

DIRECT TESTIMONY
OF
JAMES R. VALLEAU

1 Q. Please state your name and business address.

2 A. My name is James R. Valleau, and my business address is 284 South
3 Avenue, Poughkeepsie, New York 12601.

4

5 Q. In what capacity are you employed by Central Hudson?

6 A. I am employed as Manager of Energy Resources. Energy Resources
7 encompasses three functions, Fuel Resources, Power Procurement, and
8 Energy Accounting.

9 My responsibilities related to Fuels Resources include acquiring natural gas
10 supplies for retail distribution and generation, contracting for and scheduling
11 kerosene used to generate electricity at Combustion Turbines owned by
12 Central Hudson, and to acquire propane that is used at the Company's
13 propane-air facilities. The propane-air facilities are utilized during peak
14 demand periods to supplement the Company's natural gas supply. My
15 natural gas responsibilities also include contracting for pipeline capacity and
16 implementing hedging plans.

17 My responsibilities related to Power Procurement include supervising the
18 procuring of electric energy for retail distribution. This includes interfacing
19 with the New York Independent System Operator (NYISO), and
20 implementing hedging plans. I am also responsible for managing Central
21 Hudson's hydro generation, combustion turbine generation and independent
22 power producer generation within Central Hudson's franchise area. The total
23 generation capacity from the above resources is approximately 80

JAMES R. VALLEAU

1 megawatts.

2 My responsibilities pertaining to Energy Accounting include the supervision of
3 activities focusing on the collection, evaluation, and verification of electric
4 supply and natural gas supply systems costs and usage volumes needed for
5 various internal and external reporting requirements. This includes
6 reconciling all electric and natural gas invoices including the NYISO
7 settlement process.

8

9 Q. Have you appeared as a witness before this Commission?

10 A. Yes. I provided testimony in Cases 05-E-0934 and 05-G-0935.

11

12 Q. Please summarize your education and experience.

13 A. I earned a Bachelor of Science Degree in Business Finance from SUNY New
14 Paltz in 1993. I also received a Masters of Business Administration from the
15 University of Phoenix in 2007. My employment with Central Hudson began
16 in 1981 as a bargaining unit employee working as a power plant control
17 operator at the Roseton generating station. Three years later I was
18 transitioned to a management position working as an assistant system
19 operator in Central Hudson's electric and natural gas operations control
20 center. During the next 15 years I held various management positions in
21 system operations with increasing responsibility. These positions involved
22 generation unit commitment and dispatch, electric and natural gas
23 forecasting and procurement, and electric and natural gas distribution and

1 transmission operations and restoration. From 1999 to present, I have held
2 my current position as Manager of Energy Resources.

3

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

5 A. My testimony will address Central Hudson's natural gas and electricity
6 procurement practices.

7

8 Q. How does Central Hudson meet the natural gas supply requirements of its
9 customers?

10 A. Central Hudson meets its customers' natural gas requirements by utilizing
11 various contract assets and natural gas assets owned by the Company.
12 During the winter months, we purchase gas from suppliers located in the Gulf
13 of Mexico and transport it with long-haul pipeline firm transport contracts.
14 We also purchase natural gas from suppliers located in western Canada
15 (AECO-long haul) and Ontario Canada (Dawn-short haul). We transport our
16 Canadian gas on firm pipeline transport contracts with TransCanada to a
17 delivery point with Iroquois Pipeline at Waddington. These Gulf and
18 Canadian supplies form a base of flowing supplies that are supplemented
19 with storage gas, peaking gas contracts and propane injections. Central
20 Hudson utilizes a combination of long term (12 months or longer) supply
21 contracts, and short-term (5 month winter season) contracts to meet
22 customers' demands for natural gas. The gas supplied by the above
23 contracts is delivered using firm transportation (FT) to Central Hudson's four

JAMES R. VALLEAU

1 natural gas gate stations (Cedar Hill, Pleasant Valley, Mahopac, and Tuxedo)
2 by six interstate gas pipelines and firm contracts with Trans Canada Pipeline.

3 In addition, Central Hudson has seven contracts for the storage (Market
4 Area) of natural gas. Storage gas is transported to Cedar Hill, Mahopac, and
5 Tuxedo by four of the interstate pipelines providing Firm Storage Transport
6 (FST) service. The FT, storage and FST contracts are long-term contracts.
7 Central Hudson also utilizes peaking contracts and two on-system propane
8 air plants that can be used to meet firm peak day requirements during very
9 high natural gas demand days.

10

11 Q. What is Central Hudson's total system peak day capacity?

12 A. The table below shows, by component, Central Hudson's total peak day
13 capacity in Dth/day (2007/2008 heating season). We are adding 5,000
14 DCTH of Millennium FT capacity beginning November 1, 2008.

