Attachment 4

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 20-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 20-G-____

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DIRECT TESTIMONY OF THE ACCOUNTING AND TAX PANEL

August 27, 2020

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DIRECT TESTIMONY OF THE ACCOUNTING AND TAX PANEL

I. INTRODUCTION

Q. Please state the names of the members of the Accounting and Tax Panel

A. Our names are Lora J. Gescheidle, Matthew E. Slifstein, Crystal Oakes, Barbara A. Giangaspro and Matthew Ryan.

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

A. I am employed by Central Hudson as the Controller. In that capacity, I am responsible for the supervision of the Financial Reporting & Research, Plant Accounting and Tax departments.

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

A. I am a Certified Public Accountant ("CPA") and have a Bachelor of Science Degree in Accounting from Seton Hall University. From 1999 to 2004, I was employed by the public accounting firm Ernst & Young LLP as an auditor. I have been employed by Central Hudson since September 2004. From 2004 to 2007, I worked as an auditor in the Internal Audit Department and performed various financial and operational audits. From 2007 to March 2009, I worked as an accountant in the Financial Reporting and Research Department. In March 2009, I was promoted to the Director of Financial Reporting and Research. In January 2013, I was promoted to Assistant Manager of General Accounting. In August 2014, I was promoted to Manager of General Accounting and in October 2016, I was promoted to Controller. My work experience in both auditing and accounting has centered primarily on overall accounting theory and reporting.

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

A. Yes. I have testified before this Commission in Cases 09-E-0588, 09-G-0589, 14-E-0318, 14-G-0319, 17-E-0459 and 17-G-0460.

Q. Mr. Slifstein, 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. Slifstein, 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 Financial Reporting, Accounts Payable and Financial Records. In that capacity, my responsibilities include planning, scheduling, supervising and coordinating the functions related to the preparation, validation and integrity of the internal, external and regulatory financial reports of Central Hudson. My responsibilities also include supervising accounting research activities and developing accounting recommendations to ensure compliance with regulatory pronouncements. In addition, my responsibilities include oversight of the Accounts Payable department, ensuring timely payments to vendors, and oversight of the monthly accounting close.

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

A. I have a Bachelor of Science Degree in Accounting from Quinnipiac University. From 1999 to 2004, I was employed by the public accounting firm of McGladrey & Pullen LLP as an auditor. Beginning in May 2004 through February 2008, I was the General Manager of the Steel House Restaurant and Catering. I began my Central Hudson career in March 2008 as an accountant in the Financial Reporting and Research Department. In March 2010, I was promoted to a Senior Accountant. In January 2013, I was promoted to the Director of Financial Reporting and Research and in 2016, I was promoted to the Director of Financial Reporting, Accounts Payable and Financial Records, which is my current position at Central Hudson. My work experience in both auditing and accounting have centered primarily on overall accounting theory and reporting.

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

A. Yes. I have testified before this Commission in Cases 14-E-0318, 14-G-0319, 17-E-0459 and 17-G-0460.

Q. Ms. Oakes, 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. Oakes, 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 Plant and Tax Accounting. In that capacity, I am responsible for supervision of the Plant and Tax departments.

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

A. I am a CPA and have a Bachelor of Science Degree in Accounting from Binghamton University. From 2001 to 2011, I was employed by the public accounting firm Vanacore, DeBenedictus, DiGovanni and Weddell LLP in its tax department. I have been employed by Central Hudson since July 2011. I began my career at Central Hudson as a Tax Analyst and was promoted to Supervisor Tax Accounting in February 2015. In October

2017 I was promoted to Director of Plant and Tax Accounting, which is my current position at Central Hudson.

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

A. Yes. I have testified before this Commission in Cases 17-E-0459 and 17-G-0460.

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

A. I am employed by Central Hudson as the Supervisor of Plant Accounting. In that capacity, I have responsibility for the day-to-day supervision of all accounting activities related to the processing and maintenance of the Company's fixed asset records. I am responsible for the accuracy and coordination of the month-end closing and reporting processes for the Fixed Asset System and I oversee the development of the depreciation and the Allowance for Funds Used During Construction ("AFUDC") budgets based on the Capital Construction Budget along with monthly budget variance reporting.

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

A. I have an Associate in Science Degree from Dutchess Community College and a Bachelor of Science Degree in Accounting from Mount St. Mary College. I have 11 years' experience in various accounting positions followed by 17 years in bank auditing. I began my career at Central Hudson in 2009 as an Accountant in the Plant Accounting department and was promoted to Senior Accountant in 2015. In 2017 I was promoted to Supervisor of Plant Accounting, which is my current role at Central Hudson. My work experience in this area has centered on construction accounting, property record system management and depreciation.

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

A. Yes. I have testified before this Commission in Cases 17-E-0459 and 17-G-0460.

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

A. I am employed by Central Hudson as a Tax Analyst in the Tax department. In that capacity, my responsibilities include the planning, coordinating and development of short- and long-term property tax projections.

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

A. I have a Bachelor of Science Degree in Applied Economics and Management from Cornell University. I have 15 years' experience in various finance and accounting positions in banking and financial services. I began my career at Central Hudson in 2017 in the Real Property Services Department and moved to the Tax department as a Tax Analyst in 2019, which is my current position.

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

A. No, I have not.

II. PURPOSE OF TESTIMONY

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

A. The purpose of the Panel's testimony is to:

1) Present the historical amounts and projections related to book depreciation and plant items, including rate base amounts related to Net Plant and Noninterest-Bearing Construction Work in Progress ("NIBCWIP");

2) Present the historical financial accounting information required under the Commission's Rules and Regulations;

3) Set forth the following accounting and ratemaking proposals, which are reflected in the development of the revenue requirement or otherwise addressed in these proceedings:

   i. Rate Base Net Plant and NIBCWIP, Depreciation and Amortization and other Plant related accounting changes included in the forecast of the revenue requirement;

   ii. Apportionment of Operating and Maintenance Expenses and Operating Taxes reflected in the revenue requirement;

   iii. Accounting for Incentives Earned and other revenue items under ASC 606 – Revenues from Contracts with Customers and ASC 980 – Regulated Operations ("ASC 980");

   iv. Listing of Deferral Accounting that will either continue or cease, as well as modifications or new deferral mechanisms proposed; and

   v. Property Tax methodology and assumptions.

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

A. Yes. This Panel is sponsoring the following exhibits that were prepared by or under the supervision of the Panel or one of its members:

<u>Exhibits Pertaining to Book Depreciation and Plant Items</u>

1) Exhibit __ (ATP-1) entitled "Rate Base Noninterest-Bearing Construction Work In Progress";

2) Exhibit __ (ATP-2) entitled "Statement of Depreciation and Amortization Accruals";

3) Exhibit __ (ATP-3) entitled “Proposed Depreciation Factors and Rate Changes”;

4) Exhibit __ (ATP-4) entitled “Depreciation and Amortization Accrual Forecast”;

Exhibits Pertaining to Historical Financial Accounting Information

5) Exhibit __ (ATP-5) entitled “Financial Statements”;

6) Exhibit __ (ATP-6) entitled “Electric Operation and Maintenance Expenses”;

7) Exhibit __ (ATP-7) entitled “Electric Operating Taxes”;

8) Exhibit __ (ATP-8) entitled “Gas Operation and Maintenance Expenses”;

9) Exhibit __ (ATP-9) entitled “Gas Operating Taxes”;

10) Exhibit __ (ATP-10) entitled “Calculation of Federal and State Income Taxes”;

Exhibits Pertaining to Accounting and Rate Making Proposals

11) Exhibit __ (ATP-11) entitled “Listing of Existing Deferrals”;

12) Exhibit __ (ATP-12) entitled “Proposed New Additional Deferrals”;

Exhibits Pertaining to Property Tax Proposals

13) Exhibit __ (ATP-13) entitled “Electric Property Tax Projection”;

14) Exhibit __ (ATP-14) entitled “Gas Property Tax Projection”; and

15) Exhibit __ (ATP-15) entitled “Cost Benefit Analysis of Functional Obsolescence”.

