okay. Now let's turn to page 28

of your testimony. Now, I -- I'm referencing here generally lines 14 to 24. Their Staff you -- you cite the Staff Witness Hill's recommendation for a 9. 2 percent ROE and a 48 percent common equity ratio. Do you see that?

A. Yeah, we see that.

Q. Is the Panel also aware that Mr. Hale's fallout CFO pre WC to debt metric is 9.3 percent?

A. (Tushaj) Good morning. Can you repeat that question please?

Q. Sure. Is the Panel -- also you've referenced Mr. Hale's recommendations regarding ROE and -- and common equity? I'm saying is the Panel also aware that Mr. Hale's calculated CFO Pre WC to Debt metric is 9. 3 percent?

A. (Laquitara) I think that line of questioning would be more appropriate for Staff witness Hale.

Q. Well, you've referenced his testimony here in part for two components. I'm just asking if you've completed review of his full testimony and can comment on this number?

MR. KRAMER: Your Honors, I think

there's an objection here. This is a Policy Panel not the similar to the Company's Policy Panel. The purpose of -- of this particular testimony is not to provide information in the record. That -- that's really Mr. Hale's testimony, right? So the idea here is it's a summation

A.L.J. MORENO: And Mr. FitzGerald did you wish to be heard?

MR. FITZGERALD: Your Honor, again the Panel does cite a certain components rather than just summary of the testimony. And I think since they referenced other parts of Mr. Hale's testimony here, I'm just simply asking them one question on one component. And if they don't know the answer, I'm fine with that. But I'd like an answer to my question.

A.L.J. MORENO: I think that's fair. So the Panel can respond whether they're familiar with that portion of Mr. Hale's testimony.

BY MR. FITZGERALD: (Cont’g.)

A. (Laquitara) Could you repeat the question? I'm sorry.

Q. Of course. Be happy to. Is the Panel also aware that Mr. Hale's fallout CFO Pre WC to debt metric is 9.3 percent?

A. We're, we're not intimately aware with that detail.

Q. Thank you. I'd like to jump to page 56 of your testimony. Looking in particular at line six to seven and on -- on those lines would you agree that you're referencing there the Company CLCPA Phase One Projects

A. (Tushaj) Line six through seven, you -- you referenced?

Q. I believe it's seven and eight

A. Can you repeat that question one more time for me?

Q. Sure. I'm just pointing out again on the reference just to make sure you're in the same place with me. It's line 70 and nine on page 56. Is the Panel there?

A. Yes, I'm there.

Q. Okay.

A. We're there.

Q. And there you agreed with the Company CLCPA Phase One Projects, correct?

A. That's correct.

Q. Would it be fair then to state

that the Company's CLCPA Phase One Projects are consistent with New York State's goals of expanding or enhancing the existing electric system's ability to realize the benefits of renewable resources?

A. Yes.

Q. Let's turn to page 60 of your testimony. Line four. So I guess before I do that I do want to reference one more question on the earlier page. You would agree then that the CLCPA Phase One Projects being pursued by the Company support CLCPA goals?

A. (Laquitara) By earlier page, do you mean page 56?

Q. Yes.

A. Okay.

Q. Your Honor, I'll withdraw that question. It seems to be creating a lot of delay and it didn't intend to do so. So I guess let's just move on to page 60, line four.

A. (Laquitara) Could I just confirm you have our corrected testimony and not our testimony filed in November?

Q. The version I have printed out says corrected January 16th, 2024. And I pulled it from the -- from the DMM.

A. Okay. Thank you.

Q. So hopefully that's right. And please if I have a line reference that's off, you can let me know. So page 60 line four, the Panel notes, the Company's continuing work on programs and efforts like Demand response, NPAs, RSG, and other non-traditional infrastructure work. Do you see that section?

A. Yes.

Q. And you indicate that the Company's making efforts to reduce GHG emissions in that same section, is that right?

A. (Rebel) Yeah, that -- that's correct.

Q. So here too, the Company's actions are aligning with the Commission's initiatives under the CLCPA. Would you agree with that?

A. I'm sorry, could you just repeat that?

Q. Sure. So here too, the Company's actions are aligning with the Commission's initiatives under the CLCPA, isn't that right?

A. Yeah, we would agree that it's not inconsistent with that.

Q. Thank you. Jumping ahead to page 83, and I'll double check my line references to make sure I do have the -- the right version. I believe it's lines 15 through 24. Let me know when you're there.

A. (Tushaj) We're there.

Q. Okay, great. Thanks. It was a bit of a big jump. Is it fair to say on this section, on page 83, that you provide your basis for opposition of the deferral mechanism for CLCPA compliance costs that was proposed by the Company?

A. I think our testimony speaks for itself.

Q. Okay. Is it fair to say that you indicate that Staff's view is that the five-year capital plan already includes capital cost estimates for CLCPA Phase One Projects?

A. Yes.

Q. Is it this Panel's testimony that the cost of the Company's Phase One Projects are the only CLCPA related compliance costs the Company will incur in the Rate Year?

A. We reviewed the information that was provided to us by the Company and included within that were costs associated with the CLCPA projects, and we reviewed those projects and those costs.

Q. And so the -- the costs the Company will incur in the Rate Year, they could include O&M costs, not just capital costs?

A. To the extent that there's O and M related costs associated with those CLCPA projects, there could be.

Q. Now on that page on lines I guess it is somewhere again in it's like around 22 to 23, you indicate that the capital plan of the Company should be able to reasonably forecast its capital and CLCPA related costs during the Rate Year. Do you see that section?

A. Yes.

Q. Would the Panel agree with me that the capital plan for the Rate Year necessarily reflects existing laws and regulations and not any pending new laws such as new climate laws or new climate related regulations?

A. Is there a specific regulation that you're concerned about or referring to?

Q. No, I just in general, if there's a -- a new law that imposes additional obligations on the Company?

A. The Panel evaluates the information that is provided to us at the -- at the time of the filing, and we use that to generate our -- our position.

Q. Hypothetically, if a new law was enacted such as the Heat Act or any variation to it, Central Hudson's five-year capital plan would not reflect compliance costs related to that new law. Is that right?

A. I am sorry. Can you repeat that question one more time?

Q. Yeah. Hypothetically, if a new law, such as any variation on the Heat Act or similar laws like it that imposed cost on the Company and capital costs, the current five year capital plan would not reflect those compliance costs, correct?

A. As we stated before, our review would include the information that was provided to us at the time of the filing.

Q. Sure. But I just asked you a hypothetical. Based on the hypothetical.

A. I don't feel comfortable responding to hypothetical questions because there's no basis for information to -- to perform a review on a hypothetical.

Q. That -- that's your -- the Panel's answer, just to be clear?

A. Yeah.

Q. Now, page 83 and the next page, I --you indicate as a -- as a reason for the denial of deferral treatment, the fact that the Company has the ability to file a deferral petition. Do you see that?

A. Yes.

Q. And since you're discussing a deferral petition, I -- I presume you're familiar with the requirements of such a petition. Is that right?

A. We understand that the Company and all companies have the ability to file deferral petition if they deem it necessary.

Q. Would you agree that the Commission traditionally applies a three part test to deferrals?

MR. KRAMER: Your Honor, that's a

legal question. I think we're a little bit beyond their understanding.

A.L.J. MORENO: Sustained.

MR. FITZGERALD: Your Honor, we have no further questions for this Panel this time.

A.L.J. MORENO: Okay. Thanks very much. DPS Staff, do you have any redirect?

MR. FUNG: A couple moments, your Honor?

A.L.J. MORENO: Sure. We'll go off the record.

(Off the record at 10:32 a.m.)

(On the record at 10:36 a.m.)

MR. FUNG: No redirect, your Honor.

A.L.J. MORENO: Okay. With that, Panel, thanks very much for your testimony. You're excused.

A. (Panel) Thank you.

A.L.J. MORENO: Why don't we go off the record and folks, why don't we just take a five-minute break.

(Off the record at 10:37 a.m.).

(On the record at 10:41 a.m.).

A.L.J. MORENO: And we have up next

the Department of Public Service Accounting Panel. We will just go off the record for a second.

(Off the record at 10:42 a.m.).

(On the record at 10:43 a.m.)

A.L.J. MORENO: We'll go back on the record and could each member of the Panel please state their name and a business address for the record, please?

MR. SHAHBAZIAN: Sure. Good morning. David Shahbazian. Department of Public Service. Three Empire State Plaza, New York -- Albany, New York, 12223.

A.L.J. MORENO: Thank you.

MR. JAGADISH: Mukund Jagadish, Department of Public Service. Three Empire State Plaza, Albany, New York, 12223.

MR. TURAN: Nicholas Turan. Three Empire State Plaza, Albany, New York, 12223.

MR. MAPEZZI: Sean Mapezzi, Three Empire State Plaza, Albany, New York, 12223.

MR. LAVERY: Peter Lavery. Three Empire State Plaza, Albany, New York, 12223.

MR. POWERS: Steven Powers. Three Empire State Plaza. Albany New York, 12223.

A.L.J. MORENO: Okay. And could the Panelists please stand and raise your right hands? And do you swear or affirm that the testimony that you'll give today is the truth and nothing but the truth?

A. (Panel) Yes.

David Shahbazian; Sworn.

Mukund Jagadish; Sworn.

Nicholas Turan; Sworn.

Sean Mapezzi; Sworn.

Peter Lavery; Sworn.

Steven Powers; Sworn.

A.L.J. MORENO: Okay. Thank you. You may be seated, counsel.

DIRECT EXAMINATION

BY MR. FUNG:

MR. FUNG: Thank you, your Honors. Panel, do you have before you a 122-page document plus cover entitled, prepared, Corrected Testimony of Staff Accounting Panel identified as corrected January 16th, 2024?

A. (Panel) Yes.

Q. Was this document prepared by you or under your direction?

A. (Panel) Yes

Q. Do you have any substantive additions or corrections to make to that testimony?

A. (Panel) No.

Q. If I were to ask you the questions contained in the document, would your answers be the same as those contained therein?

A. (Panel) Yes.

MR. FUNG: Your Honor, I move that the testimony be placed in the record as a given orally.

A.L.J. MORENO: Okay. The motion is granted at this point in the transcript, we will insert the DPS Staff Corrected Initial Testimony of the Staff Accounting Panel as though given orally.

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

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In the Matter of

Central Hudson Gas & Electric Corporation

Cases 23-E-0418 & 23-G-0419

Corrected January 16, 2024

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Prepared Corrected Testimony of:
Staff Accounting Panel

SEAN MALPEZZI, Auditor 3
(Public Utilities)

NICHOLAS TURAN, Auditor 3
(Public Utilities)

DAVID SHAHBAZIAN, Auditor 2
(Public Utilities)

MUKUND JAGADISH, Auditor 1

PETER LAVERY, Utility Analyst 2

STEPHEN POWERS, Utility Analyst 1

Office of Accounting, Audits and Finance
State of New York
Department of Public Service
Three Empire State Plaza
Albany, New York  12223-1350

Q. Members of the Staff Accounting Panel, or Panel, please state your name, employer, and business address.

A. Our names are Sean Malpezzi, Nicholas Turan, David Shahbazian, Mukund Jagadish, Peter Lavery, and Stephen Powers. We are employed by the New York State Department of Public Service, or Department, located at Three Empire State Plaza, Albany, New York 12223.

Q. Mr. Malpezzi, what is your position at the Department?

A. I am employed as an Auditor 3 (Public Utilities), in the Office of Accounting, Audits and Finance.

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 New York State 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 Consolidated 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, or NYSEG, Cases 15-E-0283 and 15-G-0284; Rochester Gas and Electric Corporation, or RG&E, Cases 15-E-0285 and 15-G-0286; Central Hudson Gas & Electric Corporation, Cases 17-E-0459 and 17-G-0460; Central Hudson Gas & Electric Corporation, Cases 20-E-0428 and 20-G-0429.

Q. Mr. Turan, what is your position at the Department?

A. I am employed in the Office of Accounting, Audits, and Finance as an Auditor 3 (Public Utilities).

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

A. I received a Bachelor of Science degree in Accounting from the State University of New York at Geneseo in 2014. I have been employed by the Department of Public Service since May of 2016.

Q. Mr. Turan, have you previously testified before the New York State Public Service Commission?

A. Yes. I testified in Central Hudson Gas and Electric Corporation's most recent rate proceedings - Cases 20-E-0428 and 20-G-0429, as well as 17-E-0459 and 17-G-0460. I have also testified before the Commission in NYSEG and RG&E's recent rate cases, Cases 22-E-0317, 22-G-0318, 22-E-0319, and 22-G-0320, as well as Cases 19-E-0378, 19-G-0379, 19-E-0380, and 19-G-0381.

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

A. I am employed as an Auditor 2 (Public Utilities) in the Office of Accounting, Audits 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 major in accounting. I worked for IBM for most of my professional career in various financial positions of increasing responsibility. I also worked for a commercial real estate developer from 1992-1997 as the office/project accountant. In December

2003, I earned my MBA from Marist College. In 2004, I earned my Certified Internal Audit credential. I began my employment with the Department in May 2008.

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

A. Yes. I testified before the Commission in the following Central Hudson Gas & Electric Corporation rate proceedings: Cases 08-E-0887 and 08-G-0888, Cases 09-E-0588 and 09-G-0589, Cases 14-E-0318 and 14-G-0319, Cases 17-E-0459 and 17-G-0460, Cases 20-E-0428 and 20-G-0429, as well as the merger filing with Fortis, Inc., Case 12-M-0192. I also testified in Verizon’s Service Quality proceeding, Case 16-C-0122 and the Energy Service Company Eligibility proceeding, Case 15-M-0127.

Q. Mr. Jagadish, what is your position at the Department?

A. I am employed in the Office of Accounting, Audits, and Finance as an Auditor 1.

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

A. I graduated from Saint John Fisher College in

May 2005 with the degree of Bachelor of Science in Business Administration. I majored in Accounting. Prior to working at the Department, I worked as an Internal Auditor for four years in the health insurance, manufacturing, and service industries. In May 2012, I completed my Master's in Business Administration with a concentration in Health Systems Management at Saint John Fisher College. Since March 2012, I have been employed by the Department.

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

A. Yes, I testified in NYSEG and RG&E's most recent rate cases: Cases 19-E-0378, 19-G-0379, 19-E-0380, and 19-G-0381. I also testified in the 2015 NYSEG and RG&E cases: Cases 15-E-0283, 15-G-0284, 15-E-0285 and 15-G-0286.

Q. Mr. Malpezzi, Mr. Turan, Mr. Shahbazian, and Mr. Jagadish, as auditors, briefly describe your responsibilities with the Department.

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

Q. Mr. Lavery, are you the same Peter Lavery testifying as part of the Staff Management Audit Panel?

A. Yes, I am, and my credentials are provided in that testimony.

Q. Mr. Powers, are you the same Stephen Powers testifying as part of the Staff Management Audit Panel?

A. Yes, I am, and my credentials are provided in that testimony.

Q. Panel, what is the purpose of your testimony in these proceedings?

A. We are presenting Staff’s cost of service exhibits for the twelve-months ending June 30, 2025, or the Rate Year, for Central Hudson. Our testimony first discusses Staff’s recommended rate increases for electric and gas for the Rate Year and our recommendations concerning the Company’s rate moderation proposals. Additionally, based on our examination of certain areas of Central Hudson’s Rate Year forecast of Operating Revenues; Operation and Maintenance Expenses, or O&M expenses; Taxes Other Than Income; Federal and State Income Taxes; and certain Rate Base components, we generally discuss or propose adjustments to the following areas: revenue taxes, late payment charges, inflation, labor, management variable compensation, management wage escalator, employee benefits, employee training, safety and education, pension, other post-employment benefits, pipeline integrity & inspection, uncollectible accounts, Regulatory Commission expense, information technology, major storm reserve, non-major storm restoration expense, materials & supplies, stores clearing, legal, consulting and professional services, miscellaneous general expenses, injuries and damages, other operating insurance, miscellaneous charges, productivity, property tax expense, payroll taxes, other taxes, income taxes, and working capital. We also address certain accounting-related proposals made by the Company that do not directly impact revenue requirements at this time, including the Company's Rate Adjustment Mechanism, or RAM, proposals and our recommendations to continue or modify certain ongoing and requested deferral mechanisms.

**Exhibits**

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

A. Yes. We relied upon a number of the Company's responses to Staff Information Requests, referred to as IRs. These are attached as Exhibit__(SAP-1).

Q. Are you sponsoring any other exhibits in these proceedings?

A. Yes. Exhibit__(SAP-2 Corrected) and Exhibit__(SAP-3 Corrected) are Staff's Electric and Gas Cost of Service Schedules for the twelve months ending June 30, 2025. Exhibit__(SAP-4 Corrected) reflects Staff's adjustments to incremental employees requested by Central Hudson, Exhibit__(SAP-5) includes the Regulatory Commission General Assessment Final Statement of Assessment dated October 20, 2023, Exhibit__(SAP-6 Corrected) reflects Staff's positions on Central Hudson's deferral requests, and Exhibit__(SAP-7 Corrected) reflects an example of the Panel's recommended downward-only labor reconciliation calculation.

Q. Please describe Exhibit__(SAP-2 Corrected).

A. Exhibit__(SAP-2 Corrected) is Staff's Rate Year cost of service presentation for Central Hudson Electric, consisting of 12 schedules. The 12 Schedules of the Exhibit are:

| | |
|---|---|
| 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__(SAP-2 Corrected).

A. Schedule 1 of Exhibit__(SAP-2 Corrected) 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 “Central Hudson Rate Year” as well as the Company’s update, filed on September 15, 2023, in the column entitled “Central Hudson Rate Year As Adjusted.” Schedule 1 then shows the derivation of Staff’s proposed electric revenue requirement for the Rate Year. 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__(SAP-3 Corrected) Staff’s Cost of Service Exhibit – Gas contain the same twelve schedules and represent the same type of information as Exhibit__(SAP-2 Corrected), Staff’s Cost of Service Exhibit – Electric?

A. Yes.

Q. Please explain Exhibit__(SAP-4 Corrected).

A. Exhibit__(SAP-4 Corrected) details Staff's adjustments to Central Hudson's proposed incremental employees. The exhibit details Central Hudson's request, Staff's testimonial position, and identifies the Staff Panel reviewing each position.

Q. Please explain Exhibit__(SAP-5).

A. Exhibit__(SAP-5) is a copy of the latest Regulatory Commission General Assessment Final Statement of Assessment issued by the Department dated October 20, 2023.

Q. Please explain Exhibit__(SAP-6 Corrected).

A. Exhibit__(SAP-6 Corrected) details Staff's positions on various deferrals requested by Central Hudson. The exhibit identifies Central Hudson's requests, Staff's testimonial positions, and the Staff Panel that discusses each difference between Staff and the Company.

Q. Explain Exhibit__(SAP-7 Corrected).

A. Exhibit__(SAP-7 Corrected) provides an example of the Panel's recommended downward-only labor reconciliation and its calculation.

**Staff's Proposed Revenue Requirements**

Q. Please summarize Staff’s recommended revenue requirements for Central Hudson for the Rate Year.

A. Staff recommends an increase to Central Hudson’s electric delivery revenues before rate moderation of $65.516 million for the twelve months ended June 30, 2025, which is a 14.5 percent increase on delivery revenues and a 6.2 percent increase on the Company’s total revenues over what the Company’s revenues would be without any revenue change. For gas, Staff’s proposed rate increase before rate moderation is $24.943 million, which is a 18.4 percent increase on delivery revenues and a 8.6 percent increase on the Company’s total revenues over what the Company’s revenues would be without any revenue increase.

Q. Does the Staff Policy Panel discuss rate moderation in its testimony?

A. Yes, it describes Central Hudson’s proposal and makes a recommendation to use one-third of Central Hudson’s available net regulatory liability, or $7.766 million for electric and $4.265 million for gas, to moderate rates during the Rate Year.

Q. Quantify Staff's recommended revenue increases in the Rate Year for electric and gas, after the Policy Panel's rate moderation recommendation.

A. Staff recommends an increase to Central Hudson's electric delivery revenues after rate moderation of $57.750 million for the twelve months ended June 30, 2025, which is a 12.8 percent increase on delivery revenues and a 5.4 percent increase on the Company's total revenues over what the Company's revenues would be without any revenue change. For gas, Staff's proposed rate increase after rate moderation is $20.677 million, which is a 15.2 percent increase on delivery revenues and a 7.1 percent increase on the Company's total revenues over what the Company's revenues would be without any revenue increase.

**Operating Revenues**

**Revenue Taxes**

Q. Please describe how the Company reflected revenue taxes in its revenue requirement calculations.

A. As explained in the direct testimony of Central Hudson's Revenue Requirements Panel, at page 57, revenue taxes are a surcharge applied to delivery rates and are presented as both a revenue within operating revenues and an expense within other deductions.

Q. How did the Company forecast the revenue taxes reflected in its revenue requirement calculations?

A. The projection of revenue taxes was provided by Central Hudson's Forecasting and Rates Panel and was based on the forecasted delivery revenues and the latest tax rates applied by the cities and municipalities that the Company must pay revenue taxes to.

Q. Do you propose any adjustments?

A. We agree with Central Hudson's forecast methodology for this item, however, our revenue requirement calculations include tracking adjustments to forecast Rate Year revenue taxes based on the Staff adjusted Rate Year revenue forecast, as well as the proposed revenue requirement for the Rate Year.

**Late Payment Charges**

Q. How did Central Hudson reflect late payment charges customers owe when they pay overdue bills?

A. Late payment charges are a component of the other operating revenues line item in the schedules shown on the Company's Revenue Requirements Panel's Exhibit___(RRP-2), Schedule A, page 2 of 5, for electric operations and Exhibit___(RRP-3), Schedule A, page 2 of 5, for gas operations.

Q. How did Central Hudson forecast Rate Year late payment charges?

A. As explained in the direct testimony of the Company's Forecasting and Rates Panel, at pages 41-42, Central Hudson forecasted late payment charge revenues by applying a two-year historical average of late payment fees to total revenues percentage to the Company's Rate Year forecast of total revenues. The Company proposes to continue deferral treatment granted in the 2021 Rate Plan for late payment charge and reconnection fee revenues.

