

UNITED STATES OF AMERICA
BEFORE THE
NUCLEAR REGULATORY COMMISSION

CENTRAL HUDSON GAS &)
ELECTRIC CORPORATION)

AFFIDAVIT OF STEVEN V. LANT

State of New York)
County of Dutchess) ss.:

I, STEVEN V. LANT, being duly sworn, depose and state that the following statements are true and correct to the best of my knowledge, information and belief (terms used herein shall have the same meaning as the Application of which this Affidavit is a part, unless specifically defined herein):

1. I am Treasurer and an Assistant Secretary of Central Hudson Gas & Electric Corporation ("Company"), and as such I am familiar with (1) the Company's financial condition, (2) the Settlement Agreement; the Reorganization and the Order (approving the Settlement Agreement), and (3) the expected future financial performance of the Company, which after the consummation of the Reorganization will maintain its electric transmission and distribution functions, its natural gas distribution facilities, its hydroelectric facilities, its combustion turbine facilities and its 9% ownership interest in Nine Mile 2.

2. After the consummation of the Reorganization, the Company will continue to be an electric utility engaged in the transmission, distribution and, in the case of Nine Mile 2, combustion turbine facilities, hydroelectric facilities, and (until structurally separated or divested), the Generation Assets, the generation of electricity. The Company will continue to be regulated by the PSC and FERC.

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3. The holding company structure effectuated by the Reorganization is a well-established form of organization for companies conducting multiple lines of business and will insulate the Company, which will continue to own a 9% share of Nine Mile 2, from any financial or other risks associated with the holding company's unregulated enterprises. The proposed holding company structure 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. Pursuant to the terms of the Settlement Agreement, once the holding company structure is implemented, the Company will not make loans to any affiliate, guaranty any affiliate debt or pledge any of its assets as security for the debt of any affiliate. Moreover, the use of a holding company structure provides legal protection against the imposition of liability on the regulated utility for the results of unregulated business activities. In short, the holding company structure is a desirable form for conducting regulated and unregulated businesses within the same corporate group.

The Reorganization, therefore, establishes a more appropriate corporate structure for the pursuit of unregulated non-utility business activities.

4. As more fully discussed below, the Reorganization and future operations under the Settlement Agreement will not adversely affect the ability of the Company to meet its financial obligations for future funding of operations, capital requirements and decommissioning costs of Nine Mile 2. The Settlement Agreement's provisions are designed to enable the Company to remain a rate-regulated electric utility (other than the Generation Assets part of its business prior to its divestiture) which qualifies for favorable accounting treatment under Statement of Financial Accounting Standards No. 71. This would allow continued recognition of amounts to be collected from customers



in the future as deferred assets. The Company's capital structure, bond ratings and ability to raise capital, therefore, should be afforded the same protections as prior to the Reorganization. Moreover, maintenance of an investment-grade credit rating is contemplated by Item VI B 22 of the Settlement Agreement, since limitations on the Company's ability to pay dividends to Holdco would become affected if the Company's credit ratings fell below investment grade.

5. The Settlement Agreement contemplates an electric base rate freeze period ("Rate Freeze Period") ending June 30, 2001. During the Rate Freeze Period, all expenditures associated with Nine Mile 2 are presumed to be within overall rate objectives and will continue to be recoverable through retail electric rates, subject to the PSC's consideration of market-based "running costs" for Nine Mile 2, as referred to in footnote 2 of the Application of which this Affidavit is a part. In 1997, the allowance for operation and maintenance expenditures included in rates was higher than expenditures actually incurred.

6. The return on common equity permitted on common equity during the Rate Freeze Period is 10.6%, the same return as authorized by the PSC in Case 92-E-0506, which return has been in effect since 1994.

7. The Company is not precluded from making filings with the PSC for changes in its electric rates such as fuel adjustment clause filings, revenue tax factors or as otherwise required by the Settlement Agreement (See Item IV A of the Settlement Agreement).

8. The Company shall have a reasonable opportunity to recover all prudently incurred, verifiable and appropriately mitigated "Strandable Costs" (e.g. production utility expenditures which are not expected to be recoverable in a competitive electric market). Recovery will be achieved through competitively neutral non-bypassable wires



charges or other non-bypassable means, which will commence July 1, 2001, or earlier if prior to that date the Generation Assets are transferred from the Company to another entity (whether affiliated or not), in which event, the Company will file with the PSC a request for a related change in base rates.

9. The transfer and sale of the Generation Assets in the competitive market place also provides financial protection to the Company. Upon a sale of the Generation Assets pursuant to the auction process described in Item VII of the Settlement Agreement, a regulatory asset will be created for any excess of net book value over the net auction proceeds. Subject to PSC approval, any such regulatory asset will be recovered as a Strandable Cost, as described in 8 above. In the event that the net proceeds of the auction exceed the net book value of the Generation Assets, any net regulatory credit will be applied First, to offset regulatory assets related to the Generation Assets unrecognized on the auction; Second, to the extent of any remaining proceeds, to reduce the book cost of Applicant's investment in Nine Mile 2; and Third, to the extent of any remaining proceeds to other ratepayer benefits. Auction proceeds up to net book value will be available for use at the discretion of Applicant including investment by Applicant in unregulated ventures. This regulatory asset mechanism, therefore, provides financial protection to the Company regardless of the sales price of the Generation Assets.

10. Other provisions of the Settlement Agreement which are beneficial to the Company's customers include the following: (a) retail access will be phased in through June 30, 2001 for residential, commercial and small industrial customers; (b) any ROE in excess of 10.6% will be used to offset Strandable Costs and any remainder will be used to provide ratepayer benefits and (c) large industrial customers will have the




option of accepting a 5% rate reduction from the Company or selecting an alternative supplier for a portion of their requirements.

11. The Settlement Agreement also provides that until such time as the Reorganization is accomplished, the Company is authorized to make equity investments up to \$100 million in its unregulated subsidiaries.


Steven V. Lant

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

On this 8th day of April, 1998, before me, the subscriber, personally appeared STEVEN V. LANT, to me known and known to me to be the same person described in and who executed the within instrument and he duly acknowledged to me that he executed the same.


Notary Public

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