III. PLANT ACCOUNTING AND RELATED ITEMS

Q. Beginning with utility plant and depreciation, please describe the information contained in Exhibit __ (ATP-1) which bears the caption "Rate Base Noninterest-Bearing Construction Work in Progress".

A. The amounts of the noninterest-bearing portion of Construction Work in Progress ("CWIP") included in rate base for the historical and forecast period are shown in Exhibit __ (ATP-1). For the historical period on Schedule A, the total AFUDC charged to CWIP is divided by the average AFUDC rate used for the twelve-month period to arrive at the twelve-month average interest-bearing CWIP balance. The twelve-month average interest-bearing CWIP balance was then deducted from the corporate twelve-month average total CWIP balance to determine the average non-interest-bearing CWIP balance for the period. This same method was used to determine the non-interest-bearing CWIP balance for the projected period shown on Schedules B and C of Exhibit __ (ATP-1).

Q. Referring to Exhibit __ (ATP-2) which bears the caption "Statement of Depreciation and Amortization Accruals", please explain what is shown on Schedules A, B, and C of that Exhibit.

A. These Schedules show the Company's depreciation and amortization accruals for the historic, bridge, and Rate Year periods, as allocated to electric and gas expense. Schedule A reflects the depreciation and amortization accruals for the historic period. Schedules B and C are related to the bridge and Rate Year periods.

Q. What is the basis for allocating depreciation of common plant to electric and gas expense in Exhibit __ (ATP-2)?

A. Common plant depreciation expense was allocated consistent with the common cost allocation ratio, which we describe later in the Panel's testimony.

Q. Would the Panel briefly describe the Company's method of accruing depreciation?

A. Yes. The Company's annual provisions for depreciation are generally computed and accrued on a straight-line basis using the half-year convention and rates based on estimated average service lives and estimated net salvage, with the exception of software which does not use the half-year convention, but rather is amortized on a straight-line basis over the estimated average service life beginning with the in-service month. A depreciation rate is established for each depreciable plant account. This method is consistent with the method utilized in prior Company rate cases, including its last rate cases 17-E-0459 and 17-G-0460.

Q. Has the Company reviewed the adequacy of the depreciation factors currently being used?

A. Yes. The Company had a depreciation study performed by an outside consultant, Gannett Fleming, including an analysis of average service life, net salvage factors, and retirement dispersion patterns using historical data through December 31, 2019, which we will refer to as the "2020 Study."

Q. Please describe this depreciation study.

A. The study is comparable to the study that was used to set the Company's current depreciation rates and contains the elements for a depreciation study as required by the Commission. See the Joint Proposal Appendix V, adopted by the Commission in Cases 17-E-0459 and 17-G-0460, Order Establishing Rate Plan Issued and Effective June 14, 2018. These elements include: 1) rolling and shrinking band analyses for each account; 2) the width of the rolling and shrinking bands analyzed (not to be greater than ten years and not less than five years); 3) the shrinking band analyses starting with all data and decreasing to one year of data; 4) statistical results regarding Average Service Life of each account including analysis of "h-type" or "Iowa-type" curve fitting analysis, the related "fit index" and plots of the observed and smoothed survivor curve for each account along with the fitted "h-type" or "Iowa-type" survivor curve; and 5) a net salvage study for each plant account showing historical gross salvage, cost of removal and net salvage for each year of historical data included in the net salvage study along with rolling band analysis results, with the width of the rolling band being five years. The consultant's report associated with the study indicates that in addition to the mathematical or statistical aspects of reviewing average service lives and net salvage factors, the consultant also considered other factors including Company plans and operating policies and the consultant's general knowledge of service lives and net salvage factors experienced and estimated by the electric and gas industries.

Q. Will the 2020 Study be filed separately, but concurrent with this filing consistent with prior rate proceedings?

A. Yes.

Q. Does the Company propose any changes to the depreciation factors and rates currently in use?

A. Yes, the Company is proposing to change its current approved depreciation rates to align with the results of the 2020 Study. However, due to the timing of when the 2020 Study results became available, these new factors were not included in the development of revenue requirements. Instead, revenue requirements are predicated on the results of the unadjusted depreciation study performed by Gannett Fleming based on historical data through December 31, 2016 that was filed in Cases 17-E-0459 and 17-G-0460, which we will refer to as the "2017 Study". The unadjusted Study was utilized because the Company believes Staff's prior adjustments to extend the useful lives, particularly related to gas, are not in alignment with New York State's current energy goals and Climate Leadership and Consumer Protection Act ("CLCPA"). Exhibit __ (ATP-3) has been prepared to show the details of the existing rates and the factors used in the development of revenue requirements based on the 2017 Study. The Company proposes to update the revenue requirement based on the results of the 2020 Study later in the proceeding. This will require a change to the depreciation costs included in expense, as well as to rate base (accumulated reserve and deferred income taxes), income taxes, and Net Plant targets. As such, the full impact of the 2020 Study on revenue requirements have not been quantified at this time.

Q. What effect does the 2017 Study's proposed depreciation rates have on revenue requirements?

A. Exhibit __ (ATP-4), titled "Depreciation and Amortization Accrual Forecast", calculates the projected annual impact on the depreciation accrual, which is estimated to be an increase of $7.9 million for the Rate Year, of which $4.7 million relates to electric, $2.3 million to gas and $0.9 million to common. This impact was quantified based on forecasted plant balances for the Rate Year and utilizing composite rates developed based on current depreciation rates compared to composite rates developed based on the 2017 Study. The forecasted plant balances were developed using the Rate Year capital forecasts provided by the Capital Plan Panel. The information is shown for each major category in the Electric Department, the Gas Department and the Common category.

Q. Was an analysis of the adequacy of the accumulated book depreciation reserve balance performed?

A. Yes. Exhibit __ (ATP-3), Schedule A, titled "Summary of Depreciation Reserve", calculates and compares the book to theoretical reserve as of December 31, 2019 using current depreciation factors and the 2017 Study's depreciation rates used in the development of the revenue requirement. Based on the 2017 Study rates, the Company's accumulated depreciation reserve balance is under-reserved by approximately $89.2 million, which is 14.9% of the December 31, 2019 balance, comprised of $66.4 million for electric, which is 18.2% of its respective balance, $20.6 million for gas, which is 15.5% of its respective balance, and $2.2 million for common, which is 2.8% of its respective balance.

Q. Is the Company proposing a recovery of this under-reserved amount in the filing?

A. No. Despite the under-reserve amount being in excess of 10% of the December 31, 2019 balance, the Company is not proposing a recovery of this amount in the rate filing. A recovery of this under-reserved balance would increase rates, and therefore, the Company has decided to defer recovery until a future date, which will benefit customers as a rate moderator at this time and also be responsive to the economic impacts that the COVID-19 pandemic has caused to our most vulnerable customers.

Q. Please explain the development of the rate base amounts for book cost of utility plant and the accumulated provision for depreciation and amortization for the historical twelve-month period ended March 31, 2020 and projected periods including calendar years ended December 31, 2020, 2021 and the Rate Year.

A. The historical book cost and the accumulated provision for depreciation and amortization were developed from the Company's monthly balance sheet using the average of the monthly averages method. The historical and projected periods are included in the Rate Base Summary exhibits sponsored by the Revenue Requirements Panel in these proceedings. For projected periods, the same method was used in these proceedings as was used in prior Company rate cases. Projected cash construction expenditures by month for electric, gas and common plant were provided by the Capital Plan Panel, and are summarized on an annual basis in Exhibit __ (CPP-2). The Capital Plan Panel also supplied the anticipated in-service date for each major construction project having an estimated cost of $1 million or more. This information was used to determine plant additions and AFUDC amounts related to these projects. For minor projects estimated to cost less than the $1 million average, the historical relationship for calendar years 2017 through 2019 of plant additions, book cost of retirements, removal costs, and salvage were used to make projections of those items.

