

BEFORE THE  
STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION

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In the Matter of  
Central Hudson Gas & Electric Corporation

Cases 09-E-0588 & 09-G-0589

November 2009

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Prepared Exhibit (AP-2)  
Accounting Panel

Michael Summa  
Public Utility Auditor II

George Abraham  
Senior Auditor

Dave Shahbazian  
Senior Auditor

Office of Accounting & Finance  
State of New York  
Department of Public Service  
Three Empire State Plaza  
Albany, New York 12223-1350

Central Hudson Gas & Electric Corporation  
Gas Operations Income Statement and Rate of Return Calculation  
For the Rate Year Ended June 30, 2011  
(\$000)

	Central Hudson	Adj. No.	Staff Adjustments	As Adjusted	Rate Increase	As Adjusted Rate Year Revenue Requirement
<b>Operating Revenues</b>						
Own Territory Delivery Revenues	\$65,776	1	\$1,761	\$67,537	(\$800)	\$66,737
Interruptible Services	1,950	2	462	2,412		2,412
Other Operating Revenues	1,597			1,597	(16)	1,581
<b>Total Operating Revenues</b>	<b>\$69,323</b>		<b>\$2,223</b>	<b>\$71,546</b>	<b>(\$816)</b>	<b>\$70,730</b>
<b>Operating Expenses</b>						
Labor	\$11,516	3	(\$240)	\$11,276		\$11,276
Research and Development	345			345		345
Expenses Projected Based on Inflation	3,239			3,239		3,239
Miscellaneous General Expenses	682			682		682
Transportation Depreciation	374			374		374
Fringe Benefits	1,214	4	(20)	1,194		1,194
Other Post Employee Benefits	1,257			1,257		1,257
Pension Plan	5,362	5	(152)	5,210		5,210
Environmental	57			57		57
Contract Rents	145			145		145
Uncollectible Accounts	1,000	6	28	1,028	(\$10)	1,018
Regulatory Commission Expenses	490	7	(31)	459		459
Information Technology Expense	430			430		430
Other Operating Insurance	209	8	(79)	130		130
Telephone	300			300		300
Legal Services	566			566		566
Special Services	267	9	(37)	230		230
Injuries and Damages	459	10	(41)	418		418
Enhanced Powerful Opportunities Program/Low Income	311	11	78	389		389
Expenses Allocated to Affiliates	(132)			(132)		(132)
MGP Remediation Cost Recovery	667			667		667
Bill Print & Mail to Customer	95			95		95
Excess Cost of Removal	951	12	(511)	440		440
Gas Leak Repairs - Distribution Main	1,370			1,370		1,370
Smartgrid/AMI	59	13	(59)	0		0
Recovery of Net Regulatory Assets	4,554			4,554		4,554
Productivity	0	14	(394)	(394)		(394)
<b>Total Operating Expenses</b>	<b>\$35,787</b>		<b>(\$1,459)</b>	<b>\$34,328</b>	<b>(\$10)</b>	<b>\$34,318</b>
<b>Other Deductions</b>						
Property Taxes	\$5,918	15	(\$65)	\$5,853		\$5,853
Revenue Taxes	1,225	16	66	1,291	(\$24)	1,268
Payroll Taxes	796	17	(16)	780		780
Other Taxes	218	18	(13)	205		205
Depreciation T&D	7,571			7,571		7,571
<b>Total Other Deductions</b>	<b>\$15,728</b>		<b>(\$28)</b>	<b>\$15,700</b>	<b>(\$24)</b>	<b>\$15,677</b>
State Income Taxes	\$922	19	\$283	\$1,205	(\$56)	\$1,150
Federal Income Taxes	4,835	20	1,317	6,152	(254)	5,898
<b>Total Income Taxes</b>	<b>\$5,757</b>		<b>\$1,600</b>	<b>\$7,357</b>	<b>(\$310)</b>	<b>\$7,048</b>
<b>Total Operating Revenue Deductions</b>	<b>\$57,272</b>		<b>\$114</b>	<b>\$57,386</b>	<b>(\$344)</b>	<b>\$57,043</b>
<b>Net Operating Income</b>	<b>\$12,051</b>		<b>\$2,109</b>	<b>\$14,160</b>	<b>(\$472)</b>	<b>\$13,688</b>
<b>Rate Base</b>	<b>\$190,035</b>		<b>(\$453)</b>	<b>\$189,582</b>		<b>\$189,582</b>
<b>Rate of Return</b>	6.34%			7.47%		7.22%

