DIRECT TESTIMONY
OF
REVENUE REQUIREMENTS PANEL

Q. Would each member of the Revenue Requirements Panel please state his or her name and business address?

(Brideau) My name is David P. Brideau and my business address is 284 South Avenue, Poughkeepsie, N.Y. 12601.

(Smith) My name is Gina M. Smith. My business address is the same as Mr. Brideau's.

(Kardas) My name is Stanley L. Kardas. My business address is the same as Mr. Brideau's.

Q. By whom is each member of the Panel employed and in what capacity?

A. (Brideau) I am employed by Central Hudson Gas & Electric Corporation as Director of Regulatory Planning.

(Smith) I am employed by Central Hudson Gas & Electric Corporation as a Senior Regulatory and Budget Analyst in Regulatory Planning.

(Kardas) I am employed by Central Hudson Gas & Electric Corporation as Manager of Regulatory Planning & Budgets.

Q. Mr. Brideau, would you please summarize your educational background and work experience at Central Hudson.

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

General Accounting Divisions. I was promoted to Associate Regulatory and Financial Analyst in the Financial Planning Division in 1990 and then to Regulatory and Financial Analyst in 1993 and then to Senior Regulatory and Financial Analyst in 1996. I was promoted to my present position as Director of Regulatory Planning in 2007.

Q. Mr. Brideau, would you please describe your current responsibilities at Central Hudson?

A. My responsibilities as Director of Regulatory Planning include the planning, coordinating and development of short and long-term revenue requirement projections. In addition, my responsibilities include directing, coorindinating and developing financial analyses used for a variety of purposes such as business plans and analyzing operating results.

Q. Ms. Smith, would you please summarize your educational background and work experience.

A. I have a Bachelor of Science Degree in Accounting, with a concentration in Finance from Siena College and a Master of Business Administration Degree from Marist College. From 1997 to 2002, I was employed by Gaber & Nyman, LLP and then Arthur DeDominicis, local certified public accounting firms, as an auditor and staff accountant, respectively. I have been employed by Central Hudson since 2002. I started as an Associate Accountant in the Financial Reporting Department, within the Accounting

Division. I was promoted to Accountant in 2005 and then to Senior Accountant in 2006. My work experience in this area centered on accounting theory and financial and regulatory reporting. In 2007, I was transferred to the Regulatory Planning Division as a Senior Regulatory and Financial Analyst.

Q. Ms. Smith, would you please describe your current responsibilities at Central Hudson?

A. My current responsibilities include the development of short and long-term revenue requirement projections and preparing financial analyses used for a variety of purposes such as developing business plans and analyzing operating results.

Q. Mr. Kardas, would you please summarize your educational background and work experience at Central Hudson.

A. In 1979 I received a Bachelor of Science degree in Accounting from Marist College. From 1979 to 1984 I worked for Fleishman & Mushett, CPAs where I became a Certifed Public Accountant. I joined Central Hudson in 1984 as a Junior Auditor and subsequently held various positions in the Financlal Planning & Tax Division. In 1990, I was promoted to Tax Specialist. In 1996, I was promoted to Manager of Financial Planning. In 2007, I was promted to Manager of Financial Planning & Taxes and in 2009, I was transferred to my current position as Manager of Regulatory Planning & Budgets.

Q. Mr. Kardas, would you please describe your current responsibilities at Central Hudson?

A. My responsibilities as Manager of Regulatory Planning & Budgets include overall responsibility for the planning, coordinating and development of short and long-term revenue requirement projections. In addition, I have overall responsibility for directing, coorindinating and developing the Company's annual operating budget.

Q. Has any member of the Panel previously testified before this Commission?

A. (Brideau) Yes, I have testified before this Commission in Cases 95-G-1034, 00-E-1273, 00-G-1274, 05-E-0934, 05-G-0935, 08-E-0887 and 08-G-0888.

(Smith) Yes, I have testified before this Commission in Cases 08-E-0887 and 08-G-0888.

(Kardas) Yes, I have testified before this Commissioin in Case 89-E-107.

Q. What are the purposes of the Panel's testimony in this proceeding?

A. The Revenue Requirements Panel testimony in this proceeding will address the following:

1. Development of the Company's electric and gas revenue requirements for the Rate Year of the twelve months ending June 30, 2011;
2. The bases for the projections for a number of specific elements of the cost of providing service;

3. Development of the Company's rate base for the historical twelve-month period ended March 31, 2009 as well as the forecast periods for the twelve-month periods ending December 31, 2009, December 31, 2010 and June 30, 2011; and,

4. The disposition of accumulated deferred costs and credits.

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

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

1. Exhibit __(RRP-1) entitled "Electric Operations Income Statement and Rate of Return" which addresses the historical period of the twelve months ended March 31, 2009; the Rate Year of the twelve months ending June 30, 2011; and the relevant bridge periods;

2. Exhibit __(RRP-2) entitled "Gas Operations Income Statement and Rate of Return" which addresses the historical period of the twelve months ended March 31, 2009; the Rate Year of the twelve months ending June 30, 2011; and the relevant bridge periods;

3. Exhibit __(RRP-3) entitled "Direct Labor";

4. Exhibit __(RRP-4) entitled "Schedule of Insurance Costs";

5. Exhibit __ (RRP-5) entitled "Rate Base - Twelve Months Ended March 31, 2009;

6. Exhibit __ (RRP-6) entitled "Rate Base - Years Ending December 31, 2009 and December 31, 2010, and Twelve Months Ending June 30, 2011; and

7. Exhibit __ (RRP-7) entitled "Comparison of Corporate Capitalization Adjustment to Rate Base."

DEVELOPMENT OF REVENUE REQUIREMENTS

Q. What is the purpose of Exhibit___(RRP-1)?

A. Exhibit___(RRP-1) presents the electric delivery base rate revenue requirement for the Rate Year ending June 30, 2011. In other words, it excludes all revenues and expenses related to commodity, Sales for Resale, the surcharge for System Benefits, Renewable Portfolio Standards, Energy Efficiency Portfolio Standards and the 18-a (6) Temporary Assessment and the Company's Energy Efficiency program.

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

A. Yes, Exhibit___(RRP-2) pertains to the development of the gas base rate revenue requirement for the Rate Year. It shows the development of the revenue requirement related to establishing a gas delivery rate, which excludes consideration for purchased gas revenues and expense, Sales for Resale, the surcharge for System Benefits, Energy Efficiency Portfolio

Standards and the 18-a (6) Temporary Assessment and the Company's Energy Efficiency program.

