STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Proceeding on Motion of the Commission as to The Rates, Charges, Rules and Regulations of Orange and Rockland Utilities, Inc. for Gas Service	Case 05-G-1494

DIRECT TESTIMONY AND EXHIBIT OF

HUGH LARKIN, JR., CPA

ON BEHALF OF THE

NYS CONSUMER PROTECTION BOARD

Dated: March 30, 2006
Albany, New York

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6

7 INTRODUCTION

8 Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?
9 A. My name is Hugh Larkin, Jr. I am a Certified Public Accountant licensed
10 in the States of Michigan and Florida and the senior partner in the firm
11 Larkin & Associates, PLLC (L&A), Certified Public Accountants, with
12 offices at 15728 Farmington Road, Livonia, Michigan 48154.
13
14 Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, PLLC.
15 A. Larkin & Associates, PLLC, is a Certified Public Accounting and
16 Regulatory Consulting Firm. The firm performs independent regulatory
17 consulting primarily for public service/utility commission staffs and
18 consumer interest groups (public counsels, public advocates, consumer
19 counsels, attorneys general, etc.). Larkin & Associates, PLLC has
20 extensive experience in the utility regulatory field as expert witnesses in
21 over 600 regulatory proceedings, including numerous electric, water and
22 wastewater, gas and telephone utility cases.
23
24 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE NEW YORK
25 STATE PUBLIC SERVICE COMMISSION?

1 A. Yes. I have testified before the New York State Public Service
2 Commission in Case No. 05-E-1222, New York State Electric & Gas
3 Corporation, Cases Nos. 05-E-0934 and 05-G-0935, regarding the Central
4 Hudson Gas & Electric Corporation and Case 29484, involving Long
5 Island Lighting Company.
6
7 Q. HAVE YOU PREPARED AN ATTACHMENT DESCRIBING YOUR
8 QUALIFICATIONS AND EXPERIENCE?
9 A. Yes. I have included Attachment I, which is a summary of my regulatory
10 experience and qualifications.
11
12 Q. DO YOU HAVE ANY EXHIBITS TO YOUR TESTIMONY?
13 A. Yes. I have one exhibit, Exhibit __(HL-1), consisting of Schedules 1 and
14 2.
15
16 Q. ON WHOSE BEHALF ARE YOU APPEARING?
17 A. Larkin & Associates, PLLC was retained by the New York State Consumer
18 Protection Board.
19
20 Q. WHAT ISSUES WILL YOU BE ADDRESSING IN THIS CASE?
21 A. My testimony will address a number of issues which are listed in the table
22 of contents to this testimony. On Exhibit __ (HL-1), Schedule 1, I present
23 a summary of the adjustments I am recommending in this testimony. This

1 summary schedule does not include adjustments being sponsored by
2 other Consumer Protection Board witnesses.
3
4 Q. HOW WILL YOUR TESTIMONY BE ORGANIZED?
5 A. I will discuss each issue in the order they are listed in the table of
6 contents.
7
8 PENSION AND OTHER POST EMPLOYMENT BENEFIT (OPEB) COSTS
9 Q. WHAT EFFECT HAS THE PENSION AND OPEB COSTS INCLUDED IN
10 OPERATING EXPENSES HAD ON THE COMPANY'S REVISED
11 REVENUE REQUEST OF $20,640,000?
12 A. In the original testimony, filed by Richard A. Kane, the Company indicated
13 that the pension and other post employment benefit obligations had a $6
14 million impact on the proposed rate increase. In the Company's revised
15 filing, it has reduced the total pension and OPEB costs by $1,296,000.
16 This means that this component of the rate increase has been reduced
17 from $6 million to approximately $4.7 million, and now comprises about
18 23% of the requested total increase. It is my understanding that in the
19 previous Orange and Rockland Utilities, Inc. case (Case 02-G-1553, under
20 which rates went into effect November 1, 2003), pension and OPEB also
21 accounted for a significant part of the requested increase.
22

