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February 3, 2023

Hon. Michelle Phillips Secretary
State of New York Public Service Commission
Three Empire State Plaza
Albany, NY 12223-1350

Re: Case 18-M-0084 - In the Matter of a Comprehensive Energy Efficiency Initiative

Dear Secretary Phillips,

Attached please find the Petition of Central Hudson Gas & Electric Corporation to Support Clean Heat Market Growth Through Transfer of Unspent and Previously Authorized Funding as well as a Continuity Funding Mechanism through the completion of the NENY Interim Review Order.

Please contact Cory Scofield, Director-Demand Side Management at (845) 275-4214 or Cscofield@cenhud.com with any questions.

Respectfully submitted,

/s/Paul A. Colbert

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STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of a Comprehensive)
Energy Efficiency Initiative)

Case 18-M-0084

**PETITION OF CENTRAL HUDSON GAS & ELECTRIC CORP., TO SUPPORT
CLEAN HEAT MARKET GROWTH THROUGH TRANSFER OF UNSPENT AND
PREVIOUSLY AUTHORIZED FUNDING**

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Dated: February 3, 2023

I. INTRODUCTION

Central Hudson Gas & Electric Corp. (“Central Hudson” or the “Company”) seeks the New York Public Service Commission’s (“Commission”) approval to utilize funds previously authorized on a cumulative basis for implementation of non-Low-to-Moderate (“LMI”) Electric Energy Efficiency Programs within the New Efficiency: New York Order¹ (“NENY Order”), but which are yet unspent, as well as incremental continuity funding, to sufficiently fund the Company’s continued implementation of the New York State Clean Heat Program (“Clean Heat” or the “Program”), to be drawn upon as needed.

Central Hudson’s Clean Heat Program has experienced consistently high demand since its launch in 2020, exceeding its cumulative six-year (2020-2025) Clean Heat savings target in its first two years of implementation. Despite lowering incentive levels twice, program expenditures have been higher than anticipated, exhausting the cumulative authorized \$43.2 million NYS Clean Heat budget allocation ahead of schedule. The Company has already maximized funding via the flexibility rules established within the NENY Order; expending budgets authorized for the Clean Heat program in future years and plans to utilize approximately \$4.6 million of unspent funds from the non-LMI Electric Energy Efficiency programs. To satisfy the anticipated demand of the Clean Heat Program through 2025, however, additional funding of approximately \$27.1 million will be needed. With this petition, the Company respectfully requests authorization for the following:

¹ New Efficiency: New York Order, Case 18-M-0084, In the Matter of a Comprehensive Energy Efficiency Initiative (“NENY Proceeding”), Order Authorizing Utility Energy Efficiency and Building Electrification Portfolios Through 2025 (issued January 16, 2020) (“NENY Order”),

1. Utilize \$13.5 million of funds authorized within the NENY Order for years 2023-2025 from the Company's non-LMI Electric Energy Efficiency portfolio while proportionally adjusting each portfolio's savings target;
2. Establish \$13.6 million of incremental "continuity funding" to be drawn upon as needed, and;
3. Initiate a surcharge to facilitate cost recovery of accelerated expenditures beyond the levels at which the Company's current rates were predicated.

Without additional funding, Central Hudson forecasts having to discontinue its Clean Heat program by mid-2023. While the NYS Clean Heat program has made a significant impact to date, the market is still relatively nascent. Continuity of the program is essential to support the recently established momentum for high-efficiency heat pump technology within Central Hudson's service territory and supporting the State's Clean Energy goals. To remain consistent with Commission policy that the Clean Heat program be designed to "provide a clear and stable market signal,"² any short-term market disruption, such as an interruption of the Clean Heat program due to lack of funding, must be avoided. To continue orderly implementation of the Clean Heat Program, the Company respectfully requests expedited treatment for this petition, including issuing a decision at the May 18, 2023, Open Session.

² NENY Proceeding, Order Adopting Accelerated Efficiency Targets (issued December 13, 2018) ("2018 NENY Order"), p. 61

II. BACKGROUND

Energy Efficiency and Building Electrification are key drivers for New York’s greenhouse gas emissions reduction objectives as outlined in the Climate Leadership and Community Protection Act (“CLCPA”)³. Most recently, Governor Kathy Hochul announced new goals of electrifying one million homes and making another one million homes electrification-ready by 2030⁴. Assuming a load-ratio-share basis⁵ for the electrification of the initial one million homes, approximately 62,500 homes must be converted in Central Hudson’s service territory to achieve this target. By contrast, the NENY Order allocated an incentive budget equivalent to the conversion of roughly 4,000 homes in Central Hudson’s territory.

