STATE OF NEW JERSEY
OFFICE OF ADMINISTRATIVE LAW
BEFORE THE HONORABLE RICHARD MCGILL, ALJ

I/M/O THE VERIFIED PETITION OF ROCKLAND ELECTRIC COMPANY FOR APPROVAL OF CHANGES IN ELECTRIC RATES, ITS TARIFF FOR ELECTRIC SERVICES, ITS DEPRECIATION RATES, AND OTHER RELIEF	)	**BPU DOCKET No. ER09080668** **OAL DOCKET No. PUC-11407-2009N**

DIRECT TESTIMONY OF DAVID PETERSON
ON BEHALF OF THE
NEW JERSEY DEPARTMENT OF THE PUBLIC ADVOCATE,
DIVISION OF RATE COUNSEL

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is David E. Peterson. I am a Senior Consultant employed by Chesapeake Regulatory Consultants, Inc. ("CRC"). Our business address is 1698 Saefern Way, Annapolis, Maryland 21401-6529. I maintain an office in Dunkirk, Maryland.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE IN THE PUBLIC UTILITY FIELD?

A. I graduated with a Bachelor of Science degree in Economics from South Dakota State University in May of 1977. In 1983, I received a Master's degree in Business Administration from the University of South Dakota. My graduate program included accounting and public utility courses at the University of Maryland.

In September 1977, I joined the Staff of the Fixed Utilities Division of the South Dakota Public Utilities Commission as a rate analyst. My responsibilities at the South Dakota Commission included analyzing and testifying on ratemaking matters arising in rate proceedings involving electric, gas and telephone utilities.

Since leaving the South Dakota Commission in 1980, I have continued performing cost of service and revenue requirement analyses as a consultant. In December 1980, I joined the public utility consulting firm of Hess & Lim, Inc. I remained with that firm until August 1991, when I joined CRC. Over the years, I have analyzed filings by electric, natural gas, propane, telephone, water, wastewater, and steam utilities in connection with utility rate and certificate proceedings before federal and state regulatory commissions.

Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY IN PUBLIC UTILITY RATE PROCEEDINGS?

A. Yes. I have presented testimony in 121 other proceedings before the state regulatory commissions in Alabama, Arkansas, Colorado, Connecticut, Delaware, Indiana, Kansas, Maine, Maryland, Montana, Nevada, New Jersey, New Mexico, New York, Pennsylvania, South Dakota, West Virginia, and Wyoming, and before the Federal Energy Regulatory Commission. In addition, I have twice testified before the Energy Subcommittee of the Delaware House of Representatives on the issues of consolidated tax savings and tax normalization.

Collectively, my testimonies have addressed the following topics: the appropriate test year, rate base, revenues, expenses, depreciation, taxes, capital structure, capital costs, rate of return, cost allocation, rate design, life-cycle analyses, affiliate transactions, mergers, acquisitions, and cost-tracking procedures.

II. SUMMARY

Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A. My appearance in this proceeding is on behalf of the New Jersey Department of the Public Advocate, Division of Rate Counsel ("Rate Counsel").

Q. HAVE YOU TESTIFIED IN OTHER PROCEEDINGS BEFORE THE NEW JERSEY BOARD OF PUBLIC UTILITIES ("BOARD")

A. Yes, I have. I have submitted testimony in the following proceedings before the Board:

Utility	Docket No.
South Jersey Gas Company	GR8704329
	GR03050413
	GR03080683

New Jersey-American Water Company	WR88070639
	WR91081399J
	WR92090906J
	WR94030059
	WR95040165
	WR98010015
	WR03070511
	WR06030257
ACE/Delmarva Merger	EM97020103
Atlantic City Electric Company	ER03020110
FirstEnergy/GPU Merger (JCP&L)	EM00110870
Jersey Central Power & Light	ER02080506
	ER05121018
Rockland Electric Company	ER02100724
	ER06060483
Public Service Electric and Gas	EM00040253
	GR09050422
Exelon/PSE&G Merger	EM05020106
Conectiv/Pepco Merger (ACE)	EM01050308
Elizabethtown Gas Company	GR02040245
	GR09030195
United Water New Jersey, Inc.	WR07020135
New Jersey Natural Gas Company	GR07110889

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. I was asked by Rate Counsel to analyze Rockland Electric Company's ("Rockland" or "the Company") rate increase request and proposed rate changes. Specifically, I was asked to prepare a detailed analysis of Rockland's electric distribution rate base and operating income under current rates. I was also asked to prepare a calculation showing Rockland's present revenue deficiency. The purpose of my testimony is to present the results of my analysis to Your Honor and the Board and to recommend alternative ratemaking treatments for several items included in the Company's claimed revenue requirement.

Q. WILL THE TESTIMONY OF RATE COUNSEL'S OTHER WITNESSES AFFECT YOUR TESTIMONY IN THIS PROCEEDING?

A. Yes. Mr. Michael Majoros has analyzed and presents testimony on Rockland's removal cost allowance. Dr. Mitchell Serota is submitting testimony on Rockland's claimed pension expense. Mr. Charles P. Salamone is submitting testimony concerning the ratemaking treatment of land recently purchased by Rockland for a new substation in Montvale. Mr. Matthew Kahal's testimony recommends a rate of return on common equity and capital structure for Rockland. To the extent that these witnesses' recommendations impact Rockland's revenue requirement, those impacts are reflected in the revenue requirement study which I explain in more detail throughout in my testimony.

Q. ARE YOU FAMILIAR WITH ROCKLAND'S FILING IN THIS PROCEEDING?

A. Yes, I am. I have carefully reviewed the Direct Testimonies and Exhibits sponsored by Rockland's witnesses relating to the issues that I address herein. I also reviewed the Company's responses to data requests of Rate Counsel and the Board Staff, again relating to the issues that I address in my testimony.

Q. PLEASE SUMMARIZE ROCKLAND'S RATE REQUEST.

A. Rockland's electric distribution rates were last examined in 2006 (BPU Docket No. ER06060483) wherein the Company requested a $13,231,000, or 7.5 percent, increase in annual revenues based on a test year ended December 31, 2006. Ultimately, that proceeding was resolved by a Stipulation wherein the parties agreed to a $6.4 million increase for Rockland. The Stipulation also provided for a 9.75 percent return on common equity allowance and a 7.83 percent overall return on rate base. Rates set in that proceeding became effective April 1, 2007. The Stipulation further provided that rates set in the 2006 proceeding will remain in effect until at least April 1, 2010.

On August 11, 2009, Rockland filed a Verified Petition with the Board requesting a $9.8 million, or 3.8 percent, increase in annual revenue to become effective May 15, 2010. This revenue deficiency was calculated using six months of actual operating results and six months of forecasted operating results for the twelve-month period ended December 31, 2009. Rockland's initial filing has since been supplemented twice. In December 2009, Rockland filed a "10+2 update" reflecting actual operating results for the first ten months of the test year and estimated results for the remaining two months. The 10+2 update indicated a $12.9 million revenue deficiency for Rockland. On January 29, 2010, the Company filed its 12+0 update schedules wherein all estimated operating results for the test year were replaced with actual results of operations. The 12+0 update also contained several new adjustments, one for a reliability project and two new revenue adjustments. While Rockland did not file revised rates reflecting its updated revenue requirement, Rockland's 12+0 filing indicates a $13.8 million revenue deficiency. The $213,877,000 annual revenue requirement claimed in Rockland's 12+0 filing was calculated using a test year ended December 31, 2009. Rockland is requesting an 11 percent return allowance on common equity capital, and an 8.57 percent return on test year-end rate base.

Q. HAVE YOU PREPARED AN EXHIBIT SUMMARIZING THE IMPACT OF RATE COUNSEL'S REVENUE REQUIREMENT ADJUSTMENTS ON ROCKLAND'S CLAIMED DEFICIENCY?

A. Yes, I have. Exhibit (DEP-1) attached to my testimony summarizes Rate Counsel's determination of Rockland's revenue deficiency. Exhibit (DEP-1), Schedule 1, summarizes the cumulative effect of my recommendations and adjustments, and that of Rate Counsel's other witnesses, on Rockland's claimed cost of service as calculated in its 12+0 update filing. From this schedule, I calculated that Rockland's current distribution rates produce a 5.13 percent return on test year end rate base. Rate Counsel Witness Mr. Kahal is testifying in this proceeding that Rockland requires an 8.12 percent overall return on rate base. Mr. Kahal's overall return includes a 10.1 percent rate of return allowance on common equity capital and a capital structure wherein common equity represents 49.85 percent of total capitalization. Therefore, on Schedule 1, I show that Rockland's present rates result in a $7,209,000 annual revenue deficiency, rather than $13.781 million as Rockland claimed in its 12+0 update filing.

