

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 Exhibits (AP-13) through  
(AP-22):  
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  
Case Nos. 09-E-0588 & 09-G-0589  
Response to Staff Information Request No. 118

From: Summa  
Requested of: Revenue Requirement Panel  
Date of Request: 9/14/2009

**Summa: For Central Hudson's Revenue Requirement Panel:**

118) Please provide copies of the operating insurance premiums, which were relied upon in the filing and projections, and copies of any more recently acquired insurance policies.

**Response:**

Please refer to the attached documents in response to the question:

- |               |   |
|---------------|---|
| Attachment 1: | Directors & Officers Liability Policy,<br>CHUBB                                     |
| Attachment 2: | Directors & Officers Liability Policy,<br>AEGIS Associated Electric & Gas Insurance |
| Attachment 3: | Directors & Officers Liability Policy,<br>Energy Insurance Mutual (EIM)             |
| Attachment 4: | Directors & Officers Liability Policy,<br>U.S. Specialty Insurance Company          |
| Attachment 5: | Directors & Officers Liability Policy,<br>Travelers                                 |
| Attachment 6  | Directors & Officers Liability Policy,<br>Houston Casualty Company                  |
| Attachment 7: | All Risk Property Liability Policy,<br>AIG (Unitech)                                |
| Attachment 8: | Fiduciary (Pension Trust) Liability Policy,<br>CHUBB                                |
| Attachment 9: | Employment Practices Liability Policy,<br>CHUBB                                     |

Central Hudson Gas & Electric Corporation  
Case Nos. 09-E-0588 & 09-G-0589  
Response to Staff Information Request No. 118

- Attachment 10: Employed Lawyers Professional Liability  
Policy, Executive Risk Specialty Insurance  
Company
- Attachment 11: Multimedia Liability, Axis Insurance Company
- Attachment 12: Crime Liability Policy,  
Zurich American Insurance Company

Date of Response: 9/24/2009  
Response by: Revenue Requirements Panel

Central Hudson Gas & Electric Corporation  
Case Nos. 09-E-0588 & 09-G-0589  
Response to Staff Information Request No. 294

From: M. Summa  
Requested of: M. Mosher  
Date of Request: 10/8/2009

**Summa: For Central Hudson Witness Mosher:**

294. On page 8 of your testimony you state that the Company's filing seeks to recover all projected costs related to Directors and Officers Liability Insurance coverage rather than half of the costs as approved in the recent Rate Order. Did the Company base its decision to recover all projected costs related to Directors and Officers Liability Insurance coverage rather than half of the costs as approved in the recent Rate Order on any empirical study?
- a. If yes, please provide the study or analysis.

**Response:**

The Company's decision to recover all projected costs related to Directors and Officers Liability Insurance coverage is based on the necessity for adequate D&O insurance coverage to permit it to operate and on the fact that, as a public utility, its necessary costs of operation should be funded through rates.

