

BEFORE THE  
NEW YORK STATE  
PUBLIC SERVICE COMMISSION

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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-E-\_\_\_\_\_

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Proceeding on Motion of the Commission as to the  
Rates, Charges, Rules and Regulations of  
Central Hudson Gas & Electric Corporation  
for Gas Service

Case 17-G-\_\_\_\_\_

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**DIRECT TESTIMONY OF THE  
BUSINESS DEVELOPMENT PANEL**

July 28, 2017

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**DIRECT TESTIMONY OF THE BUSINESS DEVELOPMENT PANEL**

1                   **I.        INTRODUCTION**

2   Q.    Please state the names of the members of the Business Development  
3                   Panel (“Panel”).

4   A.    Our names are Kristen Glehan, Alana Mikhalevsky, and Mark Mulpeter.

5   Q.    Ms. Glehan, please state your current employer and business address.

6   A.    I am employed by Central Hudson Gas & Electric Corporation (“Central  
7                   Hudson” or the “Company”) and my business address is 284 South  
8                   Avenue, Poughkeepsie, New York 12601.

9   Q.    Ms. Glehan, in what capacity are you employed by Central Hudson and  
10                  what is your scope of responsibilities?

11   A.    I am the Director of Marketing and Sales. In my position, I am responsible  
12                  for all of the marketing initiatives related to residential and commercial gas  
13                  expansion, energy efficiency, demand response, and Reforming the  
14                  Energy Vision (“REV”) demonstration projects. Additionally, I oversee our  
15                  contracted residential gas conversion sales team.

16   Q.    Ms. Glehan, what is your educational background and professional  
17                  experience?

18   A.    I hold a Bachelor of Arts in Art History from Purchase College, State  
19                  University of New York and have completed coursework toward a Masters  
20                  of Interdisciplinary Studies in Business, Film and Television at New York  
21                  University. Before joining the Company, I worked within marketing, sales,

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1 and business development for 25 years in a range of industries including  
2 consumer products, healthcare, automotive, retail, fashion, and education.

3 Q. Ms. Glehan, have you previously testified before the New York State  
4 Public Service Commission (“PSC” or the “Commission”)?

5 A. No, I have not.

6 Q. Ms. Mikhalevsky, please state your current employer and business  
7 address.

8 A. I am employed by Central Hudson and my business address is 284 South  
9 Avenue, Poughkeepsie, New York 12601.

10 Q. Ms. Mikhalevsky, in what capacity are you employed by Central Hudson  
11 and what is your scope of responsibilities?

12 A. I am employed by Central Hudson as the Project Manager of Business  
13 Development. In that capacity, I am responsible for government affairs  
14 and administering the Company’s economic development programs.

15 Q. Ms. Mikhalevsky, what is your educational background and professional  
16 experience?

17 A. I hold a Bachelor of Arts in Economics from Washington College and a  
18 Master of Business Management & Leadership from City University of  
19 New York. I joined Central Hudson in 2009 as a Staff Coordinator within  
20 the Customer Services department, and my responsibilities included  
21 budget and performance tracking. In 2010, I became the Operating  
22 Supervisor of Consumer Outreach & Community Relations, with

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1 responsibility for administering the Company's low income and at-risk  
2 customer programs and I served as liaison to the Commission's Office of  
3 Consumer Services. Prior to joining Central Hudson, I was a Program  
4 Analyst in the Office of Strategic Planning & Performance Management for  
5 the U.S. Department of the Treasury.

6 Q. Ms. Mikhalevsky, have you previously testified before the Commission?

7 A. No, I have not.

8 Q. Mr. Mulpeter, please state your current employer and business address.

9 A. I am employed by Central Hudson and my business address is 284 South  
10 Avenue, Poughkeepsie, New York 12601.

11 Q. Mr. Mulpeter, in what capacity are you employed by Central Hudson and  
12 what is your scope of responsibilities?

13 A. I am employed by Central Hudson as the Manager of New Business and  
14 Gas Marketing. In this capacity I oversee all commercial and industrial  
15 gas and electric project management, residential subdivision  
16 development, residential and commercial natural gas expansion, gas and  
17 electric new business capital budgets, and key account management of  
18 municipal, institutional, commercial, and industrial customers.