Q. Do you propose any adjustments to late payment charge revenues forecasted by the Company?

A. We agree with Central Hudson's forecast methodology for this item. Like revenue taxes, our revenue requirement calculations include tracking adjustments to forecast Rate Year late payment charge revenue based on the Staff adjusted Rate Year revenue forecast, as well as the revenue requirement for the Rate Year.

Q. Does the Panel agree with the Companies' request to continue deferral treatment of late payment charge and reconnection fee revenues during the Rate Year?

A. No, we do not. Such reconciliation mechanisms are not generally employed during a one-year rate case when revenues can be reasonably forecasted and the risk that exists in the context of a multi-year rate plan does not exist. In the event the Company's actual revenues vary significantly from the amount established in its revenue requirement for these items, the Company could file a deferral petition with the Commission seeking authority to defer this lost revenue.

**Inflation**

Q. How did Central Hudson develop the inflation rate used in its revenue requirement forecasts?

A. The direct testimony of Central Hudson's

Forecasting and Rates Panel, at page 8, explained, "A Gross Domestic Product (GDP) implicit price deflator was developed using the consensus forecast of Blue-Chip Economic Indicators included in the March 11, 2023, publication. An extrapolation from this forecast was used to develop the forecast for the Rate Year ending June 30, 2025."

Q. Does the Panel agree with this methodology?

A. Yes, this is consistent with how inflation has been considered in Central Hudson's rate cases for the last several decades.

Q. Are you proposing an adjustment currently?

A. Yes. The Panel has reviewed the October 10, 2023, Blue Chip Economic Indicators forecast, and the Gross Domestic Product, GDP, factors are slightly less than those assumed in the Company's Rate Year forecast. We recommend, in coordination with Staff witness Gadomski's testimony, that the rate be updated at this time. As a result, the Panel proposes a reduction of $117,000 to electric O&M expenses, and $34,000 to gas O&M expenses, as shown in a new O&M expense line on Schedule 1 of

Exhibit__(SAP-2 Corrected) and Exhibit__(SAP-3 Corrected). Additionally, the GDP inflation updates are reflected within various staff adjustments as shown in supporting workpapers.

Q. Since the Panel is proposing an adjustment here to reflect the most recent inflation data, does the Panel still believe that update at a later stage in these proceedings is necessary?

A. Yes, it is appropriate to update for inflation at a later stage in these proceedings to capture the most recent GDP inflation information.

**Operating Expenses**

**Labor**

Q. Briefly describe how Central Hudson developed its projected Rate Year labor expense.

A. As discussed in the direct testimony of the Company's Revenue Requirements Panel, beginning at page 12, and the direct testimony of the Workforce, Compensation, and Benefits Panel, beginning at page 7, the Company developed its projected Rate Year labor expense starting with annual base salaries for its 1,138 full-time equivalent, or FTE, employees as of March 31, 2023. The Company then increased the base payroll by the average premium pay percentages, including overtime, shift differential, etc., experienced during the Historic Test Year, meaning the twelve months ended March 31, 2023. To this amount, the Company added wages for temporary employees. The result was then increased by projected wage increases to develop a Rate Year projection of gross wages for permanent and temporary employees. Next, the Company added wages for projected incremental employees it plans to hire during the time between the end of the Historic Test Year and the end of the Rate Year. The wages for incremental employees were included in the projection on a quarterly basis, to reflect hiring of the positions throughout the year. Wages for incremental employees also included premium pay and wage increases. The sum of the current, temporary, and the projected incremental FTE employees is the basis of the Company's Rate Year projection.

Q. Describe the Company's plans for adding incremental positions.

A. As described in the direct testimony of the

Workforce, Compensation, and Benefits Panel beginning at page 7, as of March 31, 2023, the Company had 1,138 FTE employees, which is 26 higher than the amount allowed in Rate Year 3, meaning the twelve months ended June 30, 2024, of Central Hudson's 2021 Rate Plan, which approved by the Commission in Cases 20-E-0428 and 20-G-0429. Between the end of the Historic Test Year and the end of the Rate Year, the Company plans to add an additional 243 positions – 194 in the bridge period, meaning the time period between the end of the Historic Test Year and start of the Rate Year, and 49 in the Rate Year. This yields a Rate Year headcount of 1,381 FTE employees. The specifics of these positions are detailed in Central Hudson's Exhibit__(WCBP-2). Additionally, Central Hudson provided updated workpapers on October 2, 2023, which included a modification of the projected timing of filling several meter reader positions. This modification moved 11 FTEs, originally being hired beyond the Rate Year, to the bridge period. This increased Central Hudson's requested total Rate Year headcount to

1,392.

Q. How did the Company allocate its total payroll to expense, construction/capital, and other?

A. The Company used the actual Historic Test Year allocations, modified 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 lowering the amount 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) a reduction to the number of incremental FTEs requested, 2) a reduction of the forecasted wage increases for employees, 3) a reduction in labor expense to recognize a vacancy rate, 4) an adjustment to the Company's labor expense and capital distribution ratio, and 5) a correction for a transposed base wage number used in Central Hudson's Rate Year projection.

Q. Describe your first adjustment, related to incremental FTEs requested.

A. We are quantifying the reduction to labor expense associated with requested incremental FTEs that various Staff recommend disallowing in their testimony.

Q. Which Staff Panels are reviewing the 254 incremental positions proposed by Central Hudson?

A. Exhibit__(SAP-4 Corrected) details each of the Company's requested positions, the Staff witness reviewing it, and Staff's allowances. The various Staff Panels recommend disallowance of 122.5 of the 254 FTEs requested by the Company.

Q. What is your adjustment for reductions in incremental FTEs as recommended by Staff in these proceedings?

A. The reduction in total FTEs reduces labor expense by $6.030 million for electric and $1.705 million for gas.

Q. Is the Panel proposing an adjustment related to Central Hudson's forecasted wage increases?

A. Yes, we are.

Q. What wage increases did Central Hudson reflect for its employees during its projected Rate Year?

A. In the Company's projection of labor expense, the Company reflected the following wage inflation factors: 2.3 percent in 2024 and three percent in 2025 for employees represented by the International Brotherhood of Electrical Workers, or IBEW Local 320, the largest union; 4.5 percent for System Operations employees 4.5 percent for temporary employees; and 4.5 percent for non-union employees.

Q. Do any of the union contracts expire prior to the end of the Rate Year?

A. Yes. The System Operations employees' contract will expire on March 31, 2024, so wage increase rates for April 1, 2024, and beyond are unknown. Temporary employees are not covered by a collective bargaining agreement. The IBEW Local 320 contract expires April 30, 2026.

Q. Did the Company provide historical wage increase information for its System Operations employees and temporary employees?

A. Yes. Per the Company's response to DPS-435, included in Exhibit__(SAP-1), the System Operations employees have received wage increases of 2.5 percent each year from 2021 to

2023, which is two percent lower than the Company's projection. Temporary employees have received an 8.1 percent increase in wages in 2023 after six years with no increase, equating to approximately 1.4 percent each year.

Q. Is the Panel proposing an adjustment to Central Hudson's proposed wage increases for its System Operations employees or its temporary employees?

A. Yes. We have adjusted the System Operations employees wage increase to 2.25 percent in 2024 and three percent in 2025, which is consistent with the increase received by the IBEW Local 320 union that represents most Central Hudson unionized workers. For temporary employees, we have applied a 1.4 percent increase based on the historical average, since they have not regularly received wage increases over the past six years.

Q. What is your adjustment to Central Hudson's Rate Year labor expense for the Panel's recommended reductions in systems operations and temporary employees wage increases?

A. The reduced wage inflation factors result in a reduction to labor expense of $88,000 for electric and $24,000 for gas.

Q. Is the Policy Panel recommending decreases to wage inflators for non-union employees in these proceedings?

A. Yes, the Policy Panel recommends management employees' wage increases be held to 2.25 percent in 2024 and three percent in 2025, the same as IBEW Local 320 union employees, and executives receive no wage increases during the Rate Year.

Q. Have you quantified this adjustment?

A. Yes, the reduced wage inflation factors for non-union employees, as recommended by the Policy Panel, result in a reduction to labor expense of $1.453 million for electric and $410,000 for gas.

Q. Explain your adjustment to apply a vacancy rate.

A. In the Company's projection of labor expense, it uses annual salaries of its employees to project expenses in the Rate Year. Basing the projection on annual salaries, however, does not consider positions that have been vacant during the year or a portion of the year. Any period of vacancy would decrease the actual labor expense incurred by the Company.

Q. Did the Company provide the Panel with any information concerning its recent vacancy rates?

A. Yes. In its response to DPS-380, the Company provided an attrition rate of 3.5 percent, based on a five-year average of attrition. We have applied this rate as a reduction to total labor costs to reflect the reduced wages the Company will not incur when positions are vacant during the year.

Q. What is your adjustment for applying a vacancy rate?

A. Applying the vacancy rate results in a reduction to labor expense of $3.174 million for electric and $900,000 for gas.

Q. How did the Company project its distribution of labor to expense and capital.

A. The Company projected its distribution of labor based on Historic Test Year information with several normalizations.

Q. Does the Panel agree with the Company’s method?

A. No. The Company’s method does not account for the year-to-year fluctuations that can occur in types of work that determine the ratio of labor to expense, capital, and other affiliates.

Q. What is the Panel’s proposed method for distributing labor costs to expense and capital?

A. Rather than reflecting the Historic Test Year distribution of labor in the Rate Year, the Panel proposes using a three-year historical average of actual labor cost distributions from 2020 to 2022. The use of a three-year average captures the variations that have occurred during that span.

Q. What is your adjustment for the distribution of labor?

A. Reflecting an average of distribution of labor allocations reduces labor expense by $2.160 million for electric and $539,000 for gas.

Q. Explain your final adjustment, which corrects a transposed number in the Company’s projection of labor expense.

A. In the Company’s workpapers projecting Rate Year labor costs, the base amount for its Semi-Monthly employees was misstated. In response to DPS-612, the Company stated that it made a transposition error in the semi-monthly payroll amount. It further stated that correcting the error would result in a reduction to labor expense of $1.242 million for electric and $351,000 for gas.

Q. Does the Panel agree with the correction and resulting reduction to labor expense?

A. Yes, the Panel calculated the same reduction to labor expense resulting from the correction of the transposed number.

Q. Summarize your total adjustment to labor expense.

A. The combined effect of our adjustments to labor expense are reductions of $13.815 million for electric and $3.848 million for gas.

**Management Variable Compensation**

Q. Please summarize Commission precedent regarding cost recovery of utility incentive compensation programs.

A. The Commission’s requirements for incentive compensation cost recovery were set forth in the June 17, 2011, Order Establishing Rates for Electric Service in Case 10-E-0362, Proceeding on the Motion of the Commission as to the Rates, Charges, Rules, and Regulations of Orange and Rockland Utilities, Inc. for Electric Service.

In the Order, the Commission explained that a utility must demonstrate that its total level of employee compensation, inclusive of incentive pay, is reasonable relative to peer companies. The Commission explained that utilities can demonstrate the reasonableness of their incentive pay plans by providing a compensation study of similarly situated companies. However, even if the utility produces a study showing that its compensation is reasonably in line with that of its peers, the Commission also stated that an incentive pay plan will not be deemed reasonable if it includes performance targets that adversely affect ratepayer interests or are inconsistent with Commission policies.

**Management Variable Pay – Non-Executive**

Q. Please summarize Central Hudson's request for recovery of compensation elements for non-executive management employees in this rate filing.

A. For non-executive management employees, Central Hudson is requesting recovery of base pay, variable compensation, and total benefits. The amount of variable pay for non-executive management employees included in the Company's rate request total $3.400 million for electric and $850,000 for gas. This is the first rate filing in which Central Hudson has proposed to recover variable compensation for its non-executive management employees.

Q. Did the Company provide a benchmarking study with supporting methodology?

A. Yes. The Company provided a study and supporting documents in Company Exhibits__(WCBP-04) through (WCBP-12).

Q. Please describe the benchmarking study the Company used to support its proposal in this rate filing.

A. The Company hired the consulting firm Mercer to provide information concerning the overall competitiveness of its non-executive management compensation and benefits package. The study examined the total compensation, inclusive of incentive pay, of approximately 51 percent of Central Hudson's non-executive management employees, as well as the value of the benefits provided to those employees. Central Hudson management employees were then compared to a benchmarked position derived from a peer group of companies.

Q. What did Mercer conclude from this study?

A. As stated in the direct testimony of Central Hudson's Workforce, Compensation, and Benefits Panel, at page 53, Mercer concluded that the inclusion of the variable component of non-executive management base compensation is an appropriately incurred business expense in alignment with the competitive market to attract and retain qualified employees.

Q. Which companies were included in the peer group used to analyze the competitiveness and reasonableness of the Company's annual compensation package value?

A. Mercer selected a peer group consisting of 20 utility industry companies from across the United States and 20 firms representing various industries that are headquartered in the Northeast. The peer group listing was provided in Central Hudson's Exhibit__(WCBP-07).

Q. Do the companies selected for the peer group provide a reasonable comparison for purposes of this study?

A. Yes. The Company's response to DPS-500 confirms that the Company hires employees who previously worked in both the general industry and at other utilities. The peer group reflects the mix of companies Central Hudson competes against for their management workforce talent, and therefore, serves as a reasonable comparison for the compensation levels of Central Hudson employees.

Q. Please describe the performance targets in Central Hudson's non-executive management variable pay plan.

A. Central Hudson's non-executive management variable incentive compensation is based on goals related to both individual overall performance ratings and corporate team performance goals, as described in the Company's Management Incentive Compensation Program Proposal shown in Exhibit__(WCBP-11). The ratios of the portion of individual and team goals range between 25 percent to 75 percent, depending on the management employee tier. The direct testimony of the Company's Workforce, Compensation, and Benefits Panel, at page 59, stated that its corporate performance goals will be in alignment with the team goals portion of its balanced scorecard as was recommended in Case 16-M-0001, In the Matter of a Comprehensive Management and Operations Audit of Central Hudson Gas & Electric Corporation. Central Hudson also noted that variable pay is based on both the overall corporate performance and the performance of each individual employee in achieving goals in the areas of customer satisfaction, safety and reliability, environment, and sustainability.

Q. In past cases, has the Commission required a review of the Company's incentive pay plan performance targets for non-executive management employees?

A. Yes. A utility should demonstrate that the incentives will support the provision of safe and adequate service and will have no potential to adversely affect ratepayer interests or to promote results that are inconsistent with Commission policies.

Q. Did the Panel find that the performance targets in the Company's incentive program promote results that are consistent with Commission policies?

A. Yes, we did. In Central Hudson's response to DPS-501, the Company provided the relative weightings allocated to each team goal category. Central Hudson's response confirms the performance targets are predominantly focused on safety, reliability, customer service, and environmental goals.

Q. Do the Company's performance targets promote results that are potentially averse to ratepayer interests?

A. The Company's incentive compensation program maintains its focus on goals related to safety, reliability, customer service, and the environment, which is consistent with Commission policies. While the targets are not inconsistent with ratepayer interests, many are set at the minimum requirements established by the Commission.

Q. Has the Company satisfied the Commission's requirements for including incentive compensation for non-executives in rates?

A. Yes. The Company has demonstrated that its incentive compensation plan targets align with customer interests. Also, the Company has demonstrated that its total compensation is reasonable as compared to similarly situated peer companies.

Q. As a result of your review, does the Panel recommend an adjustment to the Company's rate request for non-executive management compensation?

A. No, we do not.

**<u>Management Variable Pay - Executive</u>**

Q. Please summarize the Company's request for recovery of compensation elements for executive management employees in these rate filings.

A. The Company proposes to recover base pay and a portion of its short-term incentive pay for executives. The amount of executive variable pay included in the Company's rate request totals $922,000 for electric and $230,000 for gas.

Q. Did Central Hudson hire a consultant to assess its executive compensation levels?

A. The Company hired the consulting firm, F.W. Cook, or Cook, to provide information regarding the competitiveness of its overall executive management compensation package. The study examined the total direct compensation, inclusive of incentive pay, of seven of eight Central Hudson executive management employees.

Q. Please describe the benchmarking study the Company used to support its proposal in this rate filing.

A. Cook compared Central Hudson's overall executive management compensation package to a benchmarked position derived from a peer group of 12 utility holding companies. Willis Towers Watson's 2022 Energy & General Industry Services Survey data was used for benchmarking all executive positions.

Q. What did Cook conclude from this study?

A. Based on its study, Cook concluded that the aggregate target total direct compensation of Central Hudson executives is within ten percent of the market median for the blended peer group.

Q. Did the Panel review the Company's benchmarking study and methodology?

A. Yes. The Panel reviewed the confidential supporting documents for the Cook study, requested in DPS-027 at an in-person viewing at the offices of Central Hudson's attorneys, Cullen and Dykman LLP, on September 7, 2023.

Q. Did the Panel find that the companies selected for the peer group provide a reasonable comparison for purposes of this study?

A. Yes. The selected peer group consists of general utility industry holding companies with similar revenues, assets, and employee counts to Central Hudson and, therefore, serves as a reasonable comparison for the compensation levels of Central Hudson employees.

Q. Did the Company benchmark the value of benefits provided to its executives to the value of benefits provided to its peer group?

A. Yes. As indicated in its response to DPS-696, Central Hudson hired a consultant, Mercer, to benchmark the value of benefits in 2021. The Panel reviewed the confidential supporting documents for the Mercer study at an in-person viewing at the offices of the Company's attorneys, Cullen and Dykman LLP, on November 9, 2023.

Q. What standard is used to determine whether a utility's benefits and compensation package is market competitive?

A. The WorldatWork Handbook of Compensation, Benefits & Total Rewards: A Comprehensive Guide for HR Professionals is a widely accepted authority. According to the WorldatWork Handbook, the value of compensation and benefits paid to a company's employees should fall within plus or minus 10 percent of the market median. This generally accepted criterion referenced in the WorldatWork Handbook has been used by Staff to evaluate compensation benchmarking results in numerous prior rate cases before the Commission.

Q. Does the Panel agree that the Cook and Mercer benchmarking studies satisfy this standard?

A. Yes. We reviewed the benchmarking studies provided and determined that the total compensation for executives, inclusive of variable pay and benefits, is within the reasonable range of plus or minus 10 percent of the market median.

Q. Please describe the performance targets in Central Hudson's executive management variable pay plan.

A. Central Hudson's executive management variable incentive compensation is based on goals related to both individual and team overall performance ratings in the areas of customer satisfaction, safety, and reliability, environment, and sustainability.

Q. Does Commission precedent require a review of the Company's incentive pay plan performance targets for executives?

A. Yes. A utility should demonstrate that the incentives will support the provision of safe and adequate service and will have no potential to adversely affect ratepayer interests or to promote results that are inconsistent with Commission policies.

Q. Do the performance targets in the Company's incentive program for executives promote results that are consistent with Commission policies?

A. Yes. As previously discussed, executive short-term variable pay is predominately focused on goals related to safety, reliability, customer service, and the environment, as well as a limited portion linked to meeting financial metrics.

Q. Do the Company’s performance targets promote results that are potentially averse to ratepayer interests?

A. The Company’s incentive compensation program maintains its focus on goals related to safety, reliability, customer service, and the environment, which is consistent with Commission policies. While the program targets are not inconsistent with ratepayer interests, many are set at the minimum requirements established by the Commission, as discussed further in the Staff Policy Panel testimony.

Q. Has the Company satisfied the Commission’s requirements for including incentive compensation for executives in rates?

A. Although we have found Central Hudson’s executive incentive compensation plan meets the Commission’s requirements established in Case 10-E-0362, due to the overall circumstances in this proceeding, the Staff Policy Panel has made a recommendation to exclude the executive incentive compensation program, as explained in more detail in its testimony.

**Employee Benefits**

Q. What is included within Central Hudson's employee benefits O&M expense category?

A. As discussed in the direct testimony of the Company's Revenue Requirements Panel, beginning at page 15, and in the direct testimony of the Company's Workforce, Compensation, and Benefits Panel, beginning at page 65, employee benefits are comprised of medical insurance, including health, dental, long-term disability, and vision; group life insurance; the Savings Incentive Plan, or SIP; the Employee Stock Purchase Plan, or ESPP; and other fringe benefits.

Q. What is the Company's SIP program?

A. The Company's SIP 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.

Q. What is the Company's ESPP program?

A. The ESPP is a voluntary benefit, which began in May 2017, that allows employees to purchase shares of Fortis Inc. common stock on the Toronto Stock Exchange.

Q. Has the Company added any new benefits since its previous rate case?

A. Yes, the Company has added a new supplemental retirement plan. The plan provides a 1.25 percent contribution to an employee's savings incentive plan for employees who are not eligible for the Company's pension plan.

Q. Briefly describe how Central Hudson developed its projected employee benefits expense.

A. Each category of employee benefits was projected individually. Central Hudson projected a total Rate Year expense of $28.417 million.

Q. How were medical benefits projected?

A. Medical insurance costs were based on a study conducted by the Company's consultant, Mercer. Mercer calculated a per capita cost on a paid basis and applied trend factors to project the Rate Year costs.

Q. How were dental, vision, group life insurance, and other benefits costs projected?

A. Dental and vision expenses were forecast using annualized Historic Test Year actual expenses inflated by GDP inflation factors. Additional costs were included in the projection for incremental employees.

Q. Explain how SIP costs were projected.

A. The Company's Rate Year projection for SIP is the sum of the Company's match of voluntary employee contributions and a non-elective contribution made by the Company. Projected voluntary contributions for existing employees are based on historical expenses multiplied by the projected wage growth rate. For incremental employees, contributions were estimated using a weighted average of contributions of new hires in the Historic Test Year. The non-elective portion of SIP was calculated based on the actual payout in 2023, which is adjusted for applicable wage increases, an increase for the supplemental retirement plan contribution from 1 percent to 1.25 percent, and contributions for new employees.

Q. How are costs projected for the ESPP?

A. For the ESPP, the historic expenses were inflated by projected wage increases.

Q. Are you proposing any adjustments to Central

Hudson's Rate Year employee benefits expense forecast?

A. Yes. We are proposing two adjustments: 1) an adjustment to project medical benefits based on historic costs, and 2) an adjustment to track changes to the labor projection.