Q. Please discuss the accounting rules for capitalizing cloud-based solutions.

A. Generally accepted accounting principles ("GAAP") governing capitalization of cloud-based IT solutions provide criteria for a hosting arrangement to qualify as capital. These criteria, as defined in FASB Accounting Standard Codification ("ASC") 350-40, requires that (1) the arrangement to include a software license, (2) the Company have the contractual right to take possession of the software from the vendor at any point during the hosting period without significant penalty and (3) the Company have the ability to either run the software on its own hardware or have the ability to contract with another third party unrelated to the vendor to host the software. IT cloud-based solutions and hosting arrangements meeting all these criteria may be capitalized, including both the license and implementation costs. In accordance with ASC 350-40-25-17, the license costs shall be accounted for as the acquisition of an intangible asset and the incurrence of a liability (that is, to the extent that all or a portion of the software licensing fees are not paid on or before the acquisition date of the license) by the licensee. Therefore, when the license fees are paid for with installments (monthly or annually over the term of an arrangement), the software intangible asset shall be initially measured at present value and the full liability recorded for GAAP. For regulatory purposes, this intangible asset would be recorded within the

Uniform System of Accounts, Account 303 Misc. Intangible Plant, at original cost, i.e., not discounted to present value.

Q. What is the current accounting treatment for those arrangements that do not meet the criteria for capitalization as just discussed?

A. If these criteria are not met, the arrangement must be accounted for as a service contract and recognize the license cost, or in this case service cost, as operating expense over the arrangement term. Under GAAP, the Company may still "capitalize" certain upfront costs incurred for the implementation of these hosting arrangements which don't qualify as capital by recording these costs as a prepaid or other long term asset to be "amortized" over the useful life of the arrangement. The amortization of this prepaid asset must be recorded to the same operating expense function number that the service costs are recorded for GAAP reporting. For regulatory accounting, in accordance with FERC guidance issued December 20, 2019 (Docket AI20-1-000), these costs can be capitalized as Plant in Service within the Uniform System of Accounts, Account 303 Misc. Intangible Plant, similar to hosting arrangements meeting the criteria and qualifying as capital as noted above, and the amortization recorded to amortization expense, not operating expense.

Q. Please explain the development of Net Plant and rate base for book costs of any cloud-based solutions under the current accounting rules.

A. The Company has identified certain projects in the capital forecast which are either known to be cloud-based solutions or are unknown at this time but have the potential to be cloud based solutions. For these projects, the license or service cost was estimated. As permitted under regulatory accounting, all implementation costs are included in Plant in Service projections. Due to the uncertainty of whether these cloud based solutions will qualify as capital, the Company has included the estimate of the annual license or service costs within IT operating expense in its forecast. Additionally, for any capitalized cloud-based solutions where multi-year arrangements have been entered and payment of the associated license costs is made in installments over the term of the arrangement, a liability is recorded for the unpaid amounts and is included in the development of Net Plant and rate base as a reduction to the total cost capitalized, but not yet paid.

Q. Due to the uncertainty in these IT solutions and the resulting difference in accounting treatment of the license or service cost based on the solution chosen, is the Company proposing any deferral treatment associated with this?

A. Yes, the Company is proposing a modification to the current deferral related to cloud based solutions provided in the current rate Case 17-E-0459 and 17-G-0460, which is discussed later in this testimony.

Q. Are there any other changes to how the Company accounts for plant accounting assets that you would like to address at this time?

A. No.

IV. HISTORICAL INFORMATION, OPERATION AND MAINTENANCE EXPENSES AND TAXES

Q. Turning now to the historical financial information presented, please describe the information contained in Exhibit __ (ATP-5), entitled "Financial Statements."

A. Schedule A of Exhibit__ (ATP-5) contains the Company's balance sheets, by prime accounts of the Uniform System of Accounts, at the end of calendar years 2017, 2018, 2019, and at March 31, 2020. Schedule B contains the Company's income statements, per books, for calendar years 2017, 2018, 2019, and the twelve months ended March 31, 2020. The income statements show operating revenues and expenses and the resulting operating income for the Electric Department and Gas Department. The income statements also show the development of net income on a corporate basis. Schedule C shows, for each period, the Company's beginning and ending balances of unappropriated retained earnings. The change in the balance during each period is identified in terms of the effects of net income and the declaration of common stock dividends.

Q. Please describe the information contained in Exhibit __ (ATP-6), entitled “Electric Operation and Maintenance Expenses” and Exhibit (ATP-8), entitled “Gas Operation and Maintenance Expenses.”

A. Schedule A of Exhibit __ (ATP-6) sets forth, by functional classification, the Company’s electric operation and maintenance expenses for the calendar years 2017, 2018, 2019, and the twelve months ended March 31, 2020. Schedule B of Exhibit __ (ATP-6) provides the Company’s electric operation and maintenance expenses set forth in Schedule A by prime account of the Uniform System of Accounts. Schedule A of Exhibit __ (ATP-8) sets forth by functional classification the Company’s gas operation and maintenance expenses for the calendar years 2017, 2018, 2019, and the twelve months ended March 31, 2020. Schedule B of Exhibit __ (ATP-8) provides the Company’s gas operation and maintenance expenses set forth in Schedule A by prime account of the Uniform System of Accounts.

Q. Please explain the manner in which the Company apportions operation and maintenance expenses that are not directly assignable to electric or gas operations to those departments.

A. Expenses not directly assignable to a particular department, but closely related to other expenses charged to that department, are distributed in proportion to such other expenses. For example, pension costs and fringe benefit costs are related to payroll costs. They are, therefore, allocated between electric and gas operations in a manner that tracks the distribution of payroll dollars. Other operation and maintenance expenses that are not assignable to a particular department ("common" costs) are apportioned to electric and to gas based on a common cost allocation ratio.

Q. What was the total amount of expense to which the common cost allocation ratio was applied in the twelve months ended March 31, 2020?

A. For the twelve months ended March 31, 2020, total common expenses were approximately $76.7 million.

Q. What common cost allocation ratio was used by the Company during the historical periods addressed in your exhibits and what ratio has been applied in the development of forecasts in these proceedings?

A. Beginning July 2015, in Cases 14-E-0318 and 14-G-0319 the Commission approved a change in the common cost allocation ratio of 80% to electric and 20% to gas, which has continued without modification since that time. We have reviewed the metrics used to calculate this allocation and, based on the current data, have concluded that this allocation ratio remains reasonable.

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Q. Please describe the information contained in Exhibit __ (ATP-7), entitled "Electric Operating Taxes" and Exhibit __ (ATP-9), entitled "Gas Operating Taxes."

A. Exhibit __ (ATP-7) shows for the calendar years 2017, 2018, 2019, and the twelve months ended March 31, 2020, the amount of Central Hudson's Federal, State, and local taxes, excluding Federal and State income tax, charged to electric operations. Exhibit __ (ATP-9) shows for the calendar years 2017, 2018, 2019, and the twelve months ended March 31, 2020, the amount of Federal, State, and local taxes, excluding Federal and State income tax, charged to gas operations.

Q. How are operating taxes apportioned to the Electric Department and Gas Department?

A. The Company has apportioned operating taxes between the Electric and Gas Departments in a consistent manner for several years. Payroll related taxes are apportioned between the electric and gas operating expenses in a manner that tracks the distribution of payroll dollars. Revenue-related taxes are apportioned to the departments on the basis of revenues subject to the respective taxes. The sales and use tax is charged on the basis of related taxable items. The State hazardous waste tax is charged on the basis of related taxable items. Distribution of property taxes to the Electric and Gas departments is based on the relative book values of the property within each political district. Property taxes are further categorized into real estate tax and special franchise tax.

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Real estate tax is allocated to "out street" facilities, and special franchise tax is allocated to "in street" facilities.

Q. Please explain the components of payroll taxes projected in these filings.

A. The payroll tax projection includes a projection for expense related to the Federal Unemployment Tax Act ("FUTA"), the State Unemployment Tax Act ("SUTA"), Medicare, and the Federal Insurance Contributions Act ("FICA"). The forecast of each component takes into consideration the rate that is presumed to be in effect for each period and the appropriate taxable wage base, if applicable.

Q. Are there any potential payroll taxes that were not included in the projection of revenue requirements?

A. Yes. There are potential taxes that may be incurred in the future that were not included in the development of payroll taxes due to their uncertain status.