19 Q. Mr. Mulpeter, what is your educational background and professional  
20 experience?

21 A. I hold a Bachelor of Arts in English from Hunter College, City University of  
22 New York. I have been employed at Central Hudson since 1990. I have

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1 held positions at Central Hudson in marketing and customer services  
2 including Residential Marketing Specialist, Commercial and Industrial  
3 Specialist, Supervisor of New Business Services, and Director of Business  
4 Development.

5 Q. Mr. Mulpeter, have you previously testified before the Commission?

6 A. No, I have not.

## **II. PURPOSE OF TESTIMONY**

8 Q. What is the purpose of the Panel's testimony in these proceedings?

9 A. The purpose of our testimony is to provide an overview of the Company's  
10 Economic Development and Gas Expansion efforts and the Company's  
11 proposals concerning these efforts in the future. We also address the  
12 funding necessary to support Central Hudson's Economic Development  
13 and Gas Expansion activities, including funding for sales and marketing  
14 efforts and Customer Addition Assistance.

15 Q. Are you sponsoring any exhibits in support of your testimony?

16 A. Yes. We are sponsoring two exhibits. Exhibit \_\_ (BDP-1) shows the  
17 dollars expended on economic development projects since program  
18 inception (October 2002 to June 30, 2017). This exhibit also shows  
19 existing balances available for the Company's economic development  
20 programs. Exhibit \_\_ (BDP-2) details the Company's economic  
21 development programs.

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1                   **III.    ECONOMIC DEVELOPMENT**

2   Q.   Please provide an overview of the economic development programs  
3                   currently offered by Central Hudson.

4   A.   Central Hudson has a suite of economic development programs that  
5                   include:

- 6                   • Shovel Ready Grants – Used to facilitate new building infrastructure  
7                   and new capital investments;
- 8                   • Wired Building Grants – Used to assist utilization or installation of  
9                   new or high technology in buildings;
- 10                  • Job Creation Grants – The Company has both Job Creation-  
11                  Attraction and Job Creation-Expansion programs which are used to  
12                  support applicable jobs in advanced manufacturing/high tech/green  
13                  tech, emerging growth industries or in industries targeted by  
14                  Central Hudson’s economic development partners;
- 15                  • Building Revitalization Grants – Used to re-develop formerly vacant  
16                  or underused industrial buildings;
- 17                  • Business Retention Grants – Used to retain jobs when additional  
18                  significant capital investments are made;
- 19                  • Regional Marketing Funds – Used to support the attraction and  
20                  expansion of new businesses to the region; and

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1                   • Main Street Revitalization Program – Used to promote new  
2                   investment and jobs within Main Street Corridors in the Company's  
3                   service area.

4 Q. What is the overall purpose of these economic development programs?

5 A. Each of the seven programs is designed to assist with a variety of regional  
6                   economic development needs. The Company's economic development  
7                   programs are targeted towards creating or retaining jobs. Additionally, the  
8                   programs are targeted towards facilitating additional capital investments  
9                   and economic growth or, at a minimum, promoting economic stabilization  
10                  within the Central Hudson service territory.

11 Q. Is the Company proposing any modifications to its current economic  
12                  development programs?

13 A. Yes. The Company is proposing to close the Main Street Revitalization  
14                  program to new participants.

15 Q. Why is the Company proposing to close this program to new participants?

16 A. This program, which was funded with \$1 million pursuant to the Order  
17                  Authorizing Acquisition in Case 12-M-0192 ("Acquisition Order"), was  
18                  intended to facilitate the revitalization of "Main Streets" as community  
19                  centers and business districts. Initially, projects were difficult to find, but,  
20                  in 2014, Central Hudson awarded \$1 million in total to five separate  
21                  recipients for projects related to revitalization of "Main Streets." As of  
22                  June 2017, three of the projects have been completed. We anticipate the

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1 other projects will be completed over the next 12 – 18 months. It has  
2 taken longer than expected for grant recipients to complete their projects  
3 and Central Hudson staff has had to take a more active role in these  
4 projects than is typically required for our traditional suite of programs.  
5 Central Hudson has met the requirements as outlined in the Acquisition  
6 Order; however a thorough Benefit/Cost analysis will be required to  
7 determine if it is appropriate to provide additional funding to any of these  
8 five projects.