Central Hudson Gas & Electric Corporation  
Gas Operations Federal Income Tax  
For the Rate Year Ended June 30, 2011  
(\$000)

	<u>Central Hudson</u>	Adj. No.	Staff Adjustments	As Adjusted	Rate Increase	As Adjusted
Income Before Federal Income Tax Excluding Interest Charges	\$17,808		\$3,709	\$21,517	(\$782)	\$20,735
Reconciling Amounts:						
Total Additional Income and Unallowable Deductions	\$22,372		(\$152)	\$22,220		\$22,220
Total Additional Deductions and Nontaxable Income	24,723		(331)	24,392		24,392
Taxable Income before State Income Tax Deduction	\$15,457		\$3,888	\$19,346	(\$782)	\$18,563
Taxable Income after State Income Tax Deduction	\$14,500		\$3,612	\$18,113	(\$726)	\$17,385
Dividend Credit on Preferred Stock	(\$32)		\$0	(\$32)	\$0	(\$32)
Adjusted Taxable Income	\$14,468		\$3,612	\$18,081	(\$726)	\$17,353
Federal Income Tax						
Current Period Accrual	\$5,064		\$1,264	\$6,328	(\$254)	\$6,074
Total	\$5,064		\$1,264	\$6,328	(\$254)	\$6,074
Total Provision for Deferred Income Tax Accounts 410.1 & 411.1	(\$229)		\$53	(\$176)		(\$176)
Total Federal Income Taxes	\$4,835		\$1,317	\$6,152	(\$254)	\$5,898

Central Hudson Gas & Electric Corporation  
 Gas Operations Additional Income and Unallowable Deductions  
 Gas Operations Additional Deductions and Nontaxable Income  
 For the Rate Year Ended June 30, 2011  
 (\$000)

<u>Reconciling Items</u>	<u>Central Hudson</u>	<u>Adj. No.</u>	<u>Staff Adjustments</u>	<u>As Adjusted</u>
<b>Additional Income and Unallowable Deductions:</b>				
Depreciation - Central Hudson	\$7,558		\$0	\$7,558
Transportation Depreciation	512			512
Residual Gas Deferred Balance	4,554			4,554
50 Percent Meal Disallowance	41			41
Avoided Cost Interest Capitalized	84			84
Contribution in Aid of Construction	86			86
Mortgage Bond Redempt Prem.	74			74
MGP SIR Costs & Recovery	0			0
OPEB Expense-Not Funded	1,885			1,885
Officers Pension Expense FAS87	152	21	(152)	0
Pension Expense/Contribution	7,426			7,426
<b>Total</b>	<b><u>\$22,372</u></b>		<b><u>(\$152)</u></b>	<b><u>\$22,220</u></b>

<u>Reconciling Items</u>				
<b>Additional Deductions and Nontaxable Income:</b>				
Interest Expense	\$5,074	22	(\$334)	\$4,740
Depreciation - Central Hudson	11,512		0	11,512
Property Tax Accrued-Central Hudson	49			49
Vacation Accrual- Additional Tax Deduction	2	23	3	5
Deferred Directors Compensation	75			75
Cost of Removal-Tax Basis	275			275
MGP SIR Costs & Recovery	1,107			1,107
Prepaid Insurance	12			12
OPEB Expense-Not Funded	1,239			1,239
OPEB Expense-Medicare Act Subsidy	92			92
Pension Expense/Contribution	5,286			5,286
<b>Total</b>	<b><u>\$24,723</u></b>		<b><u>(\$331)</u></b>	<b><u>\$24,392</u></b>