1 Q. DO THE COMPANY'S WORKPAPERS SHOW EXACTLY HOW
2 PENSION AND OPEB COSTS WERE CALCULATED FOR THE GAS
3 OPERATIONS OF ORANGE AND ROCKLAND?
4 A. No, they do not. The workpapers provide only the dollar amounts of
5 pension costs and OPEB and other health and insurance costs by FERC
6 account. There is no detailed explanation or calculation which one can
7 use to tie the allocated cost to actuarial reports or projections of future
8 pension costs or OPEB and other insurance cost benefits. The
9 workpapers provide 10-year projections of retirement plans for employees,
10 officers' supplemental retirement plan, non-officers' supplemental
11 retirement plan and a total of all three plans, but do not show how these
12 10-year projections were utilized in allocating pension costs to the gas
13 operations of Orange and Rockland or how changes in assumptions
14 affected total pension cost. The same is true of OPEB costs and
15 allocation. There is no analysis of the total OPEB cost and how that cost
16 was allocated to O&R's New York gas operations.
17
18 Q. WHY IS THAT INFORMATION IMPORTANT?
19 A. This is important because Orange and Rockland has gas and electric
20 operations both in New York, New Jersey and Pennsylvania. It is
21 important to insure that these pension costs are properly allocated to each
22 jurisdiction and that the bases for the total increase in pension and OPEB

1 costs are properly allocated and founded on reasonable actuarial
2 assumptions.
3
4 Q. WAS THE COMPANY ASKED TO PROVIDE THE INFORMATION AND
5 EXPLANATIONS OF HOW THESE COSTS WERE DERIVED?
6 A. Yes. In Consumer Protection Board Information Request 6, Question No.
7 31, the Company was asked the following question:

8 Question No.:31
9 (EMPLOYEE PENSION AND BENEFITS) Provide a detailed
10 explanation with references to actuarial report which explains the
11 increase in employee pension and benefits expense from the years
12 2002 of $2,106,462, 2003 of $2,037,186, to the $12,195,898 in
13 2004 and $11,407,213 for the test year ended June 30, 2005. a.
14 Provide any changes in actuarial assumptions and the impact of
15 each actuarial assumption on employee pensions and benefits for
16 2004 and the test year. b. Provide a description of any change in
17 pension or healthcare benefits and the cost associated with such
18 change in any of the years 2002, 2003, 2004, and the test year
19 ended June 30, 2005.
20
21

22 The Company's response was follows:
23 Response:

24 The increase in employee pension and benefits expense from the
25 years 2002 of $2,106,462, 2003 of $2,037,186, to the $12,195,898
26 in 2004 and $11,407,213 for the test year ended June 30, 2005
27 shown in Exhibit G-1, Schedule 7, page 3 of 3 is based on the level
28 of qualified pension costs allowed in rates and other pension
29 expenses such as the Company's 401K plan and supplemental
30 pension plan. It does not bear a direct relationship to the annual
31 actuarial studies. Please see the Company's response to CPB4
32 questions 20-24 for a description of changes in pension and
33 healthcare benefits and the cost associated with those changes for
34 2002, 2003, 2004, and the test year ended June 30, 2005.
35
36

1 The Company's response and reference to other questions propounded
2 by the CPB did not account for, or attempt to reconcile, actuarial reports or
3 projections to the Company's expense allocated to gas operations.
4
5 Q. HAVE YOU PREPARED A SCHEDULE WITH YOUR UNDERSTANDING
6 OF THE COMPONENTS OF THE COMPANY'S REQUEST FOR
7 PENSION AND OPEB EXPENSES IN THIS CASE?
8 A. Yes. Exhibit ___(HL-1), Schedule 2, shows the components of the
9 Company's rate request for Pension and OPEB expenses as shown on
10 Exhibit G-5, Schedule 6, page 2 of 2. I have adjusted the Company's
11 original rate year request for the Company's update of February 15, 2006.
12 Since the 2006 update did not explain or detail all the components of each
13 adjustment, I allocated certain reductions in costs to pension costs and
14 OPEB costs where there was not appropriate detail. The column entitled
15 "Company Update Rate Year 10/31/2007," is the Company's current
16 projected rate year pension and OPEB costs as of February 15, 2006 in
17 the amount of $11,960,000.
18
19 Q. WHAT ADJUSTMENTS ARE YOU RECOMMENDING?
20 A. The first adjustment I am recommending is to extend the amortization of
21 deferred balances of pension and OPEB costs which the Company is now
22 requesting be amortized over a three-year period. These amounts are
23 shown on line 2, Rate Case Accounting – Pensions ($2,762,000), and line

6, Rate Case Accounting – OPEB ($1,020,000). I am recommending that the amortizations of these amounts be extended from three years to 10 years. Due to the significant impact on ratepayers of the rising cost of gas and increasing pension and OPEB costs, the Commission should do whatever it can to mitigate increases to ratepayers. The extension of the amortization period will allow ratepayers a longer period of time to pay this deferred balance. It will increase the deferred balance and also increase the amount of the deferred balance deducted from the rate base. The total of my recommended adjustment to pension and OPEB costs is $2,647,000 (pension reduction of $1,933,000 and OPEB reduction of $714,000) as shown on Exhibit___ (HL-1), Schedule 2, in the column entitled "Adjustments to Amortization."

