BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

ORANGE AND ROCKLAND UTILITIES, INC.

Case 07-E-0949

May 2008

Prepared Supplemental Testimony of:

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Public Utilities Auditor III

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Q. Please state your name, employer and business addresses.
A. Robert Burke. I am employed by the New York State Department of Public Service (Department). My business addresses is Three Empire State Plaza, Albany, New York 12223.
Q. Have you previously submitted direct testimony in this case?
A. Yes, I previously submitted direct testimony on behalf of the Department of Public Service Staff as part of a panel.
Q. What is the purpose of this supplemental testimony?
A. My testimony addresses the development of the revenue requirements recommended in the Joint Proposal, dated April 18, 2008. The Electric Rate Plan covers the period from July 1, 2008 to June 30, 2011. The first rate year covers the twelve-month period ending June 30, 2009 (Rate Year 1), the second rate year covers the twelve-month period ending June 30, 2010 (Rate Year 2), and the third rate year covers the twelve-month period ending June 30, 2011 (Rate Year 3).
Q. Did the Staff’s filed testimony of December 19,

2007 address a multi-year rate plan?

A. No. Given the statutory rate case schedule and the need to have a solid set of numbers for the rate year ending June 30, 2009, the Staff testimony only addressed a traditional one year case.

Q. Please explain how the Joint Proposal’s rate year forecasts were developed.

A. As noted in our Statement In Support of Joint Proposal, the operating results for Rate Year 2 and Rate Year 3 were developed using Rate Year 1 as the base for the projections.

Q. Does Rate Year 1 provide a firm basis for projecting the second and third rate years of the Joint Proposal’s Rate Plan?

A. Yes. The revenue requirement contemplated by the Joint Proposal compares favorably with a litigated outcome for the rate year ending June 30, 2009. Staff’s filed case recommended an increase in revenue requirement of $17.497 million, Exhibit 23, Schedule 1. Adjusted for corrections and updates accepted at hearings, Staff’s litigated position contemplated a rate increase of $19.333 million. As noted on page

10 of Staff’s Statement in Support of the Joint Proposal, the $3.954 million increase over Staff’s $19.333 million hearing position to a rate change of $23.287 million, is comprised of a limited number of elements.

Q. Please explain how the Joint Proposal’s Rate Year 2 and Rate Year 3 forecasts were developed?

A. As I have indicated, the projected operating results for the twelve months ending June 30, 2010, as shown on Appendix A, page 4 of 5 of the Joint Proposal, and the twelve months ending June 30, 2011, in Appendix A, page 5 of 5 of the Joint Proposal, used the results of the twelve months ending June 30, 2009 as the base from which projections were developed. The basis supporting the various sales items and elements of cost are as follows.

Delivery Revenues and Purchased Power

The annual sales forecast for delivery revenues for Rate Year 2 and Rate Year 3 are forecast to grow at an annual rate of 1.7% and are addressed in the Joint Proposal, Section III. 3. The sales volumes are set for the in Appendix B of the Joint Proposal. The forecast, accepted by the parties, is the updated sales projection presented by the Company in this proceeding. The methodology is identical to that used to forecast sales for the first rate year. As noted in Company witness Kane's supplemental testimony of April 2008, the energy cost adjustment (ECA) revenues were decreased by $138,000 in each rate year to reflect the roll-in from the ECA to base rates of the recovery of the revenue requirement associated with the Middletown Tap. Inter-company billings to the Company's affiliates were also adjusted each year to reflect the 9.4% return on equity embedded in the revenue requirements.

Other Operating Revenues

Other Operating Revenues for Rate Years 2 and 3, except for Joint Use Rents were, consistent with the forecast method for the first rate year, forecast using the general escalation rate.

Operation & Maintenance Expenses

Operating and Maintenance expenses for Rate Years 2 and 3 are summarized by cost element in Company Exhibit E-14 Revised, Schedule 5, pages 1 through 3. Generally, the forecast reflects a minimum of new programs and the use of a large inflation pool to project costs.

Direct Labor was escalated for a wage growth rate of 2.50% per year, inclusive of a 1% productivity adjustment, consistent with Commission practice. The rate is the same as that used to forecast direct labor for Rate Year 1. In addition, the labor forecast reflects an allowance for seven additional new employees in Rate Year 2 and two additional employees in Rate Year 3 as set forth in Appendix L of the Joint Proposal. The Staff Infrastructure Panel Supplemental testimony addresses and supports six of the seven new employees provided for in Rate Year 2 and one of the two new employees provided for in Rate Year 3. The additional two new employees are a labor relations administrator, Rate Year 2, and a training specialist in Rate Year 3.

Q. Will you please address the need for the labor relations administrator and the training specialist?

A. Company witness Kosior filed rebuttal testimony, Exhibit 31, pages 4 through 6, which identified the need for these two employees. Based on Staff’s review of the rebuttal, along with additional requests of information, it was agreed to by the signing parties that the additional two positions are needed within the three year rate plan.