Central Hudson Gas & Electric Corporation  
 Gas Operations Federal Income Tax Deferred Items  
 For the Rate Year Ended June 30, 2011  
 (\$000)

	<u>Central Hudson</u>	Adj. No.	Staff Adjustments	<u>As Adjusted</u>
FIT - Current Benefits Deferred:				
Depreciation-Central Hudson	\$2,215			\$2,215
Residual Gas Deferred Balance	(1,594)			(1,594)
Deferred Directors Compensation	26			26
Avoided Cost Interest Capitalized	(12)			(12)
Cost of Removal-Tax Basis	(235)			(235)
Contribution in Aid of Construction	36			36
Mortgage Bond Redemption Premium	(26)			(26)
MGP SIR Costs & Recovery	387			387
Prepaid Insurance	4			4
OPEB Expense-Not Funded	(226)			(226)
Officers Pension Expense FAS87	(53)	24	\$ 53	0
Pension Expense/Contribution	(749)			(749)
Amort 81-82 ACRS Method Change	(2)			(2)
FIT - Current Benefits Deferred	<u>(\$229)</u>		<u>\$53</u>	<u>(\$176)</u>

Central Hudson Gas & Electric Corporation  
 Gas Operations State Income Tax  
 For the Rate Year Ended June 30, 2011  
 (\$000)

	<u>Central Hudson</u>	<u>Adj. No.</u>	<u>Staff Adjustments</u>	<u>As Adjusted</u>	<u>Rate Increase</u>	<u>As Adjusted</u>
Federal Taxable Income	\$17,808		\$3,709	\$21,517	(\$782)	\$20,735
Reconciling Amounts:						
Total Additional Income and Unallowable Deductions	\$22,372		(\$152)	\$22,220		\$22,220
Total Additional Deductions and Nontaxable Income	24,723		(331)	24,392		24,392
Taxable Income before State Income Tax Deduction	<u>\$15,457</u>		<u>\$3,888</u>	<u>\$19,346</u>	<u>(\$782)</u>	<u>\$18,563</u>
NYS Adjustments to Federal Taxable Income:						
Additions:						
Federal Depreciation Deduction Transition Property	\$3,442			\$3,442		\$3,442
Total Additions	<u>\$3,442</u>		<u>\$0</u>	<u>\$3,442</u>	<u>\$0</u>	<u>\$3,442</u>
Subtractions:						
NYS Depreciation Deduction Transition Property	\$5,390			\$5,390		\$5,390
Amortization - Regulatory Asset	28			28		28
Total Subtractions	<u>\$5,418</u>		<u>\$0</u>	<u>\$5,418</u>	<u>\$0</u>	<u>\$5,418</u>
NYS Taxable Income	\$13,481		\$3,888	\$17,370	(\$782)	\$16,587
State Income Tax						
Accrual For Current Period	\$957		\$276	\$1,233	(\$56)	\$1,178
Total	<u>\$957</u>		<u>\$276</u>	<u>\$1,233</u>	<u>(\$56)</u>	<u>\$1,178</u>
Current Benefits Deferred	<u>(\$35)</u>		<u>\$7</u>	<u>(\$28)</u>		<u>(\$28)</u>
Total State Income Taxes	<u>\$922</u>		<u>\$283</u>	<u>\$1,205</u>	<u>(\$56)</u>	<u>\$1,150</u>

Central Hudson Gas & Electric Corporation  
 Gas Operations State Income Tax Deferred Items  
 For the Rate Year Ended June 30,2011  
 (\$000)

