BEFORE THE
NEW YORK STATE
PUBLIC SERVICE COMMISSION

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Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Central Hudson Gas & Electric Corporation for Electric Service — Case 14-E-0318

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Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Central Hudson Gas & Electric Corporation for Gas Service — Case 14-G-0319

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REBUTTAL TESTIMONY OF THE FINANCE PANEL

December 19, 2014

REBUTTAL TESTIMONY OF THE FINANCE PANEL

Q. Please state the names of the members of the Finance Panel ("Panel") for the record.

A. We are Stacey A. Renner and Joseph J. Hally.

Q. Are you the same Finance Panel that sponsored direct testimony on behalf of Central Hudson Gas & Electric Corporation ("Central Hudson" or the "Company") in these proceedings?

A. Yes.

Q. What is the overall purpose of your rebuttal testimony?

A. We will respond to the recommended applicable cost of long-term debt, customer deposits, and common equity for the rate year ending June 30, 2016, as presented in the direct testimony of the New York State Department of Public Service ("Staff") Rate of Return Witness, Kwaku Duah.

<u>Cost of Debt</u>

Q. Do you agree with Mr. Duah on Central Hudson's capitalization?

A. Yes. Staff and the Company agree on Central Hudson's capitalization, reflecting 48% common equity, and the corresponding financing required to meet the Company's cash requirements.

Q. Please discuss the embedded cost of long-term debt recommended by Mr. Duah for the rate year.

A. We believe that the embedded cost of long-term debt of 4.45% utilized by Mr. Duah is not accurate.

Q. What is the embedded cost of long-term debt that you recommend?

A. We recommend an embedded cost of long-term debt of 4.83%. This level is more consistent with anticipated interest rates and what we believe debt markets will demand for Central Hudson's bonds.

Q. What is the importance of Mr. Duah's interest rate recommendations?

A. His recommendations for interest rates have a direct impact on the embedded cost of long-term debt reflected in Staff's revenue requirement. Consequently, Staff presents reductions to interest expense of $2.154 million for electric operations and $0.470 million for gas operations (Testimony of Staff Witness Debbie S. Evans, Exhibit __ (DSE-1), Schedule 3, and Exhibit __ (DSE-2), Schedule 3, respectively).

Q. Do you agree with Mr. Duah on the extension of deferral accounting treatment for interest expense related to variable rate debt?

A. Yes. Deferral accounting treatment is appropriate because it helps to neutralize the rate year impact on customers and shareholders from variations in applicable interest rates.

Q. Does the presence of deferral accounting entirely eliminate the need to properly estimate interest rates?

A. No. Even with deferral accounting in place, it is important to utilize an estimate of such expense that is reasonably likely to occur in order to set delivery rates at a level that is representative of the true cost of service. Using interest rates that are too high or too low results in a mismatch between the cash expended for interest expense and that collected from customers, as well as the corresponding build-up of a regulatory asset or liability that must be reconciled in a future rate case.

Q. Did Staff Witness Duah utilize reasonable interest rates?

A. Based on the interest rates he applied to determine interest expense for both (1) current variable rate long-term debt (0.091% for 1999 Series B and 1.24% for 2014 Series E) and (2) assumed new issuance of fixed rate long-term debt (4.24%), we believe that Mr. Duah's recommendations underestimate the reasonably expected cost of long-term debt for the rate year.

Q. Please explain how Mr. Duah's methodology has underestimated the cost of long-term debt.

A. There are two primary reasons. First, Mr. Duah rejects the use of forecasted interest rates during the rate year in favor of current interest rates. Second, to determine current interest rates on fixed rate debt, Mr. Duah relies on a Moody's utility bond index that is not representative of the fixed rate bonds issued by Central Hudson.

Q. Why is Mr. Duah's reliance on current interest rates as the basis for estimating the cost of debt issued in the rate year incorrect?

A. First, it is well known that the current interest rate environment reflects the efforts of the Federal Reserve ("Fed") to stimulate the economy by minimizing interest rates. The Fed continues to target a federal funds rate of 0 to 25 basis points. Current interest rates reflect these efforts.