A. Clean Heat Program

To support the State’s electrification objectives⁶ The Commission authorized utility-specific budgets and targets for the NYS Clean Heat program within the NENY Order in 2020. Since the Clean Heat Program’s launch in April 2020, it has offered contractor and customer incentives to reduce the costs of air-source and ground-source heat pump installations, driving adoption of these technologies to heat homes and businesses. New York electric utilities implement the statewide Clean Heat program in collaboration with New York State Energy Research and

³ S.B. S6599, Climate Leadership and Community Protection Act, p. 11. *See*, <https://www.nysenate.gov/legislation/bills/2019/s6599>

⁴ New York State of the State Address 2022 (January 5, 2022), p. 127. *See*, <https://www.governor.ny.gov/sites/default/files/2022-01/2022StateoftheStateBook.pdf>

⁵ Load Ratio Share refers to the percentage of the total volumetric electricity delivered statewide that is delivered by Central Hudson to its delivery customers. According to Central Hudson’s 2020 Facts At A Glance, the Company delivered approximately 9,856 GWh of electricity to its customers in 2020, equating to roughly 6.25% of the statewide total of 155,848 GWh found in the New York Independent System Operator’s (“NYISO”) 2020 Load and Capacity Data Report (“the “Gold Book”). <https://www.cenhud.com/en/about-us/facts-at-a-glance/> and NYISO, 2020 Load and Capacity Data Report, p. 13.

^[1] NENY Proceeding, NENY Order, Appendix C, Table C1.

⁶ Order Authorizing Utility Energy Efficiency and Building Electrification Portfolios Through 2025 NENY Proceeding, Effective: January 16, 2020 NENY Order, Appendix C, Table C1.

Development Authority (“NYSERDA”)⁷ through the Joint Management Committee (“JMC”) structure, with oversight from Department of Public Service Staff (“DPS Staff”). Through the program, Central Hudson has supported the growth of the market by working expeditiously to develop relationships with businesses, contractors, equipment distributors and manufacturers as well as providing marketing and outreach to promote heat pump technology to its customers.

B. Existing Flexibility Rules

The NENY Order provided utilities with the flexibility to adjust portfolio budgets to maximize their effectiveness with a few key limitations: *“Current practice allows utilities to shift budgets from year to year within a portfolio to accommodate the timing concerns that arise with commitments and outlays and to avoid artificial program stops and starts. Utilities may also adjust budgets and targets among programs within the same portfolio, e.g., funds may be shifted from one electric efficiency program to another. These practices will be continued, with two additional requirements: (1) heat pump targets must be maintained as separate targets within the electric utility portfolios; and, (2) funds cannot be transferred from LMI to non-LMI programs. Utilities will not have general flexibility to shift funds among gas, electric, and heat pump budgets. Gas, electric, and heat pump targets are established in this Order to align with policy goals; a utility may shift funds among these portfolios only if it can demonstrate that it will meet the annual target for the portfolio from which funds are being transferred”*⁸

⁷ NYSERDA supports the Clean Heat Program through its market education and outreach efforts. This petition does not propose any changes to NYSERDA’s role in the implementation of the Clean Heat Program. Cases 14-M-0094, et al., Proceeding on Motion of the Commission to Consider a Clean Energy Fund, Order Approving Clean Energy Fund Modifications (issued Sept 9, 2021), p. 94.

