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February 9, 2004

Honorable Magalie Roman Salas  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, D.C. 20426

**Re: Central Hudson Gas & Electric Corporation  
Standards of Conduct Informational Filing  
TS04-\_\_\_\_\_**

Dear Secretary Salas:

Pursuant to the Commission's November 25, 2003 order adopting standards of conduct that apply uniformly to Transmission Providers and the Commission's orders providing guidance on informational filings,<sup>1</sup> Central Hudson Gas & Electric Corporation ("Central Hudson") hereby submits an electronic copy of its plan and schedule for implementing the standards of conduct by June 1, 2004, and projected costs of complying with the standards of conduct.

## I. Overview.

Central Hudson is a combination gas and electric utility and wholly-owned subsidiary of CH Energy Group, Inc. ("CH Energy"), an exempt public utility holding company under the Public Utility Holding Company Act of 1935, as amended. Central Hudson is not a gas pipeline nor is it affiliated with a gas pipeline. In compliance with the requirements of Order No. 889,<sup>2</sup> a functionally separate group within Central Hudson's electric utility business unit was established to buy and sell power at wholesale in interstate commerce. This wholesale merchant

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<sup>1</sup> *Standards of Conduct for Transmission Providers*, Order No. 2004, FERC Stats. & Regs. ¶ 31,155 (2003); *Guidance on Informational Filings and Implementation Procedures for Standards of Conduct Under Order No. 2004*, 106 FERC ¶ 61,017 (2004); *Additional Guidance on Electronic Submission of Informational Filings and Requests Under Order No. 2004*, Docket No. RM01-10, issued January 27, 2004.

<sup>2</sup> *Open Access Same-Time Information System (formerly Real-Time Information Network) and Standards of Conduct*, Order No. 889, FERC Stats. & Regs. ¶ 31,035 (1996).

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function group is an Energy Affiliate, within the meaning of Order No. 2004, of Central Hudson. The Commission accepted Central Hudson's Order No. 889 compliance filing in 1998.<sup>3</sup> In 1999, Central Hudson transferred operational control over its bulk power transmission system to the New York Independent Transmission System Operator, Inc. ("NYISO"), which provides unbundled open access transmission service to customers in New York pursuant to the NYISO's open access transmission tariff.

Central Hudson divested substantially all of its generating assets, except several small hydroelectric plants and combustion turbine units, in 2000.<sup>4</sup> *Central Hudson Gas & Electric Corp., et al.*, 93 FERC ¶ 62,173 (2000). At present, Central Hudson's purchases and sales of power at wholesale in interstate commerce are limited to purchases and sales in connection with service to Central Hudson's native load customers.

Central Hudson's affiliate, Central Hudson Enterprise Corporation ("CHEC"), owns two businesses, SCASCO, Inc. and Griffith Energy Services, Inc. ("Griffith"), which are engaged exclusively in the business of delivering fuel oil to residential and small commercial customers. None of these customers uses fuel oil for electric generation. Thus, neither CHEC, nor Griffith, is an Energy Affiliate within the meaning of Order No. 2004 because they do not buy, sell, trade or administer natural gas or electric energy in interstate commerce.<sup>5</sup> Moreover, CHEC and Griffith are functionally separate from Central Hudson's transmission business and their employees do not have access to Central Hudson's transmission system or reliability information. Central Hudson has no other affiliates engaged in the sale, transmission or distribution of electric energy, nor does it have any other affiliates engaged in the business of transporting, delivering or selling competitive inputs to electric power generation.

As outlined below, Central Hudson does not need to implement any new organizational changes, construct any new facilities for the physical separation of transmission function employees from those of Energy Affiliates, or purchase any new computer or telecommunications equipment or software to comply with the requirements of Order No. 2004. Rather, Central Hudson simply needs to revise its standards of conduct procedures to reflect the requirements of Order No. 2004, to provide training to its employees concerning the requirements of the new standards of conduct, and to designate a Chief Compliance Officer. Accordingly, Central Hudson believes its costs to comply with the new standards of conduct will

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<sup>3</sup> *Allegheny Power Service Corp., et al.*, 84 FERC ¶ 61,131 (1998).

<sup>4</sup> Central Hudson owns four hydroelectric plants totaling 23 megawatts and two combustion turbines totaling 38 megawatts.

<sup>5</sup> The Commission accepted CHEC's notice of cancellation of its market-based rate tariff, effective May 31, 2002. Letter Order, Docket ER03-924-000 (July 7, 2003).

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be primarily related to administrative and legal expenses associated with the review and revision of Central Hudson's existing standards of conduct and employee training.<sup>6</sup>

II. Order No. 2004 Compliance Plan.

A. Independent Functioning.

**Current operations.** Central Hudson's employees engaged in electric transmission service and reliability functions are functionally separate from all of Central Hudson's other business operations and operate separately under all circumstances other than extraordinary system emergencies in which the NYISO suspends the market. The electric transmission employees have physically separate work areas. The transmission control center has restricted card key access that is available only to transmission operating employees and their supervisors. Transmission control data that is not posted on NYISO's OASIS is available only to transmission system employees in the control center. Wholesale merchant employees and employees engaged in other electric or natural gas local distribution activities do not have access to electric transmission system information that is not generally available to electric transmission system customers, and they do not have access to electric transmission system data on the Energy Management System ("EMS"). Wholesale merchant employees have restricted access to data on the EMS that is limited to energy transactions and demand for energy relating to Central Hudson's native load customers.

