STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

CASE 17-E-0459 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Central Hudson Gas & Electric Corporation for Electric Service.

CASE 17-G-0460 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Central Hudson Gas & Electric Corporation for Gas Service.

ORDER ADOPTING TERMS OF JOINT PROPOSAL AND ESTABLISHING ELECTRIC AND GAS RATE PLAN

Issued and Effective: June 14, 2018

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At a session of the Public Service Commission held in the City of Albany on June 14, 2018

COMMISSIONERS PRESENT:

John B. Rhodes, Chair
Gregg C. Sayre
Diane X. Burman, dissenting
James S. Alesi

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ORDER ADOPTING TERMS OF JOINT PROPOSAL AND ESTABLISHING ELECTRIC AND GAS RATE PLAN

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BY THE COMMISSION:

INTRODUCTION

This order establishes a three-year rate plan for electric and gas service provided by Central Hudson Gas & Electric Corporation (Central Hudson or Company), for the period July 1, 2018, through June 30, 2021. The order adopts terms of a Joint Proposal (JP) executed by the Company; the New York State Department of Public Service trial staff (Staff); Multiple Intervenors (MI); Pace Energy and Climate Center (Pace); New York Geothermal Energy Organization (NY-GEO); the Utility Intervention Unit of the Department of State, Division of

Consumer Protection (UIU); Dutchess County; Acadia Center; the Public Utility Law Project of New York, Inc. (PULP); the Natural Resources Defense Council (NRDC) (partial); Bob Wyman; and the U.S. Army Legal Services Agency, representing the U.S. Department of Defense and all other Federal Executive Agencies (Army Legal Services).

BACKGROUND OF THE PROCEEDING

Central Hudson distributes electricity to approximately 300,000 customers and natural gas to about 80,000 customers in the Mid-Hudson River Valley region of New York.[1] The Company's most recent electric and gas rate plan was adopted in a rate order issued in June 2015.[2] In that order, the Commission approved the implementation of a three-year electric and gas rate plan for Central Hudson.

On July 28, 2017, Central Hudson filed tariff leaves and testimony seeking to increase its electric and gas delivery revenues based on a rate year starting July 1, 2018, and ending June 30, 2019 (Rate Year). Central Hudson also included select financial information for two additional rate years. Central Hudson's proposed delivery rates were designed to produce an electric delivery revenue increase of approximately $63.4 million and a gas delivery revenue increase of approximately $22.2 million, resulting in delivery revenue increases of 21.2% and 24.3%, respectively, or total system-wide revenue increases

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[1] Hearing Exhibit 1, Pre-filed direct testimony of Company Witness Buckley, p. 31.

[2] Cases 14-E-0318 and 14-G-0319, Central Hudson Gas & Electric Corporation – Rates, Order Approving Rate Plan (issued June 17, 2015) (2015 Rate Order).

of 12% and 18%, respectively.[3] Central Hudson requested a 9.5% overall return on equity and an equity ratio of 50%.[4]

The presiding administrative law judges (ALJs) held a procedural conference and a technical conference on September 7, 2017. By ruling issued September 19, 2017, they established a case schedule requiring the filing of Staff and intervenor testimony on November 21, rebuttal testimony on December 15, and the commencement of an evidentiary hearing on January 9, 2018. By ruling issued September 29, 2017, the ALJs granted a request for reconsideration of a portion of that schedule and established a revised rebuttal filing due date of December 18, 2017.

The Company filed supplemental testimony and exhibits on October 19, 2017. Staff, UIU, MI, NRDC, PULP, Pace, Dutchess County, Bard College, Bob Wyman, and Citizens for Local Power (CLP) filed direct testimony. In its testimony, Staff noted that the Company's proposed electric revenue increase had been revised to $66.2 million (a 22.1% delivery revenue increase). Among other things, Staff recommended an electric revenue increase of $27.8 million, a gas revenue increase of $7.6 million,[5] an overall return on equity of 8.3%, and an equity ratio of 48%.[6] Staff's recommended revenue increases included the impact of collecting energy efficiency related costs through base rates, as opposed to through a surcharge. This proposal

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[3] Hearing Exhibit 22, Joint Proposal, p. 2.

[4] Hearing Exhibit 1, Pre-filed direct testimony of Company Witness Buckley, p. 5.

[5] Hearing Exhibit 16, Pre-filed direct testimony of Staff Accounting Policy and Revenue Requirements Panel, pp. 10-11.

[6] Hearing Exhibit 16, Pre-filed direct testimony of Staff Finance Panel, pp. 9-10.

would result in a base rate increase of $8.5 million for electric and $0.8 million for gas, but no net bill impact.

By letter dated December 8, 2017, Central Hudson filed a notice of impending settlement negotiations, advising that the first negotiation session would be held on December 21, 2017, in Albany. In accordance with the Commission's rules, the required review of the notice was completed and reported, also on December 8.

Rebuttal testimony and exhibits were filed by the Company, UIU, Pace, MI, and CLP. On December 21, 2017, Central Hudson requested the postponement of the evidentiary hearing that was scheduled to commence on January 9, 2018, to facilitate the settlement discussions and allow additional time to negotiate and finalize a joint proposal. Thereafter, several additional postponements were requested and granted.

The settlement negotiations ultimately proved successful, resulting in the filing of the April 18, 2018, JP between the Company, Staff, MI, Pace, NY-GEO, UIU, Dutchess County, Acadia Center, PULP, NRDC, Bob Wyman, and Army Legal Services (collectively, the Signatory Parties). The Signatory Parties assert that the JP, together with its accompanying appendices, contain a comprehensive set of terms and conditions for a three-year rate plan for Central Hudson's electric and gas service. They recommend that the rates and surcharges of Central Hudson be determined in accordance with the understandings, principles, qualifications, terms, and conditions set forth therein. The filing of the JP was accompanied by a summary of the JP, bill impact tables, and a scheduling proposal.[7] Statements in support of the JP were filed by the Company, MI, Pace, Acadia Center, PULP, NY-GEO, Bob Wyman, and Staff.[8] CLP filed a statement on the JP. No party filed a statement opposing the JP. On May 9, the Company filed a letter in lieu of reply statement in support of the JP. An evidentiary hearing was held on May 21, 2018.[9]

PUBLIC COMMENTS AND NOTICE OF PROPOSED RULEMAKING

Pursuant to the State Administrative Procedure Act (SAPA) §202(1), Notices of Proposed Rulemaking were published in the State Register on October 11, 2017 (SAPA No. 17-E-0459P1 and SAPA No. 17-G-0460P1).

On September 11, 2017, a notice was issued describing the Company's rate filing and announcing the dates, times, and locations of six public statement hearings and public information sessions. The notice further stated that comments also could be made by internet, mail, or the Commission's toll-free Opinion Line. Consistent with the notice, afternoon and evening public information sessions and public statement hearings were held in Poughkeepsie, Kingston, and Newburgh, on October 3, 10, and 16, 2017, respectively.[10] Between two to 20 people spoke at each public statement hearing and five to 45 people attended each hearing.

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7 On April 19, 2018, a Ruling on Schedule was issued establishing the due dates for filing initial and reply statement on the JP and the start date of the evidentiary hearing.

8 On May 8, 2018, Staff filed a letter clarifying and correcting portions of its statement in support.

9 See Notice of Evidentiary Hearing (issued May 2, 2018).

10 Commissioner Sayre presided at the Poughkeepsie public statement hearings and Commissioner Burman presided at the public statement hearings in Newburgh.

After the Joint Proposal was filed, an April 20, 2018, Notice was issued establishing a further period for public comments on the JP.

Public Statement Hearing Comments

Comments were made by 15 people at the Poughkeepsie hearings, 33 people at the Kingston hearings, and 17 people at the Newburgh hearings. Most individuals spoke on their own behalf, while others commented on behalf of various educational institutions, environmental groups, and other nonprofit organizations. Frank Skartados and Kevin Cahill of the New York State Assembly, as well as other local elected officials, also spoke at the hearings.

Most commenters opposed the Company's requested rate increases in their entirety. Comments generally focused on the issues of affordability, even at the existing rates, especially with respect to residential customers living on fixed or limited incomes who also are facing rising costs for necessities such as groceries, prescription medications and health insurance. Various commenters stated that Central Hudson's delivery rates already were too costly, especially for the large population of low income customers in the Company's service territory, and that the requested increases were too much and simply would ensure more profits for the Company. Similarly, commenters noted that there were already too many utility shut-offs of the Company's customers. Commenters also complained about Central Hudson's high fixed customer charge.

Some commenters said that the Company should expand its energy efficiency and conservation programs, focus on increasing the use of renewable resources, use rate structures such as time-of-use options to promote conservation, and use its profits to pay for needed infrastructure upgrades. Other commenters questioned Central Hudson's intended use of the rate increases, noting that the Company had relied on several of the same categories of increased costs to raise rates previously, without any corresponding increase in service quality or reliability.

A few commenters mentioned the high costs of vegetation management and the Company's claimed need to address trees affected by the Emerald Ash Borer Beetle, expressing that the costs appeared to be inflated for the tree and vegetation clearing program. Others expressed concern with the Company's proposed training facility, opining that adequate training facilities already existed in the local communities. Several individuals also expressed concern with the Commission's prior approval of the Fortis Inc. acquisition of Central Hudson.[11] One commenter expressed concerns with the potential impact of the rate increase on the small-business community, while other individuals stated that the proposed rate increases would have a disproportionate impact on residential customers.

Written Comments and Opinion Line Comments

In addition to the public statement hearing comments, almost 800 comments were received either through the Commission's opinion line or filed with the Commission's Secretary. Virtually all the written and opinion line comments received were from individual customers expressing opposition to the proposed rate increases. There were, however, a few comments received after the Joint Proposal was filed that expressed support for the reductions from the Company's initial filing that are reflected in that proposal.

[11] See Case 12-M-0192, Joint Petition of Fortis Inc. et al. and CH Energy Group, Inc. et al. for Approval of the Acquisition of CH Energy Group, Inc. by Fortis Inc. and Related Transactions.

Citing low or nonexistent cost-of-living adjustments and rising costs for necessities like housing, food, prescriptions and health insurance, many commenters stated that the proposed rate increases were too high, especially for people on low or fixed incomes, and that the Company should reduce executive compensation or other Company profits to fund any cost and expense increases. Some commenters stated that the Company should not receive any increases given the Company's current level of profits.

Numerous commenters, including various Town, City and County officials, stated that fixed customer charges are too high and need to be reduced. They said that high fixed charges not only minimize incentives to conserve energy and to invest in renewable energy systems, but also undermine Reforming the Energy Vision (REV) policy initiatives seeking to give consumers more control over energy use and costs, and have a disproportionate impact on moderate and low income customers who purportedly use less energy than average. Finally, several commenters stated that the Company already shuts off service for too many customers for nonpayment and that an increase in rates will only exacerbate the problem.

SUMMARY OF JOINT PROPOSAL[12]

Term[13]

The JP proposes a three-year rate plan for Central Hudson's electric and gas businesses that would begin on July 1, 2018, and continue until June 30, 2021. Rate Year 1 consists of

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[12] In the following discussion, some terms of the JP, along with any issues related thereto, are generally summarized and discussed. The summary is provided for the reader's convenience.

[13] Hearing Exhibit 22, Joint Proposal, §III.

the 12-month period beginning on July 1, 2018, and ending June 30, 2019. Rate Years 2 and 3 consist of the next two successive 12-month periods ending June 30, 2020, and June 30, 2021, respectively. Unless specifically noted otherwise, the provisions of Rate Year 3 would remain in effect until superseding rates or terms become effective.

Revenue Requirements[14]

The JP would increase electric and gas base delivery revenues in each of the three rate years. The JP recommends electric delivery revenue increases of $19.725 million in Rate Year 1, $18.581 million in Rate Year 2, and $25.083 million in Rate Year 3, and gas delivery revenue increases of $6.654 million in Rate Year 1, $6.702 million in Rate Year 2, and $8.183 million in Rate Year 3. To mitigate the customer bill impacts that would be associated with these increases, the proposed increases have been moderated by using available regulatory liabilities and applying them as credits. After applying credits totaling $6 million in Rate Year 1, $9 million in Rate Year 2, and $11 million in Rate Year 3, the net electric delivery revenue increase will be $13.725 million in Rate Year 1, $15.581 million in Rate Year 2, and $23.083 million in Rate Year 3. After applying credits totaling $3.5 million in Rate Year 1, $4.0 million in Rate Year 2, and $4.0 million in Rate Year 3, the net gas delivery revenue increases will be $3.154 million in Rate Year 1, $6.202 million in Rate Year 2, and $8.183 million in Rate Year 3. These amounts include the impact of Staff’s proposal to collect energy efficiency-related costs through base rates, as opposed to through a surcharge. This change resulted in a base rate increase of $8.5 million for electric and $0.8 million for gas, but no net bill impact.

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14 Id., §IV.

The Rate Year 1 delivery revenue increases include the impact of Staff's proposal to collect energy efficiency-related costs through base rates, as opposed to through a surcharge. Because the Company will no longer collect these costs through a surcharge, the Rate Year 1 electric delivery revenue increase experienced by customers is offset by an $8.479 million surcharge reduction and the Rate Year 1 gas delivery revenue increase experienced by customers is offset by a $0.837 million surcharge reduction. This results in a Rate Year 1 net increase experienced by customers for electric service of $5.246 million, or approximately 1% of their total bill and a net increase experienced by customers for gas service of $2.317 million, or approximately 1.5% of their total bill. [15]

The net increases experienced by electric customers for Rate Year 2 of $15.581 million, or about 2.8%, and for Rate Year 3 of $23.083 million, or approximately 4%, are not impacted by the shifting of energy efficiency-related costs from a surcharge to base rates. The same is true for the net increases experienced by gas customers for Rate Year 2 of $6.202 million, or 3.6%, and for Rate Year 3 of $8.183 million, or 4.4%.