9 Q. Are you proposing any other modifications to Central Hudson's current  
10 economic development programs at this time?

11 A. No. Central Hudson is not proposing any modifications to program  
12 qualifications or program budgets at this time. In the event Central  
13 Hudson identifies beneficial program modifications in the future, it will  
14 consult with the New York State Department of Public Service Staff  
15 ("Staff") prior to filing for any modifications with the Commission. Central  
16 Hudson has offered successful economic development programs and has  
17 demonstrated its ability to modify existing programs or implement new  
18 ones as specific economic development opportunities have arisen or been  
19 identified. As part of its efforts, Central Hudson works closely with the  
20 economic development professionals in the counties served by the  
21 Company. Additionally, as directed by the Acquisition Order, Central  
22 Hudson hosts annual meetings with these economic development

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1 professionals to discuss our programs. These meetings provide  
2 opportunities to discuss the benefits and limitations of existing economic  
3 development programs and offer an opportunity for counties to present  
4 Central Hudson with potential modifications to existing programs.

5 Q. Does Central Hudson currently have an existing Economic Development  
6 Program Fund?

7 A. Yes. As of June 30, 2017, Central Hudson's Economic Development  
8 Program had a \$3.58 million balance of available funding for the six  
9 traditional programs - Shovel Ready, Wired Building, Job Creation,  
10 Building Revitalization, Business Retention, and Regional Marketing - and  
11 \$275,000 left to be distributed to the open Main Street projects for a total  
12 balance of \$3.86 million.

13 Q. What has Central Hudson historically spent on an annual basis for its  
14 economic development activities?

15 A. Central Hudson distributed \$1.03 million in grants in the twelve months  
16 ending June 30, 2016 and \$1.08 million in the twelve months ending June  
17 30, 2017. Based on the approved applications in queue the Company  
18 forecasts that it will spend approximately \$1 million during each of the  
19 twelve months ending June 30, 2018 and 2019. To the extent the target  
20 expenditure level is not met, the funds remain deferred and are carried  
21 forward for future economic development program expenditures.

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1 Q. Has Central Hudson included any additional funding for economic  
2 development programs in the revenue requirement proposed in these  
3 cases?

4 A. No. Based on our remaining fund balance and our projected expenditures  
5 of approximately \$1 million per year, Central Hudson currently anticipates  
6 that the funding balance will be sufficient to support economic  
7 development activities during the twelve months ending June 30, 2019  
8 ("Rate Year") as well as the following year (twelve months ending June 30,  
9 2020). In the event that the Company negotiates a multi-year rate plan,  
10 the Company proposes that it be permitted to defer any Economic  
11 Development grants in excess of the remaining fund balance for recovery  
12 in a future rate proceeding. Deferral of costs would commence once all  
13 current amounts in the fund have been exhausted. The establishment of a  
14 deferral mechanism will enable the Company to continue to support  
15 regional economic development projects that facilitate growth and  
16 investment.

17 **IV. GAS EXPANSION**

18 Q. What aspects of Central Hudson's natural gas expansion program will the  
19 Panel address?

20 A. We will address three key topics related to gas expansion: 1) historic gas  
21 customer additions and the Company's performance against targets  
22 including the Gas Expansion Performance Incentive; 2) projected total gas

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customer additions; and 3) Central Hudson's capital budget requirements to support gas expansion.

3 Q. Please provide an overview of the Company's current natural gas  
4 expansion program.

5 A. The Company has actively pursued a system wide gas expansion initiative  
6 since the fourth quarter of 2012 through its residential “Simply Better”  
7 program and its commercial program. Activities to support the gas  
8 expansion initiative include identification of customers within 100 feet of  
9 existing gas main facilities, targeted marketing, contracted residential  
10 sales support, single point of contact Company project management, trade  
11 ally partnerships, conversion incentives, and residential neighborhood gas  
12 main expansion construction. While the Company’s system-wide initiative  
13 initially focused on converting customers to natural gas from alternate  
14 heating sources, in 2015, the Company expanded its focus to total gas  
15 customer additions. In the Commission’s June 17, 2015 Order Approving  
16 Rate Plan in Cases 14-E-0318 and 14-G-0319 (“2015 Rate Plan”), the  
17 Commission acknowledged that the Company projected to add 5,000  
18 residential customers and 875<sup>1</sup> commercial customers over a five year  
19 period.

