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CENTRAL HUDSON GAS & ELECTRIC CORPORATION
284 SOUTH AVENUE
POUGHKEEPSIE, NEW YORK 12601

July 29, 2005

Public Service Commission
Three Empire State Plaza
Albany, New York 12223-1350

Dear Commissioners:

Central Hudson Gas & Electric Corporation (“Central Hudson” or “the Company”) hereby submits for filing revisions to its Schedule for Electric Service, PSC No. 15-Electricity and its Schedule for Gas Service, PSC No. 12-Gas.

The enclosed tariff leaves listed on Attachment A are issued as of July 29, 2005 with an effective date of August 29, 2005, and are being filed electronically. The Company’s expectation is that the Commission will issue appropriate orders suspending the effective date of the leaves through June 30, 2006 so that the proposed rates may become effective July 1, 2006. The tariffs are supported by the testimony and exhibits being filed herewith.

The Company has prepared this rate filing using the operating results, with normalization adjustments where appropriate, for the historical year ending March 31, 2005. The Company has also submitted projected operating results for the rate year ending June 30, 2007, and for two additional "rate years," ending June 30, 2008, and 2009. The Company developed two additional rate years' information to assist the parties in understanding the expected level of future costs. These additional data are intended to facilitate the parties' ability to participate constructively in discussions leading to an appropriate and comprehensive use of the remaining Benefit Fund derived from reversing the current rate base offset, for additional rate moderation purposes.

Filing Background

Central Hudson’s base rates for electric services have not been increased

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since 1993, more than 12 years ago, and the Company's gas base rates have not been increased since 1991.

Since the early 1990s, many changes beneficial to customers have taken place in the utility industry in New York. The electric utility industry has undergone a fundamental restructuring as a result of the Competitive Opportunities Proceeding in 1996, and the consequent sale of generating plants, including the Company's interests in fossil and nuclear generation.

In 2001, Central Hudson's electric and gas rates were separated into delivery and commodity components, and "back-out credits" were established to facilitate retail competition. Retail access supply choice is fully available for all of Central Hudson's customers.

In addition to the option of choosing their suppliers, Central Hudson's customers have been the recipients of significant, one-time, economic benefits as a result of electric restructuring. The Settlement Agreement entered into voluntarily between the Company and other parties in the Competitive Opportunities Proceeding, and the ensuing sales of the Company's generating plant interests, produced economic benefits for Central Hudson's customers amounting to $320 million, which were reserved for customers' benefit in a Benefit Fund. The Benefit Fund has already been returned to customers through direct refunds that produced over $90 million in bill reductions, used as a rate base credit ($42.5 million), and used for specifically identified customer benefit programs, such as the $20 million enhanced electric reliability program, the $11 million economic development program adopted by the Commission, and to reduce customers' responsibility for pension and Other Post Employment Benefits ("OPEB"), consistent with Commission Policy, that customers would otherwise have had to fund through rate increases.

During the extended period in which Central Hudson's base rates were not increased, the Company invested over $520 million in electric and gas system infrastructure improvements and connected more than 30,000 customers to its delivery systems. Despite more than a decade of increased costs for materials, equipment, labor, and health care, the Company has operated more efficiently, and adopted new technologies to achieve productivity gains. Moreover, as a result of the Company's ongoing service and productivity initiatives, customers

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have enjoyed superior customer service (as measured by the Company and independently by J. D. Power and Associates), and improved reliability.

Filing Purpose

After evaluation of historical, present, and anticipated costs, the Company has concluded that the rates established in the early 1990s are lagging so far behind the ongoing costs of providing electric and natural gas delivery service that significantly increased rates are required. The purpose of the present filing is to realign rates with revenue requirements that properly reflect the costs of providing safe, reliable delivery services to customers.

In addition to more than a decade of inflationary cost pressures on all aspects of the electric and gas delivery businesses, there are several major and distinct cost elements included in this rate filing that merit further discussion.

Pension and OPEBs

Pursuant to the Commission's Statement of Policy, the Company has been accounting for pension and OPEB costs in accordance with Statement of Financial Accounting Standards (SFAS) 87 and 106, respectively. The Commission's Policy Statement calls for utilities to defer the differences between rate allowances and the expenses determined under SFAS 87 and 106.

In Central Hudson's case, the current rate allowances were established in 2001, in Cases 00-E–1273 and 00-G-1274, the Company's last rate proceedings. The current electric and natural gas rate allowances for pension expense consist of a $10.2 million credit and $2.2 million credit, respectively. Similarly, the current electric and natural gas rate allowances for OPEB expense consist of a $1.4 million charge and $0.3 million charge, respectively. The SFAS-determined expenses currently exceed the net pension/OPEB rate allowances by approximately $31 million for electric operations and $7 million for gas operations.

