BEFORE THE
NEW YORK STATE
PUBLIC SERVICE COMMISSION

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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-E-____

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

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DIRECT TESTIMONY OF THE REVENUE REQUIREMENTS PANEL

July 31, 2023

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Q. Please state the names of the members of the Revenue Requirements Panel ("Panel").

A. Our names are Jodi L. Harris, Rory T. Goodman, and Alexis B. Breheny.

Q. Ms. Harris, please state your current employer and business address.

A. I am employed by Central Hudson Gas & Electric Corporation ("Central Hudson" or the "Company"), and my business address is 284 South Avenue, Poughkeepsie, New York 12601.

Q. Ms. Harris, in what capacity are you employed by Central Hudson and what is your scope of responsibilities?

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

Q. Ms. Harris, what is your educational background and professional experience?

A. In 2005, I received a Bachelor of Science Degree in Business Administration with a concentration in Accounting from Pace University. From 2005 through 2007, I worked for Ernst & Young, LLC and earned my Certified Public Accountant license. I joined Central Hudson in 2007 as an Associate Accountant in the Plant Accounting Department. In 2009, I was promoted to Accountant and subsequently transferred to the Cost & Rate Department as an Analyst. In 2012, I received a Master of Science Degree in Business Administration from Marist College. In 2013, I transferred to Regulatory Planning as a Regulatory Planning Analyst and was then promoted to Senior Regulatory Planning Analyst in 2015. In 2022, I was promoted to my current role as Director of Regulatory Planning.

Q. Ms. Harris, have you previously testified before the New York State Public Service Commission ("PSC" or the "Commission")?

A. Yes, I testified before the Commission in Cases 14-E-0318, 14 G-0319, 17-E-0459, 17-G-0460, 20-E-0428 and 20-G-0429.

Q. Mr. Goodman, please state your current employer and business address.

A. I am employed by Central Hudson and my business address is 284 South Avenue, Poughkeepsie, New York 12601.

Q. Mr. Goodman, in what capacity are you employed by Central Hudson and what is your scope of responsibilities?

A. I am employed by Central Hudson as an Associate Regulatory Planning Analyst. In that capacity, my 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.

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Q. Mr. Goodman, what is your educational background and professional experience?

A. I have a Bachelor of Science Degree in Accounting from Liberty University and a Master of Science in Taxation from SUNY Albany. I held various accounting and finance related roles from 2015 through 2022, before I began my Central Hudson career in December 2022 in my current role.

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

A. No, I have not.

Q. Ms. Breheny, please state your current employer and business address.

A. I am employed by Central Hudson and my business address is 284 South Avenue, Poughkeepsie, New York 12601.

Q. Ms. Breheny, in what capacity are you employed by Central Hudson and what is your scope of responsibilities?

A. I am employed by Central Hudson as a Regulatory Planning Analyst. In that capacity, my 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. Ms. Breheny, what is your educational background and professional experience?

A. I have a Bachelor of Science Degree in Accounting and a Master of Business Administration in Finance from St. Thomas Aquinas College.

From 2017 through 2019, I worked for KPMG as an Audit Associate. I began my Central Hudson career in July of 2019 as an Associate Accountant in the Financial Reporting Department and in 2021, I was promoted to Accountant. In 2023, I transferred to the Regulatory Planning Department as a Regulatory Planning Analyst.

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

A. No, I have not.

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

A. The Panel's testimony in these proceedings will address the following:

1. Development of the Company's electric and gas revenue requirements for the twelve months ending June 30, 2025 ("Rate Year");
2. The basis 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, 2023, as well as the forecast periods for the twelve-month periods ending December 31, 2023, December 31, 2024, and June 30, 2025; and
4. The disposition of accumulated deferred costs and credits and proposed recovery or pass back from/to customers. The Company estimates that at June 30, 2024 it will have approximately $22.0 million and $12.1 million available for rate moderation for electric

and gas, respectively, through means of a traditional balance sheet offset. A net credit balance was preserved for immediate return to customers by the Company extending recovery of some significant regulatory assets over a 10-year period, including major storm costs, energy efficiency and heat pump costs, and excess deferred FIT and SIT resulting from the Tax Cut and Jobs Act in 2018.

5. Proposing elements of the revenue requirements that are subject to update during the pendency of this proceeding.

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 direction of the Panel or one of the Panel's members:

1. Exhibit __ (RRP-1) entitled "Projected Change in Delivery Revenue Requirements" which identifies the drivers and offsetting savings reflected in the projected Rate Year Ending June 30, 2025 as compared to the Commission-authorized delivery revenue requirements for the rate year ending June 30, 2024 pursuant to the November 18, 2021 Order Establishing Rate Plan in Cases 20-E-0428 and 20-G-0429 (“2021 Rate Order”);
2. Exhibit __ (RRP-2) entitled "Electric Income Statement" which addresses the historical period of the twelve months ended March 31, 2023; the Rate Year of the twelve months ending

June 30, 2025; and the relevant bridge periods of the years ending December 31, 2023 and 2024;

3. Exhibit __ (RRP-3) entitled "Gas Income Statement" which addresses the historical period of the twelve months ended March 31, 2023; the Rate Year of the twelve months ending June 30, 2025; and the relevant bridge periods of the years ending December 31, 2023 and 2024;
4. Exhibit __ (RRP-4) entitled "Direct Labor" which provides details of labor for electric and gas expense, labor by employee classification, and the allocation of labor costs to electric expense, gas expense, construction, and other categories of costs for the historical period of the twelve months ended March 31, 2023; the Rate Year of the twelve months ending June 30, 2025; and the relevant bridge periods of the years ending December 31, 2023 and 2024;
5. Exhibit __ (RRP-5) entitled “Management Audit Cost Estimates” which lists each management audit recommendation and estimated labor and non-labor costs and savings included in the development of revenue requirements or in the Company’s five-year capital plan;
6. Exhibit __ (RRP-6) entitled “Rate Base - Twelve Months Ended March 31, 2023”;

7. Exhibit __ (RRP-7) entitled "Rate Base - Years Ending December 31, 2023 and December 31, 2024, and Twelve Months Ending June 30, 2025";
8. Exhibit __ (RRP-8) entitled "Net Deferred Balances Available for Moderation"; and
9. Exhibit __ (RRP-9) entitled "Items Subject to Update."

I. Development of Revenue Requirements

Q. What is the purpose of Exhibit __ (RRP-2)?

A. Exhibit __ (RRP-2) presents the electric delivery base rate revenue requirement for the Rate Year. In other words, it focuses solely on electric delivery and excludes revenues and expenses such as commodity, Sales for Resale, the surcharge for the Clean Energy Fund ("CEF"), the Rate Adjustment Mechanism ("RAM"), and all other items included in the MISC surcharge.

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

A. Yes, Exhibit __ (RRP-3) 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, including off-system sales, the RAM and all other items included in surcharge revenues.

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Q. Please describe the information shown on Schedule A of Exhibit __ (RRP-2) which is entitled "Electric Operations Income Statement and Rate of Return."

A. Schedule A sets forth the operating revenues, operating revenue deductions, operating income, rate base, and associated rate of return for the electric department for the historical period, the bridge periods, and the Rate Year. It also 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 7.10% addressed in the testimony of the Finance Panel.

Q. Please describe Schedule B of Exhibit __ (RRP-2).

A. Schedule B shows normalization and ratemaking adjustments to the historical period, including those necessary to display operating income related to delivery service only. It also addresses the reclassification as a cost of service of certain items that are recorded as non-operating for financial accounting purposes.

Q. What is the purpose of Schedule C of Exhibit __ (RRP-2)?

A. Schedule C of Exhibit __ (RRP-2) shows the actual, normalized, and projected amounts, by Commission functional classification, for most of the operating revenue deductions listed in Schedule A of Exhibit __ (RRP-2) for the historical period, the bridge periods, and the Rate Year.

Operating revenue deductions not included in Schedule C are Depreciation and Amortization, which are shown on Exhibit __ (ATP-2), and Federal and State Income Taxes which are shown on Exhibit __ (ATP-10). Exhibit __ (ATP-2) and Exhibit __ (ATP-10) are both sponsored by the Accounting and Tax Panel.

Q. Has the Panel prepared a schedule demonstrating the gas revenue requirement similar to schedules A and B of Exhibit __ (RRP-2)?

A. Yes. Schedules A and B of Exhibit __ (RRP-3) show information for the gas revenue requirement in similar form to that for electric set forth in Schedules A and B of Exhibit __ (RRP-2).

Q. Has the Panel prepared a schedule for gas operating deductions similar to Schedule C of Exhibit __ (RRP-2)?

A. Yes, Schedule C of Exhibit __ (RRP-3) presents historical and projected information related to operating deductions for the gas department.

II. Presentation of Revenue Requirements

Q. Is the Company’s presentation of revenue requirements in this rate case filing consistent with the Company’s prior rate cases?

A. Yes. We have continued to follow the spirit and intent of the Commission’s Statement of Policy on Test Periods in Major Rate Proceedings issued November 23, 1977 (“1977 Policy Statement”). The Commission’s Policy Statement called upon utilities to improve the presentation of the forward-looking Rate Year and to provide a verifiable link from the historic test year to the forward-looking Rate Year. That said, this rate case filing provides the needed level of visibility and clarity into the elements of expense that are causing the need for additional revenues needed to properly align the projected costs to serve our customers with the revenues billed to customers.

Q. Please elaborate and expand upon the Commission's 1977 Policy Statement as it relates to the development and presentation of expense projections.

A. The Commission was very explicit in how expense projections were to be developed. First, forecasts were to be developed for individual elements of expense, whereby projections were predicated on a historical base adjusted for changes in unit prices and in activity levels. Further, all assumptions in unit price because of inflation or other factors and changes in activity levels due to modified work practices or other reasons were to be separately developed and identified.

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

A. In developing the various forecasts for each expense element, the historic period costs were first reviewed to determine actual costs incurred and any specific costs or activities that should be normalized. Then, the functions captured in each expense component were evaluated to determine whether the forecast needed to be based on factors particular to the individual component that influence its future level or whether escalation at inflation was appropriate. For expense components that were forecasted by inflating historic period costs, the Gross Domestic Implicit Price ("GDP") deflators used to inflate historical period costs were 2.5% for 2023 over the historic period, 2.5% for 2024 over 2023, and 1.1% for the Rate Year over 2024. These inflation rates are addressed in the testimony of the Forecasting and Rates Panel.