Various media articles have reported on the impending change expected in monetary policy. On December 8, 2014, The Wall Street Journal reported in an article entitled “Fed Aims to Signal Shift on Low Rates” that: “Federal Reserve officials are seriously considering an important shift in tone at their policy meeting next week: dropping an assurance that short-term interest rates will stay near zero for a ‘considerable time’ as they look more confidently toward rate increases around the middle of next year.” The Wall Street Journal also reported on December 3, 2014, in an article entitled “Fed’s Plosser Repeats Call for Fed to Ready Rate Rises”, that the President of the Federal Reserve Bank of Philadelphia, Charles Plossner, expressed his desire that the Fed prepare the way for higher short-term interest rates, stating:

> “It is clear that the economy has come a long way since the recovery began in June 2009,” Mr. Plossner said….“That means we should no longer be conducting monetary policy as if we were still in the midst of a financial crisis or in the depths of a recession,” and the Fed should begin to move toward raising its currently near zero short-term interest rate target, he said.

On September 17, 2014, the Wall Street Journal published an article entitled “Most Federal Reserve Officials Still See First Rate Hike in 2015,” which stated that most Fed officials continue to expect the central bank to first increase interest rates some time next year, according to official projections. Similarly, on March 19, 2014, The Washington Post reported, in an article entitled “Fed lays groundwork for a future rate hike,” that:

> Speaking at a news conference Wednesday, Fed Chair Janet L. Yellen cast the shift as merely a change in semantics, not policy. The central bank's target for interest rates has been at zero since 2008, and most Fed officials think the first increase will occur next year...Communicating those intentions clearly without roiling the markets has proved challenging for the once-secretive institution. On Wednesday, Yellen suggested that the first rate hike could come "something on the order of around six months" after the Fed stops pumping money into the economy through its bond-buying program this fall.

These media articles reflect that it is widely recognized that the Fed's extended period of extraordinarily accommodative monetary policy is nearing an end. As a result, current interest rates are too low and, at a minimum, are likely to change in the near future.

Q. Did you address the Fed's low interest rate policy in your testimony?

A. Yes. We acknowledge these circumstances by using a composite forecast of interest rates from dozens of leading consultants and financial institutions available in the <u>Blue Chip Financial Forecast</u>. The forecast takes into account future changes during the rate year.

Q. Is Mr. Duah's position that current interest rates are the best predictor of future interest rates consistent with past actual interest rate movement?

A. No. This is not surprising, as Mr. Duah's assertion completely ignores the reality of the Fed's role in monetary policy over the past six years and the movements in interest rates over that period. Our point can be demonstrated by considering the yield on treasury bonds, which are used as the basis for pricing corporate debt coupons (<u>i.e.</u>, "credit spread," which is a premium added to the yield on a benchmark treasury bond that reflects the incremental risk of the corporate bond compared the treasury bond). In Rebuttal Exhibit __ (FP-1R), we show the yield on thirty-year U.S. Treasury bonds since February 2006. Yields ranged from a low of 2.46% to a high of 5.35%, often moving significantly over very short periods of time. For example, during the two-month period of November 2008 and December 2008, the yield varied by 181 basis points with a low of 2.53% and a high of 4.34%. Since the start of this year, the yield has varied more than 100 basis points, with a low of 2.89% and a high of 3.93%. The wide variations in the actual interest rate data disprove Mr. Duah's assertion that current interest rates (bond yields) are a good predictor of what rates will be a month or a year later.

Q. Turning back to your second primary concern with Mr. Duah's methodology, you indicated that he utilized the wrong bond index. Can you please explain?

A. The Moody's A Public Utility Bond index used by Mr. Duah is not a good indicator of long-term debt issued by Central Hudson.

Q. Why is the Moody's A Public Utility Bond index not representative of rates associated with Central Hudson's long-term debt issuances?

A. In addition to representing just the month of September's bond yields, the Moody's bond index used by Mr. Duah is not a good indicator of where the coupon newly-issued Central Hudson debt would be priced. The Moody's index is comprised of seasoned corporate bonds issued in amounts greater than $100 million.[1] As “seasoned bonds,” the yields in the index are derived from pricing data from secondary trading of the bonds rather than the coupons at the initial pricing and sale of the bonds. As such, they do not include any “new issue premium” that is reflected in newly-issued bonds.

