

UNITED STATES OF AMERICA  
BEFORE THE  
NUCLEAR REGULATORY COMMISSION

CENTRAL HUDSON GAS &  
ELECTRIC CORPORATION

) Docket No. \_\_\_\_\_  
) Facility Operating License  
) No. NPF-69

REQUEST FOR CONSENT TO  
CORPORATE REORGANIZATION

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April 8, 1998

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NUCLEAR REGULATORY COMMISSION

CENTRAL HUDSON GAS &  
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) Docket No. \_\_\_\_\_  
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REQUEST FOR CONSENT TO  
CORPORATE REORGANIZATION

I. INTRODUCTION

Central Hudson Gas & Electric Corporation ("Applicant") hereby requests consent, under 10 C.F.R. §50.80, to the transfer of control of its possessory license with respect to the Nine Mile Point Nuclear Station, Unit No. 2 ("Nine Mile 2") located in Scriba, New York. Applicant is a New York corporation which is a 9% co-owner of Nine Mile 2 and which is presently engaged principally in the generation, purchase, transmission, distribution and sale of electric energy and the purchase, transportation, distribution and sale of natural gas in the Hudson Valley region of New York State. Applicant intends to form a holding company to implement a comprehensive restructuring plan to satisfy electric industry restructuring goals established by the New York State Public Service Commission ("PSC").

The proposed corporate reorganization ("Reorganization") will result in the creation of a holding company over Applicant<sup>1</sup>. Insofar as the Nuclear Regulatory Commission ("NRC" or the "Commission") has taken the position that a reorganization involving the creation of a holding company over a NRC license holder requires notification and approval pursuant to 10 C.F.R. §50.80 and Section 184 of the Atomic

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<sup>1</sup>

The holding company has not yet been formed and for purposes of this Application it is referred to as "Holdco".

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Energy Act of 1954, as amended, Applicant is hereby filing this request for NRC approval of the formation of the holding company.

The other co-owners of Nine Mile 2 are Niagara Mohawk Power Corporation ("Niagara Mohawk"), Rochester Gas and Electric Corporation, New York State Electric & Gas Corporation and Long Island Lighting Company. Pursuant to Section 2.B.(2) of Facility Operating License No. NPF-69, Applicant, as a possessory licensee, is licensed only to own an interest in Nine Mile 2. Applicant does not have an operator's license with respect to Nine Mile 2. The operator's license is held by Niagara Mohawk.

## II. REORGANIZATION

The Reorganization is in response to the "Competitive Opportunities" proceeding instituted by the PSC in 1994, which addresses the future structure of the electric utility industry in New York State. As part of that proceeding, Applicant, the Staff of the PSC and certain other parties entered into an Amended and Restated Settlement Agreement dated January 2, 1998, which thereafter was modified and approved by the PSC by an Order, issued and effective February 19, 1998 ("Order") in Case 96-E-0909, which Agreement, as so modified, includes the terms and conditions of the proposed Reorganization. Said Agreement was modified by an instrument, dated February 26, 1998 and entitled Modifications to Amended and Restated Settlement Agreement, to reflect the modifications in the Order. As modified by the Order and said Modifications instrument, said Amended and Restated Settlement Agreement is hereinafter called the "Settlement Agreement". Applicant, by written instrument unconditionally accepted the modification and conditions contained in the Order on February 26, 1998. A copy of the Order, said Amended and Restated Settlement Agreement and said Modifications instrument are attached hereto as Exhibits G-G2 to the application filed with the Federal

considered to be a...

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Energy Regulatory Commission ("FERC") in which Applicant seeks approval of the Reorganization. A copy of said application is attached hereto as Exhibit A.

Pursuant to the Reorganization, outstanding shares of Applicant's common stock (other than shares with respect to which statutory appraisal rights, if any, are properly exercised) will be exchanged on a share-for-share basis for common stock of Holdco. Following the Reorganization, Holdco will own all of the outstanding common stock of Applicant, and Applicant will continue, as a subsidiary of Holdco, its regulated electric generation, transmission and distribution business and its gas transmission and distribution business. Holdco, rather than Applicant, will own, directly or indirectly, the stock of any non-utility subsidiaries except that Applicant will continue to own one (1) unregulated subsidiary. The holding company structure, therefore, will provide clear separation between PSC-regulated Applicant, and unregulated lines of business conducted by Holdco, thereby insulating the utility ratepayers from any risks associated with the unregulated enterprises.

As part of the Reorganization and to fulfill an obligation under the Settlement Agreement, Applicant, on or prior to June 30, 2001, will sell, at auction, its fossil-fueled electric generation facilities at its Danskammer Steam Generating Plant and its 35% interest in the Roseton Electric Generation Plant, owned by Applicant, Consolidated Edison Company of New York, Inc., and Niagara Mohawk Power Corporation, as tenants-in-common (collectively referred to in this Application as "Generation Assets"). Each of such facilities may be sold together or separately. The Generation Assets to be transferred, represent approximately 900 MW of capacity, with a net book value of approximately \$184 million as of December 31, 1997. Also included in the transfer are certain assets and liabilities associated with such Assets.



The Generation Assets will be subject to an auction process in which third parties as well as an affiliate of Holdco ("Genco") can participate. The framework for the auction and the application of the proceeds from a sale of the Generation Assets are described in Items VII and VIII of the Settlement Agreement.

### III. EFFECT OF REORGANIZATION

After the Reorganization, Applicant will continue to be (i) an electric utility engaged in the transmission, distribution and, in the case of Nine Mile 2 and hydroelectric facilities and combustion turbine facilities, the generation of electricity and (ii) a gas utility engaged in the transmission and distribution of natural gas. Applicant will continue to be regulated by the PSC and the FERC.

As shown below, the Reorganization will not affect Applicant's qualifications as a possessory licensee for Nine Mile 2, will not affect the status of Applicant as an "electric utility" for purposes of decommissioning as that term is defined in 10 C.F.R. §50.2 and is otherwise consistent with applicable provisions of law, NRC regulations and NRC orders.

Applicant's ownership interest in Nine Mile 2 will not be changed by the Reorganization. The Nine Mile 2 ownership interest will not be transferred as part of the Reorganization, but will remain with Applicant. After the Reorganization, Applicant will continue to be a co-owner of Nine Mile 2 and no actual transfer of the license or ownership interest in Nine Mile 2 will be effected as part of the Reorganization.



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Applicant will continue to recover the costs of its ownership share of Nine Mile 2 through the rate-making process<sup>2</sup>.

Applicant's retail utility operations are currently, and after the Reorganization will remain, subject to regulation by the PSC pursuant to the New York Public Service Law ("PSL"). The PSL regulates, *inter alia*, Applicant's retail rates and charges, issuances of securities (other than short-term debt securities), services, facilities, classification of accounts, transactions with affiliated interests, and other matters.

Applicant is also currently, and after the Reorganization will remain, subject to wholesale regulation by the FERC as a "public utility" as defined in Section 201(e) of the Federal Power Act, 16 U.S.C. 824(e). Using its interests in Nine Mile 2 and its interests in its hydroelectric and combustion turbine facilities, Applicant will continue to sell electric energy at wholesale to, and will transmit electric energy in interstate commerce for, other electric utilities under rate schedules approved by FERC, on a cost of service, rate of return basis, in addition to making market-based sales pursuant to FERC authority. Applicant will continue to own all of the transmission and distribution facilities which it now owns and will continue to provide transmission and distribution service at rates determined by the PSC pursuant to the PSL.

The creation of a holding company over Applicant and its subsidiaries will also require shareholder approval.

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<sup>2</sup>The PSC has commenced a generic proceeding, Case 98-E-0405, which, among others, is considering market-based "running costs" for nuclear plants in New York State, including Nine Mile 2.



#### IV. NUCLEAR REGULATORY COMMISSION REVIEW

To assist the NRC in its review of this request, Applicant is providing information with respect to the following four specific areas which have been the focus of the NRC's review in prior cases involving the creation of holding companies over NRC licensees:

1. *The Reorganization will not impair Applicant's ability to carry out its responsibilities under its NRC possessory license, or otherwise affect the financial health of Applicant.*

The Reorganization will not have an adverse impact on Applicant's ability to fulfill its responsibilities under its NRC possessory license. Specifically, the Reorganization will not adversely affect the ability of Applicant to meet its financial obligations with respect to the future operating and capital requirements related to Nine Mile 2 or to meet its funding obligations with respect to the eventual nuclear decommissioning of Nine Mile 2.

In its recently issued "Final Policy Statement on the Restructuring and Economic Deregulation of the Electric Utility Industry" ("Final Policy Statement"), 62 Fed Reg. 44071 (1997), the NRC addressed the future restructuring of the electric utility industry and voiced concerns that NRC licensed entities continue to have access to adequate funds so that funds are available for safe reactor operation and the payment of decommissioning costs.

With respect to both financial qualification reviews for operating license applicants and decommissioning funding assurance reviews, the NRC has noted that it has distinguished between an "electric utility" and other licensees. As defined in 10 C.F.R. §50.2, an "electric utility" is an entity that generates or distributes electricity for which costs are recovered by rates set by the entity or by a separate regulatory

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1980s - 1990s

1990s - 2000s

2000s - 2010s

2010s - 2020s

2020s - Present

authority. Investor-owned utilities, including generation and distribution subsidiaries, are included within the meaning of "electric utility". The underlying rationale for different treatment is that rate regulators typically allow an electric utility to recover prudently incurred costs of generating, transmitting and distributing electric services.<sup>3</sup>

The Reorganization will not change the status of Applicant as an "electric utility" for decommissioning purposes, as defined in 10 C.F.R. §50.2. After the Reorganization is complete, the nuclear generation assets and investment will be retained by Applicant and Applicant will continue to be a public utility subject to regulation by the PSC with respect to, among other things, its retail rates. In addition, FERC will continue to regulate Applicant's transmission and wholesale electric rates. Part IV L of the Settlement Agreement provides that until July 1, 2001, or such later date as the PSC approves the transfer of the Generation Assets, Nine Mile 2 decommissioning costs will continue to be recovered through rates as rate base or expense items. Thus, for purposes of decommissioning, Applicant will remain an "electric utility", as defined in the Commission's present and proposed regulations.

Attached hereto as Exhibit B is an affidavit of Steven V. Lant, Applicant's Treasurer and Assistant Secretary, which reviews the regulatory implications for Applicant of the Reorganization as they relate to the continued recovery of Applicant's costs relating to Nine Mile 2 ("Affidavit"). The Settlement Agreement requires an electric base rate freeze for the period ending June 30, 2001 ("Rate Freeze Period").

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<sup>3</sup> The NRC recently proposed revisions to the definition of "electric utility" in its proposed rulemaking regarding financial assurance requirements for decommissioning nuclear power reactors (62 Fed. Reg. 47588 (1997)). In the proposed rulemaking, the Commission proposed to revise its definition of "electric utility" to introduce additional flexibility to address potential impacts of electric industry deregulation. The Commission noted that the key component of the revised definition is a licensee's rates being established either through cost-of-service mechanisms or through other non-bypassable charge mechanisms, such as wires charges or non-bypassable customer fees by a rate-regulating authority. The NRC indicated that as a result of the proposed change it would expect licensees to be more likely to continue to qualify as "electric utilities".

System composed of ...

During the Rate Freeze Period, Applicant's share of Nine Mile 2 costs, including prudently incurred investments and decommissioning costs, will continue to be recoverable through retail electric rates. After the Rate Freeze Period, Applicant's share of such Nine Mile 2 costs are expected to be recoverable through retail electric rates. Therefore, sufficient funds will be available to assure adequate funding for the safe operation of Nine Mile 2.

As further set forth in the Affidavit, it is anticipated that the Reorganization will not have an adverse effect on Applicant's capital structure, ability to raise capital or bond ratings. In conclusion, the Settlement Agreement and the Company's financial position will ensure adequate funding for both decommissioning and safe operation.

2. *The Reorganization will not adversely affect the management of Applicant's utility operations or its technical qualifications.*

As previously noted, Applicant is a possessory licensee and is not the NRC-licensed operator of Nine Mile 2. The operating licensee, Niagara Mohawk, will continue to be responsible for the day-to-day operations of Nine Mile 2 and the technical qualifications required by the operating license will continue to be the responsibility of Niagara Mohawk.

The holding company structure will retain Applicant as a discrete and separate entity. No responsibility for nuclear operations within Applicant will be changed by the Reorganization. Officer responsibilities at the holding company level will be primarily administrative and financial in nature and will not involve operational matters relating to Nine Mile 2. After the holding company formation, Applicant will continue actively to



Very respectfully,  
[Illegible signature]



participate in the oversight and non-operational decision making with respect to Nine Mile 2.

3. *The Reorganization will not result in Applicant becoming owned, controlled or dominated by an alien, a foreign corporation, or a foreign government.*

At the time the Reorganization becomes effective, Holdco will become the sole holder of Applicant's common stock, and the current holders of Applicant's common stock (other than shareholders who have exercised their statutory appraisal rights, if any) will become holders of the common stock of Holdco on a share-for-share basis. Therefore, immediately following the Reorganization, the common stock of Holdco will be owned by the previous holders of Applicant's common stock in substantially the same proportions in which they held Applicant's common stock. Based upon currently available information, shares of Applicant's common stock held in foreign accounts represent less than one percent (1%) of the total outstanding shares of Applicant.

Based on the foregoing, the Reorganization will not result in Applicant becoming owned, controlled or dominated by foreign interests.

4. *The Reorganization will not adversely affect competition.*

The Reorganization is pro-competitive and there is no need for an NRC inquiry with respect to this issue. The potential effect of the Reorganization on competition is discussed in Part IV. A. of the FERC Application attached hereto as Exhibit B and will be analyzed by FERC in their review of that Application.



The formation of a holding company, and the sale or structural separation of the Generation Assets, are integral parts of the comprehensive plan to increase competition for the retail supply of electricity, and to expand the range of power supply choices available to consumers throughout the State of New York. For those reasons, the proposed transfer of control over Applicant's interest in the possessory license will have no anti-competitive effects, and indeed is essential to promote competition for power supply in the affected region.

V. THE PROPOSED TRANSFER OF CONTROL WILL HAVE NO SIGNIFICANT ENVIRONMENTAL EFFECT

As discussed above, the proposed transfer of control over Applicant's interest in the possessory license will have no effect on the operation of Nine Mile 2. The transfer is merely a technical change in corporate control over a minority owner, through the creation of a holding company. That change will not result in any change in the types, or any increase in the amounts, of any effluents that may be released offsite, and there will be no increase in individual or cumulative occupational radiation exposure as a result of the creation of the holding company or the other actions discussed herein.

Accordingly, pursuant to 10 C.F.R. §512.22(c)(9), the proposed action is excluded from the need for an environmental assessment or an environmental impact statement, and special circumstances do not exist which would otherwise require such an assessment or impact statement. Accordingly, the Applicant requests that the Commission issue and publish a finding of no significant environmental impact pursuant to 10 C.F.R. §§51.32 and 51.35.



VI. REQUEST FOR EXPEDITED CONSIDERATION

Applicant respectfully requests a 15 day notice period and expedited consideration of this Application.

The Reorganization is anticipated to be fully implemented as soon as practicable after a special meeting of the stockholders currently expected to be held on or about September 25, 1998. To facilitate this restructuring, Applicant requests Commission approval for the proposed Reorganization by July 15, 1998.

VII. CONCLUSION

Applicant believes that the information contained in this Application and its Exhibits will be sufficient for the NRC to grant its consent to the Reorganization as promptly as possible. As shown above, the Reorganization will not adversely affect Applicant's qualifications as a possessory licensee for Nine Mile 2 and is also consistent with applicable provisions of law and with the NRC's regulations.

Respectfully submitted,

CENTRAL HUDSON GAS & ELECTRIC  
CORPORATION

By: Ellen Ahearn  
Name: Ellen Ahearn  
Title: Secretary

William P. Reilly, Esq.  
Gould & Wilkie  
One Chase Manhattan Plaza  
New York, New York 10005-1401  
Telephone: (212) 344-5680

April 8, 1998



UNITED STATES OF AMERICA  
BEFORE THE  
NUCLEAR REGULATORY COMMISSION

CENTRAL HUDSON GAS &  
ELECTRIC CORPORATION

) Docket No. \_\_\_\_\_  
) Facility Operating License  
) No. NPF-69

STATE OF NEW YORK )  
                                  ) ss.:  
COUNTY OF DUTCHESS )

AFFIDAVIT OF ELLEN AHEARN

Ellen Ahearn, being duly sworn, states that she is the Secretary of Central Hudson Gas & Electric Corporation ("Applicant"); that she is authorized on the part of Applicant to sign and file with the Nuclear Regulatory Commission the foregoing Application; and that said Application is true and correct to the best of her knowledge, information and belief.

Ellen Ahearn  
Name: Ellen Ahearn  
Title: Secretary

Subscribed and sworn to before me, a Notary Public, this 8<sup>th</sup> day of April, 1998.

Jeanette Kihlmire  
Notary Public  
JEANETTE KIHLMIRE  
Notary Public, State of New York  
No. 4991868  
Qualified in Dutchess County  
Commission Expires Feb. 10, 2002



Exhibit A

CENTRAL HUDSON GAS & ELECTRIC CORPORATION  
284 SOUTH AVENUE  
POUGHKEEPSIE, N. Y. 12601-4879

ELLEN AHEARN  
CORPORATE SECRETARY

PHONE 914-486-5757  
FAX 914-486-5782

April 8, 1998

Honorable Lois D. Cashell, Secretary  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, D.C. 20426

Re: Central Hudson Gas & Electric Corporation  
Application for Commission Approval of  
Corporate Reorganization -- Docket No. EC98-

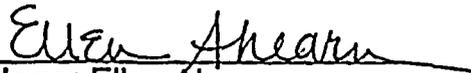
Dear Secretary Cashell:

Pursuant to Section 203 of the Federal Power Act and the Commission's regulations thereunder, please find enclosed one executed and five copies of the above-referenced Application with exhibits and one additional copy of the Application and exhibits for the State of New York, as required by 18 C.F.R. §33.6. Also enclosed is a diskette containing a notice suitable for publication in the Federal Register.

Section 203 authorization is an integral part of the implementation of Central Hudson's comprehensive restructuring plan adopted in response to the "Competitive Opportunities" proceeding instituted by the New York Public Service Commission ("PSC"). As noted in the Application, Central Hudson requests expedited review of the Application to allow its reorganization plan to proceed on the schedule outlined in its PSC approved Settlement Agreement entered into as part of the "Competitive Opportunities" proceeding.

As noted in the Application, Central Hudson is requesting that the Commission issue a notice requesting that comments concerning the Application be filed within 30 days because the Application does not concern a merger of public utilities, but a corporate reorganization. Thus, the Application presents simpler issues than those presented in mergers where the Commission has provided a longer notice period.

Respectfully submitted,

  
Name: Ellen Ahearn  
Title: Secretary

Enclosures

cc: Hon. John C. Crary, Secretary  
NY State Dept. of Public Service  
Gould & Wilkie



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UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

CENTRAL HUDSON GAS &  
ELECTRIC CORPORATION

} Docket No. EC98-\_\_\_\_\_

APPLICATION FOR COMMISSION  
APPROVAL OF CORPORATE REORGANIZATION

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April 8, 1998



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APPENDICES

APPENDIX A	-	DIAGRAMS OF CORPORATE STRUCTURE PRIOR TO AND AFTER THE PROPOSED REORGANIZATION
APPENDIX B	-	FORM OF FEDERAL REGISTER NOTICE



1. The first part of the document is a list of names and addresses of the members of the committee.



EXHIBITS

- EXHIBIT A - Resolutions of the Board of Directors of Applicant.
- EXHIBIT B - A statement of the measure of control or ownership exercised by or over each party to the transaction as to any public utility, or bank, trust company, banking association, or firm that is authorized by law to underwrite or participate in the marketing of securities of a public utility, or any company supplying electric equipment to such party, and the extent of any intercorporate relationships.
- EXHIBIT C - Balance sheets of Applicant and supporting plant schedules for the 12-month period ended December 31, 1997 on an actual basis in the form prescribed for the FERC Annual Report Form No. 1.
- EXHIBIT D - A statement of all known contingent liabilities of Applicant except minor items such as damage claims and similar items involving relatively small amounts.
- EXHIBIT E - Applicant's income statements for the 12-month period ended December 31, 1997 on an actual basis in the form prescribed for the FERC Annual Report Form No. 1.
- EXHIBIT F - An analysis of Applicant's retained earnings for the period covered by the income statements referred to in Exhibit E.



- EXHIBIT G - Copy of Amended and Restated Settlement Agreement, dated January 2, 1998, among Applicant, the Staff of the New York Public Service Commission ("PSC") and certain others; and
- EXHIBIT G-1 - Copy of Order of the PSC, issued and effective February 19, 1998, modifying said Amended and Restated Settlement Agreement and, as modified, approving said Settlement Agreement.
- EXHIBIT G-2 - Copy of Modifications to Amended and Restated Settlement Agreement, dated February 26, 1998, modifying said Amended and Restated Settlement Agreement.
- EXHIBIT H - Draft of the Agreement and Plan of Exchange between Applicant and Holdco.
- EXHIBIT I - A map showing Applicant's properties and interconnections and the principal cities of the area served.
- EXHIBIT J - A copy of applicant's petition to the Nuclear Regulatory Commission

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UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

CENTRAL HUDSON GAS &  
ELECTRIC CORPORATION

)  
) Docket No. EC98-\_\_\_\_\_  
)

APPLICATION FOR COMMISSION  
APPROVAL OF CORPORATE REORGANIZATION

I. INTRODUCTION

Pursuant to Section 203 of the Federal Power Act ("FPA")<sup>1</sup> and Section 33 of the Federal Energy Regulatory Commission's ("FERC" or "Commission") regulations<sup>2</sup>, Central Hudson Gas & Electric Corporation ("Applicant") hereby submits this Application for Commission Approval of Corporate Reorganization ("Application"). Applicant seeks Section 203 authority to form a holding company to implement a comprehensive restructuring plan to satisfy electric industry restructuring goals established by the New York Public Service Commission ("PSC"). Applicant requests expedited treatment of the Application and requests that the Commission provide a 30 day notice period for comments.

In this Application, Applicant seeks the Commission's authorization to implement a proposed corporate reorganization ("Reorganization") which will result in the creation

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<sup>1</sup> 16 U.S.C. §824(b).

<sup>2</sup> 18 C.F.R. §33 (1996).



of a holding company over Applicant and its corporate subsidiaries<sup>3</sup>. The creation of a holding company over a Commission-jurisdictional entity is deemed to result in a "disposition of facilities" under FPA Section 203 as that term has been interpreted by the Commission in various proceedings involving similar corporate reorganizations.<sup>4</sup>

The Reorganization is anticipated to be implemented as soon as practicable after a special meeting of stockholders currently expected to be held on or about September 25, 1998. To facilitate this rapid restructuring, Applicant requests that the Commission proceed on an expedited basis, provide a 30 day period for comments and issue an order in this proceeding by July 1, 1998. A 30 day notice period is appropriate since this Application does not involve a merger or similar transaction.

Applicant submits that the authorization sought hereby is substantially similar to the authorization recently granted by the Commission to Consolidated Edison Company of New York, Inc.<sup>5</sup> and New York State Electric and Gas Corporation<sup>6</sup>.

## II. BACKGROUND

Applicant is a combination gas and electric utility engaged principally in the generation, transmission, distribution and sale of electric energy and the transportation and distribution of natural gas in the mid-Hudson Valley area of New York. Applicant provides electricity to more than 262,000 customers and natural gas to more than

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<sup>3</sup> The holding company has not yet been formed and for purposes of this application it is referred to as Holdco.

<sup>4</sup> See, e.g., Pennsylvania Power & Light Company, 60 FERC ¶62,267 (Issued December 30, 1994); Commonwealth Edison Company, 68 FERC ¶62,049 (Issued July 15, 1994); Illinois Power Company, 67 FERC ¶61,136 (Issued May 3, 1994); Kentucky Utilities Company and Old Dominion Power Company, 47 FERC ¶61,271 (1989); and Central Vermont Public Service Corporation, 39 FERC ¶61,295 (1987).

<sup>5</sup> Consolidated Edison Company of New York, Inc., 81 FERC ¶62,070 (issued October 21, 1997).

<sup>6</sup> New York State Gas & Electric Corporation, 81 FERC ¶62,201 (issued December 16, 1997).



61,000 customers. Applicant's wholesale rates and services are regulated by the Commission and retail rates and services are regulated by the PSC. Applicant has received authorization from the Commission, by Order dated June 26, 1997, to sell wholesale power at market-based rates.

The Reorganization is in response to the "Competitive Opportunities" proceeding instituted by the PSC in Case No. 94-E-0952, which addresses the future structure of the electric utility industry in New York State. In PSC Opinion No. 96-12, issued May 20, 1996, the PSC required Applicant to file a restructuring plan consistent with the PSC's policy and vision for increased competition. The restructuring plan was required to address, among other things, the structure of the utility, both in the short and long term, a schedule for the introduction of retail access and a rate plan to be effective for a significant portion of the transition to total retail access.

On October 1, 1996, Applicant submitted to the PSC its rate and restructuring proposal. After discussions with the parties in a subsidiary proceeding (Case No. 96-E-0909), Applicant, PSC Staff and certain other parties, on January 2, 1998, entered into an Amended and Restated Settlement Agreement, which includes the terms and conditions of the Reorganization. Said Amended and Restated Settlement Agreement was modified by the PSC and, as modified, approved by the PSC by Order, issued and effective February 19, 1998 ("PSC Order"). On February 26, 1998, an instrument entitled "Modifications to Amended and Restated Settlement Agreement" was entered into to reflect the terms of the PSC Order. Said Settlement Agreement, as so modified, is herein called the "Settlement Agreement". Copies of said Amended and Restated Settlement Agreement, the PSC Order and said Modifications to Amended and Restated Settlement Agreement are attached hereto as Exhibits G, G-1 and G-2, respectively.



The Reorganization approved by the Order reflects more than a year of careful negotiation in a multi-party collaborative process, fostered by the PSC itself, to create a fully competitive environment for the supply of electricity, at both wholesale and retail, to benefit customers throughout New York State.

### III. REORGANIZATION

Pursuant to the Reorganization, Applicant proposes to effect a holding company structure under which it will become a subsidiary of a new holding company. The corporate reorganization into a holding company structure will be effectuated using a binding share exchange ("Share Exchange") under Section 913 of the New York Business Corporation Law ("NYBCL"). In the first step of the process, Applicant will cause to be incorporated a New York corporation, referred to herein as "Holdco" (but which will be named at a later date), which will be a first tier, wholly-owned subsidiary of Applicant.

Subject to receipt of the necessary consents and approvals (as discussed below), a holding company structure will be consummated as follows: Applicant will enter into a binding plan of exchange under Section 913 of the NYBCL with Holdco which will provide for the Share Exchange. In accordance with the plan of exchange, Applicant's common shareholders will receive one Holdco common share in exchange for each Applicant common share held immediately prior to the effective date of the plan of exchange, and the common shares in Holdco held by Applicant will be canceled<sup>7</sup>.

Upon consummation of the Share Exchange, all of Applicant's common shares would be held by Holdco, and all of Holdco's common shares would be publicly held by

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<sup>7</sup>Under Section 913 of the NYBCL, a binding share exchange has the same effect (with respect to assets, liabilities, etc.) as a statutory merger in which Applicant is the surviving corporation.



the former Applicant common shareholders, subject to dissenters rights under Sections 623 and 910 of the NYBCL. The common shares of Applicant will cease to be listed and traded on the New York Stock Exchange and the common shares of Holdco will be so listed and traded instead. Except for the common shares of Holdco, no securities will be issued to implement the Reorganization. Applicant's preferred stock and debt will remain securities and obligations of Applicant.

Applicant has four (4) subsidiaries: Central Hudson Enterprises Corporation ("CHEC"), Greene Point Development Corporation ("Greene Point"), CH Resources, Inc. ("Resources") and Phoenix Development Company, Inc. ("Phoenix"). These corporations, immediately after the Share Exchange is consummated, will be transferred to Holdco except for Phoenix Development Corporation which will remain a wholly-owned subsidiary of Applicant.

CHEC is a domestic corporation organized under the laws of New York. CHEC was incorporated in 1960 as an unregulated wholly-owned subsidiary of Applicant and has been active in its present business since 1982. For more than the past five years, CHEC has been engaged in the business of conducting energy audits, providing services related to design, financing, installation, and maintenance of energy conservation measures and cogeneration systems for private businesses, institutional organizations and governmental entities. CHEC also participates in cogeneration, small hydro and alternate energy production projects, directly through limited partnership investments and its wholly-owned subsidiary Cencogen - West Delaware Corp., and has been licensed by the Commission as a power marketer.

Resources, Phoenix (which will remain as a subsidiary of the Applicant), and Greene Point were established to either hold real property for the future use of the Applicant or to participate in energy-related ventures. Currently, the assets held by these corporations are not material.



Attached to this Application as Appendix A are diagrams showing Applicant's corporate structure prior to and after the creation of the holding company structure.

Pursuant to the Settlement Agreement, Applicant's fossil-fueled generation facilities ("Generation Assets") must be structurally separated from Applicant's transmission and distribution activities by an auction process by July 1, 2001. The Generation Assets consist of Applicant's interests in its Danskammer Electric Generation Plant and its 35% interest in the Roseton Electric Generation Plant, owned by Applicant, Consolidated Edison Company of New York, Inc. and Niagara Mohawk Power Corporation, as tenants-in-common, both such plants being located in Roseton, New York. In the auction process, by which the Generation Assets must be sold, third parties as well as an affiliate of Applicant may participate as bidders.<sup>8</sup>

The auction process is further described in Item VII of the Settlement Agreement.

#### IV. PUBLIC INTEREST STANDARDS

The Commission routinely has found that reorganizations involving the creation of holding companies are consistent with the public interest.<sup>9</sup> Applicant submits that its proposed Reorganization is consistent with the public interest. The Reorganization, which satisfies the electric industry restructuring goals established by the PSC, alleviates concerns about potential vertical market power in generation and facilitates the auction of the Generation Assets required by the Settlement Agreement. Structural separation of the Generation Assets and the auction is expected to promote greater

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<sup>8</sup> If Applicant auctions any Commission-jurisdictional assets, Applicant will file a subsequent FPA Section 203 application prior to the transfer.

<sup>9</sup> See, e.g., Pennsylvania Power & Light Company, 69 FERC ¶62,267 (Issued December 30, 1994); Commonwealth Edison Company, 63 FERC ¶62,049 (Issued July 15, 1994); Illinois Power Company, 67 FERC ¶61,136 (Issued May 3, 1994); Central Vermont Public Service Corporation, 39 FERC ¶61,295 (1987); Kentucky Utilities Company and Old Dominion Power Company, 47 FERC ¶61,271 (1989).



competition in generation. The proposed Reorganization furthermore strengthens the organization by establishing a more appropriate corporate structure for the pursuit of unregulated non-utility business activities. Through its unregulated subsidiaries, Holdco will be in a position to take advantage quickly of increasing opportunities in non-utility activities.

As the Commission is well aware, deregulation and competition are reshaping the utility marketplace and changing the nature of the electric utility business. After extensive investigation and analysis, Applicant has determined that the holding company structure, including the structural separation of the Generation Assets, offers the best means of positioning itself for future changes and opportunities and will enable it to take advantage of emerging business opportunities to the benefit of both shareholders and customers.

The holding company structure provides the vehicle for the Company to begin operating in a competitive environment while minimizing concerns about vertical market power. The holding company structure is a well-established form of organization for those companies conducting multiple lines of business. In addition, the holding company structure is utilized by many electric utilities that are involved in unregulated activities. Applicant wishes to be in a position to take advantage of business opportunities that may present themselves, and desires to do so by utilizing the most efficient and effective corporate structure.

The benefits of a holding company structure are well established. A holding company structure enables the holding company to participate in unregulated businesses in a timely manner, and fully separates the operations of regulated and unregulated businesses. As a result, it provides protection to ratepayers and a better structure for regulators to assure that there is no cross-subsidization of costs or transfer of business risk from unregulated to regulated lines of business. A holding company



structure also makes it easier for investors to analyze and value individual lines of business. Moreover, the use of a holding company structure provides legal protection against the imposition of liability on regulated utilities for the results of unregulated business activities. In short, the holding company structure is a highly desirable form for conducting regulated and unregulated businesses within the same corporate group.

Furthermore, the Reorganization is in the public interest as evaluated against the three factors set forth in the Commission's recently issued Merger Policy Statement: (1) effect on competition, (2) effect on rates, and (3) effect on regulation.<sup>10</sup> As more fully demonstrated below, the proposed Reorganization: (1) does not raise anti-competitive issues; (2) does not adversely affect wholesale power sales or transmission rates; and (3) does not adversely impact the ability of the Commission or state regulators to regulate the jurisdictional entities.

A. THE REORGANIZATION WILL NOT HAVE AN ADVERSE EFFECT ON COMPETITION.

The Reorganization will not have an adverse effect on competition. While the Reorganization results in a change of ownership or control of FERC jurisdictional facilities by virtue of the creation of Holdco, it involves only Applicant and its facilities and does not itself result in any change in the operation of Applicant's facilities or other inputs that could be used as barriers to entry that would have an anticompetitive effect. In fact, the Reorganization is being effected substantially as a response to the PSC's Competitive Opportunities Proceeding designed to increase competitive choices for New York ratepayers. The PSC has strongly urged the divestiture of generation. The

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<sup>10</sup> Order No. 592, Inquiry Concerning the Commission's Merger Policy Under the Federal Power Act: Policy Statement, Docket No. RM96-6-000, 61 Fed. Reg. 68,595,68,605 (issued December 18, 1996) ("Merger Policy Statement"). The Merger Policy Statement addresses public utility mergers subject to the Commission's jurisdiction under Section 203(a) of the FPA. While the instant Application does not involve a "merger" between electric public utilities, but rather the reorganization of an electric public utility, Applicant has addressed each of the criteria set forth in the Merger Policy Statement to demonstrate that the Reorganization is in the public interest.



proposed structural separation of the Generation Assets will further reduce any potential vertical market power concerns, facilitate an open auction of such assets, and thus enhance competition. It is an integral part of the movement to retail competition.

Applicant submits that the effect of the Reorganization on competition in the electric power industry either would be neutral or would offer positive benefits by enhancing competition.

**B. THE RESTRUCTURING WILL NOT ADVERSELY AFFECT RATE LEVELS.**

In cases involving corporate reorganizations, the Commission has analyzed whether the utility and non-utility businesses are adequately separated in order to protect the utility's ratepayers from detriments that may result from the non-regulated activities of the parent.<sup>11</sup> In the instant case, the structural separation of regulated and unregulated activities provides the necessary protection for Applicant's ratepayers. The PSC Order approving the Reorganization should suffice to alleviate any concern the Commission might otherwise have in this regard. Furthermore, the Settlement Agreement contains numerous safeguards to prevent Applicant's customers from being harmed by the non-regulated activities of Holdco and its subsidiaries. Such safeguards are discussed in Item VI B of the Settlement Agreement, attached hereto as Exhibits G-1 and G-2.

