

DIRECT TESTIMONY
OF
STACEY A. RENNER

1 Q. Please state your name and business address.

2 A. My name is Stacey A. Renner and my business address is Central Hudson
3 Gas & Electric Corporation (“CHGE” or the “Company”), 284 South Avenue,
4 Poughkeepsie, NY 12601.

5

6 Q. Please describe your educational background.

7 A. I hold a B.A. degree in Economics from Union College (Schenectady, NY)
8 and an M.B.A. from Marist College (Poughkeepsie, NY).

9

10 Q. What is your position with CHGE and your professional background?

11 A. My position with CHGE is Treasurer. I have been employed by CHGE for a
12 total of eleven years. I joined CHGE in 1990 and worked as a rate analyst
13 until 1996. In that role, I focused on electric sales forecasting and electric
14 rates. From 1996 through 2003, I was employed by IBM, where I worked as
15 a financial analyst and finance manager. In those roles, I provided financial
16 support for various units of IBM Global Services, including business cases
17 and discounted cash flow analysis, as well as many aspects of corporate and
18 strategic planning. In 2003 I re-joined CHGE as Director-Investment
19 Planning and Analysis. In 2005 I was appointed Assistant Treasurer, and
20 then to Treasurer in 2006. My current responsibilities include developing and
21 implementing CHGE’s financing plans, managing cash and maintaining

STACEY A. RENNER

1 adequate liquidity, understanding and managing CHGE's creditworthiness,
2 and managing CHGE's banking and rating agency relationships.

3

4 Q. Have you previously testified before the New York State Public Service
5 Commission?

6 A. Yes. I have testified in Case 08-E-0887 and Case 08-G-0888. I have also
7 prepared and submitted CHGE's last two financing petitions, Case 06-M-
8 0785 and Case 09-M-0308.

9

10 Q. What is the purpose of your testimony in this proceeding?

11 A. I address the following topics in my testimony: cash requirements, financing
12 program, capitalization and the cost of capital, projected financial indices,
13 and financial integrity. Accompanying exhibits, supporting my testimony,
14 were prepared under my direction and supervision.

15

16 CASH REQUIREMENTS

17 Q. Please describe the exhibits showing CHGE's cash requirements.

18 A. Exhibit___(SAR-1) includes four schedules addressing cash requirements.

19 Schedule A shows a forecast of cash requirements for the three twelve
20 month periods ending June 30, 2011, June 30, 2012, and June 30, 2013.

21 Schedule B shows a forecast of cash requirements for calendar years 2009

22 through 2013. Schedule C shows a forecast of cash construction

STACEY A. RENNER

1 expenditures for calendar years 2009 through 2013 and for the three twelve
2 month periods ending June 30, 2011, June 30, 2012, and June 30, 2013.
3 Schedule D shows historical cash requirements for the calendar years 2004
4 through 2008. The exhibits show that internal funds were bolstered by a
5 significant increase in retained earnings from 2006 through 2008, a period
6 during which CHGE minimized dividend payments to its parent in order to
7 support its equity ratio and overall financial position.

8

9 Q. Please discuss the Company's cash requirements in more detail.

10 A. Exhibit___(SAR-1) shows projected and historical cash requirements for
11 CHGE's operations. Cash construction expenditures are projected at \$460.3
12 million over the period 2009 through 2013. This is consistent with the
13 projection of construction program spending presented in Mr. Haering's
14 testimony. With the assumed continuation of significant retained earnings,
15 CHGE's internal funds are projected to be \$557.9 million over the same
16 period, representing 121 percent of cash construction expenditures.

17

18 In 2009, CHGE refunded \$20 million of long-term debt as unsecured notes
19 matured. An additional \$24 million matures in 2010, \$36 million in 2012, and
20 \$30 million in 2013. It is also likely that a substantial portion of CHGE's tax-
21 exempt long-term debt will require refinancing during the forecast period. In
22 the June 2009 Rate Order for Case 08-E-0887 and Case 08-G-0888,

STACEY A. RENNER

1 treatment was granted for the true-up and deferral of debt expense for both
2 the existing auction rate debt and any new issuances of long-term debt. For
3 purposes of presenting a forecast in the exhibits, it was assumed that all
4 auction rate debt remains in the auction rate interest mode throughout the
5 forecast. Any change in circumstances materially affecting the structure of
6 the tax-exempt debt should be recognized through appropriate updates in
7 this case.

