



OFFICE OF INVESTIGATIONS AND ENFORCEMENT

NEW YORK STATE DEPARTMENT OF PUBLIC SERVICE INVESTIGATION REPORT

DECEMBER 2022

CASE 22-M-0645 – In the Matter of an Investigation by the DPS Office of Investigations and Enforcement Into Central Hudson Gas & Electric Corporation’s Development and Deployment of Modifications to its Customer Information and Billing System and Resulting Impacts on Billing Accuracy, Timeliness, and Errors.

This Report was prepared by the Department of Public Service, Office of Investigations and Enforcement and does not necessarily represent the views of the Public Service Commission or of the individual Commissioners.

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I. EXECUTIVE SUMMARY

On September 1, 2021, Central Hudson Gas & Electric (Central Hudson, or the Company) upgraded its Customer Information and Billing System. Following implementation, several customers complained to local officials and to the New York State Department of Public Service (DPS) about excessive and delayed bills, and a lack of customer support by the Company. Following a review by the New York State Department of Public Service Office of Investigations and Enforcement, the following facts were revealed:

Central Hudson's primary motive for spending over 88 million dollars to upgrade its customer information and billing system was the need to have a system that could properly handle complex billing scenarios. The development and implementation of the project, however, was riddled with Company missteps. In the leadup to the transition, Central Hudson employees warned decision-makers of deficiencies in training, testing, and overall readiness. Central Hudson pushed employees to meet the transition deadline, and despite significant efforts of those employees, the Company was not ready for the transition. On September 1, 2021 (the go-live date), the system was not only incapable of handling complex billing scenarios, but it also contained hundreds of programming errors and defects that resulted in billing overcharges and delays for thousands of customers. The problems were directly attributable to Central Hudson's negligence, lack of appropriate training, lack of proper system testing, misuse of resources, and an overall lack of readiness. Central Hudson's lack of candor regarding the problems only exacerbated the impact of the Company's failings, resulting in several months of undue hardship for its customers, its employees, and the public at large. The investigation also identified violations of applicable requirements.

II. INVESTIGATION BACKGROUND & SCOPE

On March 16, 2022, the Public Service Commission (the Commission) announced three investigations related to Central Hudson. The first was the approval of a third-party independent consulting company comprehensive management and operations audit. The second was an investigation into the utility's preparation and response to a February 4, 2022, winter storm. And the third was a customer service investigation into customer billing and customer service issues related to the utility's new billing system (22-00666).¹ This report details the current results of an investigation conducted by the Office of

¹ Department of Public Service Press Release, March 16, 2022.

Investigations and Enforcement, which commenced in April of 2022, and focused on potential violations, enforcement, penalties, and financial prudence issues.

The New York State Department of Public Service has a broad mandate to ensure access to safe, reliable utility service at just and reasonable rates. The Office of Investigations and Enforcement (OIE) is a division of the Office of General Counsel charged with conducting investigations and enforcing penalties and conditions imposed due to violations of the Public Service Law (PSL) and its associated regulations and orders, on behalf of the Chairman and Chief Executive Officer, the Department, and the Public Service Commission.

The Office of Investigations and Enforcement commenced its investigation on April 5, 2022, with the issuance of an Information Preservation Directive to Central Hudson, requiring the Company to secure and retain documents related to the implementation of its new billing system. In the months that followed, OIE reviewed over 4,700 documents containing hundreds of thousands of pages of information, participated in numerous meetings with the Company, and interviewed senior level employees at Central Hudson who were responsible for various aspects of the system upgrade. OIE relied heavily on the expertise and efforts of staff from DPS's Office of Consumer Services, Office of Accounting, Audits and Finance, and other staff throughout the department. OIE reviewed Commission orders and previous Central Hudson filings to determine if any actions by Central Hudson violated the Public Service Law or any related regulations or Commission orders. In addition, OIE reviewed information and input provided by the public and from other stakeholders in New York's energy markets.