In the period beginning July 2001, the existing rate allowances created significant deferred balances. Actual electric pension and OPEB under-collections, including carrying charges, consisting of $79.9 million of pension deferrals and $12.9 million of OPEB deferrals, were fully offset through January

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of this year. These balances were offset with the Benefit Fund, as authorized by the Commission in the Order Modifying Rate Plan in June of last year. That use of the Benefit Fund allowed customers to avoid cash revenue increases to fund the deferred balances and it also exhausted the Benefit Fund, as then constituted, recognizing the use of $42.5 million as a rate base offset and the $8 million minimum balance requirement in the Benefit Fund. A source of funds similar to the Benefit Fund which could offset the accumulated regulatory asset for the gas business is not available.

Given maintenance of the rate allowance for pension and OPEBs, as set in 2001 for both electric and gas operations, and the current levels of SFAS 87 and 106 expenses, the amount of deferred expense continues to grow. The accumulated deferrals related to pension and OPEBs will be on the order of $85 million by July 1, 2006, the beginning of the proposed rate year. Therefore, the Company is proposing to significantly increase the costs reflected in rates to a level that approximates the current SFAS 87 and 106 expense levels.

Manufactured Gas Plant (MGP) Site Remediation

The Company anticipates significant incremental expenditures for the investigation and remediation of several former MGP sites over the next few years. The Company has been alleged to be a responsible party in connection with eight sites, including a former MGP site in the City of Newburgh. After more than a decade of investigation under the terms of a 1995 DEC Consent Order, the Company expects to begin remediation at the latter site later this year. The Company anticipates that the DEC will issue a formal Record of Decision ("ROD") within the next few months on the Proposed Remedial Action Plan issued earlier in the year. It is anticipated that the ROD will require the Company to commence design and begin an estimated $20 million multi-year remediation project at the Newburgh site, which will be followed by a lengthy monitoring program. In addition, the Company has been conducting site investigations at the Laurel Street, Poughkeepsie site under the terms of a voluntary Consent Order with DEC and expects additional investigation and remediation expenditures in the near term. Studies and investigations are underway at other MGP sites as well.

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Transmission ROW Management Program and

Electric Distribution Line Clearance

The Company is requesting a substantial adjustment to the rate allowance for electric transmission and distribution line clearance. The August 2003 Blackout prompted a review by Company management, and regulatory investigations, of line clearance and vegetation management of the Company's transmission lines. In 2004 and the early part of 2005, the Company made extraordinary expenditures for these programs and the Company expects that its future level of expenditures in the rate years will be still greater. The Commission's Order issued in Case 04-E-0822 in June of this year requires expenditures associated with edge encroachment reclamation, danger tree removal, and acquiring additional transmission ROW to provide for additional line clearances at levels greater than the Company's historic experience. The expected level of effort for transmission and distribution line clearance programs will require expenditures almost doubling the existing rate allowance. The Company is also proposing a further component of the enhanced distribution line clearance program instituted in the 2001 rate plan.

Stray Voltage Testing

In compliance with the Commission's January 2005 Order issued in Case 04-M-0159, earlier this year the Company began to implement an annual stray voltage testing program, in addition to continuing the Company's ongoing comprehensive electric facility inspection program. The Company has incurred, and will continue to incur incremental costs to implement the new stray voltage testing program. The Company expects stray voltage testing program costs to exceed $2 million annually. Until new rates are established, the Company will be deferring these incremental costs, in accordance with its current rate plan due to a change in state regulation, and has included the incremental stray voltage testing costs and accrued carrying charges so deferred as part of the items to be offset with a portion of the Benefit Fund.

Rate Moderation

The Company has developed creative means of moderating the level of

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revenue increase required for both the electric and gas operations.

For the electric department, the Company is proposing that allocated MGP site remediation expenditures be treated as cost of removal and charged against the existing depreciation reserve. In addition, the Company is proposing the recovery of net regulatory assets by offset through the reversal of the rate base credit established in Case 00-E-1273. These proposals would effectively reduce the projected electric rate increase by $8.1 million, resulting in a $52.8 million rate increase for the first rate year. For the gas business, the Company is similarly proposing to treat allocated MGP remediation expenditures as cost of removal and charged against the depreciation reserve. An additional part of this proposal entails amortizing the net deferred balances over a seven-year period. In doing so, the Company can reduce the projected gas rate increase by $1.4 million, resulting in an $18.1 million rate increase for the first rate year.

As noted previously, the Benefit Fund balance remaining after the rate moderation described above should, in the Company's view, be utilized to further moderate the rate increase in ways that would be best developed in consultations between the Company and the parties.