Labor Relations Administrator

Pages 8 and 9 of Appendix L describe the duties and need for a Labor Relations Administrator. Generally, the position would provide assistance to the Director of Labor Relations. The Labor Relations Administrator would maintain many of the day to day work load functions thus enabling the Director of Labor Relations to focus more on the development of strategies and policies. This could lead to efficiencies in the context of general contract negotiations and in the maintenance of a mutually beneficial relationship with the Company’s bargaining unit work force. The Labor Relations Administrator would ultimately become responsible for handling grievances, arbitration and disciplinary actions. An immediate responsibility would be the automation of several major functions, including grievance and arbitration tracking, disciplinary action tracking and the monitoring of sick time and lost time due to disability situations. For these reasons and those outlined in Appendix L, the Company has justified the addition of a Labor Relations Administrator in Rate Year 2.

Training Specialist

Pages 9 and 10 of Appendix L describe the duties and need for a Training Specialist. As described in the Company rebuttal testimony and in Appendix L, the Training Specialist would coordinate and provide health and safety training on a Company-wide basis. The Training Specialist would also assist the Company's Electric Trainer because of increases in duties and responsibilities of that position. The Training Specialist will assist in developing and providing Company specific Substation skills training and develop training and instructional curriculum for new technologies and NERC requirements. For these reasons and those further outlined in Appendix L, the Company has justified the addition of a Training Specialist in Rate Year 3.

As noted in our Statement of Support, given the magnitude of the rate increases, I believe that the Joint Proposal fairly addresses both the increasing work load and the need to mitigate rate impacts.

Q. Please continue explaining how the Operation and Maintenance Expenses identified in Company Exhibit E-14 (Revised), Schedule 5, page 1 were projected.

A. Shared Services and Employee and Other Insurance Costs, exclusive of asbestos claims, are treated in the inflation pool. Employee and Other Insurance Costs have also been increased to reflect fringe benefit costs related to new employees allowed in Rate Years 2 and 3.

The System Benefit Charge reflects the revenue collections for each Rate Year. The Stray Voltage Program and Storm costs are increased for inflation. Changes in Uncollectible Accounts are based on the ratio of bad debt customer account write-offs, net of collections to Rate Year sales and deliveries to Public.

Tree Trimming and Other T&D operation and Maintenance costs, Regulatory Commission Expense, and Other O&M costs are also treated as part of the inflation pool. The Information Technology Solutions cost component, part of Other O&M costs, is further adjusted in Rate Years 2 and 3, to reflect additional computing hardware, software and communication costs to support the Company’s mobile workforce initiatives. These costs, as discussed in the Staff Infrastructure Panel Supplemental testimony, are estimated at $358,000 and are spread equally over Rate Year 2 and 3.

Q. Please explain the basis of the pension and other post employment benefit (OPEB) expense forecast for Rate Year 2 and Rate Year 3.

A. The Company’s pension and OPEB expense forecast for Rate Year 2 and Rate Year 3 is set forth on Company Exhibit E-14 (Revised), Schedule 5, page 2. The forecast, as noted in the Company’s Supplemental Testimony of Mr. Kane, reflects the results of the updated January 2008 actuarial studies of Buck Consulting. The forecast also reflects Staff’s 60-month recovery period for the projected deferred Pension and OPEBs balances at the start of Rate Year 1 and reflects Staff’s offset for the pass-back of deferred Medicare tax benefits over 36 months to help mitigate the overall rate increases in the Joint Proposal. In addition, the amortization period for the deferred OPEB Transitional Obligation balance maintains the existing amortization period which extends through to December 31, 2012.

Q. Please continue.

A. The Company Exhibit E-14 (Revised), Schedule 5, page 3 identifies MGP Sites and Other Environmental Costs. The forecast for Rate Years 2 and 3 continues to reflect the amortization level of environmental costs reflected in Rate Year 1, a five year amortization of projected deferred environmental expenditures as of June 30, 2008 and of estimated expenditures from July 1, 2008 through June 30, 2009 expenditures, adjusted to reflect a five year amortization of projected Rate Year spending.

Depreciation and Amortization Expense

As noted on page 36 of our Statement In Support of Joint Proposal, depreciation rates are based on the average service lives and salvage factors proposed by Staff. The Joint Proposal also reflects Staff's five year pass back of Common Plant's reserve surplus. The depreciation expense forecast for Rate Years 2 and 3 reflect these modifications and track the forecasted plant additions reflected in the Joint Proposal.

Taxes Other Than Income Taxes

Property taxes were escalated using the Company's historic average growth rate of 1.27% annually to account for likely increases in taxes.

Income Taxes

Company Exhibit E-14 (Revised), Schedules 8 and 9 detail the State and Federal Income taxes, respectively. The computation generally tacks Rate Year 1's taxes adjusted for the tax impacts of the construction budget forecasts.

Rate Base

Company Exhibit E-14 (Revised), Schedule 10 details the forecast of rate base contained in the Joint Proposal. The average net plant for Rate Years 2 and 3 is increased to reflect the Company’s construction budget net of accrued depreciation. The Staff Infrastructure Panel Supplemental testimony addresses and supports the various construction projects for the two years. Average Deferred Research and Development, Deferred Workers Compensation expenditures and Deferred Property Tax Refunds are adjusted to reflect the Company’s recovery/pass back of these deferred costs/credits during each of the two rate years. Average Deferred Environmental Remediation Costs track the deferral of annual expenditures net of recoveries during each of the two Rate Years. Finally, the forecasts in average Accumulated Deferred Income taxes have been derived from forecast of plant-in-service using the appropriate book and tax depreciation factors for each of the two Rate Years.

Q. Does this conclude your supplemental testimony?

A. Yes.