	<u>Central Hudson</u>	<u>Adj.</u> <u>No.</u>	<u>Staff</u> <u>Adjustments</u>	<u>As Adjusted</u>
SIT - Current Benefits Deferred:				
Depreciation-Central Hudson	\$290			\$290
Residual Gas Deferred Balance	(210)			(210)
Deferred Directors Compensation	3			3
Avoided Cost Interest Capitalized	(4)			(4)
Cost of Removal-Tax Basis	(31)			(31)
Contribution in Aid of Construction	3			3
Mortgage Bond Redemption Premium	(2)			(2)
MGP SIR Costs & Recovery	51			51
Prepaid Insurance	1			1
OPEB Expense-Not Funded	(30)			(30)
Officers Pension Expense FAS87	(7)	25	\$ 7	0
Pension Expense/Contribution	(99)			(99)
SIT - Current Benefits Deferred	<u>(\$35)</u>		<u>\$7</u>	<u>(\$28)</u>

Central Hudson Gas & Electric Corporation  
 Gas Operations Rate Base Summary  
 For the Rate Year Ended June 30, 2011  
 (\$000)

	<u>Central Hudson</u>	Adj. No.	Staff Adjustments	<u>As Adjusted</u>
Book Cost of Utility Plant	\$311,390			\$311,390
Less: Accumulated Provision for Depreciation & Amortization	(\$105,052)			(\$105,052)
Net Plant	<u>\$206,338</u>		<u>\$0</u>	<u>\$206,338</u>
 Noninterest-Bearing Construction Work in Progress	 \$8,577			 \$8,577
Customer Advances for Undergrounding	(\$1)			(\$1)
Deferred Charges	\$3,473		\$0	\$3,473
Accumulated Deferred Federal Taxes	(\$35,550)		\$0	(\$35,550)
Accumulated Deferred State Taxes	(\$1,485)		\$0	(\$1,485)
Working Capital	\$8,809	26	(\$453)	\$8,356
Unadjusted Rate Base	<u>\$190,161</u>		<u>(\$453)</u>	<u>\$189,708</u>
Capitalization Adjustment to Rate Base	(\$126)			(\$126)
Rate Base	<u>\$190,035</u>		<u>(\$453)</u>	<u>\$189,582</u>

Central Hudson Gas & Electric Corporation  
 Gas Operations Deferred Items - Rate Base  
 For the Rate Year Ended June 30, 2011  
 (\$000)

## Deferred Charges:

	<u>Central Hudson</u>	Adj. No.	Staff Adjustments	As Adjusted
MTA Tax	\$528			\$528
Unamortized Debt Expense	1,169			1,169
Unamortized Discount Long Term Debt	11			11
Executive Deferred Compensation Plan	395			395
Unamortized Loss on Reacquired Debt	1,006			1,006
Preferred Stock Costs & Redemption Premium	349			349
Competition Education Program Over/Under Collection	(98)			(98)
Carrying Charge on Interest Bearing Gas Deferred Balance	113			113
<b>Total Deferred Charges</b>	<b>\$3,473</b>		<b>\$0</b>	<b>\$3,473</b>

## Accumulated Deferred Federal Taxes

	<u>Central Hudson</u>	Adj. No.	Staff Adjustments	As Adjusted
Investment Tax Credit	(\$165)			(\$165)
Contributions in Aid of Construction	1,414			1,414
Unbilled Revenue	5,834			5,834
MTA Tax	(185)			(185)
Deferred Avoided Cost Interest Capitalized	313			313
Bonds Redeemed	(217)			(217)
Cost of Removal	(678)			(678)
Normalized Depreciation	(41,792)			(41,792)
ACRS Method Change	(6)			(6)
Competition Education Program Over/Under Collection	34			34
Carrying Charge on Interest Bearing Gas Deferred Balance	(39)			(39)
Gas Balancing Software Tax Depreciation	9			9
Prepaid Insurance	(72)			(72)
<b>Total Deferred Taxes</b>	<b>(\$35,550)</b>		<b>\$0</b>	<b>(\$35,550)</b>

