



Central Hudson Gas & Electric Corp.
Technical Conference
Cases 20-E-0428 and 20-G-0429

October 6, 2020

People. Power. Possibilities.

Central Hudson

A FORTIS COMPANY



Agenda

- **Response to Covid-19**
- **Rate Filing Overview**
- **Revenue Requirement**
- **Customer Bill Impacts**
- **Forecasting & Rate Design**

- **Modernizing our Core Infrastructure**
- **Financial Integrity**
- **Electric Reliability & Vegetation Management**
- **Gas Safety**
- **Customer Experience**
- **Climate & Energy Leadership**

10 Minute Break

Rate Filing Overview

Policy Panel

Central Hudson is Committed to Serving our Customers and the Environment. We will continue to deliver electricity and natural gas in a safe and reliable manner while addressing evolving customer expectations, and advancing New York's climate goals within the CLCPA.

- **To Achieve our Commitments we need to invest in:**
 - Modernize our Infrastructure
 - Advancing Climate and Energy Leadership
 - Improving System Resiliency
 - Enhancing Customer Experience
 - Building the Workforce of the Future

We will continue to support our customers, employees, and communities as they deal with the COVID-19 Pandemic and will continue to support the economic recovery.

Current Response to COVID-19 Pandemic

- **Suspended Collection Activities**
- **Waived Finance Charges**
- **Proactively Reaching Out to Customers**
 - Making alternate payment arrangements
 - Providing information on other available assistance programs
- **Postponed RY3 Rate Increase**
- **Kept Rate Adjustment Mechanism at RY2 Levels**
- **Committed up to \$1 million of Economic Development to provide relief to local small businesses through our Back to Business program**
- **Accelerated spending within the Company's Energy Efficiency programs to offer free lighting and refrigeration upgrades for small businesses**

2020 Rate Filing Overview

Policy Panel

- **Current 3-year Rate Plan ends June 30, 2021**
- **Filed August 27, 2020 for New Rates Effective July 1, 2021**
 - Filed for a one-year case;
 - Utilizing Historic Year ending March 31, 2020
- **Provided Information for Additional 2 Rate Years**
 - RY2: July 1, 2022 – June 30, 2023
 - RY3: July 1, 2023 – June 30, 2024

Customer Bill Mitigation

Policy Panel

- **Response to Covid-19 in Filing**

- Delayed projects to lower Rate Year CAPEX By \$48M
- Filing reflects a 9.1% ROE
 - Well below our Cost of Capital expert's "range of reasonableness"
- Incremental O&M reduction of \$2.3M

- **Other Mitigation**

- Pension and OPEB
- Longer recovery period for MGP expenditures
- Expansion of Low Income Bill Discount eligibility criteria

Revenue Requirement Drivers

Revenue Requirement Panel

	Electric		Gas	
	(\$ Millions)	% Increase	(\$ Millions)	% Increase
Capital Expenditures / Rate Base Growth	\$15.9	49%	\$9.4	65%
Vegetation Management	9.1	28%	N/A	N/A
Labor	7.1	22%	2.3	16%
Property Taxes	1.8	6%	3.6	25%
Heat Pumps	4.0	12%	N/A	N/A
Sales Moderation	(15.9)	(49%)	(0.1)	(1%)
All Other				
Pensions & OPEBS	(5.8)	(18%)	(2.2)	(15%)
IT & Call Volume Overflow	4.9	15%	1.2	8%
Storm Reserve & Storm Restoration	4.7	14%	N/A	N/A
(TCJA) Unprotected Asset Amort.	1.4	4%	0.3	2%
Other	<u>5.6</u>	<u>17%</u>	<u>(0.1)</u>	<u>0%</u>
Total Increase	<u>\$32.8</u>	<u>100%</u>	<u>\$14.4</u>	<u>100%</u>

Available Bill Moderators / Use of Moderators

Policy Panel

Available Moderators:

- ~\$20 million Electric and ~\$8 million Gas
- ~\$32 million Electric Rate Base Credit
- ~\$30 million of Excess Deferred Income Taxes

Use of Moderators:

	Electric	Gas
12 ME 6/30/22	\$32.8	\$14.4
Moderation	(\$20.0)	(\$8.0)
Net 12 ME 6/30/22	\$12.8	\$6.4

Electric: Annual Residential Bill Impacts

Forecasting & Rates Panel

	\$ Annual Bill Impact	% Delivery Bill Impact	% Total Bill Impact
Increase (Before Moderation)	\$93	9.4%	6.2%
Increase (After Moderation)	\$42	4.3%	2.8%

- **Average residential customer with a typical annual bill of ~\$1,500**
- **\$20 million moderation applied to \$32.8 million increase**