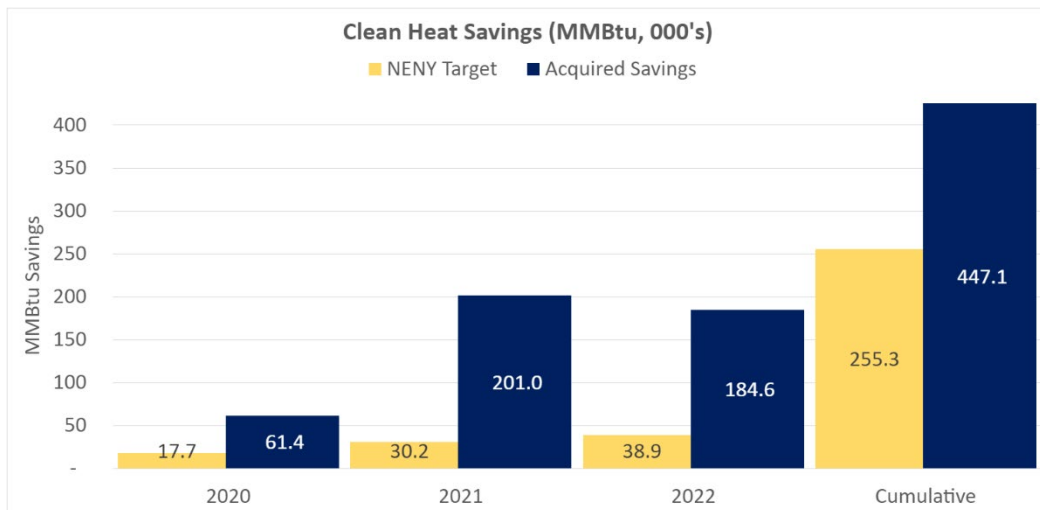
⁸ NENY Order, pp. 69-70.

C. Central Hudson Clean Heat Program Achievement and Expenditures

As of year-end 2022, Central Hudson's Clean Heat Program has achieved over 175% (447,000 MMBtu) of its cumulative (2020-2025) NENY MMBtu savings target, fully electrifying over 4,600 homes. Central Hudson has achieved these savings at a unit cost significantly lower than the average unit cost derived from the budgets and targets authorized within the NENY Order.⁹ Due to exceptionally high demand for the program, however, the Company has fully exhausted its cumulative six-year authorized Clean Heat budget.

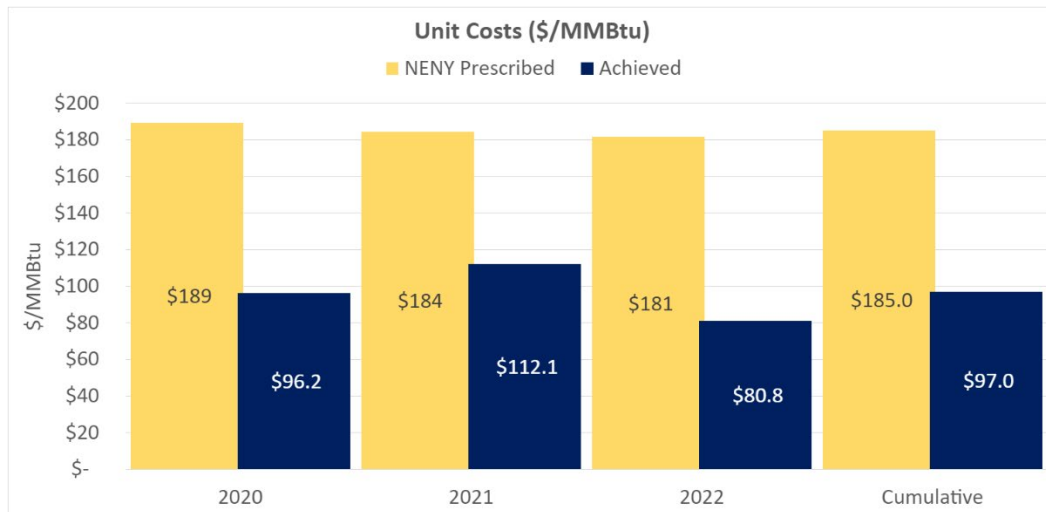
Figure 1 depicts the program's savings achieved from 2020 through December 2022 compared to planned NENY targets. Figure 2 reflects the Program's achieved unit costs versus the derived rate in the NENY Order.

