

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 Senior Tax Analyst 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. Have you previously testified in a Commission proceeding?

18 A. No, I have not.

19

20 Q. What are your responsibilities as Senior Tax Analyst?

21 A. My responsibilities include preparation of the federal and state tax returns,

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1 preparation of the monthly tax accruals, participation in Internal Revenue
2 Service (“IRS”) and State tax audits, keeping informed of tax regulations and
3 interpretations and performing tax research.
4

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

6 A. My testimony in this proceeding covers the computation and allocation of
7 Central Hudson’s federal and state income tax for the historical and forecast
8 periods.
9

10 Q. Was Exhibit___(CDT-1), entitled “Calculation of Federal and State
11 Income Taxes” prepared by you or under your direction?

12 A. Yes, it was.
13

14 Q. What does this exhibit show?

15 A. This exhibit shows the computation and allocation of the Company’s federal
16 and state income tax for the historical period of the twelve months ended
17 March 31, 2008, projections for the calendar years 2008 and 2009 and the
18 rate year for the twelve months ending June 30, 2010.
19

20 Q. Please explain the nature of the items included under the heading “Additional
21 Income and Unallowable Deductions” and “Additional Deduction and

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1 Nontaxable Income” summarized on Sheet 1 of each of the Schedules in
2 Exhibit___(CDT-1).

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

16
17 Q. Have there been any changes in federal tax law that have impacted federal
18 income taxes since Case 05-E-0934, the Company’s last electric rate case or
19 Case 05-G-0935, the Company’s last gas rate case?

20 A. Yes. The “Economic Stimulus Act of 2008” provides for a one time
21 acceleration of tax depreciation (“bonus depreciation”) to be taken in 2008 or

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1 2009 for specific qualifying property.

2 Also, the “Energy Policy Act of 2005” allows for a shorter tax life for tax
3 depreciation for specific electric transmission and gas distribution property
4 placed in service after April 11, 2005. The shorter gas distribution tax life
5 does not apply to property placed in service after December 31, 2010.

6

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

8 A. Consistent with established accounting methodology to conform with IRS
9 normalization rules, these accelerated depreciation benefits are deferred and
10 amortized over the estimated book lives of the underlying assets.

11

12 Q. Have there been any changes in state tax law that have impacted state
13 income taxes since Case 05-E-0934, the Company’s last electric rate case or
14 Case 05-G-0935, the Company’s last gas rate case?

15 A. Yes. Effective January 1, 2007, the New York State corporate income tax
16 rate was reduced from 7.5% to 7.1%. All New York State income taxes in the
17 historical and forecast periods were calculated at the 7.1% rate. Deferred tax
18 balances were adjusted to the new rate net of the federal tax benefit, which is
19 4.615%.

20 Also, on June 9, 2008, the New York State Department of Taxation and
21 Finance issued TSB-M-08(8)C stating the federal tax depreciation benefit

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1 from the "Economic Stimulus Act of 2008" that I described above does not
2 apply when determining New York State taxable income.

3

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

5 A. The state tax is calculated using four different methods: the net income
6 method; the minimum taxable income method; the fixed dollar minimum
7 method; and the capital base tax method. The Company's tax liability is the
8 highest tax amount resulting from the four calculations. The state income
9 taxes included in Exhibit__(CDT-1) are based on the net income method.

10 Q. Please further describe the net income method.

11 The net income method starts with federal taxable income and is adjusted to
12 exclude state income taxes. New York State tax law provides for
13 adjustments for qualified public utilities for depreciation on transition property.
14 Transition property is property placed in service prior to January 1, 2000.
15 With respect to such property, a deduction is allowed for the depreciation
16 expense shown on the books and records of the taxpayer rather than the
17 federal depreciation deduction. Additionally, certain regulatory assets
18 currently deducted on the books and recorded prior to January 1, 2000 can
19 be deducted from income to arrive at state taxable income. These
20 adjustments have been reflected in the calculation of state income taxes in
21 Exhibit__(CDT-1).

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2 Q. Might the Company actually become obligated to pay higher state income
3 taxes because one of the three other methods produces a higher amount of
4 tax than the net income method?.

5 A. Yes, and the Company requests that it be authorized to defer the additional
6 tax in such event.

7

8 Q. Was the calculation of federal and state income tax for the rate year
9 calculated in the same manner as the historical period?

10 A. Yes.

11

12 Q. What treatment is the Company proposing for the deferred amounts related
13 to New York State income tax resulting from Commission policy established
14 in Case 00–M-1556?

15 A. The Company has included the deferred amounts net of deferred taxes in its
16 proposals for the disposition of deferred items as described in the testimony
17 of the Revenue Requirement Panel . It should be noted, however, that those
18 amounts remain subject to audit adjustments that might arise before or even
19 beyond the end of the rate year and the Company will defer the income
20 effects of any such adjustments for future disposition by the Commission.

21

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

2 A. Yes, it does.