

Central Hudson Gas & Electric Corporation
Cases 09-E-0588 and 09_G-0589

Exhibit____(SAR-1R)

Staff Response to Interrogatory/Data Request No. CH-88

and

Staff Response to Interrogatory/Data Request No. CH-18

Cases 09-E-0588 & 09-G-0589- Central Hudson Rates

Staff Response to Interrogatory/Document Request

Request No.: CH-88
Date of Request: 12/02/09
Reply Date: 12/16/09
Responding Witness: Rate of Return Panel
Subject: Bondsonline.com

Q. This question is a follow-up to the Staff Rate of Return Panel response to CH-18. On page 13, lines 22-23, of the Staff Rate of Return Panel testimony reference is made to the Panel's reliance on "data obtained from Bondsonline.com...." On page 13, line 24 through page 14, line 6, the Panel describes the website as indicating a 72 basis point credit spread for 10-year maturities and a 97 basis point credit spread for 30-year maturities. According to page 13, lines 21-22, the Panel employed the 72 and 97 basis point values in the "first method [it] used to estimate the utility spreads." With reference to the Panel's "first method," please state:

a) Does the Panel have a subscription to BondsOnline?

A. No.

b) Did the Panel rely upon a subscription to develop the 72 and 97 basis point values it referenced?

A. No.

i. If so, please provide the subscription resource relied upon by the Panel.

A.. n/a

ii. If not, did the Panel rely the free portion of the BondsOnLine website as the source of the 72 and 97 basis point credit spreads?

A.. Yes. The Panel contacted Bondsonline both prior to and after using the utility spread data on its website as to the currency and accuracy of its data. However, due to miscommunication, customer support was not aware that the Panel's questions pertained to the free site. The Panel is now aware and acknowledges that the data on the free portion of the Bondsonline site are promotional and should not be used in a methodology to calculate predicted spreads.

Cases 09-E-0588 & 09-G-0589- Central Hudson Rates

Staff Response to Interrogatory/Document Request

The Panel's methodology had called for using the Bondsonline data as a source of up-to-date spreads for utility debt by credit rating. Had the Panel been aware that the Bondsonline data was not accurate, we would have instead relied upon Mergent Bond Record data to calculate the spreads. As can be seen in Exhibit RRP-4, page 2 of 2, in September 2009 (the latest available data when we were calculating our cost rates), the average A-rated debt had a yield of 5.33%. This was 153 basis points above the average 10- and 30-year Treasury yield in September 2009. Adding this result to the other two results used in the Panel's spread estimate methodology (157.5 basis points and 152.5 basis points) would result in a spread estimate of 154.3 basis points. Using only the other two methods, and not using Bondsonline or Mergent data, would result in a spread estimate of 155 basis points.

The Panel revises its utility spread estimate from 131.5 basis points to 155 basis points. This will result in future Central Hudson debt issuances having a rate of 5.34% (instead of 5.10%). This will change the Panel's debt cost estimate for the rate year from 5.05% to 5.08%. And, this will result in the Company's after-tax rate of return changing from 7.21% to 7.23%, while its pre-tax rate of return will change from 10.31% to 10.32%. See Attachment CH-88-b-ii.

- c) Please confirm that from the perspective of both the issuer of debt and ratepayers, lower credit spreads over treasury rates are more favorable (e.g., a 71 basis point credit spread is better than a 72 basis point credit spread).

- A. The Panel considers the perspective of the issuer to be neutral in this proceeding, since the variance between actual interest costs for any new issues and for any existing auction rate debt and the amounts set in rates are subject to deferral. The Panel agrees that from the perspective of ratepayers, lower credit spreads over Treasury rates are preferable.

Cases 09-E-0588 & 09-G-0589- Central Hudson Rates

Staff Response to Interrogatory/Document Request

Request No.: CH-88 (cont.)
Date of Request: 12/02/09
Reply Date: 12/14/09
Responding Witness: Rate of Return Panel
Subject: Bondsonline.com

d) Of all corporate debt issued by U. S. electric utilities in 2009:

i. How much was issued at a credit spread of 72 basis points or better for a ten-year maturity?

