



VIA EMAIL

May 30, 2013

Mr. Garry A. Brown, Chairman
Ms. Patricia L. Acampora, Commissioner
Ms. Maureen F. Harris, Commissioner
Mr. James L. Larocca, Commissioner
Mr. Gregg C. Sayre, Commissioner
NYS Public Service Commission
Empire State Plaza
Agency Building 3
Albany NY 12223-1350

RE: Case 12-M-0192 – Joint Petition of Fortis Inc., FortisUS Inc., Cascade Acquisition Sub Inc., CH Energy Group Inc., and Central Hudson Gas & Electric Corporation for Approval of the Acquisition of CH Energy Group, Inc. by Fortis Inc.

Dear Commissioners,

Over the past 15 months, Fortis and Central Hudson (the “Petitioners”) have worked diligently and cooperatively with many parties to put forward a transaction that is in the public interest. Since May 3, the Petitioners have worked to address all remaining issues discussed in the Recommended Decision. There is new evidence of wide public support, including that of leaders and groups of local businesses and health and community-support organizations, as well as that of many individual citizens, customers and employees. Central Hudson’s labor union now enthusiastically supports the transaction, directly addressing one of the key concerns noted in the Recommended Decision. In addition, the entire New York State Utility Labor Council and the AFL-CIO have also submitted letters to the Commission in support of this transaction. After a thorough and extended review process that has considered all relevant issues, we urge the Commission to make its determination.

While the Joint Proposal filed with the Commission on January 28, 2013 garnered significant support, the Petitioners have listened to the subsequent input and, as a result, are proposing final enhancements to the terms of the transaction beyond the terms included in the Joint Proposal. The balance of this letter will describe the transaction's benefits with our enhancements clearly identified.

Customers

As recognized in the Recommended Decision, the Joint Proposal provides customers with \$49.25 million of real, tangible, hard-dollar benefits. **As an enhancement, we are proposing to extend the delivery rate-freeze period already agreed to in the Joint Proposal by an additional year, such that the transaction will now provide a three-year period between delivery rate increases: from July 1, 2012 to July 1, 2015.** The value of this enhancement to customers is significant given that, over the prior seven years, Central Hudson's delivery rates increased by an average of \$23 million per year. Fortis commits that, during the period July 1, 2013 through June 30, 2015, Central Hudson will spend \$215 million on capital expenditures, of which approximately \$50 million will have a storm-hardening effect on Central Hudson's system. This significant capital investment will be made without an increase in delivery rates to provide a return on that investment during the rate-freeze period, clearly demonstrating Fortis' strong commitment to invest in the State of New York.

Employees

The Petitioners have stated from the outset that this transaction will preserve Central Hudson jobs and increase job security. Central Hudson currently has 875 employees (349 non-union, 526 union). The collective bargaining agreement between IBEW Local 320 and Central Hudson was set to expire in three years. Fortis had agreed to honor that agreement and to retain all non-union employees for a minimum of two years. **As an enhancement, Central Hudson with the support of Fortis has entered into an extended labor agreement that provides four years of job security to our IBEW-represented employees. This agreement also adds approximately 35 new jobs, consistent with our plans to invest**

substantial capital in our system and our commitment to hire, retain and train the highly skilled union crafts people needed to serve our customers in the future. This new agreement provides a four-year “no layoff” assurance and has also been extended to our non-union employees, doubling the original two-year commitment included in the Joint Proposal. These improvements to the collective bargaining agreement and increased jobs and job security are contingent on approval of the transaction by the Commission. IBEW Local 320 membership has ratified this contract extension and, in a reversal of its initial opposition, has submitted a letter to the Commission now enthusiastically supporting the transaction. In recognition of our efforts to provide additional job security and add high-quality union jobs to our workforce, the AFL-CIO and the New York State Utility Labor Council has also submitted their support for the transaction in writing to the Commission.

