Michael L. Mosher

From: "Michael L. Mosher" <MMosher@cenhud.com>
To: <michael_summa@dps.state.ny.us>
Sent: Monday, December 08, 2008 9:31 AM
Attach: Staff Pensions & OPEBs Q&A 12052008.pdf
Subject: Re: Pension & OPEB Information Request.

Mike -

Attached responses to your inquiry on pensions and OPEBs.

If you have any follow-up questions, let me know. Thanks

Mike

----- Original Message -----
From: michael_summa@dps.state.ny.us
To: mmosher@cenhud.com
Cc: john_stewart@dps.state.ny.us ; wayne_brindley@dps.state.ny.us ; charles_reubens@dps.state.ny.us
Sent: Tuesday, December 02, 2008 10:22 AM
Subject: Pension & OPEB Information Request.

Mike

Per our phone conversation this morning could you please provide responses to the following questions listed below related to Pensions & OPEBS. The sooner you can provide the information the better. Thank you for your cooperation and if you have any questions feel free to give me a call.

The current weakness in the financial markets and the economy may have had a material impact on the funded status of (your utility) pension and OPEB plans. Please provide the following information concerning this issue:

1.) Please describe the impact on your pension and OPEB plans resulting from the current weakness in the financial markets and economy. Provide any studies performed related to this issue.
2.) Provide the most current funded status of your pension and OPEB plans showing the market value of assets and obligation. Please compare to the funded status presented in your last annual financial statements and highlight/describe any major changes.
3.) Please cite any actions you are taking to minimize and contain losses and reduction in funded status resulting from these current developments.
4.) Please state if your company when complying with SFAS-158 will record any unrecognized decrease in funded status for pensions and OPEB's as an increase to a regulatory assets rather than a debit to other comprehensive income. Please quantify the amounts and their accounting.
5.) Based on the current reduced market value of pension plan assets and impact on funded status please state if your company will be required to make contributions above the amount allowed in rates in order to avoid mandatory benefit restrictions and meet minimum contribution requirements. Please state the consequences that would result if such contributions were not made such as plan restrictions and higher costs. Provide quantification of such contributions for current plan year and future years if available. Please state the amount of funding provided in rates and the amount you expect to fund above that level.
6.) Provide the current balance of your pension and OPEB internal reserve balances and provide the impact upon them from any additional funding required due to the current weakness in the financial markets and the economy. If you are allowed to accrue carrying charges on a debit balance of your internal reserve please so state.

7.) Please state the impact on your future pension and OPEB expense accruals resulting from the current weakness in the financial markets and the economy and provide any studies supporting them. Compare these future accruals to the amounts currently reflected in your rates.
8.) Are you aware of any initiatives to temporarily waive/relax the stricter funding requirements for pensions under the Pension Protection Act of 2006 considering the severe impacts on companies from the economic downturn.

Michael Summa
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NYS Department of Public Service

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12/5/08

Central Hudson Gas & Electric Corporation
Responses to PSC Staff Questions on Pensions & OPEBs

1.) Q. Please describe the impact on your pension and OPEB plans resulting from the current weakness in the financial markets and economy. Provide any studies performed related to this issue.

A. The general impact on the pension and OPEB plans is a reduction in the market value of the plan assets and a possible reduction in the liabilities due to an anticipated increase in the discount rate.

2.) Q. Provide the most current funded status of your pension and OPEB plans showing the market value of assets and obligation. Please compare to the funded status presented in your last annual financial statements and highlight/describe any major changes.

A. Funded Status per FAS 158

(millions)	Estimated funded status at 11/30/08		funded status at 12/31/07(1)	
Pension Assets	$261		$397	
Pension Liability(2)	409		409	
Pension Funded Status	(148)	64%	(12)	97%
OPEB Assets	$65		$93	
OPEB Liability(3)	119		148	
OPEB Funded status	(54)	55%	(56)	63%

(1) 2007 10K – Note 10
(2) 11/30/08 estimate same as 12/31/07, expectation that liability will decline if discount rate increases, new estimate to be provided in December 2008 with update to be provided by end of January 2009 (FAS 132R)
(3) 11/30/08 based on actuarial estimate reflecting 5/1/08 plan changes, new estimate to be provided in December 2008 with update to be provided by end of January 2009 (FAS 132R)

Major changes in the funded status of the pension plan were driven primarily by the decline in the market value of the plan assets.

Major changes in the funded status of the OPEB plan were 1) the reduction in benefits for management employees effective 1/1/08 and for union employees effective 8/1/08; and 2) the decline in the market value of the assets.

3.) Q. Please cite any actions you are taking to minimize and contain losses and reduction in funded status resulting from these current developments.