Exhibit (DEP-1), Schedule 2, is a multi-page schedule detailing my determination of Rockland's adjusted year-end rate base. Schedule 3 shows my calculation of Rockland's *pro forma* earnings under present rates. Rate Counsel's adjustments that bridge Rockland's as-filed case to Rate Counsel's *pro forma* determination are shown in Column E on the first page of Schedules 2 and 3. The bases for Rate Counsel's recommended rate base and expense adjustments are set forth in the following sections of my testimony, and in the testimonies of Rate Counsel's other witnesses.

III. RATE BASE

A. Test Period

Q. WHAT TEST PERIOD IS REFLECTED IN ROCKLAND'S REVENUE REQUIREMENT STUDY?

A. Rockland's accounting witness Mr. Richard A. Kane used a twelve-month test period ended December 31, 2009. Rockland's initial filing reflected actual plant and reserve balances as of June 30, 2009, plus budgeted plant additions less forecasted plant retirements for the six months ended December 31, 2009. More recently, Rockland updated its test year presentation to replace forecasted amounts with actual plant additions and retirements. I have reflected Rockland's 12+0 update adjustments in my revenue requirement analysis shown in Exhibit (DEP-1).

Q. DO YOU AGREE WITH MR. KANE'S USE OF A 2009 TEST YEAR?

A. Yes, I do. In fact, the same 2009 test year is reflected in my revenue requirement study shown in Exhibit (DEP-1).

B. Post-Test Year Plant Additions

Q. DOES MR. KANE'S PROPOSED RATE BASE INCLUDE ONLY PLANT THAT IS EXPECTED TO BE IN SERVICE BY THE END OF THE TEST YEAR?

A. No. Mr. Kane's proposed rate base includes plant additions (net of retirements) that are expected to be in service by June 30, 2010.

Q. IN YOUR OPINION, IS IT APPROPRIATE TO INCLUDE PROJECTED 2010 PLANT ADDITIONS AND RETIREMENTS IN ROCKLAND'S 2009 RATE BASE?

A. No, it is not. I object to the rate base inclusion of forecasted post-test year plant additions and retirements. Under traditional regulatory principles, plant that was not used and useful during the test period should not be included in rate base. My primary objection to including projected post-test year plant additions in rate base is that the 2010 construction projects in question were not used and useful during the test period. Rockland's New Jersey customers received no service benefits from them. More fundamentally, including post-test year plant closings in rate base violates the test period matching principle. It does so by stepping outside the test period to measure investment without making similar out-of-period adjustments for revenues and expenses that flow from the out-of-period investment. Once they are placed in service, the projected plant additions that Mr. Kane included in his rate base presentation will serve customers and loads during the second half of 2010 and beyond, and will increase operating efficiency and service reliability, or will decrease maintenance requirements on both new and existing facilities. Yet, none of these revenue increasing or expense reducing impacts that flow from the projected plant additions is reflected in Mr. Kane's 2009 test year revenue requirement determination. In other words, Mr. Kane's proposed rate base treatment for projected plant additions recognizes only the cost increases that flow from post-test year construction projects, but it does not recognize the related service and financial benefits (i.e., increased reliability and efficiency and resulting revenue increases and expense reductions that flow from the plant additions).

Technically, the mismatch produced by including post-test year plant additions in rate base overstates the unit cost of service and average rate determination.

Within a given test year, a utility's total service-related cost is divided by test year sales volumes to produce the average rate per kWh or KW. Dividing the cost of next year's plant additions by sales volumes from the past year increases the average rate. Yet, when those plant additions are placed in service they will produce sales and revenues that were not recognized in the rate setting formula. Sales growth acts to offset, to one degree or another, the increase in the unit cost of service attributable to plant additions. Yet, the post-test year sales growth is not reflected in Mr. Kane's actual test year presentation.

Because Rockland's proposed post-test year plant addition adjustment violates the matching principle, it does not meet the known and measurable standard and the projected post-test period plant additions and retirements should not be included in Rockland's rate base. My adjustments to reverse the effects of Mr. Kane's proposed post-test year plant adjustments on rate base are shown on Exhibit (DEP-1), Schedule 2, page 3.

C. Cash Working Capital

Q. FOR WHAT PURPOSE SHOULD A CASH WORKING CAPITAL ALLOWANCE BE INCLUDED IN RATE BASE?

A. A cash working capital allowance should be included in rate base to compensate investors for investor-supplied funds, if any, used to provide the day-to-day cash needs of the utility. These cash needs can be measured in a lead-lag study. A lead-lag study measures the time between (1) the provision of electric service to utility customers and the receipt of revenue for that service by the utility, and (2) the provision of service by the utility and its disbursements to employees and suppliers in payment for the associated costs. The difference between the revenue "lag" and the expense "lead" is expressed in days. The difference, which can be either a net lag or a net lead, multiplied by the average daily operating expenses, quantifies the cash working capital required for, or available from utility operations.

In this proceeding, Mr. Kane is sponsoring a lead-lag study based on a study of 2008 lead and lag days and 2009 expenses. Mr. Kane's lead-lag study, however, goes far beyond the measurement of Rockland's cash working capital requirement.

Q. HOW DO MR. KANE'S LEAD-LAG CALCULATIONS OVERSTATE ROCKLAND'S CASH WORKING CAPITAL REQUIREMENT?

A. Mr. Kane overstates Rockland's cash working capital requirement by including non-cash expenses in his lead-lag analysis. The non-cash expenses produce an overstatement of the Company's working cash requirement. The improper non-cash expenses included in Mr. Kane's study are: 1) deferred purchase power expense, 2) uncollectible accounts, 3) materials and supplies issues, 4) various amortization expenses, 5) depreciation, 6) deferred taxes, 7) tax credits, and 8) return on invested capital. Moreover, Mr. Kane's analysis fails to consider the expense leads associated with Rockland's payment of interest on long-term debt.

Q. WHY SHOULD DEFERRED POWER EXPENSES NOT BE INCLUDED IN THE LEAD/LAG ANALYSIS?

A. It is necessary and appropriate to exclude deferred expenses from the working capital calculation because the cash transaction associated with deferred costs already occurred in a prior period. There is no continuing cash payment required for these deferred costs.

Q. WHY SHOULD AMORTIZATION EXPENSES NOT BE INCLUDED IN THE LEAD/LAG ANALYSIS?

A. Like the deferred power expenses, the various amortizations represent unrecovered funds already expended by Rockland in prior periods. For ratemaking purposes, the Board allowed Rockland to defer recognition of certain costs and to amortize those costs over a number of years. For each amortization, however, the cash transaction already occurred in a prior period. That is, there is no continuing cash requirement by Rockland. The amortization merely provides a means of recovery for an expense incurred in a previous year. In this respect, amortizations represent a source cash flow and working capital, not a requirement for additional working capital.

Q. WHY SHOULD DEFERRED TAXES NOT BE INCLUDED IN THE LEAD/LAG ANALYSIS?

A. It is appropriate to exclude deferred taxes from the working capital calculation because there is no continuing cash payment required from either the Company or investors for tax deferrals. Because no periodic cash outlay is required, no investment in working capital is required either. Deferred taxes have been collected from ratepayers, without being paid to the US Treasury by the utility. It is ludicrous to conclude that deferred tax expenses create a cash working capital requirement, since no investor funds were expended for them.

Q. IF INVESTOR CAPITAL WAS EXPENDED WHEN PLANT ASSETS WERE ACQUIRED DOES THIS JUSTIFY INCLUDING DEFERRED TAXES IN THE LEAD-LAG STUDY?

A. No. This is *non sequitur* reasoning. No one can dispute that investors expended funds at the time the Company acquired plant assets. This undisputed fact, however, actually supports my position that deferred taxes should not be recognized in the cash working capital calculation. The cash transaction with investors associated with plant in service giving rise to deferred taxes already occurred in the past. There is no further cash outlay from either investors or the Company that is in any way connected with the deferred taxes from that point on.

No working capital is needed by the utility for this item. Thus, there is no justification for a cash working capital allowance for deferred income taxes.

Q. WHAT IS YOUR OBJECTION TO INCLUDING DEPRECIATION EXPENSE IN THE LEAD-LAG STUDY?

A. Like deferred income taxes and amortizations, depreciation is a non-cash expense. Once again, the cash transaction associated with a plant asset occurred when the asset was first acquired. No additional investor-supplied funds for working capital purposes are required following the initial investment.