Ans. See the Panel's response to CH IR-18.

ii. How much was issued at a credit spread of or 97 basis points or better for a 30-year maturity?

Ans. See the Panel's response to CH IR-18.

iii. For each issuance identified in the above responses, please indicate which issuer, the date issued, the credit spread and coupon, the maturity date, and the bond ratings.

Ans. See the Panel's response to CH IR-18.

Cases 09-E-0588 & 09-G-0589- Central Hudson Rates

Staff Response to Interrogatory/Document Request

Request No.: CH-88 (cont.)
Date of Request: 12/02/09
Reply Date: 12/14/09
Responding Witness: Rate of Return Panel
Subject: Bondsonline.com

- e) The cover sheet for Exhibit__RRP-17, Document 10 of 14, reads “Reuters, BondsOnline, “Reuters Corporate Spreads for Utilities,” Dated: November 2, 2009.” The footer on the two subsequent pages (page 43-44 in the electronic pdf file for the exhibit) reads “11/3/2009.”
- i. Please confirm that the two pages showing the data are prints of a web page from BondsOnline.

Ans. So confirmed.

- ii. Is it the understanding of the Panel that the data it presented in Exhibit__(RRP-17 are spreads for either 11/2 or 11/3/2009?

Ans. See Panel’s response to 88-b-ii.

- iii. If so, please identify which date the data on those two pages represents.

Ans. n/a

- iv. If not, please explain why those data were presented.

Ans. n/a

Cases 09-E-0588 & 09-G-0589- Central Hudson Rates

Staff Response to Interrogatory/Document Request

Request No.: CH-88 (cont.)
Date of Request: 12/02/09
Reply Date: 12/14/09
Responding Witness: Rate of Return Panel
Subject: Bondsonline.com

f) With reference to the Panel's "first method:"

- i. Please confirm that the method entails adding the average of 72 and 97 basis points (84.5) to an average yield over a 3-month period for treasury bonds.

Ans. See Panel's response to 88-b-ii.

- ii. Please confirm that the 84.5 basis point average is described in Exhibit ___ (RRP-17 and the Panel's testimony as representing a spread for one day.

Ans. See Panel's response to 88-b-ii.

- iii. Please explain the basis for believing the single day's calculated average would be representative of Central Hudson's credit spreads during the rate year for this methodology?

Ans. For the purpose of forecasting future rates, the Panel's use of a single day's calculated average is reflective of the fact that current data is the best indicator of the future.

g) In your response to CH-18 c), you state "The Panel's average treasury rate is based on a 3-month average." Please explain why that response differs from the methodology described in the Panel's testimony on page 13, lines 13-16, ("estimate uses the average 10 and 30-year Treasury rates for October 2009") and its Exhibit ___ (RRP-12).

Ans. The Panel's response to CH-18 c) should have stated "The Panel's average Treasury rate is based on the average 10- and 30-year Treasury rates for October 2009".

Central Hudson Gas & Electric Corporation
Cases 09-E-0588 and 09-G-0589
Cost of Capital for the RYE June 30, 2011

	Amount Outstanding (\$000)	Percentage %	Cost Rate %	Weighted Cost %	Pre-tax Weighted Cost %
Long Term Debt	\$482,898	49.02%	5.08% ¹	2.49%	2.49%
Customer Deposits	8,332 ²	0.85%	2.45% ³	0.02%	0.02%
Preferred Stock	21,027	2.13%	5.05% ¹	0.11%	0.18%
Common Equity	472,852	48.00% ⁴	9.60% ⁵	4.61%	7.63%
Total Capital	\$985,109	100.00%		7.23%	10.32%

