

Paul A. Colbert
Associate General Counsel
Regulatory Affairs



March 7, 2017

Honorable Kathleen H. Burgess, Secretary
New York State Public Service Commission
3 Empire State Plaza, 19th Floor
Albany, NY 12223

Re: Cases 14-M-0101 and 14-E-0318 Petition Seeking New York State Public Service Commission's Approval for Deferral Accounting Authority and Recovery of Incremental Costs Associated with Reforming the Energy Vision

Dear Secretary Burgess,

Central Hudson Gas & Electric Corporation ("Central Hudson") respectfully seeks approval to defer and recover incurred and ongoing incremental costs associated with the development and implementation of the New York State Public Service Commission's policies formulated in Case 14-M-0101 *Proceeding on the Motion of the Commission in Regard to Reforming the Energy Vision* ("REV") and its associated cases. Through February 28, 2017 of its current rate plan established in Case 14-E-0318 Central Hudson has accumulated incremental REV related costs totaling \$1,831,747.30 excluding carrying charges.¹ Those costs include incremental internal and external labor costs used to develop the Distributed System Implementation Plan ("DSIP"), including Advanced Metering Infrastructure ("AMI") business case and the Benefit Cost Analysis ("BCA") handbook, Supplemental DSIP, interconnection Earning

¹ Schedule at Petition Attachment 1.

284 South Avenue
Poughkeepsie, NY 12601

(845) 452-2000
Direct: (845) 486-5831 Cell: (614) 296-4779
Email: pcolbert@cenhud.com
www.CentralHudson.com

Adjustment Mechanism (“EAM”), System Efficiency EAM and the cost of other REV Requirements. Central Hudson also seeks approval to defer and recover carrying charges on the incremental REV related costs at its current authorized pre-tax rate of return. Through February 28, 2017 Central Hudson has accumulated deferred carrying charges totaling \$68,087.

Central Hudson expects to incur other incremental costs associated with REV on a going forward basis including but not limited to costs associated with the development of an interconnection portal to facilitate Distributed Energy Resources (“DER”) ability to connect to Central Hudson’s distribution system and hosting capacity analysis to determine how much DER can connect to each circuit on Central Hudson’s distribution system without triggering the need for a distribution system upgrade on the applicable circuit. [REDACTED]

The cost estimate for the interconnection portal is based upon expected Phase 1 and Phase 2 costs.² Phase 3 cost estimates will be developed at a later time as the project progresses.

Central Hudson proposes to defer incremental REV costs along with the associated carrying charges at its current authorized pre-tax rate of return and recover

² See New York Interconnection Online Application Portal Function Requirements (Electric Power Research Institute) (2016)

these deferred costs through the Miscellaneous Charge of its Energy Cost Adjustment Mechanism (“ECAM”) on a monthly basis. The conceptual framework of how recovery will be accomplished is discussed later in this Petition. Central Hudson will provide the New York State Department of Public Service Staff (“Staff”) with an annual report filed on October 1, of each year detailing the incremental REV costs deferred and recovered for the prior rate year ending June 30. The incremental REV costs will be available for audit by Staff upon request.

Central Hudson’s authorization to petition to defer these REV incremental expenses is provided pursuant to Section XIII Reforming The Energy Vision contained in the Joint Proposal (“JP”) approved as Order Approving Rate Plan issued and effective June 17, 2015 in Case 14-E-0318, which states:

The Signatories acknowledge that the Commission has initiated Case 14-M-0101, the determinations from which will take precedence and may require the implementation of certain REV opportunities, procedures or requirements impacting or effecting Central Hudson and its customers while the terms of this JP are operative. If such implementation of REV opportunities or requirements were to occur, the Signatories agree that Central Hudson may petition to defer any incremental associated costs it incurs and that such a petition will be exempt from compliance with the Commission’s traditional three part test for deferral.

Such authorization is also found on page 28 of the Commission’s Order, which states:

The parties also recognized in the Final Joint Proposal that Case 14-M-0101 may impose costs on the Company not contemplated at the time of the Final Joint Proposal or of our decision in these rate cases. In that event, the parties recommend that Central Hudson be permitted to petition for

a deferral of such costs and that such petition be exempt from the application of the Commission's three-part test for entitlement to deferral accounting.