Q. ARE THERE ANY OTHER ADJUSTMENTS TO PENSION AND OPEB COSTS THAT YOU WOULD RECOMMEND?

A. As I previously stated in this testimony, the Company has not tied its calculation of the pension cost to actuarial reports or estimates of actuarial determined future costs. The column on Exhibit __ (HL-1), Schedule 2, labeled "Program Changes" includes projected cost increases. They are $833,000 (net of the updated change) for pension costs and $398,000 (net of the updated change) for OPEB costs. Since the Company has not shown how it has allocated total Orange and Rockland Utilities, Inc. pension and OPEB costs among its New York State gas operations and

1 other operations, and the effect of changes in assumption on the total
2 amount of pension and OPEB expenses, these projected increases should
3 be disallowed.
4
5 PAYROLL ADDITIONS
6 Q. THE COMPANY IS PROPOSING AN INCREASE IN LABOR COSTS
7 FOR AN ADDITIONAL 25 EMPLOYEES WHICH IT STATES WILL BE
8 HIRED AFTER THE END OF THE TEST YEAR. HAVE YOU REVIEWED
9 THAT ADJUSTMENT?
10
11 A. Yes. The original adjustment was for $1,573,000 (Exhibit G-5, Schedule
12 2, page 1 of 2) including labor escalations for the additional 25 employees.
13 This amounted to an 8.623% increase in labor costs over the test year
14 amount of approximately $18.2 million. The Company's February 15,
15 2006 update subsequently revised downward that adjustment by $140,000
16 for a net payroll increase of $1,433,000, which is still a 7.86% increase
17 over test-year labor costs. In addition to this increase, the Company has
18 calculated labor escalation on the test year ended June 30, 2005 of
19 $972,000. Total labor cost is projected for the rate year ended October
20 31, 2007 to increase by $2,405,000 or approximately 13% over test year
21 costs. The 25 employees would represent an approximate increase of
22 8.5% in the total number of employees over the 2004 level.
23

1 Q. HAS THE COMPANY PROVIDED EXPLANATIONS FOR THE
2 ADDITIONAL POSITIONS THAT IT IS REQUESTING?
3 A. Yes, it has. Both Mr. Arnold and Mr. Kosior have provided explanations of
4 the positions that the Company proposes to add mostly in November of
5 2006.
6
7 Q. SHOULD THE COMMISSION ALLOW THIS ADDITIONAL EXPENSE?
8 A. In my opinion, they should not allow the full amount of this additional cost.
9
10 Q. WHAT ARE YOUR REASONS FOR DISALLOWING SOME OF THE
11 LABOR INCREASES THAT THE COMPANY IS REQUESTING?
12 A. All of the explanations provided by Mr. Arnold and Mr. Kosior assert that
13 the additional employees are either for operational efficiency needs or to
14 enhance safety, i.e., responding more quickly to gas leak calls.
15
16 If, in fact, the Company really needed this level of employment, one must
17 question why it is driven by the rate case. In other words, why is the
18 Company waiting to hire these employees until after rates have been
19 approved, incorporating the dollars they say are justified? If in fact, these
20 employees are needed from an efficiency, safety or operational basis then
21 the management of the Company could have and would have hired them
22 as soon the need arose. In fact, it appears that the Company is not hiring
23 the additional employees because they are needed but is first asking for a