Pretax interest coverage = 4.14 x

- ¹ Long term debt rate per page 2; preferred stock cost rates per Company.
- ² Customer deposits balance per SEC report.
- ³ Customer deposits rate effective as of January 1, 2011.
- ⁴ Equity ratio proposed by and adopted by the RRP
- ⁵ Staff recommended return on equity
- ⁶ Combined 35% federal income tax rate and 7.1% state income tax rate = 0.39615

Central Hudson Gas & Electric Corporation
Long Term Debt - Average Capitalization and Cost
Cases 09-E-0588 and 09-G-0589
for the RYE June 30, 2011 *
\$(000)

	(a)	(b)	(c)	(d)	(e)	(f)	(g)
	Maturity Date	Interest Rate %	Principal Amount Outstanding 9/30/2009	Charges During Rate Year	Months Outstanding	Average Amount Outstanding During Rate Year	Interest Expense During Rate Year
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
Long Term Debt							
Outstanding Issues							
1999 NYSERDA Series A Fixed	8/1/2027	5.45%	33,400	0	12	33,400	1,820
1999 NYSERDA Series B Variable	7/1/2034	2.08%	33,700	0	12	33,700	701
1999 NYSERDA Series C Variable	8/1/2028	2.08%	41,150	0	12	41,150	856
1999 NYSERDA Series D Variable	8/1/2028	2.08%	41,000	0	12	41,000	853
1998 NYSERDA Series A Fixed	12/1/2028	6.50%	16,700	0	12	16,700	1,086
2003 MTN Series D @ 4.33%	9/23/2010	4.33%	24,000	(24,000)	3	6,000	260
2002 MTN Series D @ 6.64%	3/28/2012	6.64%	36,000	0	12	36,000	2,390
2004 MTN Series D @ 4.73%	2/27/2014	4.73%	7,000	0	12	7,000	331
2004 MTN Series E @ 4.80%	11/5/2014	4.80%	7,000	0	12	7,000	336
2004 MTN Series E @ 5.05%	11/4/2019	5.05%	27,000	0	12	27,000	1,364
2005 MTN Series E @ 5.84%	12/5/2035	5.84%	24,000	0	12	24,000	1,402
2006 MTN Series E @ 5.76%	11/17/2031	5.76%	27,000	0	12	27,000	1,555
2007 MTN Series F @ 5.80%	3/23/2037	5.80%	33,000	0	12	33,000	1,915
2007 MTN Series F @ 6.03%	9/19/2017	6.03%	33,000	0	12	33,000	1,989
2008 MTN Series F @ 6.85%	11/17/2013	6.85%	30,000	0	12	30,000	2,055
2009 New MTN Issuance	10/1/2029	5.80%	24,000	0	12	24,000	1,392
2010 New MTN Issuance	1/1/2030	5.34%	19,700	0	12	19,700	1,052
2010 New MTN Issuance	9/1/2030	5.34%	0	28,500	10	23,750	1,268
2011 New MTN Issuance	4/1/2031	5.34%	0	16,600	3	4,150	222
Average Long Term Debt Outstanding						\$467,550	
Interest Charges for the Rate Year							\$22,846
Plus: Amortization of Debt Discount and Expense							898
Less: Amortization of Premium on Debt							3
Total Cost of Debt:							\$23,747
Amount							<u>5.08%</u>
Percentage of Average LTD Outstanding							

Cases 09-E-0588 & 09-G-0589- Central Hudson Rates

Staff Response to Interrogatory/Document Request

Request No.: CH-18
Date of Request: 11/18/2009
Reply Date: 11/30/2009
Responding Witness: Rate of Return Panel
Subject: Rate of Return Panel's Determination of Credit Spread to estimate the Cost of Debt