Q. Please explain these additional payroll taxes.

A. For every year that a state has had an outstanding Federal Unemployment Insurance ("UI") loan, the FUTA credit that the Company receives, which is generally 5.4%, is decreased by 0.3%. In addition, there are provisions for additional credit reduction in the fourth and subsequent calendar years in which a state has outstanding loans.

Q. Why did Central Hudson not include these potential taxes in the development of revenue requirements?

A. The Company believes that a different method of recovery is appropriate given the uncertainty of these potential taxes, their financial impact, and the Company's inability to control the outcome.

Q. In lieu of their inclusion in delivery rates, what is the Company proposing?

A. The Company is proposing that deferral accounting be allowed should the Company incur these additional taxes without being subject to the Commission's traditional three-part test. Doing so would allow the Company to recover its cost of doing business should these taxes be imposed and, conversely, not gain financially should the tax not be imposed (presuming the taxes were included in revenue requirements).

Q. Please explain the methodology used to calculate the forecasted sales tax in the development of revenue requirements in these filings.

A. Consistent with the methodology used in the prior rate case, sales tax expense for the historic period reflects a normalization adjustment to remove net accruals for potential future sales tax audit findings based on prior audit findings. The Company then escalated the adjusted historical base at inflation. In addition, the Company has included incremental sales tax expense related to certain projected incremental Operating and Maintenance ("O&M") expenses for select cost elements where sales tax applies. The projection and details of sales and use tax expense is included in the work papers of the Revenue Requirements Panel.

Q. Did the Company record any sales tax refunds during the historic year?

A. Yes. Based on an audit by New York State and a reverse sales tax audit performed by a consultant hired by the Company for the same period, the Company recorded a sales tax adjustment during the historic year. The Company filed notice with the Commission of the amount of the net refund and proposed accounting treatment, which is currently under audit by PSC Staff in Case 20-M-0134.

Q. Please explain how the Company accounted for the sales tax refund and whether it has been reflected in the determination of revenue requirements?

A. The net benefits of the refund were allocated to the cost bases that originally generated the payment of sales tax. As such, certain elements of expense include the net sales tax refund for the historical period. Since the Company corrected the underlying causes that generated the net refund, the refunds are not expected to continue; therefore, refund amounts were normalized and excluded from the historic period expense.

Q. Please describe the information contained in Exhibit __ (ATP-10), entitled "Calculation of Federal and State Income Taxes."

A. Exhibit __ (ATP-10) shows the computation and allocation of the Company's Federal and State income tax for the historical period (the twelve months ending March 31, 2020) as well as projections for the bridge period (the calendar years 2020 and 2021) and the Rate Year.

Q. Please explain the nature of the items included under the heading "Additional Income and Unallowable Deductions" and "Additional Deduction and Nontaxable Income" summarized on Sheet 1 of each of the Schedules in Exhibit __ (ATP-10).

A. The items included here are adjustments to book income in order to arrive at taxable income. They are referred to as Schedule M-1 adjustments. The adjustments to book income are due to: 1) timing differences, which relate to items recorded as income or expense on the Company's books in one period and included in the computation of taxable income in a different period; or 2) permanent differences, which relate to items that are recorded for either book or tax purposes, but not for both such purposes. An example of a timing difference is the Mortgage Bond Redemption Premium, which is deducted from taxable income when incurred, but deducted from book income over the life of the new bond. An example of a permanent difference is the business meals and entertainment expense, which is fully deductible for book purposes, but only 50% deductible for tax purposes. The 50% not allowed for tax purposes is a permanent difference.

Q. Briefly describe how Federal income tax was calculated for the projected bridge periods and the Rate Year.

A. The calculation of Federal income tax for the projected period is consistent with the method approved in prior Company rate cases, which is on an income based tax method and reflects a provision for deferred tax expense in accordance with normalization rules under the Tax Reform Act of 1986.

Q. Briefly describe how New York State income tax is calculated.

A. Effective January 1, 2021, the New York State ("NYS") income tax is calculated based on the application of one of two different methods: 1) the income based tax method; or 2) the fixed dollar minimum method. A third method, the capital based tax method, ends January 1, 2021 and therefore does not impact the Rate Year beginning July 1, 2021 reflected in this filing. The Company's tax liability is based on the highest of the two different methods. The NYS income taxes included in Exhibit __ (ATP-10) and in the development of revenue requirements are based on the fixed dollar minimum method. A summary of the two methods is below:

1) The income based tax method starts with Federal taxable income and is adjusted to exclude NYS income taxes. NYS tax law provides for adjustments for qualified public utilities for depreciation on transition property. Transition property is property placed in service prior to

January 1, 2000. With respect to such property, a deduction is allowed for the depreciation expense shown on the books and records of the taxpayer rather than the Federal depreciation deduction. Additionally, the amortization of certain regulatory assets, deferred prior to January 1, 2000, currently deducted on the books, can be deducted from income to arrive at NYS taxable income. These adjustments have been reflected in the calculation of NYS income taxes in Exhibit __ (ATP-10).

2) The fixed dollar minimum is a sliding–scale minimum tax based on a corporation's New York receipts and is capped at $200,000.

Q. Please discuss the transition period regulatory liability resulting from the Tax Cuts and Jobs Act's ("TCJA") reduction in the Federal income tax rate from 35 percent to 21 percent.

A. This reduction in the Federal income tax rate became effective January 1, 2018. The terms of the rate plan under Cases 14-E-0318 and 14-G-0319, which were predicated on a 35% tax rate, were in effect until June 30, 2018. In its order issued August 9, 2018 for Case 17-M-0815, the Commission directed the Company to defer the net benefits realized from the January 1, 2018 to June 30, 2018 period for future return to customers. As such, the Company recorded a regulatory liability of

$10,268,732, of which $7,397,278 relates to electric and $2,871,454 relates to gas.

Q. What does the Company propose regarding these 2018 benefits still deferred for future customer benefit?

A. The Company proposes inclusion of the entire deferred balance of $10,268,732 on the offset list and it proposes to make the funds available for rate moderation.

Q. Please explain the impact of the TCJA on the Company's accumulated deferred income tax balances.

A. Deferred income taxes result from the normalization accounting for book and tax timing differences. The majority of deferred tax balances on the Company's balance sheet are associated with its investment in plant assets. However, the Company also has deferred tax balances related to regulatory and other assets and liabilities. The difference between the Federal income tax expense recorded in its financial statements under GAAP and the current Federal tax payable each year is recorded as deferred Federal income tax ("DFIT"), which accumulates as a liability known as accumulated deferred Federal income tax asset or liability ("ADFIT"). The TCJA's reduction of the corporate Federal income tax rate from 35 percent to 21 percent resulted in excess deferred Federal income tax ("EDFIT"). Specifically, EDFIT represents the difference in the amounts the Company collected from its customers at a 35 percent tax rate to pay future income taxes, which was recorded on the balance sheet as ADFIT, and the Company's updated calculated future tax liabilities at a 21 percent tax rate.

Q. Did the Commission address the Company's collection of the unprotected EDFIT balance from customers in the Company's current approved rate plan in Cases 17-E-0459 and 17-G-0460?

A. Yes. The Commission ordered the Company to continue to defer the remaining impact of the tax changes that were not yet reflected in the Company's revenue requirement under the Approved Rate Plan in Cases 17-E-0459 and 17-G-0460, and indicated that the disposition of the deferral would be addressed in the next rate case.

Q. How does the Company propose to collect its non-asset based EDFIT balances from customers?

A. The Company proposes to collect its EDFIT balances that are non-asset based and not protected under the tax normalization rules, by amortizing the regulatory asset over a fifteen year period and including the annual amortization in base delivery rates, commencing at the beginning of the Rate Year.

Q. How does the Company propose to refund its asset based EDFIT balances from customers?

A. The Company will continue to use the Average Rate Assumption Method ("ARAM") to refund the asset based EDFIT balances over the remaining lives of the underlying plant assets, in accordance with the normalization rules under Internal Revenue Code ("IRC") 168(f). This is consistent with the treatment of asset based EDFIT in the June 14, 2018 Order Approving Rate Plan in Cases 17-E-0459 and 17-G-0460.