Date of Response: 10/14/2009  
Response by: M. Mosher



TOWERS  
PERRIN



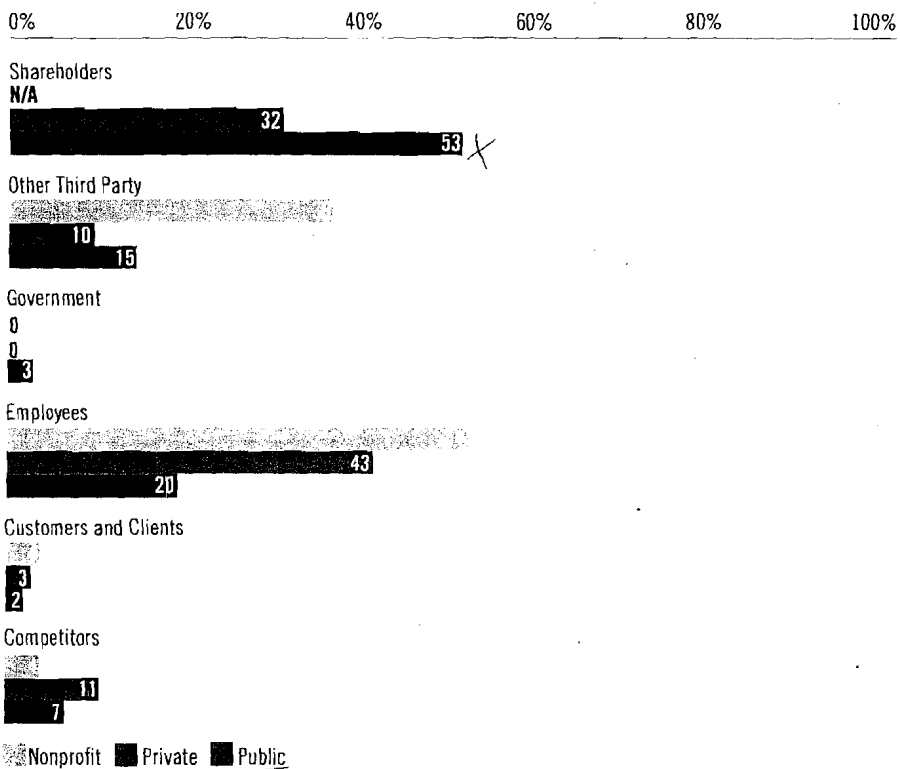
Directors and Officers Liability  
2007 Survey of Insurance Purchasing and Claim Trends

Payments to claimants increased significantly from a median of \$54,000 in 2006 to \$234,000 in 2007. Average payments increased from \$4,256,187 to \$12,230,881. Governmental/Other claimants rose dramatically from a median \$325,000 in 2006 to \$16,750,000. Average payments to Governmental/Other claimants jumped from \$360,969 to \$13,818,125.

Median defense costs increased from \$44,409 in 2006 to \$334,126. Average defense costs rose sharply from \$800,360 to \$2,130,121. However, median defense costs for repeat participants were \$400,000 in 2006, dropping to \$327,577 in 2007. Average defense costs for repeat participants went from \$1,984,736 in 2006 to \$2,219,912 in 2007.

EXHIBIT 69

**Claimant Distribution by Ownership**



Central Hudson Gas & Electric Corporation  
Case Nos. 09-E-0588 & 09-G-0589  
Response to Staff Information Request No. 54

From: Shahbazian  
Requested of: Revenue Requirement Panel  
Date of Request: 9/3/2009

**Shahbazian: For Central Hudson's Revenue Requirement Panel:**

**Injuries and Damages**

54) Please provide a copy of the current AEGIS excess liability insurance policy that shows the policy period, policy premium, and the declarations / underlying limits pages.

**Response:** A copy of the AEGIS excess liability policy in effect from June 1, 2009 through June 1, 2010 is attached.

Date of Response: 9/10/2009  
Response by: Revenue Requirements Panel

# EXCESS LIABILITY INSURANCE POLICY

THIS IS AN EXCESS LIABILITY "CLAIMS-FIRST-MADE" POLICY WHICH MAY BE DIFFERENT FROM OTHER POLICIES INCLUDING OTHER CLAIMS-MADE POLICIES.  
PLEASE READ THE ENTIRE POLICY CAREFULLY.

*Words and phrases which appear in all capital letters have the special meanings set forth in Section II. Definitions*



