Central Hudson
Gas & Electric Corporation

**Michael L. Mosher, P.E.**
*Vice President - Regulatory Affairs*

July 27, 2007

Mr. James T. Gallagher
Director
Office of Electricity and Environment
State of New York
Department of Public Service
3 Empire State Plaza
Albany, NY 12223-1350

Re: Case 06-M-1017 Utility Commodity Supply Service – Phase I

Dear Mr. Gallagher,

I am responding to your letter dated July 3, 2007 in which you request Central Hudson Gas & Electric Corporation (Central Hudson or the Company) to begin a process that will ultimately achieve the Commission's goals of measuring and limiting price volatility and mechanisms for reporting aggregate portfolio price information. These goals are described in the Order issued and effective April 19, 2007 in the above noted case, which also directed New York electric utilities to develop specific guidelines for electric commodity supply portfolios and instituted a Phase II to address longer-term issues.

Central Hudson has managed a portfolio of long and short-term electricity supply purchase contracts since the divestiture of all the Company's fossil-fueled and share of nuclear generation assets. Our electric portfolio philosophy has been and continues to be one that diversifies our supply options. When the Company owned and operated generation assets, we diversified fuel types and sources to limit price volatility and increase supply reliability. Today we manage volatility and reliability by diversifying our portfolio with a mix of electricity contracts that includes day ahead, short term, longer term, and legacy contract purchases. The Company also seeks to manage its supply obligation in a balanced way that provides for an appropriate level of hedging to provide relative bill stability and volatility mitigation in order to maintain customer satisfaction for full service customers, while at the same time providing an element of current market based supply price signals to allow for appropriate purchase decisions.

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Central Hudson's electric purchasing goal had been to limit customer bill volatility, but this has proved to be difficult due to the large fluctuations in customer consumption, particularly during periods of abnormal weather. Residential and small commercial customers who want to limit their bill volatility due to volumetric fluctuations can choose our Budget Billing Plan program. This payment plan spreads a customer's estimated annual electric and natural gas charges evenly over 11 months, with a final payment or credit adjustment in the $12^{th}$ month. As a result, our portfolio strategy now focuses on wholesale energy price volatility, which can be managed with a diversified portfolio of electric energy products.

Historically, Central Hudson has not employed any specific volatility metrics to monitor its electric supply portfolio. Measuring volatility (dispersion) of prices can be accomplished using a standard deviation calculation. Evaluating standard deviations can provide insight to volatility, but by utilizing the standard deviation to calculate a coefficient of variation (CV), expressed as ratio of the standard deviation to the mean, it may provide a better way to display statistical dispersion trends over time. Attachment 1 to this letter provides Central Hudson's price volatility for the historical period from January 1, 2005 through June 30, 2007 measured using standard deviation and CV over a rolling 12-month period (Columns labeled as "Hedged"). Also included is a Central Hudson load weighted volatility calculation of the NYISO Zone G day-ahead market for comparison purposes (Columns labeled as "Market"). Central Hudson's electric price volatility (CV) for full service non-hourly priced customers has been well below the market CV. The mean price has also been well below the market, but this price phenomenon will likely change as our legacy contracts expire. It should be expected that Central Hudson's prices would average slightly higher than the market, due to built-in risk premiums reflected in energy futures, and hedging costs.

Attachment 1 also provides a calculated CV bandwidth based on the ratio of the actual "Hedged" CV to the "Market" CV. Based on these calculations, Central Hudson's actual "Hedged" portfolio has exhibited less volatility than the load-weighted average NYISO DAM Zone G priced "Market" portfolio, with the ratios of CVs ranging from 66% to 84%. This range may be an appropriate target for our future portfolio volatility goal, but establishing goals must be evaluated carefully. Before setting any such goal, it may be beneficial to monitor the ratio of CVs as various contracts (some legacy) expire and as we enter into new transactions trying to balance cost and volatility considerations. The need for such caution and continued monitoring is demonstrated by the calculations contained in Attachment 2. In this schedule, the actual contract cost for one hedge was approximately doubled, in order to better understand the implications of changing components of the portfolio. It is demonstrated that the bandwidth of the ratio of CVs increases, with the ratios ranging from 64% to 90%.

The Company looks forward to having further discussions with you and your staff, and perhaps interested parties, in identifying an acceptable means of measuring volatility moving forward. We can also discuss a standardized format for reporting aggregate portfolio price information on a quarterly basis, as required in the Order.

Please note that Attachments 1 and 2 have not been included with this letter, but have been provided directly to Mr. Steven Blow, the Records Access Officer, with a request that the Attachments be afforded confidential treatment under §6-1.3 of the Public Service Law Rules of Procedure.

Respectfully submitted,

M. L. Mosher

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