The Reorganization will not have any effect on existing power sales rates. Applicant already has market-based rate authority and is free to negotiate prices dictated by the market. Any cost impacts on Applicant resulting from the Reorganization will not have any effect on the market-based rates of Applicant insofar as these rates are market-driven rather than cost-derived. Applicant's authority to sell

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<sup>11</sup> See e.g., Central Vermont, 39 FERC at p. 61,960; Kentucky Utilities, 47 FERC at p. 61,948.



power at market-based rates is based on a finding that it lacks market power in generation and transmission and can erect no other barriers to entry. As discussed in Section A of Article IV above, the Reorganization will not provide Applicant with any opportunity or ability to exercise market power. Accordingly, the Reorganization will not affect prospective or future power sales rates.

Applicant is not requesting any rate increase as a part of this Application. Any future changes in Applicant's wholesale power or transmission rates will continue to be subject to the Commission's review and acceptance under the FPA. With respect to retail rates, the Reorganization is in response to the PSC's Competitive Opportunities Proceeding which is designed to increase choices, and thereby lower rates.

**C. THE RESTRUCTURING WILL NOT IMPAIR THE EFFECTIVENESS OF STATE OR FEDERAL REGULATION**

The regulatory concerns noted in the Merger Policy Statement are not concerns raised by the Reorganization insofar as the effectiveness of government regulation of Applicant will not be impaired and no "regulatory gap" will be created. Following the Reorganization, Applicant will continue to be subject to the jurisdiction of both this Commission and the PSC. The Commission's prior orders granting the market-based rate authority of Applicant will remain in effect. In its market-based rate filings, Applicant agreed to a code of conduct which the Commission, in its June 26, 1997 Order, has indicated satisfies the Commission's requirements with respect to affiliate transactions. Such Code of Conduct will remain in effect.

Furthermore, because the PSC Order has approved the Reorganization, the PSC has exercised its authority adequately to protect its state regulatory interests.

For the foregoing reasons, Applicant's Reorganization is compatible with the public interest and should be authorized by the Commission.



V. SUPPORTING INFORMATION

In support of this Application, and pursuant to 18 C.F.R. §33.2, Applicant states the following:

a. The exact name and the address of the Applicant's principal business office and each company whose activities are involved:

Central Hudson Gas & Electric Corporation  
284 South Avenue  
Poughkeepsie, New York 12601-4879

[Holdco, Inc.]  
284 South Avenue  
Poughkeepsie, New York 12601-4879

b. Names and addresses of persons authorized to receive notices and communications concerning this Application:

Ellen Ahearn  
Corporate Secretary  
Central Hudson Gas & Electric Corporation  
284 South Avenue  
Poughkeepsie, New York 12601-4879  
(914) 486-5757

and

William P. Reilly, Esq.  
Gould & Wilkie  
One Chase Manhattan Plaza  
New York, New York 10005-1401  
(212) 344-5680

c. Designation of the territories served, by counties and States:

Applicant is engaged principally in the business of generating, purchasing, transmitting and distributing electricity, and purchasing, transporting and distributing natural gas. Applicant's retail service territory is located entirely within the State of New York. This territory extends about 85 miles along the Hudson River and about 25 to 40 miles east and west from such River, with its southern end about 25 miles north of New York City, and the northern end about 10 miles south of the City of Albany, covering an area of 2,600 square miles and serving a population estimated at 626,000. Applicant



serves all or a portion of the following counties in New York State: Albany, Columbia, Dutchess, Greene, Orange, Putnam, Sullivan and Ulster Counties.

d. General statement briefly describing the facilities owned or operated for transmission of electric energy in interstate commerce or for the sale of electric energy at wholesale in interstate commerce:

As of December 31, 1997, Applicant owns an electric transmission system consisting of approximately 588 pole miles of line. Applicant also owns 83 substations having an aggregate transformer capacity of 4.6 million KVA. Applicant's generating capacity (summer rating) for the period 1996-1997 was 1,107 MW. Applicant also owns an extensive electric distribution system. All of these transmission facilities are located within Applicant's service territory in New York State, referred to above.

e. Whether the application is for disposition of facilities by sale, lease, or otherwise, and a description of the consideration, if any, and the method of arriving at the amount thereof:

The "disposition of facilities" deemed to occur solely from the creation of a holding company over Applicant through the mechanism of the Share Exchange does not involve any consideration or sales price.

f. Statement of the facilities to be disposed of, giving a description of their present use and proposed use after disposition. State whether the proposed disposition includes all the operating facilities of the parties to the transactions:

The creation of a holding company over Applicant is deemed to be a "disposition" for purposes of the FPA of all of Applicant's facilities, including all operating facilities. However, after the holding company structure is implemented, title, possession and use of all utility property, will be held by Applicant, a wholly owned subsidiary of Holdco. Furthermore, ultimate control of Applicant will remain in the hands of the Applicant's common shareholders who are such shareholders immediately prior to consummation of the Share Exchange (other than shareholders who properly



exercise their statutory appraisal rights, if any) since after the Share Exchange, those Applicant common shareholders will own all of Holdco's outstanding common stock and Holdco will in turn own all of the outstanding common stock of Applicant.

g. Statement (in the form prescribed by the Commission's Uniform System of Accounts for Public Utilities as Licensees) of the cost of the facilities involved in the disposition:

After consummation of the Reorganization, all of the physical facilities currently owned by Applicant will continue to be owned by Applicant, and Applicant will be owned as a subsidiary of Holdco. Therefore, Applicant incorporates herein by reference the statements contained in its FERC Form No. 1 to be filed for the year ended December 31, 1997, relating to the cost of Applicant's net utility plant.

h. Statement as to the effect of the proposed transaction upon any contract for the purchase, sale, or interchange of electric energy:

The Reorganization will have no effect on existing Applicant contracts for the purchase, sale, or interchange of electric energy.

i. Statement as to whether any application with respect to the transaction or any part thereof is required to be filed with any other federal or state regulatory body:

The Reorganization has been approved by the PSC and requires the approval of the NRC. A copy of the PSC's Order approving the proposed Reorganization is attached hereto as Exhibit G-2. Concurrent with this filing Applicant is filing an application with the NRC for approval to effect the Reorganization. A copy of Applicant's Petition to the NRC is attached as Exhibit J. Holdco will file with the Securities and Exchange Commission a claim of exemption under Section 3(a)(1) of the Public Utility Holding Company Act of 1935 from the obligation to register as a holding company under that Act. No similar application is required to be filed with any other state or federal regulatory body.



j. The facts relied upon to show that the proposed disposition will be consistent with the public interest:

Reference is hereby made to the prior discussion in Articles I through IV of this Application.

k. Brief statement of franchises held, showing date of expiration, if not perpetual:

Applicant has, with minor exceptions, valid franchises from the municipalities in which it provides electric public utility service, unlimited in duration. The Reorganization does not involve a transfer of any franchises and there will be no change in franchised territories as a result of the Reorganization.

l. Form of notice suitable for publication in the Federal Register, briefly summarizing the application in such a way as to acquaint the public with its scope and purpose:

A form of Notice suitable for publication in the Federal Register, pursuant to 18 C.F.R. §35.8, is attached hereto as Appendix B. In addition, enclosed with this Application is a 3 ½" diskette containing the notice of filing in WordPerfect 8.0 for Windows.

m. Required exhibits:

The following exhibits required by Section 33.3 of the Commission's regulations are filed herewith, except as noted below:

- Exhibit A -- Resolutions of the Board of Directors of Applicant.
- Exhibit B -- A statement of the measure of control or ownership exercised by or over each party to the transaction as to any public utility, or bank, trust company, banking association, or firm that is authorized by law to underwrite or participate in the marketing of securities of a public utility, or any company supplying electric equipment to such party, and the extent of any intercorporate relationships.
- Exhibit C -- Balance sheets and supporting plant schedules for the 12-month period ended December 31, 1997 on an actual basis in the form prescribed for the FERC Annual Report Form No. 1.



- Exhibit D -- A statement of all known contingent liabilities except minor items such as damage claims and similar items involving relatively small amounts, as of the date of this application.
- Exhibit E -- Income statements for the 12-month period ended December 31, 1997 on an actual basis in the form prescribed for the FERC Annual Report Form No. 1.
- Exhibit F -- An analysis of retained earnings for the period covered by the income statements referred to in Exhibit E.
- Exhibit G -- Copy of the Amended and Restated Settlement Agreement, among Applicant and PSC Staff and certain other parties, dated January 2, 1998.
- Exhibit G-1 -- A copy of the PSC Order, issued and effective February 19, 1998, modifying said Amended and Restated Settlement Agreement and, as modified, approving said Amended and Restated Settlement Agreement.
- Exhibit G-2 -- A copy of the Modifications to Amended and Restated Settlement Agreement, dated February 26, 1998, modifying said Amended and Restated Settlement Agreement as required by said PSC Order.
- Exhibit H -- Draft of the Agreement and Plan of Exchange between Applicant and Holdco.
- Exhibit I -- A map showing Applicant's properties and interconnections and the principal cities of the areas served.
- Exhibit J -- A copy of Applicant's Petition to the Nuclear Regulatory Commission.

WHEREFORE, Central Hudson Gas & Electric Corporation respectfully requests that the Commission approve this Application and authorize the Reorganization under the terms and conditions set forth herein.

Respectfully submitted,

CENTRAL HUDSON GAS & ELECTRIC CORPORATION

By: Ellen Ahearn  
 Name: Ellen Ahearn  
 Title: Secretary

April 8, 1998



UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

CENTRAL HUDSON GAS &  
ELECTRIC CORPORATION

} Docket No. EC98-\_\_\_\_-000

VERIFICATION PURSUANT TO 18 C.F.R. §33.7

STATE OF NEW YORK  
COUNTY OF DUTCHESS

}  
} ss.:  
}

NOW, BEFORE ME, the undersigned authority, personally came and  
appeared,

ELLEN AHEARN

who, after first being duly sworn by me, did depose and say:

That she is the Secretary of Central Hudson Gas & Electric Corporation,  
Applicant in the above proceedings, that he has the authority to verify the foregoing  
Application for Commission Approval of Corporate Reorganization and the Appendices  
and Exhibits thereto on behalf of Central Hudson Gas & Electric Corporation; that she  
has read said Application and the Appendices and Exhibits thereto and knows the  
contents thereof; and that all of the statements contained in said Application and the  
Appendices and Exhibits thereto are true and correct to the best of her knowledge and  
belief.

Ellen Ahearn

Name: Ellen Ahearn

Title: Secretary

Subscribed and sworn to before me this 8<sup>th</sup> day of April, 1988.

Jeanette Kihlmire

Notary Public

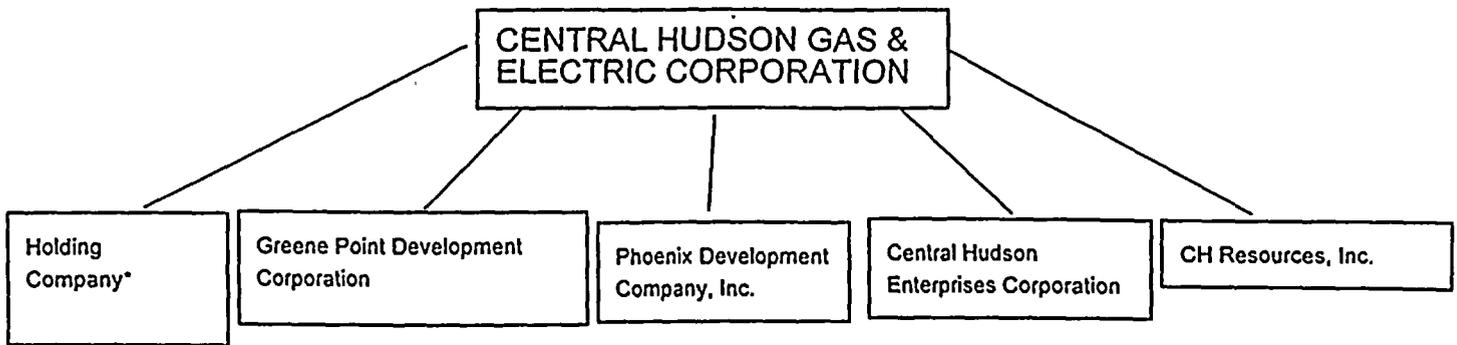
[Seal]

JEANETTE KIHLMIRE  
Notary Public, State of New York  
No. 4991868  
Qualified in Dutchess County  
Commission Expires Feb. 10, 2000

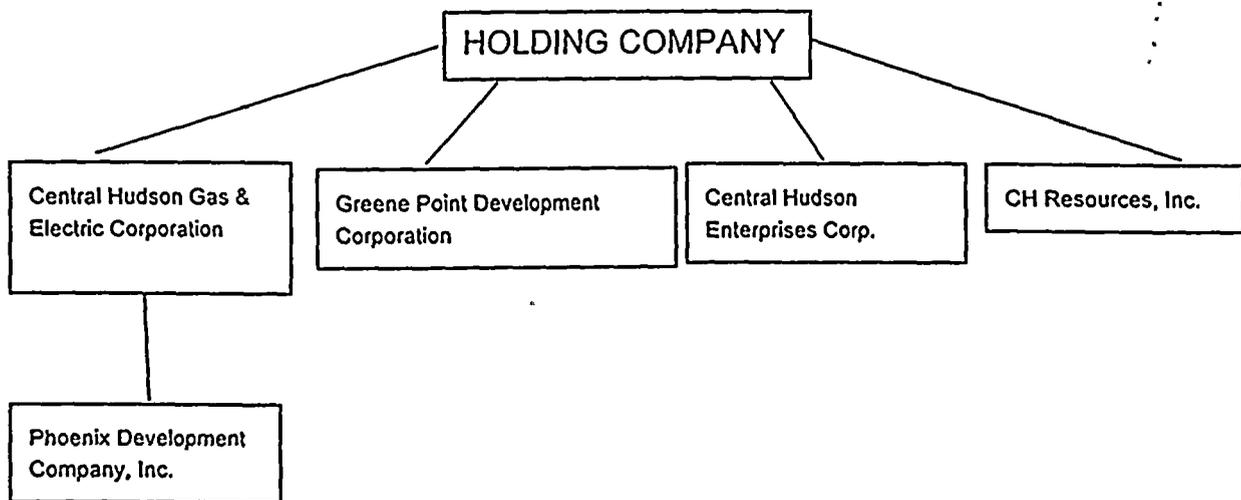
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PRESENT STRUCTURE



PROPOSED STRUCTURE\*



Holdco has not yet been formed; but when formed initially it will be a subsidiary of the Corporation which will become the Holding Company owner of the Corporation as shown in the "Proposed Structure". The Holding Company may establish other subsidiaries from time to time, including one or more intermediate, subsidiary holding companies to hold its Central Hudson Common Stock and the stock of its other subsidiaries. Any new subsidiaries of the Corporation established before the Holding Company Proposal is implemented will also become subsidiaries of the Holding Company.



Form of Notice

UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Central Hudson Gas & Electric Corporation

Docket No. \_\_\_\_\_

NOTICE OF FILING

(\_\_\_\_\_, 1998)

Take notice that on \_\_\_\_\_, 1998, Central Hudson Gas & Electric Corporation ("Applicant") tendered for filing pursuant to Section 203 of the Federal Power Act an application for Commission approval to effect a corporate reorganization which involves the creation of a holding company as more fully set forth in the application.

Any person desiring to be heard or to protest the application should file a motion to intervene or protest with the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426, in accordance with Rules 214 and 211 of the Commission's Rules of Practice and Procedure. 18 C.F.R. §385.214, §385.211 (1994). All such motions to intervene or protests should be filed on or before \_\_\_\_\_, 199\_\_\_. Protests will be considered by the Commission in determining the appropriate action to be taken, but will not serve to make protestants parties to the proceeding. Any person wishing to become a party to the proceeding or to participate as a party in any hearing therein must file a motion to intervene in accordance with the FERC Rules.

\_\_\_\_\_  
Secretary



CENTRAL HUDSON GAS & ELECTRIC CORPORATION  
284 SOUTH AVENUE  
POUGHKEEPSIE, N. Y. 12601-4879

I, ELLEN AHEARN, Secretary of Central Hudson Gas & Electric Corporation, hereby certify that at the meeting of the Board of Directors of Central Hudson Gas & Electric Corporation, a corporation organized under the laws of the State of New York, duly called and held at the office of said Corporation, 284 South Avenue, in the City of Poughkeepsie, State of New York, on March 27, 1998, at which a quorum was present and voting throughout, the following resolution was unanimously and duly adopted and is now in full force and effect:

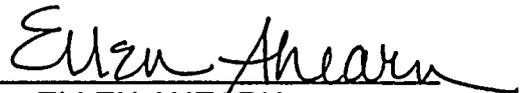
RESOLVED, that the form of Application of this Corporation, for approval of the Share Exchange, by the Federal Energy Regulatory Commission ("FERC") pursuant to Section 203 of the Federal Power Act, as presented to the meeting, be and it hereby is in all respects approved, and the Chairman of the Board of Directors and Chief Executive Officer and the officers of the Corporation be and they hereby are authorized (i) to file such Application with the FERC, with such changes therein as such officers shall approve, and (ii) to take all other necessary and appropriate steps to obtain such approval.

RESOLVED, that the proposal whereby this Corporation would be reorganized to implement certain of the terms of that certain Amended and Restated Settlement Agreement, dated January 2, 1998, by and among this Corporation, the Staff of the Public Service Commission of New York ("PSC") and certain others (as modified and adopted by the PSC by Order issued and effective February 19, 1998, and as thereafter modified, by instrument dated February 26, 1998 to reflect the terms of said Order (as modified, the "Settlement Agreement")), by forming a wholly-owned subsidiary ("Holding Company") which would enter into an Agreement and Plan of Exchange ("Exchange Company") with the Corporation pursuant to which the Corporation, subject to satisfaction of certain conditions, would become a wholly-owned subsidiary of the Holding



Company through the exchange of the outstanding shares of the Corporation's Common Stock, par value \$5.00 per share, for the Holding Company's share of Common Stock ("Share Exchange") subject to dissenters statutory appraisal rights, and thereafter the distribution to the Holding Company of ownership of certain of the Corporation's subsidiaries ("Reorganization") be and it hereby is in all respects approved.

IN WITNESS WHEREOF, I have hereunto set my hand as Secretary of Central Hudson Gas & Electric Corporation and affixed its corporate seal this 6th day of April 1998.



ELLEN AHEARN

Secretary



EXHIBIT B

STATEMENT OF MEASURE OF CONTROL OR OWNERSHIP

On the following pages is a statement of measure of control or ownership exercised by or over Central Hudson Gas & Electric Corporation as to any public utility, or bank, trust company, banking association or firm authorized to underwrite or participate in the marketing of securities of a public utility, or any company supplying electric equipment to such party, and the extent of any intercorporate relationships:



## EXHIBIT B

### Statement of Measurement of Control or Ownership and Intercorporate Relationships

Initially, Central Hudson Gas & Electric Corporation ("Applicant") will own all of the outstanding common stock of Holdco, Inc. ("Holdco"). As more fully described in this Application, Applicant is seeking FERC approval of a corporate reorganization in which Applicant will become a wholly-owned subsidiary of Holdco.

As set forth in Article III of the Application to the Commission, Holdco has not yet been formed. Accordingly, there are currently no intercorporate relationships between Applicant and Holdco. Applicant is currently not a member of any holding company system.

There is no control of ownership exercised by or over Applicant as to any public utility, or bank, trust company, banking association, or firm that is authorized by law to underwrite or participate in the marketing of securities of a public utility, or any company supplying electric equipment to Applicant.



Name of Respondent CENTRAL HUDSON GAS & ELECTRIC CORPORATION		This Report Is: (1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission		Date of Report (Mo, Da, Yr) 04/30/98	Year of Report Dec. 31, 1997
COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)					
Line No.	Title of Account (a)	Ref. Page No. (b)	Balance at Beginning of Year (c)	Balance at End of Year (d)	
1	UTILITY PLANT				
2	Utility Plant (101-106, 114)	200-201	\$1,404,763,698	\$1,436,479,345	
3	Construction Work in Progress (107)	200-201	48,699,576	52,413,380	
4	TOTAL UTILITY PLANT (Enter Total of lines 2 and 3)		\$1,453,463,274	\$1,488,892,725	
5	(Less) Accum. Prov. for Depr. Amort. Depl. (108, 111, 115)	200-201	520,999,343	560,304,208	
6	Net Utility Plant (Enter Total of line 4 Less 5)	-	\$932,463,931	\$928,588,517	
7	Nuclear Fuel (120.1-120.4, 120.6)	202-203	36,913,334	37,261,734	
8	(Less) Accum. Prov. for Amort. of Nucl. Assemblies (120.5)	202-203	29,748,486	33,059,071	
9	Net Nuclear Fuel (Enter Total of lines 7 Less 8)	-	\$7,164,848	\$4,202,663	
10	Net Utility Plant (Enter Total of lines 6 and 9)	-	\$939,628,779	\$932,791,180	
11	Utility Plant Adjustments (116)	122			
12	Gas Stored Underground-Noncurrent (117)	-			
13	OTHER PROPERTY AND INVESTMENTS				
14	Nonutility Property (121)	221	978,853	978,853	
15	(Less) Accum. Prov. for Depr. and Amort. (122)	-	4,207	6,243	
16	Investments in Associated Companies (123)	-			
17	Investment in Subsidiary Companies (123.1)	224-225	11,806,978	12,169,365	
18	(For Cost of Account 123.1, See Footnote Page 224, Line 42)	-			
19	Noncurrent Portion of Allowances	228-229			
20	Other Investments (124)		269,691	205,912	
21	Special Funds (125-128)	-	18,803,502	34,529,501	
22	TOTAL Other Property and Investments (Total of lines 14-17, 19-21)		\$31,854,817	\$47,877,388	
23	CURRENT AND ACCRUED ASSETS				
24	Cash (131)	-	1,763,693	(1,266,968)	
25	Special Deposits (132-134)	-	248,117	271,616	
26	Working Fund (135)	-	336,730	979,213	
27	Temporary Cash Investments (136)	-	35,903	7,397,266	
28	Notes Receivable (141)				
29	Customer Accounts Receivable (142)	-	48,011,208	49,508,054	
30	Other Accounts Receivable (143)	-	2,567,624	1,719,393	
31	(Less) Accum. Prov. for Uncollectible Acct.-Credit (144)	-	3,200,000	2,800,000	
32	Notes Receivable from Associated Companies (145)	-			
33	Accounts Receivable from Assoc. Companies (146)	-	42,020	26,255	
34	Fuel Stock (151)	227	11,062,596	7,953,691	
35	Fuel Stock Expenses Undistributed (152)	227			
36	Residuals (Elec) and Extracted Products (153)	227			
37	Plant Materials and Operating Supplies (154)	227	12,613,359	12,088,474	
38	Merchandise (155)	227			
39	Other Materials and Supplies (156)	227			
40	Nuclear Materials Held for Sale (157)	202-203/227			
41	Allowances (158.1 and 158.2)	228-229			
42	(Less) Noncurrent Portion of Allowances	228-229			
43	Stores Expense Undistributed (163)	-	425,485	29,511	
44	Gas Stored Underground-Current (164.1)	-	3,872,749	3,966,586	
45	Liquefied Natural Gas Stored and Held for Processing (164.2-164.3)	-			
46	Prepayments (165)	-	11,690,311	12,028,901	
47	Advances for Gas (166-167)	-			
48	Interest and Dividends Receivable (171)	-	156	2,756	
49	Rents Receivable (172)	-	300,959	350,600	
50	Accrued Utility Revenues (173)	-	16,042,227	16,229,185	
51	Miscellaneous Current and Accrued Assets (174)	-	1,326,206	1,601,192	
52	TOTAL Current and Accrued Assets (Enter Total of lines 24 thru 51)		\$107,139,343	\$110,085,725	



COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS) (Continued)

Line No.	Title of Account (a)	Ref. Page No. (b)	Balance at Beginning of Year (c)	Balance at End of Year (d)
53	DEFERRED DEBITS			
54	Unamortized Debt Expenses (181)	-	\$5,392,702	\$5,001,694
55	Extraordinary Property Losses (182.1)	230		
56	Unrecovered Plant and Regulatory Study Costs (182.2)	230		
57	Other Regulatory Assets (182.3)	232	151,378,226	140,185,072
58	Prelim. Survey and Investigation Charges (Electric) (183)	-	242,141	394,466
59	Prelim. Sur. and Invest. Charges (Gas) (183.1, 183.2)	-		
60	Clearing Accounts (184)	-	209,637	259,594
61	Temporary Facilities (185)	-		
62	Miscellaneous Deferred Debits (186)	233	4,121,168	7,918,158
63	Def. Losses from Disposition of Utility Plt. (187)	-		
64	Research, Devel. and Demonstration Expend. (188)	352-353	(3,456,676)	(3,964,970)
65	Unamortized Loss on Reacquired Debt (189)	-	3,505,185	3,015,861
66	Accumulated Deferred Income Taxes (190)	234	56,261,006	50,606,700
67	Unrecovered Purchased Gas Costs (191)	-		
68	TOTAL Deferred Debits (Enter Total of lines 54 thru 67)		\$217,653,389	\$203,416,575
69	TOTAL Assets and other Debits (Enter Total of lines 10,11,12, 22,52, and 68)		\$1,296,276,328	\$1,294,170,868



Name of Respondent CENTRAL HUDSON GAS & ELECTRIC CORPORATION		This Report Is: (1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission		Date of Report (Mo, Da, Yr) 04/30/98	Year of Report Dec. 31, 1997
COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)					
Line No.	Title of Account (a)	Ref. Page No. (b)	Balance at Beginning of Year (c)	Balance at End of Year (d)	
1	PROPRIETARY CAPITAL				
2	Common Stock Issued (201)	250-251	\$87,774,935	\$87,774,935	
3	Preferred Stock Issued (204)	250-251	56,030,000	56,030,000	
4	Capital Stock Subscribed (202, 205)	252			
5	Stock Liability for Conversion (203, 206)	252			
6	Premium on Capital Stock (207)	252	66,491,485	66,491,485	
7	Other Paid-in Capital (208-211)	253	217,973,476	217,973,476	
8	Installments Received on Capital Stock (212)	252			
9	(Less) Discount on Capital Stock (213)	254			
10	(Less) Capital Stock Expense (214)	254	6,352,063	6,277,855	
11	Retained Earnings (215, 215.1, 216)	118-119	100,685,492	115,042,608	
12	Unappropriated Undistributed Subsidiary Earnings (216.1)	118-119	5,135,111	5,497,498	
13	(Less) Reacquired Capital Stock (217)	250-251		9,398,077	
14	TOTAL Proprietary Capital (Enter Total of Lines 2 thru 13)	-	\$527,738,436	\$533,134,070	
15	LONG-TERM DEBT				
16	Bonds (221)	256-257	172,200,000	172,115,000	
17	(Less) Reacquired Bonds (222)	256-257			
18	Advances from Associated Companies (223)	256-257			
19	Other Long-Term Debt (224)	256-257	184,250,000	184,250,000	
20	Unamortized Premium on Long-Term Debt (225)	-			
21	(Less) Unamortized Discount on Long-Term Debt-Debit (226)	-	623,712	598,080	
22	TOTAL Long-Term Debt (Enter Total of Lines 16 thru 21)	-	\$355,826,288	\$355,766,920	
23	OTHER NONCURRENT LIABILITIES				
24	Obligations Under Capital Leases-Noncurrent (227)	-			
25	Accumulated Provision for Property Insurance (228.1)	-			
26	Accumulated Provision for Injuries and Damages (228.2)	-	4,799,946	5,257,194	
27	Accumulated Provision for Pensions and Benefits (228.3)	-			
28	Accumulated Miscellaneous Operating Provisions (228.4)	-	(44,682)	1,324,420	
29	Accumulated Provision for Rate Refunds (229)	-			
30	TOTAL OTHER Noncurrent Liabilities (Enter Total of lines 24 thru 29)		\$4,755,264	\$6,581,614	
31	CURRENT AND ACCRUED LIABILITIES				
32	Notes Payable (231)	-	15,600,000	0	
33	Accounts Payable (232)	-	25,606,204	23,935,397	
34	Notes Payable to Associated Companies (233)	-			
35	Account Payable to Associated Companies (234)	-	994,695	1,079,805	
36	Customer Deposits (235)	-	4,019,353	4,000,498	
37	Taxes Accrued (236)	262-263	456,124	(1,338,594)	
38	Interest Accrued (237)	-	4,888,898	4,577,003	
39	Dividends Declared (238)	-	10,111,630	10,052,174	
40	Matured Long-Term Debt (239)	-			
41	Matured Interests (240)	-			
42	Tax Collections Payable (241)	-	232,165	188,177	
43	Miscellaneous Current and Accrued Liabilities (242)	-	10,694,866	10,696,161	
44	Obligations Under Capital Leases-Current (243)	-			
45	TOTAL Current and Accrued Liabilities(Enter Total of lines 32 thru 44)		\$72,603,935	\$53,190,621	



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COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS) (Continued)					
Line No.	Title of Account (a)	Ref. Page No. (b)	Balance at Beginning of Year (c)	Balance at End of Year (d)	
46	DEFERRED CREDITS				
47	Customer Advances for Construction (252)		\$870,379	\$713,398	
48	Accumulated Deferred Investment Tax Credits (255)	266-267	28,447,900	27,554,900	
49	Deferred Gains from Disposition of Utility Plant (256)				
50	Other Deferred Credits (253)	269	6,307,242	7,513,193	
51	Other Regulatory Liabilities (254)	278	74,587,778	81,271,352	
52	Unamortized Gain on Reacquired Debt (257)	269			
53	Accumulated Deferred Income Taxes (281-283)	272-277	225,139,106	228,444,800	
54	TOTAL Deferred Credits (Enter Total of Lines 47 thru 53)		\$335,352,405	\$345,497,643	
55					
56					
57					
58					
59					
60					
61					
62					
63					
64					
65					
66					
67					
68	TOTAL Liabilities and Other Credits (Enter Total of Lines 14, 22, 30, 45 and 54)		\$1,296,276,328	\$1,294,170,868	



Name of Respondent CENTRAL HUDSON GAS & ELECTRIC CORPORATION		This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 04/30/98	Year of Report Dec. 31, 1997
<b>SUMMARY OF UTILITY PLANT AND ACCUMULATED PROVISIONS FOR DEPRECIATION, AMORTIZATION AND DEPLETION</b>				
Line No.	Item (a)	Total (b)	Electric (c)	
1	UTILITY PLANT			
2	In Service			
3	Plant in Service (Classified)	\$1,436,352,433	\$1,193,607,957	
4	Property Under Capital Leases			
5	Plant Purchased or Sold			
6	Completed Construction not Classified			
7	Experimental Plant Unclassified			
8	TOTAL (Enter Total of lines 3 thru 7)	\$1,436,352,433	\$1,193,607,957	
9	Leased to Others			
10	Held for Future Use	126,912	126,912	
11	Construction Work in Progress	52,413,380	39,689,759	
12	Acquisition Adjustments			
13	TOTAL Utility Plant (Enter total of lines 8 thru 12)	\$1,488,892,725	\$1,233,424,628	
14	Accum. Prov. for Depr., Amort., & Depl.	560,304,208	485,477,030	
15	Net Utility Plant (Enter Total of line 13 less 14)	\$928,588,517	\$747,947,598	
16	DETAIL OF ACCUMULATED PROVISIONS FOR DEPRECIATION, AMORTIZATION AND DEPLETION			
17	In Service:			
18	Depreciation	556,226,464	482,002,578	
19	Amort. and Depl. of Producing Natural Gas Land and Land Rights			
20	Amort. of Underground Storage Land and Land Rights			
21	Amort. of Other Utility Plant	4,077,744	3,474,452	
22	TOTAL In Service (Enter Total of lines 18 thru 21)	\$560,304,208	\$485,477,030	
23	Leased to Others			
24	Depreciation			
25	Amortization and Depletion			
26	TOTAL Leased to Others (Enter Total of lines 24 and 25)			
27	Held for Future Use			
28	Depreciation			
29	Amortization			
30	TOTAL Held for Future Use (Enter Total of lines 28 and 29)			
31	Abandonment of Leases (Natural Gas)			
32	Amort. of Plant Acquisition Adj.			
33	TOTAL Accumulated Provisions (Should agree with line 14 above) (Enter Total of lines 22,26,30,31 and 32)	\$560,304,208	\$485,477,030	



SUMMARY OF UTILITY PLANT AND ACCUMULATED PROVISIONS  
FOR DEPRECIATION, AMORTIZATION AND DEPLETION

Gas (d)	Other(Specify) (e)	Other(Specify) (f)	Other(Specify) (g)	Common (h)	Line No.
					1
					2
\$151,221,873				\$91,522,603	3
					4
					5
					6
					7
\$151,221,873				\$91,522,603	8
					9
					10
8,720,141				4,003,480	11
					12
\$159,942,014				\$95,526,083	13
50,717,627				24,109,551	14
\$109,224,387				\$71,416,532	15
					16
					17
50,717,627				23,506,259	18
					19
					20
				603,292	21
\$50,717,627				\$24,109,551	22
					23
					24
					25
					26
					27
					28
					29
					30
					31
					32
\$50,717,627				\$24,109,551	33



**NUCLEAR FUEL MATERIALS (Accounts 120.1 through 120.6 and 157)**

1. Report below the costs incurred for nuclear fuel materials in process of fabrication, on hand, in reactor, and in cooling; owned by the respondent.

2. If the nuclear fuel stock is obtained under leasing arrangements, attach a statement showing the amount of nuclear fuel leased, the quantity used and quantity on hand, and the costs incurred under such leasing arrangements.