Equity Ratios, Return on Equity, and Earnings Sharing Mechanism[16]

The revenue requirements for all three years of the proposed rate plan are based on a capital structure with a common equity ratio of 48% in Rate Year 1, 49% in Rate Year 2, and 50% in Rate Year 3, and an allowed return on common equity (ROE) of 8.8%. The JP includes an earning sharing mechanism (ESM) that is triggered if Central Hudson's actual ROE in any year, after certain adjustments, exceeds 9.3%. Earnings above

15 The estimated percentage increases experienced by customers is calculated assuming the Company's delivery revenues represents 60% of the customers' total bills.

16 Id., §VI.A.

9.3% and up to 9.8% would be shared equally between the Company and ratepayers; ratepayers would receive 80% of any earnings over 9.8% up to 10.3%; and ratepayers would receive 90% of any earnings over 10.3%.

Electric and Gas Revenue Allocation and Rate Design[17]

JP Appendix L sets forth the signatories' agreed-to electric and gas revenue allocation. JP Appendix M sets forth the signatories' agreed-to electric and gas rate design.

The electric bill credits will be allocated to each service class in proportion to class responsibility for the overall delivery rate increase and will be refunded to customers on kilowatt-hour (kWh) or kilowatt (kW) basis through the existing Electric Bill Credit Mechanism. The gas bill credits will be allocated to each service class in proportion to class responsibility for the overall delivery rate increase and will be refunded to customers on a hundred cubic feet (Ccf) basis through the existing Gas Bill Credit Mechanism which is applicable to firm Service Classifications (SCs) 1, 2, 6, 11 (Distribution Large Mains (DLM), Distribution (D) and Transmission (T)), 12, and 13. For billing purposes, any applicable credit up to $1 million resulting from Service Classification (SC) 11 gas delivery service to the Danskammer Generating Station (see JP Section IX.A) will be included in and combined with the Gas Bill Credit, thus appearing as one line item on customer bills.

The JP provides that the current customer charge for certain electric customers (i.e., SC 1 residential, SC 2 non-demand, and SC 6 residential time-of-use) and the minimum charge for SC 1 residential gas customers will be reduced by $3.00 in

[17] Id., §X.

Rate Year 1, $1.00 in Rate Year 2, and $0.50 in Rate Year 3.[18] As a result, the SC 1 residential electric customer charge will be $21.00 in Rate Year 1, $20.00 in Rate Year 2, and $19.50 in Rate Year 3. The SC 1 gas residential minimum charge will decrease by $1.00, $0.50, and $0.25 in Rate Year 1, Rate Year 2, and Rate Year 3, resulting in a minimum charge of $25.00 in Rate Year 1, $24.50 in Rate Year 2, and $24.25 in Rate Year 3. The JP notes that future changes to these charges may be decided in other related proceedings, including, but not limited to, the Value of Distributed Energy Resources (VDER) proceeding.[19]

The JP calls for the establishment of a three-part rate for the gas service provided pursuant to the SC 11 tariff (the Firm Transportation Rate) that would consist of (1) a monthly minimum charge; (2) a volumetric charge applicable to a customer's monthly consumption exceeding 1,000 Ccf per month; and (3) a demand charge applicable to a customer's Maximum Daily

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18 The current electric customer charges are $24.00 for SC 1 (residential), $35.00 for SC 2 (general service, non-demand), and $27.00 for SC 6 (residential time-of-use). The current minimum charge for SC 1 residential gas service is $26.00. See Hearing Exhibit 1, Pre-filed direct testimony of Central Hudson's Forecasting and Rates Panel, pp. 54, 58.

19 Case 15-E-0751, In the Matter of the Value of Distributed Energy Resources.

Quantity (MDQ).[20] In addition, the three SC 11 transmission rates from the 2015 Rate Plan[21] will be combined into one transmission rate called SC 11 Transmission and the two SC 11 distribution rates from the 2015 Rate Plan[22] will be combined into one distribution rate called SC 11 Distribution, while SC 11 DLM rate will be maintained.[23] The volumetric rate will be set to recover approximately 15% of delivery revenue allocated to SC 11 with the remaining estimated revenue less the minimum charge being recovered through the MDQ charge.

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[20] The existing SC 11 tariff entitled “Firm Transportation Rate – Core” is applicable to use of service for transportation of customer-owned gas to those customers that have the capability of transporting and receiving at one service point 75,000 thousand cubic feet (Mcf) or greater per year where: 1) the customer's premises are (a) located adjacent to the Company's existing gas mains having adequate capacity to supply customer's prospective requirements in addition to the simultaneous requirements of present or prospective customers taking firm or interruptible service from such mains; or (b) at other points under arrangements made in accordance with General Information, Section 25; and 2) service is to be provided under an agreement as included in General Information, Section 40.

[21] i.e., Transmission Annual x<300,000 Mcf, Transmission Annual 300,000<x<800,000 Mcf and Transmission Annual x>800,000 Mcf.

[22] i.e., Distribution Annual x<100,000 Mcf and Distribution Annual x>=100,000 Mcf.

[23] JP Appendix M indicates that SC 11 subclass, Electric Generation (SC 11 EG), also will be maintained. This subclass, established July 1, 2015, applies to electric generation facilities with a minimum generation capacity of 50 megawatts taking firm natural gas transportation service from Central Hudson facilities at transmission pressures. See 2015 Rate Order, p. 35.

Net Plant Targets and Reconciliations[24]

Electric and Gas Net Plant Targets[25]

JP Appendix C sets forth the depreciation expense targets and the net plant targets upon which the electric and gas revenue requirements are based. These targets are applicable only to the time periods specified in the JP. Actual average electric and gas net plant balances and depreciation expense at the end of each Rate Year will be calculated using the calculation methods described in JP Appendix D.

Net Plant Target Reconciliations[26]

The JP provides that actual electric and gas net plant balances and depreciation expense will be reconciled to the combined electric and gas net plant targets and depreciation expense targets for Rate Year 1, Rate Year 2, and Rate Year 3 on an annual Rate Year basis. The revenue requirement impact (i.e., return and depreciation as described in Appendix D) resulting from the total difference (whether positive or negative) between actual average net plant balances and depreciation expense and the combined target levels will carry forward for each of the Rate Years and will be summed algebraically at the end of Rate Year 3.

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[24] Hearing Exhibit 22, Joint Proposal, §V.A.2.

[25] Actual Net Plant and the Net Plant Targets have the following components: 1) the Average Electric or Gas Net Plant; 2) the Average Electric or Gas Non-Interest Bearing Construction Work in Progress (NIBCWIP); 3) the Average Common Net Plant allocated to Electric or to Gas; and 4) the Average Common NIBCWIP allocated to Electric or to Gas. Hearing Exhibit 22, Joint Proposal, §V.A.

[26] Hearing Exhibit 22, Joint Proposal, §V.A.3.

Deferral for the Benefit of Ratepayers[27]

If, at the end of Rate Year 3, the cumulative incremental revenue requirement impact from net plant balances and depreciation expense differences is negative, the Company will defer the revenue requirement impact for the benefit of customers; if it is positive at the end of Rate Year 3, no deferral will be made. Carrying charges at the pre-tax rate of return will be applied by the Company to the amount deferred from the end of Rate Year 3 until the date that the Company's next rate order takes effect.

Existing Reporting[28]

The Company will continue to provide Staff with yearly reports, due by March 1 of each year, on its capital expenditures during the prior calendar year. The Company also will continue to annually file its five-year capital investment plan with the Secretary to the Commission; this report will be filed by July 1 and will include an explanation of any cost variance between the approved budget and an actual expenditure greater than 10% for any single project identified in the Company's Major Capital Project Report shown in JP Appendix E, Sheet 1. The proposed three-year capital investment plan is set forth in JP Appendix Y.

New Reporting[29]

The Company will be subject to two new reporting requirements, 1) a quarterly capital variance report and 2) a detailed annual report that identifies planned information technology (IT) projects. The IT report will include: (1) the final variance summary of all on-going and active capital

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27 Id., §V.A.4.

28 Id., §V.A.5.

29 Id., §V.A.6.

projects and programs; (2) an explanation of any cost or timeline exceeding 10% of forecast; (3) a narrative on changes to any IT project design, contracts, or software; (4) a description of benefits of any new IT projects or programs; and (5) any quantitative benefit/cost analysis to date and/or forecast, including the methodology used. Starting with the quarter ending March 31, 2019, the Company will file with the Secretary the first of its quarterly reports that will include: (1) any changes to the IT project prioritization with an explanation; (2) the expense variance by project; and (3) an explanation for any cost variance exceeding 10% of the project's approved budget.[30]

Deferral Accounting[31]

The JP provides for the continuation, without modification, of numerous accounting deferrals for revenues, expenses, and costs, including but not limited to, Environmental Site Investigation and Remediation (SIR) Costs, Pension Expense and Post-Employment Benefits Other than Pensions (OPEBs), Property Taxes, and REV Demonstration Projects. The JP specifies the modification of several other 2015 Rate Plan accounting deferrals including, for example, the ESM, Economic Development, the Low Income Program, the Electric Revenue Decoupling Mechanism (RDM), Right-of-Way Tree Trimming Costs, and Gas Leak Prone Pipe (LPP). The JP lists the accounting deferrals from the 2015 Rate Plan that will expire. Finally, it lists the new accounting deferrals that will be added. A summary listing of accounting deferrals and applicable examples is set forth in JP Appendix F, together with the specific deferral method and associated carrying charge for each. The

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30 See id., Appendix P.

31 Id., §V.B.

accounting deferrals that are authorized by the terms of this JP will not terminate at the end of Rate Year 3, but instead are intended to continue until they are superseded or expressly revoked.

Impact of Federal Tax Changes

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (Tax Act) was signed into law. The Tax Act significantly lowered the Company's federal income tax expense, starting in 2018. The JP reflects the Signatory Parties' best estimate of the impact the Tax Act will have on expenses for the three years of the rate plan. Staff states that Rate Year 1 revenue requirements were lowered by approximately $13.2 million for electric and $4.8 million for gas due to the decrease, from 35% to 21%, in the federal income tax rate applicable to the Company.[32] The revenue requirement impact that the Tax Act has on the January 1, 2018, to June 30, 2018, time period, the six months when the Tax Act is in effect but before the rate plan in the JP begins, will be deferred for future customer benefit and we will address such balances at a future time.

Low Income Customer Provisions[33]

The JP notes that low income discounts will be provided to Home Energy Assistance Program (HEAP) recipients, consistent with the requirements set forth in the orders issued

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32 Staff Statement in Support of Joint Proposal (Staff Statement), p. 31.

33 Id., §XI.

by the Commission in the generic proceeding.[34] The annual funding for these credits total $8.612 million in Rate Year 1, $11.015 million in Rate Year 2, and $12.018 million in Rate Year 3. The specific bill discount credits, set forth in the electric and gas tariffs, may change based on the annual Low Income Plan the Company is required to file with its analysis of customer bills. However, as proposed in the JP, eligible low income customers will receive monthly low income discounts ranging from $19.00 to $72.00.[35]

The level of funding for the bill discount credits is subject to symmetrical deferral.[36] Any accumulated balances of program under-spending will be deferred for future use in the Low Income Program and carrying charges will be applied at the pre-tax rate of return. If higher than forecasted participation renders the rate allowance specified for the discounts inadequate to provide them to all qualifying customers, the Company is authorized to defer the difference between the rate allowance and the actual discounts.

The Low Income Order authorized the continuation of an Arrears Forgiveness Program that will be phased out during Rate Year 2. The JP therefore provides for total allowances for this

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[34] Case 14-M-0565, Proceeding on Motion of the Commission to Examine Programs to Address Energy Affordability for Low Income Utility Customers, Order Adopting Low Income Program Modifications and Directing Utility Filings (issued May 20, 2016)(Low Income Order), and Order Granting in Part and Denying in Part Requests for Reconsideration and Petitions for Rehearing (issued February 17, 2017)(Low Income Rehearing Order).

[35] This range assumes that the customer receives a heating discount for one fuel type. Eligible non-heating low income customers will receive discounts ranging from $3.00 to $56.00.

[36] See Hearing Exhibit 22, Joint Proposal, §V.B.2.e.

program of $142,000 in Rate Year 1 and $6,000 in Rate Year 2. These allowances also are subject to symmetrical deferral.

The Low Income Order also authorized the continuation of the waiver of Reconnection Fees. The JP notes that an allowance of $51,000 for each Rate Year (split 80/20 between electric and gas), also subject to symmetrical deferral, has been established.

Tariff Related Matters[37]

Existing tariff provisions and related rate making will generally be continued, but with some exceptions and modifications, such as including storage batteries in the definition of “designated technologies” under section 14.5 of the standby service tariff; combined Nitrous Oxides emissions for designated technologies exempt from standby rates under section 14.5 will be reduced under 4.4 lbs/megawatt hour (MWh) to 1.6 lbs/megawatt (MW) under the standby service tariff for customers that complete a Coordinated Electric System Interconnection Review (CESIRs) on or after July 1, 2018 (CESIRs completed before July 1, 2018, will be grandfathered under the 4.4 lbs/MWh standard); graduated increases in reconnection charges applicable to service restoration to the same customer at the same meter location within 12 months after discontinuance of service; and expanding the electric RDM to additional customer classifications, and implementing a new Gas Miscellaneous Charge mechanism and bill line item to address the recovery and refund of new initiatives.

Energy Efficiency[38]

The JP provides that, beginning in Rate Year 1, Central Hudson’s electric and gas Energy Efficiency Transition

37 Id., §XII.

38 Id., §XIII.

Implementation Plan (ETIP) costs will be recovered in base rates instead of the Energy Efficiency Tracker Surcharge portion of the System Benefit Charge (SBC).[39] The annual electric and gas ETIP costs included in base delivery rates are $9.8 million and $1.2 million, respectively.[40]

Training Center[41]

In its initial testimony, the Company proposed to construct an integrated and modern facility dedicated to providing hands-on and scenario-based learning and indoor/outdoor electric and gas training (the Training Center). The Company also proposed to construct an integrated transmission and distribution system operations center (the Primary Control Center).[42] The centers were proposed to be co-located, with the Training Center estimated to cost

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[39] The Company will apply an appropriate credit to those customers that currently have exemptions from the Energy Efficiency Tracker Surcharge portion of the SBC, such that the credit will preserve the economic value of the exemptions that otherwise would be lost by shifting the recovery of electric and gas ETIP costs from the SBC to base rates. To the extent a service class is not included in the RDM and the actual value of such exemptions provided differs by $10,000 or more from the value imputed in base rates (see Hearing Exhibit 22, Joint Proposal, Appendix M, Sheets 5 through 7), the entire difference will be deferred for future disposition subject to Commission approval.