Q. Is the size of Central Hudson compared to bond issuers in the Moody’s index relied upon by Mr. Duah also an issue?

A. Yes, it is an important issue. The Moody’s index reflects only bonds from large issuers. This is necessary so that there is liquidity in the bonds – they must trade in the secondary market for there to be observable trading data to construct the index. Small issuers like Central Hudson typically have illiquid bonds that seldom trade and their pricing at the time of sale reflects a “liquidity premium.” For these reasons, the Moody’s index, and in particular the 4.24% yield from September 2014 used by Mr. Duah as the basis for Central Hudson’s long-term debt cost on new issuance, is not representative of the price Central Hudson would have received in September. Central Hudson’s debt would typically price higher to reflect those factors: new issue premium and liquidity premium.

Q. Has Staff in the past acknowledged the impact of these factors on the cost of long-term debt issued by Central Hudson?

A. Yes. Staff acknowledged these impacts in its May 15, 2009 Brief Opposing Exceptions in Central Hudson’s 2009 Rate Case, Cases 08-E-

1 Mergent Bond Record, October 2014, page 164.

0887 and 08-G-0888, adding 100 basis points to the Moody's index, stating:

> Further, the estimated interest rate on the new 20-year, medium term note should reflect the most recent 3-month average of public utility bond yields for debt rated "A2", as per the Mergent Bond Record (Mergent), as recommended by Staff, plus 1%. Following the Briefs on Exception, Staff agreed to the addition of 1% because Central Hudson's bonds incur new issue and liquidity premiums (currently estimated to total 100 basis points) relative to the bond issuances of larger companies that issue Index Eligible Bonds, the basis of the bond yield averages reported in the Mergent Bond Record.[2]

The New York State Public Service Commission ("PSC or the "Commission") concurred in its Order Adopting Recommended Decision with Modifications, issued on June 22, 2009, in which it stated that:

> As to the cost of debt to be employed, the Company stated in its Brief Opposing Exceptions that the estimated debt cost for future issuances should be increased to reflect adjustments due to a new issue premium and a liquidity premium. Staff, in its Brief Opposing Exceptions, also acknowledged such concerns and suggested that 100 basis points be added to future debt cost estimates to account for these adjustments. Because the costs will be reconciled, the actual debt costs the Company incurs will be recovered. The debt cost we estimate is used only to set rates. We are estimating the cost of debt to be 4.86%, using the assumption that the October 2009 debt issuance planned will be issued at a rate of 7.15% (the recent average cost of debt rated A2 by Moody's Investors Service plus 100 basis points).[3]

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[2] Cases 08-E-0887 and 08-G-0888 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Central Hudson Gas & Electric Corporation for Electric Service and Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Central Hudson Gas & Electric Corporation for Gas Service, Staff Brief Opposing Exceptions, at 39 (May 15, 2009).

[3] Cases 08-E-0887 et. al., Order Adopting Recommended Decision With Modification, at 44 (June 22, 2009).

Q. What is the importance of correctly estimating the cost of new long-term debt?

A. Debt issued from now until the end of the rate year will affect Central Hudson's weighted average cost of long-term debt. This is an important factor in setting Central Hudson's revenue requirement and it will determine the Company's cash recovery of debt costs through its delivery rates. As we discussed earlier for variable rate bonds, it is important to utilize an estimate of debt cost that is reasonably expected to occur in order to set delivery rates at a level that is representative of the true cost of service. Payment of interest to bondholders is not optional. The Company is dependent on its cash flow to make interest payments. Credit ratings, an important topic of discussion in both the Panel's initial testimony and Mr. Duah's testimony, reflect Central Hudson's ability to make interest payments.

Q. Is the Company dependent upon the financial markets to set the rate of long-term debt at issuance?

A. The coupons that will be set on Central Hudson's new long-term debt at issuance will reflect the prevailing conditions in financial markets. Central Hudson is a price taker in the market for long-term debt. As we stated in our direct testimony, our goal when issuing long-term debt is to manage volatility, minimize refinancing risk, and achieve a reasonable cost of long-term debt over long periods of time. We achieve this by issuing mostly fixed rate debt and managing our maturity schedule in a manner that allows us flexibility in the selection of tenor (length of time until maturity) on new debt. When interest rates on long-term debt are low on a relative basis, we are inclined to issue longer maturities to lock in rates for decades to come. When interest rates are high, we are inclined to move down the yield curve and issue shorter maturities at rates comparatively lower than long-dated bonds.