Line No.	Description of item  (a)	Balance Beginning of Year  (b)	Changes During Year
			Additions  (c)
1	Nuclear Fuel in process of Refinement, Conversion, Enrichment & Fabrication (120.1)		
2	Fabrication	0	345,453
3	Nuclear Materials	0	0
4	Allowance for Funds Used during Construction	0	2,875
5	(Other Overhead Construction Costs)	0	0
6	<b>SUBTOTAL (Enter Total of lines 2 thru 5)</b>	0	
7	<b>Nuclear Fuel Materials and Assemblies</b>		
8	In Stock (120.2)	0	0
9	In Reactor (120.3)	14,070,639	72
10	<b>SUBTOTAL (Enter Total of lines 8 thru 9)</b>	\$14,070,639	
11	Spent Nuclear Fuel (120.4)	22,842,695	0
12	Nuclear Fuel Under Capital Leases (120.6)		
13	(Less) Accum. Prov. for Amortization of Nuclear Fuel Assemblies (120.5)	29,748,486	
14	<b>TOTAL Nuclear Fuel Stock (Enter Total lines 6, 10, 11, and 12 less line 13)</b>	\$7,164,848	
15	Estimated net Salvage Value of Nuclear Materials in line 9		
16	Estimated net Salvage Value of Nuclear Materials in line 11		
17	Estimated net Salvage Value of Nuclear Materials in Chemical Processing		
18	Nuclear Materials held for Sale (157)		
19	Uranium		
20	Plutonium		
21	Other		
22	<b>TOTAL Nuclear Materials held for Sale Enter Total of lines 19, 20, and 21</b>		



NUCLEAR FUEL MATERIALS (Accounts 120.1 through 120.6 and 157)(Continued)

Changes During the Year		Balance End of Year (f)	Line No.
Amortization (d)	Other Reductions (Explain in a footnote) (e)		
			1
	0	345,453	2
	0	0	3
	0	2,875	4
	0	0	5
		\$348,328	6
			7
	0	0	8
	0	14,070,711	9
		\$14,070,711	10
		22,842,695	11
			12
(3,310,585)		33,059,071	13
		\$4,202,663	14
			15
			16
			17
			18
			19
			20
			21
			22



Name of Respondent CENTRAL HUDSON GAS & ELECTRIC CORPORATION		This Report Is: (1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 04/30/98	Year of Report Dec. 31, 1997
<b>ELECTRIC PLANT IN SERVICE (Accounts 101,102,103,and 106)</b>				
<p>1. Report below the original cost of electric plant in service according to the prescribed accounts.</p> <p>2. In addition to Account 101, Electric Plant in Service (Classified), this page and the next include Account 102, Electric Plant Purchased or Sold; Account 103, Experimental Electric Plant Unclassified; and Account 106, Completed Construction Not Classified-Electric.</p> <p>3. Include in column (c) or (d), as appropriate, corrections of additions and retirements for the current or preceding year.</p> <p>4. Enclose in parentheses credit adjustments of plant accounts to indicate the negative effect of such accounts.</p> <p>5. Classify Account 106 according to prescribed accounts, on an estimated basis if necessary, and include the entries in column (c). Also to be included in column (c) are entries for reversals of tentative distributions of prior year reported in column (b). Likewise, if the respondent has a significant amount of plant retirements which have not been classified to primary accounts at the end of the year, include in column (d) a tentative distribution of such retirements, on an estimated basis, with appropriate contra entry to the account for accumulated depreciation provision. Include also in column(d) reversals of tentative distributions of prior year of unclassified retirements. Show in a footnote the account distributions of these tentative classifications in columns (c) and (d), including the</p>				
Line No.	Account (a)	Balance at Beginning of Year (b)	Addition (c)	
1	1. INTANGIBLE PLANT			
2	(301) Organization	\$45,519		
3	(302) Franchises and Consents			
4	(303) Miscellaneous Intangible Plant			
5	TOTAL Intangible Plant (Enter Total of lines 2, 3, and 4)	\$45,519		
6	2. PRODUCTION PLANT			
7	A. Steam Production Plant			
8	(310) Land and Land Rights	948,508		
9	(311) Structures and Improvements	64,850,073	1,795,519	
10	(312) Boiler Plant Equipment	217,633,701	6,247,987	
11	(313) Engines and Engine-Driven Generators			
12	(314) Turbogenerator Units	62,660,729	196,184	
13	(315) Accessory Electric Equipment	34,994,840	651,388	
14	(316) Misc. Power Plant Equipment	8,027,431	(1,129,629)	
15	TOTAL Steam Production Plant (Enter Total of lines 8 thru 14)	\$389,115,282	\$7,761,449	
16	B. Nuclear Production Plant			
17	(320) Land and Land Rights	31,906	1,905	
18	(321) Structures and Improvements	112,330,374	399,927	
19	(322) Reactor Plant Equipment	99,684,529	1,181,500	
20	(323) Turbo generator Units	31,380,085	38,112	
21	(324) Accessory Electric Equipment	49,071,903	40,159	
22	(325) Misc. Power Plant Equipment	12,817,545	18,115	
23	TOTAL Nuclear Production Plant (Enter Total of lines 17 thru 22)	\$305,316,342	\$1,679,718	
24	C. Hydraulic Production Plant			
25	(330) Land and Land Rights	1,186,879		
26	(331) Structures and Improvements	2,531,245	75,310	
27	(332) Reservoirs, Dams, and Waterways	8,048,079	26,462	
28	(333) Water Wheels, Turbines, and Generators	5,326,370		
29	(334) Accessory Electric Equipment	1,738,507	117,248	
30	(335) Misc. Power Plant Equipment	154,073		
31	(336) Roads, Railroads, and Bridges			
32	TOTAL Hydraulic Production Plant (Enter Total of lines 25 thru 31)	\$18,985,153	\$219,020	
33	D. Other Production Plant			
34	(340) Land and Land Rights	11,192		
35	(341) Structures and Improvements	379,293		
36	(342) Fuel Holders, Products, and Accessories	440,325		
37	(343) Prime Movers	897,452		
38	(344) Generators	644,618		
39	(345) Accessory Electric Equipment	264,388		



ELECTRIC PLANT IN SERVICE (Accounts 101,102,103,and 106)(Continued)

Reversals of the prior years tentative account distributions of these amounts. Careful observance of the above instructions and the texts of Accounts 101 and 106 will avoid serious omissions of the reported amount of respondent's plant actually in service at end of year.

6. Show in column (f) reclassifications or transfers within utility plant accounts. Include also in column(f) the additions or reductions of primary account classifications arising from distribution of amounts initially recorded in Account 102. In showing the clearance of Account 102, include in column (e) the amounts with respect to accumulated provision for depreciation, acquisition adjustments, etc., and show in col-

umn (f) only the offset to the debits or credits distributed in column (f) to primary account classifications.

7. For Account 399, state the nature and use of plant included in this account and if substantial in amount submit a supplementary statement showing subaccount classification of such plant conforming to the requirements of these pages.

8. For each amount comprising the reported balance and changes in Account 102, state the property purchased or sold, name of vendor or purchaser, and date of transaction. If proposed journal entries have been filed with the Commission as required by the Uniform System of Accounts, give also date of such filing.

Retirements (d)	Adjustments (e)	Transfers (f)	Balance at End of Year (g)		Line No.
					1
			\$45,519	(301)	2
				(302)	3
				(303)	4
			\$45,519		5
					6
					7
			948,508	(310)	8
270,244			66,375,348	(311)	9
1,660,874			222,220,814	(312)	10
			0	(313)	11
57,847			62,799,066	(314)	12
139,993			35,506,235	(315)	13
17,922			6,879,880	(316)	14
\$2,146,880			\$394,729,851		15
					16
			33,811	(320)	17
			112,730,301	(321)	18
			100,866,029	(322)	19
			31,418,197	(323)	20
			49,112,062	(324)	21
			12,835,660	(325)	22
			\$306,996,060		23
					24
			1,186,879	(330)	25
1,429			2,605,126	(331)	26
			8,074,541	(332)	27
			5,326,370	(333)	28
4,670			1,851,085	(334)	29
			154,073	(335)	30
				(336)	31
\$6,099			\$19,198,074		32
					33
			11,192	(340)	34
			379,293	(341)	35
			440,325	(342)	36
			897,452	(343)	37
			644,618	(344)	38
			264,388	(345)	39



Name of Respondent CENTRAL HUDSON GAS & ELECTRIC CORPORATION		This Report Is: (1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 04/30/98	Year of Report Dec. 31, 1997
ELECTRIC PLANT IN SERVICE (Accounts 101,102,103,and 106)(Continued)				
Line No.	Account (a)	Balance at Beginning of Year (b)	Additions (c)	
40	(346) Misc. Power Plant Equipment	\$3,993		
41	TOTAL Other Prod. Plant (Enter Total of lines 34 thru 40)	\$2,641,261	0	
42	TOTAL Prod. Plant (Enter Total of lines 15, 23, 32, and 41)	\$716,058,038	\$9,660,187	
43	3. TRANSMISSION PLANT			
44	(350) Land and Land Rights	9,890,477	4,556	
45	(352) Structures and Improvements	3,295,787	108,814	
46	(353) Station Equipment	65,993,805	1,058,017	
47	(354) Towers and Fixtures	2,046,442	129,924	
48	(355) Poles and Fixtures	13,126,970	(30,253)	
49	(356) Overhead Conductors and Devices	15,434,229	361,891	
50	(357) Underground Conduit	15,216		
51	(358) Underground Conductors and Devices	6,878,469		
52	(359) Roads and Trails			
53	TOTAL Transmission Plant (Enter Total of lines 44 thru 52)	\$116,681,395	\$1,632,949	
54	4. DISTRIBUTION PLANT			
55	(360) Land and Land Rights	1,841,474		
56	(361) Structures and Improvements	2,894,709	41,279	
57	(362) Station Equipment	48,296,401	1,437,409	
58	(363) Storage Battery Equipment			
59	(364) Poles, Towers, and Fixtures	59,681,289	3,197,741	
60	(365) Overhead Conductors and Devices	70,624,990	1,757,550	
61	(366) Underground Conduit	9,846,228	242,031	
62	(367) Underground Conductors and Devices	24,226,764	914,930	
63	(368) Line Transformers	63,470,609	2,506,812	
64	(369) Services	19,617,946	1,483,712	
65	(370) Meters	23,751,625	731,295	
66	(371) Installations on Customer Premises	1,494,561	222,094	
67	(372) Leased Property on Customer Premises	310,527	215,502	
68	(373) Street Lighting and Signal Systems	6,157,560	255,699	
69	TOTAL Distribution Plant (Enter Total of lines 55 thru 68)	\$332,214,683	\$13,006,054	
70	5. GENERAL PLANT			
71	(389) Land and Land Rights	12,077		
72	(390) Structures and Improvements	1,059,018	92,115	
73	(391) Office Furniture and Equipment	3,716,072	99,309	
74	(392) Transportation Equipment	96,166	140,734	
75	(393) Stores Equipment	49,988	5	
76	(394) Tools, Shop and Garage Equipment	858,495	3,494	
77	(395) Laboratory Equipment	318,292	47,397	
78	(396) Power Operated Equipment	92	2,203,255	
79	(397) Communication Equipment	564,821	48,121	
80	(398) Miscellaneous Equipment	(3,466)	1,695	
81	SUBTOTAL (Enter Total of lines 71 thru 80)	\$6,671,555	\$2,636,125	
82	(399) Other Tangible Property			
83	TOTAL General Plant (Enter Total of lines 81 and 82)	\$6,671,555	\$2,636,125	
84	TOTAL (Accounts 101 and 106) (lines 5,15,23,32,41,53,69,83)	\$1,171,671,190	\$26,935,315	
85	(102) Electric Plant Purchased (See Instr. 8)			
86	(Less) (102) Electric Plant Sold (See Instr. 8)			
87	(103) Experimental Plant Unclassified			
88	TOTAL Electric Plant in Service (Enter Total of lines 84 thru 87)	\$1,171,671,190	\$26,935,315	



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ELECTRIC PLANT IN SERVICE (Accounts 101,102,103,and 106)(Continued)							
Retirements (d)	Adjustments (e)	Transfers (f)	Balance at End of year (g)				Line No.
			\$3,993	(346)			40
			\$2,641,261				41
\$2,152,979			\$723,565,246				42
							43
			9,895,033	(350)			44
9,788			3,394,813	(352)			45
296,825			66,754,997	(353)			46
1,021			2,175,345	(354)			47
9,787			13,086,930	(355)			48
1,970			15,794,150	(356)			49
			15,216	(357)			50
			6,878,469	(358)			51
				(359)			52
\$319,391			\$117,994,953				53
							54
			1,841,474	(360)			55
12,120			2,923,868	(361)			56
583,631			49,150,179	(362)			57
				(363)			58
360,092			62,518,938	(364)			59
232,958			72,149,582	(365)			60
1,111			10,087,148	(366)			61
15,053			25,126,641	(367)			62
634,775			65,342,646	(368)			63
83,519			21,018,139	(369)			64
432,681			24,050,239	(370)			65
46,151			1,670,504	(371)			66
47,018			479,011	(372)			67
72,973			6,340,286	(373)			68
\$2,522,082			\$342,698,655				69
							70
			12,077	(389)			71
3,567			1,147,566	(390)			72
			3,815,381	(391)			73
			236,900	(392)			74
			49,993	(393)			75
			861,989	(394)			76
			365,689	(395)			77
			2,203,347	(396)			78
529			612,413	(397)			79
			(1,771)	(398)			80
\$4,096			\$9,303,584				81
				(399)			82
\$4,096			\$9,303,584				83
\$4,998,548			\$1,193,607,957				84
				(102)			85
							86
				(103)			87
\$4,998,548			\$1,193,607,957				88



Name of Respondent CENTRAL HUDSON GAS & ELECTRIC CORPORATION	This Report Is: (1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission	Date of Report (MO, DA, YF) 04/30/98	Year of Report Dec. 31, 1997
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**ELECTRIC PLANT HELD FOR FUTURE USE (Account 105)**

1. Report separately each property held for future use at end of the year having an original cost of \$250,000 or more. Group other items of property held for future use.
2. For property having an original cost of \$ 250,000 or more previously used in utility operations, now held for future use, give in column (a), in addition to other required information, the date that utility use of such property was discontinued, and the date the original cost was transferred to Account 105.

Line No.	Description and Location of Property (a)	Date Originally Included in This Account (b)	Date Expected to be Used in Utility Service (c)	Balance at End of Year (d)
1	Land and Rights:			
2	Acquired rights of way for future transmission line			
3	from Danskammer Point Stream Station to Manchester			
4	Road Substation		12/31/01	33,378
5				
6	Land acquired for future expansion of Ohioville		12/31/01	12,835
7	Substation			
8				
9	Land acquired for future gas regulator station site		12/31/01	50,473
10				
11	Land acquired for future expansion of North Chelsea		12/31/01	29,292
12	Substation			
13				
14	Ravena Substation land transferred to future use in		12/31/01	505
15	1995 for future expansion			
16				
17	Hopewell Junction Substation land transferred to		12/31/01	429
18	future use in 1996 for future expansion			
19				
20				
21	Other Property:			
22				
23				
24				
25				
26				
27				
28				
29				
30				
31				
32				
33				
34				
35				
36				
37				
38				
39				
40				
41				
42				
43				
44				
45				
46				
47	<b>TOTAL</b>			<b>\$126,912</b>



EXHIBIT D

Statement of all known contingent liabilities

As of the date of this Application, the material contingent liabilities of Central Hudson Gas & Electric Corporation ("Applicant"), not including minor items such as damage claims and similar items involving relatively small amounts, are set forth in Applicant's Annual Report on Form 10-K for the year ended December 31, 1997, a copy of which is attached hereto.

11/11/11



Name of Respondent CENTRAL HUDSON GAS & ELECTRIC CORPORATION		This Report Is: (1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission		Date of Report (Mo, Da, Yr) 04/30/98	Year of Report Dec. 31, 1997
<b>STATEMENT OF INCOME FOR THE YEAR</b>					
<p>1. Report amounts for accounts 412 and 413, Revenue and Expenses from Utility Plant Leased to Others, in another Utility column (i,k,m,o) in a similar manner to a utility department. Spread the amount(s) over lines 02 thru 24 as appropriate. Include these amounts in columns (c) and (d) totals.</p> <p>2. Report amounts in account 414, Other Utility Operating Income, in the same manner as accounts 412 and 413 above.</p> <p>3. Report data for lines 7,9, and 10 for Natural Gas companies using accounts 404.1, 404.2, 404.3, 407.1 and 407.2.</p> <p>4. Use pages 122-123 for important notes regarding the statement of income or any account thereof.</p>			<p>5. Give concise explanations concerning unsettled rate proceedings where a contingency exists such that refunds of a material amount may need to be made to the utility's customers or which may result in a material refund to the utility with respect to power or gas purchases. State for each year affected the gross revenues or costs to which the contingency relates and the tax effects together with an explanation of the major factors which affect the rights of the utility to retain such revenues or recover amounts paid with respect to power and gas purchases.</p> <p>6. Give concise explanations concerning significant amounts of any refunds made or received during the year.</p>		
Line No.	Account (a)	(Ref.) Page No. (b)	TOTAL		
			Current Year (c)	Previous Year (d)	
1	UTILITY OPERATING INCOME				
2	Operating Revenues (400)	300-301	\$520,277,241	\$513,971,482	
3	Operating Expenses				
4	Operation Expenses (401)	320-323	284,714,559	267,778,470	
5	Maintenance Expenses (402)	320-323	27,573,985	28,938,396	
6	Depreciation Expense (403)	336-337	43,630,841	42,366,171	
7	Amort. & Depl. of Utility Plant (404-405)	336-337	233,701	213,525	
8	Amort. of Utility Plant Acq. Adj. (406)	336-337	0	0	
9	Amort. of Property Losses, Unrecovered Plant and Regulatory Study Costs (407)		0	0	
10	Amort. of Conversion Expenses (407)		0	0	
11	Regulatory Debits (407.3)		0	0	
12	(Less) Regulatory Credits (407.4)		0	0	
13	Taxes Other Than Income Taxes (408.1)	262-263	64,878,841	66,145,040	
14	Income Taxes - Federal (409.1)	262-263	19,004,000	18,936,000	
15	- Other (409.1)	262-263	0	0	
16	Provision for Deferred Income Taxes (410.1)	234,272-277	32,754,800	25,397,100	
17	(Less) Provision for Deferred Income Taxes - Cr. (411.1)	234,272-277	23,169,100	11,632,500	
18	Investment Tax Credit Adj. - Net (411.4)	266	600,000	0	
19	(Less) Gains from Disp. of Utility Plant (411.6)		0	0	
20	Losses from Disp. of Utility Plant (411.7)		0	0	
21	(Less) Gains from Disposition of Allowances (411.8)		0	0	
22	Losses from Disposition of Allowances (411.9)		0	0	
23	TOTAL Utility Operating Expenses (Enter Total of Lines 4 thru 22)		\$450,221,627	\$438,142,202	
24	Net Utility Operating Income (Enter Total of line 2 less 23) (Carry forward to page 117, line 25)		\$70,055,614	\$75,829,280	



Name of Respondent CENTRAL HUDSON GAS & ELECTRIC CORPORATION	This Report Is: (1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 06/30/98	Year of Report Dec. 31, 1997
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STATEMENT OF INCOME FOR THE YEAR (Continued)

resulting from settlement of any rate proceeding affecting revenues received or costs incurred for power or gas purchases, and a summary of the adjustments made to balance sheet, income, and expense accounts.

7. If any notes appearing in the report to stockholders are applicable to this Statement of Income, such notes may be included on pages 122-123.

8. Enter on pages 122-123 a concise explanation of only those changes in accounting methods made during the year

which had an effect on net income, including the basis of allocations and apportionments from those used in the preceding year. Also give the approximate dollar effect of such changes.

9. Explain in a footnote if the previous year's figures are different from that reported in prior reports.

10. If the columns are insufficient for reporting additional utility departments, supply the appropriate account titles, lines 2 to 23, and report the information in the blank space on pages 122-123 or in a footnote.

ELECTRIC UTILITY		GAS UTILITY		OTHER UTILITY		Line No.
Current Year (e)	Previous Year (f)	Current Year (g)	Previous Year (h)	Current Year (i)	Previous Year (j)	
\$416,428,746	\$418,761,211	\$103,848,495	\$95,210,271			1
						2
						3
212,445,121	202,983,820	72,269,438	64,794,650			4
24,996,309	25,555,433	2,577,676	3,382,963			5
39,261,279	38,200,359	4,369,562	4,165,812			6
218,101	200,475	15,600	13,050			7
						8
						9
						10
						11
						12
54,877,890	56,356,108	10,000,951	9,788,932			13
15,802,000	18,199,000	3,202,000	737,000			14
						15
29,532,500	20,549,800	3,222,300	4,847,300			16
21,309,700	10,156,800	1,859,400	1,475,700			17
597,000		3,000				18
						19
						20
						21
						22
\$356,420,500	\$351,888,195	\$93,801,127	\$86,254,007			23
\$60,008,246	\$66,873,016	\$10,047,368	8,956,264			24



Name of Respondent CENTRAL HUDSON GAS & ELECTRIC CORPORATION		This Report Is: <input type="checkbox"/> (1) An Original <input checked="" type="checkbox"/> (2) A Resubmission		Date of Report (Mo, Da, Yr) 04/30/98	Year of Report Dec. 31, 1997
STATEMENT OF INCOME FOR THE YEAR (Continued)					
Line No.	Account (a)	(Ref.) Page No. (b)	TOTAL		
			Current Year (c)	Previous Year (d)	
25	Net Utility Operating Income (Carried forward from page 114)	--	\$70,055,614	\$75,829,280	
26	Other Income and Deductions				
27	Other Income				
28	Nonutility Operating Income				
29	Revenues From Merchandising, Jobbing and Contract Work (415)		83,733	354,682	
30	(Less) Costs and Exp. of Merchandising, Job. & Contract Work (416)		51,389	319,181	
31	Revenues From Nonutility Operations (417)				
32	(Less) Expenses of Nonutility Operations (417.1)		0	50,000	
33	Nonoperating Rental Income (418)		6,364	6,023	
34	Equity in Earnings of Subsidiary Companies (418.1)	119	362,387	791,591	
35	Interest and Dividend Income (419)		2,347,255	300,174	
36	Allowance for Other Funds Used During Construction (419.1)		387,350	465,639	
37	Miscellaneous Nonoperating Income (421)		7,985,183	8,264,848	
38	Gain on Disposition of Property (421.1)				
39	TOTAL Other Income (Enter Total of lines 29 thru 38)		\$11,120,883	\$9,813,776	
40	Other Income Deductions				
41	Loss on Disposition of Property (421.2)		2,965	25,167	
42	Miscellaneous Amortization (425)	340	1,218,852	1,218,852	
43	Miscellaneous Income Deductions (426.1-426.5)	340	1,332,893	3,193,111	
44	TOTAL Other Income Deductions (Total of lines 41 thru 43)		\$2,554,710	\$4,437,130	
45	Taxes Applic. to Other Income and Deductions				
46	Taxes Other Than Income Taxes (408.2)	262-263	100,121	95,854	
47	Income Taxes - Federal (409.2)	262-263	(6,844,000)	(5,716,000)	
48	Income Taxes - Other (409.2)	262-263			
49	Provision for Deferred Inc. Taxes (410.2)	234,272-277	8,295,700	6,006,400	
50	(Less) Provision for Deferred Income Taxes - Cr. (411.2)	234,272-277	2,912,100	520,100	
51	Investment Tax Credit Adj. - Net (411.5)				
52	(Less) Investment Tax Credits (420)		1,493,000	1,402,000	
53	TOTAL Taxes on Other Income and Deduct. (Total of 46 thru 52)		(\$2,853,279)	(\$1,535,846)	
54	Net Other Income and Deductions (Enter Total of lines 39, 44, 53)		\$11,419,452	\$6,912,492	
55	Interest Charges				
56	Interest on Long-Term Debt (427)		23,096,788	23,616,591	
57	Amort. of Debt Disc. and Expense (428)		416,640	450,360	
58	Amortization of Loss on Recquired Debt (428.1)		489,324	489,324	
59	(Less) Amort. of Premium on Debt - Credit (429)				
60	(Less) Amortization of Gain on Recquired Debt - Credit (429.1)				
61	Interest on Debt to Assoc. Companies (430)	340			
62	Other Interest Expense (431)	340	2,646,928	2,627,346	
63	(Less) Allowance for Borrowed Funds Used During Construction-Cr. (432)		260,934	523,609	
64	Net Interest Charges (Enter Total of lines 56 thru 63)		\$26,388,746	\$26,660,012	
65	Income Before Extraordinary Items (Total of lines 25, 54 and 64)		\$55,086,320	\$56,081,760	
66	Extraordinary Items				
67	Extraordinary Income (434)				
68	(Less) Extraordinary Deductions (435)				
69	Net Extraordinary Items (Enter Total of line 67 less line 68)		0	0	
70	Income Taxes-Federal and Other (409.3)	262-263			
71	Extraordinary Items After Taxes (Enter Total of line 69 less line 70)		0	0	
72	Net Income (Enter Total of lines 65 and 71)		\$55,086,320	\$56,081,760	



Name of Respondent CENTRAL HUDSON GAS & ELECTRIC CORPORATION		This Report Is: (1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 04/30/98	Year of Report Dec. 31, 1997
<b>STATEMENT OF RETAINED EARNINGS FOR THE YEAR</b>				
<p>1. Report all changes in appropriated retained earnings, unappropriated retained earnings, and unappropriated undistributed subsidiary earnings for the the year.</p> <p>2. Each credit and debit during the year should be identified as to the retained earnings account in which recorded ( Accounts 433, 436 - 439 inclusive ). Show the contra primary account affected in column (b).</p> <p>3. State the purpose and amount of each reservation or appropriation of retained earnings.</p> <p>4. List first account 439, Adjustments to Retained Earnings, reflecting adjustments to the opening balance of retained earnings. Follow by credit, then debit items in that order.</p>		<p>5. Show dividends for each class and series of capital stock.</p> <p>6. Show separately the State and Federal income tax effect of items shown in account 439, Adjustments to Retained Earnings.</p> <p>7. Explain in a footnote the basis for determining the amount reserved or appropriated. If such reservation or appropriation is to be recurrent, state the number and annual amounts to be reserved or appropriated as well as the totals eventually to be accumulated.</p> <p>8. If any notes appearing in the report to stockholders are applicable to this statement, include them on pages 122-123.</p>		
Line No.	Item (a)	Contra Primary Account Affected (b)	Amount (c)	
<b>UNAPPROPRIATED RETAINED EARNINGS (Account 216)</b>				
1	Balance - Beginning of Year		\$100,685,492	
2	Changes (Identify by prescribed retained earnings accounts)			
3	Adjustments to Retained Earnings (Account 439)			
4	Credit:			
5	Credit:			
6	Credit:			
7	Credit:			
8	Credit:			
9	<b>TOTAL Credits to Retained Earnings (Acc. 439) (Total of lines 4 thru 8)</b>			
10	Debit:			
11	Debit:			
12	Debit:			
13	Debit:			
14	Debit:			
15	<b>TOTAL Debits to Retained Earnings (Acc. 439) (Total of lines 10 thru 14)</b>			
16	Balance Transferred from Income (Account 433 less Account 418.1)		54,723,933	
17	Appropriations of Retained Earnings (Account 436)			
18				
19				
20				
21				
22	<b>TOTAL Appropriations of Retained Earnings (Acc. 436) (Total of lines 18 thru 21)</b>			
23	Dividends Declared - Preferred Stock (Account 437)			
24	Cumulative 4.5% \$316,350 Cumulative 4.96% \$ 297,600			
25	Cumulative 4.35% 261,000 Cumulative 6.80% 1,020,000			
26	Cumulative 4.75% 95,000 Cumulative 6.20% 1,240,000		(3,229,950)	
27				
28				
29	<b>TOTAL Dividends Declared - Preferred Stock (Acct. 437) (Total of lines 24 thru 28)</b>		(3,229,950)	
30	Dividends Declared - Common Stock (Account 438)			
31	Declared: March 21, 1997 \$ .530 per share			
32	June 27, 1997 .535 per share			
33	September 26, 1997 .535 per share			
34	December 19, 1997 .535 per share			
35	Total \$2.135 per share		(37,136,867)	
36	<b>TOTAL Dividends Declared - Common Stock (Acct. 438) (Total of lines 31 thru 35)</b>		(37,136,867)	
37	Transfers from Acct. 216.1, Unappropriated Undistributed Subsidiary Earnings			
38	Balance - End of Year (Total of lines 01, 09, 15, 16, 22, 29, 36, and 37)		\$115,042,608	

2  
4  
2



Name of Respondent CENTRAL HUDSON GAS & ELECTRIC CORPORATION	This Report Is: (1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 04/30/98	Year of Report Dec. 31, 1997
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STATEMENT OF RETAINED EARNINGS FOR THE YEAR (Continued)

no.	Item (a)	Amount (b)
	<b>APPROPRIATED RETAINED EARNINGS (Account 215)</b> State balance and purpose of each appropriated retained earnings amount at end of year and give accounting entries for any applications of appropriated retained earnings during the year.	
39		
40		
41		
42		
43		
44		
45	<b>TOTAL Appropriated Retained Earnings (Account 215)</b>	
	<b>APPROPRIATED RETAINED EARNINGS-AMORTIZATION RESERVE, FEDERAL (Account 215.1)</b> State below the total amount set aside through appropriations of retained earnings, as of the end of the year, in compliance with the provisions of Federally granted hydroelectric project licenses held by the respondent. If any reductions or changes other than the normal annual credits hereto have been made during the year, explain such items in a footnote.	
46	<b>TOTAL Appropriated Retained Earnings - Amortization Reserve, Federal (Account 215.1)</b>	
47	<b>TOTAL Appropriated Retained Earnings (Account 215, 215.1) (Enter total of lines 45 and 46)</b>	0
48	<b>TOTAL Retained Earnings (Account 215, 215.1, 216) (Enter total of lines 38 and 47)</b>	\$115,042,608
	<b>UNAPPROPRIATED UNDISTRIBUTED SUBSIDIARY EARNINGS (ACCOUNT 216.1)</b>	
49	Balance - Beginning of Year (Debit or Credit)	5,135,111
50	Equity in Earnings for Year (Credit) (Account 418.1)	362,387
51	(Less) Dividends Received (Debit)	
52	Other Changes (Explain)	
53	Balance - End of Year (Total of Lines 49 Thru 52)	\$5,497,498





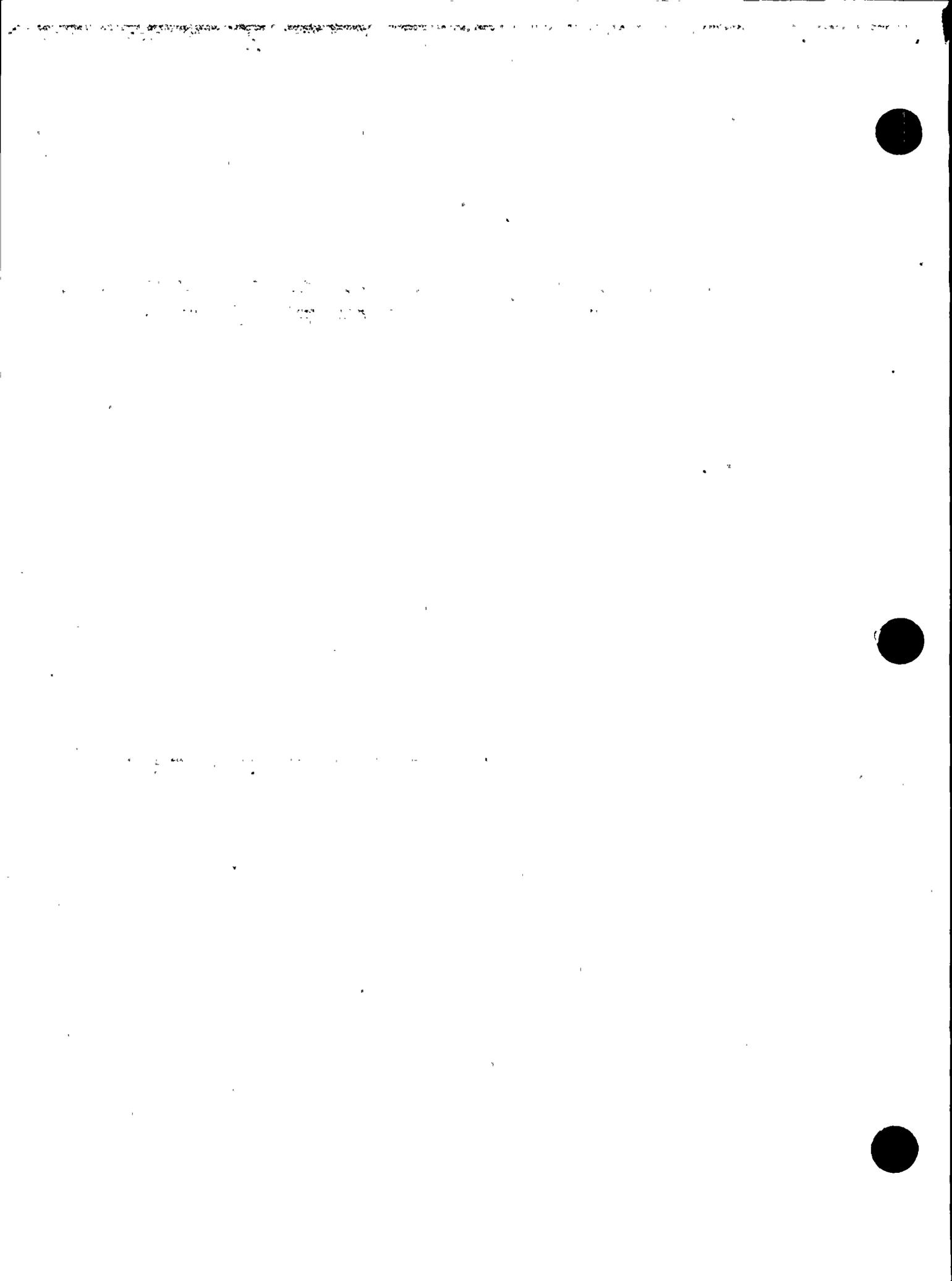


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Attachment J - Illustrative Outline of Information to be  
Provided in Auction Process

Attachment K - Illustration of Development of Net Proceeds From  
the Sale of Fossil Generation



CASE 96-E-0909  
CENTRAL HUDSON GAS & ELECTRIC CORPORATION

AMENDED AND RESTATED  
SETTLEMENT AGREEMENT

I. INTRODUCTION

This Amended and Restated Settlement Agreement ("Agreement") is entered into as of the 2nd day of January, 1998 by and among the following parties to that certain New York Public Service Commission ("Commission") proceeding entitled Central Hudson Gas & Electric Corporation, Case No. 96-E-0909, following discussions and negotiations with interested parties pursuant to the Commission's Order of October 9, 1996, and subsequent, related orders and notices: Central Hudson Gas & Electric Corporation ("Central Hudson"), Staff of the Department of Public Service ("Staff"), the Department of Economic Development ("DED") and the Pace Energy Project.

This Agreement is an amendment and restatement of the March 20, 1997 Agreement that was filed with the Commission, subjected to on the record hearings, issuance of a Recommended Decision, filing of exceptions and consideration of exceptions by the Commission at a Public Meeting on September 17, 1997.

Each party joining in this Agreement warrants that it has full authority to enter into this Agreement and each signatory executing this document in a representative capacity warrants that he or she has full authority to execute this document with the intention of binding his or her principals.

## II. GENERAL PRINCIPLES

The discussions among the parties that resulted in this Agreement were conducted pursuant to the Commission's Order Establishing Procedures and Schedule (issued and effective October 9, 1996) in this and other proceedings and subsequent, related orders and notices.

The parties to this Agreement recognize that Central Hudson's rates are now and have for some time been the lowest in New York State. Central Hudson's average rates are close to the national average (when adjusted for taxes and sales). In addition, Central Hudson has not increased electric base rates since December, 1993, which, together with the rate freezes in this Agreement, will produce a seven and one half year period of rate stability in nominal terms, and rate reductions in real terms, for consumers in Central Hudson's service area.

This Agreement establishes the agreed upon transition for

Central Hudson to a restructured entity and will provide customers with competitive choices for generation and retail services. The parties have agreed to produce benefits for all customers through implementing customer choice for all customer classes, and providing rate reduction alternatives for the large industrial customers (in conjunction with enhanced growth incentives and new job retention incentives applicable to smaller business consumers) so that the overall economy of the Mid-Hudson Valley may benefit from economic growth, and to achieve fair treatment of shareholders by providing a reasonable opportunity to recover prudently incurred, verified and mitigated investments including physical and regulatory assets, all in the fashions described more particularly below.

