

Assistant System Operators (2 positions)

Adding two Assistant System Operators to the Company's System Operations Division is necessary to comply with the recently upgraded NERC Electric Reliability Standards and the Federal DOT proposed rule regarding gas transmission pipeline operations, which will be finalized this fall.

The additional two positions will enhance situational awareness and improve operator response to abnormal conditions that may occur without warning on the electric and gas transmission system. The additional staffing is necessary to comply with these new standards of performance.

Compliance with FERC-approved Electric Reliability Standards is mandatory, and NERC has been designated as the nation's Electric Reliability Organization (ERO) and as such become responsible for enforcement of these standards. Failure to comply with these standards poses serious risks for the Company as a Transmission Owner (TO), including the potential for significant financial penalties imposed by FERC. The existing NPCC list of Bulk Electric System (BES) facilities currently being used for the application of NERC Reliability Standards is under review by FERC. With the completion of this review, the Company expects that more of its transmission lines will be covered by these standards, and as a result, it will be required to register as a Transmission Operator (TOP). Registration as a TOP will significantly increase the number of standards requiring compliance, including standards associated with Operator staffing, training, and certification. Additionally, a major recommendation by the NERC Real-Time Tools Best Practices Task Force is the enhancement of Operator situational awareness, which requires standards and guidelines for the continuous monitoring of current system conditions and future contingencies. Furthermore, the recent US DOT PHMSA (Pipeline and Hazardous Materials Safety Administration) Proposed Rule regarding Control Room Management / Human Factors for Operators of gas pipelines emphasizes the importance of prompt Operator response to abnormal and emergency situations that pose risks to public safety and the environment. The Proposed Rule also identifies a higher level of Operator training required to meet its objectives. The Company, as a gas pipeline Operator, must comply with the rules and regulations required by PHMSA.

As a result of the need to assure compliance with the additional rules and regulations imposed by both NERC and the US DOT, the Company has reevaluated its staffing levels and employee qualifications and responsibilities in the area of Transmission Operations. This reevaluation indicates that an additional two Assistant System Operators are required to enable the Company to comply with the increased number of NERC Reliability Standards associated with mandatory Operator staffing, training, and certification as well as the additional rules proposed by PHMSA. This will allow the Company to staff the Transmission Operations Center with two qualified and certified Transmission System Operators at all times, while at the same time maintaining adequate staffing levels in its Distribution Control Center.

Cost & Rate Analyst (1 position)

The addition of one analyst to the Company's Cost & Rate Group within the Regulatory Affairs Division is necessary to comply with recent orders issued by the New York State Public Service Commission (PSC), to continue to address impacts of current PSC policies, to maintain compliance with NERC Reliability Standards and to comply with FERC requirements.

In its Order, issued and effective June 22, 2009, in Cases 08-E-0887 and 08-G-0888, the PSC approved the implementation of revenue decoupling mechanisms (RDMs) for the Company's electric and gas businesses. These RDMs will require monthly reconciliation of actual delivery revenue for electric and actual use per customer for gas to PSC approved targets, with detailed tracking of differences for refund to or surcharge from customers. The Order's approval of the implementation of an electric bill credit, to be applied on a service class and/or sub-class specific basis, will also require detailed tracking. The Order also required an increased level of detail for certain components of the Company's Energy Cost Adjustment Mechanism (ECAM) and electric Merchant Function Charge (MFC) structure through the implementation of sub-class level factors. As a result, the level of complexity of both the monthly ECAM rate setting and reconciliation processes and the MFC rate setting and monthly tracking processes will increase dramatically.

The expansion of the Hourly Pricing Provision from a minimum customer threshold of 1000 kW to 500 kW, with a detailed implementation plan to be filed on or before August 22, 2009 was also required by the Order. Implementation of this expansion, which is estimated to impact approximately 131 customers, will require installation of meters, rate design for the recovery of meter costs and customer education and outreach, as well as customer support once the program is fully implemented.

The Order also increases cost of service analysis requirements, by requiring the submission of a gas marginal cost of service study and a streamlined (excluding commodity cost/revenue) electric embedded cost of service study with the next gas and electric, respectively, rate case filings.

Finally, the Order also requires the completion and submission of a voltage-specific study of electric losses by January 22, 2009.

On June 19, 2009, the PSC issued an Order in Case 09-M-0311 directing the Company to commence, effective July 1, 2009, collections from electric and gas customers to recover the Temporary State Energy and Utility Service Conservation Assessment pursuant to the Public Service Law Section 18-a(6) as implemented by Chapter 59 of the Laws of 2009. Implementation of this surcharge requires detailed monthly tracking and annual reconciliation and rate design, all on service class and/or sub-class specific basis.

Compliance with current PSC policies has also increased analytical requirements, including increased requirements resulting from increased retail access migration and rate design, rate implementation and customer education and outreach related to AMI/Smart Grid proposals.

Analytical requirements have also increased as a result of continued compliance with certain NERC load forecasting/reporting Reliability Standards, continuous monitoring for revisions to such standards and evaluation of changes/applicability as the Company expands its entity definition.

Finally, the FERC, in Order 714 issued September 19, 2008, has required that all tariffs, tariff revisions and applications for public utilities be filed electronically according to a set of standards developed jointly by FERC and the North American Energy Standards Board. The Company currently has twelve active rate schedules on file with FERC, including the Company's Open Access Transmission Tariff, which will require conversion and maintenance.

The addition of one analyst will enable the Company to comply with additional requirements resulting from recent orders issued by the PSC, address increased requirements resulting from existing PSC policies, maintain compliance with evolving NERC Reliability Standards and comply with new FERC requirements.

Financial Planning Analyst (1 position)

Financial Planning's primary responsibility covers four broad areas: preparing and filing of rate cases, overall responsibility for preparing and reviewing our annual operating budget, overall responsibility for the operation, maintenance and update of the Clarity Budgeting and Reporting system and providing analysis and support for strategic planning efforts. The workload associated with these responsibilities has increased dramatically over the past two years especially in light of likely annual rate case filings and support for a more robust strategic planning effort. This additional workload, as discussed in more detail below, requires the addition of a new Financial Planning Analyst.

Rate Case Filings:

Financial Planning has overall responsibility for the development of rate base and revenue requirements and the coordination of all other witnesses' testimony and exhibits. The timing of the work associated with annual filings requires, during parts of the year, that two cases be work on at the same time. This is coupled with the ever increasing volume of work associated with discovery, analysis of other parties' filing, preparation for and participating in hearings and preparation and review of the various briefs filing during course of a rate case.

Annual Operating Budget/Strategic Planning:

Our annual planning process will be expanded to provide five years of data to support expanded strategic planning efforts. In addition to the requirement for additional data, the Company will be implementing "year-round" budgeting which will require the update, coordination, review and analysis of near-term budgets each quarter rather than once each year.

Clarity Budgeting and Reporting System:

The Clarity System is used to develop the annual operating budgets and is also used to report actual results and budget variations. Clarity is new and is supported and maintained solely by Financial Planning. Clarity development is continuous as is the ever-changing planning and reporting requirements of Central Hudson.