-
- Q. On page 14, the Staff Rate of Return Panel indicates the use of a 72 basis point credit spread for 10-year maturities and a 97 basis point credit spread for 30-year maturities.
- a. What is the basis for your selection of BondsOnline as a data source for those estimates?
 - b. Of all corporate debt issued by U. S. electric utilities in 2009, how much was issued at a credit spread of 72 basis points or better for a ten-year maturity or 97 basis points or better for a 30-year maturity? Please indicate which issuer, the date issued, the credit spread and coupon, the maturity date, and the bond ratings.
 - c. Why did you select a single day's data as representative of Central Hudson's credit spreads during the rate year, rather than a multi-month average or some other range?
- A.
- a) The Panel selected BondsOnline because the data is provided by "Reuters" which is considered to be a reliable resource. The Panel notes that the Reuters' data is one of three utility benchmark spread estimates (See RRP-15) which Staff has averaged together (See RRP-16) for a consensus estimate on the spread over treasury. Each benchmark spread estimate contributes its own unique perspective to Staff's cost of debt measurement, they include:
 - i. Market-Based¹
 - ii. 3rd Party Unbiased Analyst Coverage²
 - iii. Location-Based³
 - b) For A-rated utility debt issuances, through the 9 months ending September 2009, \$6.85 B was issued at a credit spread of 72 basis points or better for a ten-year maturity and \$2.915 B was issued at a credit spread of 97 basis points or better for a thirty-year maturity. The respective issuer, date issued, the credit spread and coupon, the maturity date, and the bond ratings are shown in the Company's response to Staff IR DPS-No. 233.

¹ The average yield (or "Benchmark") spread of the most recent quarter for all debt issued by A-rated electric utilities (Mr. Renner calculates in IR233).

² Reuters average yield (or "Benchmark") spread for all debt issued by A3/A rated utilities using the rate from either a 10yr & 30yr Treasury Security as a "Benchmark" for the given debt issue to compare performance against (from BondsOnline.com)

³ The average yield (or "Benchmark") spread of the most recent quarter for all debt issued by A-rated electric utilities that are directly comparable to the subject company (Not to imply New York State by its name, but more so under the context of "Jurisdictions" and/or State Laws).

Cases 09-E-0588 & 09-G-0589- Central Hudson Rates

Staff Response to Interrogatory/Document Request

- c) The Panel's average Treasury rate is based on a 3-month average and our consensus estimate on the spread over Treasuries (See Exhibit__ (RRP-16)), which is based on three estimates that encompass more than a single day's data.

Central Hudson Gas & Electric Corporation
Cases 09-E-0588 and 09_G-0589

Exhibit____(SAR-2R)

BondsOnline

Reuters Corporate Spreads for Utilities
September 2009 Average



From the Desk of Adam Prc
Tuesday, December 1 2009 09

Bond\$\$ Available Balance



[Account Home](#) | [BondsOnline](#) | [Request Data](#) | [Portfolio](#) | [Review Past Searches](#) | [Buy Bond\\$\\$](#) | [My Account](#) | [Help](#) | [Log O](#)

Beat the Street: Merrill Lynch pays \$2000 – I pay \$10? How smart am I? Ratecurve.co

REQUEST DATA

Estimated Cost: \$199.00
Actual Cost: \$199.00

REUTERS CORPORATE BOND SPREAD TABLES

**Reuters Corporate Spreads for Utilities
September 2009 Average**

Rating	1 yr	2 yr	3 yr	5 yr	7 yr	10 yr	30 yr
Aaa/AAA	11	16	36	63	66	76	86
Aa1/AA+	30	41	56	68	116	126	136
Aa2/AA	40	46	66	78	126	136	146
Aa3/AA-	40	51	71	88	136	146	156
A1/A+	45	56	81	108	146	156	166
A2/A	55	66	91	118	156	166	176
A3/A-	75	76	116	138	166	176	186
Baa1/BBB+	234	101	131	168	176	196	236
Baa2/BBB	235	126	141	188	196	221	256
Baa3/BBB-	279	136	151	193	211	231	271
Ba1/BB+	200	197	224	198	210	241	374
Ba2/BB	254	254	279	372	379	494	574
Ba3/BB-	207	264	274	304	347	479	674
B1/B+	779	274	304	379	497	579	774
B2/B	554	804	954	1,079	1,197	1,279	1,379
B3/B-	949	1,034	1,154	1,254	1,397	1,479	1,579
Caa/CCC+	1,054	1,154	1,254	1,354	1,497	1,579	1,679
US Treasury Yield	0.40	0.96	1.48	2.37	3.02	3.40	4.19

Spread values represent basis points (bps) over a US Treasury security of the same maturity, or the closest matching maturity.