Rather, the depreciation expense is an accounting accrual established to provide a systematic means for the utility to recover the cost of a plant asset over its useful service life. The utility, however, does not write out a check at the end of each month for "depreciation expense" to investors. For that reason, depreciation expense represents a significant source of cash flow for the utility even though it is a non-cash expense as far as Rockland's cash working capital requirement is concerned. Therefore, it is not appropriate to include depreciation and amortization expenses in the lead-lag study.

Q. SHOULD A RETURN ON INVESTED CAPITAL BE INCLUDED IN THE LEAD-LAG STUDY?

A. No. Mr. Kane includes a return on invested capital in his lag study using a zero-day expense lag. Mr. Kane's treatment is as if Rockland compensates its stockholders on a daily basis. The fact is that compensation is received by stockholders in two forms, through quarterly dividend payments, if any, and through capital appreciation, if any, upon the sale of the stock. If one were to measure the actual delay in the cash outlay by the utility to stockholders, one would refer to the quarterly dividend payments that are being paid, and not simply assume a zero lag as Mr. Kane has done. But, because there is no contractual requirement for ConEd to pay fixed quarterly dividends to stockholders, the common equity return should not be included in the cash working capital measurement in the first place.

Q. HOW DID MR. KANE TREAT LONG-TERM DEBT INTEREST IN HIS WORKING CAPITAL CALCULATION?

A. Mr. Kane simply lumped interest on long-term debt in with the common equity return and applied a zero-day lag to Rockland's return on invested capital.

Q. SHOULD LONG-TERM DEBT INTEREST BE TREATED IN THIS MANNER?

A. No. Unlike quarterly dividend payments, there are contractual requirements associated with Rockland's long-term debt that obligate Rockland to make fixed interest payments on certain dates. In this respect, the debt interest more closely resembles Rockland's other cash operating expenses. Therefore, the interest payment lead for Rockland's long-term debt should be separately recognized in the lead-lag calculation. Long-term debt interest is paid semi-annually, creating 91.25-day expense lead.

Q. HAVE YOU MADE AN INDEPENDENT CALCULATION OF ROCKLAND'S WORKING CAPITAL REQUIREMENT?

A. Yes. My working capital calculation is shown on Schedule 2, page 4, of my revenue requirement exhibit. In this calculation, I used Mr. Kane's lead and lag day determinations and Rockland's claimed 2009 cash operating expenses. I excluded the non-cash expenses, however. I also calculated a separate expense requirement for long-term debt interest. Using this approach, I calculated that

Rockland's cash working capital requirement is approximately $6,378,000. This is approximately $2.071 million less than the allowance that Mr. Kane calculated.

D. Deferred Audit Expense

Q. HOW DID MR. KANE TREAT THE EXPENSES FOR THE MANAGEMENT AUDIT REQUIRED BY THE BOARD?

A. During 2009, the Board contracted with PMC Management Consultants to conduct a management audit and an audit of Rockland's affiliated transactions. Mr. Kane included an adjustment for an amortization expense reflecting a three-year amortization of these costs. Mr. Kane also included the unamortized net-of-tax balance of these costs in rate base.

Q. ARE THESE TREATMENTS APPROPRIATE?

A. No, not entirely. I object to Mr. Kane's proposed three-year amortization period. I also object to including the unamortized balance in rate base.

A four-year amortization of costs for Rockland's last management audit was approved by the Board in Docket No. ER01200724. However, the Board did not approve including the unamortized balance in rate base in that proceeding. At that time, the Board held that including the unamortized balance of audit costs violates Board policy. Rockland has presented no compelling arguments in this case to demonstrate that the Board's treatment of audit costs, i.e., a four-year amortization, and its policy to exclude the unamortized balance from rate base should be reversed at this time. Therefore, I show on Exhibit (DEP-1), Schedule 2, page 5, my adjustment to Mr. Kane's proposal to reflect a four-year amortization of PMC audit costs and to exclude rate base treatment of the unamortized balance.

E. Plant Held For Future Use

Q. WHAT IS THE BASIS FOR THE ADJUSTMENT YOU SHOW ON EXHIBIT (DEP-1), SCHEDULE 3, PAGE 2, COLUMN E TO REMOVE THE INVESTMENT IN THE MONTVALE SUBSTATION PROPERTY?

A. Support for this adjustment is provided in the testimony submitted by Charles L. Salamone on behalf of Rate Counsel.

F. Rate Base Summary

Q. PLEASE SUMMARIZE THE IMPACT OF YOUR RECOMMENDED ADJUSTMENTS TO ROCKLAND'S PROPOSED RATE BASE.

A. Rockland's 12+0 filing includes a $149,530,000 rate base for its retail distribution operations. Rate Counsel is recommending four adjustments to Rockland's rate base determination. Together, Rate Counsel's adjustments reduce Rockland's proposed rate base by $7,318,000. Therefore, I recommend that Rockland's distribution rate base be set at $142,212,000.

IV. EARNINGS UNDER CURRENT RATES

Q. WHERE IN EXHIBIT (DEP-1) DO YOU SHOW RATE COUNSEL'S ADJUSTMENTS TO ROCKLAND'S *PRO FORMA* EARNINGS DETERMINATION?

A. All of Rate Counsel's revenue and expense adjustments are summarized on my Exhibit (DEP-1), Schedule 3, page 2. This page shows the revenue, expense and net earnings effects of Rate Counsel's recommended adjustments in this proceeding. The remaining pages in Schedule 3 detail the development of the expense adjustments that I am sponsoring.

A. DSM, Efficiency and Economic Activity

Q. WHAT IS ROCKLAND PROPOSING REGARDING DSM, EFFICIENCY AND ECONOMIC ACTIVITY?

A. It is difficult to tell precisely what Rockland is proposing. Rockland's initial and 10+2 filings were silent on these issues. That is, Rockland did not claim any revenues were lost were lost due to DSM, energy efficiency or slower economic activity during the test year. Nor did Rockland submit any testimony or propose any adjustments for alleged lost revenues in its initial or its 10+2 filings. Mysteriously, Rockland waited until its very recent 12+0 update filing to propose a $1,412,000 adjustment for alleged lost revenues due to DSM and energy efficiency measures undertaken by the Company and slower economic activity within its service territory during the test year. However, Rockland has not provided any testimony explaining and supporting its claims in this regard.

Q. HOW SHOULD ROCKLAND'S LOST REVENUE ADJUSTMENTS BE TREATED IN THIS PROCEEDING?

A. The Board should reject Rockland's proposed lost revenue adjustments. There simply is no support provided by the Company for these adjustments. The adjustments that I show on my Schedule 3, page 3, reverse the effects of Rockland's lost revenue claims.

B. Payroll Related Expenses

Q. DOES ROCKLAND'S FILING INCLUDE ANY PAYROLL COST INCREASES?

A. Yes, it does. Rockland's filing includes labor cost adjustments to annualize wage and salary increases that became effective during the 2009 test period and to reflect known and anticipated payroll changes in 2010.

Q. DO YOU AGREE WITH ROCKLAND'S PAYROLL ADJUSTMENTS?

A. No, not entirely. I agree that it is proper to annualize wage and salary increases that were granted in 2009. It is also proper to recognize wage increases becoming effective in June 2010 for the Company's union workforce. These increases are fixed by collective bargaining agreements and, thus, are known and measurable. I object, however, to recognizing in rates the speculative June 1, 2010 salary increases for the Company's non-union employees and officers. Unlike what is explicitly stated in the collective bargaining agreement for union workers, the 2010 increase for the Company's non-union employees is not fixed, known, and measurable at this time. There is no firm commitment or requirement by management at this time to grant the increase to non-union employees that is included in Mr. Kosior's labor adjustment. The estimated 3 percent increase for management employees included in Mr. Kosior's adjustment is twice the percentage increase that Rockland's union employees will receive in 2010. Moreover, the decisions to grant an increase to management employees and the amount of such increase will not be made until the second quarter of 2010. Thus, Mr. Kosior's adjustment for an anticipated salary increase on July 1, 2010 is speculative and should not be recognized in Rockland's revenue requirement.

My adjustments to exclude a rate allowance for the speculative payroll increase in 2010 are shown in my Exhibit (DEP-1), Schedule 3, page 4.

C. New Employees

Q. WHAT IS ROCKLAND REQUESTING FOR NEW EMPLOYEES IN THIS PROCEEDING?

A. Mr. Kosior's proposed wage and salary adjustment includes the effects of 28 new employee positions. Mr. Kosior explains that 20 of these new positions were authorized by the New York Public Service Commission for Orange and

Rockland as a part of that company's 2007 electric base rate proceeding in Case No. 07-E-0949. Mr. Regan and Ms. Quin sponsor testimony in support of the other eight new positions that are reflected in Mr. Kosior's wage and salary adjustment.