A. The company has investment policies for the pension and OPEB assets which establish a target asset allocation range for equity and fixed income investments. This asset allocation is regularly reviewed by the Central Hudson Benefits Committee and its consultant to affirm its appropriateness for investing over the long term. Rebalancing to the targets is a disciplined process which is designed to reduce volatility and produce the anticipated best results over the long term. The Benefits Committee has been actively discussing with its consultant whether there are any other actions which might be prudent given the current market conditions. At this time, maintaining the discipline of rebalancing to the target asset allocation ranges continues to be the strategy.

4.) Q. Please state if your company when complying with SFAS-158 will record any unrecognized decrease in funded status for pensions and OPEB's as an increase to a regulatory assets rather than a debit to other comprehensive income. Please quantify the amounts and their accounting.

A. In accordance with FAS 158 the company will record any additional liability required to reflect the funded status at year-end for both pensions and OPEBs. Any additional liability will be offset by recording a regulatory asset in accordance with the 1993 PSC Policy. Any additional amounts to be recorded at year-end will be available from the company's actuaries at the end of January 2009 as part of the required FAS 132R disclosures. (See 2007 10K Note 10).

5.) Q. Based on the current reduced market value of pension plan assets and impact on funded status please state if your company will be required to make contributions above the amount allowed in rates in order to avoid mandatory benefit restrictions and meet minimum contribution requirements. Please state the consequences that would result if such contributions were not made such as plan restrictions and higher costs. Provide quantification of such contributions for current plan year and future years if available. Please state the amount of funding provided in rates and the amount you expect to fund above that level.

A. The Pension Protection Act (PPA) is effective for the company's pension plan year beginning 10/1/08. Under the new PPA rules plans must have a funded status of at least 80% to avoid "At Risk Status." The funded status is determined by the difference between the target liability and the adjusted assets (note that this measurement differs from FAS 158 in that the assets are reduced by any previous contribution credits). Based on this measurement, and without knowing the amount of the current pension liability, it is possible that the company's funded status at 10/1/08 will be below 80%. The company believes it would be prudent to fund the plan to achieve the minimum 80%. The current annual expense amount collected in rates is approximately $12.5 million ($17 million including the capital portion). Until we receive the actuarial report in January 2009 it is uncertain whether any contribution for the plan year beginning 10/1/08 required to meet the 80% threshold will be more or less than what is currently collected in rates, however, given the state of the economy, we expect that required funding will exceed collections.

The consequences of At Risk Status include:

Minimum contribution is determined using more conservative assumptions

Lump sum payment restrictions

Notification to plan participants and the Pension Benefit Guaranty Corp. (PBGC)

No funding of non-qualified plans

Possible excise taxes and liens on company property

Likely increase to the PBGC variable premiums

No benefit accruals if below 60% funded

6.) Q. Provide the current balance of your pension and OPEB internal reserve balances and provide the impact upon them from any additional funding required due to the current weakness in the financial markets and the economy. If you are allowed to accrue carrying charges on a debit balance of your internal reserve please so state.

A. The internal reserve balance for pensions at 11/30/08 was $54 million, as pension plan contributions have exceeded reserve provisions. The internal reserve balance for OPEBs at 11/30/08 was $(45.7) million, as OPEB reserve provisions have exceeded contributions.

Additional funding required above the amount collected in rates impacts the reserves dollar for dollar.

Carrying charges are accrued on pension and OPEB reserve balances at the pretax allowed annual rate of return; both debit and credit balances for pensions, and credit balances only for OPEBs.

7.) Q. Please state the impact on your future pension and OPEB expense accruals resulting from the current weakness in the financial markets and the economy and provide any studies supporting them. Compare these future accruals to the amounts currently reflected in your rates.

A. The decline in the market value of the plan assets will likely result in increased future pension and OPEB expense accruals in the near term. Over time, with the expectation that the market value of the assets will recover, the pension and OPEB expense accruals should stabilize at a lower level. The company has projections of the FAS 87 and 106 expense amounts for 2008 – 2013 as of June 2008, which do not reflect the impact of the worsening markets subsequent to June. We expect updated estimates before the end of December, and we will have the actual FAS 87 amount for 2009 by the end of January.

8.) Q. Are you aware of any initiatives to temporarily waive/relax the stricter funding requirements for pensions under the Pension Protection Act of 2006 considering the severe impacts on companies from the economic downturn?

A. The company is aware that there are pending technical corrections proposed in Congress which would mitigate the PPA funding requirements. One proposal is to allow asset smoothing which would reduce the impact of market volatility. Another proposal is to extend the 7-year shortfall amortization period.