Q. Explain your adjustment to medical benefits.

A. Per the direct testimony of the Company's Workforce, Benefits and Compensation Panel, the Company has experienced escalating claims over the past few years due to increased medical subscribers, increased numbers of high-cost claims, and increased costs of services provided to subscribers. Due to these factors, the Company consulted with Mercer to perform a study and project expected future costs. The projected costs are higher than inflationary factors.

Q. Did the Company inadvertently include a double count in its projection?

A. Yes. The Company stated that it erroneously double counted incremental FTEs in its projection. In its response to DPS-509, the Company explained that the projection provided by Mercer included costs associated with incremental FTEs’ medical benefits, and the Company’s Benefits workpaper also calculated additional costs for incremental FTEs’ medical benefits, which were added to Mercer’s projection.

Q. Does the Panel agree with the Company’s projection of medical benefits?

A. No, we do not. As discussed in the Staff witness testimony of Daniel S. Gadomski, it is the Commission’s long-standing practice to inflate health care costs by inflation, and health care costs are a significant factor in the calculation of inflation rates. We have adjusted the projection of base medical costs to the actual historical costs plus inflation for the bridge period and Rate Year, as well as allowed additional costs for projected incremental employees. Historic costs already include the experienced increased subscribers, high-cost claims, and costs of services, and therefore, no other adjustment for these items is necessary.

Q. Do your adjustments address the Company’s double counting of incremental FTEs?

A. Our projected costs do not include Mercer's projection and therefore do not need to make an additional adjustment to correct the Company's double count.

Q. How did the Panel incorporate inflation into its adjustment calculations?

A. Our projection includes updated inflation factors, consistent with Staff's calculated inflation factors and further discussed in the Staff witness testimony of Daniel S. Gadomski.

Q. What is you proposed adjustment to base projected benefits on historic actual costs plus inflation?

A. Our modification of the benefits projection to use historic actual costs plus inflation results in a decrease to benefits expense of $4.621 million for electric and $1.307 million for gas.

Q. Explain your adjustment related to changes in the Labor projection.

A. The calculation of labor includes several variables that are used in the projection of employee benefits. Staff has adjusted the Labor projection for wage increases, incremental FTEs, and the distribution of labor. Our projection of Benefits expense reflects each of the respective changes as described earlier in testimony.

Q. What is your proposed adjustment to Benefits to track your changes in the labor projection?

A. Updating the benefits calculation to reflect Staff's headcount, wage inflation factors, and distribution of labor results in a decrease to benefits expense of $1.700 million for electric and $474,000 for gas.

Q. Quantify your total adjustment to the Company's Rate Year forecast of Employee Benefits expenses.

A. Our total adjustments are reductions of $6.321 million for electric and $1.781 million for gas.

**Pensions and Other Post-Employment Benefits**

Q. Please summarize how Central Hudson addressed pensions and other post-employment benefits, or OPEBs, expenses in its rate filing.

A. The direct testimony of the Company's Accounting and Tax Panel, at pages 25-30, explains that the Company's accounting for pension and OPEBs are reflected in this filing in a similar manner as provided for in its 2021 Rate Plan. Specifically, the Company follows the Commission's Pension/OPEBs Policy Statement, Case 91-M-0890, Statement of Policy and Order Concerning the Accounting and Ratemaking Treatment for Pensions and Postretirement Benefits Other Than Pensions, issued September 7, 1993. The Company also states that it follows Generally Accepted Accounting Principles, or GAAP, Accounting Standards Codification 715 Compensation – Retirement Benefits, or ASC 715, which requires 100 percent of non-service cost components of pension and OPEBs to be reflected as expense and only the service cost component to be allocated between expense and capital.

Q. How much did Central Hudson forecast for Rate Year pension expense?

A. The Company proposed the following Rate Year pension negative expenses: electric $7.296 million and gas $2.065 million.

Q. How much did Central Hudson forecast for Rate Year OPEBs expense?

A. The Company proposed the following Rate Year

OPEBs negative expenses: electric $5.804 million and gas $1.643 million.

Q. What is the basis of those forecasts?

A. They are based on actuarial studies performed by Mercer, the Company’s consultant that provided Central Hudson the level of required funding for its pension plans under federal regulations, as well as the information needed for the Company to properly account for pension and OPEB costs under GAAP and the Pension/OPEBs Policy Statement.

Q. What is meant by negative pension and OPEB expenses?

A. Based on the actuary’s analysis, the net expense components, including the service cost and non-service cost components of interest cost, expected return on assets, gain and loss amortizations, and prior service cost amortizations is a negative expense, or an income to the pension and OPEB plans. The actuary’s analysis used by Central Hudson to forecast the Rate Year shows the expected income to continue for the next several years.

Q. What has caused the negative expenses?

A. Financial markets have done very well in recent years, resulting in the actual return Central Hudson has earned on its pension and OPEBs assets to exceed the expected return assumed in expense calculations. Additionally, the Commission's Pension/OPEBs Policy Statement requires any unrecognized gains or losses due to variances between the various assumptions used to determine pension and OPEBs expense and actual results in the year measured be amortized uniformly over 10 years. The pension and OPEBs gains that Central Hudson has achieved in recent years have been very large because of the robust financial markets and have allowed the Company to reduce pension and OPEB expenses to such an extent it has resulted in overall pension and OPEBs expenses being negative.

Q. Did the Company propose to update its requests at a later date during this rate proceeding?

A. Central Hudson did not state this in testimony, however, in response to DPS-430, Central Hudson indicated that the results may be incorporated into the rate proceeding at that time or at a later stage of the proceeding, as appropriate.

Q. Does Staff agree?

A. Yes, we agree with reflecting the January 2024 Mercer update, which will reflect updated market conditions, particularly given that the January 2023 Mercer forecasts resulted in negative expenses for both pension and OPEBs. The update should be reflected in the Company's Brief on Exceptions in a litigated case or during settlement.

Q. Are you proposing any adjustments to pension and OPEBs expense?

A. Yes. We recommend that the percentage allocated to expenses and construction be updated consistent with our recommendation regarding the Company's labor and benefits forecasts. This tracking adjustment will reduce Rate Year pension expense by $63,000 for electric and by $21,000 for gas and will reduce Rate Year OPEBs expense by $13,000 for electric and reduce OPEBs expense by $6,000 for gas.

**Employee Training, Safety and Education**

Q. What types of costs are included in Central Hudson's Employee Training, Safety, and Education O&M expense forecast for the Rate

Year?

A. As shown in the Company's workpaper for Employee Training, Safety, and Education O&M expense, the Rate Year forecast has three main components. The first component is the nine existing training programs. The second component is the training costs of sending each incremental employee to these existing training programs. The third component is new business initiatives. The Company plans to incur Rate Year costs of $2.285 million for electric and $997,231 for gas.

Q. In percentage terms, provide the three components as a total percentage of Rate Year Employee Training, Safety, and Education costs.

A. For the Electric Department, existing training is $1.445 million, or 63 percent, of the Rate Year total; incremental employee training of existing training programs is $415,557, or 18 percent, of the Rate Year total; and new business initiatives is $423,680, or 19 percent, of the Rate Year total. For the Gas Department, existing training is $626,058, or 63 percent, of the Rate Year total; incremental employee training of existing training programs is $151,253, or 15 percent, of the Rate Year total; and new business initiatives is $219,920, or 22 percent, of the Rate Year total.

Q. What level of Employee Training, Safety, and Education O&M expense did the Company incur during its Historic Test Year?

A. Central Hudson's Historic Test Year Costs were $1.361 million for electric and $589,408 for gas. Central Hudson's average FTE count during the Historic Test Year was 1,111, making the average training cost per employee $1,087 for electric and $485 for gas.

Q. What is the average training cost per employee that Central Hudson is requesting during the Rate Year?

A. Excluding new business initiatives, Central Hudson is requesting an average training cost per employee of $1,710 for electric and $622 for gas for routine training programs. When including the Company's request for new business initiatives, the average per employee increases to $1,744 for electric and $905 for gas.

Q. Did Central Hudson explain why a 68 percent increase for electric and a 69 percent increase for gas is necessary between its Historic Test Year spending and the Rate Year?

A. No, it did not.

Q. Has the Company reached its employee training spending targets as set forth in the 2021 Rate Plan?

A. No. In the 2021 Rate Plan, Joint Proposal, Appendix A, Schedules 1 and 2, Central Hudson's electric rate allowance for employee training was \$2.208 million, \$2.254 million, and \$2.301 million for the Rate Years ending June 30, 2022, to June 30, 2024, respectively. Additionally, the gas rate allowances were \$812,000, \$967,000, and \$883,000, respectively. The Company incurred electric Historic Test Year costs of \$1.361 million and gas Historic Test Year costs of \$589,000. Therefore, the actual costs were significantly less than the amounts provided for in rates.

Q. What does the Panel recommend for a Rate Year allowance for continuation of Central Hudson's existing training programs?

A. Because the Company did not reach its spending targets as set forth in the 2021 Rate Plan, the Panel recommends modifying the forecast for the Rate Year. The Panel recommends general inflation on normalized Historic Test Year costs.

Q. Has the Panel quantified this adjustment?

A. Yes. This adjustment is a decrease to electric for $4,766 and gas for $2,063.

Q. Do the Panel's adjustments to the Company's forecast of incremental FTE employees impact this cost element?

A. Yes. The Company had projected incremental training costs associated with its forecast of additional employees. The Panel's labor adjustment reduces the number of employees in the projected Rate Year; thus, an associated tracking adjustment is appropriate.

Q. What does the effect of the Panel's lower employee forecast have on incremental training costs in the Rate Year?

A. Central Hudson's Rate Year projection of incremental training costs would be reduced by $170,156 for electric and $61,933 for gas.

Q. Explain the Company's rationale for including new business initiatives in its forecast.

A. In the direct testimony of the Company's Workforce, Compensation, and Benefits Panel, at pages 23, the Company states "…emerging industry and technological advances are requiring the Company's workforce to develop new skills as the Company replaces aging infrastructure and integrates new technologies and enhanced communications into our systems." These technological advances have caused a growing need for the Company to train and develop new and experienced employees.

Q. How many new business initiatives does the Company propose to include in the Rate Year?

A. Per the Company's Workforce, Compensation, and Benefits Panel's Exhibit__(WCBP-3), there are twenty-two new business initiatives that were not included in the Historic Test Year, totaling $423,680 for electric and $219,920 for gas. Some of these initiatives include the Legacy Leadership Program, Annual Leadership Retreat, and Root Cause Analysis training.

Q. Does the Panel have any concerns about these new programs?

A. Yes, we do. Many of the requested training programs are online programs, require a minimum number of participants, or are for general business skills that could be provided in-house.

Q. What is the Panel's recommendation?

A. The Panel recommends that only 50 percent of the new business initiative training be allowed in the Rate Year forecast. This acknowledges the Company may have some need for new training programs but also encourages the Company to seek the most cost-efficient training programs within its training budget.

Q. Quantify this adjustment.

A. Allowing 50 percent of the new business initiative training reduces Central Hudson's Rate Year forecast by $211,840 for electric and by $109,960 for gas.

Q. Summarize the Panel's total adjustments for this cost element.

A. The Panel recommends a total downward adjustment of $386,761 for electric and $173,957 for gas.

**Pipeline Integrity and Inspection**

Q. Describe Central Hudson's Pipeline Integrity and Inspection O&M costs.

A. Central Hudson's forecast of pipeline integrity and inspection costs includes the cost of routine safety inspection and protection of the gas transmission and distribution network. The Company's Rate Year forecast of $2.912 million was based on Historic Test Year costs, with some components escalated at the rate of inflation and others escalated based on a specific forecast. Among the latter group was a projection of a $250,000 yearly cost for implementation of the Pipeline Safety Management System.

Q. Was there funding for this program in the 2021 Rate Plan?

A. Yes. In the 2021 Rate Plan, gas safety programs were provided $1.119 million dollars in rates to fund four programs, the largest of which was the Pipeline Safety Management System, or PSMS, which was allocated $549,000 over the three-year plan.

Q. How much did the Company actually spend pursuing the development of its PSMS during the term of the 2021 Rate Plan?

A. In Attachment 1 of its response to DPS-609, the

Company provided spending detail accounting for approximately $202,000 on its PSMS efforts from 2020 through the Historic Test Year, spending an average of $67,000 per year in 2020, 2022, and 2023, and less than $1,000 in 2021.

Q. Did Central Hudson provide supporting documentation for its Rate Year request of $250,000?

A. In the confidential Attachment 3 to the Company’s response to DPS-609, it provided a consultant’s proposal dated August 2022 that does not outline any work greater than what the Company has already spent on PSMS in the past several years on an annual basis. The Company’s forecast of future work on the PSMS, detailed in Confidential Attachment 4 to its DPS-609 response, is not supported by any consultant proposals. The proposed activities, which are simple two- and three-word phrases with no descriptive narrative of work to be performed or any cost estimates, do not warrant funding of $250,000 for the Rate Year.

Q. Are you recommending an adjustment to the Company’s forecast?

A. Yes, and as further supported in the Staff Pipeline Safety Panel Testimony, the Panel is recommending a Rate Year allowance of $100,000 for this particular program to provide ample funding and remain consistent with the Company's historical spend over the past several years. This reduces the Company's Rate Year forecast of $2.912 million by $150,000, resulting in a revised Rate Year forecast of $2.762 million.

**Uncollectible Accounts**

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

A. As explained in the direct testimony of Central Hudson's Revenue Requirements Panel, at pages 35-36, and in the direct testimony of Central Hudson's Customer Experience Panel, at page 33, the Company proposes to maintain the uncollectible O&M expense allowance as established in its 2021 Rate Plan of $3.730 million for electric and $1.323 million for gas but proposes full deferral accounting for net write-offs and collection agency fees during the Rate Year, with no threshold limitation. The Company explains that the significant increase in arrears and suspended collection activities make it difficult to forecast a Rate Year projection. The Company further notes that, absent a true-up mechanism for uncollectible expense, the factors and expense in rates would need to be adjusted.

Q. Does the Panel agree with using the same level of uncollectible expense as was allowed in the 2021 Rate Plan?

A. No, we do not.

Q. Please explain.

A. As we will discuss in more detail later, the Panel recommends that the Commission deny the request for a reconciliation for uncollectibles in a one-year case. The Panel recognizes that, absent a reconciliation, the Rate Year allowance should be adjusted to reflect Rate Year revenue projections.

Q. What does the Panel propose to do for its uncollectible rate allowance?

A. We have updated the projection for uncollectible expense based on a pre-COVID three-year average of net write-offs as a percentage of delivery revenues subject to bad debts. This covers the

Calendar Years ended December 31, 2018 – December 31, 2020. In response to DPS-670, Central Hudson included historical net write-off and delivery revenues information. The ratio for this three-year average was 1.14 percent for electric and for gas. We applied this ratio to projected total delivery revenues subject to bad debt to arrive at the Rate Year expense of $5.054 million for electric and $1.542 million for gas.

Q. What is the Panel's adjustment to uncollectible accounts expenses?

A. Our update increases the Rate Year uncollectible accounts expense by $1.324 million for electric and $219,000 for gas, reflecting the updated ratio and tracking the Panel's adjustments to revenue.

Q. Does the Panel agree with the Companies' requested reconciliation for uncollectible expenses, including collection agency fees?

A. No, we do not. Such reconciliation mechanisms are not generally employed during a one-year rate case when expenses can be reasonably forecasted and the risk that exists in the context of a multi-year rate plan does not exist. The Company is just beginning to resume collection activities, which should help to minimize uncollectible expenses. Further, Central Hudson can file a deferral petition with the Commission seeking authority to defer costs, and the Company could choose to do this in the event its actual uncollectible write-offs are materially higher than the amount allowed in rates during the Rate Year.

**Regulatory Commission Expense**

Q. Describe Central Hudson's Regulatory Commission General Assessment O&M expense.

A. This expense projection is based upon the Department's General Assessment charged to each utility in New York State to fund its operations. There are three letters associated with the Regulatory Commission Assessment sent by the Department to utilities. First, an initial statement is mailed in February, prior to the start of the state fiscal year that the assessment applies to; second, a revised statement is mailed in August; and third, a final statement of assessment is mailed in

October of the following year, after the close of the state fiscal year.

Q. How did the Company forecast this expense for the Rate Year?

A. The Company applied a three-year historic average growth rate of 10 percent to the initial assessment of $3.427 million received from the Department in a letter dated February 10, 2023, for the fiscal year end March 31, 2024. This resulted in a Rate Year projection of $3.017 million for electric and $847,520 for gas.

Q. Do you agree with the Company’s projection.

A. No, we do not. The Panel recommends setting the rate allowance by using the latest known final statement of assessment received from the Department, as there is often fluctuation between the letters.

Q. Has the Company experienced fluctuations between its statements?

A. Yes. The most recent statement of final assessment, dated October 20, 2023, for the state fiscal year ended March 31, 2023, included in Exhibit__(SAP-5), totaled $3.318 million, resulting in a $897,752 reduction from the revised assessment dated August 2022.

Q. Is the Panel recommending an adjustment?

A. Yes. Using our methodology of the latest known statement of final assessment, plus inflation, results in a recommended Rate Year allowance of $3.449 million. The allocation to electric is $2.693 million, and the allocation to gas is $756,341. This results in a reduction to the Company's Rate Year forecast of $324,156 to electric and $91,179 to gas.

**Information Technology**

Q. What was Central Hudson's Rate Year request for information technology, or IT, O&M expense?

A. In its Update testimony, Central Hudson requested a Rate Year IT allowance of $15.627 million for electric and $3.860 million for gas. In the direct testimony of Central Hudson's Revenue Requirements Panel, at pages 38-39, the Company explains that its forecast is based on normalized Historic Test Year costs with specific adjustments to reflect projected Rate Year activity.

Q. Does the Panel recommend an adjustment to IT O&M expense?

A. Yes. We recommend a tracking adjustment based on the Staff Common Capital Panel’s $8.58 million reduction to Rate Year IT capital programs as discussed at page 26 of their testimony.

Q. How did you calculate the adjustment?

A. Consistent with the Staff Common Capital Panel’s recommendation to remove 18.8 percent of IT capital spending, as discussed at page 27 of their testimony, we reflected an 18.8 percent reduction to the Company’s Rate Year IT O&M expense. This results in reductions of $488,236 to electric and $118,816 to gas.

**Major Storm Reserve**

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. Variances between the accruals and actual expenditures creates a regulatory asset or liability. The collection or disposition of the net regulatory asset or liability can be resolved by the Commission in the Company's next rate case. Central Hudson's 2021 Rate Plan details criteria for use of the major storm reserve in Appendix U. The use of major storm reserves helps smooth out the financial impacts on customers and are in place at each investor-owned electric utility in New York state.

Q. Is Central Hudson's major storm reserve currently overfunded or underfunded?

A. As of March 31, 2023, Central Hudson's storm reserve was underfunded by approximately $56.337 million, meaning that the Company incurred more major storm restoration costs than it recovered in rates through O&M expense.

Q. Has the Company proposed to collect this in rates?

A. Yes, the Company proposes to collect this underfunded regulatory asset balance of $56.337 million through a ten-year amortization period.

Q. Is the Company requesting any changes to its existing rate allowance, major storm thresholds, or criteria for the use of the major storm reserve in this case?

A. Yes. As discussed on page 41 of the direct testimony of the Company's Revenue Requirements Panel, the Company is proposing to increase the O&M expense rate allowance for major storms to approximately $14.822 million per year, an increase of approximately $10.148 million over the current allowance. Additionally, as discussed in the direct testimony of the Company's Electric Capital and Operations Panel, at page 82, the Company is proposing a modification to allowable pre-staging costs charged to the major storm reserve and a modification to the definition of "major storm." This proposal is discussed in more detail by the Staff Electric Infrastructure and Operations Panel.

Q. Explain how the Company forecasted its rate allowance for the Major Storm Reserve.

A. As stated in the direct testimony the Company's Revenue Requirements Panel, at pages 41-42, the Company used a ten-year average of historical costs to forecast its Rate Year major storm allowance.

Q. Does the Panel agree with the Company’s methodology?

A. In part. Although the Panel agrees with the methodology to use a ten-year average, we disagree on including what we are terming superstorms in the ten-year average.

Q. If superstorms are removed from the average when forecasting major storm costs, how would Central Hudson recover such costs if a superstorm does occur?

A. Central Hudson would debit its storm reserve regulatory asset and accrue carrying charges on the balance until costs are recovered through its next rate proceeding.

Q. Which superstorms did the Panel remove from the ten-year average?

A. We removed Storm Event 8493A Snow and Wind Nor’Easter and Storm Event 7542A Winter Ice Storm “Landon” from our calculation of a ten-year historical average. These storm costs were approximately $14.734 million and $24.240 million, respectively.

Q. How did the Panel determine that these events should be considered superstorms?

A. We looked at the listing of major storms provided by the Company in its workpapers. We noted that there was a total of 36 major storm events, comprised of thirty major storm events and six pre-staging events. Out of the thirty major storm events, only three events exceeded ten million dollars. We considered Storm Events 8493A and 7542A to be superstorms because these storm events were significantly greater than the average storm cost for the past ten years.

Q. What is the Panel's adjustment when taking into consideration the removal of the two superstorms?

A. The Panel's adjustments to Central Hudson's requested allowance for the Rate Year major storm O&M expense is a decrease of $4.064 million.

**Non-Major Storm Restoration**

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

A. As discussed in the direct testimony of Central Hudson's Revenue Requirements Panel, at pages 43-44, the Company is requesting a Rate Year allowance of about $7.555 million, based on a four-year average of non-major storm expenditures, normalized for its proposed change to pre-staging and inflated by the projected GDP factors.

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. Yes. Non-major storm expense has been forecast since 2008 using a four-year average of historical costs.

Q. Do you agree with the Company's forecast for non-major storm costs?

A. We agree with the four-year average, however, we believe an additional adjustment is necessary to the Company's normalization adjustment related to the pre-staging cap discussed by the Staff Electric Infrastructure and Operations Panel.

Q. Briefly explain the Company's request related to pre-staging, and the Staff Electric Infrastructure and Operations Panel's recommendation.