Q. When are specific costs or activities normalized?

A. Specific costs or activities are normalized when they are related to the Company's commodity activities, excluded from revenue requirements under Commission policy, non-recurring, related to an out-of-period event, or only a partial reflection of an annual cost. As previously indicated, normalization adjustments related to electric costs are shown on Exhibit __ (RRP-2), Schedule B and those related to gas costs are shown on Exhibit __ (RRP-3), Schedule B.

Q. How were costs that 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 80% electric and 20% gas, consistent with the allocation method that was utilized to set rates during the term of the 2021 Rate Order. The Accounting & Tax Panel discusses the common allocation methodology in greater detail.

Q. Please explain and identify the elements of expense that have been included in the development of revenue requirements in these proceedings.

A. Each element is set forth and discussed in turn below.

A. **<u>Internal Labor</u>**

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

A. Yes. Exhibit __ (RRP-4) 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. Please explain generally how Internal Labor costs were projected.

A. Internal Labor costs were first developed using annual base salaries and wages, by classification, for regular employees on the Company's payroll on March 31, 2023. The salaries and wages were increased, where applicable, by the average premium pay (<u>i.e.</u> overtime, shift differential, etc.) percentages that occurred during the historical period and then by the applicable salary and wage increase rates set forth in the testimony of the Workforce, Compensation and Benefits Panel. The regular employee level reflected in the labor cost projection is based on the March 31, 2023 employee level of 1,138 plus an incremental 243 employees planned to be hired during the bridge period and the Rate Year. The incremental work requirements for 243 additional employees are addressed in the testimony of the Workforce, Compensation and Benefits Panel and other Company testimony in this filing.

Requirements for 39 temporary employees (primarily college interns) were also included as provided by Human Resources to arrive at a total Direct Labor cost projection.

Q. Please identify the assumed effective hire dates for the 243 incremental employees noted above as reflected in revenue requirements.

A. Revenue requirements are based on a general assumption that incremental employees are hired on a quarterly basis, with the effective hire date assumed to be the first day of each calendar quarter. The list of incremental employees as provided to the Revenue Requirements Panel by the Workforce, Compensation and Benefits Panel designated employees by classification, consistent with those identified on Exhibit __ (RRP-4), Schedule C, and by period of hire (April – December 2023, January – June 2024, July – December 2024 and Jan - June 2025). Within each of the aforementioned time periods, employees within each classification were assumed to be hired equally across each quarter in that period.

Q. How were employee labor costs allocated to electric and gas expense?

A. Allocations to electric and gas expense were determined based on the normalized distribution of payroll costs for the twelve months ended March 31, 2023. Most notably, the distribution of payroll was normalized to reflect expected capital/expense ratios for the 243 incremental employees.

B. **Incentive Compensation**

Q. Does the Company's filing include consideration for any forms of incentive compensation?

A. Yes. The Company is including rate allowances for both executive short-term incentive compensation and for non-executive, non-union variable incentive compensation.

Q. Please explain how you arrived at the forecast of executive incentive compensation.

A. The projection of executive incentive compensation was determined consistent with the treatment in the Company's current rate plan, which recognized and provided rate recovery of STI pay linked to safety, reliability, customer service and the environment, as well as a limited portion linked to meeting financial metrics. Consistent with past practice, we have excluded long-term incentives.

Q. Please describe how the projection for the non-executive variable incentive compensation was derived.

A. Please refer to the testimony of the Workforce, Compensation and Benefits Panel for information on the cost of this new program.

C. **Employee Benefits**

Q. Please describe how Employee Benefits were forecasted.

A. Employee Benefits are comprised of Medical Insurance (including Dental and Vision), Group Life Insurance, Savings Incentive Plan ("SIP"), Employee Stock Purchase Plan ("ESPP"), and Other Employee Benefits.

Projections for healthcare and pharmacy medical Insurance costs (i.e., excluding Dental and Vision) are based on a study conducted by a third-party expert witness. Please refer to the testimony and exhibits of the Workforce, Compensation and Benefits Panel for more information regarding the methodology used to develop the forecasts for the bridge period and the Rate Year. Projections for Dental and Vision insurance costs are based on annualized activity for the twelve months ended March 31, 2023. GDP inflation factors were applied to this base to arrive at the costs projections for the bridge periods and the Rate Year. Additionally, costs associated with incremental employees were included in the projection for the bridge period and Rate Year.

Q. Please continue.

A. Group Life Insurance costs are based on the premium and employee contributions incurred for the month of March 2023 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 an employee level of 1,381, weighted appropriately to reflect effective hire date, for the Rate Year.

Q. Please explain how the projection for SIP was calculated.

A. SIP projections are comprised of two components. The first component is the calculation of voluntary employee contributions matched by the Company and the second component is the non-elective contribution made by the Company for all management employees hired on or after January 1, 2008 and for all union employees hired on or after May 1, 2008.

Q. How was the Company's match of the voluntary employee contribution of the SIP program determined?

A. The projection for voluntary employee contributions is based on the actual twelve months ended March 31, 2023 contribution level adjusted for applicable wage increases, plus an estimated Company contribution associated with the voluntary contributions of new hires. Voluntary contributions for new hires were estimated by calculating a weighted average of elected contributions for all new hires in the historic year. For those who chose to contribute a percentage above the maximum matched by the Company (i.e., 8%), it was assumed that their election was 8%. The weighted average percentage calculated was then multiplied by 75%, which represents the Company match portion of the contribution. The resulting percentage was applied to the estimated base salaries for the incremental employees.

Q. How was the cost associated with the non-elective Company contribution determined?

A. The projection for non-elective contributions is based on the actual 2023 payout (based on 2022 wages), which is equal to 5% of the base wage of all eligible employees. This is inclusive of the new Supplemental Retirement Plan discussed by the Workforce, Compensation and Benefits Panel. To arrive at the Rate Year forecast, the 2023 payout was adjusted for applicable wage increases, an increase in the Supplemental Retirement Plan contribution from 1% to 1.25%, and estimated contribution for new employees included in the "non-elective pool."

Q. In regard to ESPP and Other Employee Benefits, how were forecasts developed?

A. In terms of the Company's Employee Stock Purchase Plan ("ESPP"), the historic expense level was escalated at the projected wage increases to develop the forecasts for the bridge periods and the Rate Year.

Other Employee Benefits were projected based on the historic expense level escalated at inflation to arrive at the forecasts for the bridge periods and the Rate Year.

Q. How were projections allocated to electric and gas expense?

A. The allocation of Medical, Group Life, SIP, and ESPP costs to electric and gas expense are based on the normalized distribution of payroll.

D. **<u>Pension Plan (FAS 87)</u>**

Q. Please describe the basis for the Company's projection of Pension Plan (FAS 87) costs.

A. The cost estimate for the Company's Pension Plan, which includes the Retirement Income Plan and Supplemental Executive Retirement Plan ("SERP"), are based on the latest estimate provided by the Company's actuary. The service component of the plans was allocated based on the Company's normalized payroll distribution as shown in the testimony of the Accounting and Tax Panel. The non-service component was allocated only to electric and gas expense and was done so on a proportional basis of the normalized distribution of payroll costs charged to electric and gas expense.

Q. What level of pension plan expense has been reflected in the development of revenue requirements in this proceeding?

A. The development of revenue requirements for the Rate Year includes a credit of $7.3 million and $2.1 million for electric and gas, respectively.

These credit amounts represent the net amount after a 1% allocation to affiliates for SERP.

E. **Other Post-Employment Benefits (OPEB-FAS 106)**

Q. What level of OPEB expense has been assumed by the Panel in the development of revenue requirements?

A. The development of revenue requirements for Other Post-Employment Benefits ("OPEBs") for the Rate Year includes a credit of $5.8 million and $1.6 million for electric and gas, respectively. These projections are based on an estimate developed by the Company's actuary. Allocation of the service and non-service component of these plans is consistent with the methodology explained above for the Pension Plans. That is, the service component is allocated based on the Company's normalized payroll distribution for the historical period and the non-service component of these plans are allocated to electric and gas expense on a proportional basis of the normalized distribution of payroll costs charged to electric and gas expense.

F. **Employee Training, Safety & Education**

Q. Please describe the Company's projections for Employee Training, Safety & Education Expenses.

A. The Rate Year projection was developed by initially reviewing the historic year expense to identify appropriate normalization adjustments and normalized historic year expenses were then escalated at inflation to project the Rate Year. Additionally, an estimated cost per employee based on normalized historic year expense was calculated, escalated at inflation to arrive at a rate year cost per employee, and then applied to the projected number of incremental employees in the rate year. Lastly, incremental expense for new training programs and enhancements to existing programs, as further discussed by the Workforce, Compensation and Benefits Panel, was included in the development of revenue requirements.

G. **Production Maintenance**

Q. How did the Company project Production Maintenance expenses?

A. 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 Manager of Substation Engineering and Operations consistent with planned operating objectives at these facilities.

H. **Right of Way Maintenance**

Q. Please explain how Right of Way Maintenance projections were developed.

A. This expense component represents the estimated costs of the program, as addressed in the testimony of Company's Electric Capital and Operations Panel.

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I. Stray Voltage Testing

Q. Please describe the Company's cost projections for Stray Voltage Testing.

A. The forecast for Stray Voltage Testing (Mitigation and Non-Mitigation) was prepared by first reviewing the historic period expense to determine if normalization or other adjustments were necessary. Using this normalized expense as a base, the forecasted Rate Year expense was developed by factoring in projection assumptions related to vendor contract terms and escalation rates that were received from the Director of Electric Distribution & Standards. Finally, the Company is seeking continuation of symmetrical deferral accounting as authorized in the 2021 Rate Plan.