[40] Central Hudson's Energy Efficiency Program costs and targets are subject to change pursuant to Commission action in Case 18-M-0084, In the Matter of a Comprehensive Energy Efficiency Initiative. If the Commission does not provide specific cost recovery directives for any modifications to such budgets, the JP would authorize the Company to defer and recover any such changes approved by the Commission.

[41] Hearing Exhibit 22, Joint Proposal, §XV.

[42] See Hearing Exhibit 1, Pre-filed testimony of Central Hudson's Training and Development Panel, and of Witness Anthony S. Campagiorni (Policy and Overview).

approximately $32.5 million while the Primary Control Center spending would be $2.2 million in 2018 and $1.7 million in 2019.[43]

The JP states, in relevant part, that within 30 days of the Commission's issuance of a final order in these proceedings, the Company will file an initial report with the Secretary containing the proposed Training Center and the scope of the Primary Control Center Projects (Projects) and a timeline of major performance milestones, including deadlines for functional capability and operation/integration of the Projects and the Company's expected incremental capital expenditures and operating expenses that would be incurred if the Projects are not pursued. Within 60 days after this filing, the JP states that Staff and the Company will meet to discuss the major performance milestones timeline and, if they do not reach agreement regarding said milestones, either the Company or Staff may seek a ruling from the Commission regarding appropriate milestones. Thereafter, the Company would file with the Secretary a major milestone performance report within 30 business days of a milestone completion date (Milestone Report) that describes, *inter alia*, the Projects' compliance with the applicable milestone(s); identifies the Company's view of the Projects' direct customer benefit(s); describes the electric and gas business impacts; and, if necessary, also indicates potential and appropriate remedial action for a specific Project that has not fully met a milestone. Finally, Staff will present its review of the Milestone Report(s) to the Director of the Office of Electric, Gas and Water for approval and the Director's approval of the continuation of the Projects shall be

[43] See Hearing Exhibit 1, Pre-filed Exhibits of Central Hudson's Training and Development Panel, TDP-3.

documented in a letter from the Director to the Company with a copy filed with the Secretary.

Electric Reliability[44]

We are mindful of the severity of recent storms and the impact to customers that prolonged outages bring. As the Department conducts its comprehensive statewide investigation into the utility companies' preparation and response to those events, which may lead to a variety of recommendations for different companies, the Commission encourages the Company to continue to consider its approaches to reduce the likelihood of storm damage and enhance its storm response activities.

The JP recommends continuation of the electric service annual metrics for System Average Interruption Frequency Index (SAIFI) and Customer Average Interruption Duration Index (CAIDI).[45] SAIFI, which is currently set at or below 1.30 will be set at the following targets: (1) 2018 - 1.38; (2) 2019 - 1.34; and (3) 2020 - 1.30. The slightly increased 2018 and 2019 SAIFI targets reflect our acknowledgment that the Emerald Ash Borer is causing unprecedented danger tree-related risks. Adopting the SAIFI targets set forth in the JP will provide the Company with the ability to implement the Emerald Ash Borer Danger Tree Program while still requiring the Company to maintain and improve reasonable reliability performance levels. The target for CAIDI will continue to be set at or below 2.50.

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[44] Id., §XVI.

[45] Electric reliability performance is primarily measured by the Commission utilizing the SAIFI and CAIDI indices. SAIFI is the average number of times that a customer is interrupted for five minutes or more during a year, while CAIDI is the average interruption duration time in hours for those customers that experience an interruption during the year. See, e.g., New York State Department of Public Service, 2016 Electric Reliability Performance Report, filed session of June 15, 2017.

Potential negative revenue adjustments for SAIFI and CAIDI can be incurred up to 30 basis points each, or up to about $4.1 million total, if the Company fails to achieve these targets.

Gas Safety[46]

The JP continues and further enhances existing gas safety performance metrics and safety programs. Specifically, the JP provides that the Company will continue to replace LPP at a rate of 15 miles per year and increases the Company's negative revenue adjustment from eight basis points to 12 basis points for failing to achieve this target.[47] The JP recommends cumulative potential negative revenue adjustments for the Company's gas operations of up to 150 basis points and recommends up to 43 basis points of positive revenue adjustments for surpassing various gas safety metrics, including LPP replacement, Type 3 leak reduction, emergency response, and damage prevention.[48]

The JP recommends the creation of new gas safety programs, including residential methane detection and first responder training. Within 60 days, the Company will file an implementation plan for its Residential Methane Detection Program. Within 120 days, the Company will file an implementation plan for its First Responder Training Program. Both programs will be funded with code rule violation negative revenue adjustments that the Company may incur as part of its safety performance metrics. Any costs in excess of the available amounts may be deferred.

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[46] Id., §XVII.

[47] The 2019 pre-tax dollar value of 12 basis points equals $309,000.

[48] For 2019, the pre-tax dollar value of 150 basis points would be $3.9 million. The 2019 pre-tax dollar value of 43 basis points is $1.1 million.

The JP requires the Company to submit an implementation plan for each identified non-pipe alternative and provides an incentive to the Company to seek out these alternatives to traditional gas infrastructure investments. It is envisioned that the identified non-pipe alternatives would include projects that will reduce peak day demand, as well as provide for transportation mode alternatives. The Company will also be required to issue a request for proposals to solicit technology and fuel neutral market responses to a defined level of peak reduction and then determine the value of various levels of peak reduction provided by a Demand Response program.

Customer Service[49]

The JP introduces new Customer Service initiatives, including the elimination of fees associated with payments made by credit/debit card or at walk-in locations and the Company's agreement to study the feasibility of implementing an electronic Deferred Payment Agreement (DPA) program. The JP establishes more stringent targets for existing Customer Service Quality Performance Mechanisms, including the Customer Satisfaction Index and the Public Service Commission (PSC) Complaint Rate. In addition, the JP provides for the implementation of a new Call Answer Rate metric and a new mechanism designed to encourage the Company to reduce both residential service terminations and residential uncollectibles. The JP also provides funding for additional customer service employees over the term of the Rate Plan.

The JP provides for a maximum total of $3.0 million or about 32 basis points of negative revenue adjustments across both electric and gas operations if the Service Quality metrics are not met. In addition, a positive revenue adjustment of

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[49] Id., §XVIII.

$925,000 or about 10 basis points is provided for exceeding goals relating to residential terminations and uncollectibles. As noted above, Central Hudson's residential termination practices were identified as one of the areas where the Company's practices should be improved; establishing this positive revenue adjustment should encourage the Company to reduce the number of residential terminations.

Earnings Adjustment Mechanisms[50]

The JP recommends adoption of various Earnings Adjustment Mechanisms (EAMs). The proposed electric EAMs are intended to provide the Company with incentives to: 1) increase electric system efficiency through peak reduction and distributed energy resource utilization; 2) increase achieved electric and gas energy efficiency; 3) reduce residential and commercial customers' electric energy intensity (total usage on a per customer basis); 4) increase residential customer participation in voluntary Time of Use rates; and 5) reduce carbon emissions through increased penetration of emissions-reducing technologies. The JP also recommends allowing the Company to petition for approval of Interconnection EAM targets. The Gas Energy Efficiency EAM is intended to incentivize the Company to achieve energy efficiency savings that are significantly above 37,296 dekatherms (Dth).[51]

Central Hudson has the potential to earn a maximum earnings adjustment of $2.0 million in 2018, $4.3 million in calendar year 2019, $4.7 million in calendar year 2020, and $4.9 million in calendar year 2021 for its electric business. With

50 Id., §XXI.

51 37,296 dekatherms (Dth) is the current net savings target for the gas ETIP.

respect to the gas business, Central Hudson has the potential to earn a maximum earnings adjustment of $0.18 million in 2018, $0.39 million in calendar year 2019, $0.44 million in calendar year 2020, and $0.47 million in calendar year 2021.[52] The financial consequences of EAMs will be excluded from the computations of actual regulatory earnings.[53]

Geothermal Rate Impact Credit[54]

The JP establishes a geothermal rebate or "rate impact credit" to facilitate installations of this emerging technology.[55] The credit will be funded by incremental heating usage that would be monetized and provided to non-participants through the RDM. To qualify for the annual $264 rate impact credit, a customer must have equipment that meets the requirements of the New York State Energy Research and Development Authority (NYSERDA) Geothermal Rebate Program, and the customer must enroll in Central Hudson's Insights+ offering.[56]

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[52] Hearing Exhibit 22, Joint Proposal, Appendix W lists all EAM targets and incentives.

[53] See Hearing Exhibit 22, Joint Proposal, p. 34.

[54] Id., §XXII.

[55] Following the development of a technology agnostic DER or mass market default rate or a rate that is specifically intended to mitigate the rate impact of geothermal heat pump systems, no further rate impact credit will be paid out. Such a rate is expected to be developed in Case 15-E-0751, In the Matter of the Value of Distributed Energy Resources.

[56] Insights+ is an offering provided on the CenHub Platform that allows customers the ability to enroll in a voluntary, subscription-based service that introduces enhancements to the current Insights experience. The program includes replacement of the customer's existing house meter with an Insights+ meter, enabling the customer to view hourly usage data.

Platform Service Revenues and Demonstration Projects[57]

Central Hudson's online self-service platform, CenHub, was developed by the Company as a REV demonstration project. On April 3, 2016, the CenHub Platform was made available to Central Hudson's customers and, as of December 31, 2017, 42% of Central Hudson's customers have engaged with the CenHub Platform. Upon issuance of this order, CenHub will no longer be considered a demonstration project, but rather will be funded through base rates, with the Platform Service Revenues (PSRs) it generates shared 80/20 between customers and the Company.[58]

Insights+ is an offering provided on the CenHub Platform. It has not been available to customers long enough to assess the value that it can provide to customers. As a result, it will continue as a demonstration project.

Miscellaneous Provisions

Among other provisions of the JP are the following:

1) Acknowledgement that JP terms may be subject to update arising out of generic Commission proceedings, including but not limited to (i) the REV Proceeding; (ii) Case 15-E-0751, In the Matter of the Value of Distributed Energy Resources; (iii) Case 18-M-0084, In the Matter of a Comprehensive Energy Efficiency Initiative; and (iv) Case 17-M-0815, Proceeding on Motion of the Commission on Changes in Law that May Affect Rates;[59] and

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[57] Hearing Exhibit 22, Joint Proposal, §XXIV.

[58] This PSR will be excluded from the calculation of the Company's regulatory earnings.

[59] Hearing Exhibit 22, Joint Proposal, §XXV.A.

2) A proposed process for how disputes regarding the interpretation of the JP or implementation of any of the provisions of the JP should be resolved.[60]

DISCUSSION

Based on our review of the JP and the evidence and arguments supplied by its proponents, we conclude that the JP meets the criteria set forth in the Commission's Settlement Guidelines,[61] such that its terms should be adopted and incorporated into a rate plan for Central Hudson for the next three years. We find that all procedural protections were afforded to all participants in the case, such that the parties had full notice and opportunity to make their views known in both the litigated and settlement tracks of the proceeding. The JP that has resulted from the settlement negotiations reflects compromises made by diverse and ordinarily adversarial parties with strong incentives to craft resolutions that addressed their various interests. It is a proposal that could reasonably be expected to result from litigation. However, as a rate plan developed by so many parties with specialized knowledge, we conclude that it is likely superior to the probable outcome of adversarial litigation. We find that the proposed rate plan reflects an appropriate balancing of ratepayer and shareholder interests, such that the rate increases are close to the minimum necessary to provide the Company with a fair return on its investment while enabling it to provide safe and adequate service and advance important State policy objectives. As such,

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60 Id., §XXV.F.

61 Cases 90-M-0255, et al., Procedures for Settlements and Stipulation Agreements, Opinion 92-2 (issued March 24, 1992) (Settlement Guidelines).

the resulting rates are just and reasonable, and in the public interest.

We find much in the JP that is laudable, and we highlight some of its more salient provisions below.

Revenue Increases/Term

We find that the three-year term of the rate plan is in the public interest because it provides customers and the Company with long-term delivery rate certainty and greater stability and ability to plan than would be possible in a one-year litigated case. The three-year term is described by MI as "a sweet spot" that provides the utility with increased revenue certainty and the ability to focus on operating as efficiently as possible without repeated forays into the rate-setting process, provides customers increased rate certainty, and allows utilities, customers, and regulators with the opportunity to avoid annual rate case litigation. Instead, it affords parties the ability to resolve certain issues creatively, in ways not often possible through litigation, including moderating near-term rate impacts over a longer period.[62] The three-year term agreed to in this JP indeed provides the benefits highlighted by MI. In addition, we note that an added benefit of three years is that it is long enough to justify the extensive commitment of time and resources that is required to craft such a comprehensive proposal but still short enough to likely avoid the greater risks of inaccuracy that would accompany the forecasts and projections that would have to be used in a longer-term plan.

The recommended $19.725 million electric delivery revenue increase for Rate Year 1 is substantially lower than the

[62] Statement of Multiple Intervenors in Support of JP (MI Statement), pp. 4-5.

Company's corrected and updated requested Rate Year 1 increase of $66.2 million. The electric revenue increases are driven mainly by increased capital investments and depreciation expense, the change from collecting $8.5 million of energy efficiency costs through base rates instead of via a surcharge, right-of-way maintenance (transmission and distribution), and information technology.