This Agreement substantially responds to the Commission's policy directives, as set forth in Opinion No. 96-12, by, for example, describing how Central Hudson will provide retail access and respond to other aspects of the emerging market, which actions will be deemed to meet New York's policy goals for competition for Central Hudson during the term of this Agreement. This Agreement establishes the framework for applying to Central Hudson the outcomes of Generic Proceedings

which are not inconsistent with the terms and conditions of this Agreement.

### III. DEFINITIONS

As used in this Agreement, the following terms shall have the meanings set forth below:

**Auction Incentive:** The retention by Central Hudson of up to \$17.5 Million (after tax) from the gross proceeds of the auction of Fossil Generation.

**Auction Plan:** A description of the procedures to be employed in conducting the auction of Fossil Generation.

**Case 92-E-1055:** That certain proceeding before the Commission further denominated "Proceeding on the Motion of the Commission as to the Rates, Charges, Rules and Regulations of Central Hudson Gas & Electric Corporation for Electric Service."

**Case 95-G-1034:** That certain proceeding before the Commission further denominated "Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Central Hudson Gas & Electric Corporation for Gas Service."

**Central Hudson Enterprises Corporation ("CHEC"):** The wholly-owned subsidiary of Central Hudson Gas & Electric

Corporation formed in December 1982. On July 30, 1996, the merger of Central Hudson Cogeneration, Inc. (another of the Company's wholly-owned subsidiaries) into CHEC was accomplished. CHEC is currently engaged in the business of conducting energy audits, providing services related to the design, financing, installation and maintenance of energy conservation measures and cogeneration systems for private businesses, institutions and governmental entities and it participates in cogeneration, small hydro and alternate energy production projects, directly or through one or more of its affiliates. At June 30, 1997, CHEC's total equity was approximately \$11.7 million.

Central Hudson Resources ("Resources"): A wholly-owned subsidiary of Central Hudson that was formed in May 1980 to engage in research, exploration and development work related to the acquisition, transportation, storage and utilization of all types and forms of energy and energy resources and similar activities. At June 30, 1997, Resources' total equity was approximately \$300,000.

Coal Dock Project: The facilities installed by Central Hudson in 1996-1997 for the unloading and handling of coal

delivered by ship or barge to the Danskammer Electric Generating Station site.

Competitive Transition Charge ("CTC"): A non-bypassable charge which will be designed to recover the Non-fuel Production Costs of the Company's generation facilities and which may be expressed in either customer, energy or capacity charge formats (or some combination thereof). This CTC does not reflect a determination of Central Hudson's Strandable Costs and will be redesigned in conjunction with the development of unbundled tariffs following the auction of Fossil Generation.

Comprehensive Tax or Economic Incentives: A comprehensive package of economic incentives, including tax abatements or similar incentives, negotiated separately by a customer with state and/or local authorities, and including a customer commitment to remain in New York State for at least three years.

Customer Benefits: The provision in this Agreement of either rate reductions and/or funding of access to retail energy or energy and capacity suppliers (other than Central Hudson).

Demand Side Management ("DSM"): Programs designed to provide customers with information and options for improving efficiency and measures for achieving improved energy efficiency.

Docket No. ER96-2466-000: That certain docket of the Federal Energy Regulatory Commission ("FERC"), further entitled New York State Electric & Gas Corporation, which is addressing, inter alia, whether or not NYSEG, a utility that provides economic development power from a state-owned generating plant to specific retail customers under a state program, is engaging in transactions subject to federal jurisdiction.

Effective Date: The date on which the Commission adopts this Agreement according to the terms hereof.

Energy Value Option Plan ("EVOP"): A plan set forth in this Agreement for S.C. No. 13 customers which allows those customers the option of obtaining energy from suppliers other than Central Hudson while still receiving the benefits of the Company's low-cost nuclear and hydroelectric energy.

Fair Market Value: The value of property represented by the consideration of an exchange, in an arm's length transaction, of the property between a willing buyer and a

willing seller.

Force Majeure: Events that cannot be overcome by reasonable prudence and diligence, and without unusual expense, caused, for example, by storm, flood, riot, fire, explosion, war, strike (other than strike by Central Hudson's bargaining units) or other casualty or cause beyond the control of Central Hudson.

Fossil Generation: Any of Central Hudson's existing Danskammer Generating Units and its interests in the Roseton Generating Station, including all related assets and liabilities.

Functional Separation: The creation of separate business units within the existing corporate entity, involving the separation of work functions and employees and the application of standards of conduct, but not involving transfer of ownership of assets, liabilities or equity.

Generic Proceeding(s): Proceedings conducted by the Commission to address certain issues in the Competitive Opportunities Proceeding for broad general application.

Greene Point Development Company ("Greene Point"): Greene Point, which was formed in January 1969 principally to acquire

and hold real property purchased for ultimate transfer to the Company for public utility use, is a wholly-owned subsidiary of Central Hudson. At June 30, 1997, Greene Point's total equity was approximately \$200,000.

Independent System Operator ("ISO"): The organization that will be responsible for maintaining the reliability of the bulk power system in New York in an efficient manner and providing for transmission service for all market participants on a comparable and non-discriminatory basis.

LBMP: The acronym for Locational Based Marginal Cost Pricing, referring to the pricing of energy and transmission services to recognize the costs of congestion on the transmission system.

Mirror CWIP: The accounting entries on Central Hudson's books of accounts that represent the return on the inclusion of NM2 construction work in progress ("CWIP") in rate base. Mirror CWIP includes two balance sheet components: a credit amount which is amortized to the benefit of ratepayers as directed by the Commission and a corresponding debit amount which is recovered from ratepayers generally over the book life of Nine Mile Point Unit No. 2.

Nine Mile Point Unit No. 2 ("NM2"): That certain nuclear generating station located on Lake Ontario in Scriba, New York owned currently by Central Hudson and other utilities as tenants in common.

1990 Settlement Agreement: That certain agreement related to rate base and other issues concerning NM2 approved by the Commission in its Opinion No. 89-37(C) (issued March 14, 1991), sometimes called the "Global Settlement."

Non-fuel Production Costs of Generation: All non-fuel costs of producing energy, including cost components such as depreciation of and return on generation investment, operation and maintenance expenses including labor, benefits, taxes, supplies and services necessary to provide safe, efficient and reliable production of electrical energy.

NTAC: The acronym for the New York Power Authority ("NYPA") Transition Adjustment Charge, a FERC approved charge resulting from the implementation of LBMP pricing, intended to provide for recovery of shortfalls in the NYPA transmission system revenue requirements as determined by the FERC.

Operation and Maintenance ("O&M"): The costs of operating and maintaining facilities, including labor, benefits, taxes,

supplies and services necessary or desirable to provide safe, efficient and reliable electrical energy.

Other Post Employment Benefits ("OPEBs"): The benefits other than pensions which Central Hudson has an obligation to provide, such as health, life and dental insurance to retired or separated employees.

Phoenix Development Company, Inc. ("Phoenix"): Phoenix is a wholly owned subsidiary of Central Hudson that has been engaged principally in acquisitions and holding of land for utility purposes.

Power Exchange ("PE"): An entity that facilitates the commercial energy markets by providing a forum for energy and/or capacity and/or ancillary services sales between willing buyers and willing sellers.

Protocol Agreement: That certain agreement between the NM2 co-tenants and other parties which provides, inter alia, for the regulatory treatment of certain costs of NM2.

Public Utility Holding Company Act of 1935 ("PUHCA"): The federal statute enacted in 1935, which, among other things, governs the circumstances under which an utility holding company must be registered with the SEC.

Research and Development ("R&D"): Programs undertaken or sponsored to identify or discover new methods, processes or equipment to improve, or lower the cost of, electric service to customers.

Retail Access: The opportunity for a regulated utility's customers to be provided with electrical energy and capacity and retail services by suppliers other than the utility.

RKVA: The reactive kilovolt ampere charges in Central Hudson's electric tariffs for certain Service Classifications.

Securities and Exchange Commission ("SEC"): The federal agency which, among other things, administers provisions of PUCHA.

Severance Costs: All costs of separating Fossil Generation (as a stand-alone entity) from the existing systems, whether incurred at or with respect to the generating facilities or at or with respect to the remaining facilities.

Severance Facilities: The facilities, contracts or other rights or obligations, which would require adjustment, modification or treatment as a direct result of the sale of Fossil Generation or to enable the independent operation of Fossil Generation, including but not limited to cables,

protection facilities, fuel supply facilities, easements, etc.

Supplement #5: That Settlement Agreement approved by the Commission in Case 95-E-0123 - In the Matter of a Nine Mile 2 Operating and Capital Forecast for 1996[,] filed by the Co-tenants, Central Hudson Gas & Electric Corporation, Long Island Lighting Company, New York State Electric and Gas Corporation, Niagara Mohawk Power Corporation, and Rochester Gas & Electric Corporation.

SFAS No. 71: Statement of Financial Accounting Standards No. 71 - Accounting for the Effects of Certain Types of Regulation.

SFAS No. 87: Statement of Financial Accounting Standards No. 87 - Employers' Accounting for Pensions.

Strandable Costs: Those expenditures made by regulated utilities in fulfilling their obligation to serve and provide safe, reliable energy to customers within their franchise territory which are not expected to be recoverable in a competitive electricity market.

Systems Benefit Charge ("SBC"): A non-bypassable charge (which need not be separately stated) to fund certain specified Commission-mandated public policy program costs related to DSM,

R&D, low income or other programs of the type not expected to be provided in a competitive electricity market.

Time Differentiated Meter: An electric meter having the capability to record customer electric usage for, at a minimum, each hour of each day.

Unbilled Revenues: Regulated utility revenues associated with a customer's usage from the customer's last meter reading date in a calendar year through the end of the calendar year.

Year: A period of twelve consecutive months, commencing with the month following the month in which the Commission adopts and approves this Agreement.

#### IV. RATE PLAN

##### A. Base Rate Freeze.

In consideration of the adoption, approval and implementation of this Agreement by the Commission in accordance with the terms hereof, Central Hudson agrees not to file with the Commission a request that would increase base electric rates prior to June 30, 2001 unless, prior to that date, the Fossil Generation is transferred from the regulated utility to another entity (whether affiliated or not), in which event, Central Hudson will file with the Commission a request

for a change in base rates that would be effective subject to refund as of the date of such transfer of the Fossil Generation.

Base electric rates will be frozen at current levels for the term described above except for the reductions for S.C. No. 13, as provided in part V.D. herein, except for implementing the existing special provisions on economic revitalization and economic growth incentive discounts, utilizing authority concerning flex rates already provided by the Commission in Case 92-E-0229 or implementing the new economic development incentives provided for in this Agreement and except for revenue neutral rate design changes.

Central Hudson is not precluded from making other filings with the Commission for changes in rates such as Fuel Adjustment Clause ("FAC") filings, revenue tax factors, or otherwise, by this Agreement, or from appearing or taking action in any Commission proceeding or making any other petition, application or filing with the Commission that Central Hudson may deem appropriate.

- B. Customer Benefits: Sources, Amounts, Allocation and Use for Funding Rate Reductions and Retail Access.

Each Year during the term of this Agreement, \$10 Million in funding of Customer Benefits will be made available and allocated among the "Residential," "Commercial & Small Industrial" and "S.C. No. 13" customer groups as follows:

Residential	\$3.5 M per Year
Commercial & Small Industrial	\$3.5 M per Year
S.C. No. 13	\$3.0 M per Year

The \$10 Million per Year amount (referred to herein as "Customer Benefits") will be utilized to fund the rate reductions and Retail Access options provided for in this Agreement. The S.C. No. 13 amount is inclusive of the \$500,000 annual amount set aside for funding certain economic development rates set forth in part V.G. of this Agreement.

The sources of the annual \$10 Million in Customer Benefits will be as follows:

\$3.0 M per Year from shareholder sources, cost reductions or increased sales;

\$3.5 M per Year from cost reductions associated with the Coal Dock Project; and

\$3.5 M per Year from deferred credits.

In the event that there should be a period of less than twelve consecutive calendar months between the end of a Year and the June 30, 2001 termination date of this Agreement, the funding obligation for Customer Benefits and the related disposition of those funds for that period shall be prorated.

C. Ratemaking.

Except as otherwise provided for in this Agreement, the accounting and ratemaking conventions and methodologies, including the existing deferral accounting and the use of a FAC including the sharing mechanism set forth on 9<sup>th</sup> Revised Leaf No. 22C-1 of P.S.C. No. 14-Electricity, effective July 25, 1987, which provides, among other things, for a maximum annual exposure or reward of \$3 Million, and all other items in effect as a result of Case 92-E-1055, shall continue to apply. The provisions of this Agreement will allow the regulated utility to remain, during the term of this Agreement, under SFAS No. 71, which provides for certain accounting conventions for regulated companies subject to cost-based ratemaking.

D. Fuel Adjustment Clause.

The current FAC will be modified to capture the cost reductions associated with the Coal Dock Project on a monthly

basis as follows:

1. the FAC will be charged for energy generated at Danskammer Units #3 and 4, the equivalent amount, on a per MWh basis, that will produce \$4.5 Million per annum;

2. the funds collected through the above charge are to be preserved and applied as follows:

i. the equivalent of \$1.0 Million annually, will be applied to the appropriate Accumulated Depreciation Reserve Account(s) as the depreciation of the Coal Dock Project; and

ii. the equivalent of \$3.5 million annually will be deferred in a sub-account of Account 253 - Other Deferred Credits and utilized for funding the rate reductions and Retail Access programs set forth in this Agreement.

Due to the anticipated implementation of the ISO and PE functions, in a manner and on a schedule that is not currently known, modifications to the current FAC, or replacement of the FAC, may be desirable, necessary or required during the term of this Agreement. In the event of any such replacement mechanism or any FAC modifications, the equivalent of the sharing

mechanism and \$3.0 Million annual cap provisions of the current FAC will be retained and the risk/reward profile in the current FAC will not otherwise be materially altered.

E. Carrying Charges.

Carrying charges will be accrued on debit balances of the internal reserve related to SFAS No. 87, following the methodology described on page 6 of Appendix A of the Commission's Statement of Policy and Order in Case 91-M-0890 (issued and effective September 7, 1993).

F. Mirror CWIP.

The expiring Mirror CWIP amortization will be replaced, in accordance with the schedule set forth in Attachment A, with other deferred credits to the extent necessary to provide for full replacement of the expiring Mirror CWIP credits. The deferred credits to be used include those associated with O&M credits arising out of NM2, OPEBs, pensions, DSM, R&D and others.

G. Deferrals.

Current deferral provisions and practices from Central Hudson's last electric rate case (92-E-1055) will remain in effect, with the exception that \$3.5 Million per Year of pension and OPEB deferrals will be used to fund, in part, the rate reductions and Retail Access programs described in this Agreement. The deferrals and associated rate allowances will not terminate by reason of the expiration of this Agreement.

H. New Deferrals.

Exogenous cost increases of the types identified below which meet the following standards may be deferred pending the filing of a petition with, and approval by, the Commission. The cost increases must be incremental to current rate allowances and exceed a 5% materiality threshold of Central Hudson's New York State jurisdictional electric net income, per year, per item, with no accumulation.

The costs allowable for deferral are those attributable to changes in federal or state tax law or regulations, legislative or other regulatory changes, changes in accounting standards or Force Majeure. In addition, any penalties accrued under the Service Quality Incentive Plan will be deferred and applied to

reduce Strandable Costs and will be excluded from the calculation of ROE under Attachment B.

Approval to defer the above items will be based upon the Commission's past policies and practices which imply that rates are set at levels that will recover the approved costs.

With respect to the Petition for Deferral of Storm Costs filed by Central Hudson with the Commission on May 28, 1997, Central Hudson is permitted to defer \$5.3 million (\$8.9 Million of storm expenses and lost net revenues less non-incremental expenses, IRS audit interest, Lunamar interest and rate case tax reserves). In addition, taxes and interest thereon resulting from the resolution of the pending Internal Revenue Service ("IRS") audit for tax years 1992 through 1996 shall be reserved for the account of ratepayers on a net basis (i.e., including all items related to regulated operations previously recognized in the ratemaking process, whether in Central Hudson's or the IRS's favor). The calculation method of Attachment B shall be applied to actual 1997 earnings and the results, to the extent above the 10.6% ROE of this Agreement shall be deferred.

I. Return On Equity.

The achieved rate of return on common equity for Central Hudson's Commission-regulated electric operations will be calculated annually during the term of this Agreement according to the procedure set forth in Attachment B. Until the end of the calendar quarter within which Central Hudson structurally separates its Fossil Generation pursuant to the auction procedures provided for in this Agreement, earnings greater than 10.6% will be deferred. Earnings less than 10.6% will be offset against previously deferred earnings in excess of 10.6%, to the extent available. At the end of the calendar quarter within which Central Hudson structurally separates its Fossil Generation, the net earnings in excess of 10.6% will be used to offset Strandable Costs and any excess over that amount will be used to provide ratepayer benefits.

All such amounts will be deferred in a sub-account of Account 253 - Other Deferred Credits. Disposition of any net excess earnings will be determined by the Commission as part of Strandable Cost recovery procedure described in part VIII. of this Agreement. If the aggregate of the annual deferred earnings amounts is negative at the end of the term of this

Agreement, Central Hudson shall not be entitled to recover such net amount.

In the event that a substantial portion of the Fossil Generation is sold significantly before the remaining portion, Central Hudson shall submit to the Commission the proposed treatment of the net earnings cap, which may include a proposal to change rates.

J. New York Power Authority Economic Development Rate.

This matter is currently being litigated by the Commission before the FERC in New York State Electric & Gas Corporation, FERC Docket No. ER96-2466-000. If the Commission retains jurisdiction, Central Hudson will file a tariff with the Commission within 90 days of the final resolution of the matter.

K. Limitation on Central Hudson Bidding to ISO/PE.

Following implementation of the ISO/PE, Central Hudson agrees that the monthly average of its bids for each fossil fuel unit to the ISO/PE shall not fall below the actual cost of fuel plus variable O&M for such unit and that it will not enter into bilateral sales at a price over the term of the transaction that is below the actual cost of fuel plus variable

O&M. This limitation shall not be applicable to NM2 and shall not be applicable after June 30, 2001 or such earlier date on which Central Hudson transfers as a result of the auction process title or interest in any existing Fossil Generation resource to another entity, whether affiliated or not, nor shall this limitation preclude Central Hudson from bidding as necessary to permit delivery of bilateral transactions under the ISO/PE structure.

L. Nine Mile Point 2, Hydroelectric and Combustion Turbine Resources.

Until July 1, 2001, or such later date on which the Commission approves the transfer of any Fossil Generation pursuant to the Auction provisions of part VII. of this Agreement, the costs of Central Hudson's share of NM2 (including, but not limited to, prudently incurred investments and decommissioning costs), and Central Hudson's Hydroelectric ("Hydro") and Combustion Turbine ("CT") resources, shall continue to be treated as rate base or expense items (as consistent with the Commission's past treatment of such items) within the regulated transmission and distribution ("T&D") entity, even though these costs may be accounted for in a

function or functions separate from T&D. The existing NM2 ratemaking, including the 1990 Global Settlement, the Protocol Agreement and Supplement #5 or any successors, will be maintained according to their terms through this time period. Following July 1, 2001, or such later date on which the Commission approves the transfer of any Fossil Generation pursuant to the Auction provisions of part VII. of this Agreement, the costs of Central Hudson's share of NM2 (including, but not limited to, prudently incurred investments and decommissioning costs), and Central Hudson's Hydro and CT resources will be recovered through charges by the regulated T&D entity which, although the form has not been determined, will be non-bypassable. The revenues from the sales of power from these units will be attributed to the T&D entity.

Central Hudson agrees to participate in "good faith discussions" related to a future State-wide nuclear resolution that might include other ratemaking options as they relate to the recovery of the on-going costs associated with the operation of NM2 (as distinguished from prudently incurred investment and decommissioning costs), such as placing some portion of NM2 operating costs at market risk, securitization,

facility sale or establishment of a state-wide nuclear operating company, and which are consistent with the following principles:

1. Continuation of regulation of Central Hudson's ownership share of NM2 as part of Central Hudson's T&D entity;
2. Recognition of the importance of maximizing the benefits inherent in the operation of NM2 as a base loaded unit over its useful life;
3. Approval by the Nuclear Regulatory Commission of any nuclear restructuring and ratemaking, to the extent of its authority; and
4. Agreement to future nuclear State-wide solutions as they relate to NM2 by Central Hudson and the other NM2 co-tenants.

M. Service Quality Incentive Plan.

The Service Quality Incentive Plan annexed hereto as Attachment C will be applicable during the term of this Agreement.

N. Potential Statewide Securitization Legislation.

In the event of enactment of statewide securitization

legislation producing net cost savings to Central Hudson, and provided that such statute does not mandate a different allocation of the benefits of securitization, such net benefits will be allocated to all customers, other than customers in the S.C. No. 13 class in light of the rate reductions and other customer choice options set forth in this Agreement. To the extent allowed by such statute, the parties recommend that the Commission allocate up to ten percent of the achieved net cost savings to Central Hudson resulting from securitization to SBC programs.

O. System Benefit Funding and Generic  
System Benefit Administration  
and Environmental Disclosure Proceedings.

The \$3.0 Million per Year in funds previously allocated to metering by the March 20, 1997 Settlement Agreement are reallocated by this Agreement to increased funding for the SBC for three years, beginning with the year in which the Commission approves this Agreement. The funding in this Agreement for SBC programs will be one mill per kwh, and will not exceed one mill per kwh during each year of the three years. Any such funding and any increases in funding levels required by law (including by order of the Commission) will be

fully recoverable by Central Hudson. Funding not expended in any year will be preserved for subsequent disposition by the third party administrator until June 30, 2001. Any funding not expended as of June 30, 2001 shall be available for such uses as the Commission may direct. Central Hudson shall be free to make proposals concerning such uses.

The Commission may appoint a third-party administrator to administer the SBC funded programs. All SBC funding under this Agreement accrued after the approval of this Agreement will be allocated by the statewide administrator. However, the establishment of such statewide administrator shall not preempt funding commitments for SBC programs made by Central Hudson prior to the approval of this Agreement by the Commission. Central Hudson agrees to participate in any generic proceeding concerning administering the SBC as the Commission may establish.

The parties agree that customer choice may be enhanced by the availability of environmental information concerning the power being provided to them. The parties agree to work in any environmental disclosure generic proceeding that the Commission may establish to develop means of providing customers with

information on the fuel mix and emission characteristic of generation. Environmental disclosure may facilitate informed customer choice, promote resource diversity and improve environmental quality. Central Hudson generally does not object to the concept of environmental disclosure if reasonably accomplished consistent with market requirements and reserves its rights to take any position consistent with this principle concerning the manner and extent of environmental disclosure.

P. Transmission and Distribution System Upgrades.

During the term of this Agreement, for each new major T&D upgrade (projects of \$2 million or more) that Central Hudson undertakes, the Company will identify the location, reason, scope and projected capital costs, and shall monitor circuit peaks for any affected substation and the load on any affected transmission lines as part of its planning process. When deciding whether to implement major T&D upgrades, the Company shall consider cost-effective alternatives that reduce the capital and operating costs of the T&D utility, including demand side technologies and practices, fuel cells, photovoltaic systems or other alternatives, including environmentally beneficial alternatives, that may defer the

need for implementing the upgrade. Providing that the foregoing procedures concerning major T&D projects are followed, Central Hudson shall not be precluded by this Agreement from implementing any alternative it deems appropriate subject to any required governmental approvals. T&D projects that involve relocating existing facilities because of highway construction or are designed solely to accommodate contingency requirements in order to maintain the reliability of the T&D system are not major projects for the purposes of this paragraph. The Company will seek to minimize costs and environmental impacts for T&D projects that are not major projects.

#### V. CUSTOMER CHOICE

##### A. General.

This Agreement provides for implementation of a number of customer choice options, on the terms and conditions described subsequently. The customer choice options include, phased-in availability of retail access to residential and small commercial and industrial customers, and a program permitting large industrial customers to select rate reductions, or Retail Access options, or an Energy Value Option Plan ("EVOP"), or a

combination thereof.

B. Choice Options Available to Residential, Commercial and Small Industrial Customer Classes.

Central Hudson will make Retail Access available to all customers in these classes by no later than early 1998, subject to the penetration levels and timetable set forth below:

	Percent Load Penetration Level, %	Percent Load Penetration Level, %
Dates	C& Small I Classes	Residential Classes
Early 98 to 12/31/98	8	8
1/1/99 to 12/31/99	16	16
1/1/00 to 12/31/00	24	24
1/1/01 to 6/30/01	28	28

The load penetration levels set forth in this table are estimated maximum loads based on the funding obligations described in part IV.B. of this Agreement and may not be achieved. Central Hudson is not required to provide Retail Access at levels greater than those listed above. On July 1, 2001, penetration level restrictions will be eliminated.

The participation of customers in Retail Access will produce lost revenues during the term of this Agreement. The

lost revenues will be funded by accrual of up to \$3.5 million per Year for the Residential Classes as a group and \$3.5 million per Year for Small Industrial and Commercial classes as the other group from the funding sources listed in part IV.B. of this Agreement after applying a CTC, as described in part XI.A. of this Agreement. This CTC will be at the level of approximately 50% of Central Hudson's Non-fuel Production Costs.

To the extent that funding from the sources identified in part IV.B. of this Agreement is available but not used in a particular Year, such unused funding will be carried forward to the following Year during the term of this Agreement. Any unexpended, accumulated retail access funding available at the end of the term of this Agreement will be deferred to offset Strandable Costs, and any funding balance then remaining will be used to provide ratepayer benefits. Lost revenues produced from the tariffs that became effective on November 1, 1997 in Cases 96-E-0948 and 94-E-0385, until the date that the Retail Access program of this Agreement begins, will be deferred and charged against the 1998 Retail Access funding obligation.

C. Compliance With Commission Order  
Concerning Retail Access Proposals.

Any customers receiving service under tariffs that became effective on November 1, 1997 in Cases 96-E-0948 and 94-E-0385, et al. will be transferred to the tariffs applicable to such customers under this Agreement, as of the effective date of the Commission approval of the tariffs under this Agreement.

D. Choice Options Available To S.C. No. 13 Customers.

S.C. No. 13 customers will be afforded the options described below.

1. Customers not wishing to enter into a requirements contract with Central Hudson may continue to receive service under Central Hudson's existing S.C. No. 13 tariff. In addition, such customer may elect full Retail Access (capacity and energy) for all or a specified portion of its load, provided that a non-bypassable CTC recovering Central Hudson's Non-fuel Production Costs of Generation, as have been allocated to S.C. No. 13, will be applicable.
2. S.C. No. 13 customers wishing to enter into either a full or partial requirements contract with Central

Hudson for a term ending on June 30, 2001, which contract will contain a one year cancellation right on the terms described below, may select, through an annual, written customer election in advance, from the following:

- i. a 5% rate reduction (i.e., full requirements);  
or
- ii. a 5% rate reduction together with an Energy Value Option (EVOP) (described below in part V.E.) (i.e., partial requirements); or
- iii. a Retail Access Option, (i.e., partial requirements), either with or without EVOP, for approximately 12-18% of each customer's usage based on each customer's load characteristics, that includes a CTC set equal to approximately 50% of Central Hudson's Non-fuel Production Costs of Generation. This option will be funded by and limited to the equivalent of the 5% rate reduction applied to that customer's load characteristics.

The 5% rate reduction (Option "i," above) will be achieved

as follows: Central Hudson will reduce the current base rate price for the demand, energy and RKVA components by 5% to each member of this class that executes a full requirements contract with Central Hudson for the term of this Agreement.

Options "ii" or "iii" above will be available to S.C. No. 13 customers which enter into partial requirements contracts with Central Hudson for the term of this Agreement. The 5% rate reduction portion of Option "ii" will also be achieved by reducing the current base rate price for the demand, energy and RKVA components by 5%.

All contracts for options "i," "ii" or "iii" will include a right for the customer to cancel on twelve months' advance, written notice of cancellation and the annual right, to be exercised on or before October 1 of each calendar year during the term of this Agreement, to select any of the options set forth above for the following calendar year; provided, however, that any customer then selecting option "i" will execute a full requirements contract with Central Hudson for the remaining term of this Agreement.

Should a customer not provide the written advance notification to Central Hudson by October 1 of a given calendar

year, that customer will retain its then current rate status for the subsequent calendar year.

In the event that a customer exercises its option to cancel its requirements contract with Central Hudson on one year's advance notice, such customer may elect either to take service during the then remaining term of this Agreement pursuant to Central Hudson's existing S.C. No. 13 tariff or elect full Retail Access (energy and capacity). In the latter event the customer electing full retail access will pay, for the then remaining term of this Agreement, a CTC recovering an amount equal to Central Hudson's Non-fuel Production Cost of Generation.

E. EVOP Provisions.

The EVOP option permits S.C. No. 13 customers to obtain energy from suppliers other than Central Hudson. Recognizing that Central Hudson has low energy costs, S.C. No. 13 customers participating in this program will, for purposes of this program, be provided their pro-rata share of Central Hudson's low cost nuclear and hydro power (representing about 20% of the S.C. No. 13 class energy requirements). For the remaining approximately 80% of the S.C. No. 13 class energy requirements,

a higher fuel cost level will result, against which alternative suppliers may compete.

Each customer electing to participate in the EVOP will, as part of its contract with Central Hudson, assume the responsibility of selecting its desired supplier to provide energy for the balance of its energy requirements above the level provided from Central Hudson's nuclear and hydro resources.

EVOP requirements will be established in tariffs to be filed with the Commission that will include a form of contract between participating customers and Central Hudson, and contain provisions such as off-peak maximum delivery limits, compensation for minimum run level/dump energy costs, specification of customer responsibility for balancing and scheduling and provisions for curtailments. Central Hudson may, upon establishment of a mutually acceptable business agreement between Central Hudson and a customer which chooses EVOP option, perform administrative functions concerning EVOP for such customer.

Customers electing to participate in the EVOP may either receive a single bill from Central Hudson or receive separate

bills from Central Hudson and the energy provider. The account of each participating customer will be settled on a month-end basis for over, under, or no deliveries. Central Hudson will be responsible for settlements with the suppliers. Suppliers will be responsible for under or no deliveries on a real time basis at the greater of Central Hudson's average or incremental costs and for over deliveries at Central Hudson's average costs.

F. Customer Contracts.

EVOP and Retail Access will be implemented through contracts between Central Hudson and participating customers, using standard form contracts that will be contained in the appropriate tariff.

G. New Economic Development Tariff Provisions.

Central Hudson's existing growth incentive tariff will be modified as follows:

1. Raising the existing "cap" from 50MW to 75MW;
2. Expanding the qualifying customer classes to include specified SIC Codes within the S.C. No. 3, Large Power, Primary Service class;
3. Applying an incremental minimum growth requirement

- for S.C. No. 3 of 250KW and a discount of 20%;
4. Imposing a sunset date of 7/1/2001 for the growth incentive tariffs for S.C. No. 3;
  5. Increasing to 28% the growth incentive discount in S.C. No. 13, which shall be applicable to new electrical load added after the date on which tariffs implementing this Agreement are approved by the Commission and shall sunset on 6/30/2001; and
  6. Removing the following sentence from the existing tariff: "The Company will assist the customer in identifying and implementing cost effective measures recommended by the audit."

In addition (although not available for loads covered under the above provisions), Central Hudson's existing S.C. Nos. 2 and 3 tariffs will be modified to include a special job retention provision. This provision will be applicable to customers having a minimum load of 250 KW and the same SIC Codes specified for S.C. No. 13, where there is a certification by DED that the customer has satisfactorily documented that Comprehensive Tax or Economic Incentives and the special retention rates are both necessary to retain the customer in

New York State. To be considered for certification by DED, the customer must satisfactorily document one or more actual, impending relocation opportunities outside New York State that would significantly reduce the operating costs of the customer and the customer must also document the existence of Comprehensive Tax or Economic Incentives from local and/or State authorities. This special provision will sunset on June 30, 2001. The special provision will contain a discount of 20% on the demand, energy, and RKVA prices and will be applied to the portion of the load corresponding to the legitimate job retention situation that has been demonstrated, provided that the customer's usage does not fall below 85% of the most recent twenty-four month historical usage. Power available under this special provision will be capped according to the following schedule of cumulative power for each year of this Agreement:

Effective Date to 6/30/98	7/1/98 to 6/30/99	7/1/99 to 6/30/00	7/1/00 to 6/30/01
3 MW	5 MW	7 MW	9 MW

The lost revenues resulting from this special provision will be deferred and included with any unexpended, accumulated retail access funding as of June 30, 2001 as described in part V.B.

H. New Tariffs.

On July 1, 2001, all customers, including participating Retail Access customers, will be transferred to new tariffs and will be eligible for full (capacity and energy) Retail Access.

I. Retail Access Meters.

Customers in S.C. Nos. 3 and 13 which currently have Time Differentiated Meters shall retain such meters; all customers in all other classes will be billed for Retail Access purposes based on class load shape data and Time Differentiated Meters will not be used for any such customer, subject to the Commission's generic metering determinations.

Up to the most recent 24 months of metered customer usage data using a standardized format shall be made available at no charge upon written authorization from each customer, or customer's designee. Other, more detailed or value-added data may be made available using standardized formats upon written authorization from each customer or customer's designee to any third party requesting such data, on a non-discriminatory basis, and Central Hudson may charge a reasonable fee for such information.

J. FERC Filing.

Implementation of customer choice Retail Access assumes that the FERC will accept or grant waivers concerning the Retail Access provisions established in this Agreement that supplement or conflict with Central Hudson's FERC Open Access Transmission Tariff ("OATT"), for the term of this Agreement. Central Hudson agrees to file with the Commission, within 30 days following acceptance and approval of this Agreement by the Commission, proposed modifications to its then current FERC OATT tariff to incorporate the rate design changes and non-price terms and conditions necessary to make the OATT tariff consistent with the Retail Access program of this Agreement. The rate design changes will utilize the rate design principles of the existing Central Hudson retail rates. Central Hudson will, within 10 days following issuance of a Commission order approving the OATT tariff modifications, file a request with the FERC seeking FERC approval of those modifications and Central Hudson will diligently prosecute such application thereafter. The filing with the FERC will include a copy of the Commission's order.

If the FERC should require that the transmission or other

component of retail access service be provided under Central Hudson's OATT or other FERC tariff, the retail rates resulting from implementation of the CTC provisions of this Agreement will be further adjusted to offset any differences (positive or negative) in revenue requirement recovery for the transmission or other component of retail service provided under the FERC tariff(s), so that revenue recovery matches the recovery that would have occurred had transmission or other service provided under the FERC tariff(s) been provided under the rates previously approved by the Commission in Case 92-E-1055.

K. Recovery of ISO Start-up Costs and NTAC

By Petition dated November 12, 1997, Central Hudson and other utilities have sought Commission approval to defer, for later collection, the incremental costs related to the formation of the ISO. To the extent that the Commission approves such deferral, and the costs are not otherwise recovered through FERC jurisdictional rates, Central Hudson shall be permitted to defer all such costs for later recovery in the fashion approved by the Commission.