8
9 Other notable cash requirements include pension and other post-
10 employment benefit (OPEB) plan contributions, estimated at \$155.7 million
11 over the period 2009 through 2013. Also, Mr. Borchert has informed me that
12 manufactured gas plant remediation costs are expected to total \$42.5 million
13 over the period 2009 through 2013. CHGE's forecast of cash requirements
14 after June 30, 2010, assumes annualized cash recovery of these
15 expenditures through delivery rates of approximately \$4.5 million, resulting in
16 the deferral for future recovery of \$22.9 million over the period 2009 through
17 2013. The forecast of cash requirements associated with remediation
18 expenditures after June 30, 2010, should be updated to recognize the final
19 ratemaking treatment for these expenditures.

20
21 Total cash requirements for the five-year forecast period are projected at
22 \$259.2 million.

STACEY A. RENNER

1

2 FINANCING PROGRAM

3 Q. Please describe the exhibits addressing CHGE's financing program.

4 A. Exhibit___(SAR-2) contains two schedules addressing CHGE's financing
5 program. Schedule A shows the proposed financing program for the three
6 twelve month periods ending June 30, 2011, June 30, 2012, and June 30,
7 2013. Schedule B shows the financing program for calendar years 2009
8 through 2013.

9

10 Q. Please discuss the Company's financing program in more detail.

11 A. Exhibit___(SAR-2) shows the Company's projected financing program over
12 a five-year forecast period. Through a combination of a medium-term notes
13 program and common equity provided by CHGE's parent company, CHGE
14 expects to finance its cash requirements in an economical and efficient basis.

15 In recent years, CHGE has used short-term debt to fund seasonal cash
16 requirements and to provide interim financing of construction expenditures
17 incurred between issuances of medium-term notes. For these short-term
18 needs, CHGE maintains several uncommitted credit lines from various
19 commercial banks and a \$125 million multi-year revolving credit facility,
20 which provides committed credit from four commercial banks. CHGE's
21 revolving credit facility, a five-year agreement that expires in January 2012,
22 was negotiated prior to the financial crisis and reflects attractive terms. It is

STACEY A. RENNER

1 expected that the revolving credit facility will be CHGE's most economic
2 short-term debt in the current market and for the foreseeable future. Please
3 note that CHGE is currently trying to minimize its use of short-term debt,
4 reserving its credit capacity for potential spikes in energy prices and other
5 unforeseen events. Consequently, the financing program for 2009 through
6 2013 reflects a target of zero short-term debt at December 31 of each year.

7
8 All long-term debt needed to meet net cash requirements is projected to be
9 twenty-year unsecured debt issued under the terms of the medium-term note
10 program. The use of twenty-year maturities in the projections represents an
11 average of ten-year and thirty-year maturities. CHGE typically issues notes
12 with maturities ranging from ten years to thirty years, depending on prevailing
13 conditions in the market for taxable long-term corporate debt and CHGE's
14 maturity schedule, in which considerations are made for spacing future
15 maturities in a manner that will avoid unnecessary refinancing risk.

16

17 CAPITALIZATION AND COST OF CAPITAL

18 Q. Please describe the exhibits showing CHGE's capitalization and cost of
19 capital.

20 A. Exhibit___(SAR-3) contains three schedules. Schedule A shows the equity
21 ratio used in setting delivery rates, allowed return on equity, and current debt
22 ratings for CHGE's peer electric utilities in New York State.

STACEY A. RENNER

1

2 Schedule B shows a comparison of utility bond yields, using monthly index
3 values since January 2007. Three Moody's credit ratings are shown on the
4 graph: Aa, A, and Baa. The graph shows a significant widening of the
5 spread between A and Baa bond yields beginning in September 2008, a
6 transient cost peak related to the unfolding financial crisis. The gap
7 represents the risk aversion of investors in uncertain financial markets and
8 economic conditions---they demand a higher premium for risk.

9

10 Schedule C shows a list of A-rated electric utility bond issuances from the
11 first six months of 2009. The average spread over treasury bonds reflected
12 in the pricing of these issuances was 273 basis points.

13

14 Exhibit___(SAR-4) contains four schedules that address capitalization and
15 the average cost of capital. Schedule A shows the calculation of the
16 Company's projected average cost of capital for the three twelve month
17 periods ending June 30, 2011, June 30, 2012, and June 30, 2013. Schedule
18 B shows the Company's projected average long-term debt for the three
19 twelve month periods ending June 30, 2011, June 30, 2012, and June 30,
20 2013. Schedule C shows the Company's projected average preferred stock
21 for the three twelve month periods ending June 30, 2011, June 30, 2012, and
22 June 30, 2013. Schedule D shows the calculation of the Company's average

STACEY A. RENNER

1 common equity for the three twelve month periods ending June 30, 2011,
2 June 30, 2012, and June 30, 2013.