**Needed steps.** Central Hudson's functional separation of electric transmission employees from other Central Hudson employees was consistent with the requirements of Order No. 889 and is in full compliance with the requirements of Order No. 2004. Thus, Central Hudson does not need to take any additional steps to comply with the independent functioning requirements of Order No. 2004.

**Projected compliance costs.** Central Hudson is already in compliance with the independent functioning requirements of Order No. 2004. Therefore, there are no projected compliance costs associated with this requirement.

B. Information Disclosure Prohibitions.

**Current operations.** Under Central Hudson's current standards of conduct, wholesale merchant function employees are forbidden from obtaining transmission system or reliability information concerning Central Hudson's transmission facilities from any source other than the NYISO OASIS. Central Hudson ensures that employees engaged in transmission system operations or reliability functions do not disclose any information concerning Central Hudson's transmission system to Central Hudson employees (or the employees of any affiliate)

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<sup>6</sup> As discussed below, the rule and the preamble to the rule are inconsistent as to whether "all" employees must be trained, or only those categories of employees identified in the preamble. Clearly, this will significantly affect compliance costs.

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engaged in wholesale merchant functions through non-public communications. If such information disclosure nevertheless were to occur, Central Hudson would post the information on the NYISO OASIS immediately after discovering that transmission system information has been improperly shared. In addition, non-operational support and supervisory personnel are forbidden from being conduits for transmission system operations or reliability information to wholesale merchant employees.

**Needed steps.** The restrictions on information access currently in place between transmission system employees and wholesale merchant function employees also prevent employees engaged in the purchase and sale of electric energy to serve native load from obtaining transmission system information through communications conducted off the OASIS. As discussed above, Central Hudson has no other Energy Affiliates. In any event, Central Hudson and affiliate employees engaged in other businesses do not have access to transmission system information. Thus, Central Hudson does not need to take any additional organizational steps to comply with the information disclosure prohibitions of Order No. 2004.

**Projected compliance costs.** Central Hudson is already in compliance with the information disclosure prohibitions of Order No. 2004. Therefore, there are no projected compliance costs associated with this requirement.

C. Posting Requirements.

**Current operations.** Central Hudson currently posts organization charts, job responsibility descriptions, and job notifications and personnel changes on the NYISO OASIS.

**Needed steps.** Central Hudson must revise its written standards of conduct and procedures and post them on the NYISO OASIS. Central Hudson will distribute the revised written standards of conduct and procedures to its employees and employees of its affiliates.

**Projected compliance costs.** Central Hudson's projected compliance costs for revising and posting its written standards of conduct and procedures are \$6,000.

D. Training.

**Current operations.** Central Hudson has informed its electric transmission system operations employees and its wholesale merchant function employees about its standards of conduct and procedures. Under the currently effective standards of conduct, Central Hudson is not required to conduct a formalized employee training program.

**Needed steps.** Central Hudson will conduct employee training seminars concerning the new standards of conduct and obtain employee acknowledgements of the requirements contained in the new standards prior to June 1, 2004.

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**Projected compliance costs.** The regulations adopted in the final rule provide that “Transmission Providers shall require all of their employees to attend training and sign an affidavit certifying that they have been trained regarding the standards of conduct.” 18 C.F.R. § 358.4(e)(5) (emphasis added). The regulations preamble, however, contemplates that only certain employees must receive training. Numerous requests for rehearing have asked the Commission to reconcile this inconsistency. Accordingly, Central Hudson does not yet have a firm estimate of the projected compliance costs for satisfying Order No. 2004’s training requirement. Central Hudson’s best estimate for training all its employees is \$45,000. Central Hudson’s best estimate for training the categories of employees identified in the preamble to the final rule is \$4,000. Central Hudson expects to have a firmer estimate of the projected compliance costs when it posts its standards of conduct on its OASIS on June 1, 2004.

Additionally, Central Hudson anticipates ongoing compliance costs associated with complying with Order No. 2004, including ongoing costs associated with training employees and updating its OASIS. Central Hudson’s best estimate for costs associated with the ongoing training of all Central Hudson’s employees is \$43,000. Central Hudson’s best estimate for costs associated with the ongoing training of the categories of employees identified in the preamble to the final rule is \$2,000.

E. Chief Compliance Officer.

**Current operations.** Order No. 889 does not require Central Hudson to have a Chief Compliance Officer.

**Needed steps.** Central Hudson will designate a Chief Compliance Officer who will be responsible for standards of conduct compliance prior to June 1, 2004.

**Projected compliance costs.** Central Hudson expects that the projected compliance costs for an employee to assume the role of Chief Compliance Officer is \$2,000.

III. Accounting Treatment.

Central Hudson respectfully requests that the Commission confirm that Central Hudson will be entitled to record costs associated with compliance with Order No. 2004 as a regulatory asset in Account No. 182.3. Alternatively, Central Hudson requests that the Commission provide guidance regarding steps Central Hudson should take to preserve its right to recover these compliance costs through future jurisdictional rates.

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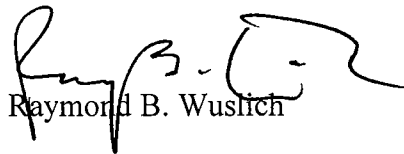
IV. Communications.

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Respectfully submitted,



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