The recommended $6.7 million gas delivery revenue increase for Rate Year 1 is much lower than the Company's requested Rate Year 1 increase of $22.2 million. The gas delivery revenue increases are driven mainly by increased capital investments and depreciation expense, and increases in operational and maintenance expenses related to funding low income programs, the change from collecting $0.8 million of energy efficiency costs through base rates instead of via a surcharge, information technology, and site investigation and remediation costs.

The proposed electric and gas increases reflect adjustments to and compromises from the parties' litigation positions, including compromises between Staff and the Company on items such as the overall electric revenue and gas revenue levels, use of regulatory liabilities as moderators, and the recommended ROE and common equity ratios. MI views the electric and gas revenue requirements, the reflection of anticipated federal tax savings in those revenue requirements, the use of rate moderators and energy efficiency program cost recovery, among others, as some of the most important issues resolved by this JP.[63] UIU likewise highlights the beneficial impact that concessions by the Company on its requested ROE and equity ratio had on the revenue requirement levels. CLP notes that it argued against a rate increase and the JP proposes more modest increases.[64]

Staff states that the rate increases provided for under the JP are necessary to allow the Company to continue to provide safe, reliable, and affordable service and are driven, on the electric side, by increased capital spending and related depreciation expense and the transfer of energy efficiency expenses currently collected through a surcharge into base rates. Staff adds that while these drivers are not unique to Central Hudson, they are subject to inevitable increase and are difficult to control. We agree with Staff that the revenue levels agreed to in this JP are necessary to ensure that the Company has sufficient funding to provide safe and adequate service at just and reasonable rates. We find the revenue levels to be reasonable, especially in light of the Company's acknowledgement that the JP's lowered revenue requirements results in a rate plan that ensures it has adequate resources to fulfill its statutory obligation to provide safe, adequate, and reliable service, including providing the funding to increase

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[63] MI Statement, pp. 2, 4. MI notes that the electric service classes most relevant to it are (1) SC 3 (Large Power Primary Service) and (2) SC 13 (Large Power Substation and Transmission Service), while the gas service classes most relevant to its interests are (1) SC 9 (Interruptible Transportation Rate) and (2) SC 11 (Firm Transportation Rate – Core, subclasses (a) Transmission and (b) Distribution). The other issues that MI views as among the most important resolved by the JP signatories include the electric and gas revenue allocations and the electric and gas rate designs applicable to large nonresidential customers. Id., p. 2.

[64] Citizens for Local Power Statement on the Joint Proposal (CLP Statement), p. 3.

employee numbers to better serve its customers and handle increasing business complexities, modernize the electric and gas infrastructure, and enhance the Company's IT systems.[65]

We note that the proposed rate increases have been significantly mitigated because of lower federal income tax expense resulting from the recently enacted Tax Act, lower employee pension and OPEB costs because of pension fund gains and a change in accounting, and a decreased overall rate of return and other changes to rate base and have been moderated by the application of credits. Indeed, in support of the revenue requirements that are advocated in the JP, MI credits the "fortuitous timing of a substantial federal income tax reduction and the availability of tens of millions of dollars in regulatory liabilities (*i.e.*, deferred customer credits) for use as rate moderators" for helping to get the increases to a level that it could support, rather than oppose.[66] The Company, Staff, and MI acknowledge that the revenue requirement amounts set forth in the JP reflect material estimated federal income tax

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[65] Statement of Central Hudson Gas & Electric Corporation in Support of Joint Proposal (Company Statement), pp. 8-9, 11.

[66] MI Statement, p. 7. While MI supports the JP revenues requirements, it urges the Commission to reevaluate some of its policies and priorities and thereby help to "stem the tide of significant utility delivery rate increases that are threatening the ability of businesses and industries to remain competitive in New York State." MI Statement, pp. 5-6; see also MI Statement, p. 8.

reductions,[67] which they and others agreed to allocate 100% to customers, as fair, equitable, and in the public interest. MI adds that the capture of 100% of the estimated Tax Act savings for the benefit of customers in the form of lower delivery rates starting in Rate Year 1 was very important and indeed contributed to its decision to execute and support the JP.[68]

With respect to the proposed use of credits, we note that, by adopting Staff's recommendation to spread the regulatory credits over a three-year period instead of the Company's litigation recommendation to use all the credits to offset Rate Year 1 increases, the JP will provide rate mitigation both during and after the term of the rate plan.[69] The agreement regarding the use of credits garnered widespread support among the Signatory Parties. MI says that it strongly supported the negotiated return of $34.5 million of regulatory

[67] The JP proposes that the Company be "held harmless for any changes it is required to make due to the [Tax Act] and/or any state or local action resulting from the [Tax Act] and is authorized to defer the revenue requirement of any changes it is required to make due to the [Tax Act]." JP, p. 26. At the hearing, the Company explained that, due to time constraints, the parties had been able only to estimate the financial effects the Tax Act would have on the Company and the associated amounts to be allocated to the ratepayers. As such, the Company explained, the term "held harmless" was included in the JP to clarify that the Company would be able to defer the revenue requirement impacts not directly related to the Tax Act or other impacts that were unknown at the time the JP was executed. Evidentiary Hearing Transcript (Tr.), pp. 17-28.

[68] MI Statement, pp. 9-12.

[69] Staff acknowledges that the use of a bill credit to moderate electric rates in Rate Year 3 will force a small rate increase at the end of the Rate Plan's three-year term, but says that the impact is minimal and the rate moderators proposed under the JP do not use all projected available net regulatory liabilities, thus leaving a portion available for future offset use. Staff Statement, pp. 21-23.

liabilities to electric and gas customers, adding that the amounts settled upon provide substantial moderation of what otherwise would be considerably higher delivery rate impacts.[70] UIU similarly touts the proposed use of credits when it observes that the JP further cushions customer impacts by (1) spreading the revenue recovery over a three-year period and (2) allocating electric and gas bill credits to each service class as rate moderators, both of which help soften customer rate shock. Moreover, UIU adds that it supports the Company's passing back customer credits in a timely manner while reserving some customer credits to help mitigate future rate increase.[71] The JP's approach to the use of bill credits is another one of several of its recommendations that are evidence of a result that falls within a range of reasonable litigated outcomes and is supported by record evidence.

Almost all the public comments received in these proceedings voiced opposition to any rate increases. However, we find that the increases recommended in the JP are necessary as they provide sufficient revenues to allow Central Hudson to maintain and improve the provision of safe and reliable electric and gas service, at just and reasonable rates. Among other things, increases are needed to allow the Company to maintain and upgrade its electric and gas infrastructure and information systems, fund additional energy efficiency expenses, and significantly expand its low income customer discount programs. The use of customer credits to offset the increases will moderate the delivery rate impacts, providing some measure of rate relief for all customers. With such offsets, the total monthly bill for a typical residential customer will increase,

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[70] MI Statement, pp. 12-13.

[71] Utility Intervention Unit Statement in Support of the Joint Proposal (UIU Statement), pp. 3-4.

on average, by $1.46 (or 1.3%) for electric service and $2.54 (or 2.1%) for gas heating service in Rate Year 1. In addition, the numerous reconciliation provisions, along with the earnings sharing mechanism, will protect ratepayers to the extent there are variances between the estimated costs that comprise the revenue requirement and the Company's actual expenditures.

Staff was the only party to present a case in support of alternative overall revenue requirements. Ultimately the parties that engaged in the extensive negotiations that led to this JP agreed to the amount of the proposed increases that we are now approving. We find that the results of those negotiations are in the public interest and fall within the reasonable range of outcomes likely to result from litigation.

Cost of Capital

For Rate Year 1, the JP establishes rates based on a return on equity of 8.8% and a 48% common equity ratio for both Central Hudson's electric and gas businesses. The common equity ratio increases to 49% in Rate Year 2 and 50% in Rate Year 3. The foregoing provides the Company with an overall after-tax cost of capital of 6.44% in Rate Year 1, 6.49% in Rate Year 2, and 6.54% in Rate Year 3.

In its litigated case, Central Hudson initially sought a 9.5% ROE, which its ROE witness described as the low end of a 9.48% to 10.15% range of reasonableness.[72] The Company's witness derived her range of results by employing combinations of her low, mean and high Discount Cash Flow (DCF) analyses with her Capital Asset Pricing Model (CAPM) analyses and either weighting the two methodologies equally or two-thirds DCF to one-third

[72] Hearing Exhibit 1, Pre-filed direct testimony of Company Witness Buckley, p. 5.

CAPM.[73] The Company also requested a 50% common equity ratio.[74] In contrast, Staff's litigated position supported an 8.3% ROE.[75] Staff's position was rooted in the Commission's traditional weighting of two-thirds DCF to one-third CAPM results recently reaffirmed in our 2018 rate order for Niagara Mohawk Power Corporation.[76] Staff recommended a 48% common equity ratio.[77]

Central Hudson, MI, UIU, and Staff note that the proposed ROE and common equity ratios reflect a balancing of the concessions made by the Signatory Parties in the context of the financial and economic circumstances anticipated for Central Hudson during the JP's term.[78] UIU, for example, notes that the reduction in ROE from 9% to 8.8% reduces the electric and gas revenue requirements each of the three rate years, thus benefitting customers. In its support of the proposed 8.8% ROE and the increasing common equity ratios, Staff notes that these

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73 Id., pp. 3-5.

74 Id., p. 90.

75 Hearing Exhibit 16, Pre-filed direct testimony of Staff Finance Panel, pp. 9-10.

76 See Case 17-E-0238 and 17-G-0239, Niagara Mohawk Power Corporation – Rates, Order Adopting Terms of Joint Proposal and Establishing Electric and Gas Rate Plans (issued March 15, 2018), p. 37 (2018 Niagara Mohawk Rate Order).

77 Hearing Exhibit 16, Pre-filed direct testimony of Staff Finance Panel, pp. 9-10.

78 See, e.g., Company Statement, pp. 21-22; MI Statement, pp. 7-8; Staff Statement, p. 42; and UIU Statement, pp. 3-4. Central Hudson and UIU, for example, note that the Company's concessions regarding the reductions in its requested ROE (moving from 9.5% to 8.8%) and equity ratio (50% to 48% in Rate Year 1 and 49% in Rate Year 2) helped to reduce the electric and gas revenue requirements, while MI notes that its compromise on equity ratio should not be read as an intent to modify, or signal any movement away from, the Commission's longstanding practice of capping a utility's equity ratio for ratemaking purposes at 48% absent extenuating circumstances.

terms adequately recognize the increased financial risk and business risk that are inherent when setting rates over a multi-year period and the higher interest rate environment since its 8.3% recommended ROE determination.[79] These terms also recognize the pressure on the Company's financial metrics attributable to the Tax Act.

Regarding the 50 basis point difference between its 8.3% ROE recommendation and the JP's 8.8% ROE, Staff explained that, "as opposed to a single-year rate decision, the extended term of the JP inherently carries more financial risk as investors are subject to additional risk economic conditions will change and the actual cost of capital will increase during the three-year interim."[80] Staff adds that "because the JP also locks in forecasted amounts for numerous elements of expense for the three-year term of the JP, Central Hudson's business risk is also impacted by the potential that actual operating costs turn out to be greater than those forecasted."[81]

Staff also represents that current economic conditions indicate that the Commission's preferred ROE methodology would produce a higher ROE than the 8.3% ROE it recommended using data through September 2017. It notes that in September 2017, the yield requirements on 10-year and 30-year U.S. treasuries were 2.31% and 2.87%, respectively. When the JP was signed on April 18, 2018, those same yields had increased to 2.87% and 3.06%.[82]

In the most recent National Fuel Gas Distribution Company (NFG) rate order, the Commission reaffirmed the

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79 Staff Statement, p. 40.

80 Id., p. 41.

81 Id., pp. 41-42.

82 Id., p. 40.

principles underlying our long-standing methodology for calculating a reasonable return on equity for a rate plan, regardless of whether it is ordered on a settlement or litigated track.[83] Those elements consist of the application of DCF and CAPM analyses to a representative proxy group of utility companies; the use of a two-stage DCF computation with inputs derived from Value Line; the basing of CAPM results on an average of the outcome from standard and zero-beta models with a risk-free rate based on Treasury bonds, market risk premium provided by Merrill Lynch's Quantitative Profiles, and betas taken from Value Line; and the use of a 2/3 – 1/3 weighting of the DCF and CAPM results, respectively.[84]

We agree with Staff that that a return on equity that is higher than the one produced by our preferred methodology is reasonable in this case considering the added financial and business risk accepted by Central Hudson. Specifically, we find the JP's 8.8% ROE is reasonable as it is based on the application of our cost of equity methodology plus a rational premium to compensate investors for the additional risk that economic conditions could increase the cost of capital during the three-year rate plan as well as for the possibility that actual operating costs turn out to be greater than those forecasted by the JP. With respect to increases in the cost of capital, we note that an update of our preferred methodology is now 8.6%. This is evidence of the very real financial risk being borne by the Company as the soonest its rates may be adjusted to reflect increases in the cost of capital is July 1, 2021.

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[83] Case 16-G-0257, National Fuel Gas Distribution Corporation – Rates, Order Establishing Rates for Gas Service (issued April 20, 2017), pp. 53, 57 (2017 NFG Rate Order).

[84] Id., pp. 52-53.

We also find the ESM included in the JP to be reasonable. As we have previously stated, such mechanisms give the utility an incentive to cut costs during the rate plan. If the savings achieved are significant enough, customers will benefit during the rate plan. The higher sharing percentages as the ROE increases provide an important protection for customers against forecasted cost errors, especially in the later years of the rate plan. When rates are reset, customers will capture the full benefit of the cost-cutting going forward.