3

4 Q. Please discuss CHGE's projected cost of capital, as shown on Exhibit____
5 (SAR-4).

6 A. Exhibit____(SAR-4), Schedule A shows the projected average cost of capital
7 for the three twelve month periods ending June 30, 2011, June 30, 2012, and
8 June 30, 2013. I will discuss each component individually.

9

10 Schedule B of Exhibit__(SAR-4) shows the average cost rate of long-term
11 debt, corresponding annual interest expense and projected new issuances
12 and retirements for the three twelve month periods ending June 30, 2011,
13 June 30, 2012, and June 30, 2013. The forecast reflects increasing debt
14 cost rates over the forecast period, based on two factors. First, interest on
15 NYSERDA Series B, C, and D increases over the forecast period due to the
16 projected increase in short-term interest rates. Second, maturing long-term
17 debt is replaced with new issuances of long-term debt at higher interest
18 rates. The projected interest rates on new issuances reflect CHGE's current
19 bond ratings (A2/negative, Moody's; A/stable, Standard & Poor's; A/stable,
20 Fitch Ratings). Please note the importance of CHGE's access to
21 competitively priced long-term debt, which benefits our customers through a
22 lower weighted average cost of capital. A strong investment grade credit

STACEY A. RENNER

1 rating provides support for accessing such debt. As shown in the graph on
2 Schedule B of Exhibit___(SAR-3), issuers are paying a significant premium
3 at the low (Baa) end of the investment grade rating scale. In March 2009, A-
4 rated utility bonds were yielding 6.42 percent, 158 basis points below the
5 8.00 percent yield on Baa-rated bonds. Interestingly, I have observed that
6 coupons on newly issued debt have exceeded the index rates, which are
7 based on secondary trading data, indicating a new issue premium in the
8 current market. To recognize this situation, the debt costs in
9 Exhibit___(SAR-4) reflect projected treasury rates from Blue Chip Financial
10 Forecasts plus a 273 basis point credit spread. The credit spread is the
11 average of twenty-six ten-year and thirty-year A-rated utility bond issuances
12 during the first six months of 2009, as shown in Schedule C of
13 Exhibit___(SAR-3).

14
15 One notable assumption in the projection of CHGE's debt costs deserves
16 additional discussion. A significant portion of CHGE's long-term debt is
17 comprised of tax-exempt NYSERDA bonds that are in an auction rate
18 interest mode as of June 2009. As the auctions are failing, and at current
19 bond ratings the interest payments are based on 175 percent of a short-term
20 tax-exempt bond index, those bonds are very sensitive to rising interest
21 rates. The Company is currently evaluating options for refinancing those
22 bonds. There is no certainty regarding the outcome of that evaluation, and

STACEY A. RENNER

1 the projected interest payments reflect the applicable maximum rate
2 calculation for the bonds. Since the current outlook for short-term interest is
3 low in the near term, rising gradually over the forecast period, the cost of the
4 debt increases accordingly over the forecast period. I will discuss these
5 bonds in more detail later in my testimony.

6

7 The 4.85 percent cost rate assigned to customer deposits reflects the current
8 rate mandated by the Commission. The Commission updates the rate
9 annually to reflect prevailing market conditions. The current rate is applied in
10 all projections of the cost of capital.

11

12 CHGE has a small amount of preferred stock that remains outstanding, as
13 shown on Schedule C of Exhibit___(SAR-4). This preferred stock has a
14 relatively low average cost rate of 5.05 percent.

15

16 Average common equity for the forecast period, as shown on Schedule D of
17 Exhibit___(SAR-4), reflects a return of 10.00 percent, the placeholder
18 recommended by Company witness Mosher. Note that CHGE intends to
19 maintain its current equity ratio of 48 percent throughout the forecast period.
20 I will discuss the equity ratio in further detail later in my testimony.

21

22 The weighted average cost of capital is estimated to be 7.58 percent for the

STACEY A. RENNER

1 twelve months ending June 30, 2011, 7.80 percent for the twelve months
2 ending June 30, 2012, and 7.96 percent for the twelve months ending June
3 30, 2013. These estimates are used by the Revenue Requirement Panel to
4 determine the revenue requirement in this case. As an important
5 determinant in setting delivery rates, any factors causing the projected cost
6 of capital to change should be reflected in an update prior to the conclusion
7 of the rate proceedings.