Methodology:

Reuters Pricing Service (RPS) has eight experienced evaluators responsible for pricing approximately 20,000 investment grade corporate bonds are segregated into four industry sectors; industrial, financial, transports and utilities. RPS prices corporate bonds above an underlying treasury issue. The evaluators obtain the spreads from brokers and traders at various firms. A generic spread sector is created using input from street contacts and the evaluator's expertise. A matrix is then developed based on sector, rating, maturity.

US Treasury Yields for this date are available in the [BondsOnline Chart Center](#)



Central Hudson Gas & Electric Corporation
Cases 09-E-0588 and 09_G-0589

Exhibit____(SAR-3R)

Excerpt from
Staff Brief Opposing Exceptions
May 15, 2009

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION



CASE 08-E-0887 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Central Hudson Gas & Electric Corporation for Electric Service.

CASE 08-G-0888 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Central Hudson Gas & Electric Corporation for Gas Service.

STAFF BRIEF OPPOSING EXCEPTIONS

John L. Favreau
Assistant Counsel
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350
(518) 474-1573

Dated: May 15, 2009
Albany, New York

Cost of Capital Update

Staff notes that the Company's capitalization ratios are based on its initial filing and will be updated consistent with the Commission's determination. With respect to the embedded cost of debt, Staff finds: 1) the updated costs of the auction rate debt (Series C and D) are transposed in contrast to the accompanying back-up work paper and 2) the issuance date for the new 20-year, medium term note should be changed from January 1, 2009 to October 2009, consistent with the expected date of issuance. Further, the estimated interest rate on the new 20-year, medium term note should reflect the most recent 3-month average of public utility bond yields for debt rated "A2", as per the Mergent Bond Record (Mergent), as recommended by Staff, plus 1%. Following the Briefs on Exception, Staff agreed to the addition of 1% because Central Hudson's bonds incur new issue and liquidity premiums (currently estimated to total 100 basis points) relative to the bond issuances of larger companies that issue Index Eligible Bonds, the basis of the bond yield averages reported in the Mergent Bond Record.

Appendix D: Updated Customer, Sales and Revenues

Staff agreed to sales forecast updates being produced by applying revised values of forecast drivers to existing on-the-record equations. Central Hudson has re-estimated its forecasting equations through March 2009 and added/dropped variables. Staff recognizes the need for re-estimation due to changes in historical data, as existing on-the-record equations (based on original values of historical data) can not be reproduced. While this is inconsistent with a strict reading of the Commission's Statement of Policy on Test Periods in Major Rate

Central Hudson Gas & Electric Corporation
Cases 09-E-0588 and 09_G-0589

Exhibit____(SAR-4R)

Staff Response to Interrogatory/Data Request No. CH-16

Cases 09-E-0588 & 09-G-0589- Central Hudson Rates

Staff Response to Interrogatory/Document Request

Request No.: CH-16
Date of Request: 11/18/2009
Reply Date: 11/30/2009
Responding Witness: Rate of Return Panel
Subject: Forecasted Treasury Rates in the Determination of the Cost of Debt

-
- Q. Has the Staff Rate of Return Panel considered using forecasted treasury rates in the determination of cost of debt? Please explain why or why not.
- A.. No, Staff did not consider forecasted treasury rates in measuring Central Hudson Gas & Electric's cost of debt because we consider the current interest rates as the best indicator of future interest rates. See also response to CH-17.