<sup>1</sup> Figure initially reported as 3,875 in 2015 Rate Plan and later acknowledged to be 875 customers pursuant to the Commission's Order Providing Clarification on Rehearing issued November 20, 2015 in Cases 14-E-0318 and 14-G-0319.

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1                   For the purpose of this testimony a gas customer addition means  
2                   any new gas customer connected to the system resulting from 1) natural  
3                   gas heating conversions of existing homes from other fuel types; 2) new  
4                   residential homes built along existing gas mains; 3) new residential homes  
5                   in developments or subdivisions; and 4) new residential units in multi-  
6                   family residential projects. For the purpose of this testimony a customer is  
7                   defined as an additional gas meter set and unlocked.

8   Q. What were the actual customer additions experienced since the beginning  
9                   of the gas expansion initiative?

10   A. Using the Company's Cognos Business Intelligence tool which is used to  
11                   track and report gas customer additions, the New Business group tracked  
12                   and reported the following total gas customer additions for calendar years  
13                   2013-2016:

- 14                   • 2013 - 915 residential and 293 commercial gas customer additions;
- 15                   • 2014 - 1,023 residential and 331 commercial;
- 16                   • 2015 - 1,273 residential and 307 commercial; and,
- 17                   • 2016 - 1,151 residential and 240 commercial.

18   Q. What were the actual customer additions for Rate Year 1 of the 2015 Rate  
19                   Plan?

20   A. For the twelve months ending June 30, 2016 the Company added 1,415  
21                   residential and 253 commercial customers, respectively.

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1 Q. Is the Company eligible to earn an incentive for exceeding forecasted  
2 customer additions under the 2015 Rate Plan?

3 A. Yes, however the Company has not earned an incentive yet.

4 Q. Is the Company proposing to continue the incentive for customer  
5 additions?

6 A. No. Rather, the Company's Earnings Adjustment Mechanism Panel  
7 proposes a carbon intensity metric that captures the benefits associated  
8 with gas conversions that the Company would like to pursue.

9 Q. Based on current economic conditions and the projected level of  
10 marketing and outreach what is Central Hudson's customer acquisition  
11 goal for gas customer additions in the Rate Year?

12 A. Central Hudson's goal is to add 750 residential customers and 150  
13 commercial customers in the Rate Year. As described previously, for the  
14 purposes of meeting total gas customer addition targets, a customer is  
15 defined as an additional gas meter set and unlocked.

16 Q. Why are the forecasted customer addition numbers lower than historic  
17 customer additions?

18 A. The average cost of home heating oil in our service territory has dropped  
19 by more than \$1.50 per gallon since 2014, resulting in a nearly two-fold  
20 increase in the period of time it would take a converting customer to see a  
21 return on their investment ("ROI"). As we will elaborate on later in  
22 testimony, even with offsetting costs via customer incentives, the

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1 combination of the upfront investment and long ROI period outweigh the  
2 benefits of switching to natural gas in the customers' value assessments,  
3 resulting in a significantly longer marketing and sales cycle and fewer  
4 commitments to convert. Secondly, the economy and new single-family  
5 housing starts in our service territory have been weak. We are not seeing  
6 large numbers of new single-family home Underground Residential  
7 Development ("URD") development construction. There has been a  
8 strong rental housing market which has helped to offset this trend, and  
9 has contributed positively to our residential customer addition results. This  
10 has been driven primarily by the construction of new URD multi-family  
11 projects with individually metered gas customers. We believe this market  
12 is becoming saturated, and will not add to residential gas customer  
13 additions at the same level going forward. In the commercial area, gas  
14 additions have trended lower in each of the last four years. Beginning in  
15 2013 we actively pursued oil to gas conversions opportunities with  
16 commercial and industrial customers in proximity to our natural gas mains.  
17 This was a very successful effort, but these "low hanging fruit" projects  
18 have all been completed.