Q. Please describe the information shown on Schedule A of Exhibit___(RRP-1) which is entitled "Electric Operations Income Statement and Rate of Return".

A. Schedule A sets forth for the electric department the operating revenues, operating revenue deductions, operating income, rate base and the associated rate of return for the historical period and the bridge periods. Schedule A-1 shows normalization adjustments to the historical period including those necessary to display operating income related to delivery service only. Schedule A-2 is a reconciliation of the total ratemaking operating revenue deductions for the historical base year as shown on Schedule A to the Company's total electric operating expenses for that period for financial accounting purposes. It addresses the reclassification as a cost of service certain income deductions and credits which are recorded as non-operating items for financial accounting purposes.

Schedule B shows the projected revenue requirement for the Rate Year before and after the effects of the rate changes necessary to establish base rates for the Company's delivery service to provide the overall rate of return of 7.58% addressed in the testimony of Mr. Mosher.

Q. Have you prepared a schedule showing similar information with respect to the gas revenue requirement?

A. Yes. Schedules A and B of Exhibit___(RRP-2) entitled "Gas Operations Income Statement and Rate of Return" shows information for the gas revenue requirement in similar form to that of Schedules A and B of Exhibit___(RRP-1).

Q. What is the purpose of Schedule C of Exhibit___(RRP-1)?

A. Schedule C of Exhibit___(RRP-1) shows for the historical period, the bridge periods and the Rate Year, the actual, normalized and projected amounts, by PSC functional classification, for most of the operating revenue deductions listed in Schedules A and B of Exhibit___(RRP-1). Operating revenue deductions not included in Schedule C are Direct Labor cost details which are shown on Exhibit___(RRP-3), Insurance Cost details which are shown on Exhibit___(RRP-4), Depreciation and Amortization which are shown on Exhibit___(AP-7) sponsored by the Accounting Panel and Federal and State Income Taxes which are shown on Exhibit___(CDT-1) sponsored by Mr. Thomas.

Q. Has the Panel prepared a schedule for gas operating deductions similar to Schedule C of Exhibit___(RRP-1)?

A. Yes, Schedule C of Exhibit___(RRP-2) presents similar historical and projected information related to operating deductions for the gas department.

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

A. The overall determination of revenue requirements follows the forecasting methods approved by the Commission in Cases 08-E-0887 & 08-G-0888. In developing these forecasts, the historical period was first reviewed to determine actual costs incurred for the various expense components and to determine whether any specific costs or activities included should be normalized due to their being related to the Company's commodity activities, excluded from revenue requirements under Commission policy, non-recurring or only a partial reflection of an annual cost. As previously indicated, normalization adjustments related to electric costs are shown on Exhibit___(RRP-1), Schedule A-1 and those related to gas costs are shown on Exhibit___(RRP-2), Schedule A-1. A number of cost components were forecasted based on factors particular to them which influence their future level. The remainder of the cost components were forecasted by inflating historical period costs. Gross Domestic Implicit Price (GDP) deflators used to inflate historical period costs were 1.3% for 2009, 1.3% for 2010 and 1.6% for the Rate Year ending June 30, 2011. These inflation rates are addressed in the testimony of the Forecasting and Rates Panel.

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

A. Costs of a common or corporate nature were allocated using the Company's current common cost allocation ratio of 85% electric and 15% gas consistent with the testimony of Mr. Mosher.

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

A. Direct Labor costs were developed using annual base salaries and wages, by classification, for regular employees on the Company's payroll at May 31, 2009. The salaries and wages were then increased where applicable by the average premium pay (i.e.- overtime, shift differential, etc.) percentages which occurred during the historical period. Salaries and wages were then increased by the applicable salary and wage increase rates set forth in the testimony of Mr. Brocks. Since the existing union contract will expire April 30, 2011, we have assumed a continuation of the contractually-provided annual 3.50% increase for union employees effective on May 1, 2011. The regular employee level reflected in the labor cost projection is the 860 employees as set forth in the testimony of Mr. Brocks. Requirements for temporary employees were also included to arrive at a total Direct Labor cost projection. Allocations to electric and gas expense were determined based on the distribution of actual payroll costs for the twelve months ended March 31, 2009.

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

A. Yes. Exhibit___(RRP-3) was prepared to present detailed information related to the projection of Direct Labor costs. Schedule A of that exhibit addresses electric expense, Schedule B addresses gas expense and Schedule C summarizes labor costs by employee classification and the allocation of labor costs to electric expense, gas expense, construction and other categories of costs.

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

A. Yes, however, it is not in the form of a percentage applied to any particular base but rather through the Company's adoption of past Commission practices which, in our view, results in projected rate allowances at levels lower than the Company's cost of doing business. For example, the Commission's reliance on limiting the rate of growth for certain elements of costs, such as medical costs and transportation fuel, to the GDP rate of inflation for ratemaking purposes creates a productivity imputation. Another example of productivity that is included in setting rates is the Commission's use of an averaging technique of prior period expenditures in lieu of the historic period to serve as the historical base to project the rate year in the face of an increasing cost trend for certain elements of costs. The Commission's reliance on this type of forecasting methodology is at odds with the Commission's Policy Statement of setting rates on a forward looking basis and in effect imputes a productivity adjustment. Lastly, the historic period ended March 31, 2009, which serves as the basis to project many of the elements of costs reflects the productivity gains that the Company has achieved and therefore is reflected in the development of revenue requirements.

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

A. Yes. We recommend that direct labor costs be based on the latest information known at the time of the Commission's decision, including the latest known number of employees (as described in the testimony of Mr. Brocks) and salary information.

Q. Please provide the basis on which each of the other expense items have been included in the development of the electric and/or gas revenue requirement.

A. Production Maintenance

Production Maintenance consists of maintenance performed at the Company's hydro and gas turbine electric generating facilities. Projected costs for the Rate Year were provided by the Company's Production Operations Superintendent consistent with planned operating objectives at these facilities. Further detailed information appears on Exhibit___(RRP-1), Schedule C, Page 1 of 7.

Right of Way Maintenance

Exhibit___(RRP-1), Schedule C, Page 1 of 7 shows the projection for the Company's Transmission and Distribution tree-trimming program. This expense component represents the estimated costs as addressed in the testimony of Mr. DuBois.

Q. Do the projections shown on Exhibit___(RRP-1) reflect the cash requirements to fund the tree-trimming program as described by Mr. DuBois?