J. System Engineering & Compliance

Q. Please describe the Company's projected expenses for System Engineering & Compliance.

A. These expenses relate to the preparation of engineering studies, analyses, planning, and compliance with standards of our T&D system. The forecast for System Engineering & Compliance was prepared by reviewing the historic period expense to determine appropriate normalization adjustments. These normalized historic expense levels were then escalated at inflation to develop the forecasts for the bridge periods and the Rate Year. The revenue requirement for gas also considers incremental expense for non-labor costs to research and draw new map records as discussed in the testimony of the Gas Safety Panel.

K. **Substation Testing & Maintenance**

Q. Please explain the Company's projected revenue requirements for Substation Testing & Maintenance.

A. Substation Testing & Maintenance expenses relate to the inspection, testing, and maintenance of our substations. The forecast for these expenses was prepared by first reviewing the historic period expense to determine if normalization adjustments were necessary. One normalization adjustment was made to remove an out of period expense adjustment. Normalized historic expense levels were escalated at inflation to develop the forecasts for the bridge periods and the Rate Year.

L. **T&D Repair & Maintenance**

Q. Please explain the Company's projected revenue requirements for T&D Repair & Maintenance.

A. Expenses for T&D Repair & Maintenance center on the daily work of repairing and maintaining our electric and gas T&D system.

1. Electric Transmission Repairs & Maintenance

Q. How did the Company project expense for Electric Transmission Repairs & Maintenance?

A. The development of the projection began by first reviewing the historic year expenses to determine if normalizations were required. As a result of this review, an adjustment was made to normalize work associated with routine overhead line inspection to reflect a three-year average, as the Historic Year did not reflect the average level of work expected to occur annually. Normalized historic year expenses were then escalated at inflation to develop the forecasts for the bridge periods and the Rate Year, with the exception of one function number. The one expense function that was not projected based on inflation includes work activities that trend the Category 12, Electric Transmission, capital budget as set forth by the Electric Capital and Operations Panel. The Direct Testimony of that Panel explains the correlation of the expense work to the capital program. In order to project these expenses, the Electric Capital and Operations Panel provided projected contractor hours and an estimated contractor hourly cost for 2024. The hourly cost was inflated to arrive at the cost per hour used to calculate Rate Year contractor expense, which was ultimately calculated by multiplying the forecasted hours by the calculated rate. This methodology is consistent with that established in Case 17-E-0459 and continued in Case 20-E-0428, where we recognized that certain transmission expenses are linked to and trend with Electric Transmission capital work.

2. Electric Distribution Repairs & Maintenance

Q. How did the Company project expense for Electric Distribution Repairs & Maintenance?

A. The development of the projection began by first reviewing the historic year expenses to determine if normalizations were required. Normalized historic year expenses were then inflated to arrive at the Rate Year projections, with the exception of two function numbers. First, similar to transmission, distribution capital has an expense component of work tied to the Category 15, Electric Distribution Improvement, capital plan as set forth by the Electric Capital and Operations Panel. That panel provides an explanation of the correlation of the expense work to the capital program. In order to project these expenses, the Electric Capital and Operations Panel provided projected contractor hours and an estimated contractor hourly cost for 2024. The hourly cost was inflated to arrive at the cost per hour used to calculate Rate Year contractor expense, which was ultimately calculated by multiplying the forecasted hours by the calculated rate. This methodology is consistent with that established in Case 17-E-0459 and continued in Case 20-E-0428, where we recognized that certain distribution expenses are linked to and trend Electric Distribution Improvement capital work.

Second, the function number used to track expense attributable to distribution trimming for dispatch orders was escalated at a rate consistent with the distribution trimming activities included in the Company's Right-of-Way Maintenance program to arrive at the Rate Year projection. Please refer to the testimony and exhibits of the Electric Capital and Operations Panel for more information on distribution trimming escalation factors.

3. Gas Transmission & Distribution Repair & Maintenance

Q. Please explain the Company's forecast for Gas Transmission & Distribution Repair & Maintenance.

A. The forecast of gas transmission and distribution repairs and maintenance was developed by first reviewing the historic expense to determine if normalization adjustments were required. Normalizations were made to reflect other accounting adjustments and normalized historic year expenses were then inflated to arrive at the Rate Year projection. The revenue requirement for gas transmission and distribution repairs and maintenance also considers two incremental expenses. One incremental expense is related to canopy trimming, which is explained in more detail in the testimony of the Gas Capital and Operations Panel. The second incremental expense reflects an additional damage patroller, which is explained in more detail in the testimony of the Gas Safety Panel and Management Audit Recommendation 6.4 as shown in Exhibit __ (RRP-5).

M. **Transformer Installations & Removals**

Q. How were expenses for Transformer Installations & Removals forecasted?

A. The expense in this cost element captures work related to installing and removing electric transformers along with the associated credits to expense for first time installations and removals. Initially the installation and removal costs are charged to expense. Then, if the work is related to a first-time installation or removal of a transformer, a credit is recorded to expense to either capitalize the installation or to charge the removal to the depreciation reserve. The projection related to the installation and removal of transformers is based on the Category 15, Electric Distribution Improvements, capital plan set forth by the Electric Capital and Operations Panel. Projected contractor hours were received from that Panel along with an estimated hourly cost for 2024. The hourly cost was inflated to arrive at the cost per hour used to calculate Rate Year contractor expense. In order to calculate the projected credits to expense, internal labor related to transformer work was also considered. The historic year labor was escalated at the assumed union wage increases, as discussed by the Workforce, Compensation and Benefits Panel, to arrive at the estimated labor in the Rate Year. The transformer credits were calculated by assuming full offset of the contractor costs and estimated internal labor.

N. **Gas Pipeline Integrity and Inspection**

Q. Please describe the expenses forecasted for Gas Pipeline Integrity & Inspection.

A. The forecast was prepared by first reviewing the historic period expense to determine if normalization adjustments were necessary. Normalized historic year expenses were then inflated to arrive at the Rate Year projections. The revenue requirement also considers two incremental expenses. One incremental expense is to reflect continued implementation of the Safety of Gas Transmission Pipelines Rule as set forth in Case 20-G-0429 and discussed in the testimony of the Gas Capital and Operations Panel. The other incremental expense is to reflect continued implementation of the Pipeline Safety Management System as discussed in the testimony of the Gas Safety Panel.

O. **Gas Leak Repairs – Distribution Main**

Q. Please describe next the expenses forecasted for Gas Leak Repairs – Distribution Main.

A. The projection was developed by calculating a cost per repair for the twelve months ended March 31, 2023. The cost per repair was then inflated to arrive at the cost for the Rate Year and was multiplied by the leak repair projection provided by the Gas Safety Panel. All other expenses included in this cost element were projected by applying inflation to historic year expenses.

P. **Meter Installations, Removals & Maintenance**

Q. What type of work activity is included in this element of expense?

A. This cost element includes expenses for activities related to the daily work of installing, removing, and maintaining electric and gas meters along with the associated credits to expense for first time installations. Initially the installation costs are charged to expense and, if the work relates to a first-time installation, a credit is recorded to expense to capitalize the installation.

Q. What are the Company's forecasted expenses for electric and gas meter installations, removals, and maintenance?

A. The forecast of Meter Installations, Removals, and Maintenance was developed by first reviewing the historic year expense to determine if normalizations were required. For both electric and gas, the historic year level of meter credits was normalized to reflect the planned number of meters purchased, based on assumptions put forth by the Electric and Gas Capital and Operations Panels, at the latest known meter credit amount. The normalized historic year was then inflated to arrive at the projected Rate Year.

Q. Informational & Institutional Advertising

Q. What are the Company's forecasted expenditures for Informational & Institutional Advertising?

A. The Rate Year projection was developed by first reviewing the historic year to determine whether any normalizations were required; no normalizations were noted. Using the historic year as a base, the Rate Year was projected by escalating these costs at the rate of inflation.

R. Research & Development

Q. What are the Company's forecasted expenses for Research & Development ("R&D")?

A. Projected R&D costs for the Rate Year were provided by the Company's Director of Research Development & Innovation and are consistent with current program goals and objectives. These costs are subject to revenue matching accounting and deferral, as required by the Commission's Technical Release #16.

S. Economic Development

Q. What are the Company's forecasted expenses for Economic Development?

A. Consistent with Cases 20-E-0428 and 20-G-0429, the Company has included $800,000 for Economic Development in the determination of electric revenue requirements and $200,000 in the determination of gas revenue requirements. The Company also proposes continuation of the two-way true-up mechanism for Economic Development expenses.

T. **Meter Reading, Collections & Call Volume Overflow**

Q. What are the Company's forecasted expenditures for Meter Reading, Collections and Call Volume Overflow?

A. Costs classified in this expense element include the non-internal labor expense incurred to read meters, carry out collection efforts, and for our third-party call center to handle call volume overflow as needed. The Rate Year projection for meter reading, collection agency fees, waiver of reconnection fees, and the third-party call center were forecasted based on projected changes to activity or cost, as further described below. The remaining ancillary costs, which are only a nominal portion of this expense element, were projected based on escalating historic year expenses at inflation to arrive at a Rate Year estimate.

Q. Please describe how you arrived at the estimated cost for meter reading.

A. For both electric and gas, a normalization was made to historic year expense to annualize meter reading expense to reflect a shift from internal labor to contractors in the HY, as well as to update for rates included in the new vendor contract effective January 2023. An annual growth rate consistent with that included in the current vendor agreement was applied to arrive at the projections for the Bridge Period and Rate Year.

Q. Does the Company have anything else it would like to add pertaining to meter reading?

A. Yes, pursuant to the Company's Plan to Implement Monthly Meter reading in Case 22-M-0645 and the interim agreement reached between the Company and DPS Staff on July 27, 2023 ("interim agreement"), which prescribes an accelerated implementation of the Company's transition to monthly meter reading, the Company would incur incremental operating expense of approximately $4 million in the Rate Year. Given the timing of the interim agreement, the full costs associated with the revised monthly meter reading plan included in the interim agreement are not reflected in the Rate Year revenue requirements. As such the Company proposes that revenue requirements be updated at a later stage in this proceeding for all impacted components of revenue requirements pertaining to the monthly meter reading plan.

Q. Please describe how expenses related to collection activities, including collection agency fees and waiver of reconnection fees, were derived.

A. As the Company was not performing normal collection activities during the historic year, collection related expenses incurred during that period could not serve as the basis for the Rate Year projection.