To the extent that NTAC costs are allowed by the FERC for ratemaking purposes, either in whole or in part, such costs may

be recovered through Central Hudson's FAC, or through such other methods as may be approved by the Commission.

## VI. CORPORATE STRUCTURE

### A. Functional Separation.

Central Hudson will functionally separate generation (exclusive of NM2, CTs and hydro) and T&D, consistent with the time-line set forth in Attachment D, provided that any other actions precedent to such functional separation set forth on the time-line (Attachment D) also occur on a timely basis.

### B. Corporate Structure.

1. The adoption and approval of this Agreement by the Commission shall be deemed to constitute all requisite Commission approvals, within the scope of its authority, for the reorganization of Central Hudson into the holding company ("Holdco") described herein and all requisite Commission authorization for the operation of Holdco, including the formation of Holdco, the Share Exchange, the structure and investments of Holdco, the formation of Genco and the operation of all affiliates, including, by way of illustration and not limitation, Holdco, Central Hudson, CHEC and Genco. It is the intent and shall be the effect of this Agreement that, upon

adoption and approval hereof by the Commission, no further Commission authorization for the reorganization into the Holdco, formation or operation of Holdco and affiliates shall be required.

2. The initial structure of Holdco will include

- i) "Regco," a Commission-regulated electric and gas T&D subsidiary of Holdco that may also contain generation assets and which shall continue to be called Central Hudson Gas & Electric Corporation,
- ii) "Genco," a subsidiary or subsidiaries of Holdco that may own or operate generation assets (whether in fee, joint tenancy, leasehold, partnership or other ownership form) and is considered to be "unregulated" in this Agreement for purposes of distinguishing Genco from Regco,
- iii) CHEC, an unregulated entity that currently owns and operates independent power production facilities and provides other, energy-related services, and
- iv) other entities, all as shown on the chart (Attachment E) reflecting the initial organizational structure, after establishment of the Holdco and implementation of the related transactions described in this Agreement.

The authorization and approvals provided by the Commission of the Holdco described in this Agreement anticipate that the

structure of Holdco may vary from that shown in Attachment E and recognize that the Holdco structure is expected to change from time to time. The Holdco may include one or more subsidiary holding companies.

3. The date of restructuring into a Holdco is contingent upon receipt of required approvals and is subject to Central Hudson's discretion, however it is expected that the restructuring of Central Hudson into a Holdco organization will be accomplished by no later than June 30, 2001 and may be done earlier.

4. The first \$7.5 million of the reasonable and prudent costs of restructuring into a Holdco organization will be allocated on a two-thirds/one third basis between regulated and unregulated activities, respectively. The regulated portion thereof shall be deferred and recovered through the computation described in part VIII.A. of this Agreement. In no event shall the amount allocated to unregulated activities exceed \$2.5 million. Any costs of restructuring into a Holdco organization above \$7.5 million will be allocated to regulated activities.

5. It is recognized that the auction of Central Hudson's Fossil Generation assets described in this Agreement will be a

step that will facilitate a competitive market place for electric generation. It is further recognized that, because of the safeguards incorporated herein, the reorganization of Central Hudson into a Holdco structure will not subject customers of the regulated utility ("Regco") to unacceptable risks.

6. Until such time as the restructuring into the Holdco organization is accomplished through the Share Exchange described subsequently in this Agreement, the total new equity investment in unregulated subsidiaries of the existing Central Hudson Gas & Electric Corporation shall be limited to \$100 million. Central Hudson may sell, no later than June 30, 2001, up to \$100 million of securities comprised of debt, common stock (up to 1.0 million shares) and preferred stock. The proceeds from the securities will be used to retire outstanding short-term debt balances and will not, in whole or in part, be chargeable to utility operating expenses or income. The company has a proper need and basis for the issuance of securities. The adoption and approval of this Agreement by the Commission shall constitute all authorizations within the Commission's authority (including but not limited to PSL §69)

for the transfer of funds and for the issuance of such securities provided that the terms and conditions governing the issuance of these securities, as are contained in Attachment F, are followed. Transfers of funds to affiliates prior to the restructuring into the Holdco organization shall be subject only to the limitations of the following paragraph.

In the event that, following approval of this Agreement by the Commission but prior to the restructuring into the Holdco organization, Central Hudson's senior debt is placed on "Credit Watch" (or the equivalent) for a rating below BBB- or downgraded to below BBB- by more than one credit rating agency, transfer of additional equity to affiliated entities shall be temporarily halted, pending review on an expedited basis by the Commission of whether additional equity transfers to subsidiaries would subject customers of the regulated entity to unacceptable risk. The limitations of this paragraph shall no longer be applicable upon the restructuring into the Holdco organization.

There is no limitation in this Agreement on the lines of businesses in which Holdco or any subsidiary thereof may invest, or, subject to the limitations of part VII.G. hereof,

on the locations in which such businesses may be conducted or on the use of any corporate name, trademark, etc. or on the identification of affiliates.

7. The reorganization of Central Hudson into a Holdco structure will, subject to receipt of favorable state and federal tax rulings, be established pursuant to a Plan of Exchange. Under the Plan of Exchange, all outstanding shares of Central Hudson Gas & Electric Corporation's Common Stock will be exchanged on a share-for-share basis for Holdco Common Stock ("Share Exchange"). Upon consummation of the Share Exchange, each holder of Central Hudson's Common Stock immediately prior to the Share Exchange will own a corresponding number of shares and percentage of the outstanding Holdco Common Stock, and Holdco will own all of the outstanding shares of Central Hudson's Common Stock. Subsequent to the Share Exchange, the Company will distribute to Holdco all of the common stock of CHEC, Resources and Greene Point, which transfers, subject to receipt of favorable state and federal tax rulings, are currently anticipated as being made in the form of stock dividends.

8. The Share Exchange is not expected to result in any

change in the then outstanding Preferred Stock or debt securities of Central Hudson Gas & Electric Corporation, which will continue to be securities and obligations of Regco after the Share Exchange.

9. Consummation of the Share Exchange or subsequent implementing transactions will require certain approvals of the FERC, the SEC and the Nuclear Regulatory Commission ("NRC"). The Company intends to file requisite documents and/or applications with the FERC, SEC and NRC as soon as practicable following the Commission's adoption and approval of this Agreement.

10. Holdco will file with the SEC for an exemption from the registration requirements of PUHCA, to the extent necessary. It is contemplated (although not a condition hereof) that Holdco will qualify for an exemption from registration under section 3(a)(1) of PUHCA as a "predominantly intrastate" public utility holding company.

11. The approval of shareholders of Central Hudson's Common Stock will be required for the reorganization of Central Hudson into a Holdco organization. The Company will seek shareholder approval at a Meeting of Shareholders to be held

within a practicable time following the Commission's adoption and approval of this Agreement. In connection with its solicitation of proxies to vote at the meeting, Holdco will file a Registration Statement on Form S-4 with the SEC to register the Holdco Common Stock to be exchanged for the outstanding Central Hudson Common Stock and such Registration Statement must become effective. The Registration Statement will also contain a proxy statement of Central Hudson describing the corporate restructuring, which proxy statement will be mailed to Central Hudson shareholders prior to the anticipated Meeting of Shareholders.

12. The adoption and approval of this Agreement shall be deemed to constitute authorization to the Secretary of the Commission to endorse on behalf of the Commission, upon presentation by Central Hudson, a Certificate of Exchange pursuant to Section 108 of Public Service Law (substantially of the form set forth in Attachment G to this Agreement). Thereupon, Central Hudson will deliver the Certificate of Exchange to the New York State Secretary of State for filing.

13. Regulated operations: Regco will offer regulated and market based wholesale energy services and retail energy

services insofar as the scope of the latter may be revised from time to time by the Commission. Regco also retains the option of providing, with Commission approval, the same range of energy products and services that unaffiliated, unregulated energy service companies may offer to the customers Regco may be obligated to serve as an utility.

Regco is expected to engage in retail sales within its service territory under Commission-approved tariffs. Outside of its service territory, during the period of time prior to the auction of Fossil Generation, Regco is expected to market at wholesale energy, capacity and ancillary services from generating facilities it owns and maintains. Regco may also market outside of its service territory at retail energy, capacity and ancillary services from generating facilities it owns and maintains to the extent that such sales benefit Regco's customers; such sales will be treated as if they were sales for resale for purposes of Central Hudson's FAC. Regco's activities may include wholesale transactions where it makes purchases or sales through a Power Exchange, ISO or bilateral transactions with other utilities, marketers, brokers and energy service companies, within and outside of its currently

existing electric service territory.

Regco shall establish a capital structure that is appropriate for the financial risk of the entity, as that risk may change from time to time. In the event of reduction in the financial risks of Regco, any equity capital of Regco that is no longer recognized in the establishment of Regco's retail rates may be redeployed by Regco, including transfer to Holdco or an affiliate.

14. Unregulated Ventures: Holdco may take advantage of competitive business opportunities in both energy and non-energy related businesses by establishing such unregulated affiliates as it deems appropriate, which will be free to operate in such places as Holdco may determine. Genco may be a participant in the generation and energy supply market within and outside of New York. Notwithstanding any provision of this Agreement which may be to the contrary, Genco will be subject to regulation by the Commission to no greater manner or extent than that manner and extent of Commission regulation imposed upon other owners of generating facilities legally similar to those owned or operated by Genco, except for the Cost Allocation Guidelines and Standards of Conduct set forth in

Attachments H and I, respectively, herein. Further, it is understood and agreed that CHEC's operations within and outside Central Hudson's service territory may be expanded, without any further Commission approval, to provide CHEC with the capacity to function as an ESCO and as a power marketer, as well as to perform any other legally permissible services as may be provided for under an amended Certificate of Incorporation for CHEC, subject to the clarification that to the extent that the Commission establishes rules of general applicability for operations by ESCOs, CHEC will be subject to the same rules. Within six months of Commission adoption and approval of this Agreement, officers of Central Hudson (other than the Chairman of the Board and President) will not be officers of CHEC. In addition, provided that the safeguards described in Attachments H and I hereof are utilized, Central Hudson is authorized to establish an Energy Service Company(ies) or electric marketing or supply functions to sell energy and related services inside or outside its established franchise.

15. The Standards of Conduct set forth in Attachment H shall be applicable to any transactions between an unregulated affiliate (including Holdco) and Regco; provided, however, that

Attachment H shall apply in lieu of any existing generic retail standards of conduct (e.g., Case 93-G-0932) and in lieu of any future generic retail standards of conduct established by the Commission during the term of this Agreement and provided further that wholesale transactions and other activities under FERC's jurisdiction will be governed by the standards of conduct imposed under FERC's Order 889 Open Access Service Real Time Information System and Standards of Conduct and the provisions of the applicable FERC Market-Based Rate Schedules.

16. It is recognized that the schedule for the restructuring into a Holdco organization is not currently known and that there will be a period of unknown duration during which the regulated utility's operations will continue to include Fossil Generation assets. In recognition of the additional financing flexibility provided by part VI.B.6 hereof, during such period of time pending the formation of Holdco, Central Hudson will apply the Cost Allocation Guidelines and Standards of Conduct protections, set forth respectively in Attachments H and I hereof, to any transactions between Central Hudson and any affiliate.

17. Common Officers: Non-administrative operating

officers of the Regco will not be operating officers of the unregulated affiliates. No more than five officers of the Regco may serve, at the same time, as officers of any unregulated affiliate, except that the Secretary and Treasurer of Regco may serve in the equivalent position(s) of Holdco and other affiliates. The line officers of Regco with direct responsibility for engineering, generation resource acquisition or customer services may not serve as officers of an affiliate.

18. Transfers of assets other than generation from Regco to any affiliated entity will be governed by PSL §70; transfers of generation are governed by other provisions of this Agreement. A one time exclusion from the foregoing limitation is hereby established for office space/office equipment: In connection with the Holdco's commencement of operations, Regco may lease office space (at local market rates) up to a limit of \$400,000/yr. to the Holdco; Regco may transfer to the Holdco office furniture, equipment and similar assets as are reasonably required for Holdco's purposes up to a limit of \$750,000 (book value); and Regco may transfer realty to Holdco up to a limit of \$1.0 million (greater of book or market value). Other than as provided elsewhere in this paragraph,

transfers of assets from Regco to any affiliated entity shall not be made absent any statutorily-required Commission approval.

19. Regco may provide goods and services to Holdco or any other affiliate on a tariffed basis or on a fully allocated cost basis, determined in accordance with the Cost Allocation Guidelines set forth in Attachment H.

Services from an affiliate to Regco under a management, construction, engineering or similar contract subject to PSL §110 requirements for a written contract will be governed by §110, subject to any applicable FERC requirements. To the extent such services are not within PSL §110 and the Standards of Conduct are followed, they may be provided pursuant to this Agreement.

Genco may have bilateral sales contract(s) with Regco. Any such purchases(s) by Regco will be subject to the usually applicable Commission standards of prudence in purchasing of supply by Regco.

Other than any purchases of electric energy, capacity or ancillary services, Holdco or any affiliate may provide goods and services to Regco at the lower of fully distributed cost or

a price not greater than fair market value.

20. Regco's Issuance of Securities; Debt Rating: Except for New York State Energy Research and Development Authority Pollution Control Revenue Bond obligations of Central Hudson which may be assignable to Genco, subsequent to the restructuring into the Holdco organization, Regco will continue to be the obligor for any long-term debt and preferred stock of Central Hudson. Subsequent to the restructuring into the Holdco organization, debt or preferred stock issuances to the public by Regco or issuances of common stock by Regco to Holdco will be made pursuant to PSC authorization under Section 69 of the Public Service Law.

Regco will maintain a debt rating separate and distinct from that of Holdco.

21. Downgrade Notice: If Holdco or Regco experiences a downgrade of its senior debt, or is placed on credit watch/review, by a credit rating agency, Regco will promptly notify the Director - Office of Accounting & Finance of the Department of Public Service ("Director - OA&F"), along with the reason(s) stated by the rating agency(ies) for such occurrence.

22. Dividend Payment Policies: Subsequent to the initial two years of operation of Holdco, dividends from Regco to Holdco will not exceed a rate equivalent to 100% of the annual average income available for common, calculated on a two-year rolling average basis. During the first two years of Holdco operations, dividends from Regco to Holdco shall not exceed the income available for common equity realized during the time period for which the dividend payment is applicable.

In the event of a downgrade of Regco's senior debt rating below BBB+ by more than one credit rating agency, if the stated reason(s) for the downgrade is the performance of or concerns about the financial condition of Holdco or any affiliate other than Regco, dividends will be limited to a rate of not more than 75% of the average annual income available for dividends, on a two-year rolling average basis.

In the event that Regco's senior debt is placed on "Credit Watch" (or the equivalent) for a rating below BBB by more than one credit rating agency, if the stated reason(s) for the downgrade is the performance of or concerns about the financial condition of Holdco or any affiliate other than Regco, dividends will be limited to a rate of not more than 50% of the

average annual income available for dividends, on a two-year rolling average basis.

In the event of a downgrade of the Regco's senior debt rating below BBB- by more than one credit rating agency, if the action is stated as being due in substantial part to the performance of or concerns about the financial condition of Holdco or any affiliate other than Regco, no dividends will be paid by Regco to Holdco until Regco's senior debt rating has been restored to BBB- or higher by all credit rating agencies then rating Regco. Within 30 days after the downgrade, Regco will provide the Director - OA&F a written description of the actions that management plans to take to address the downgrade. Any transfer from Regco to Holdco or other affiliate of the auction incentive or other proceeds of an auction of Fossil Generation is not subject to the limitations on transfer of dividends from Regco to Holdco described in this paragraph unless there is a downgrade of the senior debt of Regco to below BBB- and the stated reasons for the downgrade are, in substantial part, the performance of or concerns about the financial condition of Holdco or any affiliate other than Regco.

23. Prohibitions on Loans, Guarantees and Pledges: After the reorganization of Central Hudson into the Holdco organization and except as may be consistent with other provisions of this Agreement, Regco will not make loans to Holdco or any other affiliate, nor will Regco guarantee or otherwise provide enforceable credit support for the obligations (notes, debentures, debt and other securities) of Holdco or any other affiliate. Assets of Regco will be pledged only for obligations of Regco and no utility assets will be pledged as security for indebtedness of Holdco or any other affiliate, absent prior Commission approval.

24. Limitations on Transfer of Regco Employees and Transfer Fees: For a two year period following the Effective Date of this Agreement, Central Hudson may not transfer employees to any affiliate for purposes of marketing products or services within Central Hudson's existing service territory.

Following reorganization into the Holdco organization, Regco may transfer its employees to Holdco and to any of Holdco's other affiliates on a permanent basis provided, however, that the number of employees transferred from Regco shall not exceed 20 per year and provided that the restriction

of the above paragraph shall be applicable for two years from the Effective Date of this Agreement, but not beyond. A one-time amount of 20% of annual base salary for each employee transferred shall be credited by Holdco to Regco. Employees whose primary function is associated with Fossil Generation and who are transferred in connection with the auction of Fossil Generation are excluded from such numerical restrictions and one-time credits. Transfers of union represented employees are expected to occur consistent with any applicable collective bargaining agreement provisions.

25. Compensation of Regco Employees: The compensation of Regco officers and employees will be based on the performance of Regco. The compensation of Regco officers and employees in the form of bonuses will not be based on the performance of any affiliated entity; provided, however, that the form of such compensation may include Holdco common stock. In addition, the compensation of officers holding positions in both Holdco and Regco may be based on the service and performance of both Holdco (including affiliates) and Regco.

26. Benefit Plans: Employees of unregulated affiliates of Holdco will not participate in the pension and other post

employment benefit plans of Regco, except for any common officers with Regco, as permitted by this Agreement, and except for twenty-five employees of the current unregulated affiliate, CHEC. Any treatment of pension or other post employment benefit plan will be void if such treatment results in a disqualification of the plan by the IRS or in any plan failing to meet ERISA requirements. The separation of pension and other post employment benefit plans associated with unregulated affiliates is being done to be consistent with the existing Commission Policy on Pensions and OPEBs (effective September 7, 1993 in Case 91-M-0890) and Central Hudson may petition the Commission to change this separation to reflect any amendments to this policy or changes in its application. The costs of pension and other post employment benefit plans will be allocated among the affiliates in accordance with the Cost Allocation Guideline.

27. Insurance: Holdco and its affiliates, including Regco, may be covered by common property/casualty and other business insurance policies, and the costs of such policies shall be allocated among Holdco and its affiliates in accordance with the Cost Allocation Guidelines.

28. The "Cost Allocation Guidelines" included herein as Attachment G shall apply to any transactions between an unregulated affiliate and Regco.

29. Legal Services: The same law firm may represent Regco and any affiliate on any matter, provided that on any matter involving an intercorporate transaction in which the interests of Regco may be adverse to the interests of the affiliate, Regco will take appropriate steps to protect Regco's interests vigorously and independently (such as having separate attorneys if a single law firm is used and maintaining separations, such as a Chinese wall, between such attorneys or having separate law firms). Other than in connection with corporate governance and corporate administrative services matters, the same individual lawyers of a law firm which represents Regco may not perform legal services for unregulated subsidiaries of Holdco (other than Genco or CHEC). If the same law firm represents the Regco and Holdco or the non-utility affiliates, protections will be maintained among the lawyers performing legal services for each of the entities to ensure that non-public information regarding one entity will not be transmitted to another entity.

30. Staff will have the same access to all books and

records of Holdco, subject to the provisions of paragraphs 32 and 33, as it is permitted pursuant to the PSL concerning Regco. Staff will have access on reasonable notice and subject to the confidentiality and privilege rules of paragraphs 32 and 33, to the books and records of all other Holdco subsidiaries to the extent necessary to audit and monitor any transactions which have occurred between Regco and subsidiaries, to the extent the Holdco has access to such books and records.

31. Annual Report and Meeting with Staff: By April 30th of each year, Regco will file with the Director - OA&F the following annual reports, which shall receive "Trade Secret" protection:

- 1) Annual Report of Affiliate Transactions, which will contain: (i) the cost allocations followed in connection with transactions between Regco and its affiliates; (ii) an itemization of all asset transfers over the threshold between Regco and Holdco or any affiliate, the aggregate amount, and price at which such assets are transferred and, to the extent available, the original cost of items above \$500,000 and the net book value at the time of transfer; (iii)

the number of all Regco employees transferred to or hired by Holdco from Regco and the aggregate corresponding payment for such transfers and (iv) a list of all persons not employed by Regco who participate in any Regco or common employee benefit program. A summary of non-tariffed transfers of goods and services will also be included. The Report will include a certification that the management employees of Holdco, Regco and each other affiliate are familiar with the Cost Allocation Guidelines and Standards of Conduct requirements provided for herein. An officer will also certify that the Cost Allocation Guidelines and Standards of Conduct have been followed during the reporting period.

- 2) Annual Report of Non-Utility Investments, which will contain: (i) a description of all non-utility investments made by Holdco during the fiscal year; (ii) condensed financial statements (income statement, balance sheet and statement of cash flows) for each non-utility affiliate for the fiscal year and (iii) a narrative description of the results of

operations of the non-utility affiliates for the fiscal year in question. Each such report also will include any published material from credit rating agencies describing or discussing the effect of Holdco's investments in non-utility investments on Regco's credit rating.

A senior officer of Holdco and Regco will meet annually with Staff to review Regco's capital attraction plans and activities, respectively, including Regco's Board of Directors' certification and demonstration that Regco has retained or has access to sufficient capital to maintain and upgrade its plant, works and system as required for the continued provision of safe and adequate service.

32. Privileged Information: Nothing in this Agreement shall require Holdco, or Regco or any affiliate to provide Staff access to, or to make disclosure to Staff of any information as to which the entity in possession of such information would be entitled to assert a legal privilege, such as the attorney-client privilege, if, either (i) the privilege could be asserted against Staff or any other party in a proceeding before the Commission, or (ii) providing Staff

access to or making disclosure of such information to Staff would impair in any manner the right of the entity in possession of such information to assert such privilege against third parties.

If Staff seeks access to or disclosure of any information that either Holdco, Regco or any affiliate believes is exempt from access or disclosure, counsel for the entity asserting such privilege will so inform the requesting party, detailing, to the extent practical without destroying the privilege, the reasons why the privilege is being claimed in sufficient detail to permit Staff to determine whether or not to dispute the claim of privilege. If Staff decides to dispute such claim, it may request that the Commission or an administrative law judge conduct an *in camera* review of such information to determine whether it is, in fact, exempt from access or disclosure. Such determination will be subject to review by the Commission and, if necessary, judicial review.

33. Confidentiality of Records: Holdco and Regco will designate as confidential any non-public information to or of which Staff requests access or disclosure, and which Holdco or Regco believe is entitled to be treated as a trade secret.

Each member of Staff who is accorded access to, or to whom disclosure is made of, designated confidential portions of books and records, financial information, contracts, minutes, memoranda, business plans, and the like, will agree in writing to maintain such information as confidential, other than information that has been, or may in the future be, made public. The definition of "information that previously has been made public" will mean information that either (i) has been disclosed by either Holdco, or Regco or any other affiliate in financial or other literature to the financial community or to the public at large, (ii) appears in documents contained in the public files of a local, state or federal agency, body or court and which has not been accorded trade secret protection or (iii) information that otherwise is in the public domain.

In the event that Staff receives any information designated as confidential pursuant to the procedures described herein and desires to use such information publicly in a proceeding before the Commission, such party will first notify counsel for Holdco and Regco of the nature of such information as well as its intention to use such information in such

proceeding and afford Holdco and/or Regco the opportunity to apply to the presiding administrative law judge for a ruling designed to maintain the confidentiality of such information under Part 6-1 of the Commission's Rules of Procedure. Staff may object to any such application on the grounds that such information is not entitled to be treated as a trade secret under Part 6-1.

In the event that a member of Staff receives any information designated as confidential pursuant to the procedures described herein and desires to use or refer to such information in a memorandum or other document which may become an "agency record" as that term is defined in the New York Freedom of Information Law, Staff first will notify the Regco or Holdco of the nature of such information as well as its intended use, and afford Regco and/or Holdco the opportunity to apply under Part 6-1 of the Commission's Rules of Procedure for a protective order designed to maintain the confidentiality of such information. Staff may object to any such application on the grounds that such information is not entitled to be treated as a trade secret under Part 6-1.

#### 34. Lists and Copies of Securities and Exchange

Commission Filings: A list of all filings made with the SEC by Holdco or any of its affiliates will be provided quarterly to the Director-OA&F, along with an acknowledgment that, upon request, Staff will be provided with a copy of any such filing not subject to confidentiality provisions before the SEC. Any Holdco or affiliate 8-k filings will be provided promptly to Staff.

35. At the start of the year 1998, 1999, 2000 and 2001, unregulated operations shall be charged \$250,000 per year, which shall be credited to a sub account of A/C 253-Other Deferred Credits. Such transactions shall be a full and permanent satisfaction of any obligation in the nature of a royalty from Central Hudson.

## VII. AUCTION OF FOSSIL GENERATION

### A. Auction Generally.

Central Hudson will auction its Fossil Generation in accordance with the terms herein. It is the intent of the parties that the transfer of Fossil Generation be completed no later than June 30, 2001. Central Hudson will take commercially reasonable steps to complete the auction in order that a closing may occur no later than June 30, 2001, and

retains its discretion to decide to effectuate the closing at an earlier date. However, nothing in this Agreement shall preclude Central Hudson from seeking Commission approval for a sale or transfer of any generating facility or interest in any generating facility at any time.

B. Auction Objectives.

The objectives of the auction are i) to determine the Fair Market Value of Central Hudson's Fossil Generation, thus tending to maximize the proceeds from the sale/transfer of the assets; and ii) to establish a mechanism for the transfer of the Fossil Generation from the regulated T&D operations of Central Hudson.

C. Auction Principles.

The auction of the Central Hudson Fossil Generation will be carried out through a process that is designed to result in fair and equitable treatment of all parties, including Central Hudson's customers, employees, and investors and will be neutral in relation to divestiture to a third party or transfer to a Central Hudson affiliate. Central Hudson is not required to take any action not commercially reasonable, considering the relevant circumstances at the time.

Any Fossil Generation assets/liabilities not sold at auction will remain assets/liabilities of the regulated utility and the regulated utility shall have a reasonable opportunity to recover such prudently incurred costs in rates.

Central Hudson retains the right to reach a negotiated outcome with the bidders in the auction and the right to reject any or all bids, provided however, that neither negotiations nor bid rejection will be utilized by Central Hudson to advantage any bid by its affiliate.

Recognizing that as of the time of the auction of Fossil Generation, Central Hudson may have full requirements customers, the Auction Plan may include specifications for contracts for capacity or energy sales back to the regulated T&D operations for periods not to exceed five years.

D. Auction Procedures and Criteria.

The auction will be conducted pursuant to an Auction Plan. Central Hudson will submit an Auction Plan for review and approval by the Commission, under PSL §70 to the extent applicable, of the conformance of the Auction Plan with the objectives, principles and criteria for the auction set forth in this Part of this Agreement. Absent an order disapproving

the Auction Plan, it shall be deemed approved 180 days after the date on which it was filed.

The auction process will be specified in the Auction Plan, and may include one or more auctions. Generally, the auction process will include criteria for qualifying bidders, screening provisions concerning bidders, mechanisms for providing information concerning the Fossil Generation to qualifying bidders (see Attachment J) and rules governing procedures for submitting bids. Central Hudson will provide potential or actual bidders with pertinent information concerning the Fossil Generation facilities. A minimum bid will be required unless otherwise specified in the Auction Plan.

The Auction Plan will be based on the premise that a Central Hudson affiliate will bid and therefore an independent auctioneer will be utilized. The Auction Plan filed with the Commission will specify the name, mailing address and duties of the independent auctioneer selected by Central Hudson. The selection and duties of the independent auctioneer will be subject to approval by the Commission as part of the approval procedure previously stated.

The scope of the auction may include all assets and

liabilities associated with Fossil Generation. Such assets and liabilities include:

- 1) environmental liabilities,
- 2) pension surplus,
- 3) land and property rights,
- 4) equipment and facilities,
- 5) existing facility agreements with other parties,
- 6) inventories,
- 7) control systems,
- 8) land,
- 9) outstanding contractual obligations or contracts,
- 10) Severance Facilities, and
- 11) known, unknown, asserted and unasserted liabilities and all subsequent liabilities related to, or arising out of the construction or operation of the generating facilities. The purchaser may be required to indemnify Central Hudson and hold it harmless against any such liabilities. To the extent that no such indemnification is obtainable in the auction, Central Hudson may defer the prudently incurred portion of such liabilities for subsequent collection from customers in the manner to be specified by later Order of the Commission. In addition, all Severance Costs will be recovered, to the extent commercially achievable, in the auction and to the extent not recovered in the auction, in the ratemaking process.

All bids will be submitted to the independent auctioneer; any Central Hudson affiliate bid will follow the same procedures as all other bidders. All bid evaluations will be maintained as confidential by the independent auctioneer; depending on the type of auction used, bids may also be received and otherwise maintained as confidential by the

independent auctioneer. The bid format may allow options to include or exclude specific items of the above list (e.g., environmental, pension surplus).

The Auction Plan will specify the procedures by which the independent auctioneer will seek information from bidders or conduct negotiations with bidders.

The independent auctioneer will be permitted to obtain information from Central Hudson after bids have been received, provided that the independent auctioneer will disseminate any responses it receives equally to all then active bidders. Once the bidding process has commenced, no informal communications between Central Hudson and the independent auctioneer will occur on any topic that may affect the conduct or outcome of the auction.

The independent auctioneer will produce a written (confidential) Assessment and Recommendation that will be provided to Central Hudson for final decision. In the event that the Central Hudson affiliate is in the independent auctioneer's final bidding group, its Assessment will rank the bids of the final bidding group in dollar value and in non-dollar terms and make a recommendation as to the most

advantageous bid.

The independent auctioneer will be an organization unaffiliated with Central Hudson (or affiliate thereof) and will have no conflict of interest with any bidder (or affiliate thereof). The independent auctioneer will not advise any potential bidder concerning the Central Hudson auction after accepting the engagement from Central Hudson. The independent auctioneer will be required to make continuing disclosure to Central Hudson of any engagements concerning any potential bidder and provide continuing representations that any such engagements do not represent a conflict of interest. The auction process and procedures are to be neutral in relation to divestiture to a third party or transfer to a Central Hudson affiliate.

E. Conditions Precedent to Obligation to Conduct Auction

The parties recognize that certain conditions need to be satisfied prior to the conduct of the auction, including, but not limited to:

- 1) fulfillment of SEQRA requirements,
- 2) such other authorization as may be required under law,

- 3) application to the NRC seeking a determination that the auction will not adversely affect Central Hudson's license rights,
- 4) implementation of an operational statewide ISO, which is expected to include LBMP (confirmed by audit), a two-settlement system, a long-term capacity market, and at least one power exchange.

F. Closing on Sale of Fossil Generation.

There is no obligation of either purchaser or seller to close absent PSC Section 70 approval. Conditions of closing, including requirements for Severance Facilities, required FERC approvals, resolution of any issues as Con Edison or NMPC may have as non-operating co-tenants of Roseton, and such other conditions as are appropriate and commercially reasonable will be set forth in the Auction Plan.

G. Future Ownership of Generation.

Nothing herein is intended to restrict the right of Central Hudson (or Holdco/affiliate) to own or operate any form of generation outside of the existing electric franchise territory. However, as a part of the mutual concessions of this Agreement and as a permanent resolution of any question

concerning Central Hudson's rights to ownership of generation, Central Hudson (including all affiliates) will not own central station generation (exclusive of on-site generation) within the existing electric franchise territory (other than at the Roseton/Danskammer site) in addition to that already owned. In addition, for a period of five years from the closing for the transfer of Fossil Generation or the last closing, in the event that more than one closing occurs, Central Hudson (including all affiliates) will not own more than 1700MW of electric generating capability from any source or sources located or to be located at the Roseton/Danskammer site. These mutual concessions and commitments shall survive the termination of this Agreement.

Nothing in this Agreement is intended to restrict Central Hudson's capacity to enter into wholesale power transactions.

H. Auction Incentive.

The Commission's adoption and approval of this Agreement shall be deemed to constitute final Commission authorization to retention by Central Hudson of an Auction Incentive if Central Hudson's affiliate does not bid on any of the existing Fossil Generation assets. The Auction Incentive is equal to the

percentage of the gross proceeds from the auction determined in accordance with the table below, applied to the gross sale price; provided, however, that the total amount of the Auction Incentive shall not exceed \$17.5 million after tax.

Gross Sale Price	"No Bid" Incentive
Up to Net Book Value ("N.B.V.")	5% of the gross sales price up to N.B.V.
N.B.V. and above	Above plus 10% of the gross sales price above N.B.V.

The Auction Incentive is applicable to the gross amount of the winning bid (including valuation for any non-cash portions of the winning bid) and is not to be reduced for purposes of calculating the incentive by the costs of the auction or any other reductions. Central Hudson is authorized to retain the incentive at the closing, out of the proceeds received at the closing. The Auction Incentive will not be recognized for purposes of the computation of the achieved rate of return by Central Hudson provided for in part IV.I of this Agreement, or otherwise in the ratemaking process. The following provisions shall be made for taxes arising out of the auction and Auction

Incentive:

- 1) taxes on the Auction Incentive calculated on the portion of the sale price up to net book value shall be provided for in the ratemaking process;
- 2) taxes on any gain arising upon the auction shall be provided for in the ratemaking process, except that taxes on the part of the Auction Incentive calculated on the portion of the gross sale price that is above net book value shall be the responsibility of shareholders.

I. Represented Employees.

The parties recognize that union represented employee rights on transfer of Fossil Generation are matters of collective bargaining. The parties also recognize that union represented employee related transition costs, including retraining, out-placement, severance, early retirement and represented employee retention programs are also matters of collective bargaining. Such transition costs as are reasonable shall be recovered by Central Hudson as Strandable Costs.

J. Commission Action Upon Auction.

The Commission shall consider any transfer of assets to

the successful bidder in an expedited proceeding under PSL §70. The §70 proceeding will include evaluation of any bid options that may ultimately be accepted by Central Hudson in the auction process. Other than as may be approved by the Commission in the §70 approval, any pension surplus as of the time of the closing for the transfer of the asset following the auction shall remain with the regulated utility.

In the event that the ultimately selected bidder is not Central Hudson's affiliate, the §70 proceeding will be based on a rebuttable presumption that the process was conducted appropriately. In the event that the Central Hudson affiliate is the ultimately selected bidder, Central Hudson will demonstrate in the §70 proceeding that the process was conducted in accordance with the principles, objectives and criteria of this Agreement and in accordance with the Auction Plan.

For any transfer or sale of generation assets, the Commission shall apply the standard of Fair Market value. Fair Market Value at the time of transfer shall be determined on the basis of the auction process described in this Agreement.

## VIII. STRANDABLE COSTS

### A. Recovery of Strandable Costs.

Central Hudson shall have a reasonable opportunity to recover all prudently incurred, verifiable and appropriately mitigated Strandable Costs. Recovery will be achieved through competitively neutral non-bypassable wires charges or other non-bypassable means, which will commence June 30, 2001 unless, prior to that date, the Fossil Generation is transferred from the regulated utility to another entity (whether affiliated or not), in which event, Central Hudson will file with the Commission a request for a change in base rates that would be effective subject to refund as of the date of such transfer of the Fossil Generation and the non-bypassable recovery of Strandable Costs would commence.