A. No. As shown on Exhibit___(DLD-3) sponsored by Mr. DuBois, the Rate Year projection for the Distribution Line Clearance Program is $16.7 million, which represents an increase of $6.4 million compared to the amount currently provided in rates pursuant to Case 08-E-0887. In an attempt to minimize the rate impact of the Company's distribution tree-trimming program, the Company is proposing that $5.7 million of exising regulatory liabilities be utilized as a funding vehicle. Utilization of existing regulatory liabilities in this manner sets the cash funding level at $11.0 million, which represents a minimal increase in rates compared to the existing rate allowance.

Q. Please continue providing the basis for the other expense items included in the development of the electric and/or gas revenue requirement.

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

Schedule C, Page 2 of 7, of Exhibit___(RRP-1), shows Research & Development (R&D) costs for electric and Schedule C, Page 1 of 6, of

Exhibit___(RRP-2) shows this expense for gas, as they appear on Schedule A of (RRP-1) and (RRP-2), respectively. Projected costs for the Rate Year were provided by the Company's R&D Administrator and are consistent with current program goals and objectives and approximate the levels provided for in rates under Cases 08-E-0887 and 08-G-0888. These costs are subject to revenue matching accounting and deferral as required by the Commission's Technical Release #16.

Expense Projections Based on Inflation

A number of cost components were forecasted based on inflation of historical period costs. The Gross Domestic Implicit Price (GDP) deflators used to inflate historical period costs were those previously mentioned in this testimony. This expense component includes:

- Direct Invoices (Residual)
- Material & Supplies
- Office Supplies & Expenses
- Stores Handling Expenses
- Miscellaneous Rents
- Postage
- Institutional & Informational Advertising
- Transformer Installations & Removals (Credits)
- Meter Installations (Credits)
- Miscellaneous Expenses

- Transportation Excluding Depreciation

With the exception of Transformer Installation & Removal credits these expenses apply to both electric and gas operations. Schedule C, Page 2 of 7, of Exhibit __(RRP-1) shows these details related to electric expense and Schedule C, Page 1 of 6, of Exhibit___(RRP-2) does so for gas expense.

Miscellaneous General Expenses

Schedule C, Page 2 of 7, of Exhibit __(RRP-1), provides details of the projection for Miscellaneous General Expenses for electric and Schedule C, Page 2 of 6 of Exhibit___(RRP-2), addresses the gas department. The amounts shown for administrative costs associated with the Company's Pollution Control Bonds and Notes, Pollution Control Fees and Services, Medium Term Note Program, HBSC Bank Service Fees, Revolving Credit Agreement and Rating Agency costs were supplied by the Company's Cash Management Division. The balance of Miscellaneous General Expenses were determined by inflating historical period costs.

Transportation - Depreciation

Schedule C, Page 2 of 7, of Exhibit __(RRP-1) shows details of the amount of depreciation related to transportation equipment chargeable to electric expense and Schedule C, Page 2 of 6, of Exhibit___(RRP-2) does so for gas expense. The base amount of depreciation was provided by the Accounting Panel.

Fringe Benefits

As shown on Schedule C, Page 3 of 7, of Exhibit__(RRP-1) with respect to electric and Schedule C, Page 2 of 6, of Exhibit___(RRP-2) with respect to gas, Fringe Benefits include Medical Insurance including Dental and Vision, Group Life Insurance, Savings Incentive Plan (SIP) and Other Fringe Benefits.

With regard to Medical Insurance costs, projections are based on actual activity for the twelve months ended March 31, 2009, normalized to reflect twelve months of activity. GDP inflation factors were then applied to this base to arrive at the cost projections for the bridge periods and the Rate Year. The projection also incorporates the increased Medical Insurance costs to reflect the projected staffing level supported by Mr. Brocks.

Group Life Insurance costs are based on the premium and employee contributions incurred for the month of March 2009 on a per employee basis, which was then annualized to arrive at a cost per employee projection base. Costs were then projected using the GDP inflation factors and the employee level of 860.

SIP projections are based on the actual twelve months ended March 2009 contribution level adjusted for the applicable wage increases set forth in the testimony of Mr. Brocks. Other Fringe Benefits were projected by inflating the historical period costs.

The allocation of Medical, Group Life and SIP costs to electric and gas expense is based on the distribution of payroll for the twelve months ended March 31, 2009. The Company proposes that Medical and Group Life be updated for the latest known information regarding premiums, claim activity and employee contribution levels. In addition, the Company proposes that the Company's contribution to SIP be updated for latest known contribution levels. The Company proposes that these updates be incorporated at the time the Company files its Brief on Exceptions, which is consistent with prior litigated cases.

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

Schedule C, Page 3 of 7, of Exhibit ___(RRP-1) provides details of the projection for Other Post Employment Benefits for electric and Schedule C, Page 2 of 6, of Exhibit__(RRP-2) does so for gas. This element of cost was included in the projections of electric and gas expense on the basis of the annual accrual amount and accounting allocation presented in the testimony of the Accounting Panel.

<u>Pension Plan</u>

Schedule C, Page 3 of 7, of Exhibit___(RRP-1) provides details of the Pension Plan expense projection for electric and Schedule C, Page 2 of 6, of

Exhibit ___(RRP-2), addresses the gas department. The cost estimate for the Company's Pension Plan is based on the latest estimate provided by the Company's actuary. The projected cost for the Supplemental Executive Retirement Plan (SERP), which is included in the expense forecast, is based on an estimate developed by the Company's actuary. The expense estimate for SERP is allocated to electric and gas expense using the common allocation basis described earlier in our testimony. The allocation of the Pension Plan cost tracks the Company's payroll distribution for the historical period as set forth in the testimony of the Accounting Panel.

Contract Rents

Schedule C, Page 3 of 7, of Exhibit ___(RRP-1) shows the details of the forecast for Contract Rents for electric and Schedule C, Page 3 of 6, of Exhibit ___(RRP-2) does so for gas. The forecast was prepared by identifying significant existing lease and rental agreements which are expected to be ongoing, expiring or changing.

Uncollectible Accounts

The development of the projection for Uncollectible Accounts is based on the net charge-off amount as a percentage of revenues subject to bad debt for the historical period. The ratio was .83% for electric and 1.48% for gas. These ratios were applied to projected total revenues subject to bad debt by department, excluding ECAM and GSC revenues, for the bridge periods and the Rate Year to arrive at the projections for Uncollectible Accounts Expense. Schedule C, Page 3 of 7, of Exhibit___(RRP-1) shows projected Uncollectibles for electric and Schedule C, Page 3 of 6, of Exhibit ___(RRP-2) does so for gas.