## DECLARATIONS

POLICY NO. X0309A1A09 ✓

DECLARATIONS NO. 1

- Item 1:** NAMED INSURED: CH Energy Group, Inc.  
284 South Ave  
Poughkeepsie, NY 12601
- Item 2:** POLICY PERIOD: from the 1st day of June, 2009 until the 1st day of June, 2010 both days at 12:01 A.M. Standard Time at the address of the NAMED INSURED. ✓
- Item 3:** RETROACTIVE DATE: the 1st day of June, 1986 at 12:01 A.M. Standard Time at the address of the NAMED INSURED. ✓
- Item 4:** POLICY PREMIUM: \$865,579
- Item 5:**
- A. LIMIT OF LIABILITY EACH OCCURRENCE:  
\$35,000,000 ✓
  - B. JOINT VENTURE LIMIT OF LIABILITY EACH OCCURRENCE:  
Per Limit of Liability Section (3). ✓
  - C. COMBINED PRODUCTS LIABILITY AND COMPLETED OPERATIONS LIABILITY  
AGGREGATE LIMIT OF LIABILITY FOR THE POLICY PERIOD:  
\$35,000,000 ✓
  - D. FAILURE TO SUPPLY LIABILITY AGGREGATE LIMIT OF LIABILITY FOR THE POLICY  
PERIOD:  
\$35,000,000 ✓
  - E. POLLUTION LIABILITY AGGREGATE LIMIT OF LIABILITY FOR THE POLICY PERIOD:  
\$35,000,000 ✓
  - F. MEDICAL MALPRACTICE INJURY LIMIT OF LIABILITY EACH OCCURRENCE:  
\$35,000,000 ✓

Central Hudson Gas & Electric Corporation  
Case Nos. 09-E-0588 & 09-G-0589  
Response to Staff Information Request No. 55

From: Shahbazian  
Requested of: Revenue Requirement Panel  
Date of Request: 9/3/2009

**Shahbazian: For Central Hudson's Revenue Requirement Panel:**

**Injuries and Damages**

55) Please provide the same information as requested in interrogatory 54 for the two previous annual policy periods.

**Response:** A copy of the AEGIS excess liability policy in effect from June 1, 2008 through June 1, 2009 was provided in response to PSC Information Request No. 181 in Cases 08-E-0887 and 08-G-0888. A copy of the AEGIS excess liability policy in effect from June 1, 2007 through June 1, 2008 is attached.

Date of Response: 9/10/2009  
Response by: Revenue Requirements Panel

# EXCESS LIABILITY INSURANCE POLICY

**THIS IS AN EXCESS LIABILITY "CLAIMS-FIRST-MADE" POLICY WHICH MAY BE DIFFERENT FROM OTHER POLICIES INCLUDING OTHER CLAIMS-MADE POLICIES. PLEASE READ THE ENTIRE POLICY CAREFULLY.**

*Words and phrases which appear in all capital letters have the special meanings set forth in Section II. Definitions*



## DECLARATIONS

POLICY NO. X0309A1A07 .

DECLARATIONS NO. 1

**Item 1: NAMED INSURED:** CH Energy Group, Inc.  
284 South Ave  
Poughkeepsie, NY 12601 .

**Item 2: POLICY PERIOD:** from the 1st day of June, 2007 until the 1st day of June, 2008 both days at 12:01 A.M. Standard Time at the address of the NAMED INSURED.

**Item 3: RETROACTIVE DATE:** the 1st day of June, 1986 at 12:01 A.M. Standard Time at the address of the NAMED INSURED.

**Item 4: POLICY PREMIUM:** \$584,308

- Item 5: A. LIMIT OF LIABILITY EACH OCCURRENCE:**  
\$35,000,000
- B. JOINT VENTURE LIMIT OF LIABILITY EACH OCCURRENCE:**  
**Per Limit of Liability Section (3).**
- C. COMBINED PRODUCTS LIABILITY AND COMPLETED OPERATIONS LIABILITY AGGREGATE LIMIT OF LIABILITY FOR THE POLICY PERIOD:**  
\$35,000,000
- D. FAILURE TO SUPPLY LIABILITY AGGREGATE LIMIT OF LIABILITY FOR THE POLICY PERIOD:**  
\$35,000,000

**POLLUTION LIABILITY AGGREGATE LIMIT OF LIABILITY FOR THE POLICY PERIOD:**  
\$35,000,000

**MEDICAL MALPRACTICE INJURY LIMIT OF LIABILITY EACH OCCURRENCE:**  
\$35,000,000

Central Hudson Gas & Electric Corporation  
Case Nos. 09-E-0588 & 09-G-0589  
Response to Staff Information Request No. 142

From: Abraham  
Requested of: DuBois  
Date of Request: 9/14/2009

**Abraham : For Central Hudson Witness DuBois:**

142) On page 7 of your testimony, it is stated regarding stray voltage (distribution overhead and underground) that the company forecasted the expenditures for this activity based on contractor bid pricing. Please provide the supporting bid data.