V. ACCOUNTING AND RATEMAKING FOR PENSION AND OPEB

Q. Turning now to other accounting matters, please explain the manner in which accounting for Pension and OPEBs have been reflected in these filings.

A. The Company's accounting for Pension and OPEBs are reflected in this filing in a similar manner as provided for in the June 14, 2018 Order Approving Rate Plan in Cases 17-E-0459 and 17-G-0460 ("2018 Rate Plan") for rate making purposes. Specifically, the Company follows "GAAP" ASC 715 Compensation – Retirement Benefits ("ASC 715"), which requires 100% of non-service cost components of pension and OPEBs to be reflected as expense and only the service cost component to be allocated between expense and capital. In accordance with this accounting and as approved in Cases 17-E-0459 and 17-G-0460, since pension and OPEB costs are related to the compensation of employees, the annual service costs have been projected to be distributed to expense, construction, and other accounts in relation to the normalized distribution of payroll costs for the historical period. The non-service component percentage allocation to electric and gas expense is determined proportionately based on the normalized distribution of payroll costs charged to electric and gas expense. For regulatory accounting and ratemaking, the amounts charged to expense, including a portion of the service costs based on payroll distribution and 100% of non-service costs components, are recorded in Account 926, Employee Pensions and Benefits within the Uniform System of Accounts. Pursuant to the Statement of Policy and Order Concerning the Accounting and Ratemaking Treatment for Pensions and Postretirement Benefits Other Than Pensions, issued September 7,1993 by the Commission in Case 91-M-0890 ("Policy Statement"), the differences between the amounts of postemployment benefits included in Company rates and the amounts of the postemployment benefit costs charged to expense as determined by the Company's outside actuary, Mercer, under ASC 715 – Compensation – Retirement Benefits are deferred as either a regulatory asset or liability, as appropriate.

Q. What is the amount of the annual charge for pension, including the Supplemental Executive Retirement Plan ("SERP"), and OPEBs that has been reflected in the current rate proposal in these filings?

A. The Company has utilized the actuarial forecasts of pension and OPEB expense issued by Mercer in January 2020 for the annual pension and OPEB costs for 2021 and 2022. These forecasts reflect the substantial market gains from 2019 and do not reflect the market volatility on asset investments and other impacts on actuarial assumptions resulting from the COVID-19 pandemic.

Q. Does the Company propose to update Mercer's forecast during this proceeding to reflect impacts of changes in asset investments and actuarial assumptions which will encompass the effects of the COVID-19 pandemic?

A. Yes. Consistent with prior cases, the Company's actuary will perform an update of the actuarial accrual in late January 2021 and the results should be incorporated at that time. This update is even more critical in the current case given the recent volatility in the market and uncertainty driven by the COVID-19 pandemic. This will require an update to revenue requirements to account for a change to the pension and OPEB costs included in expense, as well as to the portion capitalized which will impact Rate Base (Gross Plant and Accumulated Reserve), depreciation expense, income taxes and Net Plant targets. These impacts are not known at this time. Based on the January 2020 estimates provided by Mercer, the estimated costs for the Rate Year utilizing the Commission's approved method of capitalizing a portion of the total service cost results in a credit of $7.0 million for OPEBs, which includes the effects of the Prescription Drug and Medicare Improvement Act of 2003 ("2003

Medicare Act"), and a credit of $0.3 million for pensions, which includes the SERP.

These total charges were allocated in accordance with accounting requirements and based on the normalized distribution of payroll from the historic year. The costs for pension and OPEBs included in revenue requirements for the Rate Year are shown in Table 1.

Table 1 – Allocation of Charges included in Revenue Requirements

	OPEB	Pension
Allocation of Service Cost		
Electric Expense	$798,950	$6,388,866
Gas Expense	$232,719	$1,860,953
Construction & Other	$479,492	$3,834,286
Total Service Cost	**$1,511,161**	**$12,084,105**
Allocation of Non-Service Cost		
Electric Expense	$(6,582,749)	$(9,601,034)
Gas Expense	$(1,917,702)	$(2,796,996)
Total Non-Service Cost	**$(8,500,451)**	**$(12,398,030)**
Total		
Electric Expense	$(5,783,799)	$(3,212,168)
Gas Expense	$(1,684,983)	$(936,043)
Construction & Other	$479,492	$3,834,286
Total Costs	**$(6,989,290)**	**$(313,925)**

VI. ACCOUNTING CHANGES

Q. What proposals, if any, does the Company make concerning changes to current regulatory accounting in these proceedings?

A. The Company is proposing to eliminate the Revenue Matched Factors employed in the calculation of the deferral of pension, OPEB, and R&D that has been a long standing provision in previous Central Hudson proceedings. Due to the implementation of the Revenue Decoupling Mechanism ("RDM"), the Company is proposing that the deferral be calculated based on a comparison of actual expense to the rate allowance, similar to the calculations for all other authorized deferral items. This proposal will also eliminate unnecessary administration tracking and simplify the calculation of these deferrals.

Q. Why is the Company requesting this change?

A. The use of Revenue Matched Factors as prescribed in Technical Release #16 for Research & Development and the Policy Statement for Pensions and OBEB's was intended to provide a more precise measurement of the deferral by including the variations in sales volumes. However, with the implementation of RDM's, the variation in sales is already reconciled for the majority of the Company's revenue classes. For electric, non-RDM service classes that are volumetric have minimal variations and do not warrant a unique mechanism for protection of sales variations for these authorized deferrals. For the reminder of electric non-RDM classes that are not volumetric and are billed on demand, this mechanism is not an accurate reflection of the amount collected for purposes of calculating the deferral. For gas, the proposed changes in the RDM in this proceeding from a Revenue per customer basis to a Revenue per class basis will result in full reconciliation of sales variations for the majority of service classes. As a result, the Company must adjust the calculation of the deferral for R&D, Pension, and OPEB to avoid a double recognition of the variation in sales volume. Rather than continuing to make this adjustment, a simple solution is to modify the measurement of the deferral to be based on a comparison of actual expense to the rate allowance.

VII. EXISTING AND PROPOSED NEW DEFERRALS

Q. Please describe the information contained in Exhibit __ (ATP-11), entitled “Listing of Existing Deferrals.”

A. Exhibit __ (ATP-11) sets forth Central Hudson’s currently authorized deferral items which should continue, expire or be modified.

Q. Please describe the information contained in Exhibit __ (ATP-12), entitled “Proposed New Additional Deferrals.”

A. Exhibit __ (ATP-12) sets forth Central Hudson’s recommendations for additional deferral authority, which we will discuss later in more detail.

Q. What proposals, if any, does the Company make concerning existing deferral accounting in these proceedings?

A. The Company is currently authorized or required by the Commission, because of generic policies or Company-specific determinations, to employ deferral accounting with regard to various incurred costs, expenses, and revenues as needed to implement a variety of Commission ratemaking and accounting objectives and policies. Exhibit __ (ATP-11), entitled “Listing of Existing Deferrals”, provides an updated listing of deferrals approved in Cases 17-E-0459 and 17-G-0460 and other Orders subsequently issued. The Company requests that the Commission continue such authorizations and requirements, except to the extent that any such authorizations or requirements will not or cannot by their terms survive the expiration of RY3 of the 2018 Rate Plan as noted in the exhibit. The Company also requests the use of deferral accounting with respect to such costs, expenses, and revenues without limitation of the amount allowed or required to be deferred and that the deferral accounting authorizations or requirements survive the end of the Rate Year.

Q. What proposals, if any, does the Company make concerning new deferral accounting requested in this proceeding?

A. In addition to the above deferral accounting authorizations and requirements, the Company requests authorization in these proceedings to use deferral accounting related to the new deferrals listed in Exhibit __ (ATP-12), entitled “Proposed New Additional Deferrals”.