Q. ARE ALL OF THESE NEW POSITIONS FILLED AT THIS TIME?

A. No, they are not. None the eight positions discussed in Mr. Regan's and Ms. Quin's testimonies were filled as of December 31, 2009. In fact, Rockland (or Orange and Rockland) does not anticipate filing those positions until the second and third quarters in 2010.

Of the 20 positions that were approved in Orange and Rockland's 2007 rate proceeding in New York, five of the positions were filled in 2008 and another eight were filled in 2009. As of December 31, 2009, 15 of the positions authorized by the New York Public Service Commission, however, have not been filled.

Q. DO YOU AGREE WITH MR. KOSIOR'S PROPOSED RATEMAKING TREATMENT FOR THE NEW POSITIONS?

A. No, I do not. None of Mr. Kosior's adjustment for new positions should be incorporated into Rockland's revenue requirement in this case.

Q. WHY NOT?

A. Mr. Kosior's proposed adjustment is improper for several reasons. As I pointed out earlier, five of the positions included in Mr. Kosior's adjustment were filled in 2008. Therefore, the costs for whatever duties those five employees performed for Rockland during the test year are already fully reflected in Rockland's test year operating results. Adding additional costs for those five employees may double-count costs that are already reflected in test year operating expenses.

I also object to annualizing employee-related costs for the eight employees authorized by the NYPSC's rate order that were hired in 2009. Doing so fails to account for the fact that Rockland's and Orange and Rockland's workforce numbers routinely fluctuate, month-by-month, throughout the year. In any given year, Orange and Rockland's workforce numbers fluctuate by as many as 30 or more employees between the high and low months of the year. The routine employee turnover numbers are more than the number of new employees that are at issue in this proceeding. If the cost of new employees were to be annualized for the test year as Mr. Kosior proposes, it also would be necessary to annualize the savings that result from job vacancies that occurred during the test year. Job vacancies within a utility the size of Orange and Rockland are routine, normal and recurring. The cost of whatever duties that were actually performed by the eight new employees hired during 2009 is included in Rockland's test year operating results. Annualizing employee costs for the period of time prior to hiring the new employees is improper without also annualizing the savings that arises from job vacancies that occur throughout the year.

Finally, I object to recognizing costs for employees that have not yet been hired. These phantom employees did not perform any duties for Rockland or its New Jersey ratepayers during 2009. Nor is it certain that those positions will be filled any time soon. Thus, Mr. Kosior's adjustment with respect to employees that have not yet been hired does not qualify as a known and measurable change.

My adjustment to remove Rockland's proposed expense allowance for the 28 new employees is shown on Exhibit (DEP-1), Schedule 3, page 5. This adjustment reduces Rockland's labor expense claim by $583,000, including employee benefits costs and payroll taxes.

D. Incentive Compensation

Q. HAS ROCKLAND INCLUDED ANY AMOUNTS IN ITS FILING FOR INCENTIVE COMPENSATION?

A. Yes. Mr. Kosior testifies for Rockland that the Company has included $643,000 in its proposed revenue requirement for incentive payments under Orange and Rockland's "Annual Team Incentive Plan" ("ATIP"). The Company's filing also includes $126,600 for expenses allocated to Rockland under Con Edison's Long Term Incentive Plan ("LTIP").

Q. SHOULD PAYMENTS MADE UNDER THE ATIP AND THE LTIP BE INCLUDED IN ROCKLAND'S REVENUE REQUIREMENT?

A. No. Consistent with the Board's pronouncements in prior New Jersey utility rate proceedings, I recommend that payments made under the ATIP and the LTIP not be charged to New Jersey ratepayers.

Q. WHY DO YOU RECOMMEND THAT ATIP AND LTIP PAYMENTS BE EXCLUDED FROM ROCKLAND'S REVENUE REQUIREMENT?

A. Both programs, in large measure, are designed to promote the financial interests of Rockland and its corporate parents, Orange and Rockland and Con Edison. Because it is the Company and its stockholders that primarily benefit when the goals are met, incentive payments should not be the responsibility of New Jersey ratepayers.

Achieving corporate earnings goals account for 25 percent of the total payout under the 2009 ATIP. Operating budget goals account for the next 25 percent of payouts under the ATIP. Awards under the LTIP are based on Con Edison's three-year shareholder return and three-year corporate average of the ATIP awards. Clearly, Orange and Rockland, and its stockholders, are the beneficiaries when corporate earnings goals are met. With respect to the budget goals set under the ATIP, favorable variations from approved operating budgets go directly to Rockland's and its parent company's bottom line. Customer service and safety goals account for the remaining 50 percent of target ATIP payouts. While an argument can be made that New Jersey ratepayers benefit directly when customer service and safety goals are met, the predominant feature of both the ATIP and the LTIP is Rockland's, Orange and Rockland, and Con Edison's financial performance. I do not take issue with the plan's objectives or with Orange and Rockland's decision to motivate key employees through an incentive compensation program. Since stockholders are the primary beneficiaries when financial performance targets are met, stockholders rather than New Jersey ratepayers should pay for the incentive awards. My adjustment to remove ATIP and LTIP payments from Rockland's claimed revenue requirement is shown on Exhibit (DEP-1), Schedule 3, page6. .

E. Pension Expense

Q. PLEASE IDENTIFY WHICH RATE COUNSEL WITNESS IS SPONSORING THE PENSION EXPENSE ADJUSTMENT THAT YOU SHOW ON EXHIBIT (DEP-1), SCHEDULE 3, PAGE 7.

A. Dr. Serota is sponsoring Rate Counsel's pension expense adjustment. Support for the pension expense adjustment shown on my schedule can be found in Dr. Serota's testimony in this proceeding.

F. Rate Case Expense

Q. HOW MUCH DOES THE COMPANY ANTICIPATE THAT IT WILL COST TO PROCESS THIS RATE CASE?

A. Rockland's revenue requirement study includes a $600,000 rate case expense estimate, plus $61,588 of unamortized costs from the Company's 2006 rate case, all to be amortized over the next three years.

Q. DO YOU AGREE WITH ROCKLAND'S PROPOSED TREATMENT OF RATE CASE EXPENSE?

A. No, I do not. I disagree both with the amount that Rockland proposes to amortize in rates and with Mr. Kane's propose three-year amortization period. While it is certain that Rockland has incurred, and will continue to incur, expenses associated with this proceeding, the precise amount of the total rate case expenses cannot be determined at this time. The $600,000 total cost that Rockland estimates for this proceeding, however, appears excessive at this time. Rockland spent approximately $514,000 on its 2002 rate case (Docket No. ER02100724) but only $309,494 on its 2006 rate case (Docket No. ER06060483). Through January 31, 2010, Rockland had spent $109,356 in connection with this rate proceeding. The issues presented in this proceeding generally are no more complex and should be no more costly than those presented in previous rate cases. Therefore, I believe that total expenses for this case should not exceed $500,000. I also object to Rockland's proposal to recover all of its rate case costs from ratepayers. Counsel has advised that it is well-established Board precedent that only one-half a utility's rate case expense is recoverable from ratepayers.[1]

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[1] *I/M/O Petition of Pennsgrove Water Supply Company For An Increase in Rates For Water Service,* BPU Docket No. WR98020147, (March 3, 1999).

Finally, I object to Rockland's proposed three-year amortization of rate case costs. In Rockland's 2002 rate proceeding the Board required a four-year amortization of rate case costs. In Rockland's 2006 rate case, the Company proposed a four-year amortization for rate case costs. A four-year amortization period continues to be reasonable. Therefore, on Exhibit (DEP-1), Schedule 3, page9, I have reduced Rockland's $600,000 cost estimate to $500,000. The $500,000 cost estimate is then reduced by 50 percent to reflect an equal sharing of the cost of this rate proceeding between ratepayers and the Company and the ratepayers' share of the costs is amortized over four-years. My adjustment decreases the annual amortization amount requested by Rockland by $143,000.

G. Plant Additions

Q. WHAT IS THE BASIS FOR THE PLANT ADDITIONS ADJUSTMENT THAT YOU SHOW ON EXHIBIT (DEP-1), SCHEDULE 3, PAGE 2(B), COLUMN C?

A. Earlier in my testimony I explained why it is inappropriate to include post-test year plant additions in rate base. My adjustment on Schedule 3 removes the depreciation expense on the post-test year plant additions that were excluded from my rate base determination. With my rate base adjustment and my depreciation adjustment, I have eliminated all of the revenue requirements associated with post-test year plant additions that Mr. Kane had included in his proposed revenue requirement.