Turning to the 49% Rate Year 2 and 50% Rate Year 3 common equity ratios, Central Hudson and Staff state that the specific intent is to provide the Company with a reasonable opportunity to maintain its credit ratings within the "A" categories of the major credit ratings agencies.[85] In testimony, Central Hudson argued that a 50% common equity ratio was needed for it to be upgraded to an "A" rating from Standard & Poor's while Staff argued that increasing the Company's authorized common equity ratio from 48% to 50% was neither necessary or cost-effective. Subsequently, on December 22, 2017, the Tax Act was signed into law. For utilities, the cash flow ramifications that result from the Tax Act's provisions are largely viewed negatively by the major credit ratings agencies and according to the JP, the compromise common equity ratios contained in the JP acknowledge the change in Central Hudson's creditworthiness associated with the Tax Act.

According to Staff, the JP's use of a greater equity cushion over the next several years is warranted because the modest cost incurred to strengthen Central Hudson's balance sheet, and thereby materially enhance the Company's critical cash flow metrics, is a reasonable tradeoff considering the

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[85] Company Statement, pp. 21-22; Staff Statement, pp. 40-41.

potential costs to ratepayers should the Company's credit ratings fall out of the "A" ratings categories.[86] Central Hudson opines that the proposed equity ratios reflect a reasonable compromise between the litigated positions of it and Staff.[87]

Given the degree of uncertainty regarding the ultimate impact of the Tax Act on the Company's creditworthiness, we find the JP's use of higher common equity ratios in Rate Year 2 and Rate Year 3 to be a responsible and reasonable measure to forestall, or at least diminish, the prospect of higher future borrowing costs attributable to a diminution in Central Hudson's creditworthiness over the next several years. As Staff points out, the Company could face higher borrowing costs of approximately $5 to $10 million on a net present value basis with a one-notch downgrade, while the added cost of the thicker common equity layer, in terms of revenue requirement, is about $1 million in Rate Year 1 and $2 million in Rate Year 2.[88] In sum, while each utility will have different circumstances, the parties to this JP have adequately demonstrated the reasonableness of bolstering Central Hudson's ratemaking common equity ratio in the short run during the rate plan to counter the near-term negative impacts of the Tax Act.

IT Upgrades

The JP includes enhancements to the Company's IT that will allow it to modernize its systems and meet increasing customer, regulatory, and business demands. One such project is the planned modernization of the Company's Customer Information System (CIS), which is more than 35 years old. The pursuit of this project is consistent with the high priority placed on IT

86 Staff Statement, p. 41.

87 Company Statement, pp. 21-22.

88 Staff Statement, p. 41.

modernization by the Commission in the most recent management audit of Central Hudson.[89]

The JP's new reporting requirements related to IT projects, set forth in JP Appendix P and summarized earlier in this order, will help to ensure accountability and transparency. We find that the provision of funding that will permit the Company to prioritize IT capital projects, especially when coupled with these new reporting requirements, is in the public interest and should be approved.

Training Center and Primary Control Center Projects

In its initial testimony, Central Hudson proposed to construct a Training Center that would allow it to educate its changing workforce in a safe and controlled environment that simulates real-life field conditions. The Company asserted that the Training Center would benefit customers by allowing Central Hudson to conduct drills with first responders; provide training on pipeline operation and maintenance in response to changes in gas safety regulations; and conduct electric progression training under simulated conditions, thereby no longer requiring the Company to take equipment out of service to conduct such training. Central Hudson contended that the Training Center's goal was to ensure that Central Hudson continues to provide safe and reliable service. The Training Center was proposed to be a multi-year, dual-phase project, estimated to cost about $32.5 million dollars, with an in-service date of January 2021.[90]

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[89] Case 16-M-0001, In the Matter of a Comprehensive Management and Operations Audit of Central Hudson Gas & Electric Corporation, Order Releasing Audit Report (issued October 24, 2017).

[90] See Hearing Exhibit 1, Pre-filed testimony of Central Hudson's Training and Development Panel (TDP) and Exhibit, TDP-3.

Central Hudson also proposed to construct a new, more modern Transmission and Distribution Primary Control Center, co-located with the Training Center. The Company stated that the current control center is too small and lacks the technology needed to support the Distribution Management System, a system that will allow remote control monitoring of the electric distribution system.[91] The Company proposed to spend about $2.2 million in 2018 and $1.7 in 2019 on the Primary Control Center.[92]

In its pre-filed testimony, Staff agreed that the centers were needed, stating, among other things, that a centralized training center with classrooms equipped with computers, IT support, Internet, site security protocols, and hands-on equipment, would provide more efficient and effective training programs for Company employees and contractor personnel, including training capable of keeping pace with the increased training requirements for pipeline operation and maintenance. Staff stated that, since the proposed Training Center would provide value to ratepayers, the provision of training at the proposed facility to both Company personnel and non-Company personnel (e.g., qualified contractors performing work for the utility and first responders) is appropriately ratepayer funded.

Staff asserted that the need for additional training could reasonably be expected as requirements pertaining to work performed on electric and gas facilities are expected to be expanded in the near term. However, given its concerns that the Company had not yet purchased land or finalized the permitting process, Staff stated that the Company's proposed timeline was

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91 See Hearing Exhibit 1, Pre-filed Testimony of Central Hudson's Distributed System Platform Panel.

92 See Hearing Exhibit 1, Pre-filed Exhibits of Central Hudson's Training and Development Panel, TDP-3.

too aggressive and the scope and final cost of the Training Center might be excessive. With respect to the proposed Primary Control Center, Staff noted that under the Company's proposed timeline, it would not be in service until 2021. As a result, Staff recommended that the Company meet with Staff quarterly regarding both Projects; file annual progress reports on both Projects with the Commission; and not be given full symmetrical deferral of all Primary Control Center expense items. Staff also recommended the disallowance of proposed 2018 and 2019 capital budget amounts associated with the Primary Control Center.[93]

As noted in the summary of the JP, *supra*, the Joint Proposal outlines a process that requires the Company to provide information about the scope of and timeline for the Projects, and then provide periodic major milestone reports thereafter. Under the JP, the Company would be allowed to develop the Projects, subject to approval, delay, or cancellation of such deployment and implementation by either the Director of the Office of Electric, Gas, and Water or by the Commission.

The Company and Staff have persuasively demonstrated, due to emerging technologies and changing safety standards and workforce, that the Company needs a centralized approach to training that offers hands-on and scenario-based training opportunities for Central Hudson employees, outside contractors (such as tree trimming contractors and LPP contractors), municipal agencies (e.g., Department of Public Works, first responders, etc.) and mutual aid crews, to ensure that the Company continues to provide customers with safe and reliable service. They also have convincingly established that the

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93 Hearing Exhibit 16, Pre-filed Testimony of Staff Training Panel, pp. 13-15.

Primary Control Center will ensure that Central Hudson retains the ability to monitor and control its distribution system.

We find that the process outlined in the JP, with one additional requirement, will facilitate the development of the proposed Training Center and Primary Control Center and a utility workforce with necessary skills to consistently, efficiently, and effectively construct and maintain the safety, adequacy, and reliability of the electric and gas facilities and systems used to provide electric and gas service to Central Hudson customers. While the JP requires Staff and the Company to meet and discuss the major performance milestones timeline within 60 days of the filing of the Initial Report and provides for a Commission ruling if mutual agreement cannot be reached, the Company is hereby not authorized to make any capital expenditures on the Training Center and Primary Control Center prior to receiving approval of the Initial Report and major performance milestones timeline from the Director of the Office of Electric, Gas, and Water, upon consultation with the Commissioners at the direction of the Chair. We also caution that the Training Center should be dedicated to the betterment of the workforce and be designed for the necessary functions the workforce performs and not for unnecessary or duplicative objectives that could be reasonably performed elsewhere. In addition, we note that one near-term focus should be on improving and meeting operator qualifications and meeting gas safety requirements. By defining the scope, major performance milestones, and associated checkpoints; allowing for the establishment of a specific time for meeting clear, readily measured indicators that show functional capabilities as well as operational integration; and defining a method to implement and document the Projects' checkpoint compliance, review, and approval process, the process supports careful and considered planning by the Company and ensures periodic review by the Staff. By expressly making the continuation of the Projects' development and implementation subject to potential alteration or cancellation by the Director of the Office of Electric, Gas, and Water, in consultation with the Commissioners at the direction of the Chair, or by the Commission itself, the process we are approving should help ensure that the concerns about the cost and scope of the centers are appropriately balanced against need for training and for a qualified and capable utility workforce.[94] Moreover, by this Order, we are limiting the amount of plant in service for the Projects to the proposed $5 million. Any additional amounts will be authorized only by future Commission approval. With these additional requirements, the gradual and considered development of these Projects as outlined in the JP reflects a reasonable compromise and is in the public interest.

Low Income Programs

Changes to the Company's current Low Income Program, called the Enhanced Powerful Opportunity Program (EPOP), are required to satisfy program modifications established in the Commission's generic low income proceeding.[95] The Low Income Order established a policy to limit energy costs for low income households to no more than six percent of household income and adopted a default methodology for setting tiered discount levels

[94] It is our understanding that the Rate Year 2 and Rate Year 3 revenue requirements include a total of $5 million in funding for the development of the proposed centers. The Company and Staff testified that this amount reflects the levels of plant in service assumed in the Rate Year 2 and Rate Year 3 revenue requirements, adding that this amount is intended to fund the acquisition of land and the construction of the proposed gas village. Tr. 38-39.

[95] Case 14-M-0565, supra, Low Income Order and Low Income Rehearing Order.

that vary based on the level of need. The Low Income Order also established a funding limit such that the utility's total budget may not exceed two percent of total electric or gas revenues for sales to end-use customers. Pursuant to the Low Income Order, on September 16, 2016, Central Hudson filed a Low Income Program Implementation Plan with the Commission, which approved the plan with modifications on February 17, 2017.[96]

The Company's current EPOP has three components: a bill discount, arrears forgiveness, and a reconnection fee waiver. The Company's initial testimony indicated that it stopped accepting enrollments into EPOP on April 15, 2017, and, beginning on or about November 15, 2017, EPOP would be replaced with its new Low Income Bill Discount Program in accordance with the Implementation Plan, as modified by the Implementation Order. Low income customers are eligible for the Low Income Bill Discount Program if they receive HEAP benefits for their electric, gas, or other fuel services. The new Low Income Bill Discount Program will have the following components: monthly low income bill discounts; automatic enrollment in Budget Billing, with an opt-out option; and reconnection fee waivers.

The JP proposes significant incremental funding for the new Low Income Bill Discount Program: $8.612 million in Rate Year 1 ($5.727 million for electric and $2.885 million for gas); $11.015 million in Rate Year 2 ($7.325 million for electric and $3.690 million for gas); and $12.018 million in Rate Year 3 ($7.992 million for electric and $4.026 million for gas). These funding levels will result in bill discounts for electric heating and non-heat customers of between $19 and $39 per month, gas heating customers of between $30 and $50 per

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[96] Case 14-M-0565, supra, Order Approving Implementation Plans with Modifications (issued February 17, 2017) (Implementation Order).

month, and gas non-heating customers of $3 per month.[97] These discounts are much greater than the current monthly discounts of $5.50 for non-heating gas and non-heating electric customers, $17.50 for electric heating customers, $5.50 for gas heating customers, $23 for heating customers utilizing both electric and gas, and $11 for non-heating customers utilizing both electric and gas.[98]

The Company will phase out the arrears forgiveness aspect of EPOP during Rate Year 2. However, Central Hudson will maintain the arrears forgiveness component of the EPOP program for customers who were EPOP participants for so long as they continue to qualify for the program and/or until they have completed the arrears forgiveness component. Given that the arrears forgiveness program under EPOP provided a benefit for 36 months, the last EPOP customer is expected to exit the program in or about March 2020. The total costs associated with the arrears forgiveness component of EPOP are forecasted to be $142,000 in Rate Year 1 and $6,000 in Rate Year 2. These amounts fall well under the amount approved in the Implementation Order, which was $260,482 per year.

The Low Income Order provides utilities with the option to charge or waive reconnection fees for low income customers. The JP proposes continuing Central Hudson's Reconnection Fee Waiver Program, with an increased allowance of

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[97] Hearing Exhibit 1, Pre-filed direct testimony of Central Hudson's Low Income Panel, p. 7, Table 1. The discounts will be calculated according to the eligibility criteria described in the Low Income Order. Hearing Exhibit 16, Pre-filed direct testimony of Staff's Consumer Policy Panel, p. 16.

[98] Hearing Exhibit 16, Pre-filed direct testimony of Staff's Consumer Policy Panel, p. 9.

$51,000 for each Rate Year.[99] This funding level is within the permissible budget total established in the Low Income Order, and will permit the Company to offer eligible low income customers a one-time waiver of the reconnection fee.[100]

The JP proposes that the Company will defer Low Income Bill Discount program costs in excess of the proposed amounts for future recovery from ratepayers, as authorized by the Low Income Order, and it will defer under-expenditures for future use to support low income programs. Symmetrical deferred accounting is proposed for costs associated with the arrears forgiveness phase-out and the Reconnection Fee Waiver Program. In addition, the Low Income Bill Discount Program will undergo annual adjustments to account for changes in enrollment projections, average bill amounts, and State Median Income levels that underlie HEAP income eligibility limits.

Finally, the JP requires the Company to update and improve its customer service Integrated Voice Response (IVR) messaging system to include information about the new Low Income Program, including the availability of and requirements for eligibility for the program.[101]

The Company states that the proposed Low Income Program is consistent with the Low Income Order and will serve nearly 25,000 customers by the end of Rate Year 3. It states that the provision for the automatic enrollment of eligible customers in the Budget Billing Program serves the public interest by offering those customers levelized bills. The

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[99] Current allowance for this program is $35,000 annually. Id., p. 22.

[100] The Company's reconnection fees currently range from $20 to $100. Hearing Exhibit 1, Pre-filed direct testimony of Central Hudson's Low Income Panel, p. 12.

[101] Hearing Exhibit 22, Joint Proposal, p. 59.

Company believes that the levelized bills will protect those customers from the rate shock associated with price spikes resulting from periods of high energy consumption. In addition, the Company believes that the proposed enhancements to its IVR system will provide customers with greater transparency regarding payment options, which will reduce the number of service terminations for customers in arrears. The Company adds that the planned phase-out of the arrears forgiveness program is reasonable given the overall increase in funding and customer outreach associated with the new Low Income program.