1 rate increase that coincides with the hiring of the majority of these
2 employees. If in fact the Company's explanations were accurate and did
3 justify the additional employees, then they would have been hired as soon
4 as the need became apparent. Since that did not occur and the
5 Company's rate of return on equity for the last three years has been in a
6 reasonable range (9.40% to 11.34%) there appears to be no real
7 operational or safety factor driving the requirement for these employees.
8 It appears that the overriding factor determining whether the employees
9 will be hired or not is the November 2006 hiring date which is the same
10 date rates will become effective for the rate year.
11
12 Q. ARE YOU RECOMMENDING THAT THE COMMISSION DISALLOW THE
13 ENTIRE AMOUNT?
14 A. No, I am not. I am recommending that the Commission allow one-quarter
15 of the updated February 15, 2006 adjustment amount of $1,433,000. In
16 other words the Company will have any additional $358,000 (1/4 of
17 $1,433,000) which will be available for new employees for either safety or
18 operational purposes as the Company sees fit. My adjustment would
19 reduce the Company's adjusted labor costs by $1,075,000.
20
21 Q. ARE THERE OTHER LABOR ADJUSTMENTS THAT YOU WOULD
22 RECOMMEND?

A. Yes. Mr. Kosior states that Management Incentive Compensation of $501,000 has been charged to O&R Gas Operation maintenance expense. In response to Staff IR 22 dated January 23, 2006, the Company stated that the corrected amount of Incentive Compensation is $417,000 and this amount was escalated for management wage increases of 2.25% on April 1, 2006 and an additional 2.25% on April 1, 2007 for a total of $446,400. This is an increase of $29,400 over the rate year amount. According to the Company's response to Staff IR 20, Management Incentive Compensation is awarded based on:

Earnings Goal– Weighted 55%
Operating Budget Goal – Weighted 15%
Customer Service/Safety Goals – Weighted 30%

In other words, either financial or productivity goals are the basis for 70% of Incentive Compensation awards and customer service/safety goals account for 30% of these awards. Since the Incentive Compensation is over and above the individuals salary based on established market analysis and is approved by the Board of Directors based on the "overall achievement of Orange & Rockland's annual department goals"[1], the stockholders mainly benefit from these future financial goals of the Company. Rates are being set in this case based on a historical test year escalated for inflation and wage increases. It would not be appropriate to

[1] K. Kosior testimony pp. 7-8

1 charge ratepayers for future costs which are based on goals that benefit
2 stockholders. I am therefore recommending that 70% of the total
3 management incentive compensation be removed from costs charged to
4 ratepayers since it will benefit stockholders, not ratepayers. The amount
5 of this adjustment is $312,480 (70% of $446,400).

6

7 MANUFACTURED GAS PLANT SITE REMEDIATION COSTS

8 Q. PLEASE SUMMARIZE THE COMPANY'S POSITION REGARDING
9 COSTS RELATED TO MANUFACTURED GAS PLANT SITES.

10 A. O&R witness Mr. Richard A. Kane states that investigation and
11 environmental remediation is projected to continue on sites on which O&R
12 and its predecessor companies manufactured coal gas and water gas.
13 The Company has incurred costs of $7.3 million at these sites through
14 September 30, 2005, 29.25% of which is allocated to the Company's gas
15 operations. Mr. Kane projects that based on cost estimates developed in
16 April 2004, the Company will incur approximately $32 million through
17 October 31, 2009 on remediation, $9.4 million of which is allocable to gas
18 operations. The Company proposes to recover that $9.4 million, plus a
19 net deferred spending balance as of October 31, 2005 of approximately
20 $200,000, from customers over three years, resulting in an annual rate
21 allowance of $3.2 million.

22

1 Q. SHOULD THESE COSTS BE RECOVERED ENTIRELY FROM
2 RATEPAYERS?
3 A. As a threshold matter, ratepayers should not pay 100% of MGP site
4 remediation costs. In my opinion, the Company's proposal to recover
5 investigation and site remediation costs entirely from current ratepayers
6 constitutes retroactive ratemaking.
7
8 During the 1800s, when the manufactured gas plants occupied the sites in
9 question, the Company, or its predecessors, provided service to certain
10 commercial and residential customers. These customers received the
11 benefit of this service and provided the Company with a return on its costs
12 and a return on its investment. The cost of service should have reflected
13 the entire cost of providing the manufactured gas service. That cost would
14 have included the cost associated with properly disposing of any bi-
15 products from the manufactured gas process. The Company is now
16 requesting that current ratepayers should be held responsible for costs
17 associated with providing services to an unknown and unrelated group of
18 ratepayers. The manufactured gas sites were contaminated decades
19 ago by the Company or predecessors. Retroactive ratemaking is the
20 recovery in current rates of an expense or liability which occurred or
21 accrued in a prior period. [The liability for proper disposal accrued to the
22 owners of this property prior to the 1940's.] This is clearly retroactive
23 ratemaking since the cost was caused at the time the gas was