**Response:** The bid pricing provided by the contractor performing the stray voltage testing (distribution overhead and underground) in conjunction with the actual costs to perform this work in 2008 were utilized to forecast the expenditures for this activity.

**A copy of the contract bid data (which the Company considers to be confidential and are provided to requesting party only) is attached in support of this forecast.**

Date of Response: 9/23/2009  
Response by: Donald L. DuBois, Jr.

Staff IR 142 Confidential Bid Documents 1 & 2 – Pages (2 – 3) of 3 REDACTED

Central Hudson Gas & Electric Corporation  
Case Nos. 09-E-0588 & 09-G-0589  
Response to Staff Information Request No. 140

From: Abraham  
Requested of: DuBois  
Date of Request: 9/14/2009

**Abraham : For Central Hudson Witness DuBois:**

140) On pg. 25 of the Order in Case 08-E-0887, the Commission allowed the Company deferral authority for one testing cycle associated with stray voltage expense.

- a) Has one full testing cycle been completed?
- b) If one full testing cycle has not yet been completed, when does the Company anticipate the cycle will be completed?
- c) If one full testing cycle has been completed, please provide expenditure data related to the full testing cycle.

**Response:** On Page 25 of the Order in Case 08-E-0887, the Commission agreed with the Company that due to the uncertainty associated with the new requirements, it is reasonable to continue deferral accounting for one testing cycle at which time better estimates of the actual costs should be available.

The Order Adopting Changes to the Electric Safety Standards was issued on December 15, 2008 and impacts the stray voltage testing program beginning in 2009. One full testing cycle complying with the new requirements has not yet been completed.

It is anticipated that the first full testing cycle complying with the new requirements will be completed at the end of 2009. Data related to the full testing cycle will be available early in 2010.

Date of Response: 9/23/2009  
Response by: Donald L. DuBois, Jr.

Central Hudson Gas & Electric Corporation  
Case Nos. 09-E-0588 & 09-G-0589  
Response to Staff Information Request No. 281

From: Summa  
Requested of: Revenue Requirements Panel  
Date of Request: 10/8/2009

**Summa: For Central Hudson Revenue Requirements Panel:**

- 281) Did Central Hudson perform a study or a cost benefit analysis to determine whether the implementation of an in house legal team is more cost effective than the current practice of employing outside legal services?
- a. If yes, please provide the analysis.
  - b. If no, please explain why the Company is making the transition to an in house legal team.

**Response:**

- a. The Company did not perform a study or a cost benefit analysis.
- b. As explained in the testimony of the Revenue Requirements Panel pre-filed testimony on page 21, lines 20 and 21, "The Company has determined that the establishment of a small internal legal team to address corporate and regulatory matters is appropriate."

Ongoing increases in regulatory and corporate legal matters have led the Company to conclude that a small in-house legal staff is desirable to service these growing legal requirements and manage the delivery of outside legal services.

Date of Response: 10/19/2009  
Response by: Mosher

Central Hudson Gas & Electric Corporation  
Case Nos. 09-E-0588 & 09-G-0589  
Response to Staff Information Request No. 113

From: Summa  
Requested of: Revenue Requirements Panel  
Date of Request: 9/14/2009

**Summa: For Central Hudson's Revenue Requirements Panel:**

- 113 Please provide documentation to support the additional \$250,000 (Electric & Gas combined) associated with the anticipated additional services to review the compliance with new International Financial Reporting Standards included in the special services rate year allowance.