19 Q. Please discuss the capital requirements necessary to support the  
20 Company's gas customer additions efforts described above.

21 A. The capital expenditures associated with gas customer additions are  
22 included in the capital plan supported by Company Witness Haering. Gas

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1 capital expenditures for projects related to gas customer additions were:  
2 \$10.8 million in 2013; \$10.1 million in 2014; \$15.1 million in 2015; and  
3 \$13.6 million in 2016. These totals include both discretionary and non-  
4 discretionary gas customer additions expenditures. Non-discretionary  
5 spending includes all requested commercial development projects,  
6 residential developments and subdivisions, multi-family housing projects,  
7 and tariff-based gas service and main extension projects. Discretionary  
8 expenditures include targeted and selected residential and commercial  
9 gas expansion projects.

10 Q. Has the Company developed a five-year capital budget forecast to support  
11 continued gas customer addition projects?

12 A. Yes, the Company has established a gas capital budget associated with  
13 customer additions of \$64.9 million for the period 2018-2022.

14 Q. How does the Company determine and select residential neighborhoods  
15 for gas expansion?

16 A. The Business Development group uses a two-stage data analysis to  
17 select neighborhoods for targeted residential gas expansion. The first  
18 data set is used to complete a scoring analysis of potential gas expansion  
19 neighborhoods. The scoring metrics include proximity to existing natural  
20 gas facilities, neighborhood and home demographics, gas system capacity  
21 or constraints, geographical characteristics, and projected construction  
22 costs. The second stage of the data analysis is a 16-question survey sent

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1 to customers residing in potential neighborhoods whose score from the  
2 first stage of analysis is high enough to warrant further vetting. The  
3 survey is conducted to determine the level of individual customer interest  
4 and timeframe for natural gas conversions. Results from the two data sets  
5 are weighted and scored. Gas expansion neighborhoods are selected  
6 based on an overall rating that must meet a minimum threshold standard  
7 for project recommendation and approval.

8 **V. SALES & MARKETING EFFORTS**

9 Q. What aspects of Central Hudson's gas sales and marketing efforts will the  
10 Panel address?

11 A. We will address two key topics related to natural gas sales and marketing:  
12 1) cost recovery for contracted residential natural gas expansion sales  
13 personnel; and 2) costs associated with residential and commercial  
14 printing and mailing of sales and marketing materials.

15 Q. Please describe the staffing resources needed for commercial and  
16 residential gas customer additions efforts.

17 A. The Company relies on an internal marketing department for outreach  
18 efforts and utilizes personnel within the Business Development group as  
19 single point of contact project managers for all residential and commercial  
20 gas expansion and new business work. However, contracted personnel  
21 are used for residential customer sales consulting and customer incentive  
22 processing. The responsibilities of the contracted personnel include

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1 meeting customers in their homes, providing estimates for new turnkey  
2 boiler and furnace replacements, coordination of trade ally heating system  
3 installations, attendance of marketing events and processing of customer  
4 incentives.

5 Q. What is the annual expense component of your contracted sales force?

6 A. Two outside sales positions were utilized for residential gas conversion  
7 customer sales in the years 2013-2016. These costs averaged \$240,000  
8 annually.

9 Q. Does the Company expect to have two outside sales resources in the  
10 Rate Year?

11 A. Yes. The Company expects to have the same level of outside sales  
12 resources continue at the same annual expense. This information was  
13 provided to the Revenue Requirements Panel.

14 Q. Do you propose any other changes to staff marketing sales force efforts in  
15 the Rate Year?

16 A. No. The Company will continue to use internal personnel for marketing,  
17 and as residential and commercial single point of contact project  
18 managers. Contracted sales forces will be used for customer sales  
19 consulting. Based on our experience, this structure provides flexibility with  
20 the number of full time equivalents ("FTEs") assigned to perform sales  
21 work as market conditions and customer demand changes.

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1 Q. Are you seeking any increase in marketing and sales expenses?

2 A. Yes. We are requesting an increase in marketing and sales expense to

3 be utilized for increased levels of printing and mailing of marketing

4 materials.

5 Q. Please explain why the Company projects an increase in marketing

6 printing and mailing expenses.