Thus, Central Hudson's petition seeking authorization for deferral and cost recovery of incremental REV costs is consistent with the intent of the signatories to its last rate case JP and the Order approving the JP.

Central Hudson's Need for Deferral and Recovery

Staff discussed the rate treatment of utility investments that will be needed to build DSP functionalities. Recognizing that utilities will be responding to a Commission mandate, and that some of the investments will reflect new directions, Staff addressed the potential risk by proposing that, "following close review of DSIPs, utilities should receive assurance ... that the initial decision to invest in these capabilities will not be subject to retrospective review."³

Central Hudson has reached the critical juncture, where, in order that it may continue to invest in REV development and implementation, it must have cost recovery assurance. Central Hudson is incurring material incremental costs, and it expects to continue to incur material incremental costs, associated with the development and implementation of REV. The Commission has addressed REV related incremental costs associated with demonstration projects and non-wire alternatives ("NWA"), but not the incremental costs Central Hudson seeks to defer and recover through this petition. Incremental costs associated with REV development and implementation has become

³ Case 14-M-0101-*Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision* (Order Adopting A ratemaking and Utility Revenue Model Policy Framework at 104-105) (Issued and Effective May 19, 2016)

substantial. Incremental costs associated with REV investments desired by Staff and supported by the Commission's REV policies such as the interconnection portal and hosting capacity analysis at issue in this petition have greater expected costs. Central Hudson cannot proceed with REV investments absent appropriate deferral authorization and a cost recovery mechanism.

The Commission agrees with the need to provide utilities, including Central Hudson with cost recovery of incremental REV investments having adopted Staff's proposal stating:

The request of the utilities for special recovery mechanisms is not pertinent to the issue of conceptual approval of REV investments. The appropriate recovery mechanism will be a function of several variables including the timing of rate cases, the type of investment or procurement, and the circumstances of individual utilities.⁴

Central Hudson's Deferral Accounting

Central Hudson has deferred the REV incremental expense as a regulatory asset within Commission Account 182.97—Distribution System Implementation Plan—associated with REV Requirements. In addition, Central Hudson has accrued carrying charges on these deferred incremental expenses (net of tax) within Commission Account 182.90. Central Hudson will continue to accrue carrying charges until such time that the Commission approves and Central Hudson receives recovery of the

⁴ *Id.* at 107.

deferred balance. Petition Attachment 2 provides an explanation of the accounting entries.

Proposed Method of Recovery

Central Hudson is proposing to recover the REV deferred incremental expense and associated carrying charges through the ECAM Miscellaneous Charge. Specifically, cost recovery will occur through a separate component of the Miscellaneous Charge. This will allow Central Hudson to segregate and recover incremental REV expenses in a timely manner and reduce the build-up of a substantial regulatory asset and associated carrying charges. The proposed cost recovery methodology will allow for continued REV investment as required.

Costs will be recovered through the Miscellaneous Charge on a volumetric basis. Central Hudson proposes to recover existing costs over a 24 month period. The REV cost recovery component of the Miscellaneous Charge will be reset annually to include incremental costs incurred over the previous 12 months with recovery over a 24 month period. Cost recovery will include the incremental revenue requirement effect of capital expenditures, including recovery of operating and maintenance costs.

The cost recovery mechanism will also permit Staff to audit Central Hudson's REV expenses. Adjustments may be made based on audits and during rate cases as they occur.

Conclusion

For the reasons set forth above, Central Hudson seeks the Commission's approval to defer and recover incremental costs associated with the development and implementation of REV policies and initiatives together with associated carrying charges at the pre-tax rate of return.

Central Hudson will promptly provide any additional information that may be required for the Commission's consideration of this request. Any questions related to this Petition should be directed to David P. Brideau at (845) 486 -5263 or dbrideau@cenhud.com. In addition, Central Hudson will provide the Commission's Accounting Staff, through the Records Access Officer, supporting documentation for amounts shown on Attachment 1 shortly after the filing of this Petition.

This Petition includes a form of notice suitable for publication in the State Register and is identified as Attachment 3 and a Method of Service notice.

Please contact the undersigned at (845)486-5831 or pcolbert@cenhud.com with any questions regarding this matter.

Respectfully submitted,



Paul A. Colbert
Associate General Counsel
Regulatory Affairs