Q. Please explain the Company’s proposal to defer the impacts of any taxes on health insurance.

A. New excise taxes on health insurance are scheduled to become effective under the Affordable Care Act in 2022. The excise tax is based on thresholds that are subject to change based on future Consumer Price Index changes. Due to the uncertainty in the threshold amounts, there could be considerable variation from the actual taxes incurred and the level forecasted in rates. Moreover, there continues to be attempts to overturn provisions of the Affordable Care Act through legislative or judicial action. As a result, it is possible the excise tax will not become effective. Given such ambiguity, a reconciliation mechanism would be appropriate in the rate plan to protect the interests of both the Company and customers.

Q. Please explain the Company's proposal for the deferral of Federal Unemployment Insurance Impact on payroll taxes.

A. As explained earlier, for every year that a state has had an outstanding Federal Unemployment Insurance ("UI") loan, the FUTA credit that the Company receives, which is generally 5.4%, is decreased by 0.3%. In addition, there are provisions for additional credit reduction in the fourth and subsequent calendar years in which a state has outstanding loans. Due to the uncertainty of NYS's outstanding UI loan status, a reconciliation mechanism would be appropriate to protect the interests of both the Company and the customers.

Q. Please explain the Company's proposal for the deferral of costs associated with the Climate Leadership and Community Protection Act.

A. The Company is seeking to defer the revenue requirement effect of any Commission orders or actions taken as a result of the Climate Leadership and Community Protection Act or in alignment with NYS Energy Policy goals. These impacts may include new O&M expenses, new capital expenditures or changes to depreciation rates necessary for any changes in the useful lives of investments made to maintain the reliability and sustainability of the system. As these impacts are unknown at this time, are outside of the Company's control and will be made to comply with the

NYS CLCPA law, the Company requests deferral for future recovery of all revenue requirement effects until such future time when these costs can be quantified and incorporated in rates.

Q. Please explain the Company's proposal for the deferral of incremental costs associated with the COVID-19 pandemic.

A. The Company is seeking deferral of incremental costs associated with the COVID-19 pandemic in the following three areas of the Company's operations, and would not be subject to the Commission's traditional three part test: finance charges, uncollectible write-offs, and other incremental O&M costs and lost revenues not reflected in the historical period.

Q. Please explain the basis for each deferral request, beginning with the deferral of finance charges.

A. The COVID-19 pandemic has had a significant effect on finance charge revenue. The Company began waiving finance charges beginning in April 2020, and given the uncertainty regarding how future finance charge revenue may change once reinstated, the Company requests symmetrical deferral of actual finance charge revenue above or below the level of finance charges included in the final revenue requirement. Please refer to the Forecasting and Rates Panel testimony for further discussion.

Q. Please explain the Company's proposal for the deferral of uncollectible write-offs.

A. The Company requests deferral be authorized and employed for differences between the actual 12 months of net write-offs experienced during the Rate Year as compared to the 12 months of uncollectible costs billed through delivery rates and surcharge mechanisms. The amount of billed uncollectible costs include: 1) commodity related costs that are grossed-up for bad debt; 2) surcharges that have bad debt built into recovery; and 3) the rate allowance included in delivery rates. Please refer to the Customer Experience Panel testimony for further discussion. An example has been provided in the Revenue Requirements Panel work papers.

Q. Finally, please explain the basis for the deferral of Other Incremental O&M and Lost Revenues associated with COVID-19.

A. The Company has incurred, and may continue to incur, incremental O&M costs to mitigate risks during the COVID-19 pandemic associated with the health and safety of employees and customers as well as to ensure continued safety and reliability of the system. Incremental O&M costs may include but are not limited to additional cleaning services, supplies and personal protective equipment, costs to implement decentralization of employees, costs to implement social distancing, and costs to sequester critical operational staff. The Company may incur lost revenues associated with the economic impacts of COVID-19 on our customer sales not covered by the RDM, for example, or for additional bill discounts or credits provided for customer relief as a result of financial difficulties following the COVID-19 pandemic. These O&M costs and impacts on revenues are not included in the historic period due to the timing of the

COVID-19 pandemic and as such deferral of these impacts should be provided and should not be subject to the Commission's standard three part test.

Q. What mechanism does the Company propose to recover the regulatory asset balances associated with the aforementioned COVID-19 deferrals?

A. The Company is proposing that recovery of these deferrals be provided through a new or existing surcharge mechanism or future delivery rates.

Q. If a surcharge mechanism is not employed, how does the Company propose to recover these dollars?

A. If the Commission were to deny recovery through a surcharge mechanism, the Company proposes that the regulatory asset accrue carrying charges at the pre-tax WACC until recovery is determined in a future rate proceeding. The carrying charges would be collected through the RAM.

Q. Please explain the Company's proposal for the deferral of incremental costs related to the Safety of Gas Transmission Pipelines Final Rule.

A. The Company requests deferral of costs over/(under) the $300,000 projection related to the Safety of Gas Transmission Pipelines Final Rule included in the development of gas revenue requirements due to the uncertainty in the level of activity and dollars that will result from Compliance with this rule. Please refer to the Gas Safety Panel testimony for further discussion.

Q. Please explain the Company's proposal for the deferral of implementation costs related to the Commission's new gas planning procedures proceeding.

A. The Company requests deferral for on-going implementation costs associated with that proceeding, such as support for Joint Local Distribution Company filings and modernization of the gas planning process. Please refer to the Climate and Energy Leadership Panel testimony for further discussion.

Q. Please explain the Company's proposal for the Renewable Natural Gas ("RNG") potential study and pilot project activities.

A. The Company requests a deferral mechanism for the recovery of the RNG potential study and pilot project activities, including return on any capital investment in the RNG project and interconnecting facilities. Please refer to the Climate and Energy Leadership Panel testimony for further discussion.

Q. Please explain the Company's proposal for the Geothermal District Energy Loop Initiative.

A. The Company requests deferral authorization for the recovery of the Geothermal District Energy Loop Initiative including costs associated with feasibility studies and implementation of any pilot projects, including return on and of capital investments. Please refer to the Climate and Energy Leadership Panel testimony for further discussion.

DIRECT TESTIMONY OF THE ACCOUNTING AND TAX PANEL

Q. Please explain the Company's proposal for deferrals related to Electric Vehicle Infrastructure ("EV").

A. The Company requests three new deferrals related to EV Infrastructure. 1) Deferral of the revenue requirement effect of the amount by which the total net plant exceeds the Net Plant Target, 2) Deferral of actual costs over / under the amounts assumed in the development of delivery rates for the light duty electric vehicle Make Ready Program, and 3) deferral of the revenue requirement effect (depreciation and return on investment) and any associated O&M program costs of the Medium and Heavy Duty Pilot Program. Please refer to the Climate and Energy Leadership Panel testimony for further discussion.

Q. Please explain the Company's proposal for the Heat Pump Program.

A. Similar to the currently authorized deferral for the Energy Efficiency Program, the Company requests deferral of actual expenses over or under the rate allowance, with final cumulative deferral at December 31, 2024 for any under-spending only. Please refer to the Earnings Adjustment Mechanisms Panel testimony for further discussion.

Q. Please explain the Company's proposed deferral related to costs associated with FERC jurisdictional proceedings and potential outcomes.

A FERC is currently evaluating whether two of the Company's hydro facilities fall under the jurisdiction of FERC. Given the uncertainty of the costs associated with these proceedings and the potential outcomes, cost projections have not been included in the development of revenue requirements. As such, the Company is seeking deferral treatment of O&M expenses and the revenue requirement of incremental capital spending incurred as a result of these proceedings.

Q. Is the Company proposing modifications to certain existing deferrals?

A. Yes, the Company is proposing changes to the following deferrals as summarized in deferrals listed in Exhibit __ (ATP-11), entitled “Listing of Existing Deferrals”.

Q. Please explain the Company’s proposed modification of the Gas - Methane Detection Plan/First Responder Training Program deferral in relation to the use of Gas Negative Revenue Adjustment (“NRA”) balances.