Staff comments that the funding levels for the new Low Income Program will provide eligible low income customers with reductions in their monthly bills of between 17% and 65%.[102] Staff reports that the Signatory Parties all agreed that the Company should replace its existing low income customer program with the proposed new program. According to Staff, the new Low Income Program complies with the Implementation Order, and the annual rate allowances comply with Commission directives to cap the budget for the program at 2% of sales revenue.

PULP adds that it supports this new Low Income Program given that the program will serve more customers and receive greater funding than the previous program and, thus, better serve the public interest.[103]

We agree that the JP's proposal to implement the new Low Income Discount Program as approved by the Implementation Order is reasonable. It is estimated that Central Hudson's new Low Income Program ultimately will serve nearly 25,000 customers, which is approximately three times the number of customers currently being served under the EPOP. We previously

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[102] Staff Statement, p. 9.

[103] PULP Statement in Support of JP, pp. 6-7.

have recognized there is a significant energy "affordability gap,"[104] and the proposed program considers the projected increased customer participation and discount levels sufficient for participating customers to keep their energy burden at or below 6% of the household income. Central Hudson's new Low Income Program follows the structure for low income programs established in the Low Income Order and Rehearing Order, which resulted from an extensive process designed to carefully balance the interests of low income customers, other customers, and the utilities.

Vegetation Management

Generally, the purpose of funding for Central Hudson's vegetation management programs is to minimize customer outages caused by trees and tree limbs coming into contact with overhead power lines. The Company's transmission right-of-way (ROW) vegetation management program consists of routine ROW maintenance, including vegetation trimming, danger tree removal, and ROW edge reclamation. The Company's main distribution ROW maintenance activity is scheduled on- and off-road line clearance, which work is performed on a four-year cycle. The JP proposes funding levels for Central Hudson's ROW maintenance programs for both transmission and distribution lines that are increased above those levels established in the prior rate order.

In its initial filing, the Company proposed a distribution ROW vegetation management program budget of $25.57 million for Rate Year 1, which included $11.50 million in incremental funding for its line clearance cycle, reinstatement of the Enhanced Line Clearance Program, and a new activity to mitigate the impacts of the Emerald Ash Borer. Staff agreed

[104] Low Income Order, supra, pp. 4, 8.

with the Company that the Emerald Ash Borer was causing unprecedented tree-related risks. Staff nevertheless recommended downward adjustments to aspects of the Company's proposed distribution ROW vegetation management program, resulting in a recommended rate allowance of $19.59 million in Rate Year 1. Staff specifically recommended that the Enhanced Line Clearance Program not be allocated any funds since, if the work proposed under the other aspects of the Company's ROW maintenance programs were completed, reliability performance gains comparable to those proposed in the Enhanced Line Clearance Program would be achieved.[105]

The JP follows Staff's recommendations for funding the Company's distribution line ROW clearance program at $19.59 million in Rate Year 1, $20.00 million in Rate Year 2, and $20.419 million in Rate Year 3, for a total of $60.01 million.[106] The variance between the figures proposed in the JP and the Company's initial request is due to the elimination of the proposed incremental line clearance miles associated with the Company's on- and off-road line clearance and the re-funding of the Enhanced Line Clearance Program.

As for its transmission ROW vegetation management program, the Company initially proposed a budget of $2.45 million for Rate Year 1. The Company later filed supplemental testimony proposing to increase the Rate Year request to $4.77

105 Hearing Exhibit 16, Pre-filed direct testimony of Staff's Vegetation Management Panel, pp. 25-27.

106 Hearing Exhibit 22, Joint Proposal, Appendix A, Schedule 1.

million, an increase of approximately $2.3 million.[107] Central Hudson claimed that the increased request related to its need to perform work that was not completed within the 2015 Rate Plan budget. Staff recommended downward adjustments to Central Hudson's transmission ROW maintenance budget to $2.25 million.[108] In rebuttal, the Company proposed $3.5 million to address time-sensitive backlog work.

The JP proposes to accept the Company's figure offered in rebuttal for Rate Year 1, and proposes $2.9 million in Rate Year 2 and $2.61 million in Rate Year 3.

Finally, the JP proposes that the allowances now will be subject to an annual reconciliation, which will permit the Company to have more flexibility by allowing specified dollar amounts to be used as necessary in different Rate Years.[109] Specifically, the JP proposes that the Company may defer funds from under-spending on vegetation management in Rate Year 1 for use in Rate Year 2 and from under-spending in Rate Year 2 for use in Rate Year 3. For distribution ROW vegetation management,

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[107] See Case 17-E-0250, Petition of Central Hudson, Order Denying, in Part, Deferral Accounting and Recovery of Additional Distribution and Transmission Vegetation Management Funds and Relief from the 2016 Frequency Performance Metric (issued September 18, 2017). Central Hudson had petitioned the Commission for additional funding to implement a targeted distribution danger tree program, as well as additional funding for transmission ROW maintenance. The Commission denied the Company's request for an additional $1.9 million in incremental funding for transmission ROW maintenance, finding that, unlike with distribution ROW maintenance, which had been affected by the rapid migration of the Emerald Ash Borer, there were no unforeseen circumstances that affected the Company's transmission ROW maintenance.

[108] Hearing Exhibit 16, Pre-filed direct testimony of Staff's Vegetation Management Panel, pp. 8-14.

[109] Hearing Exhibit 22, Joint Proposal, p. 18.

the amount that can be deferred is capped at $1 million, and for distribution ROW maintenance the amount is capped at $500,000. In Rate Year 3, if the Company underspends the Rate Year 3 allowance and any other previously deferred funds, all the underspent funds will be deferred for ratepayer benefit.

Similarly, the Company may defer overspending from one rate year to the next, thereby reducing the next rate year allowance. The same deferral caps are applicable. If Central Hudson overspends in Rate Year 3, all overspending will be absorbed by the Company, with no deferral.

The Company says that the reconciliation method proposed in the JP will provide it with flexibility between Rate Years, but also provides ratepayers with protection by proposing a downward-only deferral mechanism at the end of Rate Year 3. The Company explains that this asymmetrical deferral will benefit customers by safeguarding them from any overspending by the Company and prevent the Company from benefitting if it underspends.

Staff says that the vegetation management funding levels proposed in the JP will allow Central Hudson to improve reliability by reducing tree-related outages on distribution and transmission lines. Staff agrees with the Company that the Emerald Ash Borer is causing significant tree-related risks and that the Company must proactively address the threat.

An aggressive vegetation management program designed to decrease tree-related outages and thereby improve reliability is of critical importance. The funding levels proposed in the JP strike a fair compromise between the respective budgets initially proposed by the Company and Staff. The Commission recognizes the effect the Emerald Ash Borer and other invasive species have on trees within Central Hudson's territory and believes that the level of funding provided for in the JP, as well as the new policy permitting annual reconciliation, will provide the Company with the necessary funds and flexibility to effectively implement its vegetation management programs, thereby preserving electric system reliability for customers.

Geothermal Rate Impact Credit

The JP proposes that, within its Carbon Reduction Program (CRP), Central Hudson will develop a Geothermal Rate Impact Credit program in collaboration with NYSERDA. The rate impact credit, which is proposed to be $264, would be paid to participating residential customers annually, by June 30 of each year. The credit was calculated by comparing the additional delivery revenue that the Company would receive from the incremental energy use during the heating season of the geothermal heat pump under the current rate design, to what those revenues would be under a more cost reflective rate design. This difference, for an averaged size geothermal system in the Company's territory results in $264. In order to qualify for the credit, customers must install equipment that meets the requirements of NYSERDA's Geothermal Rebate Program. In addition, the JP proposes that the participating customer be required to enroll in Central Hudson's Insights+ program.[110]

The JP proposes funding the Geothermal Rate Impact Credit through an expense component of the electric RDM. Specifically, Geothermal Rate Impact Credits paid to customers

[110] Insights+ is a subscription-based, demonstration project that Central Hudson began offering on its CenHub Platform in June 2017. Central Hudson currently offers the subscription at a subsidized cost of $4.00/month. The subsidization will end once Insights+ no longer qualifies as a demonstration project. However, since Insights+ has not been available for a sufficient period-of-time to evaluate its value to customers, the program will remain a demonstration project following the issuance of this Order. Hearing Exhibit 22, Joint Proposal, pp. 73, 75.

taking service under SCs 1 and 6 will be subtracted from Actual Delivery revenue in the month that they are incurred prior to the monthly comparison of Actual Delivery Revenue to the Delivery Revenue Target.[111] The JP further proposes that, while the rate impact credit will not be included in the CRP funding cap, any necessary customer outreach, education, or implementation funding will be included.

The Company states that this proposal is in the public interest as it promotes geothermal systems, which are both environmentally and customer-friendly in that they are emissions-free and energy-efficient systems.

NY-GEO, CLP, and Bob Wyman also all generally support the Geothermal Rate Impact Credit and consider it a step forward in helping ratepayers adopt more energy-efficient alternatives to fossil fuels, thereby reducing carbon and other greenhouse gas emissions in the State.

The reduction of carbon emissions is a primary goal of New York State's Energy Policy. The Geothermal Rate Impact Credit will assist in reducing the upfront cost of investment in this energy-efficient alternative to the carbon-intensive heating and cooling methods currently utilized by many of Central Hudson's customers. In addition, by pairing the credit with NYSERDA's Geothermal Rebate Program, Central Hudson's program will assist customers in choosing and identifying quality equipment and contractors. Furthermore, funding of the credit is provided by the increased delivery revenue associated with the incremental electric usage during the heating season that the geothermal system customer will provide. This rebate recognizes the benefits that additional off-peak energy usage can provide to the system at the same time as not increasing the

[111] Hearing Exhibit 22, Joint Proposal, p. 42.

system peak and therefore costs. This program will provide encouragement to customers to adopt this emerging, environmentally beneficial technology, which, in turn, will help the customers reduce their total energy bill and, at the same time, help the State meet its ambitious energy efficiency and carbon reduction goals.

CenHub

CenHub is the Company's website and portal where customers can engage by learning about their energy consumption to help them make decisions about their usage. Beginning as a REV demonstration project, over 40% of the Company's residential customers are now enrolled in the platform and the Joint Proposal includes provisions to fund the platform through base rates. This platform will allow for the seamless provision of information, decision making and access to incentives and rebates for a host of energy efficient products and services. Overall, this platform will increase the Company's effectiveness in delivering energy efficiency programs and have a positive impact on reducing customer bills.

Energy Efficiency

Central Hudson originally proposed an ETIP annual budget, including evaluation, measurement, and verification (EM&V) and administrative costs, of approximately $8,479,345 for electric and $837,356 for gas. Staff recommended that the Company increase its annual ETIP funding for electric to $9,772,740 and for gas to $1,182,179.[112] Staff also recommended in its testimony a downward-only reconciliation of the Company's actual expenditures, to be conducted cumulatively every three years, as well as recovery of the electricity energy efficiency

[112] Hearing Exhibit 16, Pre-filed direct testimony of Staff Markets & Innovation and Energy Efficiency Panel, p. 12.

program costs between individual service classifications on an energy basis to ensure revenue-neutral cost allocation.[113]

The JP adopts Staff's proposed funding levels for each rate year, resulting in totals for the yearly energy efficiency budgets that are approximately 15 percent larger for electric and 40 percent larger for gas. As of July 1, 2018, these amounts will be collected in each rate year through base rates, as Staff had proposed in its testimony, rather than through the energy efficiency tracker surcharge portion of the SBC. This shift is consistent with Commission policy because it promotes a more comprehensive approach to energy efficiency, which can be combined with peak-reduction and system-efficiency activities, as cohesive components of the Company's core business.

The electric ETIP cost allocation will be based on 87.3% Energy and 12.7% Coincident Peak Demand. The gas allocation will reflect the residential (SCs 1 and 12) and non-residential (SCs 2, 6, 11 and 13) cost recovery responsibility split of 86.7% and 13.3%, respectively, currently applied to the ETIP amounts authorized for recovery in Case 15-M-0252 (Matter of Utility Energy Efficiency Programs). These costs will be carefully allocated in accordance with the JP provisions, so that some customers will remain exempt from responsibility for these costs in the same way that they enjoyed exemption from costs under the Energy Efficiency Tracker (EE Tracker).

In addition, the JP proposes that the Company be allowed to defer any over- or underspending for the period July 1, 2018, through June 30, 2021. At December 31, 2021, any net cumulative under expenditures will be deferred by the Company for funding future energy efficiency programs, but any over-spending will be absorbed by the Company. During the

[113] Id., pp. 14-15.

period of the rate plan, the Company still will be required to file ETIPs, however, which eventually will become a more comprehensive System Energy Efficiency Plan.

Along with the increased budgets, the JP proposes a 40% increase of the Company's current ETIP targets for energy efficiency programs, with corresponding EAM incentives for achieving or exceeding those targets, all of which will result in significant electric and gas savings. As proposed in the JP, the Company must achieve electric energy efficiency net savings of 47,936 MWh per year in the calendar years 2018 through 2021, and gas energy efficiency savings of 52,214 Dth per year in the same period.[114] The Energy Efficiency EAM targets for electric and gas should be converted to gross MWh and gross MMBtu targets, respectively, for electric and gas to be consistent with the Order issued on March 15, 2018 in Case 15-M-0252.[115] Therefore, the minimum gross MWh target for electric energy efficiency savings is 53,262 MWh and the minimum gross MMBtu target for gas is 58,016 MMBtu. The revised 2018 through 2021 minimum, midpoint, and maximum energy efficiency EAM targets for both electric and gas are reflected in the Appendix W Revised Sheets 9 and 10 of 13 which are appended to this order as Attachment 3.

In addition, under the JP, Central Hudson will implement a moderate income electric efficiency offering in Rate Year 2. The JP requires the Company to collaborate with NYSERDA and convene a stakeholder meeting by December 31, 2018, to receive input on this program.