Communities

As is referenced throughout the record in this case, Central Hudson is highly valued for its involvement in and support of the communities it serves. This attribute was one that Fortis found attractive in its decision to acquire Central Hudson. To ensure this connection to the community continued, Fortis had agreed to maintain Central Hudson’s level of community support for five years. **As an enhancement and in recognition of the great importance Central Hudson has in the Hudson Valley region, we are proposing to increase this commitment to 10 years, which is an unprecedented doubling of the five-year commitment included in the Joint Proposal and assures the community that Central Hudson’s longstanding support will continue.** Central Hudson will continue to retain its name, corporate headquarters and staff in the stand-alone model under which it will operate as part of the Fortis federation of utilities.

Governance

Under the Joint Proposal, a new board will be constituted for Central Hudson, with more local representation and greater decision-making authority than currently exists. The board is to be comprised of a majority of independent directors, most of whom will be from New York

State. **As an enhancement, we are proposing to increase the minimum number of independent directors who reside, do business or work within Central Hudson's *service territory* from one to two board members.**

Economic Development and Capital Investment

The Joint Proposal terms call for \$5 million to be directed, under Commission oversight, to economic development and low-income programs in Central Hudson's service territory. **This allocation is a huge increase in regional funding that is critically important to the Hudson Valley and will directly benefit the counties Central Hudson serves.** These programs can be directed toward manufacturing, service or sustainability-based initiatives.

A final critical long-term element of this transaction is Fortis' plan and ability to invest in Central Hudson's system to serve a growing region with safer and more reliable electric and gas service and to extend natural gas service to many customers currently using expensive fuel oil, with its higher emissions. **The currently planned \$600+ million of capital expenditures over the next five years will generate jobs, enhance the tax base and extend reliable energy delivery capacity to facilitate economic development throughout the Hudson Valley. Fortis' strong credit rating, greater scale and access to capital will enable Central Hudson to make these necessary capital expenditures, as well as to participate more fully in Governor Cuomo's Energy Highway initiative, which can improve reliability, reduce costs and bring more renewable energy to the Hudson Valley.**

The Fortis Transaction Versus The Alternative

Considering the ongoing trend of consolidation in the utility industry, becoming part of the Fortis federation of utilities, with its stand-alone business model, is clearly the best way for Central Hudson's customers to continue being served by a locally managed company. To turn away an acquirer deemed "extremely well qualified" by the Commission Staff, with a track record of increasing investment and employment, and with a desire to do so in New York State, would send a message to other businesses that the State is not "open for business".

Central Hudson's future as an independent utility will be uncertain with litigation a strong possibility and its employees distracted. Any alternative transaction is unlikely to maintain Central Hudson's local identity and strength. Absent Fortis, Central Hudson customers would be deprived of \$49.25 million of benefits and a three-year hiatus between delivery rate increases. Central Hudson would require near-term rate relief, with significant increases in the cost of capital and limitations on its ability to raise capital. The other additional enhancements provided herein to employees and the communities served by Central Hudson would be lost. This undesirable and uncertain alternative must be avoided.

The terms of the Joint Proposal, as enhanced in the manner described above, provide a compelling transaction which significantly exceeds the net positive benefit test and that is truly in the public interest. We have listened, worked cooperatively and reached deeply to make this offer. Central Hudson, its customers and employees will all benefit if the company becomes a member of the Fortis federation of utilities.

We would appreciate the Commission's immediate consideration and approval of this transaction at its next scheduled meeting on June 13, 2013.

Respectfully,

On behalf of:

CH Energy Group, Inc.



Steven V. Lant
Chairman, President and
and Chief Executive Officer

Fortis Inc.



Barry V. Perry
Vice President, Finance
and Chief Financial Officer

c Hon. Jeffrey Cohen, Acting Secretary
Hon. David L. Prestemon, Administrative Law Judge
Hon. Rafael A. Epstein, Administrative Law Judge
All Active Parties