Figure 1: Central Hudson's Clean Heat Program Savings Achievement Since Inception Through December 2022 versus Planned NENY Targets



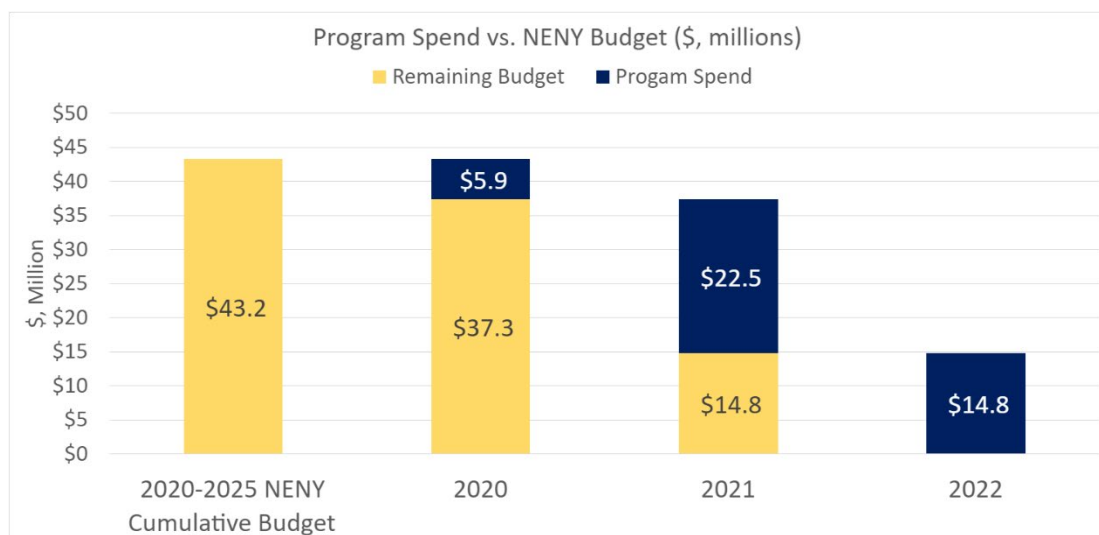
⁹ Central Hudson average Heat Pump program spend rate as of November 30, 2022, is \$98.90 per MMBtu, versus the NENY prescribed rate of \$169.30 per MMBtu of savings.

Figure 2: Central Hudson’s Actual Clean Heat Program Unit Costs Since Inception Through December 2022 versus Derived Rate Within the NENY Order



The Commission initially authorized \$43.2 million for the Company’s 2020-2025 Clean Heat Program. The Program expended approximately \$5.9 million in 2020, \$22.5 million in 2021, and a projected amount of \$14.8 million in 2022, for a total of \$43.2 million. Figure 3 illustrates the drawdown of available NENY budget from inception to a projected 2022 year-end.

Figure 3: Central Hudson’s Clean Heat Program Actual Spend versus NENY Budget:



For the purposes of managing the program budget, the Company reduced incentives twice; Once in July of 2021 and again in March of 2022. Both reductions decreased demand for the program with the second having a more significant market impact. After the second incentive reduction, the savings trend line for the latest period (March 2022 to current) fell below the rate of 15,000 MMBtu per month for the first time. Provided the strong correlation in reduced market activity to the second reduction, it’s expected that further incentive reductions would significantly decrease adoption of heat pump technology. In addition to decreased customer demand, its anticipated that further lowering incentives would result in contractors withdrawing from participating in the Program.

Illustration 1 shows a series of monthly MMBtu savings achievements from January 2021 until December 2022 with periods segmented by the timing of the first and second incentive modifications.

Illustration 1: January 2021 to December 2022 Monthly Clean Heat Savings (MMBtu) and Trendlines segmented by periods following new incentive rollouts.



D. Unspent Funds Currently Available for Clean Heat

Central Hudson has already expended the full cumulative Clean Heat Program budget for the years 2020-2025. Pursuant to the budget flexibility authorized in the NENY Order, The Company also plans to utilize a total of approximately \$4.6 million in unspent funds from the Non-LMI Electric portfolio for Clean Heat, having achieved the annual electric portfolio targets for years 2018-2022 without spending the full budget in each year. Table 1 provides a breakdown of unspent non-LMI Electric funds to be transferred to Clean Heat.