Q. Is the projection for Uncollectible Accounts representative of what the Company anticipates during the Rate Year?

A. No. The Company's Uncollectibles Panel sets forth the manner in which the Company intends to project Uncollectible Accounts expense for the Rate Year in these proceedings. As explained by the Uncollectibles Panel, the rate allowance established for Uncollectible Accounts should be based on a forecasted future uncollectible expense rather than relying solely on historical results as a predictor of future costs. As such, the amounts shown on Exhibit___(RRP-1) and Exhibit___(RRP-2) represent a placeholder to be updated with the projections developed by the Uncollectibles Panel.

Q. Please continue providing the basis for the other expense items included in the development of the electric and/or gas revenue requirement.

A. <u>Regulatory Commission Expenses</u>

Schedule C, Page 3 of 7, of Exhibit __(RRP-1) shows the details of the forecast for Regulatory Commission Expenses for electric and Schedule C, Page 3 of 6, of Exhibit___(RRP-2) does so for gas. The expense projection is based on the Department of Public Service Statement of Estimated

General Assessment for the fiscal year ending March 31, 2010, which represents the latest known assessment. A four-year average rate of growth, which is based on the assessments recorded to electric and gas expense from 2004 through 2008, was applied to the latest known assessment to develop the forecasts for the bridge periods and the Rate Year. The latest known information should be used in developing the rate allowance.

<u>Information Technology Expense</u>

Schedule C, Page 3 of 7, of Exhibit __(RRP-1) for electric and Schedule C, Page 3 of 6, of Exhibit___(RRP-2) for gas provide details of the forecast of Information Technology expense developed by the Company's Manager of Information Technology. The projection relates to the Company's current and projected information systems requirements primarily related to hardware maintenance, software maintenance and license costs. The amortization of software costs is included in the depreciation schedules sponsored by the Accounting Panel.

<u>Other Operating Insurance</u>

Exhibit __(RRP-4) shows the types of insurance included in this cost category and projected costs, which includes Directors and Officers (D & O) insurance, All Risk insurance and All Other insurance. Cost projections are based on the most recent known premiums that were provided by the Company's Senior Risk Management Administrator. The principal allocation factor applicable to these costs is the common allocation ratio. Schedule C, Page 4 of 7, of Exhibit ___(RRP-1) shows the details for electric and Schedule C, Page 3 of 6, of Exhibit ___(RRP-2) does so for gas.

Telephone Expense

The types of costs included in Telephone Expense are listed on Exhibit___(RRP-1), Schedule C, Page 4 of 7 and Exhibit___(RRP-2), Schedule C, Page 3 of 6. Projections were based on a review of historical charges and current billing rates for communication expenses and the application of inflation factors.

Legal Services

Schedule C, Page 4 of 7, of Exhibit __(RRP-1) and Schedule C, Page 4 of 6, of Exhibit___(RRP-2) show the information related to the projection of Legal Services Expense. The projection is based on inflation of historical period costs.

Q. Is the projection for Legal Services representative of what the Company anticipates during the Rate Year?

A. No. The Company has determined that the establishment of a small internal legal team to address corporate and regulatory matters is appropriate. It is anticipated that this in-house legal team will be assembled and in place prior to the start of the Rate Year. Therefore, the rate allowance projected for

Legal Services represents a placeholder and will be updated later in these proceedings to reflect the transition of these functions to an in-house legal team.

Q. How does the Revenue Requirements Panel propose to reflect this transition into the development of revenue requirements?

A. The proposed update of direct labor costs for the latest known number of employees at the time of the Commission's decision will include the in-house legal team into the projection of Direct Labor. We anticipate that the labor requirement for this in-house legal team will offset a to-be-determined portion of Legal Services depending on the fashion in which the legal department staffing is accomplished.

Q. Please continue providing the basis for the other expense items included in the development of the electric and/or gas revenue requirement.

A. Special Services

The types of costs included in the Special Services category are shown on Exhibit___(RRP-1), Schedule C, Page 4 of 7 and Exhibit___(RRP-2), Schedule C, Page 4 of 6. The projection is based on inflation of historical period costs, with the exception of auditing services, which includes a provision in the Rate Year for anticipated additional services related to review of compliance with the new International Financial Reporting Standards.

Injuries and Damages

Schedule C, Page 4 of 7, of Exhibit__(RRP-1) and Schedule C, Page 4 of 6, of Exhibit__(RRP-2) detail the expense components which comprise Injuries and Damages. The projected costs for brokerage fees and excess liability insurance, shown on Exhibit__(RRP-4), were provided by the Company's Senior Risk Management Administrator. The cost estimate for workers compensation is based on the latest known actual premium and claims paid based on a four-year average (Twelve months ended March 31, 2006; 2007; 2008 and 2009) adjusted to March 2009 dollars. These amounts were then inflated to produce the cost projections. The projected costs were allocated on the basis of the Company's payroll distribution for the historical period.

The cost projection for excess liability insurance are based on the latest known premiums, which were escalated based on the expectation that past increases by the Company's insurance carriers will continue at the same rate of increase in the future. It should be noted that the cost projections exclude continuity credits as the Company's carriers have announced their intentions to discontinue this practice until their financial situation improves. The allocation factor applicable to these costs is the common allocation ratio.

Projections for personal and property damage claims were derived by taking a four-year average (Twelve months ended March 31, 2006; 2007; 2008 and 2009) of claim payments adjusted to March 2009 dollars; reduced by known and expected insurance recoveries; and then inflated. Accident and safety activities expense was projected by taking a four-year average (Twelve months ended March 31, 2006; 2007; 2008 and 2009) of expense adjusted to March 2009 dollars and then inflated.

Storm Restoration Expense

The projections for Storm Restoration Expense were derived by use of the four-year average (Twelve months ended March 31, 2006; 2007; 2008 and 2009) of storm expenditures adjusted to March 2009 dollars which were then inflated. Consistent with the Commission's decision in Case 08-E-0887, the four-year average excludes incremental costs associated with the ice storm of December 11, 2008. Schedule C, Page 5 of 7, of Exhibit__(RRP-1) shows the expense projections.