H. Uncollectible Accounts

Q. WHAT HAS BEEN ROCKLAND'S RECENT UNCOLLECTIBLE ACCOUNTS EXPERIENCE?

A. The following table shows Rockland's annual net write-offs in both dollars and as a percentage of annual billed revenues:

Year	Net Write-Offs	Percent of Billed Revenue
2005	$131,787	0.08%
2006	$143,117	0.08%
2007	$144,189	0.07%
2008	$246,641	0.11%
2009	$396,637	0.18%

Q. WHAT ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS IS ROCKLAND REQUESTING IN THIS PROCEEDING?

A. Rockland has changed its position on uncollectible accounts twice since its original filing in this proceeding. In its original filing, Rockland requested an uncollectible accounts expense allowance that represented 0.12 percent of billed revenues or $308,925. In its 10+2 filing, Rockland increased its proposed allowance to 0.16 percent of billed revenues or $373,193. In its 12+0 filing, Rockland increased its proposed allowance to 0.18 percent of billed revenues or $387,566. The uncollectible expense included in Rockland's 12+0 filing reflects actual uncollectible accounts experience for 2009.

Q. ARE YOU PROPOSING AN ADJUSTMENT TO MR. KANE'S MOST RECENT CLAIM FOR UNCOLLECTIBLE ACCOUNTS EXPENSE?

A. Yes, I am. While the Company's claim, calculated using a 0.18 percent uncollectible accounts ratio, is based on test year operating results, it is not certain that the test year operating results are routine or are expected to be recurring. As shown in the table above, uncollectible accounts, as a percentage of billed revenues, were fairly steady during the years 2005 through 2007 at approximately

0.08 percent. In 2008 the percentage increased to 0.11 percent and increased again to 0.18 percent in 2009. While it may be unrealistic to assume that uncollectible accounts will dip back to pre-2008 levels in the near-term, it is not certain that it will continue at its relatively high 2009 level into the future.

In Rockland's 2006 rate proceeding, the Company proposed an adjustment to normalize the uncollectible accounts expense using a three-year average ratio of net uncollectible accounts to billed revenues. A normalization adjustment is warranted in this case as well. A three-year average approach such as that proposed by Rockland in its 2006 rate case, however, would include the 2007 level, which appears obviously low when compared with the results experienced in both 2008 and 2009. Thus, I recommend that the normalization adjustment be based on the two-year average uncollectible account expense ratio for the years 2008 and 2009. This method produces a 0.14 percent or $285,000 expense allowance when applied to my determination of pro forma billed revenues prior to the rate adjustment in this case. This adjustment, which reduces Rockland's claimed uncollectible accounts expense allowance by $103,000, is illustrated on Exhibit (DEP-1), Schedule 3, page 8. I have also included the same 0.14 percent uncollectible accounts factor in my development of the net-to-gross revenue expansion factor on Exhibit (DEP-1), Schedule 1, page 2, which is used to calculate Rockland's overall revenue deficiency.

I. Depreciation Expense

Q. WHO IS SPONSORING RATE COUNSEL'S RECOMMENDATIONS ON DEPRECIATION ACCRUAL RATES AND THE DEPRECIATION EXPENSE ALLOWANCE?

A. Mr. Michael Majoros is sponsoring Rate Counsel's depreciation rate proposals in this proceeding. I have incorporated the effect of his recommended changes to book depreciation rates on Rockland's claimed depreciation expense allowance in Exhibit (DEP-1), Schedule 3, page 2(B), Column D. This adjustment reduces Rockland's proposed expense allowance by $493,000.

J. Joint Operating Agreement

Q. ARE ONLY FACILITIES THAT ARE DIRECTLY OWNED AND OPERATED BY ROCKLAND INCLUDED IN ITS REVENUE REQUIREMENT DETERMINATION IN THIS PROCEEDING?

A. No. Certain general plant facilities and software rights and applications are owned by Rockland's parent company, Orange and Rockland Utilities, Inc. and are shared by Orange and Rockland, Rockland, and Pike County. Orange and Rockland bills each of the participating companies monthly for the ownership and operating costs of these joint use facilities.

Q. HOW IS THE COST OF THE JOINT USE FACILITIES BILLED TO ROCKLAND AND HOW IS THE COST REFLECTED IN ROCKLAND'S PROPOSED REVENUE REQUIREMENT IN THIS CASE?

A. Each year Orange and Rockland makes a cost of service calculation in order to determine the monthly charges for the joint use facilities to be paid by the three participating companies. Implicit in this calculation is an 11.7 percent return on common equity allowance. But, the ownership of general plant assets by an affiliate, and the sharing of costs among affiliates, should not result in an increase in Rockland's costs beyond the annual revenue requirement that would result if Rockland owned the facilities directly. That is, Rockland's New Jersey ratepayers should not be charged a higher rate of return on joint use assets than they would be if Rockland owned those facilities themselves. Therefore, Mr. Kane proposed an adjustment to reduce test year joint billing expenses to reflect

Rockland's requested equity return allowance – 11 percent. My adjustment on Exhibit (DEP-1), Schedule 3, page 10, further reduces Mr. Kane's proposed allowance to reflect Rate Counsel's recommended 10.1 percent return on common equity for the joint use facilities that are billed to Rockland. My adjustment reduces Rockland's claimed expenses by $80,000.

K. New Initiatives

Q. HAVE YOU REVIEWED MR. REGAN'S TESTIMONY CONCERNING THE PROPOSED INCREMENTAL RELIABILITY PROGRAMS?

A. Yes, I have. Mr. Regan's direct testimony describes two new initiatives that the Company hopes will improve service reliability. One initiative is a three-year tower painting program. The projected annual cost of this program is $95,000. The other initiative described in Mr. Regan's testimony is a three-year high voltage structure testing and grounding program to test the adequacy of ground resistance and for dissipating energy from lightning, contact incidents and incorrect operation of electrical equipment. Mr. Regan projects a $61,500 annual cost for this program.

By far the largest initiative for which rate treatment is being requested is a lightning protection and pole inspection program for which the Company requests a $200,000 expense allowance. Mr. Regan offered no explanation and no supporting cost analyses for this program in his direct testimony. In fact, this program only first appeared in Rockland's recent 12+0 update filing.

Q. SHOULD THE PROJECTED COSTS OF THESE THREE PROGRAMS BE INCLUDED IN ROCKLAND'S RATES AT THIS TIME?

A. No. Rate Counsel takes Rockland's service reliability very seriously. Moreover, Rockland has a public service obligation to its employees and to its New Jersey customers to ensure that the electric service is delivered safely, adequately and reliably. That said, I object to including the projected costs of these programs in rates at this time. Mr. Regan's request for rate treatment is tantamount to what I call "ransom ratemaking" where the Company claims it will not precede with the projects without first receiving cost recognition in rates. If the projects included in Mr. Regan's proposed adjustment are necessary for the safety of employees and customers or the adequacy and reliability of service to New Jersey customers, Rockland has an obligation to undertake those efforts. To the extent that such costs are prudently incurred and are verifiable, those costs ultimately will be included in Rockland's rates. Since the precise cost of those efforts cannot be determined at this time, nor does it seem that Rockland is definitively committed to undertaking these projects, rate recognition of the projected costs is premature at this time. My adjustment to eliminate the projected costs of the three reliability projects reduces Rockland's claimed expenses by $357,000.

L. Outreach & Education Program

Q. HAVE YOU REVIEWED MS. QUIN'S TESTIMONY CONCERNING THE EXPENSE ADJUSTMENT SHE PROPOSED FOR OUTREACH AND EDUCTION PROGRAMS?

A. Yes, I have. Ms. Quin proposed a $50,000 expense adjustment to cover anticipated expenses in the future for conducting community outreach and education programs regarding retail choice, energy pricing, energy efficiency, energy conservation, demand response and renewable energy options.

Q. SHOULD MS. QUIN'S ADJUSTMENT BE INCLUDED IN ROCKLAND'S REVENUE REQUIREMENT IN THIS PROCEEDING?

A. No. To the extent that Rockland's Customer Energy Services Department provided the services enumerated in Ms. Quin's Direct Testimony during the test year, the associated costs of those activities are already included in the Company's revenue requirement. Ms. Quin's request for an additional $50,000 to cover unspecified activities and costs in the future does not constitute a verifiable known and measurable change in Rockland's costs that should be recognized in rates at this time. Therefore, I recommend that Your Honor and the Board reject Ms. Quin's request for an additional $50,000 for future community outreach and education programs.

M. Interest Synchronization

Q. PLEASE EXPLAIN THE INTEREST SYNCHRONIZATION ADJUSTMENT THAT YOU SHOW ON SCHEDULE 3, PAGE 11.

A. This schedule shows the required adjustment to the New Jersey Corporate Business Tax and Federal income taxes to synchronize the interest expense tax deduction with the debt portion of the overall return requirement recommended by Rate Counsel. The pro forma tax deduction for interest expense is the product of the weighted cost of debt and Rate Counsel's rate base determination.