As it relates to collection agency fees, with the change in arrears and the uncollectible landscape creating uncertainty for future collections, the Company is proposing to maintain the rate allowance established for the Rate Year Ended June 30, 2024 in Cases 20-E-0428 and 20-G-0429. Thus, the historic year for both electric and gas was normalized to align with the prior period rate allowance, as noted. This expense level was held constant for the Bridge Period and Rate Year, as the Company is also proposing a true-up mechanism for this expense. Please refer to the testimonies of the Customer Experience and Accounting and tax Panels for additional information.

As for fees associated with waiver of reconnection, as the Company did not terminate service during the entirety of the historic year, neither expenses, nor the offset, were incurred. As such, the historic year and all forecast periods were normalized to reflect the allowance agreed upon in Cases 20-E-0428 and 20-G-0429. Consistent with past practice, the offset to the credit included here is in the Energy Affordability Program and is subject to deferral.

Q. Finally, how did the Company arrive at its forecast for Call Volume Overflow?

A. Costs for this component of this expense element was provided by the Customer Experience Panel and are set forth in Exhibit __ (CEP-4).

U. **Bill Print**

Q. What is the Company's forecast for Bill Print expenses?

A. The Bill Print expense element includes costs for the printing and mailing of customer bills, excluding postage, by an outside vendor. The Rate

Year projection was developed by first reviewing the historic year to determine whether any normalizations were required. For both electric and gas, two normalization adjustments were made. First, the expense recorded in March 2023 was lower than the typical monthly run rate for customer billing, so March expense was normalized to the average of the prior months 11 months. Second, as the Company was not performing standard collection activities during the period of the historic year, costs associated with collection related mailings are not reflected in the historic year at a level expected to occur in the Rate Year. As a result, the Company normalized the historic year expense to pre-pandemic levels by setting it equal to the historic year ended March 31, 2020 adjusted for GDP. Using the normalized historic year as a base, the Rate Year was projected by escalating these costs at the rate of inflation.

V. <u>**Postage**</u>

Q. Please describe the Company's projected expenses for Postage.

A. For both electric and gas, the Rate Year projection is based on escalating normalized historic year expense by inflation. The normalization to the historic year was made to increase postage for collection related mailings, as the Company was not performing normal collection activities during the historic year and today, as discussed by the Customer Experience Panel, has three times the number of customers in arrears than average historic levels. The normalized historic year was estimated at pre-pandemic levels by setting it equal to the historic year ended March 31, 2020, adjusted for GDP, and then tripling the expense amount to align with the growth in customers in arrears.

W. **Payment by Credit/Debit Card**

Q. How did the Company project expense for Payments by Credit/Debit Card?

A. Expenses captured in this expense element are related to providing customers the option to make payment of their utility bill through means of a credit or debit card or at a walk-in center without being assessed a fee to do so. With the change in the arrears and uncollectible landscape, there is significant uncertainty surrounding future customer payment behavior. As a result, the Company is proposing that it maintain the rate allowance for payment by credit card that was provided for the Rate Year Ended June 30, 2024 in Cases 20-E-0428 and 20-G-0429 with the understanding that any variation will be captured through the continued symmetrical deferral for this element of expense.

X. **Energy Affordability Program**

Q. Please describe the projected expenses associated with the Company's Energy Affordability Program ("EAP").

A. The EAP is comprised of expense for the Low Income Bill Discount Program ("LIBDP") and the Waiver of the Reconnection Fee Program. The projection of expense for the LIBDP is in accordance with the parameters of the August 12, 2021 Order in Case 14-M-0565. As further explained by the Customer Experience and Forecasting and Rates Panels, when considering growth in participation as well as forecasted bill discounts, the LIBDP is projected to hit the 2% cap for both electric and gas in the Rate Year. The projection for this component of the EAP, is based on 2% of revenues for the prior period defined by the parameters of the aforementioned Order, escalated by 2% of the proposed rate increase, as this represents an assumed increase in customers' energy burden.

The Rate Year expense associated with the Waiver of Reconnection Fee Program are aligned with program levels established and approved in both the Company's 2018 and 2021 Rate Orders.

Y. **Uncollectible Accounts**

Q. Please describe the projected expenses for Uncollectible Accounts.

A. As noted by the Customer Experience, at this time, there is a significant level of uncertainty surrounding the level of net write-offs that may be experienced during the Rate Year. As a result of this uncertainty, the Company is proposing that it: (1) maintain the rate allowance for the delivery portion of uncollectibles that was provided for the Rate Year Ended June 30, 2024 in Cases 20-E-0428 and 20-G-0429, (2) assume the same uncollectible percentage for fuel and other surcharge components of the bill as established in the aforementioned cases, and (3) the uncollectible true-up mechanism afforded under the existing Rate Plan continue with modifications. The modifications are discussed in more detail in the testimony of the Customer Experience Panel and include the addition of a deferral of collection agency fees, as also noted in the above discussion of collection related costs, and the elimination of the ten basis point threshold currently applicable to the mechanism as it exists today. It should also be noted that absent a true-up mechanism for uncollectible expense, the rate allowances assumed in the development of revenue requirements and the proposed uncollectible factors, which as previously noted are all consistent with those established for the Rate Year ended June 30, 2024, would have to be adjusted.

Z. **<u>Regulatory Commission General Assessment</u>**

Q. Please describe the Company's projected expenses for the Regulatory Commission General Assessment.

A. The expense projection is based on the Department of Public Service's Statement of Estimated General Assessment for the fiscal year ending March 31, 2024, escalated annually by 10% to arrive at the Rate Year forecast. The growth factor is based on a historical average of the most recent three years of growth in these assessments.

AA. **Environmental Expenses**

1. Environmental - SIR Cost Recovery

Q. How did the Company project expense for Environmental – SIR Cost Recovery?

A. As it relates to the projection of Environmental Site Investigation and Remediation ("SIR") 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, 2021; 2022; and 2023) of expense adjusted to March 2023 dollars and then inflated. This projection methodology has been employed consistently since its inception in Cases 08-E-0887 and 08-G-0888, when it was proposed by Staff, and is consistent with other elements of expense where an averaging technique is employed to develop a historical base upon which to project the forward-looking Rate Year.

2. Environmental - All Other

Q. Please describe the Company's projected expenses for Environmental – All Other.

A. The Rate Year projection was developed by initially reviewing the historic year expense to identify appropriate normalization adjustments and normalized historic year expenses were then escalated at inflation to project the Rate Year. For both electric and gas, a normalization adjustment was made to reflect incremental environmental clean-up projects that are planned to occur annually.

BB. **Information Technology**

Q. What are the Company's projected expenses for Information Technology?

A. This expense element includes the Company's current and projected information technology requirements primarily related to hardware maintenance, software maintenance, and license costs. The projection for the Rate Year, as provided by the Technology Capital and Operations Panel, was developed by first reviewing the historic year to determine if any normalizations were required. Adjustments to the historic year were made to annualize expense to latest known amounts and to remove out-of-period or non-recurring expenses. The normalized historic year was escalated at inflation or, for specific IT vendors, at 8% for expenses that were expected to continue into the Rate Years. The 8% average IT vendor increase is explained in more detail in the testimony of the Technology Capital and Operations Panel. In addition, incremental IT expenses have been added to and removed from the Bridge Period and Rate Year, including costs and savings associated with Management Audit Recommendations 4.4 and 4.5 as shown in Exhibit __ (RRP-5). The incremental expenses added are related to the Company's efforts to continue to enhance IT infrastructure, improve the customer experience, and to protect against on-going cyber security threats. The expense removed, which include O&M of over $8 million, was primarily related to the Company's SAP Customer Information System ("CIS") stabilization. These expenses are not expected to recur in the Rate Year. Specific IT capital initiatives and applicable O&M expenses, as well as SAP CIS stabilization, are further discussed in the testimony of the Technology Capital and Operations Panel. The amortization of software costs is included in the depreciation schedules sponsored by the Accounting and Tax Panel.

CC. **Telephone**

Q. Please describe the Company's projected Telephone expenses.

A. Projections of Telephone expense were based on a review of historical charges and current billing rates for communication expenses and the application of inflation factors. In addition, incremental telecommunication savings from the Company's efforts to modernize its communications network have been reflected in the bridge period and Rate Year forecasts.

DD. **Rental Agreements**

Q. Please describe the Company's projected expenses for Rental Agreements.

A. The forecast for Rental Agreements was prepared by reviewing the historic period expense to determine whether rental arrangements were expected to be ongoing, expiring or changing pursuant to contract terms. Normalization adjustments to the historic year were made to annualize specific vendor expenses to latest known amounts. With the exception of tower rentals and select transmission contracts, the Rate Year was projected by escalating normalized costs at the rate of inflation. For the items noted as exceptions, projections were specifically based on contract agreements.

EE. **Security of Infrastructure**

Q. What are the Company's projected expenses for Security of Infrastructure?

A. The Rate Year projection for Security of Infrastructure was established by initially reviewing the historic year expense to determine if normalizations were required; none were noted. Using the normalized historic year as a base, the Rate Year was projected by escalating these costs at the rate of inflation, with the exception of costs for the standard contract for guard services at Central Hudson facilities. The project for these costs were based on newly proposed contract rates, as well as incremental services that will be required for the Company's Primary Control Center. Please refer to the testimony and exhibits of the Common Capital and Operations Panel for additional detail.

FF. **Maintenance of Buildings & Grounds**

Q. Please describe the Company's projected expenses for Maintenance of Buildings & Grounds.

A. These expenses and activities relate to the day-to-day work of maintaining our office buildings and other properties. The historic expense level was escalated at inflation to develop the forecasts for the bridge periods and the Rate Year, with the exception of expense associated with three Company facilities. Projections for these facilities consider incremental expenses for known contract increases above inflation, as well as for segments of the Company's Training Academy and Primary Control Center ("PCC") complex that are estimated to increase coincident with the in-service of the new PCC and the construction of the remaining training facilities.