Gas: Annual Residential Bill Impacts

Forecasting & Rates Panel

	\$ Annual Bill Impact	% Delivery Bill Impact	% Total Bill Impact
Increase (Before Moderation)	\$113	10.1%	8.0%
Increase (After Moderation)	\$39	3.5%	2.8%

- **Average residential customer with a typical annual bill of ~\$1,400**
- **\$8 million moderation applied to \$14.4 million increase**

Cost of Service

Cost of Service Panel

- **Historic Embedded**
- **Historic Delivery only**
- **Rate Year Proforma**
- **Marginal**
- **Other Considerations**
 - Avoided Transmission and Distribution Cost Study filed in Case 16-M-0411
 - Electric Allocated Embedded Cost of Service Study pending in Case 15-E-0751

Forecasting

Forecasting & Rates Panel

- **Customer and sales forecast methodologies generally the same as in prior cases**
 - Econometric, time series or trend projections
 - Assumptions for PV, EVs and heat pumps
 - Continue to utilize 10-year normal weather

Revenue Allocation

Forecasting & Rates Panel

- **Electric**

- SC 8 street lighting and SC 9 traffic signals received 75% of system average increase
- SC 13 received 125% of system average increase
- All other classes received system average increase

- **Gas**

- SC 11 Distribution received 125% system average increase
- All other classes received system average increase

- **Energy Efficiency and Heat Pumps**

- EE program costs allocation continuing from prior Rate Order
 - Electric: 87.3% energy / 12.7% coincident peak demand
 - Gas: 61.6% to residential / 38.4% to non-residential
- Heat pump program costs included in base revenue allocation

Electric Rate Design

Forecasting & Rates Panel

- **Customer Charge**

- Maintained current customer charge Residential (SCs 1, 6) and non-demand (SC 2 non-demand) mass market classes
- Maintained current customer charge SC 2 secondary demand, SC 13 substation
- Increases for SC 2 primary demand, SC 3, SC 13 transmission

- **Area and Street Lighting**

- Rates indexed based on results of lighting study

Gas Rate Design

Forecasting & Rates Panel

- **Customer Charge**

- Maintained current customer charge for Residential (SCs 1, 12) and Non-residential (SCs 2, 6 & 13)
- Increases for SC 11

- **Elimination of Declining Block Rates**

- Flat volumetric rate for all usage over 2 Ccf

Revenue Decoupling Mechanisms

Forecasting & Rates Panel

- **Expand RDM to Include:**
 - Electric SC 13 Substation & Transmission
 - Gas SC 11 Transmission, Distribution & DLM
- **Change in Structure of Gas RDM:**
 - Revenue per customer model changed to revenue per class model

10 Minute Break

Capital Expenditures

Capital Plan Panel

Rate Year Capital Expenditures of \$280 million

- **Electric: \$122 million**

- Modernization of infrastructure due to age/condition
- Enablement of DSP to facilitate increasing levels of DER

- **Gas: \$63 million**

- Continuation of 15 miles/year of LPP elimination

- **Common: \$95 million**

- Modernization of IT infrastructure:
- Training Facilities to improve safety and knowledge transfer
- Primary Control Center required to centralize monitoring and control of distribution and transmission systems

Modernization of Core IT Systems

Enterprise Resource Planning Panel

- **ERP Transformation**

- Phase I: HRIS system (Complete)
- Phase II: CIS (In progress)
- Phase III: Finance & EWAM (Proposed)

- **Phase III: Finance & EWAM**

- Addresses risks associated with increasingly complex system design, restrictive Cybersecurity features and Disaster Recovery capabilities
- Retires 40 year old Mainframe
- Provides business process efficiencies while leveraging economies of scale

Capital Expenditures Comparison

Capital Plan Panel

Rate Filing (Additions & Removals)	<u>RY1</u>	<u>5-Year Total</u>
Electric	\$121.9	\$671.9
Gas	63.3	315.1
Common	<u>95.2</u>	<u>384.9</u>
Corporate Total	<u>\$280.4</u>	<u>\$1,371.9</u>

Business Plan (Additions & Removals)	<u>RY1</u>	<u>5-Year Total</u>
Electric	\$145.3	\$700.8
Gas	66.1	317.0
Common	<u>117.5</u>	<u>384.1</u>
Corporate Total	<u>\$328.9</u>	<u>\$1,401.9</u>

Financial Integrity

- **Maintaining Access to Capital at Reasonable Rates**
 - Necessary to allow the continued provision of safe and reliable service during all market conditions
 - Access to Capital is tied to Credit Rating
- **Supports Credit Rating of “A”**
 - Cost of Debt is reflective of current Credit Rating
 - Low cost of debt reduces bill pressure long into the future
- **Impact on Credit Rating**
 - Higher projected Cash Requirements (CapEx / Tax Reform)
 - New York Regulatory Uncertainty
- **Credit Rating Support**
 - Maintaining Capital structure of 50% Equity / 50% Debt
 - 9.1% ROE