Q. Does Mr. Duah's recommendation limit Central Hudson's ability to meet its financing goals?

A. Yes. By setting the coupon rates on new debt at unreasonably low levels, the Company's flexibility to manage its financing is reduced. In order to issue debt within the constraints of the revenue requirement that reflects those low coupons, Central Hudson would have to move down the yield curve and issue shorter maturities. In this way, under-estimating the revenue requirement creates a bias toward shorter maturities and more frequent refinancing, rather than a balanced approach that minimizes volatility, refinancing risk, and issuance costs.

Q. What is your recommendation to resolve these issues in the development of the weighted average cost of debt?

A. First, we recommend the use of forecasted interest rates that reflect expectations in financial markets for future interest rates. This provides for a reasonable approximation of the cost of debt in the revenue requirement to provide cash recovery of interest payments.

Second, acknowledging that there is always uncertainty in a forecast, we recommend use of a true-up mechanism for the coupons on newly-issued debt. As more fully explained below, use of a true-up is appropriate to capture variations from the forecast and actual experience during the rate year.

Q. Why is a true-up appropriate for interest rates?

A. A distinguishing characteristic of interest rates, compared to other forecasted items reflected in the revenue requirement, is that the Company has no control over them. The economy, financial markets, and the Fed can all cause future rates to be different than they are today or to where economists have forecasted them to be. Central Hudson can only react to interest rates. As we discussed, the Company is best able to optimize financing decisions when the expense impacts are neutralized by a true-up on the effective interest rate.

Q. Has a true-up mechanism been used previously in New York?

A. The PSC has acknowledged the usefulness and appropriateness of true-ups of this nature in past cases by consistently approving deferral accounting treatment for the interest costs on variable rate debt.[4]

[4] Cases 05-E-0934 and 05-G-0935 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Central Hudson Gas & Electric Corporation for Electric Service and Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Central Hudson Gas & Electric Corporation for Gas Service, Order Establishing Rate Plan, at Attachment 1, page 26 (July 24, 2006); Cases 09-E-0588 and 09-G-0589 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Central Hudson Gas & Electric Corporation for Electric Service and Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Central Hudson Gas & Electric Corporation for Gas Service, Order Establishing Rate Plan, at Attachment 3, page 9 (June 18, 2010); Cases 08-E-0887 et al., Order Adopting Recommended Decision with Modifications, at 44 (June 22, 2009).

Additionally, a true-up for interest rates on a new fixed rate long-term debt was approved by the PSC in Central Hudson's last two rate orders. In Cases 08-E-0887 and 08-G-0888, rate year one reflected a deferral treatment:

> The RD points out that there is agreement between the Company and Staff as to how to update the cost of debt estimate, as well as what debt costs should be reconciled. Both the Company and Staff request clarification that the Company will be permitted true-up and deferral of debt cost for both auction rate debt and new long-term debt issuances, rather than just auction rate debt as implied by the RD. That clarification is uncontested and is granted.[5]

In Cases 09-E-0588 and 09-G-0589, such true-ups were included for rate years two and three.[6] Mr. Duah acknowledges these facts on page 28 of his testimony and he even recommends maintaining the true-up on variable rate debt. His proposed rejection of the true-up of interest rates for new fixed rate long-term debt for the rate year is inconsistent with this position and his view that a 4.24% interest rate on new debt provides "the proper incentive to minimize the issuance rates" lacks any basis.

Q. Do you have any further comments on the long-term cost of debt used in this case?

A. Yes. Mr. Duah's approach – choosing today's low interest rates, which have the lowest impact on rate year revenue requirement – will result in a

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[5] Cases 08-E-0887 et al., Order Adopting Recommended Decision with Modifications, at 44 (June 22, 2009).

[6] Cases 09-E-0588 and 09-G-0589, Order Establishing Rate Plan at Attachment 3, page 9 (June 18, 2010).

short-term outcome that is accompanied by the potential for higher refinancing risk, volatility in rates, and higher overall debt costs in the long run. Mr. Duah's approach also violates the principal goal of ratemaking: setting delivery rates that will produce the required revenues during the period for which those rates will be in place.

The Panel's proposal to set future debt costs based on widely accepted forecasts reflecting reasonable expectations for interest rates during the rate year and truing-up the result if there are variations will enable the Company to serve customers' interests more effectively both during the rate year and over the long run.

<u>Cost of Customer Deposits</u>

Q. What is your reaction to Mr. Duah's recommendation for the customer deposit rate used in the development of the cost of capital?