Table 1: Non-LMI Electric Underspend Summary:

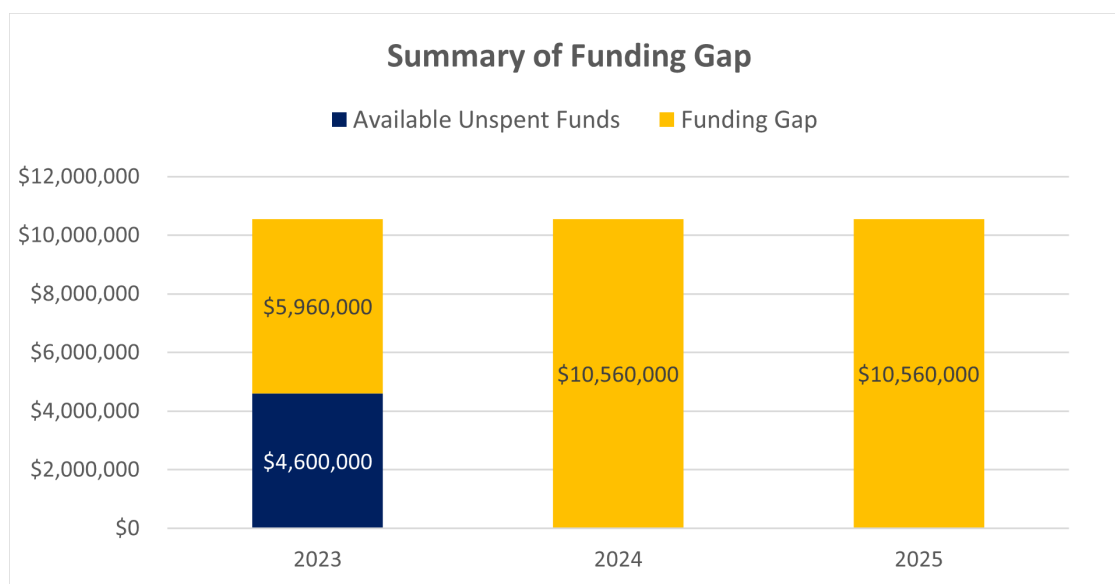
Non-LMI Electric Underspend to be Transferred to Clean Heat	Amount (\$, million)
Prior Electric EE Underspend (2018-2021)	\$2.76
Electric EE Underspend (2022, projected)	\$1.83
Underspend Total:	\$4.59

E. Clean Heat Program Funding Gap

Pursuant to the NENY Order and included flexibility rules, Central Hudson currently has authorization to spend \$47.8 million on its Clean Heat Program, including the original program budget of \$43.2 million and additional \$4.6 million of aforementioned unspent funds from the non-LMI electric EE portfolio. Through 2022, the Program has expended approximately \$43.2 million. Based on projected program activity levels, the Company forecasts Clean Heat Program costs of approximately \$10.6 million per year for the years 2023 through 2025, resulting in a total cumulative expenditure of \$75.1 million. Based on this projection, a funding gap of \$27.1 million needs to be addressed in order to support implementation of the program through 2025.

Figure 4 illustrates the Program's annual projected costs, use of unspent funds, and resulting funding gap for supporting the Program through 2025.

Figure 4: Central Hudson’s Clean Heat Program Funding Gap:



III. Requested Funds

A. Future Non-LMI Electric Funds Transfer

To provide additional funding beyond the transfer of unspent funds, the Company requests to transition \$13.5 million of its cumulative budget and proportionate savings target of 74,104 MWh (or 252,843 MMBtu equivalent)¹⁰ from its NENY authorized non-LMI Electric portfolio to Clean Heat. Portfolio savings targets are to be adjusted proportionately with the transfer of funds. The combined cumulative savings targets and budgets of the non-LMI Electric and Clean Heat Portfolios would remain the same.

The Company has achieved its 2018-2021 non-LMI electric savings targets at less cost than the NENY Order’s projection and anticipates the same for 2022. It is anticipated, however, that the years ahead will present challenges in obtaining savings at the same unit costs achieved in

¹⁰ Proportionate transfer based on NENY cumulative non-LMI electric energy efficiency 2021-2025 budget and savings target

recent years. Marginal cost increases have been experienced in the Non-LMI Electric program measures and additional uncertainties remain ahead with continued increases in inflation. For example, in 2022, the Company effectuated a number of limited-time offers (“LTO”) to provide a much-needed stimulus to program activity. These LTO’s accomplished meaningful savings contributions towards the Company achieving its NENY savings targets but came with an above average unit cost to the programs. Additionally, the Appliance Recycling Program is expected to have unit cost increases by approximately 15% from 2022 to 2023 with its deemed savings for its standard measures decreasing. Lastly, the Non-LMI Electric portfolio's largest program,¹¹ Retail Lighting, will be significantly impacted with the adoption of the Federal Lighting Standards Change. The change to the Federal Lighting Standards is anticipated to result in a significant deficit to the Retail Lighting program. Achieving similar savings from the Retail Lighting program in the future or making up the deficit with other programs in the electric portfolio, would be difficult, at best, and would come with higher unit costs. By contrast, the Clean Heat program potential appears to be limited mainly by the amount of funding that is available. Transferring budget and savings target to the Clean Heat program presents the best opportunity to achieve the maximum total energy savings and greenhouse gas emission reductions.