GG. **Storm Expenses**

1. Major Storm Reserve

Q. Please explain the Company's forecast for the Major Storm Reserve.

A. A major storm reserve has been established for incremental expense incurred for weather events that qualify as chargeable to the reserve, and an allowance of $14.8 million was included in the development of electric revenue requirements. This augmented rate allowance recognizes the increased level of major storm activity experienced since the establishment of the reserve, and specifically over the last five years. In order to mitigate the rate increase, the allowance was developed by employing a 10-year average projection methodology, normalized for an accounting entry that was recorded outside of the historic year as a result of timing and for changes to the pre-staging thresholds as put forth by the Electric Capital and Operations Panel. It is essential that the Major Storm Reserve Allowance be enhanced, as the Company has been significantly under reserved throughout the current Rate Plan and has accrued a significant regulatory asset, as further discussed below.

2. Major Storm Amortization

Q. Has the Company had adequate reserves to cover the cost of major storm activities?

A. No. As of March 31, 2023, the Company had accrued a regulatory asset of $56.3 million for major storm activity above and beyond the funding of the reserve.

Q. How is the Company proposing to recover this significant regulatory asset?

A. The development of electric revenue requirements includes an incremental $4.1 million in the Rate Year to begin collection of the accrued regulatory asset. The $4.1 million is based on an assumption that the $56.3 million asset will be reduced by the major storm reserve rate allowance that remains to be collected over the term of the existing rate plan ($5.8 million) and by $10 million that is estimated to be included in the Company's Rate Adjustment Mechanism ("RAM") at December 31, 2023, which on average, is the amount of storm costs collected annually through the RAM. The remaining $41 million was then assumed to be collected over 10 years or through the RAM as further described below.

Q. Does the Company have any additional comments regarding the proposed recovery of storms costs in excess of the reserve balance?

A. Yes. There are two additional items to note. First, the determination of the $4.1 million allowance noted above assumes no major storm activity occurs from the end of the historic year through the end of the current rate plan and estimates the amount to be collected through the RAM. Given the uncertainty in these assumptions, the Company proposes to update this calculation later in these proceedings to reflect an update of storm activity and actual RAM collections, if known. Second, the Company proposes that these storm costs continue to be RAM eligible. Any collection through the RAM would simply reduce the 10-year collection period noted above.

3. Non-Major Storm Restoration

Q. What is the Company's forecast for expenses related to Non-Major Storm Restoration?

A. The projection for Non-Major Storm Restoration Expense was derived by use of a four-year average (twelve months ended March 31, 2020; 2021; 2022; and 2023) of non-major storm expenditures adjusted to March 2023 dollars, which were then inflated by the GDP factors. The historic expense level also includes a normalization to reflect a change in the pre-staging sharing provisions as proposed in the Electric Capital and Operations Panel Testimony and to reflect an accounting entry that was recorded outside of the historic year as a result of timing; these normalizations are offsets to those noted above in the discussion on the Major Storm Reserve. Use of a four-year average follows the averaging methodology generally accepted by Staff and the Company to project this expense and used to determine the rate allowance it a least the Company's last three Rate Plans. The Company is seeking update at a later stage in these proceedings to reflect the latest known information in development of the four-year average.

HH. **<u>Material & Supplies</u>**

Q. What are the Company's forecasted expenses for Materials & Supplies?

A. This expense element represents the amount of material and supplies charged directly to electric and gas expense. The bridge period and Rate Year projections were developed by applying rates of inflation to the normalized historic year expense. In terms of normalizations, 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.

II. Stores Clearing to Expense

Q. What is the Company's forecast for Stores Clearing to Expense?

A. The expenses contained in this element of expense are those charged to the stores clearing account that are not allocable to other cost elements. The forecast for stores clearing to expense was prepared by applying inflation to normalized historic year expenses to arrive at the projections for the Bridge Period and Rate Year. Normalizations were made to remove one-time, non-recurring expenditures and to reflect an adjustment to gas expense that is aligned with the three-year average projection methodology used to establish the projection of materials and supplies.

JJ. Transportation Expenses

1. Transportation Depreciation

Q. Please describe the Company's forecast for Transportation Depreciation.

A. Please refer to the testimony and exhibits of the Accounting and Tax Panel, as the amount of depreciation related to transportation equipment was provided by that Panel.

2. Transportation Fuel

Q. What is the basis for the Company's forecast for Transportation Fuel expense?

A. The forecast for Transportation Fuel was prepared by escalating normalized historic year expenses at a rate of inflation. In terms of the normalization made, the adjustment was to reflect a three-year average of the capital expense distribution applied to allocate these expenses.

3. Transportation All Other

Q. Please describe the Company's forecast for all other expenses related to Transportation.

A. This expense element captures all other transportation related costs, that is to say excluding depreciation, fuel costs, and costs allocable to other elements of expense, that are charged to the transportation clearing account. The forecast for Transportation All Other was prepared by first reviewing the historic period expense to determine if normalization adjustments were necessary. Similar to Transportation – Fuel, an adjustment was made to reflect a three-year average of the capital expense distribution applied to allocate these expenses. The Historic Year expense was escalated at inflation to arrive at the forecasts for the bridge period and Rate Year.

KK. **<u>Rate Case Expenses</u>**

Q. Please describe the Company's forecasted Rate Case expenses.

A. Rate Case Expenses include those expenses that are traditionally incurred related to a rate case application. The filing assumes continuation of the deferral accounting and three-year amortization of these costs as authorized in the 2015, 2018 and 2021 Rate Plans to arrive at the forward-looking Rate Year. In addition, we have included the projected deferred balance with assumed costs and recovery in the development of Rate Base.

LL. **Legal Services**

Q. What are the Company's projected expenses for Legal Services?

A. The forecast for Legal Services expenses was prepared by first reviewing the historic period expenses, and it was determined that two normalization adjustments were necessary. First, a normalization was made to the electric historic year to remove one-time, non-recurring credits associated with two of the vendors that provide the Company with legal services. Second, legal expenses that were incurred in connection with the investigations and proceedings related to the Company's transition to the new SAP CIS system were removed, as these are not projected to recur in the Rate Year. The normalized historic year expenses were then inflated to arrive at the rate year projections.

MM. **Consulting & Professional Services**

Q. What are the Company's forecasted expenses for Consulting & Professional Services?

A. The forecast for Consulting and Professional Services was prepared by escalating historic year expense at inflation to arrive at the Rate Year projection, with the exception of the items subsequently noted. External audit fees were escalated at a three-year average historical growth rate, and vendor costs incurred in support of the semi-annual DSIP filing were adjusted to reflect total estimated costs for the project, escalated at inflation, incurred every other year. There were also additional incremental expenses considered in the Rate Year projection, including costs to participate in the JD Power survey as per Management Audit Recommendation 8.1 shown in Exhibit __(RRP-5), to support the Company's evolving DEI program as per Case 22-M-0314, to provide for an updated BCA for AMI in conjunction with the 2025 DSIP filing, and to augment HR needs as it relates to talent attraction.

NN. **Miscellaneous General Expenses**

Q. What Miscellaneous General Expenses are forecasted by the Company?

A. The forecast for Miscellaneous General expense was prepared by first reviewing the historic period expense to determine if normalization adjustments were necessary. Normalizations required included adjustments to (1) annualize association dues at latest known cost, (2) annualize fees for the Board of Directors to reflect full complement for the entire historic year period, (3) to adjust for an out-of-period accounting transaction, and (4) to reflect costs for the Company's annual management meeting that fell outside of the Rate Year due to timing. Normalized historic year expenses were then inflated to arrive at the projections for the bridge period and Rate Year, with the exception of administrative costs allocated from Fortis, Inc. to Central Hudson. Central Hudson's allocation of these Fortis administrative costs for the Rate Year are based on annual estimates provided by Fortis escalated at inflation. Finally, incremental expense was also added to the Rate Year projection to account for incremental Board of Director Fees as existing Board members term off and temporarily overlap with their successors to allow for transition and for training and recruiting expenses related to the new workforce development program as discusses in the Workforce, Compensation and Benefits Panel Testimony.

OO. **Injuries and Damages**

Q. Please describe the Company's projections for expenses related to Injuries and Damages.

A. The Injuries and Damages expense element includes insurance coverage for workers' compensation, excess liability, personal and property damage claims and accident and safety activities.

The cost estimate for workers' compensation is based on the latest known actual premiums, as well as claims paid based on a three-year average (twelve months ended March 31, 2021; 2022; and 2023) adjusted to March 2023 dollars. The projected costs were allocated on the basis of the Company's adjusted payroll distribution.

Q. How did Central Hudson project costs for excess liability insurance?

A. The projected costs for excess liability insurance are based on the most recent known premiums and expected growth rates that were provided by the Company's Senior Treasury and Risk Administrator.

Q. How were costs for personal and property damage claims developed?

A. Projections for personal and property damage claims were derived by taking a three-year average (twelve months ended March 31, 2021; 2022; and 2023) of claim payments adjusted to March 2023 dollars and inflating to arrive at the Rate Year projection.

Q. What costs are included in Accident and Safety Activities expense?

A. Accident and Safety Activities expense is made up of Cyber Insurance, Miscellaneous Accident Expense, and Claims Billing Credits. With the exception of Miscellaneous Accident Expense, cost projections were based on inflating normalized historical period costs. Miscellaneous Accident Expense was projected by taking a three-year average (twelve months ended March 31, 2021; 2022; and 2023) of normalized expense adjusted to March 2023 dollars and then applying inflation. The only required normalization to the three-year data set was the removal of one out-of-period transaction.

PP. Other Operating Insurance

Q. What costs has the Company projected for Other Operating Insurance?

A. Forecasts of Other Operating Insurance are based on the most recent known premiums that were provided by the Company's Senior Treasury and Risk Administrator. Other Operating Insurance includes Directors and Officers ("D&O") Insurance, All Risk Property Insurance, Miscellaneous Other Insurances, and Brokerage Fees. With the exception of All Risk

Property Insurance, cost projections were based on inflating normalized historical period costs. Regarding All Risk Property Insurance, the cost of the insurance is based on the value of the property being insured. For the purposes of cost projections, the property is classified into three groups: 1) dams; 2) gas regulator stations/electric substations; and 3) other. 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. All Risk Property Insurance also includes other miscellaneous insurances that were projected based on inflating normalized historic year expenses.