N. Summary

Q. PLEASE SUMMARIZE THE CUMULATIVE IMPACT OF RATE COUNSEL'S REVENUE AND EXPENSE ADJUSTMENTS ON ROCKLAND'S *PRO FORMA* EARNINGS DETERMINATION.

A. A summary schedule is provided in Exhibit (DEP-1), Schedule 3, page 1. Rockland determined in its 12+0 update filing that its present distribution rates will generate annual earnings of approximately $4,711,000. Based on Rate Counsel's recommended expense adjustments, I calculate that Rockland's study understates the earnings potential of it present rates by $2,589,000. That is, I have determined that Rockland's current distribution rates will generate $7,300,000 in annual earnings under *pro forma* operating conditions. These earnings will produce a 5.13 percent rate of return on Rockland's adjusted test year rate base.

Mr. Kahal is recommending that the Board approve a 10.1 percent return on common equity for the Company. Applying Mr. Kahal's recommended common equity return to his determination of Rockland's capital structure and weighted cost of long-term debt results in an 8.12 percent overall rate of return requirement. Since I have determined that Rockland's currently-effective rates will generate a 5.13 percent rate of return under *pro forma* operating conditions, it will be necessary to increase revenues by $7,209,000 annually to achieve Mr. Kahal's recommended 8.12 percent overall rate of return. Thus, Rockland's claimed $13,781,000 revenue deficiency (12+0 update) is excessive and should be denied. Your Honor and the Board should reject Rockland's proposed rate schedules and require that they be resubmitted to reflect Rate Counsel's revenue deficiency determination.

Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?

A. Yes, it does.

EXHIBIT DEP-1

ROCKLAND ELECTRIC COMPANY

Electric Distribution Cost of Service
Indicated Revenue Deficiency
Test Year Ending December 31, 2009
$(000)

(A)	(B)
1. Rate base	$142,212
2. Earnings under present rates	7,300
3. Pro forma rate of return	5.13%
4. Rate Counsel's recommended rate of return	8.12%
5. Earnings requirement	$11,541
6. Earnings under present rates	7,300
7. Earnings deficiency	$4,241
8. Revenue conversion factor	1.6998
9. Revenue deficiency	$7,209

Sources:
Line 1: Schedule 2, page 1
Lines 2,6: Schedule 3, page 1
Line 4: Page 3, herein
Line 8: Page 2, herein

ROCKLAND ELECTRIC COMPANY

Electric Distribution Cost of Service
Revenue Conversion Factor
Test Year Ending December 31, 2009

	(A)	(B)
1.	Revenue	1.0000
2.	Uncollectibles @ .14%	0.0014
3.	Net for New Jersey CBT	0.9986
4.	New Jersey CBT @ 9.36%	0.0935
5.	Net for Federal income taxes	0.9051
6.	Federal income taxes @ 35%	0.3168
7.	State income taxes $ 9.36%	0.0935
8.	Uncollectibles @ .18%	0.0014
9.	Effective tax rate	0.4117
10.	Revenue conversion factor	1.6998

Sources:
Rockland Exhibit P-2, Summary, page 3 of 5 (12+0)
Line 2: Schedule 3, page 7

ROCKLAND ELECTRIC COMPANY

Electric Distribution Cost of Service
Capital Structure and Rate of Return
Test Year Ending December 31, 2009

	Capitalization	Cost Rate	Weighted Cost
(A)	(B)	(C)	(D)
1. Long-term debt	49.76%	6.16%	3.07%
2. Short-term debt	0.39%	1.50%	0.01%
2. Common equity	49.85%	10.10%	5.04%
3. Total capitalization	100.00%		8.12%

Sources:
Rate Counsel witness Mr. Kahal

ROCKLAND ELECTRIC COMPANY

Electric Distribution Cost of Service
Rate Base
Test Year Ending December 31, 2009
($000)

		Rockland Electric				Rate Counsel	
		As Filed	12/0 Update	As Updated		Adjustments	As Adjusted
	(A)	(B)	(C)	(D)		(E)	(F)
	Utility Plant						
1.	Plant in service	$224,314	$2,497	$226,811		($4,142)	$222,669
2.	Plant held for future use	209	2,046	2,255		(2,046)	209
3.	Non-interest bearing CWIP	1,384	41	1,425		0	1,425
4.	Total utility plant	$225,907	$4,584	$230,491	#	($6,188)	$224,303
	Utility Plant Reserves						
5.	Accumulated depreciation	($56,979)	36	(56,943)		659	(56,284)
6.	Acc. Depreciation on PHFFU	0	0	0		0	0
7.	Depreciation at proposed rates	0	168	168		(3)	165
8.	Total plant reserves	($56,979)	$204	($56,775)	#	$656	($56,119)
9.	Net Plant	$168,928	$4,788	$173,716	#	($5,532)	$168,184
	Additions to Net Plant						
10.	Working capital requirements	14,275	(3,832)	10,443		(2,071)	8,372
11.	2009 BPU audit (PMC)	282	0	282		(282)	0
12.	Total additions	$14,557	($3,832)	$10,725	#	($2,353)	$8,372
	Deductions from Net Plant						
13.	Net pension/OPEB liability	$523	(567)	(44)		0	(44)
14.	Customer deposits	2,234	3	2,237		0	2,237
15.	Customer advances	241	(4)	237		0	237
16.	Accum. Deferred FIT	31,716	(1,016)	30,700		(567)	30,133
17.	Consolidated tax adjustment	1,843	(62)	1,781		0	1,781
18.	Total deductions	$36,557	($1,646)	$34,911	#	($567)	$34,344
19.	Electric rate base - distribution	$146,928	$2,602	$149,530	#	($7,318)	$142,212

Sources:
Column B: RECo Exhibit P-3 Summary (Original)
Column D: RECo Exhibit P-3 Summary (12+0)
Column E: Page 2, herein

ROCKLAND ELECTRIC COMPANY

Electric Distribution Cost of Service
Rate Base Adjustments
Test Year Ended December 31, 2009
($000)

		Post TY Plant Adds	CWC	PMC Audit	Montvale Substation				Summary Rate Base Adjustments
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
	Utility Plant								
1.	Plant in service	($4,142)							($4,142)
2.	Plant held for future use				(2,046)				(2,046)
3.	Non-interest bearing CWIP								0
4.	Total utility plant	(4,142)	0	0	(2,046)	0	0	0	(6,188)
	Utility Plant Reserves								
5.	Accumulated depreciation	659							659
6.	Acc. Depreciation on PHFFU								0
7.	Depreciation at proposed rates	(3)							(3)
8.	Total plant reserves	656	0	0	0	0	0	0	656
9.	Net Plant	($3,486)	$0	$0	($2,046)	$0	$0	$0	($5,532)
	Additions to Net Plant								
10.	Working capital requirements		(2,071)						(2,071)
11.	2009 BPU audit (PMC)			(282)					(282)
12.	Total additions	$0	($2,071)	($282)	$0	$0	$0	$0	($2,353)
	Deductions from Net Plant								
13.	Net pension/OPEB liability								0
14.	Customer deposits								0
15.	Customer advances								0
16.	Accum. Deferred FIT	(567)							(567)
17.	Consolidated tax adjustment								0
18.	Total deductions	($567)	$0	$0	$0	$0	$0	$0	($567)
19.	Electric rate base - distribution	($2,919)	($2,071)	($282)	($2,046)	$0	$0	$0	($7,318)

Sources:
Pages 3,4,5 herein
Column E: Rate Counsel witness Charles Salamone

ROCKLAND ELECTRIC COMPANY

Electric Distribution Cost of Service
Post Test Year Plant Additions Adjustment
Test Year Ended December 31,2009

(A)	(B)
1. Electric plant in service	($4,142)
2. Accumulated depreciation	659
3. Accumulated depreciaiton at proposed rates	(3)
4. Net plant in service	($3,486)
5. Accum deferred income taxes	(567)
6. Rate base adjustment	($2,919)

Sources:
Line 1: RECo Exhibit P-3, Schedule 1 (12+0 update)
Line 2: RECo Exhibit P-3 Schedule 4 (12+0 update)
Line 3: RECo Exhibit P-3 Schedule 5A (12+0 update)
Line 5: RECo Exhibit P-3, Schedule 10 (12+0 update)

ROCKLAND ELECTRIC COMPANY

Electric Distribution Cost of Service
Cash Working Capital
Test Year Ended December 31,2009