The Commission understood the potential need for budget changes by confirming that program “implementation will be subject to pragmatic adjustments in light of actual experience and market realities, with reduction of costs to utility customers a primary consideration.”¹² The transfer of budget and savings target to Clean Heat is consistent with Commission statements in

¹¹ Retail Lighting has been the largest savings contributor to the electric energy efficiency portfolio for years 2018-2022 contributing approximately 35-45% of the portfolios First Year savings.

¹² Order Adopting Accelerated Energy Efficiency Targets, 2018 Accelerated NENY Order Issued and Effective: December 13, 2018, p.18.

the NENY proceeding that “heat pumps can also be one of the most cost-effective means of achieving TBtu reductions.”¹³ Given the State’s focus on heating electrification, the progress of the Clean Heat program, and anticipated cost increases to the non-LMI Electric portfolio there is a benefit to moving additional non-LMI electric funding to continue to incent heating electrification. To do this, the Company requests the Commission allow for a proportionate transfer of approximately 35% of remaining cumulative funds and targets in the amounts of \$13.5 million and 74,104 MWh (or 252,843 MMBtu), respectively, from the non-LMI Electric portfolio to the Clean Heat for the years 2023-2025.

Table 3 below summarizes the current authorized NENY non-LMI Electric budget and proposed yearly and cumulative funding transfer amounts along with the final proposed non-LMI electric budget following the proposed funds transfer. Table 4 summarizes the current authorized NENY non-LMI Electric savings target and proposed yearly and cumulative savings transfer amounts along with the final proposed savings target amounts for the non-LMI electric and Clean Heat portfolios.

¹³ Order Adopting Accelerated Energy Efficiency Targets, 2018 Accelerated NENY Order Issued and Effective: December 13, 2018, p. 59.

Table 3: Proposed Non-LMI Electric Budget Transfer to Deliver Increased Support to Clean Heat (\$, million)

	2021	2022	2023	2024	2025	Cumulative (\$, million)
2020 NENY Non-LMI Electric Budget	\$10.59	\$11.23	\$11.94	\$12.56	\$14.14	\$60.46
<i>Proposed funds transfer from Non-LMI Electric to Clean Heat</i>	-	-	\$4.50	\$4.50	\$4.50	\$13.50
<i>Proposed Non-LMI Electric Budget</i>	\$10.59	\$11.23	\$7.44	\$8.06	\$9.64	\$46.96

Table 4: Proposed Non-LMI Electric Savings Target Transfer to Clean Heat

	2020	2021	2022	2023	2024	2025	Cumulative
2020 NENY Non-LMI Electric Target (MWh)	-	58,908	62,631	66,322	69,053	76,569	333,483
<i>Proposed Target Transfer (MWh)</i>	-	-	-	(24,996)	(24,737)	(24,371)	(74,104)
<i>Proposed Target Transfer (MMBtu-equivalent)</i>	-	-	-	(85,288)	(84,403)	(83,152)	(252,843)
<i>Proposed Non-LMI Electric Target (MWh)</i>	-	58,908	62,631	41,326	44,316	52,198	259,379
2020 NENY Heat Pump Target (MMBtu)	17,728	30,183	38,850	48,190	56,479	63,863	255,292
<i>Proposed Heat Pump Target (MMBtu)</i>	17,728	30,183	38,850	133,478	140,882	147,015	508,136

B. Incremental Continuity Funding

Funding needs will be contemplated within the NENY Interim review, and it is possible that the NENY Interim Review process would authorize additional funds to continue or expand existing electrification offerings. Provided the Program's rate of spend, however, it's possible that the Clean

Heat program could exhaust these funds prior to the completion of the NENY Interim Review. To ensure continuity, the Company requests authorization of continuity funding up to \$13.6 million which would be drawn upon, if necessary, should the transferred non-LMI Electric portfolio funds be exhausted at any time prior to the end of 2025.