A. Per Appendix U of the 2020 Rate Plan, Central

Hudson can charge pre-staging events with incremental costs between $100,000 and $1.750 million to the Major Storm Reserve. Central Hudson is also allowed to charge 85 percent of costs associated with events with incremental restoration costs greater than $1.750 million to the Major Storm Reserve and required to expense the remaining 15 percent. Central Hudson is allowed to file a deferral petition requesting recovery of the 15 percent if certain criteria were met. In the direct testimony of Central Hudson’s Electric Capital and Operations Panel, at pages 82-82, the Company proposed to increase the upper threshold from $1.750 million to $3.600 million. The Staff Electric Infrastructure and Operations Panel’s testimony recommends denying Central Hudson’s request and maintaining the upper threshold at $1.750 million for pre-staging events.

Q. Please explain why a revision to Central Hudson’s normalization adjustment is necessary.

A. Central Hudson forecasted Non-Major Storm Restoration costs using a four-year average. This covered the period from the twelve-months ended March 31, 2020, to the twelve-months ended March 31, 2023. During this time, there was one storm event that exceeded the $3.600 million pre-staging cap. Central Hudson charged 15 percent, $212,859, of this excess to the Non-Major Storm Restoration cost element. The Company's normalization adjustment revised this consistent with its request for the pre-staging limitation increase, but due to the Staff Electric Infrastructure and Operations Panel's recommendation, we are reversing the Company's adjustment.

Q. Quantify the Panel's adjustment.

A. The Panel's adjustment results in a reduction of $57,000 to Central Hudson's Rate Year forecast.

Q. Is the Company seeking an update to non-major storm expense?

A. Yes. The Company is seeking to update the expense at a later stage in these proceedings, in the Company's Brief on Exceptions in a litigated case or during settlement, to reflect the latest known data in the calculation of the four-year average.

Q. Does the Panel agree with this update?

A. Yes, we do.

**Materials & Supplies**

Q. What did Central Hudson request for Rate Year Materials & Supplies O&M expense?

A. For electric, Central Hudson forecasted a Rate Year allowance of $2.999 million, based on the Historic Test Year level, increased by inflation through the bridge period and Rate Year. For gas, Central Hudson forecasted a Rate Year allowance of $558,138, based on a normalized Historic Test Year level, increased by inflation through the bridge period and Rate Year.

Q. Do you have concerns with the Company's forecast?

A. We do not have concerns with the electric forecast, but we do have concerns with the normalization adjustment used in the gas forecast.

Q. Did the Company explain the need for its normalizing adjustment?

A. Yes. The direct testimony of the Company's Revenue Requirements Panel, at page 44, states, "…the only adjustment was to reflect a three-year average of gas materials and supplies, as

Company subject matter experts indicated that the historic year expense was not indicative of projected annual spend, with one main driver being the lower than average expense for inspections and repairs."

Q. How did the Company calculate the normalizing adjustment?

A. As shown in the Company's workpapers, a three-year inflation adjusted average of Gas Materials & Supplies costs for the years 2020 through 2022 was developed and compared to the Historic Test Year costs, resulting in a $224,362 increase, which was apportioned $165,255 to the Gas Material & Supplies expense and $59,108 to the gas stores clearing expense.

Q. Why does the Company allocate a portion to the stores clearing expense?

A. The Company allocates a portion of Materials & Supplies expense that cannot be directly assigned to a particular project to stores clearing expense to be cleared to various O&M expenses or capital accounts. The current Stores Rate, the ratio of Materials & Supplies expense cleared to stores expense, for gas is

26.34%, as shown in the Company’s workpapers.

Q. Did the Company’s normalization methodology consider increased inspections and repairs in the Rate Year forecast to offset the lower-than-normal activity during the Historic Test Year?

A. No. In response to DPS-566, the Company described how trends in materials & supplies can be driven by trends in general maintenance and inspection, which can be more cyclical, annual, or multi-year in nature, but did not reference any subject matter expert testimony nor provide any specific planned increase in general maintenance or inspection activities to support their position.

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

A. No. As shown in the Company’s workpapers, Gas Material & Supplies expense has declined steadily from $759,735 in 2020 to less than half, $360,209, in 2023, an average annual reduction of 22 percent. The Company did not utilize this normalization methodology in its 2020 rate filings or in its 2017 rate filings, and, prior to that, Materials & Supplies was a component of the Company’s inflation pool, the group of several expenses that the Company routinely forecasts using inflation.

Q. What does the Panel recommend?

A. We recommend removal of the Company's gas normalization adjustment of $165,255. Instead, we have applied inflation factors to the Historic Test Year cost through the bridge period and Rate Year, which results in a Rate Year forecast of $382,608. This is a reduction to the Company's forecast of $175,530.

**Stores Clearing to Expense**

Q. What did Central Hudson request for Rate Year Stores O&M expense?

A. For electric, Central Hudson forecast a Rate Year allowance of $286,644 based on the Historic Test Year level, increased by inflation through the bridge period and Rate Year. For gas, Central Hudson forecast a Rate Year allowance of $111,968, based on a normalized Historic Test Year level, increased by inflation through the bridge period and Rate Year.

Q. Is the Panel recommending an adjustment to Stores Expense?

A. Yes. Consistent with our recommendation as discussed in Materials & Supplies Gas expense regarding the Company's proposed normalization adjustment, we recommend removal of the normalization adjustment of $59,108 to Stores – Gas and related inflation during the bridge period and Rate Year.

Q. What is the impact of this adjustment?

A. This reduces the Company's forecast by $62,784, resulting in a revised Rate Year forecast of $49,184.

**Legal Services**

Q. Briefly explain what costs are in Legal Services.

A. Legal Services expenses are for recurring legal expenses that are not rate case-related expenses. Examples of legal services includes general litigation and counsel expenses for various legal matters including but not limited to employee benefits, customer service, real estate, insurance, and claims.

Q. How did the Company forecast Legal Services?

A. In the direct testimony of the Company's Revenue Requirements Panel, at page 47, the Company made two normalizing adjustments to the Historic Test

Year cost. The first was to remove a one-time non-recurring credit associated with two of the vendors that provide the Company with legal services. The second was to remove non-recurring expenses associated with the new SAP customer information system. The Company then applied inflation to the normalized Historic Test Year cost, which resulted in a forecast of $1.679 million for electric and $481,131 for gas.

Q. Does the Panel recommend any adjustments to the Company's Legal Services forecast?

A. Yes. The Company stated in its response to DPS-414, that it had understated its downward normalizing adjustments for Thompson Hines LLP. The Company initially had negative normalizing adjustments for Thompson Hines LLP of $312,519 for electric and $62,504 for gas. The correct downward normalizing adjustment should be $384,189 for electric and $96,047 for gas. This correction results a reduction to Central Hudson’s Rate Year forecast of legal services of $71,670 for electric and $33,543 for gas.

**Consulting and Professional Services**

Q. What is the Rate Year forecast for Consulting and Professional Services?

A. As shown in the Company's Revenue Requirements Panel Exhibit__(RRP-2), Schedule A reflected a requested rate allowance of $3.834 million for electric and $1.253 million for gas.

Q. How did the Company forecast Consulting and Professional Services expenses?

A. As discussed in the direct testimony of the Company's Revenue Requirements Panel, at pages 47-48, most Consulting and Professional Services are increased for general inflation over Historic Test Year amounts. However, certain consultant costs were projected using a specific forecast. These include external audit fees, vendor costs incurred in support of the semi-annual Distributed System Implementation Plan filing, and JD Power Benchmarking Survey costs as recommended in the Management Audit proceeding in Case 22-M-0314 and discussed in more detail in the Staff Consumer Services Panel's testimony.

Q. Why did the Company use a specific forecast for audit agency fees?

A. In response to DPS-359, the Company explains that it forecast costs for external audit fees using an average growth rate because these costs have been consistently following an upward trend. The Company further explains that if it were to take a historical average, it would result in a projection that would be less than the latest-known expense.

Q. How did the Company calculate the growth rate?

A. The Company took a three-year average of the growth rate of audit agency fees from 2021 to 2023. The growth rate was calculated to be 6.29 percent, which was then applied to the latest known amount to calculate the Rate Year forecast.

Q. Does the Panel agree with this forecasting methodology?

A. In part. The Panel agrees with using the latest-known invoice to forecast audit agency fees but disagrees with using the growth rate. The Company does not have an active contract with Deloitte past 2023. As stated in response to DPS-631, "Central Hudson is currently negotiating a new agreement for external audit services with Deloitte & Touche. As such, no written correspondence pertaining to future audit fees is available at this time.” Additionally, the Company explains that it has not completed a comparative cost analysis between Deloitte & Touche and other firms.

Q. Please explain the Panel’s concern.

A. We are concerned with the use of a historic growth rate for a vendor that the Company no longer has a contract with, with no supporting analysis of other comparable rates.

Q. Is the Panel recommending an adjustment?

A. Yes, we recommend applying inflation to the latest-known invoice. This results in a decrease to Central Hudson’s forecasted costs of $76,340 to electric and $19,085 to gas.

Q. Does the Panel have any other adjustments for Consulting and Professional Services?

A. Yes. We recommend two additional adjustments. We recommend removing the Emergent Consulting and Advanced Metering Infrastructure Benefit Cost Analysis costs from the Rate Year forecast.

Q. Why do you recommend removing the Emergent Consulting costs?

A. In the Company's Rate Year forecast, the Company proposes a rate allowance for incremental expenses of Emergent Consulting, a third-party vendor that Central Hudson uses for talent attraction and other ad hoc work specific to Human Resources. The Company proposes to an overall rate allowance of $200,000, allocated $160,000 to electric and $40,000 to gas. When asked for supporting documentation, such as a quote or an estimate, the Company stated in response to DPS-359, that it does have any documentation to support this cost. Since there is no contract to support these costs, the Panel proposes to remove these costs of $160,000 for electric and $40,000 for gas from the Rate Year forecast.

Q. Why do you recommend removing the costs associated with the Advanced Metering Infrastructure Benefit Cost Analysis?

A. Similarly, with regards to the Advanced Metering Infrastructure Benefit Cost Analysis, the Company stated in response to DPS-728, that it does not have documentation to support these costs because the Company has not yet issued a

Request For Proposals. The Panel recommends removing these costs, totaling $200,000, from the electric Rate Year forecast due to the uncertainty of timing of Central Hudson pursuing the study.

Q. Summarize the Panel’s total adjustments.

A. The Panel recommends a total downward adjustment of $436,340 to electric and $59,085 to gas.

**Miscellaneous General Expenses**

Q. What costs are included in Miscellaneous General Expenses?

A. The Company is requesting a Rate Year allowance of $5.450 million for electric and $1.371 million for gas.

Q. How did the Company forecast Miscellaneous General Expenses?

A. In general, Miscellaneous General Expenses were escalated at the general inflation rate. The exceptions to this include the credit rating agency fees, Central Hudson Director Fees, Allocated Administrative Expenses to Central Hudson Energy, and Recruiting Expenses, all of which were based on specific escalators.

Q. Are you recommending an adjustment to the

Company's miscellaneous general forecast?

A. Yes. We recommend three adjustments.

Q. Please explain your first adjustment.

A. In the Company's response to DPS-048, the Company acknowledged that it included lobbying costs in the miscellaneous general expense forecast that should not be included in rates. Utilities are required to exclude from recovery all membership dues from organizations that engage in lobbying activities per an amendment to Public Service Law §114-a, effective August 2, 2021. The adjustment to remove these expenses is a downward adjustment of $13,000 for electric and $3,000 for gas.

Q. Please explain the Panel's second adjustment.

A. In DPS-358, we asked Central Hudson for a written estimate or quote to support its Rate Year recruitment expenses of $100,000, which was allocated $80,000 to electric and $20,000 to gas. The Company responded, "…there is no purchase order or materials quote that supports this estimate." Because these costs are unsupported, the Panel recommends removing these costs from the forecast, resulting in a downward adjustment of $80,000 for electric and $20,000 for gas.

Q. Summarize your total adjustments to this cost element.

A. The Panel's total adjustments for this cost element are reductions of $93,000 to electric and $23,000 to gas.

**Injuries and Damages**

Q. What components comprise the cost element injuries and damages?

A. The injuries and damages cost element contains the Company's insurance coverage costs for workers' compensation, excess liability, personal and property damage claims, and accident and safety activities.

Q. Is the Panel recommending an adjustment to one of these components?

A. Yes, we recommend an adjustment to workers' compensation.

Q. How did Central Hudson forecast its Rate Year projection of workers' compensation?

A. Central Hudson forecasted its Rate Year projection of workers' compensation by multiplying the cost per employee by the number of proposed Rate Year FTEs.

Q. Does Staff’s labor adjustment to reduce Rate Year FTEs affect Central Hudson’s workers’ compensation forecast?

A. Yes. The workers’ compensation component needs to be adjusted to track Staff’s labor FTE adjustment.

Q. What is the effect of Staff’s reduced FTE allowance on workers’ compensation costs?

A. Staff’s tracking adjustment reduces injuries and damages by $26,000 for electric and $7,000 for gas.

**Other Operating Insurance**

Q. Briefly describe the various insurance types that are included in the Company’s other operating insurance expense.

A. As explained in the direct testimony of the Company’s Revenue Requirements Panel, at page 50, the cost element is comprised of numerous types of insurances: directors and officers, brokerage fees, all risk property insurance and other miscellaneous insurances. The all risk property insurance makes up nearly 75% of the Rate Year total of other operating insurance.

Q. How did the Company forecast other operating insurance expense from the Historic Test Year to the Rate Year?

A. The Company based its forecast on the latest known premiums at the time of the Company's filing, plus projected growth rates. The Company used inflation to project the Rate Year forecasts for all categories except for all risk property.

Q. What method did the Company use to project all risk property insurance?

A. The Company's all risk property insurance is comprised of commercial property insurance, terrorism, and nuclear liability. The Company forecasted terrorism and nuclear liability, which make up a very small portion of the total all risk property insurance, using GDP inflation. For commercial property insurance, Central Hudson escalated each group of classified property (e.g., dams, gas regulator stations, electric substations, etc.) by an average historical growth rate to develop the Rate Year insured value. The Company then applied a rate per million dollars of insured value to develop its projected expense and increased this rate by 10 percent yearly, at July 1, 2023, and at July 1, 2024.

Q. Did the Company escalate the insured value of its commercial properties in its calculations?

A. Yes. The direct testimony of the Company's Revenue Requirements Panel, at page 51, explains that the insured value of each classified property at July 1, 2023, was escalated at a three-year average historical growth rate to arrive at the Rate Year insured value. The insured value was then multiplied by an assumed rate per million of insured value, which was provided by the Company's Senior Treasury and Risk Administrator.

Q. Did the Company indicate any changes to their initial forecast?

A. Yes. In the Company's response to DPS-730, it states, "At the time of filing, the increase noted in [its initial forecast] was based on the best available information communicated from our insurance providers. Upon reviewing the July-September 2023 monthly costs in DPS-558, Attachment 1, the increase for the new policy period was closer to approximately 5%."

Q. Does the Panel agree with the Company using a compound average growth rate of 10 percent referenced in the response to DPS3-730(b)?

A. No. The Company's response to DPS-427 reflects significant growth in insured value from July 2019 to July 2021. However, from July 2021 to July 2022 the rate per million of insured value declines significantly.

Q. Does the Panel propose an adjustment?

A. Yes, we do. We have reflected the latest known costs from July 2023 premium payments for all risk commercial property insurance and increased them for GDP inflation, to develop a Rate Year projection.

Q. What is the impact of employing the latest known all risk commercial property premiums increased for GDP inflation on the Company's forecasted Rate Year?

A. Staff's forecast reduces the Company's Rate Year forecast by $136,000 for electric and $34,000 for gas.

**Miscellaneous Charges**

Q. What costs are included in Miscellaneous

Charges?

A. In the direct testimony of the Company's Revenue Requirements Panel, at page 54, the Company states, "[m]iscellaneous charges consist of the activities and expenses that have not been identified elsewhere within an element of expense…." These costs include production, transmission, distribution, customer accounting, and administrative and general expenses.

Q. How did the Company forecast Miscellaneous Charges?

A. The Company normalized out COVID-19 pandemic-related expenses of $5,647 for electric and $5,412 for gas because these costs are expected to be non-recurring. The Company applied general inflation on the normalized Historic Test Year balance to project its Rate Year forecast.

Q. Does the Panel recommend any adjustments to the Miscellaneous Charges cost element?

A. Yes, we recommend two adjustments.

Q. Please explain your first adjustment.

A. In the Company's response to DPS-340, the Company acknowledged that it overstated a cost related to its "PSC Required Record Keeping" Rate Year projection. The Company initially had $289,087 and $72,467 for "PSC Required Record Keeping" in its Historic Test Year for electric and gas, respectively. The Company stated that this Historic Test Year expense charged to the Company exceeded the historical average level of expense prior to the Company's implementation and stabilization of the new SAP customer information system, and the corrected normalized amounts should be $39,114 for electric and $9,778 for gas. The Panel made a downward adjustment of $249,973 for electric and $62,689 for gas to reflect this correction.

Q. Please explain your second adjustment.

A. Also, in the Company's response to DPS-340, the Company acknowledged an overstatement related to "Interpreter Costs." The Company initially had $116,186 and $29,047 for "Interpreter Costs" in its Historic Test Year for electric and gas, respectively. The Company stated that this Historic Test Year expense charged to the Company exceeded the historical average level of expense prior to the Company's implementation and stabilization of the new SAP customer information system. The Panel made reductions of $111,361 for electric and $27,840 for gas, consistent with the Company's IR response, to correct the overstatement and reflect the revised amounts of $4,825 for electric and $1,207 for gas.

**Productivity**

Q. Please briefly explain the productivity adjustment.

A. The Commission has a long-standing policy of imputing a productivity adjustment, intended to capture unidentified or unquantifiable productivity gains, efficiencies, and cost savings that could be realized in a utility's Rate Year request. This adjustment is typically calculated at one percent of total labor expense, employee benefits, and payroll taxes.

Q. Did Central Hudson reflect a productivity adjustment in its Rate Year revenue requirements?

A. Yes, Central Hudson included productivity adjustments that reduce the projected Rate Year electric and gas expenses by $1.168 million and

$343,000, respectively. Central Hudson's productivity calculation reflects the Commission's traditional one percent productivity factor applied to labor, employee benefits (specifically fringe benefits), pension, OPEBs, and payroll taxes, as stated in the Company's Revenue Requirements Panel's direct testimony, starting at page 55.

Q. Does the Panel have any recommendations related to productivity?

A. Yes, we have three recommendations.

Q. Please explain your first recommendation.

A. We are recommending an additional one percent productivity adjustment for two reasons. First, as discussed in the testimony of the Staff Management and Operations Audit Panel, the Companies' proposed revenue requirements did not explicitly include any cost savings or benefits that will result from the implementation of the recommendations from the recent Comprehensive Management and Operations Audit in Case 21-M-0541. Second, the Company has requested a significant increase to its labor workforce, as discussed in the direct testimony of the

Company’s Workforce, Compensation, and Benefits Panel, beginning at page 7. Although Staff has recommended a reduction to the Company’s request, the Rate Year FTE count of 1,269.5 recommended by Staff is still significantly higher than the Historic Test Year FTE count of 1,138.

Q. Explain why this warrants an extra one percent productivity adjustment.

A. The Rate Year revenue requirements reflect greatly increased costs for additional employees and related benefits of approximately $12.063 million between existing rates and Staff’s Rate Year projections. The additional employees should allow the Company to increase its efficiency as it achieves better outcomes, however the Company has not quantified any efficiencies. Additionally, the Company has reflected costs related to implementing its management audit recommendations but has not reflected savings that will materialize after the recommendations are implemented. One of the primary purposes of management audits is to identify better practices and procedures that will increase the efficiency of a company's operations. Thus, to reflect costs to implement the recommended improvements in rates while ignoring what must be the resulting benefits allows the Company to retain any benefits at the expense of ratepayers. As a proxy measure, we recommend an additional one percent productivity adjustment to capture, for customers' benefit, savings that can reasonably result from the Companies' additional hiring and implementation of management audit recommendations.

Q. Please explain your second recommendation.

A. We recommend that Pension and OPEB costs be reflected in the productivity calculation as zero, rather than as a negative expense.

Q. Please explain why you recommend this modification.

A. The standard productivity adjustment is not intended to capture savings associated with these particular items or any particular program initiated by the Company, but the Commission's long-standing practice has been to use this calculation as a proxy. Reflecting negative expenses in the proxy calculation is counterintuitive to the intention of a productivity adjustment.

Q. Have negative pension and OPEB expenses been included in Central Hudson’s productivity adjustment calculations in the past?

A. Yes, they have been included in productivity adjustments presented in Staff testimony and joint proposals in the past few rate proceedings.

Q. Please explain why the Panel is recommending this change here.

A. Negative O&M expense allowances for OPEBs have been reflected in rates since the Rate Year ended June 30, 2016, established in Cases 14-E-0318 and 14-G-0319, where the Joint Proposal in those cases included ($2.800) million for electric and ($523,000) for gas in each rate year for OPEBs. Pension O&M expense allowances were not negative until the first Rate Year in the 2021 Rate Plan, the twelve months ended June 30, 2022, where ($4.542) million for electric and ($1.323) million for gas were reflected in the Joint Proposal’s revenue requirements. Within the context of those prior cases, it was reasonable to leave the calculation of productivity unchanged, as we were unsure if the negative expenses would be temporary or short-term diversions. In this rate filing, we see that both the pension and OPEB negative expense allowances have grown even more. For pension, Staff’s recommended revenue requirements for the Rate Year include ($7.359) million for electric and ($2.086) million for gas. For OPEBs, Staff’s recommended revenue requirements for the Rate Year include ($5.817) million for electric and ($1.649) million for gas. From our position in 2023 reflecting on these recent rate cases, it is now apparent that this situation is no longer an outlier or a short-term event. It now seems to be the new normal, and including a negative expense in the proxy calculation is skewing the resulting productivity adjustment.

Q. What is your final recommendation to the productivity calculation?

A. We have updated the other components in the productivity calculation to reflect Staff’s Rate Year projections for those items. Those include updates to labor, employee benefits and payroll taxes.