Flowing Supplies	30,196
Storage Withdrawals	40,939
Winter Peaking Service	30,000
Algonquin OBA	5,000
LPG	8,000
Marketer Supplies	13,148
Spot Purchases on Firm Transport	<u>12,091</u>
Total Firm	139,374
Additional Marketer Provided Supplies	<u>7,000</u>
Total CHG&E & Marketer Supplies	<u>146,374</u>

15

16 Q. What is Central Hudson's forecast of peak day growth?

17 A. Central Hudson has projected a growth rate in peak day requirements of

1 1.4% per year.

2 Q. For how long will the Company's peak day capacity cover its peak day
3 requirements?

4 A. Assuming an annual 1.4% growth rate in peak day requirements, Central
5 Hudson has adequate supplies to meet peak day requirements through the
6 2008-09 heating season. Future capacity requirements (including those for
7 the 2009-2010 heating season) will be determined during 2009 by actual load
8 growth and retail migration of customers to third party marketers.

9

10 Q. During off-peak periods (April-November) does Central Hudson have excess
11 up-stream capacity?

12 A. Yes.

13

14 Q. What does Central Hudson do with the excess up-stream capacity during off-
15 peak periods?

16 A. This capacity is utilized for off-system sales. In addition, to optimize the use
17 of upstream capacity during off-peak periods, Central Hudson utilizes FT and
18 FST pipeline capacity to refill storage, independently or through swaps,
19 exchanges, and storage optimization programs and promotes releasing
20 capacity to third parties.

21

22 Q. Does Central Hudson employ hedging or pricing strategies to reduce the risk
23 of market price fluctuations with respect to its winter gas supply contracts?

1 A. Yes. A hedging plan is developed by Fuels Resources and approved by
2 Central Hudson's Risk Committee. Fuels Resources implements the
3 approved hedge plan by entering into over-the-counter (OTC) fixed for
4 floating swap contracts with various counterparties prior to the upcoming
5 winter heating season. These contracts are purchased on a set schedule
6 during the summer months (June-October) to hedge the price of winter
7 natural gas supply contracts. The OTC contracts fix the price of a portion of
8 Central Hudson's winter supply gas for the upcoming heating season. We
9 also insure that Central Hudson's natural gas storage contract assets are full
10 by the first of November, prior to the start of the heating season. The natural
11 gas OTC swap contracts and our storage gas provide a hedge against winter
12 natural gas price volatility by fixing the price of about 65% of Central
13 Hudson's full service customer's winter natural gas usage. A reduction in
14 natural gas price volatility translates directly to less volatile energy bills for
15 our customers during the heating season.

16
17 Q. How does Central Hudson meet the electric supply requirements of its
18 customers?

19 A. Central Hudson meets the electric supply requirements of its customers by
20 utilizing Central Hudson's owned generation assets and contract purchases,
21 dispatching from the lowest cost available resources first, using an economic
22 dispatch plan. We also purchase energy in a combination of long-term
23 bilateral contracts (one year or longer), short-term bilateral contracts, and

JAMES R. VALLEAU

1 spot purchases made through the NYISO marketplace.

2

3 Q. What generating assets does Central Hudson own?

4 A. Central Hudson owns the Coxsackie and South Cairo Combustion Turbines,
5 and several small hydroelectric facilities (Sturgeon pool (15mw), Dashville
6 (5mw), High Falls (3mw). In addition, Central Hudson has existing contracts
7 with several small Independent Power Producers (totaling 11mw).

8

9 Q. Does Central Hudson employ hedging or pricing strategies to reduce the risk
10 of market price fluctuations with respect to electric supply contracts?

11 A. Yes. A hedging plan is developed by Power Marketing and approved by
12 Central Hudson's Risk Committee. Power Marketing implements the
13 approved hedge plan by purchasing both financial and physical future electric
14 products. These products include a mix of long-term (1 year or greater) and
15 short-term (less than 1 year) durations. The goal is to fix the price of about
16 65% of our full service customers' electric supply in an effort to reduce
17 electric price volatility.

18

19 Q. Please describe the nature of the transmission service provided to Central
20 Hudson by other companies.

21 A. When Central Hudson sold its interests in Nine Mile Point 2, the Company
22 retained the right to purchase 9% of the plant's output over a ten-year period
23 and the transmission contract with National Grid to wheel the power to

JAMES R. VALLEAU

1 Central Hudson zone-G. This supply has proven to be significantly beneficial
2 throughout its duration. Central Hudson is obligated to pay National Grid a
3 monthly fee for the duration of this wheeling contract.

4

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

6 A. Yes, it does.