C. Summary of Funding Modifications

Table 5 summarizes the cumulative budget impacts to the Non-LMI Electric portfolio following the proposed transfer of budget to Clean Heat as well as the Clean Heat cumulative budget impacts following this transfer as well as the additional use of unspent funds and supporting continuity funding. With these transfers, the Program has \$31.7 million to support Clean Heat. Along with the \$13.5 million transferred from the non-LMI Electric portfolio, the Clean Heat cumulative savings target increases from 255,292 MMBtu to 508,136 MMBtu.¹⁴ Future Non-LMI Electric Funds Transferred into the Program would be utilized first prior to the Incremental Continuity Funds.

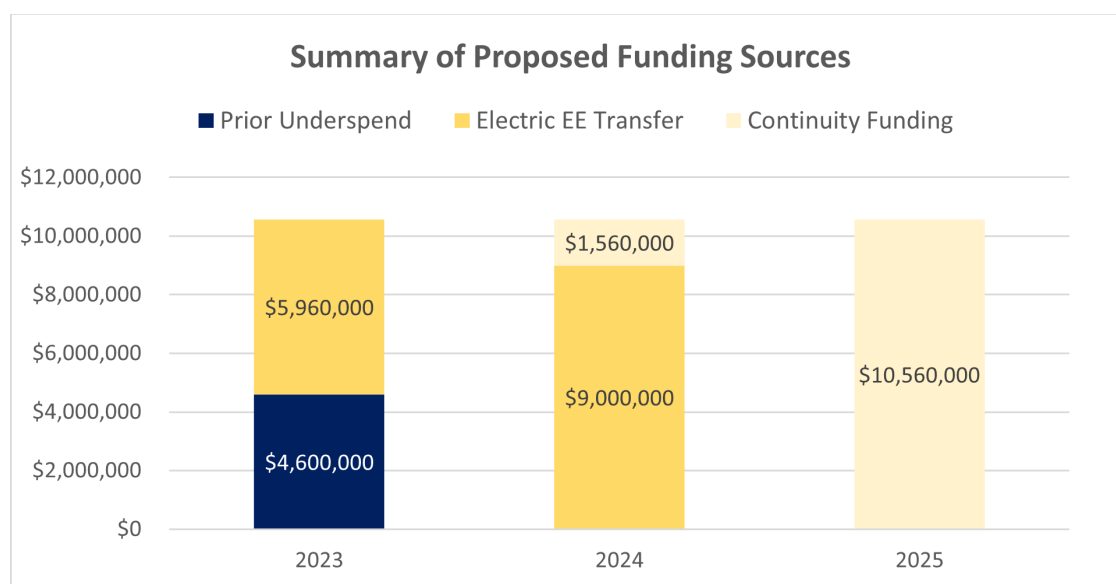
Table 5: Summary of Funding Modifications and Cumulative Budget Impacts

	Cumulative (\$, million)
2020 NENY Non-LMI Electric Cumulative Budget (2021-2025)	\$60.5
Proposed funds from Non-LMI Electric to Clean Heat	\$13.5
Proposed Non-LMI Electric Budget	\$47.0
2020 NENY Heat Pump Cumulative Budget (2020-2025)	\$43.2
Unspent funds (2018-2022)	\$4.6
Proposed funds from Non-LMI Electric to Clean Heat	\$13.5
Continuity Funding requested	\$13.6
Proposed Total Heat Pump Budget	\$74.9

¹⁴ The Order Adopting Terms of Joint Proposal and Establishing Electric and Gas Rate Plan, Cases 20-E-0428 et. al., issued and effective November 18, 2021 established annual Earnings Adjustment Mechanism opportunities associated with Central Hudson's energy efficiency and heat pump programs delivered in 2023 and 2024 utilizing funding authorized within the NENY Proceeding.

Figure 5 illustrates the Program’s annual projected costs and sources used to cover its funding gap.