Revenue and Rate Design

After utilization of the rate moderators described above, the revenue requirements are $230.6 million for electric delivery service and $62.10 million for natural gas delivery service. Embedded cost of service studies for the historical period, as well as for the rate year were performed for electric and gas operations to establish rates of return for individual customer classes. Based on the indicated class rates of return, the individual customer classes were targeted to be within plus or minus 15 percent of the system rate of return. The incremental revenue required to meet the full revenue requirement was then allocated to customer classes based on delivery revenues. Increases to individual classes were limited to no greater than 1.25 times for electric classes and 1.50 times for natural gas classes and not less than 0.5 times the overall change for both electric and natural gas. Customer charges were increased to be more in line with embedded costs, and energy and demand delivery rates increased accordingly, but do not reflect a fully unbundled rate design.

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The Company has included the revenue requirements for bundled and unbundled components as part of the embedded COS study. Cost-based back out credits include procurement; credit and collections; bill printing, mailing, and receipt services; and competitive energy services. In addition, components unique to the electric department include meter ownership, meter services and meter data services.

The Company is not proposing any structural changes to its electric or natural gas tariffs, since they were restructured in the 2001 rate Order into delivery service rates applicable to all customers, whether they purchase their commodity supply from Central Hudson or another supplier. Additionally, the Company is not proposing any modifications to any customer service fees, such as reconnection charges. The Company is proposing to update its electric loss factor from 4.37% to 3.89% and the lost and unaccounted for factor for gas from 2.5% to 1.9%. The Company is also requesting the elimination of the imputation of $1.9 million on interruptible gas sales and proposes a 90/10 sharing of all profits on interruptible gas sales.

Purchased Supply Recovery

The cost and quantity of supply purchases are not included in the rate filing as the revenue requirement is established only for delivery service.

The tariffs continue, with minor recommended changes, the existing purchased power recovery mechanism to recover the cost of purchased energy supplies for those customers that elect to have Central Hudson provide them with this service. The Energy Cost Adjustment Mechanism (ECAM), and Hourly Pricing Provision (HPP) are proposed to be maintained. Given the implementation of HPP in May of this year for Central Hudson's large electric supply customers, the Company has proposed to calculate a uniform Market Price Charge, applicable to all Service Classifications.

Similarly, the gas tariffs continue use of Gas Cost Adjustment to recover the cost of purchased natural gas, and other gas cost components for those customers that elect to have Central Hudson provide them with gas supply service.

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Retail Access

Central Hudson continues to promote the transition to retail competition providing and encouraging supply choice for all customers. As a result of the last rate Order, the Company initiated and continues to lead a Retail Access Collaborative that has implemented several changes to its programs, as identified by participating marketers as inhibiting customer supply choice. The Company is introducing the concept of a Provider of Last Resort supply surcharge which could provide a means of furthering retail access while funding certain customer benefits.

Procedural Matters

Fifteen copies of the prepared written testimony and exhibits, which comprise the Company's direct case in support of this filing, are also submitted herewith.

Included with this filing is the General Filing Information Form. Notices of this filing will be published in newspapers in accordance with 16 NYCRR §720-8.1 and proof of publication will be submitted upon completion. In addition, the Company will issue appropriate bill inserts in accordance with 16 NYCRR §720-9.1.

Acknowledgment of the receipt of this letter is requested and a triplicate copy together with a return envelope is enclosed for that purpose.

Very truly yours,
Arthur R. Upright

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cc: Active Parties to 96-E-0909, 00-E-1273 and 00-G-1274
Mr. Robert J. Glasser – Thompson Hine LLP

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TARIFF LEAVES

PSC No. 15 – ELECTRICITY

7th Revised Leaf No. 104	5th Revised Leaf No. 217
6th Revised Leaf No. 105	7th Revised Leaf No. 218
4th Revised Leaf No. 106	4th Revised Leaf No. 218.1
5th Revised Leaf No. 165	1st Revised Leaf No. 218.2
7th Revised Leaf No. 169	4th Revised Leaf No. 219
5th Revised Leaf No. 185	6th Revised Leaf No. 220
7th Revised Leaf No. 205	5th Revised Leaf No. 222
5th Revised Leaf No. 205.1	2nd Revised Leaf No. 231
5th Revised Leaf No. 210	6th Revised Leaf No. 246

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TARIFF LEAVES

PSC No. 12 – GAS

3rd	Revised Leaf No. 68	8th	Revised Leaf No. 159
3rd	Revised Leaf No. 71	1st	Revised Leaf No. 181
3rd	Revised Leaf No. 72	6th	Revised Leaf No. 186
5th	Revised Leaf No. 149	4th	Revised Leaf No. 188
4th	Revised Leaf No. 151	6th	Revised Leaf No. 191
4th	Revised Leaf No. 152	4th	Revised Leaf No. 193
3rd	Revised Leaf No. 158		