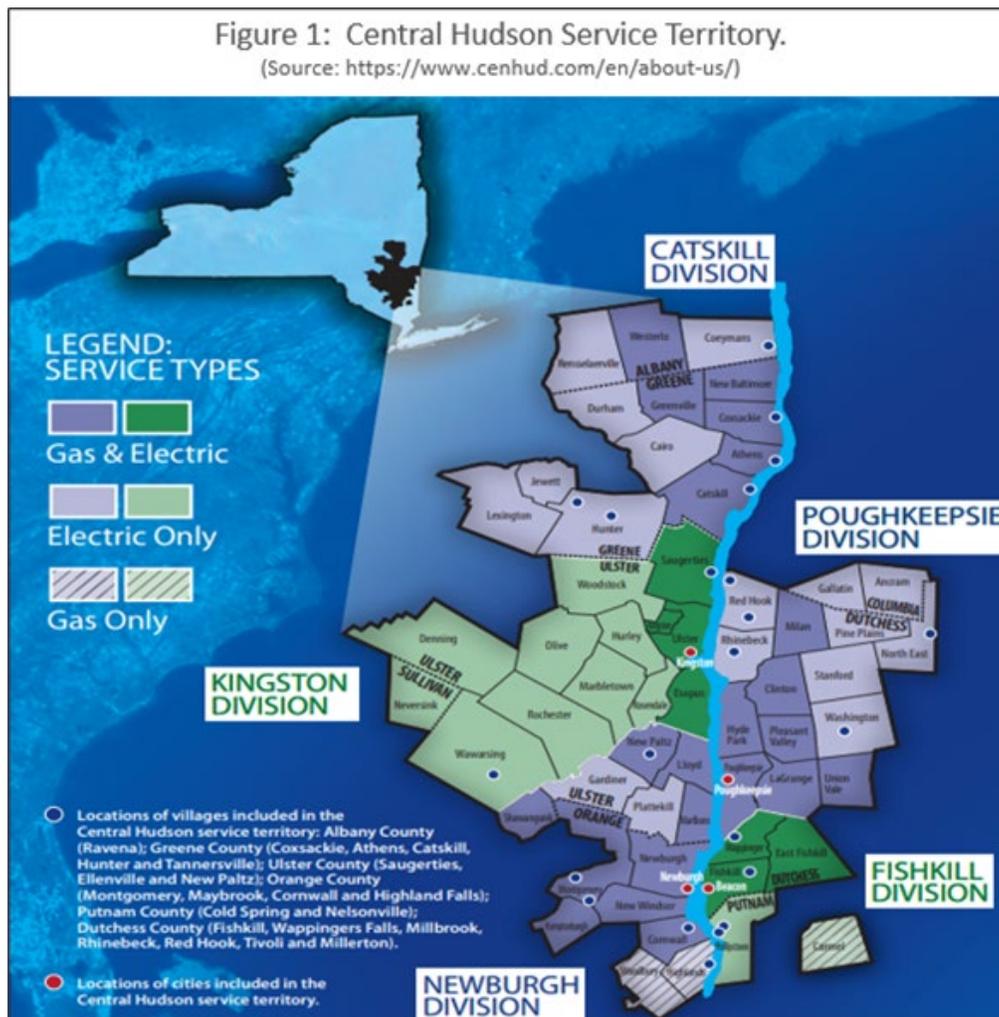
What follows is OIE's report of its findings related to Central Hudson Gas & Electric Corporation's development and deployment of modifications to its customer information and billing system and resulting impacts on billing accuracy and timeliness.² Additionally, OIE outlines potential violations of the Public Service Law, DPS regulations, and Commission Orders, and suggests a path forward to address Central Hudson's failings and to protect customers from future hardships.

² It is important to note that while OIE's function is to investigate the actions of Central Hudson from a historical perspective, other DPS Staff have continued, throughout the course of the investigation, to interact with the utility to support ongoing efforts to alleviate customer harm.