Electric Reliability & Vegetation Management

Electric Reliability & Vegetation Management Panel

- **Funding Requirements to Execute:**

- 4-Year Distribution trimming cycle
- 5-Year Transmission trimming cycle
- Storm Hardening Plan / Danger Tree Removal

- **SAIFI / CAIDI**

- Targets remain at 2020 levels
- Symmetrical NRA/PRA with performance based linear scale

Staffing, Compensation & Benefits

Witness S. McGinnis

- **49 Positions added during rate year in support of State Policy goals and modernization of Company's infrastructure**
 - IT systems modernization
 - Electric & Gas Infrastructure replacement initiatives
 - DSP enablement
 - DER Interconnections

Employee Training, Development and Safety Panel

- **Shift to centralized comprehensive instructor led training from reliance on on-the-job training**
 - Improves Employee Safety
 - Driven by changing demographics and fast paced changes in the industry

Gas Safety Panel

- **Continuation of 15 Miles of LPP Elimination**
- **Use of Existing NRA Balances for NYPERI & PSMS Initiatives**
- **New or Modified NRA/PRA Proposals**
 - Total Leak Backlog (continuing NRA/new PRA)
 - Repairable Leak Backlog (reduce NRA target / new PRA)
 - Transmission Mainline Recompression (New PRA)
 - LPP Elimination (discontinue PRA)
 - First Responder Training (New PRA)
 - Damage Prevention (penalty/incentive levels)

Customer Experience Panel

- **Expansion of Low Income Bill Discount Program Eligibility**
- **Modernize Customer Interactions**
 - IVR Replacement/Enhancement
 - Web & Mobile self service
- **Call Answer Rate Alternative Pilot**
- **NRA/PRA Proposal**
 - Reset lower bad debt threshold (Service Terminations/Uncollectibles)
- **Bad Debt Deferral**

Climate and Energy Leadership Panel

- **Geothermal District Energy Loop**
- **DER Integration Resources**
- **CDG Interconnection Proposal**
- **EV Infrastructure Programs**
- **RNG Pilots / Studies**
 - RNG Supply
 - RNG distribution system interconnected project proposal
- **Non Pipes Alternatives**

Earnings Adjustment Mechanisms Panel

- **Total Incentives = 100 bps**
- **New / Modified EAMs**
 - Energy Efficiency (Electric & Gas)
 - LMI Energy Efficiency (Electric & Gas)
 - Heat Pump
 - Consumer Product Electrification
 - EV Infrastructure
- **Continuing EAMs**
 - Energy Intensity
 - DER Utilization
 - Peak Reduction
 - Customer Engagement
- **Load Factor (reporting only)**

Economic Development Panel

- **Current Economic Development Funding will be exhausted**
- **Establish rate allowance with symmetrical deferral of costs**
- **Renewed focus on expanding and supporting manufacturing**
 - Manufacturing supports higher employee salaries
 - Increases business diversity in the Hudson Valley economy
 - Improves ability to source needed supplies locally
 - Supported by Out of Alignment study
- **New Programs**
 - Manufacturing building and infrastructure program
 - Manufacturing productivity program
 - Expansion and retention for manufacturers
 - Supply chain study

Poughkeepsie North Water Street MGP Remediation

Site Investigation and Remediation Panel

- **Alternative “Means & Method”, Hydraulic Dredging, to be pilot tested in 4th Qtr. 2020 to remove impacted sediment from the Hudson River;**
- **If proven successful, fully implement DEC approved removal of impacted sediment in 2021- 2023;**
- **Once completed, all of the former Central Hudson MGP sites will have been remediated.**

Accounting & Tax Panel

- **Depreciation Based on 2017 Study, Updated for 2020 Study**
- **New Deferrals**
 - *COVID-19*
 - *Covid-19 Net Incremental Expenses*
 - *Finance Charge Revenue*
 - *Uncollectible Expenses*
 - *Clean Energy Policy*
 - *Overarching CLCPA deferral*
 - *Renewable Natural Gas Pilot*
 - *Geothermal District Energy Loop*
 - *Heat Pump program*
 - *EV Infrastructure*
 - *Tax Policy*
 - *Tax on Health Insurance*
 - *Unemployment Insurance PR tax impact*
 - *Natural Gas*
 - *Gas Planning Proceeding*
 - *Use of Gas NRA balances*
 - *Gas Transmission Pipeline Safety Final Rule*
 - *FERC Jurisdictional Proceeding Hydro Generation*

Questions