Q. What is the Panel's adjustment?

A. The Panel recommends a total Rate Year productivity forecast of ($2.176) million for electric and ($641,000) for gas, which represent reductions to revenue requirements of $1.008 million for electric and $298,000 for gas.

**Taxes Other Than Income Taxes**

**Property Taxes**

Q. Explain how Central Hudson developed its Rate Year forecast for property taxes.

A. As discussed in the direct testimony of Central Hudson's Accounting and Tax Panel, beginning at page 39, Central Hudson explains that property taxes were projected by applying a three-year average historic growth rate based on actual historic taxes, applied to the most recent property tax expenses paid. Next, the Company added incremental expenses resulting from reduced Economic Obsolescence, or EO, awards in the Rate Year. Lastly, the Company included incremental tax expenses for the Rate Year plant additions based on the capital expenditure plan.

Q. What amounts did Central Hudson forecast for property tax for the Rate Year?

A. For the Rate Year, the Company forecasted property tax expenses of $45.264 million and $19.382 million for electric and gas operations, respectively, for a total of $64.646 million. The Company's projected Rate Year property tax expense is lower than the rate allowances in the 2021 Rate Plan and the actual amounts experienced in the Historic Test Year. In the Company's response to DPS-457, the Company explains that many of the municipalities and school districts in its service territory held tax rates flat or decreased them over the past two years. The municipalities and school districts received federal COVID relief funding, which reduced the amount of revenue that they needed to collect through property taxes, which in turn, reduced the Company's tax expense.

Q. Do you agree with the Central Hudson's Rate Year forecast of property taxes?

A. Partially. We agree with the methodology but are proposing changes to the estimated EO award in 2024 and 2025 and to the tax growth rate used to calculate incremental costs associated with EO award reductions and taxes on plant additions.

Q. Please explain the term "Economic Obsolescence."

A. As described on the Office of Real Property Tax Services, or ORPTS, website, EO refers to the loss in value of property caused by impairment in desirability, or useful life, resulting from factors external to the property. The EO award determined by ORPTS is based on a utility company not achieving its allowed rate of return over a five-year period. When an EO award determination is made, it results in a downward adjustment expressed as a percentage, which is applied to the assessed values of a utility's special franchise properties. The lower assessment results in the utility being charged a lower amount for property tax. In summary, EO results in the utility paying less taxes.

Q. Have Central Hudson's EO awards declined over the last few years?

A. Yes. For electric, the Company's EO awards were nine percent in 2019, five percent in 2020, 3.5 percent in 2021, 4.5 percent in 2022, and four percent in 2023. The Company has not received an EO award for gas since 2019.

Q. Explain your adjustment for EO awards.

A. The Company's projection of property tax expense includes incremental costs associated with estimated reductions in EO awards. In its workpaper the Company calculates the incremental expense for EO based on EO awards of four percent in 2023, three percent in 2024 and two percent in 2025. In response to DPS-385, the Company explains that the 2023 EO award was provided by ORPTS and that the percentages for 2024 and 2025 are projected. The Company projected a yearly one percent decrease to EO awards even though in recent years the award has not consistently decreased. It has fluctuated between five percent and 3.5 percent. The 2023 rate of four percent is the latest known award amount and is approximately the average rate experienced from 2020 to 2023.

Q. Is the Panel proposing an adjustment to the Company's forecasted EO award?

A. Yes. We have adjusted the Company's electric projection to reflect the latest known EO award of four percent for 2024 and 2025.

Q. Explain your adjustment to the tax growth rate used in the calculation of incremental costs associated with EO reductions and plant additions.

A. To project tax rates in 2024 and 2025, the Company calculated a normalized tax rate and used a three-year average historic growth rate to inflate the tax rate. In the calculation, the Company applied the growth rate to the 2021/2022 tax year normalized tax rate and escalated the rate each year to 2028. The Company did not use the latest known normalized tax rate, which is the 2022/2023 rate. We have adjusted the calculation to apply the growth rate beginning with the latest known rate.

Q. Have you calculated an adjustment for the change in projected EO awards and projected normalized tax rates?

A. Yes. The changes to EO awards and the normalized tax rates results in a decrease in electric property taxes expense of approximately $457,000. The change to normalized tax rates results in a decrease in gas property tax expense of approximately $8,000.

**Payroll Taxes**

Q. Briefly describe how Central Hudson developed its payroll taxes projection.

A. As discussed in the direct testimony of the Company's Revenue Requirements Panel, beginning at page 57, and the direct testimony of the Company's Accounting and Tax Panel, beginning at page 20, the Company projected payroll taxes by applying the appropriate tax rates for State Unemployment Tax Assessment, Federal Unemployment Tax Act, Medicare, and Federal Insurance Contribution Act to the related taxable wage bases 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, headcount, and the distribution of labor relating to the adjustments described earlier in this testimony.

Q. How much is your total proposed adjustment to payroll taxes expense?

A. The adjustment results in a decrease in electric payroll taxes expense of about $955,000 and a reduction in gas payroll tax expense of about $266,000.

**Other Taxes**

Q. Please describe the Company's forecast for Other Taxes.

A. In the direct testimony of the Company's Revenue Requirements Panel, at page 58, the Company explains that other taxes include sales and use taxes and hazardous waste taxes. Sales and use taxes were projected by first making normalizations to remove net accruals for potential future sales tax audit findings recorded in the Historic Test Year. Second, the Company applied general inflation to normalized historical period costs. Additionally, incremental sales tax was added to reflect an increased expense directly correlated to incremental O&M expense in select cost elements. The hazardous waste tax is forecasted using a three-year average plus inflation. The Company is requesting a Rate Year allowance of Other Taxes of $3.753 million for electric and

$367,000 for gas.

Q. Does the Panel agree with the Company’s proposed Other Taxes Rate Year forecast?

A. No, we do not. In response to DPS-453, question (a), the Company acknowledged that the Call Volume Overflow element of O&M expenses should not have been included in the forecast of incremental sales taxes.

Q. Quantify this adjustment.

A. Removal of Rate Year call volume overflow O&M expense from the sales tax forecast results in a downward adjustment of $171,627 for electric and $42,907 for gas.

**Federal and State Income Taxes**

Q. How did Central Hudson forecast federal and state income tax expenses for the Rate Year?

A. Central Hudson describes its federal and state income tax calculations in the direct testimony of the Accounting and Tax Panel, beginning at page 21. The detailed calculations are provided in Central Hudson’s Exhibit___(ATP-10).

Q. Do you agree with how the Company calculated federal and state income taxes?

A. Yes, however, adjustments are necessary to reflect the impact of the proposed Staff adjustments to the various components that make up Central Hudson's income tax calculations.

Q. Where did Central Hudson reflect the tax deduction for depreciation on plant in its federal and state income tax calculations?

A. In the income tax calculation in Exhibit__(ATP-10), the Company included a reconciling item entitled Depreciation.

Q. Please summarize what is reflected by Central Hudson in the income tax calculations related to depreciation on forecasted plant additions.

A. These calculations reflect that the amounts the Company projects it will be able to deduct on its income tax return for depreciation on forecasted plant additions will exceed the corresponding amounts it records on its books for depreciation expense. The reason for the difference is that the IRS allows companies to depreciate plant quicker for income tax purposes than the Commission allows the Company to recover that plant for rate purposes. Under IRS regulations, the tax savings resulting from these timing differences are deferred and reflected in rates through a rate base reduction.

Q. Please explain the Panel's adjustment.

A. We adjusted the Company's tax depreciation to correspond with the adjustments to depreciation expense proposed by the Staff Witness Mingdi Huang. Our adjustments are reflected on Exhibit__(SAP-2 Corrected) and Exhibit__(SAP-3 Corrected), Schedules 3, 4 and 6. Our adjustments reasonably estimate the associated impacts; however, we recommend these be updated for final plant and depreciation changes later in these proceedings.

**Rate Base**

**Cash Working Capital**

Q. How did Central Hudson calculate the Rate Year cash working capital allowance for O&M expenses?

A. As indicated in the direct testimony of the Company's Revenue Requirements Panel, at page 81, Central Hudson used what is referred to as the "Federal Energy Regulatory Commission formula" or "FERC formula" that calls for the cash working capital component of rate base to be determined by multiplying applicable O&M

expenses by a factor that varies based on how customers are billed. As a result, the Rate Year cash working capital allowance was calculated by multiplying the applicable projected Rate Year O&M expenses by a factor of 1/8, which is the factor the FERC formula requires be used when the utility bills customers on a monthly basis like Central Hudson does.

Q. Do you propose an adjustment to the cash working capital allowance proposed by the Company for the Rate Year?

A. Yes, an adjustment is necessary for that rate base component as a result of the various adjustments Staff is proposing to Rate Year O&M expenses. As a result, downward adjustments for electric and gas are reflected in the cash work capital line item on Schedule 9 of Exhibit__(SAP-2 Corrected) and Exhibit__(SAP-3 Corrected), respectively.

**Other Accounting Proposals**

**Rate Adjustment Mechanism**

Q. Is Central Hudson proposing to continue its existing RAM?

A. Yes. As discussed in the direct testimony of Central Hudson's Forecasting and Rates Panel, at pages 78-79, the Company proposes to continue its RAM but proposes adjusted thresholds. Specifically, Central Hudson proposes to increase the RAM thresholds from its 2021 Rate Plan maximum of 2.5 percent of total operating revenues to 2.4 percent of total revenues, inclusive of surcharges and commodity costs.

Q. How does the RAM currently work?

A. Per the Company's 2021 Rate Plan, Appendix G to the Joint Proposal, certain deferred costs are measured at December 31 of each year. If the net balance is between a minimum and maximum threshold, as identified in Appendix G, the Company shall implement a surcharge or credit to collect/refund the net balance over the twelve-month period of July 1 through June 30.

Q. What is the intention of the RAM?

A. The intention of the RAM is to allow the Company to promptly collect or return the build-up of regulatory assets or liabilities from/to customers over the term of a rate plan and to assist with improved cash flow at the Company if a significant regulatory asset has built-up during the term of the rate plan due to factors like a forecasting error, unexpected costs, etc.

Q. Does the Panel agree with allowing a RAM for Central Hudson during the Rate Year?

A. No, we do not. Central Hudson has reflected 10-year amortizations of major storm and Energy Efficiency/Heat Pump costs, its two largest RAM-eligible regulatory asset balances, in its Rate Year revenue requirement. Since these items will have a recovery method, we do not support offering a second recovery method through a RAM. Through the rate setting process, expense forecasts will have been reset for the time period of July 1, 2024, through December 31, 2024, the time period for which Central Hudson would make the first measurement of its RAM-eligible deferrals. Since the Rate Year in this proceeding covers the time period of July 1, 2024, through June 30, 2025, if the Company were allowed a RAM, the effective date of that RAM would not be until July 1, 2025. If a significant balance of regulatory assets or liabilities has built up between July 1, 2024, and June 30, 2025, recovery or refund of that balance could be pursued in the Company's next rate case. Therefore, we find that allowing Central Hudson to continue a RAM during the Rate Year is not necessary.

**Proposed Deferrals**

Q. Does the Company's 2021 Rate Plan contain a list of allowed Deferral items?

A. Yes, Appendix F to the 2021 Rate Plan's Joint Proposal contains a list of these items.

Q. Did the Company propose any changes to this list to be effective during the Rate Year?

A. Yes. As explained in the direct testimony of Central Hudson's Accounting and Tax Panel, beginning at page 30, and it Exhibit__(ATP-11) and Exhibit__(ATP-12), the Company is requesting authorization to continue existing deferred accounting treatment for twelve cost items, with some revisions. Additionally, Central Hudson is requesting new deferral treatment for eleven cost items, one of which was proposed in the Company's October 2, 2023, Update. Central Hudson is also proposing continuation of six deferrals that it states were identified in separate Commission orders.

Q. Does Staff recommend changes to Central Hudson's request?

A. Yes. As shown in Exhibit__(SAP-6 Corrected), Staff recommends several changes. We will be discussing five of these recommendations; the others will be discussed in the testimony of other Staff Panels, as identified in our Exhibit__(SAP-6 Corrected). Additionally, previously in our testimony we have discussed the Company's request for a late payment and finance fee deferral, an uncollectible expense deferral and the RAM.

Q. What is the first deferral that you would like to discuss?

A. We would like to discuss Central Hudson's deferral requests related to its Enterprise Resource Planning, or ERP, Phase III Assessment and Project Readiness.

Q. Briefly describe the request.

A. The ERP Phase III Assessment and Project Readiness goals as described in the direct testimony of the Company's Technology Capital and Operations Panel, at pages 17-18, are to execute an ERP Assessment in 2025-2026. Key points included in the goals are to define project scope, develop a staffing plan, and assess the readiness of the Company to start the next stage of its ERP Transformation. Central Hudson requests to defer ERP Phase III Assessment and Project Readiness costs during the Rate Year rather than include them in its revenue requirements.

Q. Did Central Hudson estimate the costs it expects to incur during the Rate Year?

A. Yes. Central Hudson's Accounting and Tax Panel's Exhibit__(ATP-14) shows estimated capital costs, including inflation and allowance for funds used during construction of $2.574 million and O&M expenses of $2.976 million in the Rate Year, as well as $202,000 of O&M expenses beyond the Rate Year, for a total of $3.178 million.

Q. Does the Panel have concerns with this requested deferral?

A. Yes. Central Hudson explained, in the direct testimony of the Technology Capital and

Operations Panel, at page 18, that an initial assessment was performed in 2019-2020, but the Company now wants to expand that assessment as well as incorporate industry best practices. We are concerned that the Company's new planned assessments will be duplicative of assessments already performed that were already paid for by ratepayers.

Q. Did the Panel request that Central Hudson provide a detailed breakout of the ERP Phase III Assessment and Project Readiness costs using the same format as the Company's Exhibit_(ATP-14) to determine if some of these costs have been previously recovered?

A. Yes. However, in the Company's response to DPS-651, the Company objected to the request and did not provide the information stating, "The Company objects to this request on the grounds that it calls for a special study. The Company also objects to this request on the grounds that it seeks information that is irrelevant and not tailored to these proceedings or commensurate with the importance of the issues to which these proceedings relate because the ERP Phase III

Assessment costs from Case 20-E-0248 and 20-G-0249 are not comparable to the costs requested in this case and provided in Exhibit_(ATP-14)."

Q. Does the Panel agree with allowing the requested deferral?

A. No. The Panel recommends that these costs not be granted deferral treatment until the Company provides a detailed analysis of the amounts already spent, as well as a detailed comparison between the assessment already done and the proposed new assessment. Although the Company asserted in its objection that the costs it recovered under its prior rate plan and the costs it seeks to recover in these cases are "not comparable," that conclusion is not supported by the information the Company has provided to date.

Q. What is the next deferral you would like to discuss?

A. The Company proposes to continue the deferral authority it has under its 2021 Rate Plan for the impact of governmental actions above a threshold. This type of deferral allowance is common in multi-year rate plans; however, the

Commission generally has not granted such deferral authority when setting rates for a single Rate Year. In such instances, the risk to the Company is limited, as the Company has the ability to seek new rates or petition the Commission for deferral authority if the impact meets the traditional deferral criteria. The Company has not justified why a change to this practice should be made here. Therefore, we recommend this deferral not continue during the Rate Year.

Q. What is the next deferral you would like to discuss?

A. Central Hudson proposed to continue its deferral accounting treatment for property taxes.

Q. Explain Central Hudson's proposal.

A. As discussed in the direct testimony of the Company's Accounting and Tax Panel, beginning at page 46, Central Hudson proposes to continue the property tax deferral agreed to in the 2021 Rate Plan. Current deferral treatment allows Central Hudson to defer 90% of any difference between actual property taxes and the rate allowance for future recovery or pass back to customers, with the Company's share limited to five basis points each for electric and gas.

Q. Does the Panel agree with continuation of the deferral?

A. No, we do not. We believe a property tax reconciliation is not necessary in a one-year rate case, and the Commission generally has not granted such deferrals when setting rates for a single Rate Year. Central Hudson has proposed an update to property taxes to capture the latest known actual costs later during these proceedings, and we agree with that update. As a result, many of the factors influencing the Rate Year property tax forecast are known and therefore not subject to significant forecasting risk.

Q. What is the next deferral you would like to discuss?

A. Central Hudson proposes continuation of the sharing mechanism for property tax refunds and assessment reductions as discussed in the direct testimony of the Company's Accounting and Tax Panel, beginning at page 46. Specifically, Central Hudson states it is proposing to file notice with the Commission subject to 16 NYCRR §89.3 and to continue the sharing mechanism for refunds and assessment reductions, net of non-labor costs incurred to achieve them, as allowed in the 2021 Rate Plan.

Q. Does the Panel agree with the proposed sharing mechanism?

A. No, we do not, and we do not agree that Central Hudson has such authority under its 2021 Rate Plan for property taxes. However, it does have a similar sharing mechanism in place for sales tax refunds. We agree with the sales tax refund provisions from the 2021 Rate Plan continuing but do not agree to this for property tax refunds.

Q. What is the next deferral you would like to discuss?

A. We disagree with Central Hudson's requested deferral for a potential federal fiscal 2024 tax rate change. If such a tax rate change occurs before the start of the Rate Year, an update can be made to revenue requirements in this proceeding. Additionally, if a federal tax change were to occur, it would impact all utilities and thus, may be the subject of a generic proceeding as occurred in Case 17-M-0815 following the federal tax change in 2017.

Q. What is the next deferral you would like to discuss?

A. Central Hudson proposed a deferral of incremental costs associated with the implementation of the Roadway Excavation Quality Assurance Act in its October 2, 2023, Update. The Company anticipates an impact on the gas capital plan, specifically as it relates to the Company's capital spending and additions included to achieve the elimination of 15 miles of leak prone pipe.

Q. Does the Panel agree with a deferral of incremental costs associated with the implementation of the Roadway Excavation Quality Assurance Act?

A. No. In the October 2, 2023, Update, the Company explained that it has not had time to evaluate the potential impacts on the gas capital program. Additionally, the Company did not provide testimony to justify the deferral. Therefore, we recommend that the deferral should be denied until Central Hudson has evaluated the impacts and presented a more thorough proposal.

Q. Does the Panel recommend any new reconciliation mechanisms?

A. Yes, we recommend a new downward-only reconciliation mechanism be established for labor expense due to the significant number of incremental FTEs being allowed in Staff's testimony. If the Company does not successfully fill the incremental positions for the costs that are reflected in Staff's Rate Year revenue requirements, the Company should be required to defer the underspending for future disposition by the Commission.

Q. How would this reconciliation mechanism work?

A. Please refer to our example reconciliation in Exhibit___(SAP-7 Corrected). We have computed a Rate Year average cost per FTE of $101,517, using total labor expense and benefits expense divided by the target headcount. We recommend that the Company be required to reconcile the actual total headcount to the targets set in this case. The Rate Year revenue requirements include labor and medical benefit costs associated with a target headcount of 1,269.5. If the Company hires fewer FTEs than the target, the Commission should require the Company to defer the difference, including associated medical benefits, for future disposition by the Commission, as calculated in Exhibit___(SAP-7 Corrected).

Q. When should the Company calculate the reconciliation?

A. The Company should file quarterly reports with Staff detailing employee count in the same format as Exhibit___(SAP-7 Corrected). The Company should file a final reconciliation to Staff, using the format provided in Exhibit___(SAP-7 Corrected), 90 days after the end of the Rate Year.

Q. Does this conclude your testimony at this time?

A. Yes.

MR. FUNG: And your Honors, the Panel's exhibits were entered into the evidentiary record previously. So the witnesses are available for cross.

A.L.J. MORENO: Wonderful. Thank you. And we'll start with Central Hudson.

CROSS-EXAMINATION

BY MR. NICKSON:

Q. Great. Thank you, your Honor. Good morning Panel. My name is Greg Nickson. I'm counsel for the Company Central Hudson Gas and Electric Corporation in these proceedings. I'd like to start today by asking some questions about the Panel's position with respect to late payment charges and reconnection fee revenue. And generally, the Panel's testimony on those subject starts around page 15. I'll give you a minute to get there. Would the Panel agree that late payment charges and reconnection fee revenue is related to the level of collection and termination activities at the Company?

A. (Mapezzi) Is there a specific line you're referring to in your testimony?

Q. Well, it just in general, I -- I'm -- I'm just trying to get a understanding of the company's familiarity with -- with this type of -- of revenue that is discussed on pages 15 and 16.

A.L.J. MORENO: The Panel's familiarity?

MR. NICKSON: Yes. Excuse me. The Panel's.

BY MR. NICKSON: (Cont'g.)

A. (Mapezzi) I am sorry. Could you repeat the question?

Q. Yes. Would the Panel agree that late payment charges and reconnection fee revenue is related to the level of collection and termination activity at the Company?

A. We would say it's a factor.

Q. Now, on page 16, lines 10 through 20 here the Panel disagrees with the Company's proposed reconciliation for late payment charges and reconnection fees. Is that right?

A. Yes.

Q. And the basis for that recommendation is that you believe reconnection fee and late payment fee revenues can be reasonably forecast. Is that correct?

A. Our testimony states that they're

not generally employed during a one-year rate case when revenues can be reasonably forecasted. And the risk that exists in the context of a multi-year rate plan does not exist.

Q. Isn't it true that the Company's termination of full collection activities for residential -- residential customers is currently suspended?

A. We believe that at this time.

Q. Are you aware that Central Hudson is not current -- currently charging late payment fees?

A. Yes.

Q. Would you also agree that the Company has not recognized revenue related to residential late payment fees since April, 2020?

A. Not to our knowledge.

Q. Is -- is -- I just want to understand the answer to that question. Is it that you don't have any knowledge whether they have not recognized any revenue, or are you agreeing that they have not recognized any revenue?

A. We are not aware of any revenue they have recognized for that.

Q. Would the Panel agree that a four-year gap or a four year pause with respect to this type of revenue creates some level of uncertainty as to what late payment fee revenues will look like once termination and full collection activities for residential customers Resumes?

MR. KRAMER: Your Honors, we're going to object to that question as it calls for speculation.

A.L.J. MORENO: Mr. Nickson?