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[114] Hearing Exhibit 22, Joint Proposal, Appendix W, Sheets 9 and 10 of 13.

[115] Case 15-M-0252, In the Matter of Utility Energy Efficiency Programs, Order Authorizing Utility-Administered Energy Efficiency Portfolio Budgets and Targets for 2019-2020 (issued March 15, 2018).

In support of the JP, Staff notes that the Company originally had been opposed to the change in its recovery of energy efficiency program costs through base rates, but that the Company ultimately agreed to Staff's proposal. According to Staff, this change in recovery method will not affect customers' overall energy bills because no matter how the costs are recovered, the Company is not authorized to exceed the energy efficiency portfolio budgets set by the Commission. Staff also highlights the provision of the JP that provides for a downward-only reconciliation of ETIP costs over the term of the rate plan.

CLP says the JP represents important progress toward strengthening Central Hudson's energy efficiency savings targets. CLP notes that the savings targets for 2018 initially proposed by the Company were nearly 25% lower than the value established in its ETIP, and only half of the level of reduction the Company achieved in 2016.[116] CLP opines that increasing energy efficiency is a cost-effective way to reduce carbon emissions and ultimately will result in savings for ratepayers.

For its part, Pace states that it supports the targets, because the targets initially proposed by Central Hudson were not sufficiently ambitious. According to Pace, because the targets in the JP are more aggressive than those initially proposed in the Company's ETIP, they do more to promote REV goals.[117] Pace also supports the moderate income energy efficiency offering, stating that such program will extend energy efficiency benefits to a broader range of

[116] CLP Statement, p. 5.

[117] Statement of Pace Energy and Climate Center in Support of JP (Pace Statement), pp. 11-13.

customers, and the stakeholder process will allow Pace and other parties to actively participate in developing the program.[118]

We agree that the JP recommends a reasonable program of energy efficiency budgets and targets. They greatly improve upon the targets initially contemplated by Central Hudson, thereby providing strong incentives to achieve more aggressive energy savings. In that respect alone, they comport with our stated policies specifically and the public interest generally. Importantly, the significant increases in the historic levels of the Company's electric and gas energy efficiency targets are coupled with only a modest increase in the budgets. These modest budget increases can be accommodated reasonably within an overall rate plan that balances the need for energy efficiency against affordability concerns.

While we find that the budgets and targets are reasonable based on current information and policies, we do note that this issue could be re-examined and reopened as it relates to the joint Department of Public Service-NYSERDA comprehensive energy efficiency White Paper, New Efficiency: New York, that was filed in April, 2018 in response to the Governor's State of the State Address.[119] The JP specifically contemplates the reopening of the rate plan we establish here to accommodate the outcome of generic proceedings such as that considering issues related to energy efficiency targets and policy.

Earnings Adjustment Mechanisms

As noted above, EAMs are proposed in the JP as a tool to incentivize actions by the Company and its customers to

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[118] Id., pp. 13-14.

[119] On February 8, 2018, a new case (Case 18-M-0084, In the Matter of a Comprehensive Energy Efficiency Initiative) was started to consider the issues related to energy efficiency targets and policy.

improve the efficiency of the electric and gas systems and of customers' electric and gas usage, to promote development of the market for distributed energy resources, and to shift usage to cleaner technologies.[120] All these actions advance State policies to reduce emissions of greenhouse gases and other pollutants while improving the reliability and resiliency of our energy infrastructure.

Under the JP, the Company would adopt EAMs for its electric and gas businesses starting January 1, 2018, with the EAMs to be measured on a calendar year basis. The JP proposes five electric EAMs, comprised of a total of seven metrics, and one gas EAM, comprised of one metric. Each metric would contain targets set at minimum, midpoint, and maximum performance levels that generally would become more stringent each calendar year. The Company will earn a pre-tax earnings adjustment on a prorated basis for performance between the minimum and midpoint performance levels, and between the midpoint and maximum performance levels. Central Hudson has the potential to earn a maximum earnings adjustment of $2.0 million in 2018, $4.3 million in calendar year 2019, $4.7 million in calendar year 2020, and $4.9 million in calendar year 2021 for its electric business. For its gas business, Central Hudson has the potential to earn a maximum earnings adjustment of $0.18 million in 2018, $0.39 million in calendar year 2019, $0.44 million in calendar year 2020, and $0.47 million in calendar year 2021. All EAM targets and incentives are set forth in JP Appendix W.

The five proposed electric EAMs are System Efficiency, Electric Energy Efficiency, Customer Engagement, Environmentally

[120] EAMs were proposed as a ratemaking tool in Case 14-M-0101, Reforming the Energy Vision, Order Adopting a Ratemaking and Utility Revenue Model Policy Framework (issued May 19, 2016) (REV Track Two Order).

Beneficial Electrification, and Interconnection. The System Efficiency EAM is composed of two metrics – Peak Reduction and DER Utilization. The Peak Reduction metric would incentivize Central Hudson to reduce its New York State Independent System Operator (NYISO) Zone G-J Locality peak. The DER Utilization EAM metric incentivizes Central Hudson to work with third parties to expand the use of DER resources including large solar, combined heat and power, standalone or behind the meter electric energy storage resources, and fuel cells in Central Hudson's service territory.

The Energy Efficiency EAM is composed of three metrics: (1) Electric Energy Efficiency; (2) Residential Electric Energy Intensity; and (3) Commercial Electric Energy Intensity.[121] The Electric Energy Efficiency EAM incentivizes the Company to achieve energy efficiency savings in calendar years 2018 through 2021 that are significantly above its annual savings target of 34,240 MWh. It will be measured as the sum of MWh savings from all of Central Hudson's administered electric ETIP Energy Efficiency Programs, including behavioral programs, which may be utilized to achieve MWh targets. As a precondition to earning the incentive associated with this metric, the Estimated Useful Life (EUL) of the Company's ETIP portfolio must be at least 90% of the current weighted average EUL for New York State utilities, and earnings related to this metric will be prorated between this level and the Company's historic EUL. The Electric Energy Efficiency EAM is subject to change pursuant to

[121] An Outreach and Education budget for the Electric Energy Intensity Metric is included in rates as indicated in JP Appendix A.

a Commission determination in the Energy Efficiency Proceeding.[122]

The Residential Electric Energy Intensity EAM and the Commercial Electric Energy Intensity EAM will incentivize Central Hudson to reduce residential (SCs 1 and 6) and commercial (SC 2 non-demand) customers' total usage on a per customer basis. The Customer Engagement EAM incentivizes the Company to increase residential customer participation in Voluntary Time of Use (VTOU) rates.

The Environmentally Beneficial Electrification EAM incentivizes the Company to reduce carbon emissions by facilitating greater penetration of technologies that utilize electricity and reduce carbon emissions relative to traditional technologies that rely on more carbon intensive fuel sources. Examples of these technologies include geothermal heating and cooling, air source heat pumps for heating and cooling, and electric vehicles. It will be measured as the lifetime short tons of avoided carbon dioxide from environmentally beneficial electrification technologies as identified in the Company's Carbon Reduction Implementation Plan, which will be filed within 30 days of the issuance of this order.

Finally, the Company may petition the Commission for approval of metrics and targets consistent with a future Commission order regarding the Interconnection EAM Metric in Case 16-M-0429.[123] The Company will reserve 1 basis point minimum, 2.5 basis points midpoint, and 5 basis points at maximum for interconnection-related EAMs.

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[122] Hearing Exhibit 22, Joint Proposal, p. 68; see also Appendix W, Sheets 3-4.

[123] Case 16-M-0429, In the Matter of Earnings Adjustment Mechanism and Scorecard Reforms Supporting the Commission's Reforming the Energy Vision.

The Gas Energy Efficiency EAM will incentivize the Company to achieve energy efficiency savings that are significantly above 37,296 dekatherms (Dth).[124] It will be measured as the sum of Dth savings from all Central Hudson's administered gas ETIP Energy Efficiency Programs. As a precondition to earning the incentive associated with this metric, the EUL of the Company's ETIP portfolio must be at least 90% of its historic EUL for Central Hudson's Gas ETIP portfolio, and earnings related to this metric will be prorated between this level and the Company's historic EUL. Like its electric counterpart, the Gas Energy Efficiency EAM is subject to change pursuant to a Commission determination in the Energy Efficiency Proceeding.

The JP provides that the incentives associated with Electric EAMs will be recovered through the Miscellaneous Charges EAM Factor, which will be a component of the Company's Energy Cost Adjustment Mechanism. Recovery will be over a 12-month period commencing with the first billing batch in July following the EAM measurement period. Recovery will be on a kWh basis for non-demand customers and on a kW basis for demand customers, with rates determined for each service classification or sub-classification based on the aggregate results of the following allocation methodologies: (1) Peak Reduction EAM, allocated using the transmission demand allocator; (2) Energy Efficiency, Energy Intensity and Environmentally Beneficial Electrification EAMs, allocated using the energy allocator; and (3) DER Utilization EAM, allocated using three allocators which will be equally weighted (coincident peak, non-coincident peak, and energy allocator). These rates will be applied to the energy (kWh) or demand (kW) deliveries, as applicable, on the

[124] 37,296 dekatherms (Dth) is the current net savings target for the gas ETIP.

bills of all customers served under SCs 1, 2, 3, 5, 6, 8, 9, 13, and 14. Customers taking service under SC 14 will be billed the rate applicable to their parent service classification, which is the service classification that the customer would otherwise qualify for based on the customer's usage characteristics.

Recoveries (11 months actual, one month forecasted) will be reconciled to allocable costs for each 12-month recovery period ending June 30, with any over or under recoveries included in the development of succeeding Miscellaneous Charges EAM Factors. Reconciliation amounts related to the one-month forecast will be included in the next subsequent rates determination.

For billing purposes, recovery for non-demand customers will be included in Miscellaneous Charges, with the combined amount shown as one line item on customer bills. Cost recovery for demand customers will be through Miscellaneous Charges II, a separate line item on customer bills.

Incentives associated with Gas EAM will be recovered through the new Gas Miscellaneous Charge mechanism. Recovery will be over a 12-month period commencing in July, and will be on a Ccf basis with a uniform factor developed, based on forecast Ccf over the respective recovery period, and applied to all deliveries on the bills of all customers served under SCs 1, 2, 6, 11, 12, 13, 15 and 16. Recoveries (11 months actual, one month forecast) will be reconciled to allocable costs for each 12-month recovery period ending June 30, with any over or under recoveries included in the development of succeeding Miscellaneous Charges EAM Factors. Reconciliation amounts related to the forecast versus actuals for the final month of the rate plan will be included in the next rate determination.[125]

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[125] Hearing Exhibit 22, Joint Proposal Appendix W, Sheets 12 and 13.

MI notes that Central Hudson will have an opportunity to earn EAMs, funded by customer surcharges, that could cost electric and gas customers almost $17.4 million over the three-and-one-half year period they are proposed to be in effect, if Central Hudson achieves the prescribed maximum performance levels. While MI states its disagreement with the concept of positive-only EAMs for utility shareholders and expresses skepticism that their implementation will provide customers with net benefits that could not have been achieved at a substantially lower potential cost or no cost, it states that, given the Commission's current policies requiring the funding of EAMs, the specific EAMs set forth in the JP are acceptable to it.[126]

Pace submits that the JP's proposed EAMs adequately reflect REV principles and other State policies aimed at reducing energy usage and integrating DERs into the grid and are highly beneficial to customers and the environment.[127] Pace states that the EAM targets for electric and gas energy efficiency energy are greater than historical levels and may be increased when the Commission acts on Staff's Earth Day Energy Efficiency Proposal.

Noting its opposition to funding the expansion of the natural gas system, Pace contends that the JP proposal concerning the Environmentally Beneficial Electrification EAM is superior to the Company's original proposal because it no longer includes gas conversions as a metric.[128] Pace supports the System Efficiency EAM targets, stating that reducing system peaks is very important because peak demand drives many capital

[126] MI Statement, pp. 21-22.

[127] Pace Statement, pp. 11-16.

[128] CLP also supports the elimination of gas expansion proposals. CLP Statement, p. 4.

improvements, transmission and distribution investments, and system costs, and that generation used only during peak periods is associated with higher rates of marginal pollutant emissions. Finally, Pace notes that the DER utilization metric provides incentives for increased DER penetration, which will be highly beneficial to customers and the environment.

Among other things, NY-GEO and Bob Wyman express support for the reduction of gas expansion that is reflected in the JP and for the funding that is being made available for both electrical energy efficiency and beneficial electrification.[129]

The Company states that the agreed-to EAMs reasonably balance the competing interests of shareholders and customers, as well as environmental concerns, to establish new incentives that will increase the Company's existing efforts to promote energy efficiency and the integration of new clean energy technologies. It notes that System Efficiency EAM reflects various compromise positions between the Company, Staff, and the parties, while the Customer Engagement EAM reflects compromises between the litigating positions of it and Staff. It contends that the EAMs should be adopted without modification.[130]

Staff asserts that the JP’s EAM provisions balance shareholder, customer, environmental, and public interests to establish new incentive mechanisms that will align the Company’s business activities with New York State energy and climate policy goals. Staff adds that the EAMs will support energy efficiency programs that will integrate new clean energy technologies from emerging markets. Staff also adds that the proposed EAMs are within the range of outcomes advocated in the parties’ initial and rebuttal testimony. Staff concludes that

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[129] NY-GEO (letter of) support for the Joint Proposal; Statement in Support of Joint Settlement Proposal, pp. 4-5.

[130] Company Statement, pp. 46-52.

the EAM proposals are reasonable, in the public interest, and should be adopted.[131]

We find that the proposed incentives are appropriately set at amounts that will encourage the Company to satisfy EAM target levels. We acknowledge the important balance struck by the JP signatories between the objective to incentivize Company behavior using ratepayer funds and the need to minimize increases in rates, and we recognize that this is the first time that Central Hudson will be operating under EAMs. Based on the experience gained during this rate plan, the Commission can review the appropriateness of the incentive amounts in the Company's next rate case. However, for now, we agree with the JP signatories that the EAM targets and mechanisms established in these proceedings will advance important State policy objectives and goals and are in the public interest, and therefore should be adopted as proposed in the JP.