A. The Company currently has deferral authority for expenditures charged against the existing Gas Safety NRA deferred balance as it pertains to the Gas Methane Detection Plan and First Responder Training Programs identified in the Company’s current Rate Plan and proposes that this deferral authority continue. In addition, the Company is proposing deferral authority for its newly proposed programs including the New York Pipeline Emergency Response Initiative (“NYPERI”) and a Pipeline Safety Management System (“PSMS”) as further discussed by the Gas Safety Panel to be charged against the gas safety NRA balance.

Q. Please explain the Company’s proposed modification to the deferral of new legislative, governmental, and Commission or other regulatory actions subsequent to the proceeding, without regard to the Commission's traditional three part test for deferral authority.

A. The Company is proposing modifications to the current authorization to provide for the deferral of the revenue requirement effect (i.e. revenues, expenses, and revenue requirement of capital related investments) of all new legislative, governmental, and Commission or other regulatory actions that individually have material consequences (i.e. ten basis points or more of return on common equity by department) for any element of cost, with carrying charges at the pre-tax rate of return, and so long as the Company is not earning above the first earnings sharing threshold established. The Company is requesting deferral authority because neither the Company nor customers should be harmed by or benefit from such actions, since neither has the ability to control these actions. If the ten basis point threshold is triggered, the Company will defer the entire amount of incremental cost changes up to the first earnings sharing threshold, if applicable. This is particularly important during the term of this rate proceeding, given the uncertainty in the regulatory and legislative environments in light of the COVID-19 pandemic.

Q. Please explain the Company proposed modification to the existing framework for major storm reserve costs for when a storm event does not occur?

A. The Company is only seeking modification to pre-staging costs when a storm event does not occur to remove the limitation of two non-major events per year and to expand the allowed deferrable costs under pre-staging events to include contractors and/or utility companies providing mutual assistance, incremental employee labor, incremental transportation fuel, dry ice, meals, lodging, and travel time. All incremental costs per pre-staging event will be charged as follows: $1 to $50,000 charged to expense; $50,000 to $500,000 charged to the reserve; and over $500,000 will be allocated 85% to the reserve and 15% charged to expense. The Company can file a petition to defer its share (15%) of the pre-staging and mobilization in excess of $500,000 per event, and it will be subject to the Commission's three part test. The business justification for the above changes are to support the Company's pro-active measures in preparation of storm events to ensure that customers' service, should it be disrupted, can be restored as quickly and efficiently as possible.

Q. Is the Company proposing any other changes to the reserve methodology?

A. No. For events that occur and are chargeable to the storm reserve, the Company is not proposing any changes.

Q. Please explain the Company's proposed modifications to the deferral for cloud based software solutions.

A. The Company is proposing modifications to the deferral related to Cloud Based Software. The current deferral mechanism related to cloud based software solutions was based on uncertainty in accounting treatment for cloud based solutions. As explained previously, subsequent to Cases 17-

E-0459 and 17-G-0460, the accounting guidance was issued which provides clarity on the accounting treatment regarding which types of arrangements are considered capital and which are considered expense. However, there is still uncertainty in the forecast of IT solutions needed, specifically with regards to which software will ultimately best meet the business needs. Software solution selection occurs during the initial planning phase for each project as current alternative solutions and associated vendor agreements are evaluated. Also, as previously discussed, there was an assumption made when developing the IT forecast for these proceedings that certain projects would be cloud-based solutions which would not qualify as capital and therefore the associated service cost was assumed to be IT O&M expense in the development of the revenue requirement. Due to uncertainty of the classifications of the cloud-based solutions as capital or expense at the time, a reconciliation mechanism would now be appropriate to protect the interests of both the Company and the customers.

Q. Please explain the mechanics of the modified deferral for cloud based solutions.

A. The Company proposes a deferral mechanism be put in place if the IT solutions chosen did qualify as capital, which would allow the associated component of service costs (excluding maintenance) included in IT operating expense in rates to be set aside for future return to customers. At the same time, the actual capitalized license costs would be excluded in the calculation of actual Net Plant and the associated revenue requirement effect (return on and return of) would be deferred as a reduction to this deferral. Any resulting regulatory asset or liability balance would be subject to carrying charges and would be settled in future rate proceedings. This deferral treatment would provide the Company with recovery of actual costs and protect the customers from differences that may result if actual solutions chosen have an accounting treatment different from that assumed in rates.

Q. Please explain the Company's proposed modifications to certain Net Plant targets.

A. The Company is proposing that the Net Plant and Depreciation targets specifically related to Phase III of the ERP mainframe replacement strategy be segregated from the overall Net Plant and Depreciation targets and a separate symmetrical deferral be provided for this particular project. As discussed in the Enterprise Resource Planning Panel Testimony, the Company is requesting capital funding in the current rate proceeding for Phase III of its strategy to replace the mainframe, specifically related to EWAM and Finance systems. Given the uncertainty related to the directional cost estimates provided for this project at this time, the Company is requesting a segregated Net Plant target to allow for a deferral of the revenue requirement effect (both return on and return of capital) if the actual capital costs associated with this project are either over or under the amount included in the capital forecast in the calculation of Net Plant and Depreciation used in establishing rates. The overall Net Plant targets are proposed to continue as a one-way deferral of the revenue requirement effect associated with any underspending for future return to customers. However, this project is unique as the detailed and thorough assessment associated with the Finance system replacement has not been completed at this time, but is scheduled to occur during the term of this rate case.

Q. Is the Company proposing to modify the Gas Revenue Decoupling Mechanism deferral?

A. Yes, the Company is proposing to modify the Gas Revenue Decoupling Mechanism deferral to expand the RDM to include SC11 and to modify it from a revenue-per-customer to revenue-per-class structure. In addition, the Company proposes to eliminate the proration adjustment in the 2nd month of the Rate Year and to include the bill credit reconciliation of actual and target revenue (excluding Danskammer portion of the bill credit which is reconciled separately). Please refer to the Forecasting and Rates Panel testimony for further discussion.

Q. Please confirm the Company is proposing to modify the Electric Revenue Decoupling Mechanism deferral.

A. Yes, the Company is proposing to modify the Electric Revenue Decoupling Mechanism deferral to expand the RDM to include SC13 customers and to reconcile amounts deferred related to the SC6 reduced customer charge for EV TOU customers through the RDM. Further the geothermal rate impact credit will no longer be included in the RDM. Finally, the Company proposes to eliminate the proration adjustment in the 2nd month of the Rate Year and to include the bill credit reconciliation of actual and target revenue in the RDM. Please refer to the Forecasting and Rates Panel and the Earnings Adjustment Mechanisms Panel testimonies for further discussion.

Q. Please confirm the Company is proposing to modify the Carbon Reduction Program deferral.

A. Yes, the Company is proposing to modify the Carbon Reduction Program deferral to no longer allow Energy Efficiency funds to be used to fund this Consumer Product Electrification, formally referred to as the Carbon Reduction Program. Please refer to the Earnings Adjustment Mechanisms Panel testimony and Exhibit__ (ATP-11).

Q. Please confirm the Company is proposing to modify the Economic Development deferral.

A. Yes, the Company is proposing to modify the Economic Development deferral to allow symmetrical deferral of expenditures over/under the rate allowance in the event the existing fund balance is exhausted.

Q. Is the Company proposing to modify the Energy Efficiency – Exemptions from Utility Programs Deferral?

A. Yes, the Company is proposing this deferral continue, with modifications, to include all electric and gas service classifications not covered by the RDM where any customer is exempt from paying for utility programs included in base delivery rates. Please refer to the Forecasting and Rates Panel testimony for further discussion.

Q. Does the Company propose that all existing deferrals not expressly identified in the testimony continue?

A. Yes.

VIII. PROPERTY TAX METHODOLOGY AND ASSUMPTIONS

Q. What is the general basis upon which property taxes levied upon the Company have historically been determined?

A. Property taxes have been based generally on the "market value" of property and include taxes on land and the structures and/or equipment erected or affixed to the land. Additionally, utilities also pay special franchise taxes, i.e., property taxes on utility equipment located in public right-of-way.