MR. NICKSON: Yeah, your Honor, I -- I think what I'm asking for is that, you know, in the Panel's judgment, is it their position that a gap in time or a pause with respect to this revenue creates some level of uncertainty?

A.L.J. MORENO: Yeah, that's fair. The Panel can provide an answer.

BY MR. NICKSON: (Cont’g.)

A. (Mapezzi) I -- I think it's something that's -- that's hypothetical that would apply to all the utilities in the state.

Q. So is that a yes?

A. It -- it's possible, yes.

Q. Thank you. If you could now turn

to page 26, lines two through 15, and then here the -- the Panel discusses it's proposed vacancy rate. And am I correct that your proposed vacancy rate is 3.5 percent?

A. (Turan) Yes.

Q. And the Panel's recommended 3.5 percent vacancy rate is based on the attrition information that the Company provided in response to DPS-380, is that right?

A. Yes.

Q. Now, in the response to DPS-380, which is included within SAP-1, page 106 of 320, do you agree that attrition for purposes of this response means retirements and non-retirement departures?

A. Can you tell me the page number again for the response?

Q. It's page 106 of 320 of SAP-1, and I believe that's been identified as Exhibit 298.

A. Could you repeat the question?

Q. Do you agree that attrition for purposes of this response means retirements and non-retirement departures. And I'm -- I'm looking at in the question itself, the second paragraph, second line.

A. This response states that non-retirement attrition is expected to be three and-a-half percent.

Q. Right. And just but the question itself, right? It -- we're talking about retirement and non-retirement attrition, right? The question I asked for both?

A. Are you talking about the question in the --

Q. Correct. I'm just trying to get to an understanding of what -- what we mean by attrition.

A. The IR question did ask for the number of upcoming retirements. Yes.

Q. Thank you. So if I understand the rationale behind vacancy rate is that there's an assumption that the Company will continue to experience attrition or employee departures, which will create vacancies. Do I have that right?

A. Yes.

Q. Is it fair to say that employee departures do not necessarily create permanent vacancies?

A. Yes.

Q. Would you agree that the Company's Rate Year labor expense is based on a certain level of FTEs?

A. Yes.

Q. And the vacancy rate applies to that assumed level of FTEs, is that right?

A. Yes.

Q. And so the -- the Panel's proposed vacancy rate does not take into account the Company's actual FT --FTE level for the Rate Year, is that right?

A. Can you repeat that?

Q. Yeah, I just want to get clarity. It's my understanding that the Panel's proposed vacancy rate does not take into account the Company's actual FTE level for the Rate Year.

A. It's applied to total labor expense. So it's not necessarily tied to the FTE count.

Q. Am I correct that the proposed vacancy rate would apply regardless of whether the Company actually experienced any departures?

A. For purposes of projecting the

Rate Year, yes.

Q. Does the Panel's recommended vacancy rate take into consideration when those departures would occur?

A. No.

Q. So for example, regardless of whether the departures are -- all occurred in January, or if they all occurred in December, the vacancy rate would apply in the same manner. Is that right?

A. Yes. The vacancy rate was developed using an average of multiple years. So I think it takes into effect when employees are gone over an entire span.

Q. Does the Panel's recommended vacancy rate take into consideration how long it takes to fill a position?

A. It could. I mean, it's possible.

Q. Well, I guess, let me -- let me pose a -- a hypothetical. Assuming the Company's departures all occurred in January and those departures created vacancies, and then if we assume that those vacant positions were all filled in February, would the Panel's proposed vacancy rate still have the effect of eliminating the entire year's expense for those departed employees?

A. No.

Q. Could you explain?

A. The vacancy rate reflects five years of the vacancy at the Company. It should be reflective of monthly data, not just --

Q. But I -- I believe we've established that the intent behind the vacancy rate is to account for departures at the Company, correct?

A. Yes.

Q. And I think what I'm trying to establish is whether the vacant -- whether there's -- the vacancy rate takes into consideration how long it takes for a vacant position to be filled. So my question isn't necessarily asking about five years of data, it's asking about the Rate Year in a hypothetical.

A. Could you repeat the question?

Q. Sure. I'm going to go back to the hypothetical. Assuming that the -- the Company's departures occurred in January, but all of those vacancies that were created from those departures were filled in February. Would the proposed vacancy rate have the effect of eliminating entire year's expense for those employees that departed in January?

A. A small fraction of it. It should be reflective of the time period that they are gone.

Q. So your testimony is that the proposed vacancy rate is only reflective of the time period that those employees are -- are -- are vacant. Those positions are actually vacant?

A. This data is covering a year's worth of vacancies.

Q. I just -- I'm just having -- I just want to understand the response you just gave. I -- if I understood it correctly, you're saying that the proposed vacancy rate would only apply for the duration of the vacancy? Did I -- did I hear that correctly?

A. (Mapezzi) We would like to pause to discuss?

Q. Sure.

A. (Turan) I am sorry. Could you repeat the question again?

Q. Yeah, I was just -- my question related to your prior response, and if I understood it correctly, your testimony was that the proposed vacancy rate only applied during the duration of the -- of the vacancy. Was that correct?

A. The vacancy rate should be reflective of a year's worth of data. 12 months.

Q. Okay. I'm -- I'm going to move on. If you could now turn to page 27 and at lines four through eight. The Panel is proposing to use a three-year historical average of actual labor cost distributions from 2020 to 2022. Is that right?

A. Yes.

Q. And does the Panel agree that this time period includes the height of the COVID-19 pandemic?

A. Yes.

Q. Is it the Panel's view that these years during the COVID-19 pandemic are representative of normal operations at the Company?

A. Could you repeat the question?

Q. Is it the Panel's view that these COVID years 2020 through two -- 2022 are representative of normal operations at the Company?

A. We are unsure if COVID had an impact.

Q. Okay. Let's move to a different topic. If you can turn to page 61. I am focused on line 21. And then continuing on to the next page 62 at line two. Here, the Panel has updated the projection of uncollectible expense based on a pre-COVID three-year average. Do you see that?

A. (Mapezzi) Yes.

Q. And those calendar years used for that average were December 31st, 2018 through December 31st, 2020.

A. I don't have that work -- we don't have that work paper in front of us.

Q. Well, I think if you look at line six -- or page 62, line one, I think the Panel describes which years were included there in that -- in that three-year average?

A. Yes.

Q. Are you aware that the Commission suspended service terminations because of the COVID-19 pandemic on March 13th, 2020,

A. We are aware they suspended it, yes.

Q. Given that suspension due to the COVID-19 pandemic, would you agree that 2020 was not a pre-COVID year?

A. We -- we don't have the exact date for -- for what would be the start of the COVID year.

Q. But I believe you indicated that you were aware that the Commission suspended service terminations beginning in March, 2020.

A. Yes.

Q. And that was -- that suspension was due to the COVID pandemic, correct?

A. That's correct.

Q. So doesn't it necessarily follow that 2020 was not pre-COVID?

A. Yes.

Q. Okay. Now, on page 62, lines 21 through page 63, line four, you disagree with the Company's proposed reconciliation for uncollectibles because you believe that they can be reasonably forecasted. Is that right?

A. That's what's in her testimony, yes.

Q. But then you concede on page 63, lines two through four that the Company has only just started to resume collection activities, correct?

A. Yes.

Q. Given that the Company has only just started to resume these activities, would you agree there's -- there's a lack of recent experience on which to evaluate the effectiveness of those resumed collection activities?

A. (Jagadish) Could you repeat the question?

Q. Sure. Given that the Company has only just started to resume collection activities, would you agree there's a lack of recent experience on which to evaluate the effect -- effectiveness of those resumed collection activities?

A. I -- I think we would need to have more data on -- on the -- the time period involved and -- and to see the forecast. Need more data.

Q. So just to be clear, I think what I heard is your testimony is that you don't have the data necessary to determine whether there's a lack of recent experience on which to evaluate the resumed collection activities.

A. I'm sorry, could you repeat that question?

Q. Yeah, I was just -- I'm just trying to get clarification of your prior response. I just want to make sure I understand. Is it your testimony that you don't have the data necessary to evaluate the effectiveness of the resumed collection activities?

A. We don't have the Company's data for that. We, yeah, we -- we don't have that data.

Q. Okay. Thank you. Are you aware if the Company was suspending collection activities in the three years prior to 2018?

A. Is that prior to this case?

Q. It is. So, I -- I -- the -- the year 2018 comes from the Panels proposed three-year average, which is the -- the first year of that is the year ended December 31st, 2018. And I'm -- I'm trying to establish if the -- if the Panel is aware of whether the Company was suspending collection activities in the three years prior to that.

A. We are not aware of that, no.

Q. All right. Could you turn to page 69, lines 11 through 14 here, the Panel references carrying charges. Can you explain what carrying charges are?

A. (Mapezzi) It's interest expenses associated with accumulated regulatory asset balances and liabilities.

Q. Would you agree that carrying charges provide for the recovery of financing costs associated with outlays of cash by either the Company or customers?

A. Yes.

Q. Is it accurate that carrying charges do not apply to all regular -- regulatory balances where there's no cash outlay?

A. Yes. It's a non-cash return. Yes.

Q. So non-cash outlays no carrying charges, is that correct?

A. Yes.

Q. Are you generally familiar with the concept of negative revenue adjustments or NRAs?

A. Vaguely. Yes. That's --

Q. Is it the Panel's belief that NRAs involve the outlay of cash by the Company or customers?

A. (Mapezzi) The NRAs are outside our scope of our testimony.

Q. Well, I -- I believe you just indicated that you're generally familiar with them. And I have an accounting question related to them, and that is whether --
A.L.J. MORENO: I believe the answer was he was vaguely aware of them. Please establish whether or not the Panel is familiar.
BY MR. NICKSON: (Cont’g.)
Q. Is the Panel aware of the accounting of NRAs?
A. (Mapezzi) We have familiarity with it.
Q. Is it the Panel's understanding that NRAs involve an outlay of cash by customers or the Company?
A. Yes.
Q. You -- the Panel's position is that there is a cash outlay? Is that, or?
A. We are not -- the accounting Panel doesn't do the calculations for the NRAs.
Q. Okay. I think we can move on. Thank you. If you can refer to page 70, lines one through 10, this portion of your testimony is with respect to major storm expense. How is the Panel

defining superstorm?

A. (Jagadish) As we would define a superstorm as -- as how we presented it in our testimony. If you go to page 71, lines 19 through 24, and you'll see how our rationale for what is a superstorm.

Q. Could -- could you just give that page and line of reference again? I -- I think I'm -- we may be working off of different copies, different version.

A. Please refer to page 71 of our testimony, line 17 through 24.

Q. And I apologize, I'm just not seeing it in that -- in that line reference.

A. Page 72, lines one through five.

Q. I -- I'm sorry. I'm still just -- I'm seeing testimony with respect to pre-staging events and incremental cost between a hundred thousand and 1.75 million.

A. What was the original question?

Q. I was trying to understand how the, how the Panel was defining a superstorm.

A. I mean, a superstorm doesn't have a hard and fast definition, but it's based on any significant outliers over a 10-year period of major storm activity. And then we discuss rationale on page 72.

Q. Okay. Is it reasonable to assume that these storms are because of extreme weather events?

A. Yes. Yes.

Q. Would you agree that it is possible a Superstorm could occur during the Rate Year?

A. Yes.

Q. Okay. I'm going to switch to a different topic now. If you can turn to page 22, lines 10 through 12 of your testimony. And here the Panel indicates that various Staff Panels are collectively recommending disallowance of 122.5 of the 254 incremental FTEs requested by the Company. Do you see that?

A. (Turan) Yes.

Q. Is it fair to say that this recommendation was based on Staff's collective review of the anticipated workload and the employees deemed necessary -- necessary to fulfill that workload?

A. Yes.

Q. Is it also fair to say that Staff -- Staff's, excuse me. Yeah. Is it also fair to say that Staff's collective recommendation for any incremental FTEs, is a recognition that the Company is expecting additional workload in the Rate Year?

A. Multiple Panels reviewed these incremental FTEs? I don't think I can speak for all the positions.

Q. Is it your general understanding that incremental FTEs are generally required to address incremental workload?

A. Generally.

Q. Is it fair to say that both the Company and Staff believe there will be incremental workload? It's just that there's a disagreement over the number of employees needed to service that additional workload?

MR. COYNE: Your Honor, I'm going to object to that. The Panel has indicated that they can't speak for all of the other Panels that individually review these FTEs.

A.L.J. MORENO: That's sustained.

BY MR. NICKSON: (Cont'g.)

Q. Now on page 95, lines 14 through

18, you claim that additional employees should allow the -- the Company to increase efficiency. Is that right?

A. (Turan) Yes.

Q. Now, you just testified that you generally agree that the need for incremental FTEs reflects a need for or reflects that the Company will have incremental workload, right?

A. Possibly.

Q. Could the Company, or excuse me, could the Panel explain how expanding workload leads to productivity increases?

A. (Mapezzi) Could you please repeat the question?

Q. Yes. Could the Panel explain how

A.L.J. MORENO: Your mic.

MR. NICKSON: Thank you.

BY MR. NICKSON: (Cont'g.)

Q. Could the Panel please explain how increased workload will lead to productivity Increases.

A. (Turan) Our testimony was trying to point out that increased workforce will increase productivity at the Company.

Q. And I guess my question is, if that increased workforce is related to increased workload, how does that increase productivity?

MR. KRAMER: Your Honors, if we could clarify, is this a hypothetical or is this based on the -- the testimony?

MR. NICKSON: No, this is based on the testimony. The testimony that -- that -- that they gave today and -- and -- and their pre-file testimony.

A. (Turan) As I said before, I can't testify to the --

MR. COYNE: There was an objection pending.

A.L.J. MORENO: I'm sorry, I didn't hear an objection. I heard a request for clarification.

MR. KRAMER: Yeah, it was a clarification. I apologize.

A.L.J. MORENO: Okay. Go ahead, Panel.

BY MR. NICKSON: (Cont'g.)

A. (Turan) I can't state whether or not there is increased workload associated with all the FTEs that were allowed in this case. Other Panels reviewed those FTEs

Q. Now on page 95, lines 23. And then continuing on to page line -- page 96, line two, the Panel claims that the management audit recommendations justify doubling the Commission's traditional 1% productivity. Is that correct?

A. (Lavery) No.

Q. Is it -- is -- I'm sorry. Maybe I have the -- is it not the Panel's testimony that the productivity adjustment should be 2% based in part due to the management audit?

A. Correct. Based in part.

Q. Okay. Do you agree that all utilities have to undergo management audits?

A. No.

Q. Do you agree that all major electric and gas utilities in the state undergo management audits?

A. Public Service Law 6619 defines which utilities must are subject to management and operations audits in New York state

Q. Of those utilities that are subject to management audits, is it the policy of the office of accounting audits and finance that every one of those utilities should see its productivity imputation doubled after such an audit?

A. Generally speaking, the Staff for a case teams make recommendations based on the case specifics that they have in front of them.

Q. Now, going back to the -- the section of the Public Service Law you referenced earlier, does that section reference productivity adjustments?

MR. KRAMER: Your Honor's objection, that Public Service Law section speaks for itself. And it's also a question of law.

MR. NICKSON: I'll -- I'll move on. I'll withdraw the question.

BY MR. NICKSON: (Cont’g.)

Q. Did the Panel undertake an analysis of the management audit recommendations to determine which specific recommendations would lead to labor efficiencies?

A. (Lavery) Could you repeat the question? Thank you.

Q. Sure. Did the Panel -- excuse me, did the Panel undertake an analysis of the management audit recommendations to determine which specific recommendations would lead to labor efficiencies?

A. As we noted in our testimony, the Panel proposed productivity adjustment including cost and savings that were -- that are anticipated to be the result of implementation of recommendations from the recent management operations audit that were not reflected by the Company and its filing.

Q. So just I -- I'm not sure I got an answer to my question. So I -- do I take that to mean that you did not undertake a recommendation -- recommendation by recommendation analysis to identify labor efficiencies?

A. I think we looked at the management audit recommendations and implementation efforts broadly.

Q. And to be clear the -- the productivity adjustment that this Panel is recommending would be on top of the adjustments recommended by this Staff Management Audit Panel. Is that right?

A. Yes.

Q. Okay. If you could turn to page

16 -- or excuse me, 116, and I'm looking at lines line 20. And then continuing on to page 117, line 11. Here, the Panel poses the deferral of expenses incurred due to the impact of unforeseen government action. Is it the Panel's position that a deferral due to the impact of unforeseen government action is never appropriate in a one-year litigated rate case?

A. (Mapezzi) We have not indicated that in our testimony.

Q. When would it be appropriate in the Panel's opinion for a one-year litigated rate case to include a deferral mechanism for governmental mandates

A. Without having data on that mandate, it -- it appears hypothetical. We don't feel comfortable based on a hypothetical providing response.

Q. Would the Panel agree that complying with governmental mandates is non-discretionary?

MR. KRAMER: Your Honors, again, this, this sort of questioning calls for legal conclusions.

MR. NICKSON: Your Honor, I'm just trying to get an understanding of -- of the Panel's understanding of what goes into a government -- governmental mandate deferral, what actions would qualify for that.

A.L.J. MORENO: To the extent there's an expense related to it?

MR. NICKSON: Correct.

A.L.J. MORENO: That's a fair question for the Panel.

BY MR. NICKSON: (Cont’g.)

A. (Mapezzi) I'm sorry, could you repeat that question?

Q. Would the Panel agree that complying with governmental mandates is non-discretionary?

A. Yes.

Q. Now, on lines -- line 18 -- 118, lines three through 16. Page 118, lines three through 16, you opposed deferral treatment for property taxes. Is that right?

A. (Turan) Can you repeat the page number?

Q. Page one 118 lines three through 16?

A. (Mapezzi) Yes.

MR. NICKSON: Your Honor, can we go off the record for a second?

A.L.J. MORENO: Sure. Off the record.

(Off the record at 11:35 a.m.)

(On the record at 11:35 a.m.)

A.L.J. MORENO: Okay. Mr. Nickson, go ahead.

MR. NICKSON: Thank you.

BY MR. NICKSON: (Cont’g.)

Q. So I -- I believe the Panel's response was you've -- you've now located the testimony regarding property tax deferral. Would you agree that the economic obsolescence -- obsolescence percentage that the Company will be awarded by ORPTS, which is the Office of Real Property Tax Services, is unknown at this time?

A. (Turan) Yes.

Q. All right. Now turning to page 120, lines 15 through 18. Here the Panel references the Roadway Excavation Quality Assurance Act. Are you familiar with this Act?

A. (Mapezzi) We have general knowledge of this Act.

Q. Would you agree that the Act

requires certain roadway construction work by utility company contractors and sub-contractors to be in compliance with prevailing wage requirements?

A. Could you repeat that please?

Q. Would you agree that the Act requires certain roadway construction work by utility company contractors and subcontractors to be in compliance with prevailing wage requirements?

A. Yes.

Q. Now, referring to line -- referring to page 120, line 24 through page 121, line two. If you just take a second to read that. My question is -- is it the Panel's position that once the impacts of the Roadway Excavation Quality Assurance Act are evaluated, is a deferral mechanism appropriate at that time?

A. Can you repeat that?

Q. Yes. I'm just trying to understand the -- the testimony there. And -- and my question is -- is it the Panel's position that once the impacts of the Roadway Excavation Quality Assurance Act are evaluated, a deferral may be appropriate?

A. In our testimony in line is 19 to

20

A.L.J. MORENO: I'm sorry, Mr. Mapezzi, could you just make sure your microphone is on.

MR. MAPEZZI: Sorry.

BY MR. NICKSON: (Cont'g.)

A. (Mapezzi) In -- in our testimony line -- page 120 lines, 19 through 24 it indicates that the Company explained that it has not had time to evaluate the potential impacts on the gas capital program. Additionally, the Company did not provide testimony to justify the deferral.

Q. I -- I understand. And so what I -- my question is once -- once the Company does perform that evaluation, is it the Panel's position that at that time a deferral may be appropriate?

A. We would have to see the evaluation.

Q. Is it fair to say that if the Company currently uses contractors that do not pay prevailing wages, the Act will require them to do so now?

MR. KRAMER: You -- Your Honors that again, calls for a legal conclusion.

MR. NICKSON: Your Honors, I -- I believe we've established that this Panel has general familiarity with the Act.

A.L.J. MORENO: Yes. To the extent that the Panel knows the answer, they can provide it. Otherwise, they can state that they don't know.

BY MR. NICKSON: (Cont'g.)

A. (Mapezzi) We don't know.

Q. Is it the Panel's position that this act will impose no additional costs on the Company?

A. At -- at this time, that is not known. As stated in -- in our testimony. The Company has claimed that it has not had time to evaluate the potential impacts on the gas capital program.

Q. Are you aware that the Company's Gas Capital and Operations Panel provided an evaluation of the act in its rebuttal testimony?

A. Yes.

MR. NICKSON: I have no further questions. Thank you.

A.L.J. MORENO: Okay. Thank you. And DPS, would you have any redirect?

MR. FUNG: A couple moments, your Honor.

A.L.J. MORENO: Sure. Let's go off the record.

(Off the record at 11:42 a.m.)

(On the record at 11:48 a.m.)

A.L.J. MORENO: On the record. And counsel, do you have any redirect for this Panel?

MR. FUNG: No, your Honor.

A.L.J. MORENO: Okay. Thank you very much for that. Witnesses, thank you for your testimony. You're excused. And we'll just briefly go off the record.

(Off the record at 11:48 a.m.)

(On the record at 11:50 a.m.)

A.L.J. MORENO: So on Friday we did have several documents marked. They -- one was by UIU, MI -- the response to MI-1 by Witness Pollack, which was identified as exhibit number 629, as well as UIU interrogatory MI-2 responded to by Mr. Pollack and it was identified as Exhibit number 630. Mr. Goodman, is there any objection as to moving those into the record?

MR. GOODMAN: No objection, your

Honor.

A.L.J. MORENO: Okay. So those are moved in and in addition, we had one interrogatory directed to Mr. Pollack from Central Hudson, IR number 09, that was marked for identification as 633. Is there any objection to moving that into the record?

MR. GOODMAN: No objection, Your Honor.