Environmental

Schedule C, Page 5 of 7, of Exhibit __(RRP-1) reflects the forecast for Environmental Expense related to electric operations as provided by the Company's Director of Environmental Affairs . Schedule C, Page 2 of 6, of Exhibit __(RRP-2) reflects projections for gas environmental costs that were also provided by the Company's Director of Environmental Affairs and include consideration for costs related to activities similar to those for electric operations. The projections are based on inflation of historical period costs plus anticipated incremental work scope at Company facilties due to DEC requirements. Costs related to the remediation of former gas manufacturing sites are presented separately on Exhibit __(RRP-1) and Exhibit __(RRP-2) and are not included within the expense item labelled "Environmental" in our exhibits.

Enhanced Powerful Opportunities Program

Schedule C, Page 5 of 7, of Exhibit __(RRP-1) for electric and Schedule C, Page 4 of 6, of Exhibit___(RRP-2) for gas provide details of the forecast for the Enhanced Powerful Opportunities Program as developed by the Low Income Panel.

Expenses Allocated to Affiliates

Schedule C, Page 5 of 7, of Exhibit __(RRP-1) and Schedule C, Page 4 of 6, of Exhibit___(RRP-2) show the information related to the projection of Expenses Allocated to Affiliates. The projection is based on inflation of historical period credits to Central Hudson due to costs determined to be chargeable to its affiliates. In addition to the credits shown on these Exhibits, an additional $3.9 million of expense ($3.0 million for labor and fringe benefits and $.9 million for insurance) has been directly allocated to affiliates rather than to Central Hudson during the Rate Year.

Stray Voltage Testing

Schedule C, Page 5 of 7, of Exhibit__(RRP-1) shows the expense projections for Stray Voltage Testing as discussed in the testimony of Mr. DuBois.

MGP Remediation Cost Recovery

Schedule C, Page 5 of 7, of Exhibit __(RRP-1) and Schedule C, Page 4 of 6, of Exhibit___(RRP-2) show the information related to the projection of MGP Remediation Cost Recovery. The Company is proposing that the rate allowance in these proceedings be based on a three-year average (Twelve months ended March 31, 2007; 2008 and 2009) of expense adjusted to March 2009 dollars and then inflated. This projection methodology is consistent with that used to set rates in Cases 08-E-0887 and 08-G-0888 as proposed by PSC Staff.

Customer Bill Print and Mail

Schedule C, Page 5 of 7, of Exhibit __(RRP-1) for electric and Schedule C, Page 5 of 6, of Exhibit___(RRP-2) for gas provide details of the forecast for the printing and mailing of customer bills, excluding postage, by an outside vendor. The historic year level of expense, was normalized to reflect the cost projections from the Company's new vendor effective March 2009. This adjusted historical base was then escalated at inflation to develop the forecasts for the bridge periods and the Rate Year.

Transmission Enhanced Infrastructure Maintenance

Schedule C, Page 6 of 7, of Exhibit__(RRP-1) shows the expense projections for the T&D Enhanced Infrastructure Maintenance Program, which has been projected to cost $0.7 million for the Rate Year which is the same level of funding as approved by the Commission in Case 08-E-0887. This program is discussed in the testimony of Mr. DuBois.

Transmission Sag Mitigation

The Company's projected revenue requirement for electric delivery service excludes consideration for Transmission Sag Mitigation consistent with the manner in which rates were established in Case 08-E-0887, which utilized the Excess Electric Depreciation Reserve to fund expenses related to this effort. It is proposed that Rate Year expenses related to this program be funded in the same manner as in Case 08-E-0887.

Energy Efficiency Program

The Company's projected revenue requirements for electric and gas delivery service exclude consideration for the Company's Energy Efficiency Program, consistent with the manner in which rates were established in Cases 08-E-0887 and 08-G-0888.

Smartgrid/AMI Program

Schedule C, Page 6 of 7, of Exhibit __(RRP-1) for electric and Schedule C, Page 5 of 6, of Exhibit___(RRP-2) for gas provide details of the forecast for a portion of the costs of the Smartgrid/AMI Pilot project as developed by the Smartgrid Panel.

Competition Education Program

Schedule C, Page 6 of 7, of Exhibit __(RRP-1) for electric and Schedule C, Page 5 of 6, of Exhibit___(RRP-2) for gas provide the levels of expense incurred during the historic period and the elimination of this program in the development of revenue requirements during the bridge period and rate year, which is consistent with determinations made in Cases 08-E-0087 and 08-G-0888.

Excess Cost of Removal – Gas Mains & Services

Schedule C, Page 5 of 6, of Exhibit___(RRP-2) provides the projection for the portion of gas cost of removal charged to expense based on the accounting established in Case 08-G-0888. As explained in the testimony of the Accounting Panel, the expense level corresponds to the planned rate year removals as shown in Accounting Panel's Exhibit___(AP-8).

Gas Leak Repairs – Distribution Main

Schedule C, Page 5 of 6, of Exhibit___(RRP-2) provides the projection for gas leak repairs as more fully discussed in the testimony of Mr. Borchert.

Taxes Other than Income Taxes

Schedule C, Page 6 of 7, of Exhibit __(RRP-1) reflects Taxes Other Than Income Tax, with details, as to type of tax, for electric and Schedule C, Page 5 of 6, of Exhibit___(RRP-2) does so for gas.

Revenue taxes, consisting of Utility Services, Metropolitan Transportation Business Tax (MTA), Local Municipality Tax and MTA Tax on State Income Taxes, were calculated by applying the existing tax rates to revenues projected for the bridge periods and the Rate Year.

Payroll taxes, consisting of Federal Insurance Contributions Act (FICA) and federal and state unemployment insurance, were calculated by applying the appropriate tax rates to the related taxable wages projected for the applicable periods. The Metropolitan Commuter Transportation Mobility Tax on payrolls within the MTA region is being deferred and collected through the existing MTA tax surcharge mechanisms and as such, no allowance for this tax is included in the payroll tax rate allowance.

Other taxes include sales and use taxes and hazardous waste taxes for electric operations. Sales and use taxes were projected by applying a four-year average rate of growth (Twelve months ended March 31, 2006; 2007; 2008 and 2009) to the historic year level of expense adjusted to remove audit adjustments. The hazardous waste tax is based on applying inflation factors to a four-year average (Twelve months ended March 31, 2006; 2007; 2008 and 2009) of hazardous waste tax which was first adjusted to twelve months ended March 31, 2009 dollars and allocated 100% to electric operations consistent with the Company's accounting practice.

