

DIRECT TESTIMONY  
OF  
CHRISTOPHER D. THOMAS

1 Q. Please state your name and business address.

2 A. My name is Christopher D. Thomas and my business address is 284 South  
3 Avenue, Poughkeepsie, New York 12601.

4

5 Q. By whom are you employed and in what capacity?

6 A. I am employed by Central Hudson Gas & Electric Corporation (“Central  
7 Hudson” or the “Company”) as a Tax Specialist in the Tax Department.

8

9 Q. Please summarize your educational background and experience.

10 A. I earned a Bachelor of Science Degree in Accounting from Marist College in  
11 1983. From 1984 to 1987 I worked as a cost accountant at several  
12 manufacturing companies. I obtained my Certificate of Management  
13 Accounting in 1995. In 1987 I began employment at Central Hudson Gas &  
14 Electric Corporation. I have worked in Financial Reporting, Customer  
15 Accounting, Budgets, and in 1996 I was transferred to the Tax Department.

16

17 Q. What are your responsibilities as Tax Specialist?

18 A. My responsibilities include preparation of the federal and state tax returns,  
19 preparation of the monthly tax accruals, participation in Internal Revenue  
20 Service (“IRS”) and State tax audits, keeping informed of tax regulations and  
21 interpretations and performing tax research.

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2 Q. What is the scope of your testimony in this proceeding?

3 A. My testimony in this proceeding covers the computation and allocation of  
4 Central Hudson's federal and state income tax for the historical and forecast  
5 periods.

6

7 Q. Was Exhibit\_\_\_(CDT-1), entitled "Calculation of Federal and State  
8 Income Taxes" prepared by you or under your direction?

9 A. Yes, it was.

10

11 Q. What does this exhibit show?

12 A. This exhibit shows the computation and allocation of the Company's federal  
13 and state income tax for the historical period of the twelve months ended  
14 March 31, 2009, projections for the calendar years 2009 and 2010 and the  
15 rate year for the twelve months ending June 30, 2011.

16

17 Q. Please explain the nature of the items included under the heading "Additional  
18 Income and Unallowable Deductions" and "Additional Deduction and  
19 Nontaxable Income" summarized on Sheet 1 of each of the Schedules in  
20 Exhibit\_\_\_(CDT-1).

21 A. The items included here are adjustments to book income in order to arrive at  
22 taxable income. They are referred to as Schedule M-1 adjustments. The

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1 adjustments to book income are due to (1) timing differences, which relate to  
2 items recorded as income or expense on the books of the Company in one  
3 period and included in the computation of taxable income in a different period  
4 or (2) permanent differences, which relate to items which are recorded for  
5 either book or tax purposes but not for both such purposes. An example of a  
6 timing difference is the Mortgage Bond Redemption Premium, which is  
7 deducted from taxable income when incurred but deducted from book  
8 income over the life of the new bond. An example of a permanent difference  
9 is the business meals and entertainment expense, which is fully deductible  
10 for book purposes but only 50 percent deductible for tax purposes. The 50  
11 percent not allowed for tax purposes is a permanent difference.

12

13 Q. Was the calculation of federal and state income tax for the projected periods  
14 calculated in the same manner as the historical period?

15 A. Yes, except for Avoided Cost Capitalized Interest. For the projected periods,  
16 the Company is following the treatment for this item as determined by the  
17 Commission in Cases 08-E-0887 and 08-G-0888.

18

19 Q. Have there been any changes in federal tax law that have impacted federal  
20 income taxes since Case 08-E-0887, the Company's last electric rate case or  
21 Case 08-G-0888, the Company's last gas rate case?

22 A. Yes. The "American Recovery and Reinvestment Act of 2009" extends to

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1 2009 and 2010, the one time acceleration of tax depreciation (“bonus  
2 depreciation”) for specific qualifying property provided for in the “Economic  
3 Stimulus Act of 2008”.

4

5 Q. How were these items treated in the determination of tax expense?

6 A. Consistent with established accounting methodology, these accelerated  
7 depreciation benefits are deferred and amortized over the estimated book  
8 lives of the underlying assets.

9

10 Q. Have there been any changes in state tax law that have impacted state  
11 income taxes since Case 08-E-0887, the Company’s last electric rate case or  
12 Case 08-G-0888, the Company’s last gas rate case?

13 A. No.

14

15 Q. Briefly describe how New York State income tax is calculated.

16 A. The state tax is calculated using four different methods: the net income  
17 method; the minimum taxable income method; the fixed dollar minimum  
18 method; and the capital base tax method. The Company’s tax liability is the  
19 highest of the four taxes is paid. The state income taxes included in  
20 Exhibit\_\_(CDT-1) are based on the net income method.

21 The net income method starts with federal taxable income and is adjusted to  
22 exclude state income taxes. New York State tax law provides for

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1 adjustments for qualified public utilities for depreciation on transition property.

2 Transition property is property placed in service prior to January 1, 2000.

3 With respect to such property, a deduction is allowed for the depreciation

4 expense shown on the books and records of the taxpayer rather than the

5 federal depreciation deduction. Additionally, the amortization of certain

6 regulatory assets, deferred prior to January 1, 2000, currently deducted on

7 the books can be deducted from income to arrive at state taxable income.

8 These adjustments have been reflected in the calculation of state income

9 taxes in Exhibit\_\_ (CDT-1).

10 The minimum taxable income method requires the addition of tax preference

11 items, mainly replacing accelerated depreciation with a slower depreciation

12 method to arrive at taxable income. The fixed dollar minimum is a sliding-

13 scale minimum tax based on a corporation's New York receipts and is

14 capped at \$5,000. The capital base tax is based on a percentage of average

15 capital and is capped at a maximum of \$10 million.

16

17 Q. Does this conclude your pre-filed direct testimony?

18 A. Yes. It does.