A.L.J. MORENO: Okay, great. So it is so moved into the evidentiary record. I didn't previously mark this. Right. Okay. And in addition, we have the affidavit of affirming the prefilled testimony and exhibits of Jeffrey Pollack. And we will mark that for identification as exhibit number 638, and we will move that into the evidentiary record. And along with it, then we will enter into the record the direct testimony of Mr. as corrected -- as identified -- the corrections identified in the affidavit.

And Mr. Goodman has indicated that he will provide us with a clean copy for the record. And it will be inserted into the record as the given orally here.

**BEFORE THE**
**STATE OF NEW YORK**
**PUBLIC SERVICE COMMISSION**

| | | |
|---|---|---|
| **PROCEEDING ON MOTION OF THE COMMISSION AS TO THE RATES, CHARGES, RULES AND REGULATIONS OF CENTRAL HUDSON GAS & ELECTRIC CORPORATION FOR ELECTRIC SERVICE** | | **CASE NO. 23-E-0418** |
| **PROCEEDING ON MOTION OF THE COMMISSION AS TO THE RATES, CHARGES, RULES AND REGULATIONS OF CENTRAL HUDSON GAS & ELECTRIC CORPORATION FOR GAS SERVICE** | | **CASE NO. 23-G-0419** |

Direct Testimony - UPDATE

of

**JEFFRY POLLOCK**

On Behalf of

**Multiple Intervenors**

November 21, 2023

J. POLLOCK
INCORPORATED

# DIRECT TESTIMONY OF JEFFRY POLLOCK - UPDATE

**BEFORE THE**
**STATE OF NEW YORK**
**PUBLIC SERVICE COMMISSION**

| | | |
|---|---|---|
| **PROCEEDING ON MOTION OF THE COMMISSION AS TO THE RATES, CHARGES, RULES AND REGULATIONS OF CENTRAL HUDSON GAS & ELECTRIC CORPORATION FOR ELECTRIC SERVICE** | | **CASE NO. 23-E-0418** |
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## GLOSSARY OF ACRONYMS

| Term | Definition |
|---|---|
| **CHG&E or Company** | Central Hudson Gas & Electric Corporation |
| **CT** | Combustion Turbine |
| **ECOS** | Embedded Class Cost-of-Service |
| **HDD** | Heating Degree Day |
| **MI** | Multiple Intervenors |
| **NARUC-CAM** | National Association of Regulatory Utility Commissioners, Electric Utility Cost Allocation Manual (January 1992) |
| **NOL** | Net Operating Loss |
| **RROR** | Relative Rate of Return |
| **S.C.** | Service Classification |

# DIRECT TESTIMONY OF JEFFRY POLLOCK - UPDATE

## 1. INTRODUCTION, QUALIFICATIONS AND SUMMARY

**Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A Jeffry Pollock; 14323 South Outer Forty Drive, Suite 206N, St. Louis, Missouri 63017.

**Q WHAT IS YOUR OCCUPATION AND BY WHOM ARE YOU EMPLOYED?**

A I am an energy advisor and President of J. Pollock, Incorporated.

**Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

A I have a Bachelor of Science Degree in Electrical Engineering and a Master's Degree in Business Administration from Washington University. Since graduation in 1975, I have been engaged in a variety of consulting assignments, including energy procurement and regulatory matters in the United States and several Canadian provinces. Additional details concerning my qualifications are provided in **Exhibit ___ (JP-1)** to this testimony. A partial list of my appearances is provided in **Exhibit ___ (JP-2)**.

**Q ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

A I am testifying on behalf of Multiple Intervenors (MI), an association of approximately 55 large industrial, commercial, and institutional energy consumers with manufacturing and other facilities located throughout New York State, including the Central Hudson Gas & Electric Corporation (hereinafter referred to as CHG&E or the Company) service territory. MI members purchase electric and

**DIRECT TESTIMONY OF JEFFRY POLLOCK - UPDATE**

gas delivery services primarily on Electric Service Classification (S.C.) Nos. 3 and S.C. 13[1] and Gas S.C. 11.[2]

**Q WHAT ISSUES ARE YOU ADDRESSING IN YOUR TESTIMONY?**

A I am addressing:

- CHG&E's Electric embedded class cost-of-service (ECOS) studies;
- CHG&E's Gas ECOS studies;
- Electric and Gas class revenue allocations; and
- Customer charges applicable to S.C. 3 and S.C. 13 (Electric).

**Q ARE YOU SPONSORING ANY EXHIBITS WITH YOUR TESTIMONY?**

A Yes. I am sponsoring **Exhibits ___ (JP-1)** through ____ **(JP-8)**. The exhibits were prepared under my supervision and direction.

## Summary

**Q PLEASE SUMMARIZE YOUR FINDINGS AND CONCLUSIONS.**

A My findings and conclusions are as follows:

*Electric ECOS Studies*

- The Historical and Rate Year Electric ECOS studies generally comport with accepted industry practice. However, there are four material flaws in the Company's Electric ECOS studies, which include:
    - Functionalizing system control, load dispatching, and other power supply expenses entirely to production energy, which is not consistent with cost causation.

[1] S.C. 13 (Electric) consists of two classes: (i) Substation and (ii) Transmission, referred to herein as S.C. 13 Substation and S.C. 13 Transmission.

[2] S.C. 11 (Gas) consists of three classes: (i) Transmission, (ii) Distribution, and (iii) Distribution – Large Mains, at times referred to herein as S.C. 11T, S.C. 11D and S.C. 11DLM, respectively.

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- Functionalizing various non-current income tax expenses using current pre-tax operating income.
- Functionalizing property tax expense on previously allocated land and land rights investments.
- Including $18.6 million of legacy generation costs but only $3.9 million of (imputed) legacy generation revenues.

- The vast majority of system control, load dispatching, and other power supply expenses (84%) are labor expenses. Labor expense does not vary directly with delivery throughput. In fact, CHG&E classifies and allocates a portion of its legacy generation on demand. Accordingly, system control, load dispatching, and other power supply expenses should be classified between demand and energy in the same proportion as production labor expense.
- Prior period deferred income taxes and net operating loss carryforwards (NOLs) are not related to Rate Year pre-tax operating income and taxable income. These tax items are related to past years. Further, in setting class revenue requirements, income tax expense is directly related to rate base. Thus, all deferred taxes and NOLs not related to specific rate base should be functionalized and allocated on rate base.
- CHG&E's treatment of property taxes using land and land rights in its Electric ECOS study attributes the vast majority (78%) of this expense to transmission, even though net transmission plant comprises only 23% of total net plant. Further, in its Gas ECOS study, the Company functionalizes property taxes based on net plant in service. As property taxes are typically assessed on the value of all property, it would be more appropriate to functionalize electric property taxes the same as gas property taxes using net plant in service.
- CHG&E imputed $3.9 million of market revenues from its hydroelectric plant in the Rate Year Electric ECOS study. This is a dramatic decline from the $17.4 million of market revenue in the Historical ECOS study and the $23.6 million of market revenues received during the twelve months ended September 30, 2023.

## DIRECT TESTIMONY OF JEFFRY POLLOCK - UPDATE

- Including legacy generation costs significantly distorts the Electric ECOS study results because, despite imputing $3.9 million of market revenues, the revenue requirement associated with legacy generation plant is $18.6 million, nearly five times the revenues. As a result, legacy generation costs unduly influence the results of the Electric ECOS study, thereby unduly influencing the determination of cost-based electric delivery revenues by service classification.
- Legacy generation costs should not be included in determining cost-based delivery rates. To offset the undue influence caused by including legacy generation costs in the Electric ECOS study, $18.6 million of market revenues should be imputed as other revenue in determining class rates of return. Imputing $18.6 million of market revenue would also be more consistent with recent experience.
- Finally, there is an error in the allocation of Rate Year transmission substations to the S.C. 13 Transmission class.

*Gas ECOS Studies*

- The Historical and Rate Year Gas ECOS studies generally comport with accepted industry practice. However, there are two material flaws in the Company's Gas ECOS studies, which include:
  - The Company continues using 70 (rather than 73) heating degree days (HDD) to determine the Peak-Day Sendout. However, in its last rate case, and in an interrogatory response provided in this case, CHG&E agreed that 73 HDD was the appropriate metric for measuring Peak-Day Sendout.
  - As with the Electric ECOS studies, various non-current income tax expenses were functionalized using current pre-tax operating income. However, unlike the Electric ECOS studies, property tax expense was correctly functionalized and allocated on net plant in service.
- The Peak-Day Sendout derived for each weather-sensitive class should be based on 73 HDD.
- Consistent with my recommended changes to the Electric ECOS studies, all deferred taxes and NOLs not related to specific rate base should be functionalized and allocated on rate base.

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*Class Revenue Allocation*

- Consistent with long-standing precedent, rates should move closer to cost as measured using a Rate Year ECOS study, revised consistent with MI's recommended changes.
- If the Commission approves lower electric and gas delivery revenue increases than CHG&E is proposing, those customer classes that are currently earning rates of return that are 300 basis points higher than CHG&E's proposed 7.09% rate of return should not receive a delivery rate increase.

*Electric Customer Charges*

- Cost-based Customer charges should be designed to recover customer-related costs as derived in an Electric ECOS study as closely as practicable. The customer-related costs derived in CHG&E's Rate Year Electric ECOS study are $8,085, $26,640, and $79,306, respectively, for S.C. 3 Primary, S.C. 13 Substation, and S.C. 13 Transmission classes.
- Accordingly, I recommend increasing the S.C. 3 Primary and S.C. 13 Substation Customer charges by 1.25 times the same percentage as the corresponding delivery revenue increases to these classes. The S.C. 13 Transmission Customer charge should be increased by double the percentage increase in delivery revenues.
- If the Commission approves lower base delivery revenues than the Company is proposing, my recommended Customer charges should be retained.

## DIRECT TESTIMONY OF JEFFRY POLLOCK - UPDATE

## 2. ELECTRIC ECOS STUDY

**Q WHAT IS AN EMBEDDED CLASS COST-OF-SERVICE STUDY?**

A An ECOS study is an analysis used to determine each class's responsibility for a utility's costs. Thus, it determines whether the revenues a class generates cover the class's cost of service. An ECOS study separates the utility's total costs into portions incurred on behalf of the various customer groups. Most of a utility's costs are incurred to jointly serve many customers. For purposes of revenue allocation and rate design, customers are grouped into homogeneous classes according to their usage patterns and service characteristics. The procedures typically used in a cost-of-service study are described in more detail in **Exhibit ___ (JP-3)**.

**Q HAS CHG&E CONDUCTED AN ECOS STUDY FOR ELECTRICITY SERVICE IN THIS PROCEEDING?**

A Yes. CHG&E presented an ECOS study for two time periods:

- Calendar year ended December 31, 2021, Exhibit ___ (COSP-1), Schedule A (Historical); and
- The proposed Rate Year ending June 30, 2025, Exhibit ___ (COSP-1), Schedule B (Rate Year).[3]

In addition, the Company filed a third ECOS study, which included only delivery costs based on the Historical period.

**Q HAVE YOU REVIEWED THE THREE ELECTRIC ECOS STUDIES?**

A Yes.

[3] Direct Testimony of the Cost of Service Panel at 4-5.

## DIRECT TESTIMONY OF JEFFRY POLLOCK - UPDATE

**Q DO THE COMPANY'S ELECTRIC ECOS STUDIES COMPORT WITH ACCEPTED INDUSTRY PRACTICES?**

A Yes. With the material exceptions discussed below, the Historical and Rate Year Electric ECOS studies generally comport with accepted industry practice. Other than the exceptions discussed in more detail below, these studies recognize the different types of costs incurred by the utility, as well as the different ways electricity is delivered to, and used by, the various types of customers.

**Q IN WHAT WAYS ARE THE COMPANY'S ELECTRIC ECOS STUDIES FLAWED?**

A The flaws in the Company's Electric ECOS studies include:

- Functionalizing system control, load dispatching, and other power supply expenses on an energy basis, despite the fact that 84% of these expenses are related to labor, and labor expense does not vary directly with throughput.
- Functionalizing various non-current income tax items using Rate Year pre-tax operating income.
- Functionalizing property taxes on investment in land and land rights.
- Including $18.6 million of legacy generation costs while imputing only $3.9 million of legacy generation revenues.

Also, I would note that, while the Company imputed $3.9 million of market revenues associated with its hydroelectric generating facilities in response to the concerns I raised in prior rate cases that legacy generation costs — but not the corresponding revenues — were included in the Electric ECOS studies, it has not explained why the Rate Year market revenues are significantly below the $23.6 million of market revenues received during the twelve months ended September 30, 2023 or the $17.4 million of market revenues received during the Historical period.[4] The inclusion of any legacy generation costs significantly distorts the delivery revenue requirements, and imputing only $3.9 million is insufficient to address the undue impact of legacy generation costs in determining the class rates of return.

In addition, I corrected one minor error, which is discussed later in my testimony.

**Q WHAT DO YOU MEAN BY FUNCTIONALIZING COSTS?**

A As discussed in **Exhibit ___ (JP-3)**, functionalization is the first step in conducting an ECOS study. Functionalizing costs means identifying the costs associated with specific functions, such as production, transmission, subtransmission, distribution, merchant, customer account services, and customer service. Additionally, transmission costs are sub-functionalized between power supply substations and lines, specific transmission substations and lines. Distribution costs are sub-functionalized between distribution substations, primary and secondary distribution lines, line transformers, services, meters/meter reading, and customer premises.

Finally, within the functionalization step, CHG&E also classifies costs as customer, demand, energy, or revenue-related.

[4] CHG&E Response to MI-04, IR-034; 2021 Electric ECOS Study.

**FERC Account Nos. 556 and 567**

**Q PLEASE EXPLAIN FERC ACCOUNT NOS. 556 AND 557.**

A FERC Account No. 556 is System Control and Load Dispatching. Load dispatching expenses are incurred by CHG&E in its production, transmission, and distribution functions. FERC Account No. 556 is defined as follows:

> This account shall include the cost of labor and expenses incurred in load dispatching activities for system control. Utilities having an interconnected electric system or operating under a central authority which controls the production and dispatching of electricity may apportion these costs to this account and transmission expense Accounts 561.1 through 561.4, and Account 581, Load Dispatching-Distribution.[5]

FERC Account No. 557 is Other Expenses, which is partially defined as follows:

> A. This account shall be charged with any production expenses including expenses incurred directly in connection with the purchase of electricity, which are not specifically provided for in other production expense accounts. Charges to this account shall be supported so that a description of each type of charge will be readily available.[6]

**Q HOW DOES THE COMPANY PROPOSE TO FUNCTIONALIZE AND CLASSIFY FERC ACCOUNT NOS. 556 AND 557?**

A CHG&E proposes to functionalize FERC Account Nos. 556 and 557 as follows: 30% to the Merchant Supply Function and 70% to the production function. All of the production function costs were then classified entirely to energy. Thus, customers that purchase all of their supply from the market are paying a significant portion of these costs.

[5] 18 C.F.R. Chapter 1, Part 101 – Uniform System of Accounts.

[6] *Id.*

**Q IS THE COMPANY ALSO PROPOSING TO FUNCTIONALIZE AND CLASSIFY TRANSMISSION AND DISTRIBUTION LOAD DISPATCHING EXPENSES ON AN ENERGY BASIS?**

A No.

**Q IS IT APPROPRIATE TO CLASSIFY PRODUCTION EXPENSES IN FERC ACCOUNT NOS. 556 AND 557 ON AN ENTIRELY ENERGY BASIS?**

A No. First, load dispatching would include all of CHG&E's legacy generation. CHG&E classified all of its combustion turbine generation assets to demand. Second, CHG&E has not demonstrated that there is any relationship between load dispatching expense and the amount of electricity delivered to customers. Indeed, 84% of the expenses in question are labor expenses. Labor expenses do not vary directly with the amount of energy delivered to customers (*i.e.*, delivery throughput).

Further, load dispatching expenses reflect CHG&E's management of its production, transmission, and distribution assets. Accordingly, it would be more appropriate to allocate load dispatching expenses in the same manner as the corresponding production, transmission, and distribution assets. This is, in fact, how CHG&E allocates both transmission and distribution load dispatching expenses. A similar approach would also be appropriate for production load dispatching expense.

**Q WOULD ALLOCATING SYSTEM CONTROL, LOAD DISPATCHING, AND OTHER POWER SUPPLY EXPENSES ON AN ENERGY BASIS BE CONSISTENT WITH INDUSTRY PRACTICE?**

A No. **Exhibit ___ (JP-4)** is an excerpt from the National Association of Regulatory Utility Commissioners' *Electric Utility Cost Allocation Manual* (NARUC-CAM). The NARUC-CAM is a widely-used authoritative text addressing the methodologies used in class cost-of-service studies. The specific excerpt pertains to the classification of other production expenses. As can be seen, the NARUC-CAM shows that FERC Account Nos. 556 and 557 should be classified to demand.

**Q WHAT DO YOU RECOMMEND?**

A Consistent with the NARUC-CAM, the expenses booked to FERC Account Nos. 556 (System Control and Load Dispatching) and 557 (Other Expenses) justifiably could be classified entirely to demand. However, because labor comprises the vast majority of these expenses, and because the Company classifies production labor expenses to both demand and energy, I recommend instead using previously allocated production labor expense. CHG&E's proposed and my revised allocation factors are quantified in **Exhibit ___ (JP-5)**.

## <u>Non-Current Income Tax Expenses</u>

**Q WHAT ARE NON-CURRENT INCOME TAX EXPENSES?**

A Non-current income tax expenses consist of deferred income taxes and NOLs from prior periods.

**Q HOW IS CHG&E PROPOSING TO ALLOCATE DEFERRED INCOME TAXES AND NET OPERATING LOSSES FROM PRIOR PERIODS?**

A CHG&E is proposing to allocate these tax expenses on Rate Year pre-tax operating income and taxable income.

**Q IS IT REASONABLE TO ALLOCATE PAST PERIOD INCOME TAX EXPENSES ON RATE YEAR PRE-TAX OPERATING INCOME AND TAXABLE INCOME?**

A No. Past period income tax expenses are not caused by Rate Year pre-tax operating income and taxable income. It would be by sheer coincidence that these past period expenses would even remotely resemble the taxable income of each service classification during the Rate Year.

**Q HOW SHOULD PAST PERIOD DEFERRED INCOME TAXES AND NET OPERATING LOSSES BE ALLOCATED?**

A In setting revenue requirements, income tax expense is directly proportional to rate base. Thus, all non-current deferred income taxes and NOLs should be allocated to service classifications based on previously allocated rate base.

## Property Taxes

**Q HOW HAS THE COMPANY FUNCTIONALIZED PROPERTY TAX EXPENSE?**

A CHG&E functionalized property tax expense in the same proportion as land and land rights investments.

**Q IS THIS A REASONABLE APPROACH?**

A No. Functionalizing property taxes on land and light rights investments assigns a disproportionate amount of taxes to the production and transmission functions and far too little to distribution and other functions. This is demonstrated in Table 1.

**Table 1**
**Property Tax Functionalization**

| Function | Percent of Land & Land Rights (CHG&E Proposed) | Percent of Net Plant in Service (MI Revised) |
|---|---|---|
| **Production** | 5.2% | 3.3% |
| **Merchant Function** | 0.0% | 0.4% |
| **Transmission** | 78.4% | 22.5% |
| **Distribution & Other** | 16.4% | 73.8% |
| **Total** | 100.0% | 100.0% |

**Source:** Rate Year1 Electric ECOS study.

As Table 1 demonstrates, 84% of all property taxes would be functionalized to the production, merchant, and transmission functions and only 16% to distribution and other functions. The vast majority (78%) of land and land rights are associated with the transmission function. However, transmission investment comprises only 22.5% of CHG&E's Rate Year net plant investment, whereas production, merchant, and distribution and other functions comprise 3.3%, 0.4%, and 73.8% of CHG&E's net plant, respectively.

**Q DID THE COMPANY USE THE SAME METHOD TO FUNCTIONALIZE PROPERTY TAXES IN ITS GAS ECOS STUDIES?**

A No. The Company appropriately functionalized property tax expense on net plant in service in its Gas ECOS studies.

**Q HOW SHOULD PROPERTY TAXES BE FUNCTIONALIZED?**

A Property taxes should be allocated the same as previously allocated net plant in service (as was done in the Company's Gas ECOS studies). Using net plant is more consistent with the reality that property tax assessments typically reflect the net value of utility property.

## Revenue Imputation

**Q WHY DID CHG&E IMPUTE REVENUES IN THE ELECTRIC RATE YEAR ECOS STUDY?**

A CHG&E included the non-fuel costs associated with its remaining legacy generation in its proposed Electric Rate Year ECOS study. However, prior to the last rate case (Case No. 20-E-0428), CHG&E did not recognize any revenues produced from its legacy generation. The failure in prior cases to reflect both the revenues and costs of the legacy generation violated the Matching Principle. As a result, the ECOS study results were distorted. In the last rate case, the Commission authorized revenue imputation in its November 18, 2021 Order.[7]

[7] *Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Central Hudson Gas & Electric Corporation for Electric Service*, Case No. 20-E-0428, Order Adopting Terms of Joint Proposal and Establishing Electric and Gas Rate Plan, Attachment 1 "Joint Proposal" at 30-31 (Nov. 18, 2021).

**Q WHAT IS THE MATCHING PRINCIPLE?**

A The Matching Principle is one of the cornerstones of ratemaking. In essence, the Matching Principle means that all ratemaking components (*e.g.*, rate base, revenues, expenses, allocation factors, billing determinants) should be based on the same set of assumptions (*i.e.*, a test-year). This will provide a consistent and realistic measure of the utility's revenue requirements, as well as the costs incurred to serve the utility's various service classes. As applied to ECOS studies, the Matching Principle means that the same assumptions should be used in determining both the costs and the revenues.

For example, assume a customer class is purchasing interruptible rather than firm service. Because interruptible service is a lower quality of service than firm service, this class's revenues are lower than the revenues from an otherwise identical class that receives firm service. However, if an ECOS study allocates costs to the interruptible class in the same manner that costs are allocated to firm service classes, the Matching Principle is violated. This is because the lower revenues assume that service is interruptible, but the allocated costs assume that the service is firm.