1 manufactured. To now attempt to charge current ratepayers with the
2 entire cost and legal fees incurred would be retroactive ratemaking.
3 Current ratepayers received no service associated with the manufactured
4 gas.
5
6 Clearly, Orange and Rockland or its predecessors were, or should have
7 been, aware of how the land it acquired had been used. They were aware
8 of the existence of the on-site storage of the manufactured gas bi-products
9 and received a return on its investment in the manufactured gas plant and
10 the site on which it was located. Ratepayers both then and now did not
11 have the knowledge nor the opportunity to avoid or mitigate these costs.
12 Other than the denial by the Commission of the Company's request for
13 recovery, current ratepayers have no way of protecting themselves
14 against the current expense which Orange and Rockland desires to place
15 upon them. This cost has nothing to do with the provision of current
16 services.
17

18 Risk Associated With Environmental Problems

19 Q. IN YOUR OPINION, WHO SHOULD BEAR THE RISK ASSOCIATED
20 WITH ENVIRONMENTAL PROBLEMS?
21 A. When a regulated utility and its shareholders receives a return on equity
22 for their investment, that return reflects a measure of risk. Otherwise, the
23 return on equity would be equal to risk free investments, such as

1 government bonds. There is a risk associated with the operation of any
2 business, even a utility. Obviously, because of regulation, there is
3 substantially less risk associated with a regulated entity versus a non-
4 regulated company. However, returns authorized by the Public Service
5 Commissions do reflect a measure of risk. That risk reflects costs, such
6 as those associated with the site investigation and remediation. The
7 Company or its predecessors obviously operated the facilities and were
8 aware that bi-products were being either dumped or stored on site.
9 Company management, therefore, accepted the risk that the operation of
10 the manufactured gas plant was reflected in the rate of return that
11 stockholders received at that time. In addition, the funds generated from
12 the sale of any of these properties most likely did not go to the benefit of
13 ratepayers, but accrued to the benefit of stockholders. It is only recently
14 that Public Service Commissions have allocated gain on the sale of
15 property to ratepayers. To now ask current ratepayers to bear costs
16 associated with risks that should be assumed by stockholders is not
17 appropriate.
18
19 Coal tars and other bi-products of the manufactured gas process should
20 have been disposed of properly as the gas was being manufactured.
21 They are like costs incurred in the production of electricity, such as, the
22 disposal of fly ash and other bi-products of the generation of electricity.
23 Their costs would have been incurred and expensed as the product was

1 produced. Currently, integrated gasification combined cycle plants which
2 use the same basic technology as manufactured gas plants are recovering
3 the costs of disposing of any bi-products either in base rates or through
4 the fuel adjustment clause.
5
6 Q. SETTING ASIDE YOUR POSITION THAT RATEPAYERS SHOULD NOT
7 BEAR ANY OF THE COSTS ASSOCIATED WITH THE LITIGATION,
8 INVESTIGATION OR REMEDIATION OF MANUFACTURED GAS SITES,
9 DO YOU HAVE ANY CONCERNS WITH THE COMPANY'S
10 CALCULATION OF THE MGP-RELATED COSTS TO BE INCLUDED IN
11 REVENUE REQUIREMENT?
12 A. Yes. The Company's calculation overstates the amount that would be
13 reasonable to include in rates. In the last rate case, O&R projected that it
14 would spend $12 million on MGP sites in 2004 and 2005, $3.51 million of
15 which would be allocable to gas operations. (Response to DPS IR 44)
16 However, in those years, the Company spent a total of $7.36 million,
17 $2.15 million of which is allocable to gas operations. (Id.) Thus, the
18 Company's actual MGP spending in recent years was only 61% of the
19 amount it projected in its last rate case.
20
21 In this proceeding, the Company projects MGP spending of $9.4 million for
22 gas operations in the four years 2006 – 2009, or an average of $2.36
23 million per year. (Id.) To reflect the fact that the Company has historically

1 overstated the level of MGP spending, I recommend that a maximum of
2 61% of this amount, or $1.44 million, plus a three year amortization of the
3 $200,000 deferred balance or $1.51 million, be reflected in the Company's
4 revenue requirement. Stated another way, the Company's proposed MGP
5 rate allowance of $3.2 million should be adjusted downward by at least
6 $1.69 million.