Ratepayers shall have the opportunity for recovery of any proceeds from the sale of Fossil Generation, net of Auction Incentive, auction expenses, severance costs, severance facilities and taxes, to the extent that such net proceeds exceed the net book value (Attachment K). The net proceeds above net book value will be disposed of as follows: First to offset Fossil Generation regulatory assets unrecognized in the

auction; second, to the extent of any proceeds remaining after the first item, to reduce the book costs of NM2 unless, prior to Central Hudson's realization of the auction proceeds, Central Hudson's investment in NM2 has been fully recovered or a proceeding of the nature identified in part IV.L. of this Agreement with that objective is then pending; and third, to the extent that any proceeds remain after the first and second items, to other ratepayer benefits. In the event that the sale price is at a level below Central Hudson's then current net book value (including associated deferred taxes and Transaction Costs), the difference will be preserved for recovery as a Strandable Cost.

The amount of Fossil Generation Strandable Costs to be recovered in non-bypassable wires charges cannot be forecast at this time due, among other factors, to uncertainties surrounding the amount of proceeds that might be realized from auctions of Fossil Generation. The amount of Fossil Generation Strandable Costs will include the elements in the following list:

- 1) The difference between Fair Market Value of Fossil Generation assets/liabilities (determined through the auction

process described herein) and their net book value;

2) Net production-related regulatory assets;

3) The net cost of divested IPP contracts (established as the net cost to dispose of the contracts);

4) the Regco portion of the incremental costs incurred in implementing a restructuring into a Holdco organization, the incremental costs of developing an auction, the otherwise unrecovered portion of Severance Costs, and the incremental costs incurred by Central Hudson in developing and implementing the ISO/PE not recovered in FERC jurisdictional rates; and

5) Mitigators (other than as related to Fossil Generation), to the extent actually realized:

a. Accumulated "excess earnings" above the 10.6% ROE cap of this Agreement;

b. Retail access fund balance;

c. Other Deferred Credits (including those from Case 92-E-1055 and Customer Service Incentive);

d. Unbilled revenues related to Fossil Generation, based on sales from the last full billing period until the date of sale of the Fossil Generation;

e. Excess depreciation reserve of assets, where

applicable and approved by FERC;

f. Cost savings to Central Hudson from implementation of any adopted "statewide nuclear solution" other than securitization, which on a net basis produces benefits to Central Hudson not presently recognized as of the date hereof.

The net result of the above determination may be either positive or negative. Any generation-related assets and liabilities not transferred pursuant to the Fossil Generation auction or recognized in the strandable cost determination will be recognized for recovery through non-bypassable charges of the regulated T&D operations.

The post-October 1, 1997 incremental costs incurred by Central Hudson in developing the auction shall be fully deferred and fully recoverable.

B. Treatment of Net Proceeds  
on Sale of Fossil Generation.

The consideration received by Central Hudson in any Fossil Generation auction shall, up to the net book value of the asset or interest (including associated deferred taxes), be available for investment in unregulated operations without further

Commission approval or authorization.

IX. GENERIC ISSUES

The outcomes of any of the following possible global generic issues shall be applied to Central Hudson in accordance with part XIII.B. of this Agreement, below:

- ISO
- Load Pocket/Market Power
- Reporting Requirements
- Nuclear
- ESCOs (including Metering/Billing)
- Bulk Transmission/Local Distribution Definition

X. MONITORING AND REPORTING REQUIREMENTS  
RELATED TO THIS AGREEMENT

This part identifies information Central Hudson has agreed to provide to Staff as part of this Agreement. Other than listed below, Central Hudson is not required to submit reports by this Agreement.

A. Data on Retail Access Customer Information (monthly and YTD):

1. Number of S.C. No. 13 customers taking EVOP tariff

2. Load penetration level of S.C. No. 13 EVOP customers
3. Number of S.C. No. 13 customers taking Retail Access tariff
4. Load penetration of S.C. No. 13 Retail Access tariff customers
5. Number of small industrial/commercial customers taking Retail Access tariff
6. Load penetration of small industrial/commercial customers taking Retail Access tariff
7. Number of residential customers taking Retail Access tariff
8. Load penetration of residential customers taking Retail Access tariff
9. List of ESCOs/Marketers providing service within Central Hudson's area
10. Measure of Retail Access in/out movement

B. Reporting of Credit Balances

Provide the total of the Debit and Credit entries annually and the period to date Balance for the following deferrals:

1. Funds available for S.C. No. 13 Retail Access program;
2. Funds available for Small Industrial/Commercial Customers' Retail Access program;
3. Funds available for Residential Customers' Retail Access program;
4. Excess/Deficient Earnings variation from 10.6% Return on Equity (within 90 days after the end of the computation period consistent with Attachment B);
5. Mirror CWIP;
6. Replacement for Mirror CWIP at expiration of its amortization;
7. Itemized list (excluding 1-6, above) of each Deferral Balance to be used as a potential offset to Strandable Costs at the end of this Agreement.

C. FAC Mechanics/Reporting

Except as provided herein, Central Hudson will continue to provide the same support documentation as is currently supplied for purposes of establishing monthly FAC targets and actual

monthly FAC charges. Central Hudson will supply, with its annual FAC target filing, the derivation of the monthly per-kwh charges designed, as discussed in part IV.D., to capture fuel savings associated with the Coal Dock Project. Central Hudson will file such reasonable information needed to support calculations required under any revised FAC or similar mechanism that may be instituted in response to the establishment of the ISO/PE, as described in part IV.D., above.

D. Financing Reporting.

The reports called for by Attachment F.

E. Holdco Reports.

The reports called for by parts VI.B.31 and 34.

F. Downgrade Reports.

The reports called for by parts VI.B.6 and 22.

XI. RATE UNBUNDLING

A. Retail Access Tariffs and  
Competitive Transition Charges ("CTC").

During the term of this Agreement, Central Hudson will provide retail access customers with tariffs that have been developed to include CTCs, as described in this Agreement. CTCs will be used to offset lost revenues due to Retail Access

during the term of this Agreement and will be applied to those customers who elect to participate in the Retail Access options set forth herein.

These tariffs will be developed with the objective of minimizing cost shifting between classes and within classes of customers. CTC charges may vary by service class and may include KW, KWH or customer charges (or combinations thereof), consistent with the pricing principles of the existing rates, and will be non-bypassable.

B. Unbundled Tariffs.

Commencing July 1, 2001, unbundled tariffs will be available.

XII. ITEMS FROM CASE 92-E-1055

A. West Delaware Hydro Contract.

In Opinion No. 94-3, the Commission determined that Staff had developed a prima facie showing of imprudence related to an amendment to the West Delaware Hydro Associates ("WDHA") contract. As a result, Central Hudson was assigned the burden of establishing that its actions were prudent. In final resolution of the WDHA prudence matter from Case No. 92-E-1055, the parties agree that for ratemaking purposes the prices for

power provided under the contract will be reduced from 8.99 cents/kwh to 4.812 cents/kwh for the period 1998-2003. Based upon this ratemaking treatment, the remainder of the 1992 contract is approved for recovery in rates through 2003, and the 1992 contract will be deemed terminated for rate making purposes as of the end of 2003. After 2003, Central Hudson is not required by this Agreement to make purchases from the Project.

B. DSM Prudence.

In Opinion No. 94-3, at pages 37-45, the Commission directed that Central Hudson "should provide in its next rate case filing, a comparison of its results to the cost-effectiveness of all ESCO offers that were available prior to July 19, 1993...." Central Hudson will file such a comparison within six months of the Effective Date of this Agreement.

XIII. OTHER PROVISIONS

A. Term of Agreement.

This Agreement shall become effective as of the Effective Date and shall continue in effect until June 30, 2001; provided however that the obligations of parts III.F., III.G., III.L., VI.B, VII.G. and VII.H., XII.A., XIII.B and XIII.C and

Attachments H and I of this Agreement shall survive the termination of this Agreement.

B. Effect of Agreement.

At such time as the Commission adopts this Agreement (and the time for judicial review of such decision shall have run, or judicial review thereof shall have been determined in the Commission's favor), Central Hudson agrees to withdraw from the pending Article 78 proceeding styled In the Matter of The Energy Association of New York State, Inc., et al. v. Public Service Commission, et al., Albany County Index No. 5830-96; Appellate Division-Third Department Case No. 78608. The withdrawal of the Article 78 Proceeding will be effected through a Stipulation of Withdrawal, mutually agreed upon between Central Hudson and the Commission. After the Stipulation is adopted by the Commission, the Stipulation will be filed with the Court then having jurisdiction of the Article 78 matter.

Central Hudson is also making the following additional concessions, which include, but are not limited to:

1. freezing electric base rates until 6/30/01 or until the sale of Fossil Generation and associated rate

- change, whichever occurs first;
2. allocating earnings in excess of the authorized rate of return to Strandable Costs and ratepayer benefits;
  3. establishing funding of rate reductions to customers, Retail Access and the EVOP energy value option and enhanced economic development tariffs during the transition period;
  4. auctioning and restructuring of Fossil Generation no later than 6/30/01; and
  5. making full Retail Access available to all customers in 2001.

Each concession is made in return for the following rate and other assurances by the Commission. These assurances include, but are not limited to:

1. a specified rate of return, including a fuel adjustment clause and freezing the overall level of base electric rates;
2. a competitive transition charge;
3. a reasonable opportunity for the company to recover prudently incurred Strandable Costs through i) application of funds from various sources accrued

- during the transition period and ii) non-bypassable charges post-transition;
4. inclusion of the fair market value of auctioned Fossil Generation in stranded cost calculations;
  5. accepting the right of Central Hudson or an affiliate to bid in the auction under the same terms and conditions applicable to other bidders;
  6. allowing Central Hudson's net investment in NM2 to remain in rate base absent other treatment, as provided for herein and
  7. authorizing the formation of the Holdco that provides customer protections and allows Central Hudson to engage in unregulated activities.

The parties hereby agree that the mutual concessions and assurances will result in rates that are just and reasonable to both customers and shareholders through June 30, 2001, and include the recovery of stranded costs in non-bypassable wires charges beyond June 30, 2001. The parties agree that the Commission's approval of this Agreement represents approval of all of its terms and the parties recognize that the concessions and assurances of Central Hudson are being made, in substantial

part, in reliance upon later actions of the Commission pursuant to the terms of this Agreement.

The parties recognize that Central Hudson's participation in this Agreement is based on the premise that in adopting this Agreement the Commission will find, in substance, that:

1. the mutual concessions and assurances set forth in this Agreement are inextricably interrelated;
2. this Agreement will produce just and reasonable rates throughout the term of this Agreement;
3. the mutual concessions and assurances embodied in this Agreement justify the opportunity for recovery of Strandable Costs and the use of non-bypassable wires charges for that purpose post-June 30, 2001;
4. this Agreement is consistent with the Commission's policy directives in Opinion No. 96-12;
5. this Agreement furthers the public interest.

Furthermore, it is understood by the parties that Central Hudson will request that the Commission make such findings and the parties agree not to oppose such a request.

If the Commission does not approve this Agreement in its entirety without modification, this Agreement will be deemed to

have been disapproved and the parties shall have no obligations under this Agreement other than to discuss in good faith whether any alteration of this Agreement or condition to its adoption and approval that may be specified by the Commission is acceptable to them. Each party to this Agreement fully reserves its rights in that event.

Generic determinations by the Commission on the specific topics listed above in part IX. will be addressed in good faith by the parties to this Agreement and will provide guidance for potential tailoring or application that preserves this Agreement and associated concessions and assurances of Central Hudson and the Commission. Nothing in this Agreement limits the rights of a party to challenge the Commission's decisions on "Generic Issues".

Central Hudson shall have a reasonable opportunity fully to recover all prudently incurred, verifiable and appropriately mitigated stranded costs incurred in fulfilling its obligation to serve and in providing safe and adequate service at just and reasonable rates during the term of this Agreement, unless and until the foregoing standard is modified (for prospective application) by subsequent order of the Commission or action of

other applicable governmental authority.

C. Reservation of Rights.

In the event that the Commission does not approve an Auction Plan consistent with the terms of this Agreement, including a plan which permits Central Hudson to participate in the auction if it so chooses, or if the Commission does not approve the transfer of assets to the successful bidder(s) as provided in this Agreement, including a transfer to Central Hudson's affiliate if it is the winning bidder in the auction, Central Hudson reserves the right to be excused from its agreement to restructure its generation and provide Retail Access to customers who did not previously enroll in the Retail Access program set forth in this Agreement.

D. Time Line.

The times for various actions to be accomplished by the various parties are set forth on Attachment D. To the extent that any conditions precedent for an action set forth on Attachment D do not occur within the time allotted therefor, any related obligation of Central Hudson to proceed shall be likewise extended by an equivalent period of time.

E. Applicable Law.

This Agreement shall be construed in accordance with the laws of the State of New York.

F. Entire Agreement and Merger.

This Agreement represents the entire agreement among the parties with respect to the subject matters herein and all prior understandings are merged into this Agreement.

G. Titles.

The titles of the parts of this Agreement are for the convenience of the parties.

H. Counterparts.

This Agreement may be executed in counterparts.

WHEREFORE, this Agreement has been executed as of the date first set forth above by each of the following parties, who, by its signature, each represents that it is fully authorized to execute this Agreement and, if executing this Agreement in a representative capacity, it is fully authorized to execute this Agreement on behalf of its principals.

[Appropriate Signature Blocks to be added.]

Signature Page

Central Hudson Gas & Electric Corporation

The undersigned party to Public Service Commission Case  
No. 96-E-0909 has participated in the negotiations among the  
parties which led to the Amended and Restated Settlement  
Agreement dated January 2, 1998 and agrees to the provisions  
of such Amended and Restated Settlement Agreement.

Staff of the Department of Public Service

  
\_\_\_\_\_

By:

Dated: January 2 1998

Signature Page

Central Hudson Gas & Electric Corporation

The undersigned party to Public Service Commission Case No. 96-E-0909 has participated in the negotiations among the parties which led to the Amended and Restated Settlement Agreement dated January 2, 1998 and agrees to the provisions of such Amended and Restated Settlement Agreement.

Central Hudson Gas & Electric Corporation

Arthur R. Tappan

By:

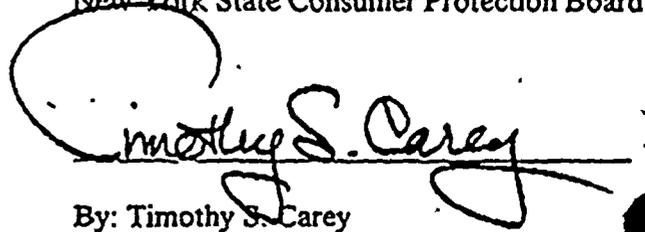
Dated: January 2, 1998

Signature Page

Central Hudson Gas & Electric Corporation

The undersigned party to Public Service Commission Case No. 96-E-0909 has participated in the negotiations among the parties which led to the Amended and Restated Settlement Agreement dated January 2, 1998 and agrees to the provisions of such Amended and Restated Settlement Agreement.

New York State Consumer Protection Board

A handwritten signature in cursive script that reads "Timothy S. Carey". The signature is written in black ink and is positioned above a horizontal line.

By: Timothy S. Carey

Chairman and Executive Director

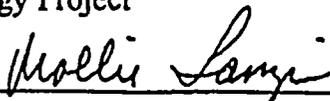
Dated: February 3, 1998

Signature Page

Central Hudson Gas & Electric Corporation

The undersigned party to Public Service Commission Case No. 96-E-0909 has participated in negotiations among the parties which led to the Amended and Restated Settlement Agreement dated January 2, 1998 and agrees to the provisions of such Amended and Restated Agreement.

Pace Energy Project

  
\_\_\_\_\_

By: Mollie Lampi

Senior Attorney

Dated: January 7, 1998



Attachment A : Amortization of Mirror CWIP Credit And Offsetting Deferred Credit

	Mirror CWIP	Amortization	Amortization	Amortization	Net	Net
	Credit	of Mirror	Of Deferred	Of Deferred	Credit	Operating
Date	Balance	CWIP Credit	Credit	FIT Debit	Amortization	Income
Jan/00	4,430,500	500,000	0	0	0	500,000
Feb/00	3,930,500	500,000	0	0	0	500,000
Mar/00	3,430,500	500,000	0	0	0	500,000
Apr/00	2,930,500	500,000	0	0	0	500,000
May/00	2,430,500	500,000	0	0	0	500,000
June/00	1,930,500	500,000	0	0	0	500,000
July/00	1,430,500	500,000	0	0	0	500,000
Aug/00	930,500	500,000	0	0	0	500,000
Sep/00	430,500	430,500	106,900	-37,400	69,500	500,000
Oct/00	0	0	769,200	-269,200	500,000	500,000
Nov/00	0	0	769200	-269200	500,000	500,000
Dec/00	0	0	769200	-269200	500,000	500,000
Jan/01	0	0	769200	-269200	500,000	500,000
Feb/01	0	0	769200	-269200	500,000	500,000
Mar/01	0	0	769200	-269200	500,000	500,000
Apr/01	0	0	769200	-269200	500,000	500,000
May/01	0	0	769200	-269200	500,000	500,000
Jun/01	0	0	769200	-269200	500,000	500,000



ATTACHMENT B  
MEASUREMENT PLAN FOR EXCESS EARNINGS

The calculation of excess earnings for electric operations shall be based on calendar year operating income on a ratemaking basis and rate base for each year that the settlement is in effect.

The determination of ratemaking operating income shall be based on operating income as recognized on the Company's books and records adjusted for items recorded as non-operating expense, which are recognized as ratemaking operating expense (e.g., Mirror CWIP interest expense on certain of the Company's Pollution Control Bonds) and any earnings available for the Company's shareholders under a sharing arrangement between customers and shareholders (e.g., fuel target incentive mechanism and Net Sales For Resale).

The measurement of excess earnings will be calculated by multiplying electric rate base by the pro-forma rate of return (assuming a 10.6% ROE). This result will be compared to ratemaking operating income as described above. The excess, if any, shall be deferred, grossed up for federal income tax, to offset strandable costs, and any excess over that amount will be used to provide ratepayer benefits.

Excess earnings also must be measured for periods of time that are less than a calendar year (partial periods). Excess earnings for the partial periods will be calculated by multiplying electric excess earnings for the applicable 12-month period by the ratio of electric sales for the partial period to electric sales for the applicable 12-month period. Calendar year 1998 will be the applicable 12-month period for the first year of the Settlement. The twelve month period preceding the end date of this Settlement will be the applicable 12-month period for the last year of the Settlement. Computation of excess earnings will exclude the capital costs of the coal dock facility already recovered through the FAC.

ATTACHMENT C

SERVICE QUALITY INCENTIVE PLAN

This Service Quality Incentive Plan (Plan) developed by Central Hudson Gas & Electric Corporation ("Central Hudson") and the Staff of the New York State Department of Public Service ("Staff") has been developed in accordance with the Settlement Agreement dated March 20, 1997. This Plan will be in effect for the term of this Agreement.

This Plan was developed to be consistent with the Company's Gas Incentive plan, which was approved by the Public Service Commission ("Commission") in Central Hudson Gas & Electric Corporation, Commission Case 95-G-1034.

Several discussions were held resulting in the development of this mutually acceptable Service Quality Incentive Plan. The three (3) areas of focus are Customer Satisfaction Index, keeping scheduled appointments, and Electric Service Reliability.

The parties believe that the Plan provides fair consideration to the interests of Central Hudson's customers and shareholders alike in assuring the provision of safe, adequate, reliable service at just and reasonable rates.

The parties hereto agree as follows:

Basis Points:

A total of 25.0 Basis Points are associated with this incentive plan. For the purpose of this Plan, a Basis Point" is to have the same value as a Basis Point within Central Hudson's after tax return on common equity on its electric rate base.

Reporting:

Central Hudson will report to Staff monthly on each of the Service Quality Indicators in this Incentive Plan as part of the Performance Indicators report. Following the conclusion of each year in which this Incentive Plan is in effect, Central Hudson will submit a report summarizing its annual performance in each area and shall include any resulting effect on earnings due to that performance under this incentive plan. Central Hudson will file this report with the Public Service Commission by March 31 of the following year.

Reopener:

The parties agree to reconvene after January 31, 2000 to consider whether the measures of Service Quality as defined in this Incentive Plan continue to be warranted.

Implementation:

Central Hudson will implement the three (3) part Service Quality Incentive plan as follows:

1. Customer Satisfaction Index:

As part of Case 95-G-1034 it was determined that the Company would use its 1996 Customer Satisfaction Index ("CSI") as the base value for evaluating its performance in 1997. It was also determined that prior to January 1, 1998, Central Hudson and Staff would agree to discuss a revised method for determining the CSI. A new method has been developed by the Company and reviewed with Staff in conjunction with the development of this Plan. It will be used as the basis for evaluation of the Company's performance under this Incentive Plan and the Incentive Plan approved in Case 95-G-1034 beginning in 1998.

The total number of Basis Points associated with the Customer Satisfaction component of this Incentive Plan has been set at 10.

Survey Process:

Central Hudson will calculate its monthly and annual CSI performance consistent with the survey methodology defined in the Central Hudson document entitled "How Did We Do Survey"-  
Continuous Improvement through Monitoring Customer Satisfaction with Key Customer Processes for the duration of this Incentive Plan.

Calculation of the Monthly Customer Satisfaction Index:

By the 15th day of each month, all customer surveys received during the prior month will be analyzed and a Customer Satisfaction Index calculated. Each month, the number of positive responses received for each of the survey questions is divided by the total number surveys with a response indicated received. A weighted value of the eight (8) survey questions will be calculated and used to determine the Satisfaction Index for that specific month. The calculation used to determine monthly Customer satisfaction is shown in Attachment A. At the end of each calendar year the mathematical mean of all twelve months will be calculated to represent annual CSI performance.

Base:

Central Hudson will use the mean value for the Customer Satisfaction Index for the 12 months beginning January 1997 through December 1997 as the base value for evaluating its future performance.

Earnings Reduction:

Earnings will be reduced if the average CSI for the current year falls below the Base CSI by more than a defined deadband. The applicable deadband (Deadband") will be 4.5 percentage points. This represents a maximum error factor of 4.5 percent while maintaining a minimum confidence level of 95 percent in the

monthly calculation of CSI value. Both the confidence level and error factor are based on an expectation that at least 200 survey responses will be returned for each question asked monthly. In the event that the Average CSI for year end 1998 is lower than the average CSI for 1997 by an amount greater than the Deadband, an earnings reduction will be assessed as provided for herein.

There will be four (4) levels of earnings reduction below the Deadband ("Levels"). Each of the first three (3) Levels immediately below the Deadband, shall be one (1) percent below the maximum error factor of 4.5 percent. The fourth Level shall be any value falling below the three (3) Levels referenced above.

2.5 Basis Points are applied to the first Level below the Deadband, 5.0 Basis Points are associated with the second Level below the Deadband, 7.5 Basis Points are applied to the third Level below the Deadband and 10.0 Basis Points are associated with the fourth Level below the Deadband. The applicable Basis Point amount shall not be cumulative and shall only be applied to a CSI value falling within a specific Level. For example, if the CSI value were to fall within the fourth Level, 10 Basis Points would be applicable.

Attachment B is a diagram illustrating the manner in which this incentive earnings reduction is to be applied.

Application of Earnings Reduction:

If Central Hudson incurs an earnings reduction under this CSI Incentive Plan, such earnings reduction will be deferred in a sub-account of Account 253 - Other Deferred Credits for disposition first as an offset to Strandable Costs and then as ratepayer benefits.

No Reward:

There will be no reward to Central Hudson in the event that the CSI for any year equals or exceeds the CSI for the applicable base year.

Performance Recognition:

Discussions will continue between Staff and the Company to develop a mechanism for recognizing improved Customer Satisfaction if a level of 4.5 percentage points above the base value is achieved.

2. Keeping Scheduled Appointments:

Appointment:

This shall apply to appointments to meet with either residential or commercial customers. The appointment may be initiated by either the customer or Central Hudson and may be for any reason.

Payment:

Except as provided for herein, Central Hudson will provide a credit of \$20.00 to each customer when Central Hudson's representative fails to arrive at the place of the scheduled meeting with that customer. These payments cover routine scheduled appointments and not emergency matters.

Method of Payment/Apology:

Central Hudson will provide a direct credit to the customer's account. Central Hudson will acknowledge the missed appointment by a letter to the customer apologizing for the missed appointment.

Advertising:

Central Hudson will continue to advertise the "Performance Guarantee - Keeping Scheduled Appointments" program to its customers.

Monitoring:

Central Hudson will determine whether it kept the appointment within the applicable "window" as provided for herein. If Central Hudson fails to keep the appointment, it will initiate the credit and letter to the customer as provided above. No action by the customer will be required.

Exemptions:

- Weather related conditions which affect Central Hudson's

deployment of its personnel;

- Gas odor or other electric/gas emergency; or
- When Central Hudson contacts the customer prior to or during the scheduled appointment time and reschedules the appointment and this is an acceptable arrangement to the customer.

Rescheduling - Contact with the Customer:

Central Hudson will make a good faith effort to contact each customer prior to the scheduled time, when the scheduled appointment cannot be kept.

Window:

The applicable window shall be whatever time has been agreed to with the Customer and the Company plus two (2) hours. For example, the window for a 9 AM appointment will be from 9 AM until 11 AM.

As another alternative, if the customer voluntarily offers to schedule the appointment for "any time during the day", the appointment window shall be 8 AM to 4:30 PM.

3. Electric Service Reliability:

The total number of Basis Points associated with the Electric Reliability component of this Incentive Plan has been defined as 15. Five (5) Basis Points are associated with the Frequency component (SAIFI) and 10 are associated with the

Duration Component (CAIDI).

The Electric Service Reliability portion of this Service Quality Incentive Plan is based on current Commission standards for electric service interruption duration and frequency. This proposal was designed to conform to PSC service standards.

Therefore, outages due to major storms and catastrophic events as defined in 16 NYCRR Part 105 are excluded. The indices that will be monitored as part of this Service Quality Incentive Plan represent the total of Central Hudson's electric customer base. The Plan was designed to reduce total interruptions customers incur as well as to reduce the length of time each interruption lasts.

Definitions:

CAIDI (duration) - Average Duration per Interruption

SAIFI (frequency) - Average Number of Interruptions per Customer

Parameters of Performance:

Central Hudson will continue to monitor and report on all indices referred to in this Service Quality Incentive Plan. However, incentive penalties will be based on annual performance beginning January 1, 1998.

Frequency (SAIFI):

The frequency per calendar year shall not exceed 1.20 on an

annual basis. If this number is exceeded, Central Hudson will be subject to an incentive penalty of 2.5 Basis Points. If the frequency for any calendar year exceeds 1.40, Central Hudson will be subject to an incentive penalty equal to 5.0 Basis Points.

Duration (CAIDI):

The duration shall not exceed 2.27 hours for any calendar year. If this number is exceeded, Central Hudson will be subject to an incentive penalty of 5.0 Basis Points. If the average duration per interruption exceeds 2.50 hours in any calendar year, Central Hudson will be subject to an incentive penalty equal to 10.0 Basis Points.

Application of Earnings Reduction:

If Central Hudson incurs an earnings reduction under this Electric Service Reliability Incentive Plan, such earnings reduction will be deferred in a sub-account of Account 253 - Other Deferred Credits for disposition first as an offset to Strandable Costs and then as ratepayer benefits.

No Reward:

There will be no reward to Central Hudson for improved performance in the CAIDI or SAIFI indices.

Performance Recognition:

Discussions will continue between Staff and the Company to

develop a mechanism for recognizing improved service reliability performance if levels of 1.10 interruptions per year and a 1.60 hours duration or less are achieved.



Attachment A

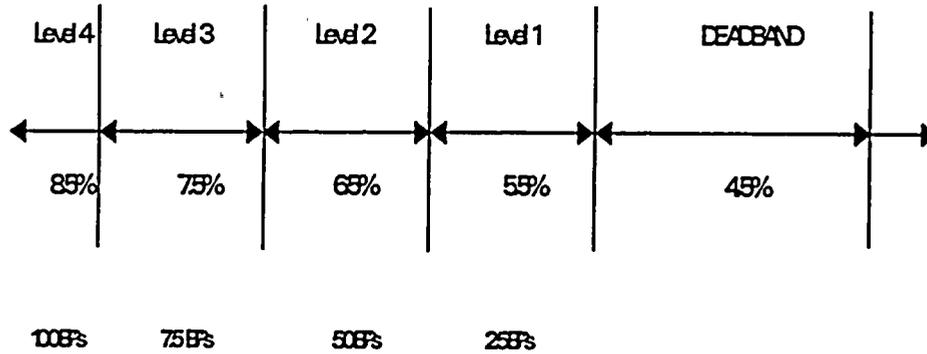
SERVICE QUALITY INCENTIVE

Customer Satisfaction Index

- Q1 I have a good overall opinion of Central Hudson.
- Q2 I rarely have difficulty getting through to Central Hudson on the telephone.
- Q3 I find it easy to use "The Power Line," Central Hudson's automated telephone answering system.
- Q4 When it is necessary to speak with a Customer Service Representative they are courteous while handling my concern.
- Q5 I was able to have my problem resolved during my first telephone call.
- Q6 The information I received from the Central Hudson Representative I spoke to was accurate.
- Q7 When field work is necessary it is done in a timely manner.
- Q8 Central Hudson Field Representatives are courteous when working in or around my home or office.

ATTACHMENT

1997  
CS



Calculation:

$$\text{Monthly CSI} = [ (Q2 + Q3 + Q4 + Q5 + Q6 + Q7 + Q8) / 7 + Q1 ] / 2$$

ATTACHMENT D

TIME LINE FOR CERTAIN ACTIONS

DATE

ACTION

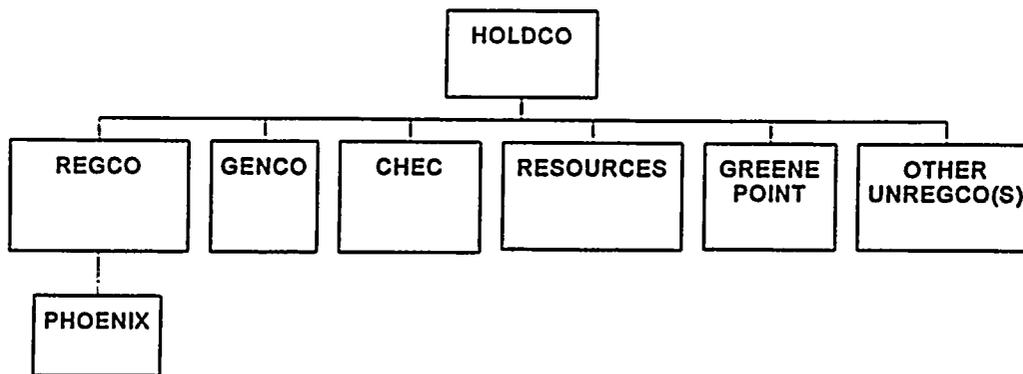
1. → Commission issues Final order approving and adopting Settlement Agreement.
2. + 15 Days
  - Central Hudson files FAC modifications to implement agreement with respect to Competitive Transition Charge, Coal Dock Depreciation and Energy Value Option.
  - Tariffs related to the Coal Dock effective on one day's notice.
  - Central Hudson files S.C. No. 13 modifications for discounts and EVOP
  - Permits discounting and contracts
  - Permit EVOP, redesign rate and coordinate with FAC
  - Central Hudson files modified S.C. No. 2 and S.C. No 3.
  - S.C. No. 2 modifications are retention revisions
  - S.C. No. 3 modifications are retention and enhanced growth incentives.

3. + 30 Days → Central Hudson files tariff amendments to permit Retail Access for defined residential, commercial and industrial customers.
  - 10 days from PSC approval Central Hudson will file exemption to FERC Order 888 tariff for Retail Access and EVOP.
  
4. 90 Days Subsequent to PSC Approval → EVOP and Retail Access become effective upon FERC approval.
  
5. + 90 Days → Central Hudson files plan to functionally separate fossil generation from T&D and establish accounting protocols.
  - Central Hudson implements plan on April 1, 1998.
  
6. + 180 Days → Central Hudson makes the filing described in part XI of Settlement Agreement.
  
7. 180 Days Prior to Auction of Fossil Generation → Central Hudson files Auction Plan
  
8. 1/1/99 → Retail Access - Second Phase
  
9. 7/1/99 → Retail Access - Progress Report

10. 1/1/00
- Retail Access - Third Phase
  - Central Hudson files T&D rate case:
    - T&D Rate Case
    - T&D Unbundled Rates
11. 11/1/00
- Commission issues order approving structure, recovery of stranded costs and setting unbundled rates effective 7/1/01.
12. 11/2/00
- Central Hudson commences processes to be implemented by 7/1/01, assuming satisfactory Commission Order.
13. 1/1/01
- Retail Access - Fourth Phase
14. 7/1/01
- Central Hudson Implements:
    - Full Retail Access
    - Generation / Structural Separation
    - Full Stranded Cost Recovery



ATTACHMENT E: INITIAL ORGANIZATIONAL CHART





ATTACHMENT F

FINANCING PROVISIONS

Conditions Pertaining to Issuance of Securities  
By Central Hudson Gas & Electric Corporation  
Pending Restructuring and Operation as Holdco.

1. The terms and conditions of all new securities issued by the company will not be any more restrictive than the terms and conditions of Central Hudson's most recently issued similar security. Any material changes in the terms and conditions, which make the terms and conditions more restrictive or costly, would be subject to abrogation as described in paragraph 3.

2. The terms and conditions of all new securities issued by Central Hudson will in no way restrict the company's ability to restructure its operations. To the extent that the company wishes to issue securities with terms and conditions that restrict its future corporate structure options, the terms and conditions of the securities would be subject to review through the Commission's traditional non-abrogation process as described in paragraph 3. Any filing submitted for such review shall include a statement describing and identifying the terms and conditions that restrict the company's ability to restructure its operations.

3. Central Hudson is authorized to issue the securities pursuant to the terms and conditions of this order without consulting staff or the Commission as long as the terms and conditions of the issuance are comparable to those obtained by

other electric utilities for similar securities under similar market conditions. Staff will review the terms and conditions of issuance the company makes to determine if they are reasonable. If the terms and conditions are not reasonable, the Director of Accounting and Finance will inform the company that its next financing must follow the abrogation process. When approval of debt or preferred stock is subject to abrogation, the company shall file with the Director of Accounting and Finance or his designee a copy of the executed purchase contract entered into for the sale of securities, a statement setting forth the terms applicable to the securities such as the interest or dividend rate, maturity, redemption price, the price to be paid to the company, any initial public offering price and the compensation to be paid to the underwriters, other costs and expenses of issuing the securities, and an affidavit of its President, Vice President or Treasurer stating that the proposed issue is to be sold on the "most advantageous terms" available. If the approval of terms granted by this Order is subject to abrogation as set forth above, Central Hudson expressly agrees that the authority granted by this Order may be abrogated by an Order issued by one or more Commissioners within twenty-four hours after submission by Central Hudson of the purchase contract, statement of terms and affidavit unless prior to such time the company shall be advised by the Director of Accounting and Finance or his designee that the conditions in this

Order have been met and that such authority is not to be abrogated pursuant to the process noted in this paragraph. In instances where approval of the terms is not subject to abrogation, Central Hudson shall inform the Office of Accounting and Finance of the terms of the executed purchase contract entered into for the sale of securities, and send to the Director of Accounting and Finance an affidavit of its President, Vice-President or Treasurer stating that the proposed issue is to be sold on the most advantageous terms available, and that the conditions established in paragraphs 1 and 2 are met.