Property tax projections are detailed on Schedule C, Page 7 of 7, of Exhibit __(RRP-1) and Schedule C, Page 6 of 6, of Exhibit __(RRP-2) for electric and gas respectively, as to real estate and special franchise taxes levied by school districts and by towns, counties, cities and villages. Property Taxes were first developed by applying the inflation factors to the most recent actual taxes to arrive at the projection. In addition, the Company included projected incremental assessments related to significant capital additions based on a review of the capital expenditure plan sponsored by Mr. Haering. Consistent with prior cases, we propose that property taxes and sales and use tax be updated at the time of brief on exceptions.

DEVELOPMENT OF RATE BASE

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

A. This schedule shows the total rate base by department for the historical period of the twelve months ended March 31, 2009 and summarizes the components which make up the rate base.

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

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

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

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

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

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

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

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

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

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

The amounts shown for “Unamortized Debt Expense” are amortized over the terms of the various securities to which they are related in accordance with the Uniform System of Accounts. The amounts shown on Schedule B were allocated 77% to the Electric Department and 23% to the Gas Department based on the proportional shares of the historical period earnings base.

“Unamortized Discount Long-Term Debt” is amortized over the terms of the various securities to which the discounts are related in accordance with the Uniform System of Accounts. The amounts shown on Schedule B were allocated 77% to the Electric Department and 23% to the Gas Department based on the proportional shares of the historical period earnings base.

“Adjustable Rate PCB Notes” represents the deferral of the under recovery of the interest associated with various issues of such pollution control notes. In the Company's last several rate cases the Commission authorized accounting and ratemaking treatment of such interest to ensure recovery of actual costs. The amount shown on Schedule B is the under recovery resulting from the Commission’s July 24, 2006 Order in Cases 05-E-0934 and 05-G-0935. These amounts have been allocated to the electric and gas departments in proportion to the rate base amounts by department as is reflected in the above referenced Order.

"Software Purchases" made prior to January 2006 were deferred and amortized over a 60-month period. The accounting method and period of amortization for computer software are the same as required for federal income tax purposes by the Internal Revenue Code. Unless a software package is dedicated to exclusive use in either electric or gas operations, it is considered applicable to both and its cost, therefore, is allocated to both departments. The allocation ratio so applied is 85% electric and 15% gas based on the Company's standard allocation ratio for common costs. Software purchases made after December 2005 are included in common plant balances.

"Carrying Charges on NMP-2 Settlement Agreement Costs" are related to the accounting and ratemaking for NMP-2 costs as previously established by the Commission in the NMP-2 Global Settlement and related orders.

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

"Service Quality Penalty" is the assessment under the Electric Reliability Standards established in Case 05-E-0934.

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

The next item appearing on Schedule B is "Carrying Charge on Asbestos Litigation" representing the interest due the Company on legal costs incurred related to mitigating claims and seeking insurance recoveries.

"Unamortized Loss on Reacquired Debt Expense" is amortized over the terms of the various securities to which it is related in accordance with the Uniform System of Accounts. The amounts shown on Schedule B were allocated 77% to the Electric Department and 23% to the Gas Department based on the proportional shares of the historical period earnings base.

"Carrying Charge on Deferred New York State Taxes – Tax Law Change" represents the accrual of carrying charges on deferred New York State taxes as required by a Commission order issued June 28, 2001 in Case 00-M-1556.

"AMR Meters – Interruptible SC #8 and #9" represents the deferral of costs to install real-time metering devices for all of the Company's interruptible customers at no direct charge to the customer as required per Case 04-G-0463.

"Preferred Stock Costs & Redemption Premium" represent costs and premiums that are amortized over the terms of the various securities to which they are related in accordance with the Uniform System of Accounts. The amounts shown on Schedule B were allocated 77% to the Electric Department and 23% to the Gas Department based on the proportional shares of the historical period earnings base.

The next item is "Survivor Programs of the Customer Benefit Fund," which represents the remaining funding earmarked for the Economic Development and Competitive Metering initiatives as approved by the Commission in

Cases 05-E-0934 and 05-G-0935.

“Competition Education Program” represents the deferral of the over recovery of funding to promote and educate customers on the potential benefits of selecting an alternate supplier as approved by the Commission in Cases 05-E-0934 and 05-G-0935.

“Carrying Charge on Enhanced Powerful Opportunities Program” represents the accumulated interest due customers related to the funding for the program established by the Commission in Cases 05-E-0934 and 05-G-0935.

“Carrying Charge on MGP SIR Costs & Recoveries” represents the average balance during the historical period of the accumulated interest due customers related to the funding for such costs established by the Commission in Cases 05-E-0934 and 05-G-0935.

“Carrying Charge on Interest Bearing Gas Deferred Balance” represents the accumulated interest due the Company related to the portion of the unrecovered net regulatory asset that was deemed interest bearing with recovery over a seven-year period as authorized in Case 05-G-0935.

“Carrying Charge on Gas Balancing Software Costs” represents the accumulated interest due the Company related to the requirement that the Company purchase software for the purpose of monthly and daily balancing of interruptible, firm transportation and aggregated transportation accounts as established by the Commission in Case 05-G-0935.

“Stray Voltage Testing” represents the deferral of the over recovery of the funding that was earmarked for this purpose by the Commission in Case 05-E-0934.

“Excess Depreciation Reserve” represents the unused portion of the fund established and used as a rate moderator by the Commission in Case 05-E-0934.

“Gain on Sale of Beacon Parcel,” is the proceeds related to a sale of property pursuant to Commission order in Case 07-E-0155.

“Carrying Charge on Property Taxes” represents the accumulated interest due customers related to the deferral of the over recovery of property taxes as required by the Commission in Cases 05-E-0934 and 05-G-0935.

“Carrying Charge on Shared Earnings” represents the accumulated interest due customers related to electric earnings that have been deferred for pass back to customers under the earnings sharing provisions established by the Commission by its July 24, 2006 Order in Case 05-E-0934.

“Carrying Charge on Groveville Sale,” represents the accumulated interest due customers as required by the Commission in its April 23, 2007 Order in Case 07-E-0136 related to the proceeds from the Company's sale of the Groveville Hydro generating facility.

“Carrrying Charge on PV Net Metering” represents the accumulated interest due the Company on deferred PV Net Metering costs as provided in Case 07-E-0437.

“Carrying Charge on East Fishkill Substation” is the accumulated interest due customers on deferred revenues associated with the East Fishkill Substation contract rent agreement as provided in Case 05-E-0934.