7

8 PROPERTY TAXES

9 Q. DOES IT APPEAR THAT ORANGE AND ROCKLAND'S FILING
10 INCLUDES AN OVERSTATEMENT OF PROPERTY TAX EXPENSE?

11 A. Yes, it does. On Exhibit G-4, Schedule 4, the Company shows its
12 calculation of property tax expense. The historical test year shows
13 property tax expense excluding property tax refunds of $7,970,000. The
14 Company has escalated this amount to a rate year level of $9,040,000,
15 excluding refunds, an increase of 13.4%. The Company in information
16 request responses has indicated that it has used a historical escalator of
17 3.5% annually to calculate the rate year property tax expense of
18 approximately $9.1 million.

19

20 Q. DOES THAT APPEAR TO BE AN ACCURATE STATEMENT?

21 A. No. It appears that the Company has escalated property tax expense
22 between the year ended December 31, 2005 and December 31, 2006 by
23 approximately 8%. However, even if the Company had utilized an annual

1 3.5% escalation rate, that appears to be significantly higher than the
2 Company's actual experience.
3
4 Q. WHAT IS THE COMPANY'S EXPERIENCE REGARDING PROPERTY
5 TAX ESCALATIONS?
6 A. Staff IR No. 24 asks the Company to provide O&R's property tax expense
7 for the gas department for the years 2000 through 2005. The 2000
8 property tax expense, according to this IR response, was $7,602,494.
9 CPB IR No. 44 asked the Company for property taxes for the period
10 ended December 31, 2005. That dollar amount, excluding refunds, was
11 $8,127,554. The compound annual growth rate of property taxes between
12 the years 2000 and 2005 as shown in the above two IR responses is
13 1.3446% and not 3.5%.
14
15 Q. IN THE STAFF'S IR SET 1, QUESTION 24, THE COMPANY'S STATES
16 THAT PROPERTY TAX ALLOCATED TO GAS IS $8,482,410 FOR 2005.
17 WHY IS THAT DIFFERENT FROM THE VALUE YOU USED?
18 A. The IR response to the Staff includes an estimate of increase school tax of
19 2.5%, which should not be included as part of the actual expense for 2005
20 since the Company did not actually experience that property tax increase
21 in 2005.
22

Q. WHAT IS YOUR CALCULATION OF THE PROPER PROPERTY TAX INCREASE UTILIZING THE ACTUAL COMPOUND ANNUAL GROWTH RATE OF 1.3446%?

A. That amount is $8,222,258, not including an adjustment for refunds. This amount is lower than the Company's projected property tax expense for the rate year by $817,742.

Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING?

A. I am recommending that property tax expense be reduced by $817,742.

<u>UNCOLLECTIBLES</u>

Q. HAVE YOU ANALYZED THE COMPANY'S REQUEST FOR UNCOLLECTIBLE EXPENSE?

A. Yes.

Q. DO YOU AGREE WITH THE COMPANY'S REQUEST?

A. No, I do not.

Q. HOW DOES THE PROJECTED INCREASE IN UNCOLLECTIBLES EXPENSE COMPARE TO THE TEST YEAR AND PRIOR YEAR'S LEVELS?

A. The amount of uncollectibles expense the Company has included in Rate Year 2007 is almost a 35% increase over the test year amount. See the

1 table below for a comparative analysis of actual uncollectibles expense for
2 the years 2001 through 2005 and rate year 2007.
3

Year	Expense
2001	$1,326,951
2002	$583,967
2003	$1,092,683
2004	$909,722
2005	$798,900
2007	$1,072,000

4
5
6 Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING?
7 A. I am recommending that the Commission use a 5 year average to
8 calculate uncollectibles expense for rate year 2007. The use of the five-
9 year average of $942,445 still yields an 18% increase to uncollectibles
10 expense, and is a reasonable level of expense given the Company's most
11 recent experience, since the Company's uncollectibles expense has been
12 declining in recent years. I note that CPB witness Ms. Donna DeVito
13 recommends enhancements to the Company's low income program that, if
14 adopted, should also tend to reduce uncollectibles expense. It is my
15 opinion that the Commission should continue to support higher collections
16 standards, rather than pass the higher uncollectibles expense onto
17 ratepayers. I recommend that the Company's estimate of uncollectibles
18 expense by reduced by $129,555.
19

1 OTHER O&M EXPENSE

2 Q. ARE YOU RECOMMENDING ANY AJUSTMENTS TO THE CATEGORY
3 OF EXPENSE ON EXHIBIT G-5, SCHEDULE 1, PAGE 2 OF 2, LABELED
4 "OTHER EXPENSE – GAS ONLY"?