		Amount As Filed	Rate Counsel Adjustments	Rate Counsel As Adjusted	(Lead) / Lag Days	Dollar Days
	(A)	(B)	(C)	(D)	(E)	(F)
	Purchased power expenses:					
1.	BGS	132,227,000		132,227,000	36.2	4,786,617,400
2.	O&R	9,702,912		9,702,912	45.0	436,631,040
3.	Deferred purchased power	(3,458,000)	3,458,000	0	0.0	0
4.	Salaries & wages	10,744,806	(666,000)	10,078,806	8.1	81,638,329
5.	Pensions	5,671,910	(305,000)	5,366,910	0.5	2,683,455
6.	OPEBs	2,452,490		2,452,490	86.9	213,121,381
7.	Employee welfare expenses	3,364,332	(783,000)	2,581,332	6.4	16,520,525
8.	Joint Operating expenses	2,963,596	(80,000)	2,883,596	45.0	129,761,820
9.	Uncollectible accounts	387,568	(387,568)	0	38.3	0
10.	Materials and supplies issues	126,700	(126,700)	0	0.0	0
11.	Other O&M	17,013,609	(589,750)	16,423,859	27.8	456,583,280
	Amortizations:					
12.	Storm reserves	386,287	(386,287)	0	0.0	0
13.	Rate case costs	153,000	(153,000)	0	0.0	0
14.	Research & development	10,000	(10,000)	0	0.0	0
15.	BPU assessment	430,772	(430,772)	0	0.0	0
16.	2008 PMC management audit	145,000	(145,000)	0	0.0	0
17.	1st Install transformer overcap	(262,000)	262,000	0	0.0	0
18.	Pensions	101,690	(101,690)	0	0.0	0
19.	OPEBs	1,236,791	(1,236,791)	0	0.0	0
20.	Adjustment to pension amort.	(69,394)	69,394	0	0.0	0
21.	Adjustment to OPEB amort	(15,797)	15,797	0	0.0	0
22.	Depreciation & amortization	3,439,091	(3,439,091)	0	0.0	0
23.	Taxes other than income	7,561,982	(39,000)	7,522,982	(34.2)	(257,285,984)
24.	New Jersey Sales Tax (UTUA)	12,005,768		12,005,768	(51.2)	(614,695,322)
	Income taxes:					
25.	Federal income taxes	(1,101,000)	3,622,739	2,521,739	37.5	94,565,217
26.	Deferred federal income tax	2,141,300	(2,141,300)	0	0.0	0
27.	Investment tax credit	(97,000)	97,000	0	0.0	0
28.	Corporate Business Tax (state)	128,000	1,067,825	1,195,825	(46.8)	(55,964,621)
29.	Return on Invested Capital	4,710,494	(4,710,494)	0	0.0	0
30.	Long-term debt interest	0	4,380,000	4,380,000	91.3	399,894,000
31.	Subtotal	$212,101,907		$209,343,219	27.2	$5,690,070,520
32.	Revenue lag					38.3
33.	Expense lead					27.2
34.	Net lag					11.1
35.	Cash expense per day					$573,543
36.	Cash working capital requirement					$6,377,798
37.	Cash working capital as filed (12+0)					8,448,700
38.	Adjustment					($2,070,902)
39.	Rate base adjustment ($000)					($2,071)

Sources:
Columns B, E: RECo Exhibit P-3, Schedule 6, page 2 (12+0)
Column C: Eliminate non-cash; Schedule 3, page 2 adjustments

ROCKLAND ELECTRIC COMPANY

Electric Distribution Cost of Service
PMC Audit Adjustments
Test Year Ended December 31, 2009
($000)

	(A)	(B)
1.	PMC audit cost	$477
2.	Amortization period (years)	4
3.	Annual amortization expense	$119
4.	Amortization expense as filed	159
5.	Adjustment to amortization expense	($40)
	Income taxes	
6.	State income taxes @ 9.36%	4
7.	Federal income taxes @ 35%	13
8.	Total income taxes	$17
9.	Net income adjustment	$23
10.	Rate base adjustment	($282)

Sources:
Rockland Exhibit P-2, Schedule 10, page 2 (12+0 update)
Rockland Exhibit P-3, Schedule 7

ROCKLAND ELECTRIC COMPANY

Electric Distribution Cost of Service
Operating Income Under Present Rates
Test Year Ended December 31, 2009
($000)

		Rockland Electric			Rate Counsel	
		As Filed	12/0 Update	As Updated	Adjustments	As Adjusted
	(A)	(B)	(C)	(D)	(E)	(F)
	Operating Revenues					
1.	Sales of electricity	$245,545	($45,909)	$199,636	$1,412	$201,048
2.	Other operating revenues	414	46	460	0	460
3.	Total operating revenues	$245,959	($45,863)	$200,096	$1,412	$201,508
	Operating Expenses					
	Purchase power supply expenses					
4.	Purchased power	182,346	(39,923)	142,423	0	142,423
5.	FERC power supply billings/contracts	(279)	(214)	(493)	0	(493)
6.	Deferred purchased power	(3,111)	(347)	(3,458)	0	(3,458)
7.	Other operation & maintenance expense	46,368	(1,527)	44,841	(2,487)	42,354
8.	Depreciation and amortization	3,440	(1)	3,439	(624)	2,815
9.	Taxes other than income	7,228	334	7,562	(39)	7,523
10.	Total operating revenue deducts	$235,992	($41,678)	$194,314	($3,150)	$191,164
11.	Operating income before income taxes	$9,967	($4,185)	$5,782	$4,562	$10,344
12.	State income tax	548	(420)	128	449	577
13.	Federal income tax	2,307	(1,364)	943	1,524	2,467
14.	Operating income under present rates	$7,112	($2,401)	$4,711	$2,589	$7,300

Sources:
Column B: RECo Exhibit P-2, Summary, page 2 (originial filing)
Column D: RECo Exhibit P-2, Summary, page 2 (12+0 filing)
Column E: Page 2, herein

ROCKLAND ELECTRIC COMPANY
Electric Distribution Cost of Service
Operating Income Adjustments - Summary
Test Year Ended December 31, 2009
($000)

			Summary Page 2(a)		Summary Page 2(b)				Total This Page
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
	Operating Revenues								
1.	Sales of electricity		$1,412		$0				$1,412
2.	Other operating revenues		0		0				0
3.	Total operating revenues	$0	$1,412	$0	$0	$0	$0	$0	$1,412
	Operating Expenses								
	Purchase power supply expenses								
4.	Purchased power		0		0				0
5.	FERC power supply billings/contracts		0		0				0
6.	Deferred purchased power		0		0				0
7.	Other operation & maintenance expense		(1,857)		(630)				(2,487)
8.	Depreciation and amortization		(40)		(584)				(624)
9.	Taxes other than income		(39)		0				(39)
10.	Total operating revenue deducts	$0	($1,936)	$0	($1,214)	$0	$0	$0	($3,150)
11.	Operating income before income taxes	$0	$3,348	$0	$1,214	$0	$0	$0	$4,562
12.	State income tax		314		135				449
13.	Federal income tax		1,064		460				1,524
14.	Operating income under present rates	$0	$1,970	$0	$619	$0	$0	$0	$2,589

ROCKLAND ELECTRIC COMPANY

Electric Distribution Cost of Service
Operating Income Adjustments
Test Year Ended December 31, 2009
($000)

		DSM Efficiency Econ Activity	July 1, 2010 Payroll Increase	New Employees	Incentive Compensation	Pension Expense	PMC Audit	Uncollectible Accounts	Summary This Page
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
	Operating Revenues								
1.	Sales of electricity	$1,412							$1,412
2.	Other operating revenues								0
3.	Total operating revenues	$1,412	$0	$0	$0	$0	$0	$0	$1,412
	Operating Expenses								
	Purchase power supply expenses								
4.	Purchased power								0
5.	FERC power supply billings/contracts								0
6.	Deferred purchased power								0
7.	Other operation & maintenance expense		(115)	(551)	(783)	(305)		(103)	(1,857)
8.	Depreciation and amortization						(40)		(40)
9.	Taxes other than income		(7)	(32)					(39)
10.	Total operating revenue deducts	$0	($122)	($583)	($783)	($305)	($40)	($103)	($1,936)
11.	Operating income before income taxes	$1,412	$122	$583	$783	$305	$40	$103	$3,348
12.	State income tax	132	11	55	73	29	4	10	314
13.	Federal income tax	448	39	185	249	97	13	33	1,064
14.	Operating income under present rates	$832	$72	$343	$461	$179	$23	$60	$1,970

Sources:
Columns B,D,E,F, H: Pages 3 through 8, herein   Column G: Schedule 2, page 5