A. There is no disputing the rate that has been announced by the PSC for calendar year 2015 (1.15%).[7] For the first half of the rate year, June 30, 2015 through December 31, 2015, that rate would be both: (1) reflected in the revenue requirement; and (2) paid to customers on deposits. It is effectively a pass-through.

In the second half of the rate year, however, Mr. Duah's recommended rate of 1.15% is too low. When the PSC updates the rate next year, it will be based on then current interest rates. Again, as

[7] <u>Case 14-M-0455 - In the Matter of the Rules and Regulations of the Public Service Commission, Contained in 16 NYCRR, Prescribing Interest Rates Applicable to Customer Deposits</u>, Letter from Doris Stout to Utilities Regarding Customer Deposit Interest Rates (Nov. 13, 2014).

reflected in the Blue Chip Financial Forecast, it is widely accepted by dozens of contributors to the consensus forecast that interest rates will be higher when the PSC sets the rate for 2016.

Q. What does the Panel recommend?

A. The situation with the cost of customer deposits is similar to that for the cost of debt. Central Hudson has no control over the customer deposit rate that will be set by the Commission and no ability to manage variations in the rate. If the 2016 rate is set at a level that differs from the 2015 rate, there will be a mismatch between the revenue requirement and the rate paid by the Company on customer deposits. The Panel recommends that a true-up apply to the cost rate that is effective for all periods after December 31, 2015. Deferral treatment for this item would be consistent with the methodology applied to variable rate debt, which is regularly supported by Staff and has been approved by the PSC.

Cost of Equity

Q. What is your reaction to the cost of common equity recommended by Mr. Duah for the rate year?

A. The cost of common equity recommended by Mr. Duah is too low. His recommendation also does not take into account the risk and uncertainty associated with the Reforming the Energy Vision ("REV") proceeding (Case 14-M-0101) that is currently underway.

Q. Has Staff recognized that the REV proceeding may increase risk for New York utilities?

A. Yes. In the April 24, 2014 Staff Report and Proposal ("Staff Report"), Staff recognized the potential for new risks associated with REV. Specifically, on page 37 of the Staff Report, Staff includes the following statement regarding new risks, "Financing barriers can be addressed, in the first instance, by improving markets to make product offerings and payback periods more predictable. Utilities and/or third party aggregators can also be better positioned to take risk than individual customers are." Staff states on page 44 that: "The DSPP, acting as a coordinator of load reduction resources, could bid its load into the NYISO in multiple layers and bear the risk of non-compliance by customers, or errors in forecasting by the DSPP." On page 52 of the Staff Report, Staff states that "Outcome-based regulation can lead to profit and financial variability, which increases risk."

Q. Does Mr. Duah's estimate of the Cost of Equity reflect the risk and uncertainty associated with REV that Staff discussed in the Staff Report?

A. No. The methodology employed by Mr. Duah to estimate Central Hudson's cost of equity is similar to the methodology employed by the Panel and is heavily reliant on the use of a proxy group. On page 31, lines 3 through 16 of his direct testimony, Mr. Duah states:

> The proxy group should contain a sufficient number of companies to provide a statistically relevant sample size and, as close as possible, represent the risk characteristics

> of the individual company being analyzed. In most instances, a proxy group analysis involves a trade-off between the size of the proxy group and the risk differences between the group and the individual firm being analyzed. When risk differences exist, the analyst must determine if a risk adjustment should be made to the proxy group results in order to more accurately reflect the risk characteristics of the individual firm.

Q. Do risk differences exist between the proxy group and Central Hudson?

A. Yes. The REV proceeding is unique to New York State and only one company, Consolidated Edison Inc., out of Mr. Duah's 33 company proxy group, will be impacted by future Commission Orders associated with the REV proceeding. As stated by Governor Cuomo in the April 24, 2014 press release announcing REV, shown in Rebuttal Exhibit __ (FP-2R), "For more than 100 years, the generation and distribution of electricity in New York has been largely unchanged, but today we taking a giant step from the status quo and leading the way on energy modernization."

Q. Did Mr. Duah make a risk adjustment to the proxy group results in order to more accurately reflect the risk characteristics of REV?

A. No. Mr. Duah did not reflect a risk adjustment to the proxy group results.

Q. Did the Panel make an adjustment to the proxy group results?

A. The Panel included a 25 basis point adder to the authorized return on equity ("ROE"). The Panel made this adjustment because the Company expects that future interest rates will be higher than current rates resulting in higher estimates of the cost of equity in the future.