5 A. Yes, the Company's original filing included $3.524 million of test year
6 expense, which was escalated by $201,000 to $3.724 million for the rate
7 year. The Company's February 15, 2006 updated filing reduces this
8 amount by $108,000 to $3.615 million.

9

10 Q. DID THE COMPANY PROVIDE ANY SUPPORTING DETAIL FOR WHAT
11 IS LABELED "OTHER EXPENSE – GAS ONLY" ON EXHIBIT G-5,
12 SCHEDULE 11, PAGE 2 OF 2?

13 A. No. The Company's filing and workpapers do not contain any supporting
14 information of what comprises this expense. The CPB submitted two
15 information requests (CPB Questions 36 and 37) to O&R requesting
16 supporting detail for Other O&M. Information Request 36 asks the
17 Company to provide historic amounts for Other O&M Costs for the
18 calendar years 2001 through 2004 and the test year ended 2005. The
19 Company's response to Information Request 36 provided the information
20 for the all the categories except "Other Expense-Gas Only." The response
21 states that data for "Other Expense-Gas Only," for years 2001 through
22 2005, is not readily available and were excluded from this response due to
23 the extensive study that would be needed to acquire all pertinent data.

1 The response to Question 37 lists 57 separate items. The majority of the
2 dollar amounts appear to relate to maintenance or customer billing and
3 collection. Since the Company did not or could not provide historical
4 comparisons of the expenses in the category of expense labeled "Other
5 Expense-Gas Only" it appears to be a "plug" number in order to get total
6 O&M expense to agree with the test year amount. Many of the dollar
7 amounts appear to be maintenance expense and should have been
8 included in that category or are customer accounting expense. I am
9 recommending that since the Company has not provided historical
10 detailed support which shows comparable amounts for past years, the
11 escalation of $201,000 should be disallowed.

12 LATE PAYMENT CHARGES

13 Q. THE COMPANY HAS ADJUSTED REVENUES FROM LATE PAYMENT
14 CHARGES BY REDUCING SUCH REVENUES BY $87,000. DOES THIS
15 ADJUSTMENT APPEAR TO BE APPROPRIATE?
16 A. No, it does not. Mr. Kane's adjustment utilizes a three-year average of
17 prior years' late payments. The three-year average utilizes six-months
18 from the year 2002 (July 1, 2002 through December 31, 2002), all of the
19 year 2003, all of the year 2004, and six-months from the year 2005
20 (January 1, 2005 through June 30, 2005). This method incorporates a
21 period when no late payment charges were collected from commercial and
22 industrial customers. In the period July 1, 2002 through December 31,
23 2002, late payment charges were collected only from residential

1 customers. Including data from this time period has the effect of
2 understanding late payment charges. It would be more appropriate to
3 project late payment charges by associating the actual late payment
4 charge with the revenue for the period in which they were collected.
5
6 During the 12-months ended June 30, 2005, O&R collected late payment
7 revenues of $786,661 on revenues from residential customers of
8 $116,742,669, resulting in a charge factor of .006738% on total residential
9 dollars. Commercial and industrial sales, during that same period,
10 generated $258,517 of late payment charges on revenues of $49,451,173,
11 or a charge factor of .005228% on commercial and industrial sales.
12 Applying the charge factor of .006738% to the projected residential
13 revenues of $195,768,000, as shown on Exhibit G-3, Schedule 2, results
14 in late payment revenues for the rate year for residential customers of
15 $1,319,080. Commercial and industrial revenues for the rate year are
16 projected to be $56,119,000 from the same exhibit. Applying the charge
17 factor of .005228% results in late payment fee charges of $293,390. Total
18 late payment charges for the rate year would be $1,612,470. The
19 Company's projected rate year late payment charges are $958,000. This
20 amount should be adjusted upwards by the difference between
21 $1,612,470 and the Company's projected $958,000 or $654,000 rounded.
22
23 Q. DOES THIS CONCLUDE YOUR TESTIMONY
24 A. Yes.