In New York State, public utility property is valued under a method known as the "cost approach." Under this approach, the New York State Office of Real Property Tax Services ("ORPTS"), and most of the local assessors in the Company's service territory, determine value by using a Reproduction Cost New Less Depreciation ("RCNLD") methodology for utility property. RCNLD calculates what it would cost to reproduce property at current construction costs based on original cost and a trending index, subtracts an allowance for depreciation and obsolescence, if any, and adds the value of land to arrive at a "value" for the entire property. RCNLD is used only to value certain of the Company's structures and all of its taxable equipment. The value of land and office buildings is determined by comparable sales data, also known as the "market approach."

Q. What was the amount of the Company's property taxes for the Historic Year Ended March 31, 2020?

A. For the twelve months ending March 31, 2020, the property tax payments allocated to the electric operations and gas operations were $38.5 million and $14.4 million, respectively, for a combined amount of $52.9 million.

Q. What is the projected amount of property tax expense for the Rate Year ending June 30, 2022?

A. For the Rate Year, we have forecasted $46.1 million and $19.7 million of property tax expense for the electric and gas operations, respectively, for a total of $65.8 million.

Q. Please further describe the information presented in Exhibit __ (ATP-13) and Exhibit __ (ATP-14) with respect to property tax projections.

A. These expense projection schedules detail Central Hudson's real estate and special franchise taxes levied by various school districts and by towns, counties, cities, and villages within Central Hudson's service territory. Property tax projections were first developed by applying the three-year average historical growth rate in actual property tax expense paid to the most recent actual tax expense, which reflects economic obsolescence at 9% for electric and gas. In addition, we included the projected incremental property tax expense related to the reduction of the economic obsolescence award on the 2020 tax roll, as well as the 2021 tax roll as submitted to ORPTS on April 30, 2020 and discussed later in this testimony. Lastly, we included projected incremental property tax expense related to significant capital additions based on a review of the capital expenditure plan sponsored by the Capital Plan Panel. Consistent with prior cases, we propose that property taxes be updated at a later stage in these proceedings to use the latest known taxes, as the 2020/2021 school and 2021 town and county taxes will be known values as opposed to projected amounts.

Q. Is the ratemaking property tax projection methodology just described similar to that employed to project property taxes in the Company's last rate case?

A. Yes, the method employed to project property taxes in Cases 17-E-0459 and 17-G-0460 was the same as described above.

Q. On June 24, 2011 the Governor enacted the 2% real property tax cap legislation. As such, how has Central Hudson realized growth rates greater than the allowed 2% real property tax cap rate?

A. There are two reasons: (1) the 2% tax cap excludes certain items such as large court orders, judgments and pension growth costs and (2) the 2% tax cap assumes a relatively constant property value (i.e., residential home). Unlike a residential homeowner, Central Hudson makes significant investments in its infrastructure on an annual basis. Accordingly, the assessed values to which the tax rate is applied increase;

this yields a year-over-year expense growth rate greater than the 2% real property tax cap.

Q. Does the Company propose continuation of the inclusion of additional property tax expense due to incremental plant additions?

A. Yes. The projection of incremental property tax related to incremental plant was calculated in a manner consistent in Cases 17-E-0459 and 17-G-0460. The table below summarizes the level of actual and projected capital:

Capital Investment ($) - Year Ended					
2021	2020	2019	2018	2017	2016
157,988,000	198,090,000	165,239,000	151,891,000	145,046,914	141,219,000
Tax Roll Year					
2023	2022	2021	2020	2019	2018

Q. Has the Company sought and received any property tax adjustment for economic obsolescence from any State or local entity during any of the last five tax years, including the current tax year?

A. Yes. The Company has received economic obsolescence awards as follows:

Tax Roll Year	Economic Obsolescence Award
2016	15%
2017	14%
2018	11%
2019	9%
2020	5% Electric Only; 0% Gas

DIRECT TESTIMONY OF THE ACCOUNTING AND TAX PANEL

Q. Do the property tax projections which are detailed on Exhibit __ (ATP-13) and Exhibit __ (ATP-14) for electric and gas, respectively, include an assumption for economic obsolescence?

A. Yes. The growth rates used in the projections are based on actual tax expense divided by the assessed value of the plant, which has been reduced by the economic obsolescence award for the respective year. As such, a relatively constant economic obsolescence rate of 9% has been imputed into the growth rates used by the Company.

Q. Based on the fact that the economic obsolescence award on the 2021 tax roll is projected to be reduced from historic levels of approximately 5% down to 2% on electric only, has the Company quantified and included the projected incremental property tax expense associated with the reduced economic obsolescence award in the projections?

A. Yes. Historically, the Company has received an economic obsolescence award consistent with the amount requested in its annual filing, rounded to the nearest whole percentage. As such, the Company has assumed an economic obsolescence award of 2% on electric only (0% on gas), and projected an incremental property tax expense amount of approximately $3.0 million ($1.9 million for electric and $1.1 million for gas) associated with the reduced economic obsolescence award on the 2021 tax roll. The increase of approximately $3.0 million is based upon the equalization rates, inventory reporting and assessed values as per the 2019 final tax roll, and therefore it is an estimate given the limited known variables at this time. Further, this amount would be realized in 2021/2022 school taxes and 2022 town and county taxes.

Q. Has the Company employed any property tax expense mitigation measures during its current Rate Plan?

A. Yes. The most significant cost mitigation measure achieved by the Company since its last rate filing is the annual economic obsolescence award. The estimated and/or projected tax savings associated with the economic obsolescence awards follows:

Tax Roll Year		Economic Obsolescence Award		Projected Tax Savings
2017		14%		$5.1M
2018		11%		$5.0M
2019		9%		$3.8M
2020		5% Electric; 0% Gas		

Q. Please describe another successful cost saving measure achieved by the Company in the recent past.

A. The Company has been successful in executing a Payment in Lieu of Tax ("PILOT") Agreement for a new substation. In December 2011, Central Hudson entered into a ten year PILOT Agreement with the Ulster County Industrial Development Agency for the new Saugerties Substation. This PILOT Agreement provides predictability in tax projections and acts as a hedge to minimize property tax increases.

DIRECT TESTIMONY OF THE ACCOUNTING AND TAX PANEL

Q. Please provide a detailed description and quantify any successful tax challenges, lawsuits, reassessments, or other Company actions described above.

A. There have been none during the current Rate Plan.

Q. Is the Company familiar with tax adjustments for functional obsolescence?

A. Yes. Functional obsolescence is the impairment of operating capacity or efficiency resulting in a loss in value brought about by (1) the failure of the tangible property to meet present or projected needs or (2) where the capacity of the tangible property exceeds reasonable anticipated demands.

Q. Has the Company sought any property tax adjustment for functional obsolescence from any State or local entity during any of the last five tax years, including the current tax year?

A. No. The Company has not filed for functional obsolescence for the period noted, as it was determined based on an internal review that the cost of an outside expert necessary to file for functional obsolescence would likely not be recaptured in tax savings.

Q. Has the Company performed a cost/benefit analysis to support this conclusion?

A. Yes. Please refer to Exhibit __ (ATP-15).

DIRECT TESTIMONY OF THE ACCOUNTING AND TAX PANEL

Q. Does the Company propose continuation of deferral accounting for property tax expense?

A. Yes. The Company proposes to continue the deferral accounting treatment agreed upon in Cases 17-E-0459 and 17-G-0460.

Q. Please explain the Company's current deferral treatment for property tax expense.

A. Currently, Central Hudson is authorized to defer for future recovery from or pass back to customers 90% of any difference between actual property tax expense and the rate allowances for each Rate Year. Additionally, under the Company's current three-year rate plan, the Company's pre-tax gain/loss is limited to five basis points (on each electric and gas) in Rate Year 1, Rate Year 2, and Rate Year 3.

Q. What do you propose regarding the sharing between the Company and its customers of any property tax savings the Company might obtain from property tax refunds and assessment reductions?

A. For those refunds that exceed the identified threshold, the Company would file a notice with the Commission subject to 16 NYCRR 89.3. The Company is proposing 85% customer / 15% Company sharing mechanism for property tax refunds and assessment reductions (net of incremental non-labor costs incurred to achieve them).

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

A. Yes, it does.