## Accumulated Deferred State Income Taxes

	<u>Central Hudson</u>	Adj. No.	Staff Adjustments	As Adjusted
Normalized Depreciation	(\$2,090)			(\$2,090)
MTA Tax	\$7			7
Deferred Avoided Cost Interest Capitalized	22			22
Bonds Redeemed	(23)			(23)
Cost of Removal	(89)			(89)
Contributions in Aid of Construction	168			168
Unbilled Revenue	531			531
Competition Education Program Over/Under Collection	4			4
Carrying Charge on Interest Bearing Gas Deferred Balance	(6)			(6)
Gas Balancing Software Tax Depreciation	1			1
Prepaid Insurance	(10)			(10)
<b>Total Deferred Taxes</b>	<b>(\$1,485)</b>		<b>\$0</b>	<b>(\$1,485)</b>

Central Hudson Gas & Electric Corporation  
 Gas Operations Working Capital-Rate Base  
 For the Rate Year Ended June 30, 2011  
 (\$000)

	<u>Central Hudson</u>	Adj. No.	Staff Adjustments	<u>As Adjusted</u>
<u>Materials and Supplies</u>				
Other Material and Supplies	\$1,477	27	(\$188)	\$1,289
<u>Prepayments</u>				
Prepaid Property Taxes	\$1,877	28	(\$21)	\$1,856
Prepaid Insurance	180	29	(32)	148
Other Prepayments	305			305
Prepayments Working Capital	2,362		(\$53)	\$2,309
<u>Operation and Maintenance</u>				
Cash Working Capital	\$4,970		(\$212)	\$4,758
Total Working Capital	\$8,809		(\$453)	\$8,356

Central Hudson Gas & Electric Corporation  
 Gas Operations Capital Structure  
 For the Rate Year Ended June 30, 2011  
 (\$000)

	<u>Amount</u>	<u>Adj. No.</u>	<u>%</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>	<u>Pretax</u>
Long Term Debt	\$482,898		49.02%	5.05%	2.48%	2.48%
Customer Deposits	\$8,332		0.85%	2.45%	0.02%	0.02%
Preferred Stock	\$21,027		2.13%	5.05%	0.11%	0.18%
Common Equity	\$472,852		48.00%	9.60%	4.61%	7.63%
Total	<u>\$985,109</u>	30	<u>100.0%</u>		<u>7.22%</u>	<u>10.32%</u>

	<u>Central Hudson</u>	<u>Adj. No.</u>	<u>Staff Adjustments As Adjusted</u>	
Interest deduction				
Rate Base	\$190,035	31	(\$453)	\$189,582
Weighted cost of long term debt	<u>2.67%</u>			<u>2.50%</u>
Total interest - tax deduction	<u>\$5,074</u>		<u>(\$334)</u>	<u>\$4,740</u>

Central Hudson Gas & Electric Corporation  
 Gas Operations Revenue Requirement Calculation  
 For the Rate Year Ended June 30, 2011  
 (\$000)

	Adj. No.		
Net Income after Rate Increase		\$13,688	\$189,582    7.22%
Net Income before Rate Increase		\$14,160	
Net Income Increase		(472)	
Retention Factor		0.5901	
Revenue Increase Required		(\$800)	
Revenue Increase Required(to I/S)		(\$800)	
Revenue Increase Required		(\$800)	
Uncollectibles		(\$10)	
Revenue Taxes		(\$24)	
Informational Advertising		\$0	
Finance Charge		(\$16)	
<u>Retention Factor</u>			
Additional Revenue Requirement		1.0000	
Less: Revenue Tax		0.0299	
Uncollectibles		0.0125	
Informational Advertising			
Finance Charge		-0.0197	
Operating Income subject to FIT		0.9773	
Less: FIT		0.3421	
Less: SIT		0.0451	
Net Operating Income		0.5901	

Central Hudson Gas & Electric Corporation  
Gas Operations Staff Adjustments  
For the Rate Year Ended June 30, 2011  
(\$000)