8

9 Q. Has there been any notable change in the status of CHGE's auction rate
10 debt since the Company's updates in Case 08-E-0887, Case 08-G-0888, and
11 Case 09-M-0308 (financing petition)?

12 A. No. CHGE has three series of tax-exempt bonds, totaling approximately
13 \$116 million and represented approximately 28 percent of CHGE's long-term
14 debt at June 30, 2009, that remain in an auction rate interest mode. Auctions
15 in the market for tax-exempt auction-rate securities continue to experience
16 widespread failures. Since February 2008, the auctions for CHGE's 1999
17 Series B, C, and D bonds have failed and the interest rate paid to the
18 bondholders has been set to the then prevailing maximum rate defined in the
19 trust indenture (175 percent of the yield on an index of tax-exempt short-term
20 debt, or its approximate equivalent). Since the first auction failure in
21 February 2008, the applicable maximum rate for CHGE's bonds has ranged
22 from 0.61 percent to 9.01 percent and averaged 2.66 percent. To mitigate

STACEY A. RENNER

1 the impact of unexpected increases in short-term interest rates, CHGE
2 typically purchases interest rate caps on an index for short-term tax-exempt
3 debt. Effective April 1, 2009, CHGE entered into a one-year cap based on
4 the monthly weighted average of an index of tax-exempt variable rate debt,
5 multiplied by 175 percent to align the cap with the maximum rate formula
6 currently applicable to the bonds. Under most market conditions, CHGE
7 expects that cap to effectively limit the payments for its auction-rate bonds to
8 approximately 4.375 percent through March 31, 2010.

9
10 CHGE's bonds are insured by AMBAC. Since AMBAC's ratings are now
11 lower than CHGE's, the bond ratings are determined by CHGE's ratings.
12 One significant factor related to the bond rating is CHGE's ability to convert
13 the bonds to another interest rate mode and remarket the bonds, which is
14 dependent on the bonds retaining an "A" rating by Moody's or S&P.

15
16 Q. What action is CHGE taking with regard to its auction-rate notes in light of
17 the auction failures?

18 A. CHGE has been following the developments in the market for tax-exempt
19 debt, as well as the actions taken by participants in that market to remarket
20 or refinance auction-rate securities. Owing to an applicable maximum rate
21 that is very reasonable in the current low interest rate environment and the
22 protection provided by an interest rate cap through April 2010, CHGE has

STACEY A. RENNER

1 determined it is in the best interest of customers to delay refinancing until the
2 outlook on interest rates changes or an appropriate long-term alternative is
3 identified. The alternatives being evaluated include converting the debt to
4 another interest rate mode (variable, term, or fixed to maturity) or refinancing
5 the debt. The size of the three series makes conversion of the full amount to
6 a variable rate unlikely, since it would require doubling the committed credit
7 at CHGE to support the corresponding liquidity needs. Additionally, such
8 credit support for the variable rate alternative is not currently cost-effective.
9 Fixing all or most of the debt to maturity, either within the terms of the
10 existing indenture or through a refinancing, is another potential outcome.

11
12 Given these uncertainties and precarious conditions in financial markets,
13 deferral treatment for long-term debt expense was included in our most
14 recent Rate Order. Since these conditions persist today, it is advisable to
15 continue that provision over the applicable forecast period in this case.

16
17 CAPITALIZATION

18 Q. Please describe the exhibits showing CHGE's capitalization.

19 A. Exhibit___(SAR-5) consists of three schedules showing the Company's
20 actual and projected capitalization and capitalization ratios. Schedule A
21 shows projected capitalization at December 31, for the period 2009 through
22 2013. Schedule B shows actual capitalization at December 31, for the period

STACEY A. RENNER

1 2004 through 2008. Schedule C shows the capital structure of CH Energy
2 Group, Inc., at June 30, 2009, split between CHGE and CH Energy Group's
3 non-utility capital.

4
5 Q. Please discuss the exhibits in more detail.

6 A. Schedules A and B of Exhibit____(SAR-5) show historical and projected
7 capitalization and capitalization ratios based on the Company's financing
8 program. For the five-year period ended December 31, 2008, CHGE's total
9 capitalization grew by 33 percent, from \$621 million to \$828 million. This
10 growth was driven primarily by financing required for expenditures on the
11 Company's construction program. That trend is projected to continue, with
12 total capitalization reaching nearly \$1.1 billion in 2013. CHGE will require
13 significant additional financing over the forecast period.