QQ. **<u>Office Supplies</u>**

Q. Please describe the forecasted expenses for Office Supplies.

A. The historic year level of Office Supplies expense was escalated at inflation to arrive at the forecast for the Bridge Period and Rate Year.

RR. **<u>Management & Operational Audit Costs</u>**

Q. What costs are projected for Management & Operational Audit Costs?

A. Management & Operational Audit Costs includes the Company's actual and estimated management audit expenditures, which, consistent with past practice, are proposed to be amortized and recovered over a five-year period. The five-year amortization results in a Rate Year rate allowance of $129,000 for electric and $32,000 for gas. In addition, the Company is proposing continuation of full deferral accounting as most recently authorized in the 2021 Rate Order for any new Commission initiated or required management and/or operational audits.

SS. **Energy Efficiency & Heat Pump Programs**

Q. How did the Company determine the rate allowance for its internal suite of Energy Efficiency Programs and for the Heat Pump Program?

A. As discussed by the Earnings Adjustment Mechanisms Panel, Revenue requirements include recovery of the budgets prescribed in the January 16, 2020 *Order Authorizing Utility Energy Efficiency and Building Electrification Portfolios Through 2025* in Case 18-M-0084 ("the NENY Order"), as subsequently amended by the Clean Heat Order, reduced by the balance of Clean Energy Fund ("CEF") carrying charges projected at June 30, 2024. The use of CEF carrying charges to offset a portion of the rate allowances is in accordance with the provisions of the NENY Order. Additionally, the Company proposes to continue deferral treatment for over/under spending compared to the modified rate allowances, as reflected by the Accounting and Tax Panel.

Q. Is the Company proposing an update for the Rate Year rate allowances of Energy Efficiency and the Heat Pump Program?

A. Yes. As also noted by the Earnings Adjustment Mechanisms Panel, the rate allowances included in the development of revenue requirements are premised on an estimate of accrued CEF interest, and thus the Company is proposing an update at a later stage in these proceedings to recognize a more current projection.

TT. **Amortization of Energy Efficiency/Heat Pump Deferred Costs**

Q. Is the Company collected Energy Efficiency and Heat Pump program funding in alignment with budgets established in the NENY Order under the terms of its current Rate Plan?

A. No, as part of the outcome of the Joint Proposal in Cases 20-E-0428 and 20-G-0429, the Company deferred collection of $18.8 million of electric funding.

Q. How is the Company proposing to recover the deferred collections?

A. The development of electric revenue requirements includes an incremental $1.9 million in the Rate Year to begin collection of the accrued regulatory asset. In an effort to mitigate the rate increase, this estimate is based on an assumed collection of costs over ten years. However, the Company proposes that these deferred costs continue to be RAM eligible at that any collection through the RAM simply reduce the ten-year collection period.

UU. **Expenses Allocated to Affiliates**

Q. What are the Company's projected Expenses Allocated to Affiliates?

A. The projection of Expenses Allocated to Affiliates is based on inflation of historical period credits to Central Hudson due to costs determined to be chargeable to its affiliates.

VV. **Miscellaneous Charges**

Q. What are the Company's projected Miscellaneous Charges?

A. Miscellaneous Charges consists of the activities and expenses that have not been identified elsewhere within an element of expense discussed in this testimony. In other words, it represents the residual accounts payable and non-labor journal voucher transactions incurred during the historic year. The forecast for Miscellaneous Charges was prepared by first reviewing the historic period expense to determine if normalization adjustments were necessary, which resulted in the historic year being adjusted to remove COVID-19 expenses, as these expenses are not expected going forward. The normalized historic year expenses were then escalated at inflation to project the Rate Year. Additionally, pursuant to the Company's Plan to Implement Monthly Meter reading in Case 22-M-0645, the Company would incur incremental operating expense beginning in the Rate Year and in the subsequent period for customer outreach. Projected costs for the Rate Year were included in the development of revenue requirements.

WW. **Amortization of Unprotected Asset ("TCJA")**

Q. Please explain the basis for the forecasted amortization of the Unprotected Asset ("TCJA").

A. As described in the testimony of the Accounting and Tax Panel, the Company is proposing to collect its deferred federal income tax balances that resulted from the 2017 TCJA that are non-asset based and not protected under the tax normalization rules, by amortizing the regulatory asset over a ten year period.

XX. **Productivity Imputation**

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

A. Yes. We have imputed a 1% productivity credit to capture future productivity gains in a manner similar to that customarily employed by the Commission. The base upon which the 1% productivity adjustment was applied includes labor, employee benefits (including pensions and OPEBs), variable compensation and payroll taxes. This base, with the exception of variable pay which is new in these Cases, has been utilized by the Commission since Cases 05-E-0934 and 05-G-0935, where New York State Department of Public Service Staff ("Staff") expanded the base to include non-labor components. It should be noted that this productivity adjustment is in addition to cost reductions that are included in the development of revenue requirements that are not in the form of a percentage applied to any particular base, but rather through the

Company's focus on continuous improvement. The historic period ended March 31, 2023, which serves as the basis to project many of the elements of costs, reflects the productivity gains that the Company has achieved through continuous improvement and are therefore already reflected in the development of revenue requirements. Additionally, the Policy Panel discusses multiple other cost savings that have been reflected in this rate filing for the benefit of customers.

YY. Amortization of Depreciation Reserve Adjustment

Q. Is the Company proposing recovery of the under-reserve of its accumulated book depreciation reserve?

A. Yes. Please refer to the testimony of the Accounting and Tax Panel for more information on recovery included in the development of revenue requirements, which equals $4.8 million for electric and $3.3 million for gas in the Rate Year.

ZZ. Recovery/Refund of Rate Change Timing

Q. What is the Company proposing related to recovery/refund as it relates to the timing of the Company's rate change?

A. For ratemaking purposes, rate design assumes that all kwh or Ccf billed in the month of the rate change are billed at the newly effective base delivery rates. However, on an actual basis, sales billed in the month of a rate change are billed at a blended rate, which reflects both old and new rates. This results in an under/over collection relative to approved rates. As such, the development of revenue requirements for both electric and gas includes recovery for the forecasted under collection, which was developed using a historical three-year average to determine the percent of under/over collection compared to the total agreed upon rate change.

AAA. **Taxes Other than Income Taxes**

1. Revenue Taxes

Q. What are the Company's projected revenue taxes?

A. Revenue taxes are a surcharge applied to delivery rates and are collected in the same manner as other surcharges. As such, the income statement presentation shows Revenue Taxes as both a revenue line item within Operating Revenues and as an expense line item within Other Deductions. The projection of revenues taxes was provided by the Forecasting and Rates Panel.

2. Payroll Taxes

Q. What are the Company's projected payroll taxes?

A. Payroll taxes, consisting of Federal Insurance Contributions Act ("FICA"), federal and state unemployment insurance, and Medicare tax were calculated by applying the appropriate tax rates to the related taxable wage base projected for the applicable periods. The Metropolitan Commuter Transportation Mobility Tax on payrolls within the Metropolitan Transit Authority ("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.

3. Other Taxes

Q. What other taxes are included in the Company's forecast?

A. Other taxes include sales and use taxes and hazardous waste taxes. Sales and use taxes were projected by first applying inflation to historical period costs. Further, incremental sales tax above inflated levels was included in the projection of the Rate Year in order to reflect an increased sales tax expense directly correlated to incremental O&M expense in select cost elements. The hazardous waste tax projection is based on applying inflation factors to a three-year average (twelve months ended March 31, 2021; 2022; and 2023) of hazardous waste tax adjusted to March 2023 dollars.

4. Property Taxes

Q. What property taxes are projected by the Company?

A. Property taxes were projected and are explained in the testimony of the Accounting & Tax Panel. The testimony of that Panel also includes the Company's request for update of latest known property taxes at a later stage in these proceedings. Details of the projections are provided on Exhibit __ (ATP-15) and Exhibit __ (ATP-16) for electric and gas, respectively, which are sponsored by the Accounting & Tax Panel. The projection schedules detail real estate and special franchise taxes levied by school districts and by towns, counties, cities, and villages.

III. Development of Rate Base

Q. Referring to Schedule A of Exhibit __ (RRP-6), what does this schedule show?

A. This schedule shows Electric and Gas rate base for the historical period of the twelve months ended March 31, 2023 and summarizes the components that make up the rate base.

Q. Are any items included in the rate base for the historical and forecast periods supported by a witness or Panel other than this 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 and Tax Panel and are addressed in that Panel's testimony.

Q. Please describe the amount labeled "Customer Advances for Undergrounding" appearing on Schedule A of Exhibit __ (RRP-6).

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

DIRECT TESTIMONY OF THE REVENUE REQUIREMENTS PANEL

Q. Please describe the amount labeled "Preliminary Survey & Investigation" appearing on Schedule A of Exhibit __ (RRP-6).

A. The amount represents the average balance of charges incurred related to the preliminary work of the proposed training facility, which were ultimately transferred to construction work-in-progress during the historic year.

Q. Please describe the amounts labeled "Deferred Charges" as shown on Schedule A of Exhibit __ (RRP-6).

A. The deferred charge balance listed on Schedule A is shown in detail on Schedule B of this Exhibit. Deferred charges generally represent (1) 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 or (2) the interest accrued on these deferred balances.

Q. Please describe the items appearing on Schedule B of Exhibit __ (RRP-6).

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, issued on March 6, 1978 in Case 27154. 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 70% to the Electric Department and 30% to the Gas Department based on the proportional shares of the historical period earnings base.

“Deferred Revenues - Attachment Rents” result from the Company's accounting treatment recognizing the attachment rents as revenues during the period to which they are earned rather than when they are received.

“Unamortized Loss on Reacquired Debt” 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 70% to the Electric Department and 30% to the Gas Department based on the proportional shares of the historical period earnings base.

“Economic Development” represents the remaining funding earmarked for Economic Development, as approved by the Commission in Cases 05-E-0934 and 05-G-0935, an additional $4.5 million of funding from Fortis, and a transfer of $0.5 million from the Competition Education

Fund as directed in the Acquisition Order (pg. 26). These funds were exhausted at the end of the historic year, as the Company was ordered to utilize unspent funds in conjunction with Case 14-M-0565/20-M-0266 Phase 2 Arrears Report.