7 A. Marketing materials continue to have impact beyond the immediate month

8 or year in which they are distributed. Frequently there is a significant lag

9 time between when a customer receives marketing materials about the

10 availability of natural gas and when the customer ultimately decides to

11 connect, creating a sales funnel of customers in various stages of

12 process. During the historic period we were able to reduce our spending

13 on printing and mailing, because we were still experiencing continued

14 meter additions based on the residual impact of the prior two years of

15 communication. However, the residual impact of those prior

16 communications has now been exhausted with most customers in the final

17 stages of connection and minimal in the early stages. We need to resume

18 more intensive marketing efforts to add new customers to the sales funnel.

19 The projection of marketing and sales expense related to printing and

20 mailings for residential customers levelizes the expenses experienced

21 during the historic period and the two years prior (twelve month periods

22 ended March 31, 2017; 2016; and 2015) by assuming a rate allowance

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1 equal to the three year average adjusted to March 2017 dollars.

2 Additionally, projected expenses include an amount for commercial  
3 marketing which is not included in historic spending levels. The Company  
4 needs to initiate commercial marketing efforts in 2017 based on inbound  
5 commercial leads experiencing a significant reduction year over year.

6 Projections for both residential and commercial printing and mailing  
7 marketing expenses were provided to the Revenue Requirements Panel.

8 Q. How does the Company target and market to prospective gas expansion  
9 customers?

10 A. The Company utilizes a comprehensive set of marketing techniques and  
11 channels to reach customers, including: direct mail; email marketing;  
12 advertisements; a referral program; events; social media; collaboration  
13 with area businesses; flyer/poster distribution; surveys; giveaways; raffles;  
14 and lawn signs. Initiatives are targeted to customers in proximity to  
15 existing gas mains and prospective expansion areas. Customers are  
16 advised of the availability of direct conversion incentives, financing and  
17 other programs they may benefit from.

18 Q. Does the Company promote the residential use and adoption of natural  
19 gas beyond a home heating system conversion?

20 A. Yes, the Company actively promotes the use and adoption of frequently  
21 used gas appliances for cooking, fireplaces (multi-season space heating),  
22 water heating, and clothes drying. Additionally, as applicable, when a

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1 customer is connecting their home heating system or another heating  
2 appliance to natural gas, the Company will make the customer aware of  
3 other appliances eligible for connection to natural gas, including pool  
4 heaters, generators, barbecues, and patio heaters. Our marketing  
5 materials speak to the lifestyle enhancements natural gas service can  
6 bring to a home.

### **VI. CUSTOMER ADDITION ASSISTANCE**

8 Q. Does the Company provide customers with direct financial assistance for  
9 switching their home to natural gas from fuel oil or propane?

10 A. Yes, the 2015 Rate Plan provided a Customer Incentive Fund of up to \$1  
11 million per year in each of the three Rate Years to help offset customers'  
12 costs of switching to natural gas.

13 Q. How are the customer incentive funds used?

14 A. The Company has developed a tiered system of incentive offerings to best  
15 support customers and offset the upfront costs of switching to natural gas.  
16 Commencing in Rate Year 1 of the 2015 Rate Plan, new gas customers  
17 switching their home heating systems to natural gas have benefitted from  
18 baseline amounts of \$1,000 to \$4,000. The tier amounts have increased  
19 over time to adjust for the favorable pricing of oil and other barriers to  
20 switching to natural gas. Customers have also benefited from an  
21 additional \$500 Blue Shield Trade Ally discount match incentive; a \$500  
22 appliance incentive for customers who aren't ready to convert their heating

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1 system but install a water heater, range/oven, clothes dryer or fireplace,  
2 and a \$1,500 commercial incentive, when needed to offset unexpected  
3 costs.

4 Q. Why does the Company believe customer incentive funds are necessary?

5 A. Customer incentive funding is absolutely essential to enabling the  
6 customer to overcome the upfront cost of conversion and extended ROI  
7 period created by the favorability of home heating oil prices.