14
15 Q. What is the basis for using a 48 percent equity ratio in the projections of cost
16 of capital?

17 A. The basis for a 48 percent equity ratio is twofold: it reflects (1) CHGE's
18 ongoing efforts to improve its financial ratios and credit profile as well as (2)
19 CHGE's current capitalization, as shown on Schedule C of Exhibit____(SAR-
20 5). Since CHGE's current delivery rates are based on 47% equity,
21 recognition of 48% equity in future delivery rates would provide a return on
22 the full amount of equity already included in CHGE's capitalization and

STACEY A. RENNER

1 improve CHGE's financial position. The sustainability of improved financial
2 ratios is an important requirement identified by the rating agencies and I will
3 discuss this issue further later in my testimony.

4

5 FINANCIAL INTEGRITY

6 Q. Please discuss CHGE's commitment to financial integrity.

7 A. CHGE has a longstanding commitment to maintaining a sound, creditworthy
8 financial structure. This commitment is not ideological, but is based on
9 practical considerations and balances two responsibilities the Company has
10 relative to its customers:

11 1. The Company has an obligation to serve the customers in its franchise
12 area. This obligation continues uninterrupted through time and
13 encompasses periods of economic growth and stagnation as well as
14 credit markets that range from supportive to restrictive. As a permanent
15 institution with a critical role in the economy, the Company must be able
16 to raise capital to meet its service obligations at all times and under all
17 conditions. For this reason, a strong balance sheet and strong bond
18 rating are important over the long term.

19 2. The Company must provide reasonably priced service, and with capital-
20 intensive operations, must pay close attention to the cost of capital since
21 it is a key component of the Company's cost structure. Studies done in
22 the Generic Finance Case, Case 91-M-0509, indicated that an investment

STACEY A. RENNER

1 grade bond rating in the range of BBB to A minimized the long-term cost
2 of capital. At bond ratings above “A”, an equity heavy structure failed to
3 take appropriate advantage of the tax deductibility of interest on debt and
4 the weighted average cost of capital began to rise. At bond ratings below
5 “BBB”, the risk of financial distress drove the cost of both debt and equity
6 rapidly upward. The Company continues to balance these two
7 considerations by targeting a solid “A” rating, which minimizes long-term
8 capital costs, provides some added assurance of being able to raise
9 needed capital in all situations, and acts as a cushion against unforeseen
10 events.

11

12 Q. Has CHGE met its financial integrity target?

13 A. Yes. As shown in Exhibit____(SAR-6), CHGE has had a senior unsecured
14 debt rating of “A” or equivalent for more than ten years. This achievement
15 and its stability over the long-term have been key factors in maintaining a low
16 cost of long-term debt through widely varying economic and financial market
17 conditions. I believe CHGE’s approach has served its constituencies
18 particularly well during the recent financial crisis and the resulting economic
19 upheaval.

20

21 Q. Do you believe a solid “A” target credit rating remains appropriate going
22 forward?

STACEY A. RENNER

1 A. Yes. While much has changed in our industry in recent years and additional
2 change is likely in the future, the two fundamental considerations discussed
3 previously have not changed: the Company has an obligation to serve its
4 customers and to provide service at a reasonable price. Maintaining a solid
5 “A” credit rating is an important factor in the Company’s access to low cost
6 capital. This is particularly important in troubled financial markets and
7 economic conditions, like those we have been experiencing the past two
8 years. In such times, aversion to risk increases and the range of credit
9 spreads widens accordingly, placing a larger relative premium on lower-rated
10 credit. As I showed earlier in Exhibit___(SAR-3), this effect has been
11 particularly large since September 2008. Maintaining an “A” rating provides
12 the most benefit during these conditions. When higher-rated debt is issued
13 with maturities extending out several decades, customers benefit from a
14 lower cost of capital over the long-term.

15
16 Q. Please discuss the risk factors CHGE faces in maintaining its financial
17 integrity.