"NYSERDA Pre-February 2016" represents the over-collection of funds prior to February 2016 that are not subject to carrying charges and are earmarked for remittance to NYSERDA for their suite of energy efficiency program expenditures.

"Carrying Charge on Environmental SIR Costs & Recoveries" represents the average balance during the historical period of the accumulated interest due (to)/from customers related to the funding for such costs established by the Commission in Cases 05-E-0934 and 05-G-0935 (2006 Rate Order at pg. 69).

"Carrying Charge on Property Taxes" represents the accumulated interest due (to)/from customers related to the deferral of the over- and under-recovery of property taxes as authorized by the Commission in Cases 20-E-0428 and 20-G-0429 (2021 Rate Order, Joint Proposal at pg. 16).

"Carrying Charge on RDM" represents the accumulated interest due (to)/from customers related to the deferral of the difference between the targeted delivery revenue for each applicable service class versus the actual revenue collected (2021 Rate Order, Joint Proposal Appendix O).

"Management & Operational Audit Costs" represents the unrecovered deferral of actual Management and Operational Audit costs being amortized over a 60-month period as authorized in Cases 20-E-0428 and 20-G-0429 (2018 Rate Order, Joint Proposal at pg. 16).

"Federal Tax Rate Change (Unprotected)" represents the net amount due from customers for the deferred tax balances that were adjusted to the 21% tax rate.

"Federal Tax Rate Change (Unprotected) – Reclass from Protected" represents the net amount due to customers for the deferred tax balances that were adjusted to the 21% tax rate that were deemed to be unprotected under the normalization rules of Internal Revenue Code ("IRC") 168(f).

"NYS Tax Rate Change (Unprotected) – Reclass from Protected" represents the net amount due to customers for the deferred tax balances that were adjusted to the 6.5% tax rate that were deemed to be unprotected under the normalization rules of Internal Revenue Code ("IRC") 168(f).

Per the Company's JP in Cases 20-E-0428 and 20-G-0429, $25.6 million of the combined federal and state electric balance and $5.5 million of the gas balance is to be transferred to available for moderation as of July 1, 2023 to be used for rate moderation.

"Federal Tax Rate Change (Protected)" represents the amount due to customers for the deferred tax depreciation and other plant-related deferred tax balances that were adjusted to the 21% tax rate and are being amortized over the depreciable lives of the underlying assets.

"New York State Tax Rate Change (Protected)" represents the amount due to customers for the effect on state income taxes due to the deferred tax depreciation and other plant-related deferred tax balances that were adjusted to the 6.5% tax rate and are being amortized over the depreciable lives of the underlying assets.

"Carrying Charges on Arrears Management" represents the accumulated interest due from customers related to deferrals resulting from the Arrears Management Program ("AMP") Phase I and II arrears forgiveness customer credits.

"Carrying Charges on Uncollectible Write-Offs" represents the accumulated interest due from customers related to deferral of differences between the actual 12 months of net-write-offs compared to billed uncollectibles (2021 Rate Order, Joint Proposal at pgs. 28 - 29).

"Carrying Charge on Deferred Interest (Variable)" represents the accumulated interest due (to)/from customers related to deferral of the difference between the actual interest rate and the interest rate assumed in setting rates related to variable rate debt as authorized in Cases 20-E-0428 and 20-G-0429 (2021 Rate Order, Joint Proposal at pgs. 15 - 16).

"Carrying Charge on EV Fast Charge Incentive" represents the accumulated interest due to customers related to NYSERDA funding to provide incentive payments for fast charging stations as authorized in the Commission's February 7, 2019 Order Establishing Framework for Direct Current Fast Charging Infrastructure Program in Case 18-E-0138 at pgs. 50-51.

"Carrying Charge on EV Make Ready Customer Owned" and "CC – EV Make Ready Implementation Costs" represent the accumulated interest due from customers as authorized in the Commission's July 16, 2020 Order in Case 18-E-0138.

"Carrying Charge on Deferral of Over/Under Collection of Interest" represents the accumulated interest due (to)/from customers related to deferral of the difference between the actual average cost rate of long-term debt (fixed and variable) and the average cost rate assumed in setting rates as authorized in Cases 20-E-0428 and 20-G-0429 (2021 Rate Order, Joint Proposal at pgs. 14 - 15).

"Carrying Charge on Credit Card Fee Deferral" represents the accumulated interest due (to)/from customers related to the over- and under-recovery of the payment by credit or debit card program, including walk-in center transaction fees and outreach and education, as authorized in Cases 20-E-0428 and 20-G-0429 (2021 Rate Order, Joint Proposal at pg. 17).

"Carrying Charge – Tropical Storm Isais" represents the accumulated interest due to customers related to Central Hudson's obligation to establish an interest-bearing account to fund storm hardening per the Commission's Order in Case 20-E-0641 (pg. 4).

"Carrying Charge on Asset Sale to Transco" represents the accumulated interest due to customers related in accordance with the Commission's Order Authorizing the Transfer of Transmission Property and Easement Interest in Case 22-E-0077.

"Rate Case Expense Deferral" represents the unamortized deferred rate case expense balance being amortized over 36 months as established in Cases 20-E-0428 and 20-G-0429 (2021 Rate Order, Joint Proposal at page 17).

"Carrying Charge on Major Storm Reserve" represents the accumulated interest due from customers that has been recorded related to the difference between the Major Storm rate allowance and actual Major Storm Costs as authorized in Case 20-E-0428 (2021 Rate Order, Appendix U).

"Carrying Charges on Sales Tax Refund and Assessment" represents accumulated interest due (to)/from customers associated with the deferral of sales tax assessments and refunds as established in Cases 20-E-0428 and 20-G-0429 (2021 Rate Order, Joint Proposal at page 32).

"Carrying Charges on Call Volume Overflow" represents accumulated interest due from customers associated with the deferral of incremental call volume overflow costs. Under the provisions of the JP in Cases 20-E-0428 and 20-G-0429, the Company was able to collect $1.5 million for incremental costs that were expected to be incurred in the first rate year, but that were collected evenly over the three years of the Rate Plan (2021 Rate Order, Joint Proposal at page 28 and Appendix F, Schedule 4).

"Carrying Charges on Make Whole Provision" represents the accumulated interest due from customers on the deferred balance attributable to the Make Whole Provision from Cases 20-E-0428 and 20-G-0429 (2021 Rate Order, Joint Proposal at pg. 9).

"Carrying Charges on Economic Development – Customer Funding" represents the accumulated interest due to customers on the difference between Economic Development program costs and amounts collected in rates (2021 Rate Order, Joint Proposal at pgs. 22-23).

"Carrying Charge on Management Audit – Electric & Gas" represents the accumulated interest due from customers on the net deferred asset recorded in conjunction with costs incurred for the Company's management audit in Case 21-M-0541 (2021 Rate Order, Joint Proposal at pg. 16).

"Carrying Charge on Safety of Gas Transmission Rule" represents the accumulated interest due from customers on the increment costs incurred to fulfill requirements of this requirement beyond what was included in rates (2021 Rate Order, Joint Proposal at pg. 32).

"Carrying Charges on Rate Moderators" and "Carrying Charges on EBC/GCB" represent the accumulated interest due to customers on the net deferred regulatory credits available for rate moderation, as well as the over/under of the pass back of the moderation as authorized in Cases 20-E-0428 and 20-G-0429 (2021 Rate Order, Joint Proposal at pgs. 8, 23 and 34).

"Carrying Charges on Danskammer Gas Revenue" represents the accumulated interest due from customers on the actual delivery revenues associated with providing gas service to Danskammer compared to the revenues imputed in rates. (2021 Rate Order, Joint Proposal at pg. 24).

"Carrying Charges on Energy Affordability" represents the accumulated interest due to customers related to the underspending of the Bill Discount and Waiver of Reconnection Fee components of the Energy Affordability Program as authorized in Cases 20-E-0428 and 20-G-0429 (2021 Rate Order, Joint Proposal at pgs. 41-42).

"Carrying Charges on NWA Targeted Demand Management Program" represents the accumulated interest due from customers related to the deferral of revenue requirements on projects and incentives as authorized by Order Implementing with Modification the Proposal of Cost Recovery and Incentive Mechanism for Non-Wire Alternative Project issued July 15, 2016 in Case 14-E-0318. (2021 Rate Order, Joint Proposal at pgs. 18 and Appendix F).

"Carrying Charges on REV Demo Projects" represents the accumulated interest on the revenue requirement effect of the Company's Reforming the Energy Vision ("REV") Demonstration Project as authorized in Cases 120-E-0428 and 20-G-0429 (2021 Rate Order, Joint Proposal at Pg. 18).

"Carrying Charges on Non Pipe Alternative (NPA)" represents the accumulated interest due from customers on the incremental revenue requirement effect of development and implementation costs associated with NPA projects as authorized in Case 20-G-0429 (2021 Rate Order, Joint Proposal at pg. 18).

"Carrying Charges on COVID Lost Revenues" represents the accumulated interest on the over/under deferral of finance charge revenue and reconnection fee revenue compared to that assumed in the establishment of rates in Cases 20-E-0428 and 20-G-0429 (2021 Rate Plan, Joint Proposal at Pg. 28).

"Carrying Charges on Clean Energy Fund – NYSERDA & CHGE Internal EE Programs" represents the net accumulated interest due to customers on (1) the difference between actual remittances to NYSERDA in connection with the Clean Energy Fund programs to the costs collected from customers and (2) the difference between expenditures for the Company's internal suite of Energy Efficiency and Heat Pump programs and collection in rates as authorized in Cases 20-E-0428 and 20-G-0429 (2021 Rate Order, Joint Proposal at pgs. 17, 52 and 52).

"Carrying Charges on Revenue Requirement – Leak Prone Pipe" represents the carrying charge on the deferred revenue requirement due from customers for miles of leak prone pipe eliminated in excess of the targets established for calendar year 2021 and authorized in Case 17-G-0460 (2018 Rate Order, Joint Proposal at pg. 22).

"Pension Reserve (Net of Tax)" represents the accumulated collection from customers over/under the accumulated amount of the Company's contributions to the related Plan trust established for benefits to be distributed to plan participants.