**Response:** The Company continues to evaluate, with assistance from PriceWaterhouseCoopers, the scope of work associated with the implementation of International Financial Reporting Standards (IFRS). We have estimated the following costs associated with its implementation:

Consultant support to develop new procedures and controls	\$100,000
Employee training and related materials	25,000
Incremental PWC fees for review of procedures and controls	<u>125,000</u>
Total	<u>\$250,000</u>

Date of Response: 9/30/2009  
Response by: Revenue Requirements Panel (Brideau, Smith & Kardas)

Central Hudson Gas & Electric Corporation  
Case Nos. 09-E-0588 & 09-G-0589  
Response to Staff Information Request No. 352

From: Summa  
Requested of: Revenue Requirements Panel  
Date of Request: 10/21/2009

**Summa: For Central Hudson Revenue Requirements Panel:**

- 352) Page 22 of your testimony states that the Company included a provision in the rate year for anticipated additional services related to the review of compliance with the new International Reporting Financial Standards (IFRS).
- a. Confirm that the United States Securities and Exchange Commission (SEC) does not currently require US companies to provide financial statements that comply with IFRS and has not set a specific date that US companies' financial statements must be in compliance with IFRS.
  - b. Given the current state of the economy and the austerity measures called for by the Commission in the Central Hudson's last rate case, why does the company feel now is the time to transition to IFRS?
  - c. Fully describe the company's plan for transitioning to IFRS, including a timetable with when the company will be in full compliance with IFRS.
  - d. Does the company plan to continue to prepare financial statements that comply with US Generally Accepted Accounting Principles (GAAP) after it fully transitions to IFRS?

**Response:**

- a. The statement above in 352a is correct. The SEC has publicly announced its support of a transition to IFRS and its most recent proposal is for IFRS to be effective January 1, 2014
- b. The most recent proposal by the SEC is for IFRS to be effective January 1, 2014. Under current SEC regulations the Company is required to file two years of comparative income statements, resulting in the need to be accounting for its transactions under IFRS effective January 1, 2012. The transition to IFRS requires a

Central Hudson Gas & Electric Corporation  
Case Nos. 09-E-0588 & 09-G-0589  
Response to Staff Information Request No. 352

review and analysis of all IFRS standards and all of the Company's transactions to determine the changes necessary to change to accounting under IFRS. Given the fact that this is an entirely new set of standards and any changes to the Company's current accounting policies and changes to its internal controls will need to be reviewed by its internal and external auditors, it is necessary to begin the work in 2009. Additionally, the changes may require changes to the Company's IT infrastructure which must be identified in a timely manner in order to determine the appropriate resolution, implement and test such solution.

- c. The Company is in the early stages of the transition process. The timeline attached as Exhibit A is the Company's best estimate as to the necessary work requirements and timing; however, as work progresses the timeline will likely change.
- d. The Company will maintain its books and records in a manner necessary to comply with the regulations it operates under. If regulators other than the SEC require that the Company submit reports under rules that differ from IFRS the Company will need to keep sufficient records in order to comply. This would require keeping multiple sets of accounting records.

Date of Response: 10/29/2009  
Response by: Revenue Requirements Panel

**CENTRAL HUDSON ENERGY GROUP**  
**IFRS CORE WORKING GROUP**  
**TIMELINE**



Task or Objective	2009				2010				2011				2012				2013				2014				2015							
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Plan																																
Actual																																
<b>Prioritization</b>																																
Plan																																
Actual																																
<b>Detailed Review</b>																																
Plan																																
Actual																																
<b>Recommendations</b>																																
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<b>Action Plans</b>																																
Plan																																
Actual																																
<b>Changes as Needed</b>																																
Plan																																
Actual																																

OS IA PwC

**Legend**  
 IA Internal Audit  
 OS Oversight Committee  
 PwC PricewaterhouseCoopers