Figure 5: Central Hudson’s Clean Heat Program Forecasted Spend and Funding Sources:



IV. COST RECOVERY

As explained throughout the body of this petition, the Company is accelerating its spending of budgets approved in the NENY Order and requesting incremental continuity funding to allow the Company to continue its Clean Heat program. In order to accommodate the aforementioned spending levels, the Company is requesting cost recovery for the accelerated spending via a surcharge, including costs deferred for future collection in the Company’s most recent rate case.¹⁵

As shown in Table 6, the Company is seeking approval to collect \$53.478 million over a five-year period, \$10.696 million annually, beginning July 1, 2023 and concluding June 30, 2028. The total \$53.478 million includes recovery for all approved Clean Heat NENY budgets through 2025 that are

¹⁵ Order Adopting Terms of Joint Proposal and Establishing Electric and Gas Rate Plan, Cases 20-E-0428 and 20-G-0429, Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Central Hudson Gas & Electric Corporation (issued November 18, 2021)


anticipated to be accelerated and exhausted by the end of calendar year 2022 beyond the levels included in the Company's current rates, budget dollars proposed to be transferred from non-LMI electric programs that are not yet being recovered in rates, and the incremental continuity funding previously identified. Approval of more-timely cost recovery has been a focus of many ratings agency reports for the NYS utilities. In fact, Central Hudson was recently downgraded by S&P; the agency's report specifically referenced the Company's constrained cashflow. Continuing to constrict cost recovery of programs associated with achieving New York State's nation leading environmental goals will increase the cost of capital borne by customers and negatively impact the Company. As such, the Company proposes to collect \$10.696 million annually for five years, beginning July 1, 2023.

The Company proposes to collect Clean Heat Funds not included in rates, Electric Transferred funds not included in rates, and requested Continuity Funding (as illustrated in Table 6), plus associated carrying charges, through the existing System Benefits Charge - the surcharge currently utilized to recover the Clean Energy Fund. The factor will be reset annually to be effective July 1st and will include a reconciliation between actual and authorized collections from the preceding 12-month period, based on 11 months actual collections and one month estimated collections. Should the NENY Interim Review Order result in revised Company budgets that impact the five-year amortization put forth here, the Company will reconcile and revise collections as needed beginning in the immediately following annual calculation of its surcharge factor. Bill impacts resulting from this incremental surcharge collection of \$10.696 million are estimated to be approximately 1.0% for residential customers, 1.0% for non-residential non-demand customers, and 1.3% for an average non-residential demand customers.

As per the Company's joint proposal, variations between spending and collections will continue to accrue carrying charges at the Company's pre-tax weighted average cost of capital, including spending and collection associated with the continuity funding. At the end of the

proposed five-year period (i.e., June 30, 2028), a reconciliation of total spend to authorized collections will be performed, with any underspend deferred for future pass back to customers.

Table 6: Cost Recovery of Projected Clean Heat Expenditures

	End of Current Rate Plan 				2024		
	2020	2021	2022	2023	Jan – June	July - Dec	2025
<i>Clean Heat Budgets Not Included in Rates</i>	-	-	4,812,500	6,159,000	3,346,500	4,593,252	9,804,997
<i>Electric Transfer to Clean Heat Not Included in Rates</i>	-	-	-	2,216,000	2,216,000	2,250,000	4,500,000
<i>Total</i>	-	-	4,812,500	8,375,000	5,562,500	6,843,252	14,304,997
<i>Cumulative Total</i>	-	-	-	-	18,750,000	25,593,252	39,898,249

<i>Cumulative Total – To be current on Clean Heat Spending</i>	39,898,249
<i>Continuity Funding</i>	13,580,000
<i>Total To be Collected over 5 Years (July 1, 2023 June 30, 2028)</i>	53,478,249
<i>Annual Collection</i>	10,695,650

V. NEED FOR EXPEDITED REVIEW

The Company seeks the Commission’s expedited review and approval of this petition by the May 18, 2023 Open Session with the Company subsequently filing compliance tariff amendments and surcharge statements prior to the July 1, 2023 proposed effective date. This will allow the Program to continue without interruption due to exhaustion of funds. Ceasing availability of the program would be detrimental to the momentum that has been established and counterproductive to the State’s clean energy goals.

VI. CONCLUSION

The Company supports New York State’s electrification and clean energy policy goals. As evidenced by its great success to date, the Clean Heat Program is a key driver in transitioning

space and water heating away from fossil fuels and achieving these goals. Given the volume of activity and projected exhaustion of funds despite high cost-efficiency, Central Hudson urges the Commission to consider and approve this proposal to sustain this critical program.

Respectfully submitted,

Central Hudson Gas & Electric Corporation

By: /s/Paul A. Colbert

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