"Carrying Charge on MFC OVercollection" is the accumulated interest due customers on overcollected MCF revenues as provided in Case 05-E-0934.

"Storm Damage – December 2008" is the incremental deferred costs associated with the December 11, 2008 ice storm as stiplulated in Case 08-E-0887.

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

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

Q. Would the Panel please explain those deferred federal tax items included in Schedule C of Exhibit __ (RRP-5) which are in addition to those directly related to the items shown on Schedule B?

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

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

“Unbilled Revenue” represents the taxation of unbilled revenues under the Tax Reform Act of 1986 and the related accounting and ratemaking requirements established by the Commission in a policy statement issued July 7, 1987 in Case 29465.

The amount shown as "Construction Overheads" in Schedule C is the unamortized deferred tax balance resulting from expensing for tax purposes but capitalizing as plant investment for financial accounting purposes certain overhead costs. Deferred tax accounting and normalization of the federal income tax benefits related to construction overheads was first authorized by the Commission in Opinion No. 82-21 and was continued by subsequent Orders in Company rate proceedings. The Tax Reform Act of 1986 eliminated this deduction and required the capitalization of the construction overheads for tax purposes. As a result, there have been no deferrals since December 1986 but prior deferrals are not yet fully amortized.

“Deferred Avoided Cost Interest Capitalized” represents the deferred federal income tax resulting from the capitalization of construction-related interest costs under the Tax Reform Act of 1986 and the related accounting and ratemaking for such change in tax treatment established by the Commission in its related policy statement issued in Case 29465.

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

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

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

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

The amount shown on Schedule C for "ACRS Method Change" represents the continued amortization of the deferred overcollection which resulted from a change in depreciation methods as required by tax law during 1981. The overcollection amount was established in Opinion 82-21 and is being amortized to expense over a 30-year period.

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

"Statutory Rate Adjustment" represents the deferral of the difference between federal income taxes paid at the 34% rate and the normal 35% for 2004 and

2006.

"Gas Balancing Software – Tax Depreciation" results from the normalization of the federal income tax benefits of tax depreciation. Although there is generally no deferral of the tax benefit of software purchases as we will explain later, there is with respect to this software because the book costs of the software were fully deferred as authorized in Case 05-G-0935 while for tax purposes, this item is amortized over a five-year period.

The last item is "Prepaid Insurance" which represents the deferral of federal income tax benefits associated with the deduction of prepaid insurance.

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

A. Yes. Schedule C does not include amounts related to software purchases, with the exception of Gas Balancing Software as previously explained, unamortized discount on long-term debt, unamortized debt expense (excluding mortgage recording tax) and unamortized loss on reacquired debt because the amortization periods for these costs are the same for both book and tax purposes and, therefore, no deferred taxes result. In addition, executive deferred compensation and preferred stock costs and redemption premium are non deductible for tax purposes and, therefore, no deferred taxes result.

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

"Deferred State Taxes".

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

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

A. The working capital items which have been summarized on Schedule A are shown on Schedule E of Exhibit___(RRP-5). This schedule sets forth the working capital component of rate base for the twelve months ended March 31, 2009. The schedule identifies the standard items that make up the working capital rate base in accordance with established Commission practice. Included are materials and supplies, prepayments and an allowance for operation and maintenance expenses.

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

A. Monthly balances for materials and supplies and prepaid expenses were derived from the Company's monthly balance sheets. The allowance for operation and maintenance expenses was developed from the departmental income statements by applying the Federal Energy Regulatory Commission (FERC) formula as approved by the Public Service Commission. Since bimonthly revenues as a percent of own territory revenues, excluding those from interdepartmental sales, were determined to be 63% for electric and 64% for gas during the historical period, a one-seventh (1/7) factor was used to determine the working capital related to operation and maintenance expenses other than fuel (hydro and gas turbine) and purchased power for electric operations and purchased gas for gas operations. The Commission's Order in the Niagara Mohawk Power Corporation Case 26088 established the 1/7 factor as appropriate, "when bimonthly billings, measured in dollars, account for more than 30% but less than 70% of revenues."

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

A. Common items in the materials and supplies portion of working capital were allocated 76% to the Electric Department and 24% to the Gas Department based on the ratio of average electric and gas gross utility plant excluding common and future use plant for the historical period. Prepaid property taxes were allocated 79% to the electric department and 21% to the gas department based on the sum of the property taxes charged to electric and gas expense for the period 2005 through 2008.

All other prepayments were allocated 85% to the electric department and 15% to the gas department based on the Company's current basis for allocating common expenses.

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

A. These amounts are developed on Schedules F through H of Exhibit__(RRP-5). Schedule F shows the average capitalization per the Company's books for the twelve months ended March 31, 2009. Schedule G shows the average corporate earnings base for the twelve months ended March 31, 2009. The amounts developed on Schedules F and G are used on Schedule H which compares the historical period earnings base and capitalization in order to determine the extent to which the unadjusted rate base must be adjusted so that the final earnings base and capitalization are in balance.

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

A. The earnings base shown on Schedule G is the earnings base for the historical period before the application of the earnings base-capitalization adjustment to rate base. It, therefore, consists of the unadjusted rate base shown on Schedule A of Exhibit__(RRP-5) and a series of items on which interest or carrying charges are accrued. The latter items are: interest-bearing construction work in progress shown on Schedule A of Exhibit__(AP-6); the average net deferred balance for the historic period of New York State Taxes; Asbestos Litigation; Enhanced Powerful Opportunities Program; the

Interest Bearing and Non-Interest Bearing components of the Gas Net Regulatory Asset; Gas Balancing Software; MGP SIR Costs and Recoveries; Electric Shared Earnings; Gain on Sale of the Groveville Mills Hydro Station; Property Taxes; Lost Net Revenues resulting from Photovoltaic (PV) Net Metering; Net Lost Revenue – MFC Overcollection; Deferred Revenue – Est Fishkill Substation; Low-Income Gas Efficiency Program; NMP-2 operation and maintenance expenses as addressed previously; the earnings base effects, for the historical period, of the average liability to the pension fund, the internal reserve, the over/under collection of pension costs, carrying charges and applicable deferred tax balances; and, the earnings base effects, for the historical period, of the average liability to the OPEB fund, internal reserve, over/under collection of OPEB costs, carrying charges and applicable deferred tax balances.