4. Central Hudson Gas & Electric Corporation may employ interest rate caps, collars and floors to manage any interest rate risk associated with securities issued under this authorization.

5. Within 30 days of the issuance of any authorized common stock (up to 1.0 million shares), Central Hudson will file with the Commission an executed copy of the documents entered into for the sale and a verified statement showing the aggregate number of shares sold, commissions or other compensation paid and the net proceeds received. The proceeds from the sale of the authorized common stock shall be not less than 95% of the value of an equivalent amount of Central Hudson's common stock immediately prior to the determination of the shares' price.

6. Central Hudson is permitted to amend its Certificate of Incorporation to reflect the issuance of additional preferred

stock provided that the terms and conditions of the issuance meet the requirements of paragraphs 1 and 2, or are approved subject to the abrogation process described in paragraph 3.

7. Central Hudson shall issue securities pursuant to this Order solely and exclusively for the purposes permitted under Public Service Law Section 69. The proceeds from the issuance of securities shall be applied towards reimbursement of the company's treasury for equivalent moneys expended for capital purposes to June 30, 1997. The reimbursement funds shall be used toward the payment of outstanding short-term securities on the date of issuance of the said securities. Any remaining funds are to be used toward expenditures incurred on and after July 1, 1997, for the purposes permitted under Public Service Law Section 69, which shall be over and above the expenditures made for such purposes through funds originating from credits to the accumulated provision for depreciation, net salvage, and accumulated deferred income taxes. Withdrawal of a portion or all of the said reimbursement funds may be made from time to time for other utility purposes during the period ending June 30, 2001 or, may be invested in short-term marketable securities on condition that such temporary withdrawal, to the extent that the same are not offset by gross additions less funds originating from credits to the accumulated provisions for depreciation, net salvage and accumulated deferred income taxes on or after July 1, 1997 are deposited in a special

fund in a commercial banking institution or institutions as soon as practicably possible. The entire proceeds from the issuance of the securities authorized by this Order shall be used for the purposes specified above. In no instance shall any part of the proceeds be used to pay accrued interest or dividends on the discharged or refunded obligations.

8. Central Hudson shall file with the Director of Accounting and Finance a verified report in the form prescribed by 16 NYCRR Section 620.1. The report shall include the date proceeds were utilized as provided in paragraph 7, the amount, and the purpose for which such funds were utilized. The company shall report the cost of its debt or preferred stock relative to other electric and gas company issues with reference to treasury securities and any hedging activities undertaken with respect to the issuance. The company shall maintain at its offices a file containing the relevant documents on each issue, including a copy of the underwriting agreement, a report on costs and expenses of issuance, Board Resolutions, an identification of any new covenants or terms of debt, the affidavit and any supplemental indentures. The company shall maintain workpapers (including journal entries) which reflect a full accounting of the proceeds from individual issuances and related costs. This information shall be in sufficient detail to permit verification of all amounts to the company's books and records.

9. If, upon examination of the uses to which any proceeds are put, it is determined that any expenditure is not a reasonable and proper capital charge, or has not been duly authorized by the Commission, or is in violation of any Order of the Commission or any provision of law, a sum equal to such expenditure shall, upon Order of the Commission, promptly be placed in an account in a commercial banking institution or institutions and said sum shall be subject to all of the conditions and restrictions of this Appendix.

11. Central Hudson shall report to the Director of Accounting and Finance any single financing, as discussed above, not more than 10 days after the company's financing has been finalized.

12. The authority granted and the conditions imposed by this Order shall not be construed as passing upon or otherwise approving the accuracy of Central Hudson's books, records and accounts.

13. Central Hudson may not issue any securities pursuant to the authority granted in this Agreement unless and until the company has filed, with this Commission, an unconditional acceptance by Central Hudson agreeing to obey all the terms, conditions, and requirements of the Commission's Order concerning the Agreement.

ATTACHMENT G

FORM OF CERTIFICATE PURSUANT TO PSL §108

Certificate of Exchange of Shares of  
Central Hudson Gas & Electric Corporation, subject corporation,  
for shares of  
HoldCo, Inc., acquiring corporation,  
under Section 913 of the Business Corporation Law  
of the State of New York.

1. The name of the acquiring corporation is ["HoldCo, Inc."]  
("Acquiring Corporation").
2. The name of the subject corporation is Central Hudson Gas &  
Electric Corporation ("Subject Corporation").
3. Acquiring Corporation has outstanding \_\_\_\_\_ shares of Common  
Stock, par value \$\_\_\_\_\_ per share [no par value].
4. Subject Corporation has outstanding \_\_\_\_\_ shares of  
Common Stock, par value \$5.00 per share. The shares of such  
Common Stock are entitled to one vote per share, voting  
together as a single class. Subject Corporation, in addition,  
has out-standing the following classes of preferred stock,  
which are not entitled to a vote:  
  
70,300 shares, 4 1/2% Cumulative Preferred Stock  
20,000 shares, 4.75% Cumulative Preferred Stock  
60,000 shares, Cumulative Preferred Stock, Series D  
60,000 shares, 4.96% Cumulative Preferred Stock, Series E  
200,000 shares, 6.20% Redeemable Cumulative Preferred Stock  
150,000 shares, 6.80% Redeemable Cumulative Preferred Stock
5. The effective date of this exchange will be [January 1, 1999].
6. The Certificate of Incorporation of Acquiring Corporation was  
filed in the office of the Secretary of State of the State of  
New York on \_\_\_\_\_, 1998.
7. The Certificate of Consolidation (Certificate of  
Incorporation) of Subject Corporation was filed in the office

of the Secretary of State of the State of New York on December 31, 1926. The Restated Certificate of Incorporation of Subject Corporation was filed in the office of the Secretary of State of the State of New York on August 14, 1989, and amendments thereto were filed in the office of the Secretary of State of the State of New York on April 5, 1990 and October 19, 1993.

8. Acquiring Corporation is to acquire all of the outstanding shares of Subject Corporation's Common Stock, through the exchange of each share of Subject Corporation's Common Stock, other than shares held in its treasury, held by any subsidiary of Subject Corporation and dissenting shares, if any, for one share of Acquiring Corporation's Common Stock. Subject Corporation's outstanding series of preferred stock, set forth above, will remain outstanding and are not subject to any exchange.
7. The exchange was authorized by resolution of the Board of Directors of Acquiring Corporation adopted on \_\_\_\_\_, 1998, and by resolution of the Board of Directors of Subject Corporation adopted on \_\_\_\_\_, 1998.
8. The exchange was authorized by the affirmative vote of 2/3 of the outstanding shares of the Common Stock of Subject Corporation voting together as a class on \_\_\_\_\_, 1998, pursuant to a notice dated \_\_\_\_\_, 1998.

IN WITNESS WHEREOF, we have signed and verified this certificate this \_\_\_\_ day of \_\_\_\_\_, 1998, and affirm the statements made herein as true under the penalties of perjury.

On behalf of: [HoldCo, Inc.]

\_\_\_\_\_  
[President]

\_\_\_\_\_  
[Secretary]

On behalf of:  
Central Hudson Gas &  
Electric Corporation

\_\_\_\_\_

'Chairman of the Board and  
Chief Executive Officer

\_\_\_\_\_  
Secretary



ATTACHMENT H  
COST ALLOCATION GUIDELINES

General

These guidelines are intended to establish procedures for allocating costs that are corporate in nature among and between holding company corporate affiliates. Allocations will involve distribution of charges from Central Hudson where corporate functions will be administered and executed for the benefit of the holding company and its affiliates as a whole.

For the purposes of these Guidelines, general corporate functions include all functions previously categorized as corporate governance functions and corporate administrative services of Central Hudson: The underlying premise is that Central Hudson's customers must be protected from costs not directly related to Central Hudson's activity and corporate costs, however allocated, will be controlled.

The characterization of costs between direct and allocated will be maintained. There is no requirement to capture incidental labor time via time sheet reporting. Further, the distinction between allocated and common service charges is not to be construed finely. The underlying rationale is that cost allocations will be made using a fully distributed costing method based, directly or indirectly, on causality. Thus, it is entirely feasible that all

costs of general corporate functions can be allocated on the basis of relevant factors applied to functional categories.

I. Transactions Between Central Hudson and its Affiliates

The following procedures set forth the manner in which all costs associated with work performed by Central Hudson for its affiliates (including subsidiaries) are to be charged to the respective affiliates on a monthly basis.

1. Direct Charges are related to authorized services provided by the appropriate business area. These services are charged to the entity benefitted on a direct time and materials basis. Labor costs will include an allocation for fringe benefits. Business areas will report direct labor through the payroll system and other charges as appropriate.

2. Allocated Charges have been developed to distribute to affiliates costs that cannot be directly charged, based on an average cost per activity as described below:

Function	Basis of Allocation
(a) Executive Salaries/Expenses	50% Number of employees 50% Net assets of affiliates as a percentage of total assets
(b) Directors' Fees/Expenses	50% Number of employees 50% Net assets of affiliates as a percentage of total assets
(c) Property/Casualty Directors' & Officers Liability  Employee-Related (e.g. blanket crime, travel, EPLI) Workers' Compensation premiums; losses directly charged.	underwriter's/brokers' assessment of risk.  number of employees
(d) Human Resources (including labor), Employee Benefits & Pensions premiums; losses directly charged.	number of employees
(e) Information Systems • Labor  • Hardware/software	direct charge [or number of employees for "corporate systems"]  50% Number of employees 50% Net assets of affiliates as a percentage of total assets
(g) Treasury, Finance & Accounting; Office Services and any other not specified	50% Number of employees 50% Net assets of affiliates as a percentage of total assets

Note: For cost allocation purposes herein, number of employees, assets, gross revenues will be determined as of December 31 of each year. In determining the number of employees of Genco, employees of Genco hired after the acquisition of new generating resources will not be counted for purposes of allocating pension and other post employment benefit costs. Procedures will be employed to estimate the annual average number of employees during the initial year and any other periods of significant change. Roseton employees will be counted as 100% to Genco share of Roseton.

The following utility areas or activities have been identified as serving a general corporate function. The costs associated with performing these functions will be charged to the holding company for further allocation to its non-utility affiliates: Financial Reporting; Taxes; Financial Planning; Annual Report and Shareholders' Quarterly Reports (including Production and Mailing Costs).

3. Income Taxes

Income Taxes will be allocated among affiliates on a stand-alone basis (in accordance with a Tax Sharing Agreement).

4. Other

All allocation factors will be calculated annually. The methodology will be reviewed and updated as necessary.

Notification must be given to the Controller of any new intercompany transaction not covered under this procedure. Finance & Accounting will be responsible for designing an appropriate allocation method in accordance with the goals and objectives outlined herein, and for implementing an effective billing procedure.

II. Transactions Between the Holding Company and its Affiliates

The following procedures set forth the manner in which holding company costs, whether benefitting an affiliate or of a general corporate nature, are to be charged to affiliates. The holding company can be the repository of all corporate unallocated charges.

1. Direct Charges are related to authorized services provided by the appropriate holding company functional area. These services are charged to the benefitting entity on a direct time and materials basis.

2. Costs that cannot be directly charged to affiliates will be allocated based on the following:

Service Department or Function	Basis of Allocation
(a) Designated Officers	50% Number of employees 50% Net assets of affiliates as a percentage of total assets
(b) Directors' Fees	50% Number of employees 50% Net assets of affiliates as a percentage of total assets
(c) Building Services - Corporate Headquarters	Square footage occupied by Holdco divided by total square footage

The remaining expenses of the holding company represent costs associated with performing general corporate functions. These costs will be allocated using a formula based on the sum of each affiliate operating revenues, capital expenditures, operation and maintenance expense and capitalization as a percentage of the sum of all such items on a consolidated basis. However, this allocation method may be changed as appropriate. These expenses include but are not limited to the following: Corporate Secretary & Treasurer's Office; Internal Auditing; Shareholder Relations; and

Costs directly charged and allocated from the utility to the holding company.

Any modification of these procedures will be filed with the Office of Accounting & Finance.



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ATTACHMENT I

STANDARDS OF CONDUCT

1. The Regco will not provide market information, sales leads for customers in its service territory to any affiliate, including an affiliated energy services company, and will refrain from giving any appearance that the Regco speaks on behalf of an affiliate.

2. If a customer requests information about securing any service or product offered by any affiliate, the Regco may provide a list of companies known to be operating in the area who provide the product or service, which may include an affiliate, but the Regco will not promote its affiliate or participate in any joint promotion or marketing with an affiliate.

3. The Regco will not imply or represent to any customer, supplier or third party that any form of advantage may accrue to such customer, supplier or third party in the use of the Regco's services as a result of that customer, supplier or third party dealing with any affiliate. The affiliate will not imply or represent to any customer, supplier or third party that any form of advantage may accrue to such customer, supplier or third party in the use of the Regco's services as a result of that customer, supplier or third party dealing with any affiliate.

4. Affiliates will pay the same rates as other similarly situated customers for the Regco's utility services. The Regco may not give an affiliate preference in any manner over non-affiliated customers. The Regco shall apply any tariff provision in the same manner to similarly situated persons, affiliated or non-affiliated, if there is discretion in the application of the provision and make such interpretation publically available.

5. To the extent the Regco makes available to an affiliate any proprietary customer information relating to customers in its service territory, it shall make the same information available contemporaneously to competitors of the affiliate, on the same basis.

6. The Regco will operate at arms-length from its affiliates.

7. Cost Allocation Guidelines (included in Settlement Agreement as Attachment H) will be employed to assure the proper allocation, on a fully distributed basis, to the Holdco, the Regco and their affiliates of the costs of any Regco personnel, property and services used by either the Holdco or its affiliates. The costs of operating Holdco and its Subsidiaries will be accurately and separately accounted for and, where necessary, appropriately allocated based upon the Cost Allocation Guidelines.

8. Regco will initially provide Corporate Administrative Services on its own behalf and on behalf of Holdco and its other affiliates. However, when the Holdco's investment in the Regco expressed as the

ratio of Regco net assets to Holdco consolidated net assets, falls to 60% or less, corporate administrative services will be transferred from Regco to Holdco, unless Regco shows cause to the PSC why such transfer should not occur. A centralized internal audit function at the Holdco level will be created not later than three (3) years after the date of effecting the holding company restructuring pursuant to the Plan of Exchange.

9. Other than Holdco, no affiliate of Regco will be located in the same building as Regco. All officers of Regco must have their main office located in New York State.

10. Any affiliate (including Holdco) receiving goods or services from Regco will compensate the Regco in a timely fashion. Standard commercial terms for payments will be used. If an affiliate fails to make payment within 45 days from the date the bill is rendered by Regco, such affiliate shall pay Regco interest on the outstanding balance at the Other Customer Capital rate (grossed up for taxes) as determined from time to time by the Commission.



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ATTACHMENT J

ILLUSTRATIVE OUTLINE OF INFORMATION  
TO BE PROVIDED IN AUCTION PROCESS

1. At an appropriate stage of the auction process, the Company will provide a history of the (last five years of data) for the following for all qualified bidders:
  - Capacity Factors;
  - Heat Rates;
  - Staffing;
  - Capital Expenditures;
  - Operations and Maintenance Expense;
  - Property Taxes;
  - Air, Water and Hazardous/Solid Waste Regulation Exceedances; information on solid waste disposal as well as thermal emissions to contiguous water bodies;
  - Fly Ash Disposal and Re-use Statistics;
  - Lost Time Accidents;
  - Fuel Type and Quantities of Each;
  - Boiler and Turbine Performance Test Results.
  
2. The Company will provide descriptions of the following (narrative, photographic and/or diagrammatic):
  - Boilers, including mills, fans, pumps, precipitators and stacks

- Turbines, including rotors, casings, controls and lubrication
- Feedwater systems, including all pumps, heaters, water treatment and piping
- Generators, transformers, switchgear
- Major control and instrumentation systems
- Circulating water system, including intakes, discharges, condensers and piping
- Fuel systems, including coal unloading (water and rail delivery), coal storage, coal handling, oil unloading, oil storage, gas transmission lines and regulator stations
- Ash handling systems and solid waste management facility
- Fire protection systems
- Continuous emissions monitors and air monitoring network
- Site security
- 115 KV and 345 KV interconnections
- Black start and emergency power systems

3. The following related information will be provided by the Company:

- Site maps, tax maps and title report
- Environmental permits (and expiration dates), including SPDES permits and constructing/operating/fuel use permits, certificates or licenses

- Amount of pollution control bonds for the facilities
- Status of Cooling Tower Settlement Case
- Status of negotiations with Town of Newburgh on property tax reductions
- Description of major capital improvements recently completed or planned for the next two years.

4. The procedures will include providing a bid disclosure package describing the facilities and other rights or liabilities to be auctioned to potential bidders under confidentiality protections, and permitting potential bidders, at a specified stage or stages of the bidding process, to perform a "due diligence" investigation concerning the facilities, under confidentiality protections.

5. The auction process will provide that all of the reporting responsibilities to Federal, State and local agencies concerning the units, as well as environmental reporting (e.g., of emissions data), will be transferred to the purchaser. All operating permits, to the extent the permits are transferrable, will be transferred subject to any required regulatory approvals.



ATTACHMENT K  
 Illustration of Development of Net Proceeds From  
 the Sale of Fossil Generation

1.	Auction Proceeds	\$xxx,xxx,xxx
	Less: 2. Transaction Costs	\$xxx,xxx,xxx
	3. Auction Incentive	xxx,xxx,xxx
	4. Severance Costs	xxx,xxx,xxx
	5. Severance Facilities	<u>xxx,xxx,xxx</u>
		<u>xxx,xxx,xxx</u>
6.	Net Pre-Tax Auction Proceeds	xxx,xxx,xxx
7.	Net Book Value	<u>xxx,xxx,xxx</u>
8.	Net Pre-tax Proceeds Above Book Value	xxx,xxx,xxx
9.	Federal and State Taxes (Below)	<u>xxx,xxx,xxx</u>
10.	Net Proceeds Above Net Book Value	<u>\$xxx,xxx,xxx</u>

Calculation of Federal and State Taxes:  
Auction Proceeds

Auction Proceeds	\$xxx,xxx,xxx
Less: Deductible Auction Costs	<u>(xxx,xxx,xxx)</u>
Auction Proceeds Net of Costs	xxx,xxx,xxx
Less: Tax Basis of Assets Sold	<u>(xxx,xxx,xxx)</u>
Taxable Gain/(Loss) on Sale	<u>\$xxx,xxx,xxx</u>
Current Tax at Marginal Statutory Rates	\$xxx,xxx,xxx
Deferred Income Tax	<u>(xxx,xxx,xxx)</u>
Federal Income Tax Expense	xxx,xxx,xxx
State Income/Gross Receipts Tax	<u>xxx,xxx,xxx</u>
Federal and State Taxes	<u>\$xxx,xxx,xxx</u>



STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION

At a session of the Public Service  
Commission held in the City of  
Albany on February 4, 1998

COMMISSIONERS PRESENT:

John F. O'Mara, Chairman  
Maureen O. Helmer  
Thomas J. Dunleavy

CASE 96-E-0909 - In the Matter of Central Hudson Gas & Electric  
Corporation's Plans for Electric Rate/  
Restructuring Pursuant to Opinion No. 96-12.

ORDER ADOPTING TERMS OF SETTLEMENT  
SUBJECT TO MODIFICATIONS AND CONDITIONS

(Issued and Effective February 19, 1998)

BY THE COMMISSION:

INTRODUCTION

On March 12, 1997, Central Hudson Gas & Electric Corporation (Central Hudson) filed a Settlement Agreement (Agreement) pursuant to Opinion No. 96-12.<sup>1</sup> Evidentiary hearings were held from May 6-9, 1997 before Administrative Law Judge Rafael A. Epstein. On July 1, 1997, Judge Epstein issued a recommended decision which concluded that the Settlement

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<sup>1</sup> Cases 94-E-0952 et al., In the Matter of Competitive Opportunities Regarding Electric Service, Order Establishing Procedures and Schedules (issued October 9, 1996), p. 3.



Agreement did not adequately serve the policy objectives enunciated in Opinion No. 96-12.

At our session of September 17, 1997, we considered the recommended decision and the exceptions of the parties. We determined that the Settlement Agreement was unacceptable because it did not address sufficiently (1) Central Hudson's future corporate structure, in particular the ultimate disposition of its fossil generation assets, (2) whether significant expenditures should be made for time-of-use metering, and (3) the level of the systems benefit charge (SBC) fund.

In response to our concerns, the parties conducted a further series of negotiations which culminated in the production of the Amended and Restated Settlement Agreement (revised Agreement), dated January 2, 1998. The revised Agreement, which is Appendix A to this order, was signed by Central Hudson, Staff, and the Pace Energy Project.<sup>1</sup>

The terms of the revised Agreement generally offer a sound regulatory framework for Central Hudson, its competitors, and its customers in the transition to fully competitive generation and energy service markets. In particular, Central Hudson agrees to divest its fossil generation assets through an auction process and to reallocate to the SBC fund the amount previously earmarked for time-of-use metering. However, we are requiring modifications and adding conditions as follows:

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<sup>1</sup> CPB submitted a signed signature sheet to the revised Agreement, dated February 3, 1998. It appears after p. 102 of Appendix A.



(1) The revised Agreement (provision VII(H)) provides that Central Hudson, in the event it does not participate in the auction, shall receive 5% of the gross proceeds of an auction up to the net book value of the assets being auctioned, even if they are disposed of at a loss.<sup>1</sup> This provision is not adopted. Instead we will authorize Central Hudson to realize an incentive only if the auction results in a net gain. That incentive will be equal to 10% of the total proceeds above net book value up to the \$17.5 million cap, net of tax.

(2) No specific provision is made for parties to comment on the details of Central Hudson's auction plan. We believe that the parties to the revised Agreement intended to provide an opportunity for such comments and we adopt the revised Agreement with that understanding.

(3) We reserve authority to require an auction and transfer of fossil generation prior to June 30, 2001, the end of the rate plan, if we find that it is in the public interest. Central Hudson is expected to use its best efforts to minimize the costs associated with its bond indenture, and to evaluate carefully market conditions to maximize net proceeds from an auction. Staff is directed to monitor Central Hudson through June 2001, and report to us with recommendations, if necessary, to make sure the company is not incurring imprudent generation costs which could be avoided by divestiture prior to June 30, 2001.

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<sup>1</sup> If a gain is realized, Central Hudson, in addition, is to receive 10% of the gross proceeds above net book value, subject to a \$17.5 million cap.



(4) In the event Central Hudson auctions and transfers generation prior to June 30, 2001, Central Hudson will be required to implement a mechanism that will ensure bundled prices no higher than those charged, on average, in a representative period prior to divestiture, will remain available to Central Hudson's customers for the balance of the term of the revised Agreement.<sup>1</sup> This modification is not intended to limit in any way the company's ability to file for a general revenue decrease to be effective prior to June 30, 2001. In this connection, we note with approval Central Hudson's right in the revised Settlement to acquire capacity and/or energy from the generation facilities it is divesting. The revised Agreement, as adopted, would remain in effect through June 30, 2001, except to the extent specific provisions extend beyond that by their own terms.

(5) The first paragraph of provision XIII(B) of the revised Agreement is adopted subject to the requirement that pending the Court's action on the anticipated stipulation between the Commission and the company, Central Hudson will take no action to support the pending appeal except to the extent it must do so to avoid forfeiting the right to appeal.

(6) We do not accept provision VI(B)29, which provides for the same law firm to represent Regco and an affiliate on the same matter, where their interests may be adverse.

(7) The revised Agreement makes no provision for remediation by us of violations of the prescribed codes of

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<sup>1</sup> Such a mechanism should be developed assuming fuel adjustment clause charges after divestiture would be limited to fuel and purchased power expense changes related to Nine Mile 2 operations.



conduct or for a dispute resolution process, with timelines, to address complaints by marketers. Such provisions are added, as set forth in Appendix B to this order.

(8) The revised Agreement is adopted subject to the modification that a provision dealing with mergers and acquisitions is added. The new provision is as follows:

Pursuant to a petition filed jointly or individually by the company, Central Hudson shall have the flexibility to retain, on a cumulative basis, all savings associated with the acquisition or merger with another utility for a period of five years from the date of closing of any such merger or acquisition up to the amount of acquisition premium paid over the lesser of book value or fair market value of assets merged or acquired. Savings in the excess of that recovery will be disposed of by order of the Commission.

(9) The revised Agreement is adopted subject to the expectation that several minor language problems in it will be corrected by agreement among the signatories and substitute language will be submitted in compliance with this order. The referenced problems are listed in Appendix C.

(10) The revised Agreement is adopted on the condition Central Hudson agrees to accept the Commission order, issued June 23, 1997, concerning the farmer and food processor pilot program (Case 96-E-00948).



STATE ENVIRONMENTAL  
QUALITY REVIEW ACT EVALUATION

In conformance with the State Environmental Quality Review Act (SEQRA), on May 3, 1996, the Commission issued a Final Generic Environmental Impact Statement (FGEIS) which evaluated the action adopted in the generic proceeding regarding competitive opportunities for electric service, Case 94-E-0952. Recognizing that individual utility restructuring proposals might bring to light new concerns, each utility was also required to file an environmental assessment of its restructuring plans. Central Hudson filed an Environmental Assessment Form (EAF) concerning the March 12, 1997 Agreement on June 17, 1997.

Central Hudson's EAF, the parties' comments, and other information were evaluated in order to determine whether the potential impacts resulting from adoption of the revised Agreement's terms would be within the bound and thresholds of the FGEIS adopted in 1996.<sup>1</sup> The analysis considered several areas of potential impacts, including the effects of rate reductions and reduced demand side management on electricity sales and air quality. Arguably, all of the potential environmental impacts of the revised Agreement need not be considered, given that some result from Type II exempt rate actions. Nonetheless, the analysis examined all areas in which impacts would reasonably be expected.

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<sup>1</sup> With regard to most issues which have potential environmental consequences, the Agreement and revised Agreement are identical or substantially similar.



Based on these analyses, the potential environmental impacts of the revised Agreement are found to be within the range of thresholds and conditions set forth in the FGEIS. Therefore, no further SEQRA action is necessary in connection with the revised Agreement. A full EAF will be attached to the final opinion and order.

#### DISCUSSION

Taking into account our overall responsibility to set just and reasonable rates, Central Hudson's statutory burden of proof, and our settlement guidelines, and having considered the evidence, arguments, and EAF information, it is clear that the terms of the revised Agreement, subject to the modifications and conditions discussed in this order, are reasonable and in the public interest, and provide significant improvement over the Agreement.

While the revised Agreement does not provide rate reductions as large as those realized in other restructuring proceedings, this is because Central Hudson's average rates are already the lowest in the State. Moreover, large industrial customers will realize a 5% rate reduction, and the rates for all other customers will be frozen through June 30, 2001. The revised Agreement also enables customers to receive the benefits, during the transition period, of all cumulative earnings in excess of those necessary to produce a 10.6% return on equity. Consequently, ratepayers are assured that the company will not have excess earnings during the transition. Furthermore, the revised Agreement provides for the highest back-out rate among



the electric rate/restructuring plans thereby promoting ESCO competition.

In addition, the revised Agreement eliminates the requirement that all customers opting for retail access during the transition period have time-differentiated meters installed by Central Hudson, adds a customer-incentive plan to assure a high quality of service, closes pending revenue requirement issues related to April 1997 storm damage restoration costs and a previously unresolved prudence issue, and identifies the manner by which ISO costs will be recovered.

Accordingly, the terms of the revised Agreement are adopted subject to the modifications and conditions we have enunciated and the revised Agreement's terms are incorporated by reference into this order. Inasmuch as the terms of the revised Agreement are inter-related, as are our modifications and conditions, if any term, condition, or understanding is modified, vacated, or otherwise materially affected on judicial review, we may re-examine our entire decision.

Subsequent to the issuance of this abbreviated order, we shall issue a more comprehensive opinion and order describing the bases for our decision, and containing the final EAF. The statute of limitations for filing petitions for rehearing or clarification of our decision will be deemed to run from the date of issuance of that opinion.

The Commission orders:

1. The terms of the revised Agreement filed in this proceeding dated January 2, 1998, subject to the modifications



and conditions in this order, are adopted in their entirety and are incorporated as part of this order.

2. The potential environmental impacts of these terms are within the bounds and thresholds evaluated in the 1996 FGEIS, and, therefore, no further SEQRA action is necessary in connection with the revised Agreement.

3. Central Hudson Gas and Electric Corporation (Central Hudson) must submit a written statement of unconditional acceptance of the modifications and conditions contained in this order, signed and acknowledged by a duly authorized officer by February 26, 1998. This statement, along with substitute language responding to Appendix C, should be filed with the Secretary of the Commission and served on all parties in this proceeding.

4. Central Hudson is directed to file on not less than one day's notice, to become effective February 27, 1998, such tariff amendments as are necessary to effectuate the rate reductions contemplated by the revised Agreement, as adopted, as well as the requirements of Opinion No. 97-5. Central Hudson shall serve copies of its tariff filing upon all parties to the proceeding. Any comments on the filing must be received at the Commission's offices within ten days of service of the proposed amendments. The amendments shall not become effective on a permanent basis until approved by the Commission.

5. In the event Central Hudson submits an auction plan under section VII of the revised Agreement, and such plan, if adopted, could result in divestiture prior to June 30, 2001, Central Hudson shall, at the time the auction plan is filed, propose a mechanism, consistent with the modification previously



described in this order, to ensure bundled prices will not increase for the balance of the term of the revised Agreement.

6. To the extent exceptions to the recommended decision issued in this proceeding on July 1, 1997 are not moot, or are otherwise granted, they are denied.

7. Central Hudson, in cooperation with Staff, shall monitor the environmental impacts of electric restructuring resulting from this order.

8. This proceeding is continued.

By the Commission,

(SIGNED)

JOHN C. CRARY  
Secretary



- (1) Regco shall establish a complaint process consistent with the following. If any competitor or customer of Regco believes that Regco has violated the standards of competitive conduct established in this section of the agreement, such competitor or customer may file a complaint in writing with Regco. Regco will respond to the complaint in writing within twenty (20) business days after receipt of the complaint, including a detailed factual report of the complaint and a description of any course of action proposed to be taken. After the filing of such response, Regco and the complaining party will meet, if necessary, in an attempt to resolve the matter informally. If Regco and the complaining party are not able to resolve the matter informally within 15 business days from Regco's response, either party may refer the matter promptly to the Commission for disposition. (The Commission reserves the right to adjust the times for responding to complaints and referring complaints to the Commission.)
- (2) The Commission may impose on Regco remedial action for violations of the standards of competitive conduct. If the Commission concludes that Regco has engaged in material violations of the standards of competitive conduct during



the course of this Plan, it shall provide it notice of and a reasonable opportunity to remedy such conduct or explain why such conduct is not a violation. If Regco fails to remedy



such conduct within a reasonable period after receiving such notice, the Commission may take remedial action with respect to Holdco to prevent Regco from further violating the standard(s) at issue. Such remedial action may include directing Holdco to divest the unregulated subsidiary, or some portion of the assets of the unregulated subsidiary, that is the subject of Regco's material violation(s), but exclude directing Holdco to divest Regco or imposing a service territory restriction on the unregulated subsidiary. If Holdco is directed to divest an unregulated subsidiary, it may not thereafter, without prior Commission approval, use a new or existing subsidiary to conduct within Regco's service territory the same business activities as the divested subsidiary (e.g., energy services). Regco and Holdco may exercise any and all legal and/or equitable relief from such remedial actions, including, but not limited to injunctive relief. Neither Central Hudson nor any affiliate or subsidiary will challenge the Commission's legal authority to implement the provisions of this subparagraph.



OTHER REQUIRED REVISIONS

1. The definition of strandable costs in section III of the revised Agreement should be consistent with the elements of strandable costs in section VIII.
2. The meaning of the acronym "NTAC" in section III should be corrected.
3. The options available to S.C. No. 13 customers in section V, Item D should be clarified for the period of time between the approval of new tariffs and the availability of retail access, as should the obligations of these customers, if any, to enter into partial/full requirements contracts.
4. Section VI, Item B-13 should be clarified to state whether sales in and outside of the company's service territory can be made if they do not benefit Regco's customers.
5. For section XIII, Item A and in general, the signatories should clarify whether they are satisfied all items listed as continuing beyond the term of the revised agreement are accurate and consistent throughout.



STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION

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-----X
:
In the Matter of Central Hudson      :
Gas & Electric Corporation's        :      Case 96-E-0909
Plans for Electric Rate/            :
Restructuring Pursuant to          :
Opinion No. 96-12.                  :
-----X

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MODIFICATIONS TO AMENDED AND RESTATED SETTLEMENT AGREEMENT

WHEREAS, by Order Adopting Terms of Settlement Subject to Modifications and Conditions (Issued and Effective February 19, 1998), the Commission stated that the terms of the Amended and Restated Settlement Agreement ("revised Agreement") dated January 2, 1998 "...generally offer a sound regulatory framework for Central Hudson, its competitors, and its customers in the transition to fully competitive generation and energy service markets;" and

WHEREAS, the Commission also stated in such Order that it was "requiring modifications and adding conditions" to the revised Agreement, which modifications and conditions were enumerated as items (1) through (10) in such Order; and

WHEREAS, the Commission adopted "...the terms of the revised Agreement...subject to the modifications and conditions enunciated" and incorporated "...the revised Agreement's terms ...by reference into" the Order; and

WHEREAS, the signatories to the revised Agreement have conferred and agreed to the modifications and conditions



identified in Commission's Order and have executed this document to memorialize all the modifications to the revised Agreement;

NOW, THEREFORE, the signatories agree to modify the revised Agreement as follows:

1. The revised Agreement shall be deemed to contain each of the ten modifications, conditions or understandings enumerated by the Commission at pages 2-4 of the Order, as if incorporated in full therein.
2. The revised Agreement shall be deemed to include the provisions of Appendix B of the Order, as if set forth in full therein.
3. With respect to the provisions of Appendix C of the Order, the revised Agreement shall be deemed to be modified as follows:
  - A. The definition of "Strandable Costs" (p. 13 of revised Agreement) shall be modified to read: "Those production expenditures made by Central Hudson in fulfilling its obligation to serve and provide safe, reliable electric service to customers within its franchise territory which are not expected to be recoverable in a competitive electricity market. The description and components of Fossil Generation Strandable Costs are contained in Part VIII, A."



B The definition of "NTAC" (p. 10 of the revised Agreement) shall be revised to read "... (NYPA) Transmission Adjustment Charge...."