ROCKLAND ELECTRIC COMPANY

Electric Distribution Cost of Service
Operating Income Adjustments
Test Year Ended December 31, 2009
($000)

		Rate Case Expense	Post TY Plant Additions	Removal Costs	Joint Operating Agreement	New Initiatives	Outreach & Education Program	Interest Sync	Summary This Page
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
	Operating Revenues								
1.	Sales of electricity								$0
2.	Other operating revenues								0
3.	Total operating revenues	$0	$0	$0	$0	$0	$0	$0	$0
	Operating Expenses								
	Purchase power supply expenses								
4.	Purchased power								0
5.	FERC power supply billings/contracts								0
6.	Deferred purchased power								0
7.	Other operation & maintenance expense	(143)			(80)	(357)	(50)		(630)
8.	Depreciation and amortization		(91)	(493)					(584)
9.	Taxes other than income								0
10.	Total operating revenue deducts	($143)	($91)	($493)	($80)	($357)	($50)	$0	($1,214)
11.	Operating income before income taxes	$143	$91	$493	$80	$357	$50	$0	$1,214
12.	State income tax	13	9	46	7	33	5	22	135
13.	Federal income tax	46	29	156	26	113	16	74	460
14.	Operating income under present rates	$84	$53	$291	$47	$211	$29	($96)	$619

Sources:
Columns B,E,H: Pages 9 though 11, herein
Column C: Rockland Exhibit P-2, Schedule 16 (12+0 update)
Column D: Rate Counsel witness Michael Majoros Exhibit___(MJM-1)
Columns F,G: Rockland Exhibit P-2, Schedules 23,24 (12+0 update)

ROCKLAND ELECTRIC COMPANY

Electric Distribution Cost of Service
Revenue Adjustment
Test Year Ended December 31,2009

	(A)	(B)
	DSM, Energy Efficiency, Lower Economic Activity	
1.	Reverse RECo's revenue adjustments	$1,412
	Income taxes	
2.	State income taxes @ 9.36%	132
3.	Federal income taxes @ 35%	448
4.	Total income taxes	$580
5.	Net income adjustment	$832

Sources:
RECo Exhibit P-2, Schedule 1 (A) (12+0 update)

ROCKLAND ELECTRIC COMPANY

Electricl Disribution Cost of Service
July 1, 2010 Payroll Increase
Test Year Ended December 31, 2009
($000)

	(A)	(B)
1.	To reverse July 1, 2010 payroll increase	($99)
2.	Employee benefits @ 16.34%	(16)
3.	Payroll taxes @ 6.65%	(7)
	Income taxes	
4.	State income taxes @ 9.36%	11
5.	Federal income taxes @ 35%	39
6.	Total income taxes	$50
7.	Net income adjustment	$72

Sources:
Line 1: RECo Exhibit P-2, Schedule 4, page 1 (12+0 update)
Line 2: RECo Exhibit P-2, Schedule 5 (12+0 update)
Line 3: RECo Exhibit P-2, Schedule 18 (12+0 update)

ROCKLAND ELECTRIC COMPANY

Electric Distribution Cost of Service
To Remove Speculative Employee Costs
Test Year Ended December 31, 2009
($000)

(A)	(B)
1. Reverse new employee cost adjustment	($474)
2. Employee benefits @ 16.34%	(77)
3. Payroll taxes @ 6.65%	(32)
Income taxes	
4. State income taxes @ 9.36%	55
5. Federal income taxes @ 35%	185
6. Total income taxes	$240
7. Net income adjustment	$343

Sources:
Line 1: RECo Exhibit P-2, Schedule 4, page 2 (12+0 update)
Line 2: RECo Exhibit P-2, Schedule 5 (12+0 update)
Line 3: RECo Exhibit P-2, Schedule 18 (12+0 update)

ROCKLAND ELECTRIC COMPANY

Electric Distribution Cost of Service
Incentive Compensation Adjustment
Test Year Ended December 31, 2009
($000)

(A)	(B)
1. Remove ATIP	($656)
2. Remove Long-Term Incentive Plan	(127)
3. Subtotal	($783)
Income taxes	
4. State income taxes @ 9.36%	73
5. Federal income taxes @ 35%	249
6. Total income taxes	$322
7. Net income adjustment	$461

Sources:
Line 1: RECo response to RCR-A1-30
Line 2: RECo response to S-RREV-56

ROCKLAND ELECTRIC COMPANY

Electric Distribution Cost of Service
Pension Expense Adjustment
Test Year Ended December 31, 2009
($000)

	(A)	(B)
1.	Rate Counsel's 2010 pension cost adjustment	($1,824)
2.	Rockland Electric's share of pension costs	22.51%
3.	Adjustment to Rockland's annual pension costs	($411)
4.	Expense factor (1 - 25.7%)	74.30%
5.	Pension expense adjustment	($305)
	Income taxes	
6.	State income taxes @ 9.36%	29
7.	Federal income taxes @ 35%	97
8.	Total income taxes	$126
9.	Net income adjustment	$179

Sources:
Line 1: Rate Counsel witness Dr. Serota
Line 2: Rockland's 12+0 Update workpapers, Schedule 3 w/p #1
Line 3: Rockland Exhibit P-2, Schedule 6 (12+0 update)

ROCKLAND ELECTRIC COMPANY
Electric Distribution Cost of Service
Uncollectible Accounts Expense
Test Year Ended December 31, 2009

	2007	2008	2009	Combined 2008-2009
(A)	(B)	(C)	(D)	(E)
1. Net write-offs	$144,189	$264,641	$396,367	$661,008
2. Billed revenues	214,764,506	244,405,330	221,950,188	466,355,518
3. Net write-off percentage	0.067%	0.108%	0.179%	0.142%
4. Adjusted billed revenues - 2009				$201,048
5. Uncollectibles allowance ($000)				$285
6. Expense as filed (12+0) ($000)				388
7. Expense adjustment ($000)				($103)
Income taxes				
8. State income taxes @ 9.36%				10
9. Federal income taxes @ 35%				33
10. Total income taxes				$43
11. Net income adjustment				$60

Sources:
Columns B,C: RECo response to S-RREV 33
Rockland Exhibit P-2, Schedule 11, 12+0 Update
Line 4: Schedule 3, page 1 (Rate Counsel adjusted billed revenues)

ROCKLAND ELECTRIC COMPANY
Electric Distribution Cost of Service
Rate Case Expense Adjustment
Test Year Ended December 31, 2009
($000)

	(A)	(B)
1.	Estimated rate case expense	$500
2.	Stockholders' share @ 50%	(250)
3.	Ratepayers' share of expense	$250
4.	Deferred rate case costs @ April 30, 2010	62
5.	Recoverable rate case costs	$312
6.	Amortization period (years)	4
7.	Amortization expense allowance	$78
8.	Company proposed allowance	221
9.	Adjustment to claimed expense	($143)
	Income taxes	
10.	State income taxes @ 9.36%	13
11.	Federal income taxesd @ 35%	46
12.	Total income taxes	$59
13.	Net income adjustment	$84

Sources:
RECo Exhibit P-2, Schedule 9 (12+0 update)

ROCKLAND ELECTRIC COMPANY

Electric Distribution Cost of Service
Joint Operating Agreement Adjustment
Test Year Ended December 31, 2009
($000)

	(A)	(B)
	Adjusted JOA expenses @ 10.1% ROE	
1.	Distribution	$1,069
2.	Customer accounts	1,816
3.	A&G @ 88.62%	(157)
4.	Total JOA @ 10.1% ROE	$2,728
5.	Expense as filed @ 11.0% ROE	2,808
6.	Adjustment to JOA expense	($80)
	Income taxes	
7.	State income taxes @ 9.36%	7
8.	Federal income taxesd @ 35%	26
9.	Total income taxes	$33
10.	Net income adjustment	$47

Sources:
2008 JOA expense model provided by Rockland

ROCKLAND ELECTRIC COMPANY

Electric Distribution Cost of Service
Interest Synchronization Adjustment
Test Year Ended December 31, 2009
($000)

	(A)	(B)
1.	Rate base	$142,212
2.	Weighted cost of debt	3.08%
3.	Pro forma interest expense	$4,380
4.	Interest expense as filed (12+0)	4,612
5.	Adjustment to interest expense	($232)
	Income taxes	
6.	State income taxes @ 9.36%	22
7.	Federal income taxes @ 35%	74
8.	Total income taxes	$96
9.	Net income adjustment	($96)

Sources:
Line 1: Schedule 2, page 1
Line 2: Schedule 1, page 3
Line 4: RECo Exhibit P-2, Schedule 21 (12+0 update)