**Q DO YOU HAVE ANY CONCERNS ABOUT THE AMOUNT OF MARKET REVENUES CHG&E IMPUTED IN THE RATE YEAR ELECTRIC ECOS STUDY?**

A Yes. CHG&E imputed $3.9 million of market revenues. This was based on a three-year average of the actual cost or benefit over calendar years 2020 through

2022.[8] However, the imputed revenues are substantially below the actual market revenues received by the Company for all of its legacy generation both during the Historical period and in the most recent twelve months. During the Historical period, CHG&E received $17.4 million of market-related revenues.[9] By comparison, the Company received $23.6 million of market revenues in the twelve months ended September 30, 2023.[10] It is unclear why the Company would impute only a small fraction of the market revenues produced from the Company's legacy generation assets.

**Q DO YOU HAVE ANY OTHER CONCERNS ABOUT THE AMOUNT OF IMPUTED REVENUES?**

A Yes. First, the amount of imputed revenues ($3.9 million) is far less than the revenue requirement associated with CHG&E's legacy generation ($18.6 million). Because the legacy generation costs are nearly five times the legacy generation revenues, the Electric ECOS study results are distorted; that is, the derived rates of return, which are used to determine how a *delivery* rate increase is spread between the various customer classes, are unduly influenced by legacy generation costs, which are not a delivery service. It is, for this reason, that in prior cases my

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[8] Direct Testimony of the Forecasting and Rates Panel at 74.

[9] 2021 Electric ECOS Study: $0.4 million (Account 447.10: Borderline) + $2.2 million (Account 447.25: NYISO Energy Market) + $14.8 million (Account 456.15: NYISO Ancillary Services). Firm (Account 447.30) and Requisitioned Capacity (Account 447.40) revenues were insignificant.

[10] CHG&E Response to MI-04, IR-034.

recommendation was that all legacy generation costs should not be included in the Electric ECOS studies.

Second, the Company allocated Rate Year imputed revenues using Historical loss-adjusted energy sales. Assuming that imputed revenues are to be included in the Rate Year Electric ECOS study, it would be more appropriate to use Rate Year loss-adjusted energy sales.

**Q WHAT DO YOU RECOMMEND?**

A Delivery rates should be set to reflect the cost of providing delivery service. Legacy generation is not a delivery service. Thus, legacy generation costs and imputed revenues should be removed from the Electric ECOS studies. In the alternative, to neutralize the impact of legacy generation costs on the Electric ECOS study results, I recommend imputing market revenues of $18.6 million (the legacy generation revenue requirement) into the Rate Year Electric ECOS study, instead of $3.9 million. I would note that imputing $18.6 million is within the range of market revenues received by the Company during both the Historical period ($17.4 million) and the most recent twelve months ($23.6 million). Further, the imputed revenues should be allocated to service classes using Rate Year loss-adjusted energy sales.

**Q SHOULD ANY CORRECTIONS BE MADE TO THE COMPANY'S ELECTRIC ECOS STUDIES?**

A Yes. In determining the allocation of common substation plant and related expenses, CHG&E removed the loads of those S.C. 2 Primary, S.C. 3 Primary, S.C. 13 Substation, and S.C. 13 Transmission customers that are served from the substations that were directly assigned to these classes. However, more load was removed from the S.C. 13 Transmission class than the class's average summer/winter coincident peak demand. This resulted in erroneously assigning negative common substation costs to the S.C. 13 Transmission class. To correct the problem, I set the S.C. 13 Transmission allocator to zero.

## Revised Electric Rate Year ECOS Study

**Q HAVE YOU REVISED THE ELECTRIC RATE YEAR ECOS STUDY TO REFLECT YOUR RECOMMENDED CHANGES?**

A Yes. I have prepared a revised Electric ECOS study for the Rate Year. It reflects my recommended changes to the classification and allocation of load dispatching and other power supply expenses, prior period deferred income taxes and NOLs, property taxes, and imputing $18.6 million of legacy generation revenues. Further, the common substation plant allocation factor described earlier was corrected. A summary of the Rate Year Electric ECOS study is shown in **Exhibit ___ (JP-6)**. The results are summarized in Table 2.

**Table 2**
**Summary of MI's Revised Rate Year**
**Electric ECOS Study Results**

| Service Classification | | RROR | Tolerance Band |
|---|---|---|---|
| **Residential** | **S.C. 1 Non-Heating** | 77 | Below |
| | **S.C. 1 Heating** | 169 | Above |
| | **S.C. 6 TOU** | 454 | Above |

**Table 2**
**Summary of MI's Revised Rate Year**
**Electric ECOS Study Results**

| Service Classification | | RROR | Tolerance Band |
|---|---|---|---|
| **Small General Service** | **S.C. 2-ND** | 11 | Below |
| | **S.C. 2-Sec-Dem** | 96 | Within |
| | **S.C. 2-Pri-Dem** | 374 | Above |
| **Large General Service** | **S.C. 3 Primary** | 502 | Above |
| | **S.C. 13 Substation** | 221 | Above |
| | **S.C. 13 Transmission** | 252 | Above |
| **Area Lighting** | **S.C. 5** | -34 | Below |
| **Street Lighting** | **S.C. 8** | 328 | Above |
| **Traffic Lighting** | **S.C. 9** | 2717 | Above |

**Q WHAT DO THE RESULTS SHOW?**

A With a few exceptions, the results diverge from the Company's Rate Year Electric ECOS study. Most of the classes are outside of the 15% bandwidth that the Company uses to determine whether a class would receive an average, below-average, or above-average increase. I address class revenue allocation in Part 4 of this testimony.

## DIRECT TESTIMONY OF JEFFRY POLLOCK - UPDATE

## 3. GAS ECOS STUDY

**Q HAS CHG&E CONDUCTED AN ECOS STUDY FOR NATURAL GAS SERVICE IN THIS PROCEEDING?**

A Yes. CHG&E presented an ECOS study for two time periods:

- Calendar year ended December 31, 2021, Exhibit ___ (COSP-1), Schedule A (Historical); and
- The proposed Rate Year ending June 30, 2025, Exhibit ___ (COSP-1), Schedule B (Rate Year).[11]

In addition, CHG&E filed a third ECOS study, which included only delivery costs based on the Historical period.

**Q HAVE YOU REVIEWED THE THREE STUDIES?**

A Yes.

**Q DO THE GAS ECOS STUDIES COMPORT WITH ACCEPTED INDUSTRY PRACTICES?**

A With two exceptions detailed below, the Gas ECOS studies comport with accepted industry practice. But for these exceptions, the studies recognize the different types of costs, as well as the different ways natural gas is delivered to, and used by, the various types of customers.

**Q HOW ARE THE GAS ECOS STUDIES FLAWED?**

A First, in deriving the Peak-Day Sendout, the Company continued to use 70 (rather

[11] Direct Testimony of the Cost of Service Panel at 4-5.

than 73) HDD to determine the Peak-Day Sendout. In its last rate case, CHG&E agreed that 73 HDD was the appropriate metric for measuring Peak-Day Sendout.[12]

Second, as with the Electric ECOS studies, the Company's functionalization of prior period deferred income taxes and NOLs is flawed and should be corrected as discussed in Part 2. Notably, unlike in the Electric ECOS studies, the Company correctly functionalized property tax expense on net plant in service in the Gas ECOS studies.

**Q DID THE COMPANY CORRECTLY DETERMINE PEAK-DAY SENDOUT?**

A No. The Company derived the Peak-Day Sendout based on 70 HDD. This is despite the fact that it designs gas delivery facilities based on 73 HDD.[13]

**Q HAVE YOU DERIVED REVISED DEMAND ALLOCATION FACTORS USING PEAK-DAY SENDOUT FOR BOTH SALES AND TRANSPORTATION SERVICE CLASSES?**

A Yes. **Exhibit ___ (JP-7)** provides the derivation of the revised Peak-Day Sendout demand allocation factors. CHG&E's proposed allocation factors are also shown for comparison purposes.

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[12] *Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Central Hudson Gas & Electric Corporation for Gas Service*, Case No. 20-G-0429, Rebuttal Testimony of the Cost of Service Panel at 18 (Jan. 22, 2021).

[13] CHG&E Response to MI-03, IR-033.

## Revised Gas ECOS Study

**Q HAVE YOU PREPARED A REVISED RATE YEAR GAS ECOS STUDY BASED ON YOUR RECOMMENDED CHANGES?**

A Yes. My revised Gas Rate Year ECOS study is shown in **Exhibit ___ (JP-8)**. It is based on the Rate Year and reflects my recommended changes in the Peak-Day Sendout demand allocation factors and the allocation of deferred income tax expenses and NOLs as previously discussed. The results are summarized in Table 3.

**Table 3**
**Summary of MI's Revised**
**Rate Year Gas ECOS Study Results**

| Service Classification | | RROR | Tolerance Band |
|---|---|---|---|
| **Residential Heating** | **S.C. 1 & 12** | 108 | Within |
| **Residential Non-Heating** | **S.C. 1 & 12** | -33 | Below |
| **Commercial/Industrial Heating** | **S.C. 2, 6, & 13** | 102 | Within |
| **Commercial/Industrial Non-Heating** | **S.C. 2, 6, & 13** | 241 | Above |
| **Firm Transportation** | **S.C. 11T** | 389 | Above |
| | **S.C. 11D** | 4 | Below |
| | **S.C. 11DLM** | 122 | Above |

The results are generally similar to the Company's Gas ECOS study. As discussed in Part 4 of my testimony, the Commission should rely solely on the results of my revised Rate Year Gas ECOS study in determining class revenue allocation.

**DIRECT TESTIMONY OF JEFFRY POLLOCK - UPDATE**

## 4. ELECTRIC AND GAS CLASS REVENUE ALLOCATION

**Q WHAT IS CLASS REVENUE ALLOCATION?**

A Class revenue allocation is the process of determining how any delivery revenue change approved by the Commission should be spread to each service class served by the utility.

**Q HOW SHOULD ANY CHANGE IN DELIVERY REVENUES APPROVED IN THIS PROCEEDING BE SPREAD AMONG THE VARIOUS SERVICE CLASSES SERVED BY CHG&E?**

A Delivery revenues should reflect the actual cost of providing service as closely as practicable. As a general rule, rates should be set at cost. However, regulators sometimes limit the immediate movement to cost based on other considerations, such as gradualism concerns. Gradualism is a concept that the Commission historically has used to prevent a class from receiving an overly-large rate increase. Under this practice, the movement to cost of service is made gradually, rather than all at once to avoid rate shock.

**Q WHY SHOULD THE RESULTS OF AN ECOS STUDY BE THE PRIMARY FACTOR IN DETERMINING HOW ANY BASE REVENUE CHANGE IS ALLOCATED?**

A Cost-based rates send the proper price signals to customers. Cost-based rates also are equitable, and they provide efficiency (cost minimization) and revenue stability, while promoting conservation.

**Q DOES THE COMMISSION'S STATED POLICY SUPPORT THE MOVEMENT OF UTILITY RATES TOWARD ACTUAL COST?**

A Yes. The Commission has supported cost-based rates in numerous proceedings.

**Q HAS CHG&E FOLLOWED THROUGH WITH MOVING DELIVERY RATES CLOSER TO THE COST OF PROVIDING SERVICE?**

A Generally, yes. However, the Company's proposed class revenue allocations rely on the results of both the Historical and Rate Year ECOS studies.

**Q IS THE COMPANY'S PROPOSED REVENUE REQUIREMENT BASED ON THE HISTORICAL ECOS STUDY RESULTS?**

A No. The Historical ECOS studies measure each class's profitability based on calendar year 2021 delivery revenues, sales, rate base, and expenses. By contrast, the Company's proposed revenue requirement is based on Rate Year projected sales/throughput, delivery revenues, rate base, and expenses for the twelve-month period commencing in July 2024 and ending in June 2025. This is the period when the new delivery rates approved in these cases will be in effect.

The differences between the Historical (*i.e.,* per books) and Rate Year ECOS studies are highlighted in the Cost of Service Panel testimony. Specifically:

> In addition to delivery service rate base, revenues and expenses, the historical studies include rate base, revenues and expenses associated with commodity purchases of electricity and natural gas and surcharges related to the System Benefits Charge (reflective of the Clean Energy Fund). In contrast, the Rate Year studies contain neither fuel-related or procurement-related expenses nor the aforementioned surcharges.[14]

[14] Direct Testimony of the Cost of Service Panel at 21-22.

Further, the Historical revenues reflect the rates that were in effect at that time and not the rates currently in effect. Thus, any direct comparisons of the class rates of return between the Historical and Rate Year ECOS studies may be unduly influenced by the circumstances specific to each test year and the degree to which current delivery rates deviate from costs on a going-forward basis.

**Q WHAT DO YOU RECOMMEND?**

A The Electric and Gas class revenue allocations should be based solely on the results of the Rate Year ECOS studies, as revised by my recommendations.

**Q HAVE YOU PREPARED REVISED ELECTRIC CLASS REVENUE ALLOCATIONS INCORPORATING YOUR RECOMMENDATIONS?**

A Yes. My recommended electric class revenue allocation is provided in Table 4. It uses the same 15% bandwidth as the Company.

**Table 4**
**Target Electric Class Delivery Rate Increase**
**Expressed as a Multiple of the System Average Increase**

| Service Classification | | Company | MI Recommended |
|---|---|---|---|
| Residential | S.C. 1 Non-Heating | 1.00 | 1.25 |
| | S.C. 1 Heating | 1.00 | 0.75 |
| | S.C. 6 TOU | 1.00 | 0.75 |
| Small General Service | S.C. 2-ND | 1.00 | 1.25 |
| | S.C. 2-Sec-Dem | 1.00 | 1.00 |
| | S.C. 2-Pri-Dem | 1.00 | 0.75 |
| Large General Service | S.C. 3 Primary | 1.00 | 0.75 |
| | S.C. 13 Substation | 0.75 | 0.75 |
| | S.C. 13 Transmission | 1.25 | 0.75 |

**Table 4**
**Target Electric Class Delivery Rate Increase**
**Expressed as a Multiple of the System Average Increase**

| Service Classification | | Company | MI Recommended |
|---|---|---|---|
| **Area Lighting** | **S.C. 5** | 1.00 | 1.25 |
| **Street Lighting** | **S.C. 8** | 1.00 | 0.75 |
| **Traffic Lighting** | **S.C. 9** | 1.00 | 0.75 |

Classes with relative rates of return (RROR) above the bandwidth (as shown in Table 2) are assigned below-average increases, and vice versa for classes with RROR below the bandwidth.

**Q WOULD YOUR RECOMMENDATIONS CHANGE IF THE COMMISSION AUTHORIZES LOWER ELECTRIC AND GAS REVENUE INCREASES THAN THE COMPANY HAS PROPOSED?**

A Yes. If the Commission authorizes a lower electric delivery revenue increase, the classes that are currently earning rates of return that are more than 300 basis points above CHG&E's proposed 7.09% rate of return (*i.e.,* Electric S.C. 6 Residential Time-of-Use, S.C. 3 Primary, and S.C. 9; Gas S.C. 11T) should receive no increase. Otherwise, the same recommended target relative increases shown in Table 4 and as proposed by the Company.

## 5. ELECTRIC CUSTOMER CHARGES

**Q HOW SHOULD THE PROPOSED ELECTRIC CUSTOMER CHARGES BE SET?**

A Rate design is a continuation of the cost allocation process in that, once the revenue responsibility for each service class is calculated, it is necessary to determine how the rates for each individual class should be designed to produce the targeted level of revenues. Once again, I favor the adoption of cost-based rates. Accordingly, the applicable Customer and Demand charges should reflect the allocated customer and demand-related costs derived in the Rate Year Electric ECOS study while avoiding rate shock.[15]

**Q HAVE YOU REVIEWED CHG&E'S PROPOSED S.C. 3 AND 13 (ELECTRIC) RATE DESIGNS?**

A Yes. CHG&E is proposing to modestly increase the Customer charges applicable to the S.C. 3 Primary, S.C. 13 Substation, and the S.C. 13 Transmission classes. These changes are summarized in Table 5 below.

**Table 5**
**CHG&E's Proposed Customer Charges**

| Service Classification | Present Rates | Proposed Rates | Percent Change |
|---|---|---|---|
| **S.C. 3 Primary** | $2,400 | $2,600 | 8.3% |
| **S.C. 13 Substation** | $7,500 | $8,500 | 13.3% |
| **S.C. 13 Transmission** | $12,000 | $13,500 | 12.5% |

**Source:** Exhibit ____ (FRP-13), Schedules E and J.

[15] There are no volumetric charges in the base delivery charges applicable to the S.C. 3 Primary, S.C. 13 Substation, and the S.C. 13 Transmission classes.

Q **DO YOU AGREE WITH CHG&E'S PROPOSED CHANGES TO THE CUSTOMER CHARGE?**

A No. The proposed Customer charges would remain well below the cost-based Customer charges as shown in Table 6.

| **Table 6<br>Proposed Customer Charges Versus<br>Customer-Related Costs** | | | |
|---|---|---|---|
| **Service Classification** | **Proposed Customer Charge** | **Customer-Related Costs** | **Percent Of Cost** |
| **S.C. 3 Primary** | $2,600 | $8,085 | 32% |
| **S.C. 13 Substation** | $8,500 | $26,640 | 32% |
| **S.C. 13 Transmission** | $13,500 | $79,306 | 17% |
| **Source:** Exhibit ____ (FRP-13), Schedules E and J; CHG&E's Electric ECOS study. | | | |

Thus, the proposed Customer charges would be significantly below the appropriate cost-based Customer charges for all three service classes.

Q **ARE THE CUSTOMER CHARGES AS PROPOSED BY THE COMPANY APPROPRIATE?**

A No. A cost-based rate design should closely track the corresponding costs as derived in an ECOS study. Thus, Customer charges generally should closely reflect customer-related costs. Although CHG&E is proposing higher Customer charges for S.C. 3 and S.C. 13 customers, the proposed increases would not close the significant gap between the Customer charges and the allocated customer-related costs.

**Q WHAT DO YOU RECOMMEND?**

A I recommend that the Customer charges for S.C. 3 Primary and S.C. 13 Substation classes should be increased by at least 1.25 times the percent increase in each class's delivery revenues, and the increase in the S.C. 13 Transmission Customer charge should be double the increase in this class's delivery revenue. As there are no applicable volumetric base delivery charges in these rates, any remaining revenue shortfall or surplus should be applied to the Demand charges.

**Q IF THE COMMISSION APPROVES LOWER INCREASES FOR THE S.C. 3 PRIMARY, S.C. 13 SUBSTATION, AND S.C. 13 TRANSMISSION CLASSES, SHOULD YOUR RECOMMENDED CUSTOMER CHARGES BE REDUCED?**

A No. Because my recommended Customer charges would continue to be below customer-related costs for these classes, the Demand charges (and not my recommended Customer charges) should be reduced to reflect the lower allocated delivery revenues.

## 6. CONCLUSION

**Q PLEASE SUMMARIZE YOUR RECOMMENDATIONS.**

A The Commission should approve the following:

- Modify CHG&E's Electric Rate Year ECOS study by (i) functionalizing and allocating system control, load dispatching, and other power supply expenses on production labor expense; (ii) functionalizing prior period deferred income taxes and net operating loss carryforwards on previously allocated rate base; (iii) functionalizing property tax expense on net plant; (iv) imputing $18.6 million of revenues from legacy generation; and (v) correcting the error in the transmission substation allocation factor for the S.C. 13 Transmission class.
- Modify CHG&E's Gas Rate Year ECOS study by (i) revising the determination of Peak-Day Sendout based on 73 HDD; and (ii) functionalizing prior period deferred income taxes and net operating loss carryforwards on previously allocated rate base.
- Use the results of the Rate Year ECOS studies as modified by MI's recommendations herein to determine class revenue allocation.
- Assign no delivery rate increase to those classes that are currently earning over a 10.09% (*i.e.,* 300 basis points above the Company's proposed 7.09%) rate of return.
- Increase the Customer charges for the S.C. 3 and S.C. 13 Substation classes by 1.25 times the proposed delivery revenue increase, and increase the S.C. 13 Transmission Customer charge by double the proposed delivery revenue increase, regardless of the authorized delivery revenue.

**Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

A Yes.

A.L.J. MORENO: Okay. And with that, we'll go off the record.

(Off the record at 11:52 a.m.)

(On the record at 11:53 a.m.)

A.L.J. MORENO: Okay. We're back. And so, Mr. Goodman, you had saved exhibit number 534 indicating you had some interrogatory responses and you now have those available for us?

MR. GOODMAN: That is correct. And it's an exhibit consisting of responses to MI IR number 52 through and including MI IR number 60. And I can hand out hard copies in a moment. Also note that I -- if I remember correctly, I'd ask to reserve a second exhibit number for the final IR that we had outstanding. We've gotten a response, but I -- I have a -- kind of discussing it with the Company, so I'm not ready yet to address it, just flagging it for potential discussion tomorrow.

A.L.J. MORENO: Okay. And I think -- yeah. Okay. Let's start with that. Great. Thank you. So the compilation of interrogatory responses MI IR 052, 053, 054 as updated with an attachment and IR 055 updated also with an attachment, MI IR 056, 057, 058, 059, and 060 will be marked for identification as 534. And is there any objection to moving these into the evidentiary record?

MR. FITZGERALD: No objection, your Honor.

A.L.J. MORENO: Okay. They are so moved into the record. Okay. And I did see, I believe there was also another interrogatory potentially that was responded to by Mr. Pollack from Central Hudson. Is that -- do we know yet from the Company whether or not that's document as available or that you would like to move it in?

MR. FITZGERALD: Your Honor, I believe that's one that we may be dealing with directly tomorrow.

A.L.J. MORENO: Okay. Very good. Thank you. Anything else? Okay, we'll go back off the record.

(The hearing concluded at 11:57 a.m.)

STATE OF NEW YORK

I, MONIQUE HINES, do hereby certify that the foregoing was reported by me, in the cause, at the time and place, as stated in the caption hereto, at Page 3909 hereof; that the foregoing typewritten transcription consisting of pages 3909 through 4223, is a true record of all proceedings had at the hearing.

IN WITNESS WHEREOF, I have hereunto subscribed my name, this the 6th day of February, 2024.

Monique Hines

Monique Hines, Reporter