Q. Does the Panel recommend that any other adjustments to the proxy group results are warranted?

A. Yes. As stated on Page 8, lines 8 through 21 of the direct testimony of Company Witness Michael L. Mosher, the ongoing REV case may impact the risk borne by shareholders of Central Hudson and affect the continued applicability of the Generic Finance methodology adopted in <u>Case 91-M-0509 – Proceeding on Motion of the Commission to Consider Financial and Regulatory Policies for New York State Utilities</u>. On page 8 of his direct testimony, Mr. Mosher also stated that the Company was reserving its right to amend the estimate of the cost of equity due to the risks inherent in the REV case.

Q. How did Mr. Duah respond to Mr. Mosher's statement regarding Central Hudson's right to amend the estimated cost of equity?

A. Mr. Duah's response to Mr. Mosher's statement occurs on pages 58 and 59 of his direct testimony. He testifies that:

> While the outcome of the REV proceeding cannot be known at the present time, the significant event – that is, the REV proceeding itself – cannot be described as something which "could not have been foreseen," due to the very fact that Mr. Mosher references it in his testimony. Therefore, if Central Hudson foresaw that the REV decision would have an impact on its business and financial risk, the Company should have reflected the impact on their ROE recommendation…Practically, I do not see how Central Hudson can file an amendment to its proposed ROE given that comments on Staff's Straw Proposal on REV Track 2 that deals [sic] with regulatory changes and ratemaking issues is not expected until sometime in the Spring of 2015, long after hearings in this matter have been concluded and the record closed.

Therefore, Mr. Duah's circular reasoning would ignore any potential risks associated with the REV proceeding because Staff's Straw Proposal on REV Track 2 is not yet available and an update to the ROE is not possible because the REV proceeding is not something that "could not have been foreseen."

Q. Does the Panel agree with Mr. Duah's response?

A. No. Page 9 of the Policy on Test Periods In Major Rate Proceedings, issued November 23, 1977 in Case 26821, states:

> Wholesale revisions because of changed circumstances will not be entertained unless an event beyond the control of the company has occurred, or is expected to occur, which materially alters the originally forecast return on equity at existing rate levels, and at the same time invalidates so much of the originally filed data that it is impractical to adjust those data. If such an event occurs, it is incumbent on the company, immediately, to notify all parties that such an event has occurred and that it intends to revise large portions of its rate case presentation.

Mr. Duah incorrectly describes the REV proceeding as the significant event; however, it is the details of any Commission Order or policy statement issued in Track 1, and the Staff Straw Proposal on Track 2, as well as any subsequent Commission Order or policy statement, that are the significant events that can neither be foreseen nor controlled by Central Hudson.

Q. Do you have any other concerns with Mr. Duah's recommended 8.7% cost of equity?

A. Yes, as shown in Rebuttal Exhibit __ (FP-3R), Mr. Duah's recommended 8.7% cost of equity would result in the lowest authorized ROE for an investor owned utility in the United States within the last two years. Of the rate orders reviewed by SNL Financial LC, 126 authorized ROEs range from a low of 8.72% to a high of 12.4% and the average ROE was 9.91%. Only 1% of the authorized ROEs awarded within the last two years were lower than 9.0%.

An ROE of 8.7% would not adequately compensate Central Hudson's investors for the uncertainties related to rising interest rates and the unique circumstances presented by the PSC's REV proceeding.

Q. Is it reasonable to add a risk premium to the calculation of Central Hudson's cost of equity?

A. Yes. Without the addition of a risk premium, the cost of equity calculated by Mr. Duah would result in an authorized ROE lower than the 126 ROEs authorized in jurisdictions across the United States within the last two years. Based on the risks and uncertainties discussed above, which cannot be accurately quantified at this time, we believe a modest premium is appropriate.

Q. What is your recommended ROE?

A. The Panel recommends a conservative 9.0% ROE, prior to the addition of any stay out premium related to a multi-year agreement or any explicit adder for structural changes in the industry related to REV. The Panel's recommended ROE would be at the low end of the range of utility ROEs presented in Rebuttal Exhibit __ (FP-3R) and represents a reasonable cost of equity from the perspective of customers.

Q. Does this conclude your rebuttal testimony at this time?

A. Yes, it does.