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

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

The second purpose of adjusting capitalization is to more accurately reflect the flow of cash available to the Company from the various sources of capital than is indicated by the monthly average capitalization shown on Schedule F. In this regard, capitalization was decreased to reflect the average daily, rather than monthly, balance of short-term debt, preferred stock and long-term debt.

The third purpose of adjusting capitalization relates to removing the effects of costs associated with the replacement of cast iron main pursuant to the settlement reached in Case 93-G-1083. Specifically, the adjustment labeled "Catskill Gas Settlement" on Schedule G reflects the average extent during the historical period to which the tax benefits associated with such plant, although recognized in income at the time the Company absorbed the related expense, had not yet been realized through tax depreciation deductions on the Company's tax returns. This adjustment serves to result in such deferred taxes having no effect on rate base in the Rate Year.

Lastly, the fourth purpose for adjusting capitalization relates to recognizing that short term deferred and working capital costs are collected through the ECAM and GSC. Adjustments shown in Schedule H to reflect this are those identified as “Deferred Gas Costs”; “Working Capital – Material & Supplies Inventory”; “Working Capital – Prepayments to NYISO”; “Deferred Electric Fuel Costs”; and “Deferred Long Term Gas R&D/GRI Costs.”

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

A. The comparison shows that earnings base exceeds adjusted capitalization by $549,000. Accordingly, the unadjusted rate base has been decreased by this amount as shown and indentified as "Capitalization Adjustment to Rate Base" appearing on Schedule A of Exhibits __(RRP-5) and __(RRP-6). This adjustment reflects the consistent application of the method used by the Company and endorsed by the Commission in previous rate cases.

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

A. The capitalization adjustment to rate base has been allocated 77% to the Electric Department and 23% to the Gas Department based on their respective contributions to the total earnings base for the historical period as calculated on Schedule G of Exhibit __ (RRP-5).

Q. Has the Company responded to the Commission's directive from Cases 08-E-0887/08-G-0888 that the Company provide sufficient information to explain the drivers of the changes in the EB Cap adjustment from case to case.

A. Yes. Exhibit ___(RRP-8) provides a detailed comparision of the components that comprise the development of the EB Cap adjustment between this filing and the amount currently employed to set rates. A lead/lag study would be required to evaluate the underlying factors that have led to the changes in the quantities shown in the comparison, and the Commission has determined that such a study is not required.

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

A. The amounts shown on Schedule A for “Customer Advances for Undergrounding” represents the average balance for the historical period. These amounts were held constant for the forecast periods of the twelve-month periods ending December 31, 2009, December 31, 2010 and June 30, 2011.

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

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

Balances for the items were generally projected by using cost or credit deferrals provided to us by other witnesses or other individuals in the Company, along with the related income statement effects for the items included in Exhibit __(RRP-1) and Exhibit __(RRP-2).

As provided in Cases 08-E-0887 & 08-G-0888, projected deferred balances at the beginning of the Rate Year for several Electric and Gas Department items were offset against one another so as to eliminate the deferred balances.

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

A. The calculation of working capital as summarized on Schedule A is shown on Schedule E of that Exhibit.

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

A. Working Capital related to prepaid insurance, other prepayments and other material and supplies were forecasted by inflating the historical period monthly amounts by 1.014 for April through December 2009, 1.027 for January through December 2010 and 1.044 for January through December 2010 based on projections of the GDP Implicit Price Deflator provided by the Electric Forecasting Panel.

The amounts related to prepaid property taxes were projected to increase from the historical period average in proportion to the increases projected for property tax expense as shown in Exhibits __(RRP-1) and (RRP-2).

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

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

A. As shown on Schedule A of Exhibit __(RRP-6), the projected rate base prior to moderation for the Rate Year Ending June 30, 2011 is $694.1 million for Electric and $190.0 million for Gas.

DISPOSITION OF DEFERRED ITEMS

Q. Does the Company intend to offset deferred balances consistent with prior cases?

A. Yes. Pursuant to Cases 08-E-0887 & 08-G-0888, the Company offset actual deferred balances as of July 1, 2009 with the net electric portion charged against the Excess Electric Depreciation Reserve and the gas portion charged against the Residual Gas Net Regulatory Asset.

Consistent with past regulatory practice, we propose that actual deferred credit and debit balances as of June 30, 2010 be netted against each other. We also propose that the final makeup and disposition of the those balances, including the recognition of unanticipated items, and any necessary related rate base adjustments be addressed at the brief on exceptions based upon actually known items and balances at that time.

PROVISION FOR UPDATES

Q. Please specify the areas of data that the Revenue Requirement Panel proposes be updated later in this proceeding.

A. The following updates, all of which have been performed in the last several Company rate cases, are proposed:

<u>Labor</u>

To update for the latest known number of employees as described in the testimony of Mr. Brocks and for latest known base salaries.

<u>Cost of Long Term Debt</u>

To update the Company's cost of capital for the latest known actual and projected issuances and cost rates of long term debt, including variable rate debt, as discussed in the testimony of Mr. Renner.

<u>Fringe Benefits</u>

To update for the most recent twelve months of actual medical plan premiums, claim activity and employee contributions, group life premiums and the Company's contribution to the Savings Incentive Plan.

<u>OPEBs/Pension Plan</u>

To update for any known changes supplied by the Company's actuaries for the costs of OPEBs and Pensions allocated to expense and capital.

Uncollectible Accounts

To update the Uncollectible Accounts expense based on the recommendation set forth by the Uncollectible Panel.

Regulatory Commission Assessment

To update for the latest PSC General assessment and four-year average rate of growth.

Other Operating Insurance

To update for the most recent actual premiums for all risk and directors and officers liability insurance.

Injuries and Damages

To update for the latest GDP factors and also to update 1) workers compensation insurance for the most recent twelve months of premiums and the four-year average of claims paid; 2) excess liability for the most recent actual premiums and 3) personal and property damage claims to include the latest known information in the four-year average serving as the basis for projections.

Storm Restoration Expense

To update for the latest known information in the four-year average serving as the basis for projections and GDP factors.

Taxes Other Than Income Taxes

To update for the latest GDP factors, latest known sales and use taxes and latest known property taxes.

Other Inflation-Based Expense Components

The following cost components should also be updated for the latest GDP factors:

- Expenses Projected Based on Inflation
- Miscellaneous General Expenses
- Legal Services
- Special Services
- Telephone Expense

Deferred Balances

To reflect later known balances and items for offset or amortization.

Q. Does this conclude the direct testimony of the Revenue Requirements Panel?

A. Yes, it does.