"Carrying Charge Pension Reserve" represents interest accrued on the variation between actual reserve balances and the amounts included in the development of rate base used to establish delivery rates as authorized in Cases 20-E-0428 and 20-G-0429 (2018 Rate Order, Joint Proposal at pg. 16).

"OPEB Reserve (Net of Tax)" represents the accumulated collection from customers over/under the accumulated amount of the

Company's funding or contributions to the related Plan trusts established for benefits to be distributed to plan participants.

"Carrying Charge OPEB Reserve" represents interest accrued on the variation between actual reserve balances and the amounts included in the development of rate base used to establish delivery rates as authorized in Cases 20-E-0428 and 20-G-0429 (2018 Rate Order, Joint Proposal at pg. 16).

"Carrying Charges on Rate Adjustment Mechanism (RAM)" represents carrying charges accrued during the RAM collection period on the deferred RAM eligible balances being collected or returned via the RAM as authorized in Cases 20-E-0428 and 20-G-0429 (2020 Rate Order, at Pg. 52 and Appendix G).

"Miscellaneous Adjustment" reflects immaterial rounding or balancing adjustments necessary to align the complex rate base model with the simplified model included in the development of revenue requirements.

Q. Would the Panel please explain what is shown on Schedule C of Exhibit __ (RRP-6) entitled "Deferred Federal Taxes?"

A. Schedule C shows the average 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-6) that are not directly related to the items shown on Schedule B?

A. "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 (Statement of Policy on Accounting and Ratemaking Procedures to Implement Requirements of the Tax Reform Act of 1986 at pgs. 26-29).

“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 (Statement of Policy on Accounting and Ratemaking Procedures to Implement Requirements of the Tax Reform Act of 1986 at pgs. 40-42).

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 service.

"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.

"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.

"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.

"Prepaid Insurance" represents the deferral of federal income tax benefits associated with the deduction of prepaid insurance.

"Repair Deduction" represents the deferred taxes related to the reclassification of certain assets from capital to expense for federal and state income tax purposes. This is a timing difference and will reverse over the book life of the asset.

"NOL Carryforward" represents the Company's federal Net Operating Loss ("NOL"). That NOL will be carried forward to be applied against future taxable income. The NOL Carryforward reverses when there is taxable income to offset the balance.

"Unamortized R&D Expenses" represents the deferral of federal income tax associated with the deduction of R&D expenses.

"Interest Expense on Tax Reserve" represents the deferred taxes on the interest payable on the reserve for the gas repair deduction deemed to be at risk while awaiting final tax regulations. On April 14, 2023, the IRS issued Revenue Procedure 2023-15, which provides a safe harbor method of accounting for gas repairs. Upon adoption of the Revenue Procedure the allowable reserve will be reversed.

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-6)?

A. Yes. Schedule C does not include amounts related to unamortized debt expense 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 is non-deductible for tax purposes and, therefore, no deferred taxes result. Finally, the Company has federal contra tax accounts to recognize the federal benefits of deferred state income taxes. In other words, a state income tax rate at 6.5% multiplied by the federal tax rate of 21%.

DIRECT TESTIMONY OF THE REVENUE REQUIREMENTS PANEL

Q. Please explain what is shown on Schedule D of Exhibit __ (RRP-6) 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 explain what is shown on Schedule E of Exhibit __ (RRP-6), entitled “Working Capital.”

A. The working capital items which have been summarized on Schedule A are shown on Schedule E of Exhibit __ (RRP-6). This schedule sets forth the working capital component of rate base for the twelve months ended March 31, 2023. The schedule identifies the standard items that make up the working capital rate base in accordance with established Commission practice. Included are Other Materials and Supplies, Prepayments and an allowance for operation and maintenance (“O&M”) expenses, excluding commodity costs and uncollectibles.

Q. How were the amounts shown on Schedule E of Exhibit __ (RRP-6) 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 Commission. Since the Company began billing all customers monthly effective July 2016, a one-eighth (1/8) factor was used to determine the cash working capital related to operation and maintenance expenses other than uncollectible expense and commodity costs. The Commission's Order issued on December 22, 1971 in the Niagara Mohawk Power Corporation Case 26088 (Order at pgs. 5-9) established the 1/8 factor as appropriate, since the "FPC (Federal Power Commission) method comprehends a working capital cash allowance of 1/8 of annual operating expenses based on service being billed on a monthly basis." The historic year level of cash working capital was normalized to recognize the adjustments made to O&M expense excluding commodity costs and uncollectibles.

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 71% to the Electric Department and 29% 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 71% to the electric department and 29% to the gas department based on the allocation of the underlying plant assets that served as the basis of the property taxes paid. All other prepayments were allocated 80% to the electric department and 20% to the gas department as authorized in Cases 14-E-0318 and 14-G-0319 (2015 Rate Order, Joint Proposal at pg. 10.)

Q. Please explain the derivation of the amounts labeled "Capitalization Adjustment to Rate Base" appearing on Schedule A of Exhibit __ (RRP-6).

A. These amounts are developed on Schedules F through H of Exhibit __ (RRP-6). Schedule F shows the average capitalization per the Company's books for the twelve months ended March 31, 2023. Schedule G shows the average corporate earnings base for the twelve months ended March 31, 2023. The amounts developed on Schedules F and G are used on Schedule H, which compares the historical period earnings base and capitalization 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-6).

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-6), as well as interest-bearing construction work in progress (shown on Exhibit __ (ATP-1), Schedule A) and a series of items on which interest or carrying charges are accrued, net of 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 reasons. The first is to recognize that capital has been used to support non-earnings base items. Related adjustments shown on Schedule H include the Company's average investment in non-utility property, property subject to FERC regulation, and accumulated OCI – available for sale securities.

The second purpose of adjusting capitalization is to more accurately reflect the cashflow 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 common equity and long-term debt and increased for short-term debt.

The third reason for adjusting capitalization relates to recognizing that short term deferred and working capital costs are collected through the Energy Cost Adjustment Mechanism (“ECAM”) and Gas Supply Charge (“GSC”). Adjustments shown in Schedule H to reflect this are those identified as “Deferred Gas Costs”; “Working Capital – Material &

Supplies Inventory"; "Deferred Electric Fuel Costs"; and "Deferred Long Term Gas R&D/GRI Costs."

Finally, the last adjustments to capitalization serve to remove the effects of negative and positive revenue adjustments, earnings adjustment mechanisms, other penalties, and prepayments received from third party developers that are not included to determine the amount of capital required to support rate base in the determination of revenue requirements.

Additionally, the deferred contra income tax effect of the adjustments to capitalization noted above was recognized.

Q. What is the result of the comparison on Schedule H of Exhibit __ (RRP-6) of the historical period earnings base and adjusted capitalization?

A. The comparison shows that adjusted capitalization exceeds earnings base by $125.5 million. Accordingly, the unadjusted rate base has been increased by this amount as shown and identified as "Capitalization Adjustment to Rate Base" appearing on Schedule A of Exhibits __ (RRP-6) and __ (RRP-7). This adjustment reflects the consistent application of the method used by the Company and endorsed by the Commission in previous rate cases.

DIRECT TESTIMONY OF THE REVENUE REQUIREMENTS PANEL

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 70% to the Electric Department and 30% 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-6).

Q. Turning now to the subject of forecasting various components of the rate base and referring to Exhibit __ (RRP-7), Schedule A, please explain how the amounts labeled "Customer Advances for Undergrounding" were forecasted.

A. The amounts shown on Schedule A for these items represent the latest known balances as of February 28, 2023, which were held constant throughout the bridge period and Rate Year.

Q. Please explain the method used to develop the projected amounts shown on Schedules B, C and D, of Exhibit __ (RRP-7), entitled "Deferred Charges," “Deferred Federal Income Taxes,” and "Deferred State Income Taxes," respectively.

A. The amounts shown on Schedules B, C and D were developed by projecting monthly balances for the items shown, which were all previously described, 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.

Q. How was the amount shown on Schedule A of Exhibit __ (RRP-7), 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 Exhibit __ (RRP-7).

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 escalating the previous year’s monthly balance by inflation.

The projected balance of prepaid property taxes was based on the timing of cash payments to municipalities and a subsequent twelve-month amortization. Projected monthly balances were determined based on the relationship of the average actual monthly prepaid balance for the period 2020 through 2022.

Finally, consistent with the historic year discussion earlier in this testimony, the operation and maintenance cash working capital component was developed by applying the FERC one-eighth (1/8) formula applicable to operation and maintenance expenses.

DIRECT TESTIMONY OF THE REVENUE REQUIREMENTS PANEL

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

A. As shown on Schedule A of Exhibit __ (RRP-7), the projected rate base for the Rate Year is $1.756 billion for Electric and $745.1 million for Gas.

Q. Is the Company proposing to update rate base?

A. Yes, the Company is proposing to update rate base, including EBCAP, for actual results at a point later in this proceeding.

IV. Disposition of Deferred Items

Q. What is the Company's proposal related to the deferred balances identified as available for moderation?

A. Schedule A and B of Exhibit __ (RRP-8) show the projected deferred balances available for moderation for electric and gas, respectively. The projected electric balance as of July 1, 2024 is a regulatory credit of $22.0 million and a regulatory credit of $12.1 million for gas. The use of these balances as a rate moderator is discussed in further detail within the testimony of the Policy Panel.

The final makeup of these balances, including the recognition of unanticipated items, and any necessary related rate base adjustments will be updated at a later stage in these proceedings based upon actual known items and balances at that time.

V. Provision for Updates

Q. Please specify the areas of data that the Revenue Requirements Panel and other Company witnesses have proposed to update later in these proceedings.

A. Exhibit __ (RRP-9) provides a listing of all proposed items subject to update, although, we may have inadvertently omitted areas where an update is being proposed. As such, the Company reserves the right to revise the composition of Exhibit __ (RRP-8) subject to Staff review and approval. The majority of the proposed update items have been included in previous Company rate cases. These updates have traditionally been performed for inclusion in the Company's Brief on Exceptions under a one-year litigated outcome or during the course of settlement negotiations for multi-year Rate Plans.

Q. Does this conclude your direct testimony at this time?

A. Yes, it does.