18 A. As I discussed above and demonstrated in Exhibit___(SAR-1), CHGE’s cash
19 flow from internal sources is insufficient to fund both its construction
20 expenditures and other cash requirements. CHGE projects continued capital
21 investment at levels exceeding two times the funding provided by
22 depreciation. The Company’s financing requirements are driven by the

STACEY A. RENNER

1 capital-intensive nature of the electric and natural gas utility businesses and
2 by the long depreciable lives of utility plant in service. Infrastructure
3 investments made today generally have a greater average cost than the
4 system average. The consequence is a ratio of capital investment to cash
5 flow from internal sources that results in perennially weak net cash flow.

6

7 Additionally, the Company faces the challenges related to its \$116 million of
8 auction rate bonds. Despite failing auctions, effective interest expense on
9 those bonds is currently very low, which benefits CHGE's current financial
10 ratios. As the effective interest rate on that debt increases in the future, a
11 near certainty except for perhaps the timing of such an increase, CHGE will
12 lose that benefit and its cost of capital and financial ratios will change
13 accordingly.

14

15 These factors are determinants in CHGE's credit profile and, ultimately, its
16 cost of future financings. CHGE's credit ratings are based on qualitative and
17 quantitative assessments of the Company's business and regulatory
18 environments and its past and projected financial profile and performance.
19 Generally, the rating agencies have determined that CHGE's quantitative
20 credit measurements are weak for an "A" rating. In fact, while confirming the
21 rating on CHGE's senior unsecured debt at A2 in September 2008, Moody's
22 assigned a negative outlook to the rating. The rating agencies' expectation

STACEY A. RENNER

1 that CHGE's credit measurements will improve based on sustained and
2 supportive treatment by its regulatory agencies and improved financial ratios
3 are important factors in maintaining the ratings and outlook.

4

5 Q. Please discuss the outlook for CHGE's senior unsecured debt rating.

6 A. The most recent ratings opinions from both Standard & Poor's (A rating,
7 stable outlook) and Moody's (A2 rating, negative outlook) have identified
8 expectations of improving financial ratios to support the current rating.

9 CHGE's focus on maintaining an excellent liquidity position and its efforts to
10 improve its capital structure and financial ratios are intended to address
11 those concerns. Recent rate increases are expected to increase revenue
12 and improve earnings, which will be an important factor in the rating analysis.

13 I also note that CHGE's historically weak financial ratios for its debt rating
14 reflect the benefit of its parent company's high liquidity position and strong
15 consolidated capital structure. For most of the period 2004 through 2008,
16 CH Energy Group had large cash reserves and no external debt financing.
17 While some of the rating agencies' credit opinions have cited the parent's
18 non-regulated growth strategy as a rating concern, the parent's track record
19 has shown only modest non-utility investments that have caused little change
20 in the overall profile of the consolidated company. In fact, CH Energy
21 Group's capital structure has been steadily shifting toward a heavier weight
22 in CHGE. In 2004, CHGE represented approximately 57 percent of CH

STACEY A. RENNER

1 Energy Group's common equity. At June 30, 2009, CHGE had grown to
2 approximately 78 percent of CH Energy Group's common equity as a result
3 of financing significant investment in the utility.

4

5 Q. How does the Company's proposed capital structure improve its financial
6 position and ratings outlook?

7 A. As CH Energy Group's business profile and financial measurements continue
8 to be increasingly weighted toward CHGE, the dependency on CHGE's
9 financial measurements in the ratings analysis increases. While there are
10 many factors in each rating agency's evaluation that, in the aggregate,
11 determine a company's debt rating, several key financial ratios weigh heavily
12 in the quantitative analysis of financial risk: (1) the ratio of total debt to total
13 capitalization, (2) cash coverage of interest payments, and (3) cash flow
14 relative to total debt. The recent improvement in CHGE's equity ratio is
15 expected to directly improve its ratio of total debt to total capitalization. That
16 change also improves the other two key ratios---the cash flow ratios. Cash
17 coverage of interest payments and cash flow relative to outstanding debt
18 both improve through lower total debt and interest expense on that debt.
19 Combined with the incremental cash flow from improved returns expected
20 from the July 1, 2009 rate increases, CHGE could demonstrate progress
21 towards achieving the sustainable quantitative improvements sought by the
22 rating agencies and more closely align its financial integrity with the

STACEY A. RENNER

1 objectives I outlined previously.

2

3 In addition, the rating agencies' perceptions of the degree of regulatory
4 support for CHGE's financial integrity weigh heavily in their qualitative
5 analysis. The Commission's approval of the Company's efforts would likely
6 be viewed as a signal of its ongoing support for the Company's bond ratings.

7

8 Q. Does this conclude your prepared direct testimony?

9 A. Yes.