III. FACTUAL FINDINGS

A. CENTRAL HUDSON GAS AND ELECTRIC

Central Hudson Gas & Electric Corporation is a regulated transmission and distribution utility serving approximately 300,000 electric customers and 84,000 natural gas customers in a defined service territory of New York State's Mid-Hudson River Valley. Central Hudson delivers natural gas and electricity in a defined service territory that extends from the suburbs of metropolitan New York City north to the Capital District at Albany (Figure 1).³ Before September 2021, Central Hudson's Customer Information System (CIS), which encompassed most of its core business processes, including customer billing, was maintained on an over 30-year-old legacy mainframe system.



³ <https://www.cenhud.com/en/about-us/facts-at-a-glance>

B. COMPLEX BILLING SCENARIOS

New York State requires each utility to offer a variety of energy options to its customers. While the utility is solely responsible for energy delivery, energy supply may be provided in several ways. The various supply options include Community Distributed Generation (CDG)⁴, purchase from an Energy Supply Company (ESCO), customer generated electricity (net-metering), utility supplied energy commodity, as well as others. Many of these options involve non-traditional forms of billing (sometimes referred to as “complex” billing), that require the utility to take additional steps prior to billing the customer. “ESCO and CDG consolidated billing is complex because it involves rate inputs from the ESCO or CDG, purchase of receivable (“POR”) and crediting customers pursuant to the Value Stack.”⁵

In June of 2017, a regulated industries consultant, Overland Consulting (Overland), conducted a comprehensive management and operations audit of Central Hudson. In the audit, Overland recommended that Central Hudson upgrade its then-current customer information system (CIS), stating,

As REV and other business drivers translate to new business models and offerings to customers, additional complex billing scenarios are expected. Rather than adding complexity and risk to the core CIS system, the CIS/REV Modernization initiative plans to address the new CIS functionality needs with the implementation of a modern CIS solution that includes a complex billing engine that will be interfaced with the existing CIS leveraging servicing-oriented architecture. The modern CIS solution will be capable of replacing the majority of the functionality of the existing CIS solution.⁶

In November of 2017, Central Hudson technical staff submitted testimony in rate cases 17-E-0459 and 17-G-0460 wherein the Company sought a five-year, \$96.286 million investment related to technology needs.⁷ During testimony, Central

⁴ CDG allows customers to participate in solar and other forms of clean distributed generation through community projects. See Case 15-E-0082, Proceeding on Motion of the Commission as to the Policies, Requirements and Conditions for Implementing a Community Net Metering Program, Order Establishing a Community Distributed Generation Program and Making Other Findings (Issued July 17, 2015).

⁵ Case 22-E-0121, Petition of Agway Energy Services, LLC for a Declaratory Ruling Concerning Failure of Central Hudson Gas and Electric Corporation to Provide Accurate Electronic Data Interchange Information or Provide Accurate Client Bills, Central Hudson Gas & Electric Corporation’s Verified Motion to Dismiss, p.7 (March 18, 2022).

⁶ Case 16-M-0001, In the Matter of a Comprehensive Management and Operations Audit of Central Hudson Gas & Electric Corporation, Final Auditor’s Report. p. 5-8.

⁷ Cases 17-E-0459 et al., Central Hudson Gas & Electric Company-Rates, Staff Information Technology Panel, p. 5.

Hudson justified its request relying on the Overland audit. Specifically, Central Hudson referenced Overland's finding that as "[b]usiness drivers translate to new business models and offerings to customers, additional complex billing scenarios are expected."⁸ Central Hudson went on to state, "In addition to the CIS, several of the Company's IT upgrade proposals will allow the Company to meet the needs of this changing business environment."⁹ Central Hudson staff testified that it intended to upgrade its CIS system utilizing a "phased approach."¹⁰

⁸ *Id.* at 8.

⁹ *Id.*

¹⁰ *Id.* at 13.

C. CIS MODERNIZATION

On June 14, 2018, the Commission approved funding for modernization of Central Hudson's CIS. The order required Central Hudson to file detailed annual and quarterly Capital Information Technology Reports to include project lists with estimated costs, as well as explanations of cost variances of over 10%.¹¹ Central Hudson reported cost variances based on each year's approved budget.