C. Part V, D. (p. 34-36 of the revised Agreement) shall be revised by the insertion of the following material at the end of the carry-over paragraph on --- the top of page 35 of the revised Agreement---

(before the paragraph which begins "Options 'ii' or 'iii' above...."): "Until such time as Retail Access becomes available to S.C. No. 13 customers pursuant to the procedures set forth in Section V, J., S.C. No. 13 customers will not be required to enter into full or partial requirements contracts with Central Hudson to receive the 5% base rate reduction. Effective February 27, 1998, S.C. No. 13 energy, demand and RKVA will be billed at 95% of the full monthly rates. The discount is not applicable to that portion of a customer's load served under the Growth Incentive Discount or Power for Jobs Special Provisions contained within S.C. No. 13. At the time Retail Access becomes an approved tariff option for S.C. No. 13 customers, S.C. No. 13 customers will be required to contract with Central Hudson to either continue to receive



the 5 $\frac{3}{4}$  discount or to select the 50% CTC Retail Access tariff option."

D. Part VI, B., 13 (p. 51-53 of the revised Agreement) is modified by changing the period to a comma at the end of the first paragraph thereof and adding: "to the extent that the provision of such energy products-or services-benefits-Regco's- customers."

E. Part XIII, A. (p. 92-93 of the revised Agreement), is modified to read, in its entirety, as follows: "This Agreement shall become effective as of the Effective Date and shall continue in effect until June 30, 2001; provided however that the obligations of Parts V. K., VI. B., VII. G., H. and I., VIII. B., X. A., B., C., E. and F., XII. A., XIII. B. and C., and Attachments H and I of this Agreement shall survive the termination of this Agreement; and provided further that the provisions of Parts IV. F., G., I. and L. shall remain effective until such time as the Commission authorizes a general rate change to become effective pursuant to Part IV. A., or pursuant to condition (4) of the Commission's February 19, 1998 Order."



\*\* TOTAL PAGE 05 \*\*

4. This Agreement may be executed in counterparts.

WHEREFORE, the signatories to the revised Agreement have executed these modifications as of February 26, 1998.

Central Hudson Gas & Electric Corporation \_\_\_\_\_

By: Arthur R. Zappala

Staff of the Department of Public Service

By: F. J. ...

Pace Energy Project

By: \_\_\_\_\_

New York State Consumer Protection Board

By: Timothy S. Carey



AGREEMENT AND PLAN OF EXCHANGE

THIS AGREEMENT AND PLAN OF EXCHANGE (the "Agreement"), dated as of \_\_\_\_\_, is between CENTRAL HUDSON GAS & ELECTRIC CORPORATION, a New York corporation and the corporation whose shares of Common Stock, par value \$5.00 per share, will be acquired pursuant to the "Exchange" provided for in this Agreement (the "Subject Corporation") and [HOLDCO, INC.], a New York corporation and the corporation which will acquire the foregoing shares of Common Stock of the Subject Corporation (the "Acquiring Corporation"). The Subject Corporation and the Acquiring Corporation are hereinafter referred to, collectively, as the "Corporations."

WITNESSETH:

WHEREAS, the authorized capital of the Subject Corporation consists of:

(a) 30,000,000 shares of Common Stock, par value \$5.00 per share ("Subject Corporation Common Stock"), of which \_\_\_\_\_ are issued and outstanding as of the date hereof (which number of issued and outstanding shares is subject to change prior to the Effective Time (as hereinafter defined) of the Exchange pursuant to the Subject Corporation's Stock Purchase Plan); and

(b) 1,200,000 shares of Cumulative Preferred Stock, \$100 par value of which the following are outstanding as of the date hereof: (i) 70,300 shares of its 4 1/2% Cumulative Preferred Stock; (ii) 20,000 shares of its 4.75% Cumulative Preferred Stock; (iii) 60,000 shares of its Cumulative Preferred Stock, Series D; (iv) 60,000 shares of its 4.96% Cumulative Preferred Stock, Series E; (v) 200,000 shares of its 6.20% Redeemable Cumulative Preferred Stock; and (vi) 150,000 shares of its 6.80% Redeemable Cumulative Preferred Stock (each of the series set forth in (i) through and including (v) herein being hereinafter referred to collectively as the "Subject Corporation Preferred Stock");



WHEREAS, the Acquiring Corporation is a wholly-owned subsidiary of the Subject Corporation with authorized capital stock consisting of 30,000,000 shares of Common Stock, par value \$.10 per share ("Acquiring Corporation Common Stock"), of which \_\_\_ shares are issued and outstanding and owned by the Subject Corporation;

WHEREAS, the Boards of Directors of the Corporations deem it desirable and in the best interest of the Corporations and the shareholders of the Subject Corporation that, at the Effective Time, (a) the Acquiring Corporation acquire and become the owner and holder of each share of Subject Corporation Common Stock issued and outstanding at the Effective Time, (b) each share of Subject Corporation Common Stock issued and outstanding immediately prior to the Effective Time be automatically exchanged for one share of Acquiring Corporation Common Stock, and (c) each holder of shares of Subject Corporation Common Stock issued and outstanding immediately prior to the Effective Time becomes the holder of a like number of shares of Acquiring Corporation Common Stock, all on the terms and conditions hereinafter set forth; and

WHEREAS, the Boards of Directors of the Corporations have each approved and adopted this Agreement, and the Board of Directors of the Subject Corporation has recommended that the shareholders of the Subject Corporation approve and adopt the Exchange and this Agreement pursuant to Section 913 of the New York Business Corporation Law (the "BCL").

NOW, THEREFORE, the Corporations hereby agree as follows:

#### ARTICLE I

The Exchange and this Agreement shall be submitted to the holders of the Subject Corporation Common Stock for approval and adoption as provided by Section 913 of the BCL. The affirmative vote of the holders of at least two-thirds of the issued and outstanding Subject Corporation Common Stock shall be necessary to approve and adopt the Exchange and this Agreement.

#### ARTICLE II



Subject to the terms and conditions of this Agreement, the Exchange shall become effective immediately following the close of business on the date of filing with the New York Department of State (the "Department of State") of a certificate of exchange pursuant to Section 913(d) of the BCL ("Certificate"), or at such later time and date as may be stated in the Certificate (the time and date at and on which the Exchange becomes effective being referred to herein as the "Effective Time").

### ARTICLE III

#### A. At the Effective Time:

(1) each share of Subject Corporation Common Stock issued and outstanding immediately prior to the Effective Time shall be automatically exchanged for one share of Acquiring Corporation Common Stock, which shares shall be fully paid and nonassessable by the Acquiring Corporation;

(2) the Acquiring Corporation shall acquire and become the owner and holder of each issued and outstanding share of Subject Corporation Common Stock so exchanged;

(3) each share of Acquiring Corporation Common Stock issued and outstanding immediately prior to the Effective Time shall be canceled and shall thereupon constitute an authorized and unissued share of Acquiring Corporation Common Stock;

(4) each share of Subject Corporation Common Stock held under the Subject Corporation's Stock Purchase Plan immediately prior to the Effective Time shall be automatically exchanged for a like number of shares (including fractional and uncertificated shares) of Acquiring Corporation Common Stock, which shares shall be held under and pursuant to the Stock Purchase Plan, as hereinafter provided;

(5) the former holders of Subject Corporation Common Stock shall be entitled only to receive shares of Acquiring Corporation Common Stock in exchange therefor as provided in this Agreement; provided, however, that each such shareholder complying with Sections 623 and 910 of the BCL shall have the right to receive payment of the fair value of such shareholder's Subject Corporation Common Stock and shall have the other rights and benefits provided in such Sections.



B. Shares of Subject Corporation Preferred Stock shall not be exchanged or otherwise affected by or in connection with the Exchange. Each share of Subject Corporation Preferred Stock issued and outstanding immediately prior to the Effective Time shall continue to be issued and outstanding following the Exchange and shall continue to be one share of Subject Corporation Preferred Stock of the applicable series designation.

C. Prior to the Effective Time, the Acquiring Corporation's Certificate of Incorporation shall be amended and restated as set forth as Attachment 1 to this Agreement.

D. As of the Effective Time, the Acquiring Corporation shall succeed to the Stock Purchase Plan as in effect immediately prior to the Effective Time, and the Stock Purchase Plan shall be appropriately modified to provide for the issuance or delivery of Acquiring Corporation Common Stock on and after the Effective Time pursuant thereto.

#### ARTICLE IV

The filing of the Certificate with the Department of State and the consummation of the Exchange shall be subject to satisfaction of the following conditions at or prior to the Effective Time:

(1) the affirmative vote of the holders of Subject Corporation Common Stock provided for in Article I of this Agreement shall have been received;

(2) such orders, authorizations, approvals or waivers from the New York Public Service Commission and all other jurisdictional regulatory bodies, boards or agencies required to consummate the Exchange and related transactions shall have been received, shall remain in full force and effect, and shall not include, in the sole judgment of the Boards of Directors of the Subject Corporation and the Acquiring Corporation, unacceptable conditions;

(3) a registration statement is effective under the Securities Act of 1933 relating to the Acquiring Corporation Common Stock to be issued or reserved for issuance in connection with the Exchange;



(4) the Acquiring Corporation Common Stock to be issued in connection with the Exchange shall have been listed, subject to official notice of issuance, by the New York Stock Exchange;

(5) a favorable opinion of counsel covering certain United States federal income tax matters shall have been received, and such favorable rulings shall have been received from state and federal tax authorities as to the Exchange and related matters as the Boards of Directors of the Subject Corporation and the Acquiring Corporation, in their sole judgment, shall determine are necessary and appropriate for the consummation of the Exchange; and

(6) the Restated Certificate of Incorporation of the Acquiring Corporation shall have been filed with the Department of State.

#### ARTICLE V

Following the Effective Time, each holder of an outstanding certificate or certificates theretofore representing shares of Subject Corporation Common Stock may, but shall not be required to, surrender the same to the Acquiring Corporation's Transfer Agent for cancellation and reissuance of a new certificate or certificates in such holder's name or for cancellation and transfer, and each such holder or transferee shall be entitled to receive a certificate or certificates representing the same number of shares of Acquiring Corporation Common Stock as the shares of Subject Corporation Common Stock previously represented by the certificate or certificates surrendered. Until so surrendered or presented for exchange or transfer, each outstanding certificate which, immediately prior to the Effective Time, represents Subject Corporation Common Stock shall be deemed and shall be treated for all purposes to represent the ownership of the same number of shares of Acquiring Corporation Common Stock as though such surrender or exchange or transfer had taken place. The holders of Subject Corporation Common Stock at the Effective Time shall have no right at and after the Effective Time to have their shares of Subject Corporation Common Stock transferred on the stock transfer books of the Subject Corporation (such stock transfer books being deemed closed for this purpose at the Effective Time), and at and after the Effective Time such stock transfer books may be deemed to be the stock transfer books of the Acquiring Corporation.



## ARTICLE VI

A. This Agreement may be amended, modified or supplemented, or compliance with any provision hereof may be waived, at any time prior to the Effective Time (including, without limitation, after receipt of the affirmative vote of holders of Subject Corporation Common Stock as provided in Article IV(1) hereof), by the mutual consent of the Boards of Directors of the Subject Corporation and the Acquiring Corporation at any time prior to the Effective Time; provided, however, that no such amendment, modification, supplement or waiver would, in the sole judgment of the Board of Directors of the Subject Corporation, materially and adversely affect the shareholders of the Subject Corporation.

B. This Agreement may be terminated and the Exchange and related transactions abandoned, at any time prior to the Effective Time (including, without limitation, after receipt of the affirmative vote of holders of Subject Corporation Common Stock as provided in Article IV(1) hereof), if the Board of Directors of the Subject Corporation determines, in its sole judgment, that consummation of the Exchange would for any reason be inadvisable or not in the best interests of the Subject Corporation or its shareholders.



IN WITNESS WHEREOF, each of the Corporations, pursuant to authorization and approval given by its Board of Directors, has caused this Agreement and Plan of Exchange to be executed as of the date first above written.

CENTRAL HUDSON GAS &  
ELECTRIC CORPORATION

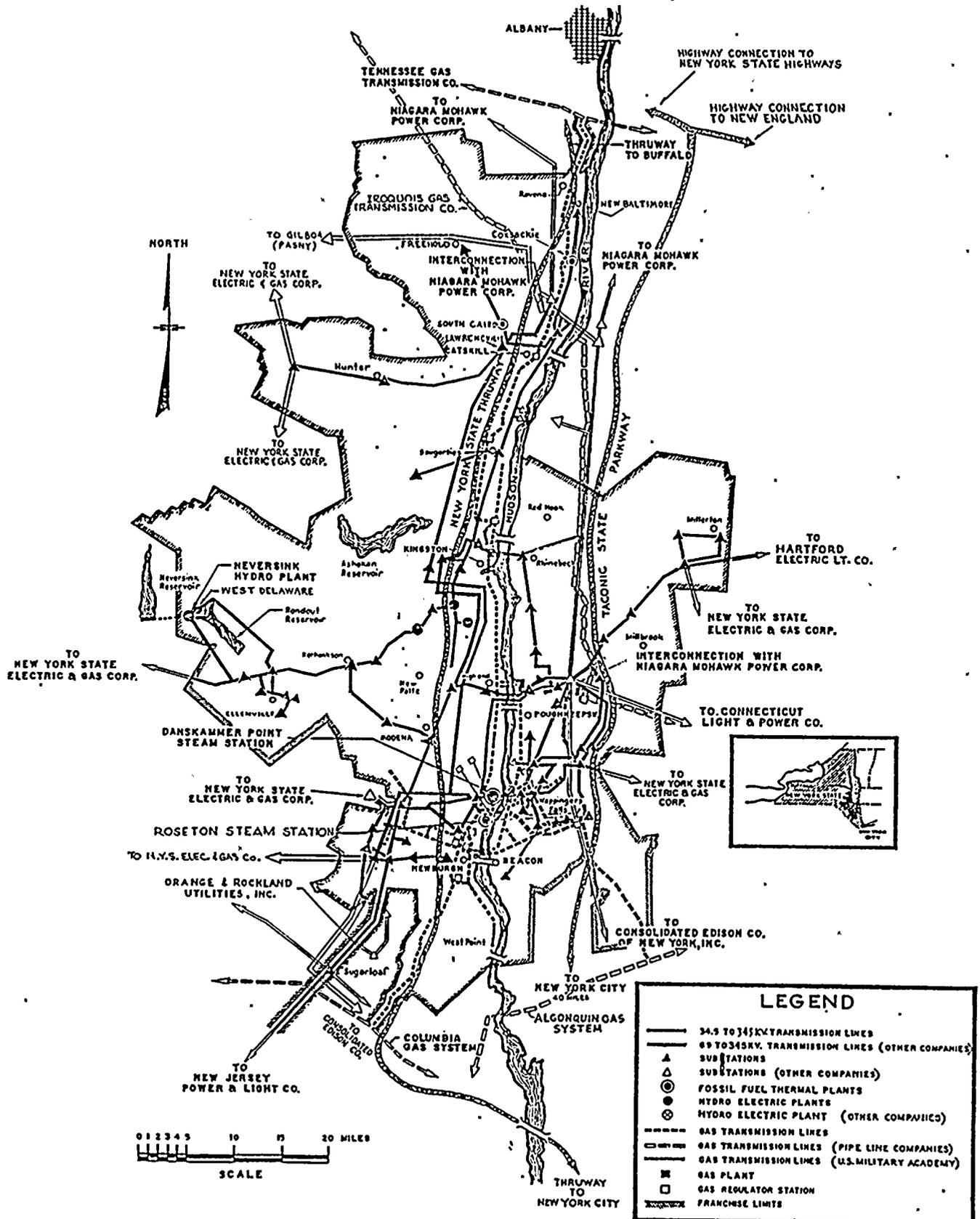
By: \_\_\_\_\_  
[Name and Title]

[HOLDCO]

By: \_\_\_\_\_  
[Name and Title]



# MAP OF THE FRANCHISE TERRITORY OF CENTRAL HUDSON GAS & ELECTRIC CORPORATION



### LEGEND

- 34.5 TO 345KV. TRANSMISSION LINES
- 69 TO 345KV. TRANSMISSION LINES (OTHER COMPANIES)
- ▲ SUBSTATIONS
- △ SUBSTATIONS (OTHER COMPANIES)
- FOSSIL FUEL THERMAL PLANTS
- ⊙ HYDRO ELECTRIC PLANTS
- ⊙ HYDRO ELECTRIC PLANT (OTHER COMPANIES)
- GAS TRANSMISSION LINES
- GAS TRANSMISSION LINES (PIPE LINE COMPANIES)
- GAS TRANSMISSION LINES (U.S. MILITARY ACADEMY)
- GAS PLANT
- GAS REGULATOR STATION
- FRANCHISE LIMITS



REVISED	4-19-66
•	4-16-67
•	2-8-69
•	1-20-70
•	1-18-71
•	1-18-72
•	1-14-73
•	1-11-74
•	1-10-75
•	1-20-76
•	1-4-77
•	3-2-77
•	1-19-81
•	1-11-83
•	1-10-84
•	1-11-85
•	1-19-87
•	1-19-88
•	1-29-89

CH. 57203



CENTRAL HUDSON GAS & ELECTRIC CORPORATION  
 284 SOUTH AVENUE  
 POUGHKEEPSIE, N. Y. 12601-4879

ELLEN AHEARN  
 CORPORATE SECRETARY

PHONE 914-486-5757  
 FAX 914-486-5782

April 8, 1998

Nuclear Regulatory Commission  
 Document Control Desk  
 Washington, D.C. 20555

Re: Docket No. \_\_\_\_\_  
Facility Operating License No. NPF-69

Ladies and Gentlemen:

Enclosed for filing is the original Application of Central Hudson Gas & Electric Corporation ("Applicant") seeking the consent of the Commission to transfer control over Applicant's interest in the above-referenced license to a holding company to be formed over Applicant. This holding company is being created as part of the corporate reorganization of Applicant as part of the comprehensive restructuring plan to satisfy electric industry restructuring goals established by the New York State Public Service Commission.

If you have any questions regarding this application, please contact either Ellen Ahearn, Secretary of Applicant or William P. Reilly, Esq. at Gould & Wilkie, general counsel of Applicant. Ms. Ahearn's telephone number is 914-486-5757 and her address is Central Hudson Gas & Electric Corporation, 284 South Avenue, Poughkeepsie, New York 12601-4879. Mr. Reilly's telephone number is 212-344-5680 and his address is Gould & Wilkie, One Chase Manhattan Plaza, New York, New York 10005-1401.

Respectfully Submitted,

  
 Ellen Ahearn  
 Secretary

cc: Hon. John C. Crary, New York State Public Service Commission  
 Mr. John Spath, NYSERDA  
 Mr. Hubert J. Miller, Nuclear Regulatory Commission  
 Mr. John Viquist, MATS, Inc.  
 Mr. Daryl Hood, NRC Project Manager  
 Resident Inspector, Nine Mile Point 2 Nuclear Station

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UNITED STATES OF AMERICA  
BEFORE THE  
NUCLEAR REGULATORY COMMISSION

CENTRAL HUDSON GAS &  
ELECTRIC CORPORATION

) Docket No. \_\_\_\_\_  
) Facility Operating License  
) No. NPF-69

REQUEST FOR CONSENT TO  
CORPORATE REORGANIZATION

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April 8, 1998

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UNITED STATES OF AMERICA  
BEFORE THE  
NUCLEAR REGULATORY COMMISSION

CENTRAL HUDSON GAS &  
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REQUEST FOR CONSENT TO  
CORPORATE REORGANIZATION

I. INTRODUCTION

Central Hudson Gas & Electric Corporation ("Applicant") hereby requests consent, under 10 C.F.R. §50.80, to the transfer of control of its possessory license with respect to the Nine Mile Point Nuclear Station, Unit No. 2 ("Nine Mile 2") located in Scriba, New York. Applicant is a New York corporation which is a 9% co-owner of Nine Mile 2 and which is presently engaged principally in the generation, purchase, transmission, distribution and sale of electric energy and the purchase, transportation, distribution and sale of natural gas in the Hudson Valley region of New York State. Applicant intends to form a holding company to implement a comprehensive restructuring plan to satisfy electric industry restructuring goals established by the New York State Public Service Commission ("PSC").

The proposed corporate reorganization ("Reorganization") will result in the creation of a holding company over Applicant<sup>1</sup>. Insofar as the Nuclear Regulatory Commission ("NRC" or the "Commission") has taken the position that a reorganization involving the creation of a holding company over a NRC license holder requires notification and approval pursuant to 10 C.F.R. §50.80 and Section 184 of the Atomic

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<sup>1</sup>

The holding company has not yet been formed and for purposes of this Application it is referred to as "Holdco".

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Energy Act of 1954, as amended, Applicant is hereby filing this request for NRC approval of the formation of the holding company.

The other co-owners of Nine Mile 2 are Niagara Mohawk Power Corporation ("Niagara Mohawk"), Rochester Gas and Electric Corporation, New York State Electric & Gas Corporation and Long Island Lighting Company. Pursuant to Section 2.B.(2) of Facility Operating License No. NPF-69, Applicant, as a possessory licensee, is licensed only to own an interest in Nine Mile 2. Applicant does not have an operator's license with respect to Nine Mile 2. The operator's license is held by Niagara Mohawk.

## II. REORGANIZATION

The Reorganization is in response to the "Competitive Opportunities" proceeding instituted by the PSC in 1994, which addresses the future structure of the electric utility industry in New York State. As part of that proceeding, Applicant, the Staff of the PSC and certain other parties entered into an Amended and Restated Settlement Agreement dated January 2, 1998, which thereafter was modified and approved by the PSC by an Order, issued and effective February 19, 1998 ("Order") in Case 96-E-0909, which Agreement, as so modified, includes the terms and conditions of the proposed Reorganization. Said Agreement was modified by an instrument, dated February 26, 1998 and entitled Modifications to Amended and Restated Settlement Agreement, to reflect the modifications in the Order. As modified by the Order and said Modifications instrument, said Amended and Restated Settlement Agreement is hereinafter called the "Settlement Agreement". Applicant, by written instrument unconditionally accepted the modification and conditions contained in the Order on February 26, 1998. A copy of the Order, said Amended and Restated Settlement Agreement and said Modifications instrument are attached hereto as Exhibits G-G2 to the application filed with the Federal

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Energy Regulatory Commission ("FERC") in which Applicant seeks approval of the Reorganization. A copy of said application is attached hereto as Exhibit A.

Pursuant to the Reorganization, outstanding shares of Applicant's common stock (other than shares with respect to which statutory appraisal rights, if any, are properly exercised) will be exchanged on a share-for-share basis for common stock of Holdco. Following the Reorganization, Holdco will own all of the outstanding common stock of Applicant, and Applicant will continue, as a subsidiary of Holdco, its regulated electric generation, transmission and distribution business and its gas transmission and distribution business. Holdco, rather than Applicant, will own, directly or indirectly, the stock of any non-utility subsidiaries except that Applicant will continue to own one (1) unregulated subsidiary. The holding company structure, therefore, will provide clear separation between PSC-regulated Applicant, and unregulated lines of business conducted by Holdco, thereby insulating the utility ratepayers from any risks associated with the unregulated enterprises.

As part of the Reorganization and to fulfill an obligation under the Settlement Agreement, Applicant, on or prior to June 30, 2001, will sell, at auction, its fossil-fueled electric generation facilities at its Danskammer Steam Generating Plant and its 35% interest in the Roseton Electric Generation Plant, owned by Applicant, Consolidated Edison Company of New York, Inc., and Niagara Mohawk Power Corporation, as tenants-in-common (collectively referred to in this Application as "Generation Assets"). Each of such facilities may be sold together or separately. The Generation Assets to be transferred, represent approximately 900 MW of capacity, with a net book value of approximately \$184 million as of December 31, 1997. Also included in the transfer are certain assets and liabilities associated with such Assets.

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The Generation Assets will be subject to an auction process in which third parties as well as an affiliate of Holdco ("Genco") can participate. The framework for the auction and the application of the proceeds from a sale of the Generation Assets are described in Items VII and VIII of the Settlement Agreement.

### III. EFFECT OF REORGANIZATION

After the Reorganization, Applicant will continue to be (i) an electric utility engaged in the transmission, distribution and, in the case of Nine Mile 2 and hydroelectric facilities and combustion turbine facilities, the generation of electricity and (ii) a gas utility engaged in the transmission and distribution of natural gas. Applicant will continue to be regulated by the PSC and the FERC.

As shown below, the Reorganization will not affect Applicant's qualifications as a possessory licensee for Nine Mile 2, will not affect the status of Applicant as an "electric utility" for purposes of decommissioning as that term is defined in 10 C.F.R. §50.2 and is otherwise consistent with applicable provisions of law, NRC regulations and NRC orders.

Applicant's ownership interest in Nine Mile 2 will not be changed by the Reorganization. The Nine Mile 2 ownership interest will not be transferred as part of the Reorganization, but will remain with Applicant. After the Reorganization, Applicant will continue to be a co-owner of Nine Mile 2 and no actual transfer of the license or ownership interest in Nine Mile 2 will be effected as part of the Reorganization.

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Applicant will continue to recover the costs of its ownership share of Nine Mile 2 through the rate-making process<sup>2</sup>.

Applicant's retail utility operations are currently, and after the Reorganization will remain, subject to regulation by the PSC pursuant to the New York Public Service Law ("PSL"). The PSL regulates, inter alia, Applicant's retail rates and charges, issuances of securities (other than short-term debt securities), services, facilities, classification of accounts, transactions with affiliated interests, and other matters.

Applicant is also currently, and after the Reorganization will remain, subject to wholesale regulation by the FERC as a "public utility" as defined in Section 201(e) of the Federal Power Act, 16 U.S.C. 824(e). Using its interests in Nine Mile 2 and its interests in its hydroelectric and combustion turbine facilities, Applicant will continue to sell electric energy at wholesale to, and will transmit electric energy in interstate commerce for, other electric utilities under rate schedules approved by FERC, on a cost of service, rate of return basis, in addition to making market-based sales pursuant to FERC authority. Applicant will continue to own all of the transmission and distribution facilities which it now owns and will continue to provide transmission and distribution service at rates determined by the PSC pursuant to the PSL.

The creation of a holding company over Applicant and its subsidiaries will also require shareholder approval.

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<sup>2</sup>The PSC has commenced a generic proceeding, Case 98-E-0405, which, among others, is considering market-based "running costs" for nuclear plants in New York State, including Nine Mile 2.

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#### IV. NUCLEAR REGULATORY COMMISSION REVIEW

To assist the NRC in its review of this request, Applicant is providing information with respect to the following four specific areas which have been the focus of the NRC's review in prior cases involving the creation of holding companies over NRC licensees:

1. *The Reorganization will not impair Applicant's ability to carry out its responsibilities under its NRC possessory license, or otherwise affect the financial health of Applicant.*

The Reorganization will not have an adverse impact on Applicant's ability to fulfill its responsibilities under its NRC possessory license. Specifically, the Reorganization will not adversely affect the ability of Applicant to meet its financial obligations with respect to the future operating and capital requirements related to Nine Mile 2 or to meet its funding obligations with respect to the eventual nuclear decommissioning of Nine Mile 2.

In its recently issued "Final Policy Statement on the Restructuring and Economic Deregulation of the Electric Utility Industry" ("Final Policy Statement"), 62 Fed Reg. 44071 (1997), the NRC addressed the future restructuring of the electric utility industry and voiced concerns that NRC licensed entities continue to have access to "adequate funds so that funds are available for safe reactor operation and the payment of decommissioning costs.

With respect to both financial qualification reviews for operating license applicants and decommissioning funding assurance reviews, the NRC has noted that it has distinguished between an "electric utility" and other licensees. As defined in 10 C.F.R. §50.2, an "electric utility" is an entity that generates or distributes electricity for which costs are recovered by rates set by the entity or by a separate regulatory

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authority. Investor-owned utilities, including generation and distribution subsidiaries, are included within the meaning of "electric utility". The underlying rationale for different treatment is that rate regulators typically allow an electric utility to recover prudently incurred costs of generating, transmitting and distributing electric services.<sup>3</sup>

The Reorganization will not change the status of Applicant as an "electric utility" for decommissioning purposes, as defined in 10 C.F.R. §50.2. After the Reorganization is complete, the nuclear generation assets and investment will be retained by Applicant and Applicant will continue to be a public utility subject to regulation by the PSC with respect to, among other things, its retail rates. In addition, FERC will continue to regulate Applicant's transmission and wholesale electric rates. Part IV L of the Settlement Agreement provides that until July 1, 2001, or such later date as the PSC approves the transfer of the Generation Assets, Nine Mile 2 decommissioning costs will continue to be recovered through rates as rate base or expense items. Thus, for purposes of decommissioning, Applicant will remain an "electric utility", as defined in the Commission's present and proposed regulations.

Attached hereto as Exhibit B is an affidavit of Steven V. Lant, Applicant's Treasurer and Assistant Secretary, which reviews the regulatory implications for Applicant of the Reorganization as they relate to the continued recovery of Applicant's costs relating to Nine Mile 2 ("Affidavit"). The Settlement Agreement requires an electric base rate freeze for the period ending June 30, 2001 ("Rate Freeze Period").

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<sup>3</sup> The NRC recently proposed revisions to the definition of "electric utility" in its proposed rulemaking regarding financial assurance requirements for decommissioning nuclear power reactors (62 Fed. Reg. 47588 (1997)). In the proposed rulemaking, the Commission proposed to revise its definition of "electric utility" to introduce additional flexibility to address potential impacts of electric industry deregulation. The Commission noted that the key component of the revised definition is a licensee's rates being established either through cost-of-service mechanisms or through other non-bypassable charge mechanisms, such as wires charges or non-bypassable customer fees by a rate-regulating authority. The NRC indicated that as a result of the proposed change it would expect licensees to be more likely to continue to qualify as "electric utilities".

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During the Rate Freeze Period, Applicant's share of Nine Mile 2 costs, including prudently incurred investments and decommissioning costs, will continue to be recoverable through retail electric rates. After the Rate Freeze Period, Applicant's share of such Nine Mile 2 costs are expected to be recoverable through retail electric rates. Therefore, sufficient funds will be available to assure adequate funding for the safe operation of Nine Mile 2.

As further set forth in the Affidavit, it is anticipated that the Reorganization will not have an adverse effect on Applicant's capital structure, ability to raise capital or bond ratings. In conclusion, the Settlement Agreement and the Company's financial position will ensure adequate funding for both decommissioning and safe operation.

2. *The Reorganization will not adversely affect the management of Applicant's utility operations or its technical qualifications.*

As previously noted, Applicant is a possessory licensee and is not the NRC-licensed operator of Nine Mile 2. The operating licensee, Niagara Mohawk, will continue to be responsible for the day-to-day operations of Nine Mile 2 and the technical qualifications required by the operating license will continue to be the responsibility of Niagara Mohawk.

The holding company structure will retain Applicant as a discrete and separate entity. No responsibility for nuclear operations within Applicant will be changed by the Reorganization. Officer responsibilities at the holding company level will be primarily administrative and financial in nature and will not involve operational matters relating to Nine Mile 2. After the holding company formation, Applicant will continue actively to

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participate in the oversight and non-operational decision making with respect to Nine Mile 2.

3. *The Reorganization will not result in Applicant becoming owned, controlled or dominated by an alien, a foreign corporation, or a foreign government.*

At the time the Reorganization becomes effective, Holdco will become the sole holder of Applicant's common stock, and the current holders of Applicant's common stock (other than shareholders who have exercised their statutory appraisal rights, if any) will become holders of the common stock of Holdco on a share-for-share basis. Therefore, immediately following the Reorganization, the common stock of Holdco will be owned by the previous holders of Applicant's common stock in substantially the same proportions in which they held Applicant's common stock. Based upon currently available information, shares of Applicant's common stock held in foreign accounts represent less than one percent (1%) of the total outstanding shares of Applicant.

Based on the foregoing, the Reorganization will not result in Applicant becoming owned, controlled or dominated by foreign interests.

4. *The Reorganization will not adversely affect competition.*

The Reorganization is pro-competitive and there is no need for an NRC inquiry with respect to this issue. The potential effect of the Reorganization on competition is discussed in Part IV. A. of the FERC Application attached hereto as Exhibit B and will be analyzed by FERC in their review of that Application.

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The formation of a holding company, and the sale or structural separation of the Generation Assets, are integral parts of the comprehensive plan to increase competition for the retail supply of electricity, and to expand the range of power supply choices available to consumers throughout the State of New York. For those reasons, the proposed transfer of control over Applicant's interest in the possessory license will have no anti-competitive effects, and indeed is essential to promote competition for power supply in the affected region.

V. THE PROPOSED TRANSFER OF CONTROL WILL HAVE NO SIGNIFICANT ENVIRONMENTAL EFFECT

As discussed above, the proposed transfer of control over Applicant's interest in the possessory license will have no effect on the operation of Nine Mile 2. The transfer is merely a technical change in corporate control over a minority owner, through the creation of a holding company. That change will not result in any change in the types, or any increase in the amounts, of any effluents that may be released offsite, and there will be no increase in individual or cumulative occupational radiation exposure as a result of the creation of the holding company or the other actions discussed herein. Accordingly, pursuant to 10 C.F.R. §512.22(c)(9), the proposed action is excluded from the need for an environmental assessment or an environmental impact statement, and special circumstances do not exist which would otherwise require such an assessment or impact statement. Accordingly, the Applicant requests that the Commission issue and publish a finding of no significant environmental impact pursuant to 10 C.F.R. §§51.32 and 51.35.

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VI. REQUEST FOR EXPEDITED CONSIDERATION

Applicant respectfully requests a 15 day notice period and expedited consideration of this Application.

The Reorganization is anticipated to be fully implemented as soon as practicable after a special meeting of the stockholders currently expected to be held on or about September 25, 1998. To facilitate this restructuring, Applicant requests Commission approval for the proposed Reorganization by July 15, 1998.

VII. CONCLUSION

Applicant believes that the information contained in this Application and its Exhibits will be sufficient for the NRC to grant its consent to the Reorganization as promptly as possible. As shown above, the Reorganization will not adversely affect Applicant's qualifications as a possessory licensee for Nine Mile 2 and is also consistent with applicable provisions of law and with the NRC's regulations.

Respectfully submitted,

CENTRAL HUDSON GAS & ELECTRIC  
CORPORATION

By: Ellen Ahearn  
Name: Ellen Ahearn  
Title: Secretary

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April 8, 1998

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UNITED STATES OF AMERICA  
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) Docket No. \_\_\_\_\_  
) Facility Operating License  
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STATE OF NEW YORK )  
                                  ) ss.:  
COUNTY OF DUTCHESS )

AFFIDAVIT OF ELLEN AHEARN

Ellen Ahearn, being duly sworn, states that she is the Secretary of Central Hudson Gas & Electric Corporation ("Applicant"); that she is authorized on the part of Applicant to sign and file with the Nuclear Regulatory Commission the foregoing Application; and that said Application is true and correct to the best of her knowledge, information and belief.

Ellen Ahearn  
Name: Ellen Ahearn  
Title: Secretary

Subscribed and sworn to before me, a Notary Public, this 8<sup>th</sup> day of April, 1998.

Jeanette Kihlmire  
Notary Public  
JEANETTE KIHLMIRE  
Notary Public, State of New York  
No. 4991868  
Qualified in Dutchess County  
Commission Expires Feb. 10, 2002

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