Natural Gas Safety and Reliability

The JP advances natural gas safety and reliability and reduces its environmental impact in several important ways. First, it continues the replacement of leak prone infrastructure and accelerates the repair of non-hazardous leaks. One way this is accomplished is through a new positive revenue adjustment related to leak repair. When added to the program focused on increased adoption by residential customers of methane detection technology, natural gas leaks and the resulting greenhouse gas emissions will be significantly reduced.

The Company is being encouraged through this JP to pursue non-pipes alternatives to meet demand for heating fuels. One way is through the incentives focused on geothermal heating and cooling, mentioned above, but the Company has also committed

[131] Staff Statement, pp. 84-91.

to pursue additional natural gas efficiency, demand response programs, and will issue an RFP focused on non-pipes alternatives that can displace traditional infrastructure projects. When combined with the reductions in methane leakage, the programs that seek to replace natural gas usage with other means of providing space heating or reducing fuel consumption will help ensure the transition to lower carbon energy markets in New York State.

Customer and Minimum Charges

In its litigated case, the Company recommended increasing the electric customer charge and the gas minimum charge so they would be closer to the embedded costs of service.[132] Staff acknowledged that the Company's proposed changes to the residential electric customer charges were cost-based. Staff recommended keeping the electric customer charges and gas residential minimum charge at current levels, pending a determination in the VDER proceeding as to how they should be changed to better achieve New York's energy policy goals.[133] UIU, PULP, CLP, Bard College, and Pace recommended reducing such charges.[134] Pace also recommended that the Company be directed

[132] Hearing Exhibit 1, Pre-filed direct testimony of the Central Hudson's Forecasting and Rates Panel, pp. 54, 58. See also Company Statement, pp. 25-27.

[133] Hearing Exhibit 16, Pre-filed direct testimony of Staff Electric Rates Panel, p. 23, and Pre-filed direct testimony of the Staff Gas Rates Panel, pp. 44-45.

[134] Hearing Exhibit 14, Pre-filed direct testimony of UIU Rate Panel, pp. 20-21; Hearing Exhibit 10, Pre-filed direct testimony of PULP Witness Yates, p. 8; Hearing Exhibit 18, Pre-filed direct testimony of CLP Witness Metzger, p. 21; and Hearing Exhibit 21, Pre-filed direct testimony of Bard College Reliability, Affordability and Sustainability Panel, p. 21.

to prepare a new model for classifying customer costs and calculating customer and minimum charges.[135]

The proposed residential customer and minimum charge amounts, which are a reduction from the current amounts, are the product of compromise between the litigation positions of the Company, Staff, Pace, Acadia Center,[136] UIU, PULP, and CLP. They are recommended as a means of garnering support from some Signatory Parties and some non-signatory parties. We approve them but note that such proposals will not take precedence over any subsequent Commission order that is applicable to Central Hudson and to the design of its rates.[137]

Management and Operations Audit Compliance

Upon the application of a gas or electric corporation for a major change in rates, Public Service Law (PSL) §66(19)(c) requires that the Commission review the corporation's compliance with the directions and recommendations made previously by the Commission as a result of the most recently completed management and operations audit. Staff addressed the

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135 Hearing Exhibit 7, Pre-filed direct testimony of Pace Witness Rábago, pp. 10-11. See also Pace Statement, pp. 3-5.

136 Acadia Center supports the JP because it reduces the residential electric customer charges. Statement in Support of Joint Proposal by Acadia Center, pp. 3-8.

137 The JP expressly notes that these reductions are not intended to set statewide policy or take precedence over any subsequent Commission order applicable to Central Hudson regarding rate design. See Hearing Exhibit 22, Joint Proposal, p. 37.

most recently completed management and operations audits of Central Hudson in its testimony in this case.[138]

In 2009, the Commission instituted a comprehensive management and operations review of Central Hudson's gas and electric businesses, with a specific focus on the Company's construction program planning processes and operational efficiency.[139] On February 11, 2010, the Commission approved the selection of NorthStar Consulting Group (NorthStar) to perform the audit. On May 20, 2011, the Commission issued its "Order Directing the Submission of an Audit Implementation Plan" to address the recommendations for improvement that were provided in NorthStar's final audit report, publicly published the same day. The Company filed its audit implementation plan on July 1, 2011. In an audit closeout letter, dated February 24, 2016, Staff stated that all the recommendations from the audit had been satisfactorily implemented.

Because audits must be performed every five years, in 2016, the Commission instituted a comprehensive management and operations review of Central Hudson's gas and electric businesses that, like the 2009 audit, also focused on the

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[138] See Hearing Exhibit 23, Lavery Affidavit and Pre-filed direct testimony of Staff Witness Lavery. Witness Lavery also provided testimony concerning the status of the audits in Case 13-M-0314, Review of Reliability and Customer Service Systems of NYS Gas and Electric Utilities (instituted July 16, 2013) (Data Audit) and Case 13-M-0449, Operations Audit of Major Utility Internal Staffing Levels and Use of Contractors for Selected Core Functions (Staffing Audit). We approved the implementation plans for the Data Audit on March 10, 2017, and the Staffing Audit on December 15, 2017. The Company currently is in the implementation stage with respect to the recommendations from those audits.

[139] Case 09-M-0764, Comprehensive Management and Operations Audit of Central Hudson Gas and Electric Corporation's Electric and Gas Businesses, Letter to Carl Meyer (dated November 12, 2009).

Company's construction program planning processes and operational efficiency.[140] On July 14, 2016, the Commission approved the selection of Overland Consulting Inc. (Overland) to perform the audit. Overland's final audit report was issued by the Commission on October 24, 2017. Initial and updated implementation plans were filed by the Company on November 17 and December 14, 2017. We note that the Company has begun implementing some of the Overland audit recommendations.

Pursuant to PSL § 66(19), we find that Central Hudson is currently in compliance with the directions and recommendations made in the most recently completed management and operations audits.

Other Miscellaneous Provisions

There are several other areas agreed to by the Signatory Parties, including, but not limited to, the continuation of existing electric and gas economic development fund programs; elimination of per-transaction fees associated with payment centers and payment of utility bills by credit/debit card; training for Company customer service representatives; and the implementation of electronic deferred payment agreements. These provisions demonstrate the comprehensive nature of the JP as the parties have resolved numerous complex rate and policy issues, while providing the Company's customers with some measure of rate predictability for at least three years.

Section XXV, subsections B, C, D, E, H, I, and J, of the JP do not require our adoption. There are no disputes about any of these terms but this rate plan need not and should not

[140] Case 16-M-0001, In the Matter of a Comprehensive Management and Operations Audit of Central Hudson Gas & Electric Corporation, Letter to James P. Laurito (dated March 17, 2016).

include terms that govern the relationship among the parties. Our decision not to adopt such provisions does not indicate or imply that such terms are not important, it merely reflects that they are unnecessary for this rate plan.

Future REV-Based Initiatives

The Commission notes that the JP was filed while several REV-related proceedings continue to make progress. The Company may and is encouraged to petition the Commission for approval of REV-based initiatives that advance goals established in this rate case at improved economics, and especially so if the Company has identified opportunities for shared savings. Under REV, New York seeks to lower the costs and speed of the achievement of the State's policy goals through accelerating the deployment at scale of solutions that create the most economic value for both consumers and the State's energy system, drawing on innovation and investment from all sectors.

The Company has untapped potential to work with innovative third parties to develop alternative solutions to achieve the results committed to by the Company in this proceeding at lower ratepayer expense, at a faster rate, or both. These solutions can take the form of technology or deployment alternatives that are more optimal for specific locations or other utility needs, or business model alternatives that yield additional savings or produce additional revenues, in both cases yielding economics which can be shared among customers, the innovative provider, and the Company.

Mechanisms for such shared savings/benefits can take the form of the EAMs identified in this JP for specified outcomes, a non-wires alternative sharing mechanism, sharing of platform service revenues, or future shared savings/benefits constructs designed for specific opportunities and approved by the Commission. The Commission requires the Company to actively continue and expand its work with third parties to identify opportunities for such solutions, to develop them as warranted, and to bring them forward to the Department and/or the Commission as needed. Such third parties are likely to be customers, providing payment to the Company for valuable services rendered by the Company, as well as providers who receive payment from the Company for valuable services rendered to the Company. The Commission recognizes that achieving such benefits from third parties may require the Company to enter into long-term contracts. As these contracts would represent long-term financial liabilities, the Commission will require the Company to demonstrate long-term net savings or benefit structures that would support entering into the contract. The Commission specifically encourages the Company to bring forward shared savings/benefits approaches to compensation as an alternative or complement to traditional cost recovery or rate-based approaches.

Given the State's policy objectives, especially promising opportunities for such solutions include (but are not limited to):

- AMI, which offers the potential for alternative business models that can generate revenues to the Company;
- Data provision, including system and usage data (subject to necessary protections), to enable third parties to develop novel and economic solutions to Company needs;
- Energy efficiency, which offers the potential for market-based solutions to reduce the cost of achieving energy savings or to offset those costs by revenues or savings elsewhere in the energy system;
- Low and moderate income focused initiatives, which can provide benefits to the energy system through strategic

deployment of distributed resources or energy efficiency in locations or against time-windows where the energy system faces constraints;

- Non-wire alternatives and non-pipe alternatives, explored as a universal practice as an alternative to traditional investments that meet the Company's predefined NWA suitability criteria;
- Grid modernization, including the use of technology to deliver reliability and system functionality at the best economics for ratepayers;
- Supply cost reduction, where novel approaches deliver savings in commodity and capacity payments; and
- Operating cost reduction, where novel approaches deliver savings in asset utilization, in operations expenditures, or in administrative/central expenditures.

Across all of these opportunities, the Company is encouraged to develop processes that invite and consider proposals that address proposer-identified opportunities (consistent with stated system needs) and whose solution would provide economic value as described above.

CONCLUSION

We conclude from our review of the record that the JP terms that we are adopting appropriately and reasonably balance the interests of ratepayers and the Company. The JP provides sufficient funding, via modest rate increases, that will allow Central Hudson to maintain safe and reliable service and attract the capital needed to ensure the Company's long-term viability, while mitigating the ratepayer impact by using credits and by taking other steps that moderate bill impacts. The execution of the JP by several parties with diverse and often adverse interests demonstrates the parties' diligent efforts to address and resolve the outstanding issues in a comprehensive and practical fashion. Finally, the terms of the JP evidence its consistency with our environmental, social and economic policies and those of the State. In consideration of the foregoing, we find that the terms of the JP are in the public interest, and we adopt the majority of them as a rate plan for Central Hudson.

The Commission orders:

1. The rates, terms, conditions, and provisions of the Joint Proposal dated and filed April 18, 2018, in these proceedings and attached hereto as Attachment 1, except for Section IV, subsection F; and Section XXV, subsections B, C, D, E, H, I, and J; are adopted and incorporated herein.

2. Central Hudson Gas & Electric Corporation is directed to file cancellation supplements, effective on not less than one day's notice, on or before June 21, 2018, cancelling the tariff amendments and supplements listed in Attachment 2.

3. Central Hudson Gas & Electric Corporation is authorized to file, on not less than one day's notice, to take effect on July 1, 2018, on a temporary basis, such tariff changes as are necessary to effectuate the terms of this Order for the rates in the rate year beginning July 1, 2018, including tariff changes necessary to effectuate removal of the EE Tracker surcharge component of the System Benefit Charge, and to incorporate any tariff amendments that were previously approved by the Commission since the tariff amendments listed on Attachment 2 were filed.

4. Central Hudson Gas & Electric Corporation shall serve copies of its filings on all active parties to these proceedings. Any party wishing to comment on the tariff amendments may do so by filing its comments with the Secretary

to the Commission and serving its comments upon all active parties within ten days of service of the tariff amendments. The amendments specified in the compliance filings shall not become effective on a permanent basis until approved by the Commission and will be subject to refund if any showing is made that the revisions are not in compliance with this Order.

5. On December 21, 2017, Central Hudson Gas & Electric Corporation consented to extend the suspension period through and including July 24, 2018. On January 24, 2018, Central Hudson Gas & Electric Corporation consented to an extension of the suspension period through and including August 23, 2018. On February 20, 2018, and March 23, 2018, Central Hudson Gas & Electric Corporation consented to an extension of the suspension period through and including September 22, 2018 and October 22, 2018, respectively. Because this order is made within the suspension period to and including June 24, 2018, the request for a make-whole (set forth in JP Section IV, subsection F) is dismissed as moot.

6. Central Hudson Gas & Electric Corporation is directed to file tariff changes in 2019 and 2020 to effectuate the rates for Rate Year 2 and for Rate Year 3. The Rate Year 2 changes shall be filed on not less than 30 days' notice to be effective on a temporary basis on July 1, 2019. The Rate Year 3 changes shall be filed on not less than 30 days' notice to be effective on a temporary basis on July 1, 2020.

7. The requirement of the Public Service Law §66(12)(b) and 16 NYCRR 720-8.1 that newspaper publication be completed prior to the effective date of the amendments for Rate Year 1 are waived and Central Hudson Gas & Electric Corporation is directed to file with the Secretary to the Commission, no later than six weeks following the effective date of the amendments, proof that a notice to the public of the changes set

forth in the amendments and their effective date had been published once a week for four consecutive weeks in one or more newspapers having general circulation in the service territory. The requirements of Public Service Law §66(12)(b) and 16 NYCRR 720-8.1 are not waived with respect to Rate Year 2 and Rate Year 3.

8. In the Secretary's sole discretion, the deadlines set forth in this order may be extended. Any request for an extension must be in writing, must include a justification for the extension, and must be filed at least one day prior to the affected deadline.

9. The proceedings in Cases 17-E-0459 and 17-G-0460 are continued.

By the Commission,

(SIGNED) KATHLEEN H. BURGESS
Secretary