8 Q. What barriers does the Company see for customers switching to natural  
9 gas?

10 A. The high upfront investment to convert to natural gas in our service  
11 territory is a barrier to many customers. New gas heating systems  
12 average \$8,900 for a boiler and \$6,900 for a furnace, with more than 70%  
13 of our customers in the service territory switching from existing oil boilers.  
14 Even with the availability of the customer incentive, customers must spend  
15 a considerable amount of money to switch. Decreased oil prices are  
16 another barrier to customers switching to natural gas, given the minimal  
17 cost savings of natural gas compared to oil. Heating appliance life cycles  
18 also prevent customers from switching to natural gas. Customers prefer  
19 to wait for equipment end of life and will not replace a functioning heating  
20 unit to switch fuel types, especially when ROI periods are long.

21 Q. What were the total Rate Year 1 and Rate Year 2 customer incentive  
22 amounts paid under the 2015 Rate Plan?

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1 A. Rate Year 1 customer incentives paid were \$693,000. Rate Year 2  
2 customer incentives paid as of June 30, 2017 were \$355,235, with an  
3 additional \$393,500 expected to be processed for a total of \$748,735.

4 Q. Does the Company propose to continue customer incentive funding?

5 A. Yes, the customer incentive funding is an important component of our gas  
6 expansion program. Incentives help to overcome the high upfront costs of  
7 a heating system replacement which is the most frequently cited customer  
8 barrier to switching to natural gas. The Company's gas expansion  
9 program analysis has determined that there is an inverse relationship  
10 between oil prices and the amount of financial assistance needed to incent  
11 a customer to switch to natural gas. The higher the oil price, the lower the  
12 necessary incentive. The lower the oil price, the higher the incentive  
13 needed.

14 Q. Understanding the Company is reducing customer addition targets, will it  
15 also be reducing the amount proposed for customer incentive funding?

16 A. No. The Company proposes to keep the same level of funding. Based on  
17 the sales barriers previously stated in testimony, current customer  
18 behavior indicates high per-customer incentive amounts are necessary to  
19 stimulate sales and offset customer costs. If the level of funding were  
20 reduced, we would no longer be able to offer high-dollar incentives, or, if  
21 they were offered, the number of customers able to participate would be  
22 severely limited.

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1 Q. Has funding been included in the proposed revenue requirement for  
2 continuation of customer addition assistance?

3 A. No. The \$1 million customer addition assistance available in each of the  
4 three Rate Years of the 2015 Rate Plan was funded from then available  
5 rate moderators.

6 Q. How do you propose customer incentives be funded in the Rate Year?

7 A. The Company proposes that customer addition incentives be funded by  
8 unspent/unencumbered New York State Energy Research and  
9 Development Authority (“NYSERDA”) gas program dollars that were  
10 already collected from Central Hudson ratepayers. This approach is  
11 consistent with Staff’s proposal filed on June 16, 2017 in Case 07-M-0548,  
12 in which it recommended utilizing unspent/unencumbered System Benefits  
13 Charge (“SBC”) and Energy Efficiency Portfolio Standard (“EEPS”) dollars  
14 to fund proposed shareholder incentives for meeting EEPS 1 and 2  
15 targets.

16 Q. Why does the Company believe this is the most appropriate source of  
17 funding?

18 A. As discussed further in the testimony of the Earning Adjustment  
19 Mechanism Panel, natural gas provides considerable carbon savings over  
20 oil. Switching to natural gas from fuel oil lowers carbon emission by 40%.  
21 Therefore, fuel switching to natural gas from higher carbon footprint  
22 sources is perfectly aligned with the State’s goals of a 40% carbon

**DIRECT TESTIMONY OF THE BUSINESS DEVELOPMENT PANEL**

1           emissions reduction by 2030 and using already collected but  
2           unspent/unencumbered NYSERDA funds is the most cost effective  
3           manner to fund this goal.

4   Q.   What work has the Company done to establish the benefits of natural gas  
5           for low income customers?

6   A.   The Company educates customers about the availability of the NYSERDA  
7           Assisted Home Performance with ENERGY STAR® program via web,  
8           direct mail and event marketing. We collaborate closely with related  
9           agencies and Building Performance Institute certified trade allies to  
10           facilitate customer participation. Customers qualified within this program  
11           receive available natural gas customer incentives in addition to  
12           NYSERDA's 50% discount of eligible energy efficiency improvement  
13           costs.

14   Q.   Does this conclude your direct testimony?

15   A.   Yes, it does.