Adj. No.	Explanation	\$	
<b>Revenues (Sch 1)</b>			
1	Own Territory Delivery Revenues To reflect Staff's adjustment to the Forecasted Revenues	\$	1,761
2	Interruptible Services To reflect Staff's adjustment to the Forecasted Interruptible Revenues	\$	462
<b>Operation &amp; Maintenance Expenses (Sch 1)</b>			
3	Labor To reflect Staff's changes to the Company's employee count	\$	(240)
4	Fringe Benefits To reflect Staff's changes to the Company's employee count	\$	(20)
5	Pension Expense To reflect Staff's changes to eliminate the Company's Supplemental Executive Retirement Plan	\$	(152)
6	Uncollectible Accounts To track Staff's changes to Operating Revenues	\$	28
7	Regulatory Commission Expense To reflect Staff's use of GDP inflation rates instead of a growth rate	\$	(31)
8	Other Operating Insurance To reflect Staff's use of GDP inflation rates instead of a growth rate and to eliminate half of the D&O Insurance	\$	(79)
9	Special Services To reflect Staff's changes to eliminate the International Financial Reporting Standards expenses	\$	(37)
10	Injuries and Damages To reflect Staff's use of GDP inflation rates instead of a growth rate	\$	(41)
11	Enhanced Powerful Opportunites Program/Low Income To reflect Staff's changes to the program	\$	78
12	Excess Cost of Removal To reflect Staff's continuation of expensing the Excess Negative Net Salvage.	\$	(511)
13	Smartgrid/AMI To reflect Staff's changes to eliminate these expenses from Base Rates	\$	(59)
14	Productivity To reflect Staff's inclusion of a 2% adjustment to a base of Labor Expense, Fringe Benefits, Pension Expense, OPEB Expense and Payroll Tax	\$	(394)
<b>Other Deductions (Sch 1)</b>			
15	Property Taxes To reflect Staff's changes to the Company's Incremental Tax Assessment	\$	(65)
16	Revenue Taxes To track Staff's changes to Operating Revenues	\$	66
17	Payroll Taxes To reflect the impact of Staff's changes to the Company's employee count	\$	(16)
18	Other Taxes To reflect Staff's use of GDP inflation rates instead of a growth rate	\$	(13)
<b>Taxes (Sch 1)</b>			
19	State Income Taxes To track the impact of Staff's adjustments on State Income Taxes	\$	283
20	Federal Income Taxes To track the impact of Staff's adjustments on Federal Income Taxes	\$	1,317
<b>Taxes Schedule M (Sch 3)</b>			
21	Officers Pension Expense FAS 87 To reflect Staff's changes to eliminate SERP from Additional Income and Unallowable Deductions	\$	(152)
22	Interest Expense To track the interest deduction impact of Staff's changes to Rate Base	\$	(334)
23	Vacation Accrual To reflect Staff's changes to correct an error in the Company's filing	\$	3
<b>Federal Income Tax Deferred Items (Sch 4)</b>			
24	Officers Pension Expense FAS 87 To reflect Staff's changes to eliminate SERP from Deferred Taxes	\$	53

		Explanation		
<b>State Income Tax Deferred Items (Sch 6)</b>				
25	Officers Pension Expense FAS 87			
	To reflect Staff's changes to eliminate SERP from Deferred Taxes		\$	7
<b>Rate Base (Sch 7)</b>				
26	Working Capital			
	To reflect the Rate Base impact of Staff's adjustments to Working Capital		\$	(453)
<b>Working Capital (Sch 9)</b>				
27	Materials & Supplies			
	To reflect Staff's use of a twelve-month rolling average and to correct an error in the Company's filing		\$	(188)
28	Prepaid Property Taxes			
	To reflect the impact of Staff's adjustment to Property Taxes		\$	(21)
29	Prepaid Insurance			
	To reflect the impact of Staff's adjustment to Other Operating Insurance and Injuries and Damages Insurance		\$	(32)
<b>Capital Structure (Sch 10)</b>				
30	Overall Pre-Tax Rate of Return			
	To reflect Staff's changes to the Capital Structure			10.32%
<b>Interest Deduction (Sch 10)</b>				
31	To reflect Staff's changes to Rate Base and the Weighted Cost of Long Term Debt		\$	(453)