On December 3, 2018, Central Hudson advised the Commission that its original "phased approach" was no longer a viable option. Instead, the Company had decided to engage with a third party to help evaluate its options. Central Hudson advised the Commission that if it decided to replace its current system with a modern software package, "more capital [would] be spent over a shorter duration."¹²

On May 15, 2019, Central Hudson advised the Commission that there would be a delay in implementation of the CIS Modernization initiative for Central Hudson to complete further evaluation of alternatives. The Company stated, "Following the conclusion of the evaluation this year and the expected recommendation of the software to be purchased, this funding project is expected to spend the full 2019 budgeted amount."¹³

Approximately three months later on August 9, 2019, Central Hudson advised the Commission that it had decided to replace its existing mainframe system with a commercially available server-based system. The Company also advised that it had decided to conduct further analysis resulting in a delay in implementation that it anticipated would cause a \$0.30M (5%) overrun at year end.¹⁴

D. PROJECT NEEDS / COMPLEX BILLING

On September 6, 2019, Central Hudson issued a Request for Proposal (RFP) for the project. In the RFP, Central Hudson announced that it had chosen the SAP solution, and the Company was seeking a System Integrator to deliver

¹¹ Cases 17-E-0459 *et al.*, Central Hudson Gas & Electric Company-Rates, Order Adopting Terms of Joint Proposal Establishing Electric & Gas Rate Plan, pp.15-16.

¹² Cases 17-E-0459 *et al.*, Central Hudson Gas & Electric Company-Rates, 2019 Annual Information Technology Capital Projects Report, p.4.

¹³ Cases 17-E-0459 *et al.*, Central Hudson Gas & Electric Company-Rates, 2019 Q1 Capital IT Projects Report, p.3.

¹⁴ Cases 17-E-0459 *et al.*, Central Hudson Gas & Electric Company-Rates, 2019 Q2 Capital IT Projects Report, p.2.

implementation services for the Customer Information System (CIS) replacement as well as initial post-implementation support.¹⁵

In preparation for the project, Central Hudson engaged in a series of workshops designed to identify “pain points” associated with the initiative.¹⁶ The workshops specifically identified pain points in account management and in billing associated with complex accounts. Central Hudson identified the need for solutions that included “functionality to support alternative Supply and Rate offerings such as Retail Choice” and “Community Distributed Generation”¹⁷ Central Hudson stated, “Our pain-points are primarily around managing billing exceptions and getting to rate and billing data easily for researching issues and customer complaints. We also have challenges around cancel/rebill, adjustments and billing for special programs like Retail Choice, Net Metering and Summary Billing.”¹⁸

As represented by the Company, Central Hudson’s objectives were to “improve customer experience,” “improve system performance and resilience”, and to “improve productivity and efficiency.”¹⁹ The goal was to create a “seamless customer experience” which would be measured through “PSC Customer Satisfaction Survey, PSC Complaint Rate, and PSC Contact Center ASA.”²⁰ The Company described the “largest and most complex part of the transformation program,” as the replacement of its “decades-old mainframe legacy CIS (LCIS) with a robust, modern day software platform.”²¹

From its inception and throughout Central Hudson’s planning for the CIS replacement, the Company repeatedly stressed the importance of finding solutions for complex billing scenarios such as Community Distributed Generation (CDG), and net-metering. Central Hudson’s RFP specifically identified CDG as an important capability that needed to be addressed either through customization of the new CIS solution, through retaining the current legacy solution, or through re-platforming with another third party solution.²² In its instructions for completing the RFP paperwork, Central Hudson asked the bidder to describe its strategy for implementing support for CDG functionality as part of the CIS replacement.²³ Along with the RFP, Central Hudson provided a list of “requirements” that were “most important” in making its decision when choosing a system integrator.²⁴

¹⁵ IR-009, Attachment 62, p.5.

¹⁶ *Id.* at 8.

¹⁷ IR-009, Attachment 54, p.7.

¹⁸ *Id.* at 16.

¹⁹ IR-009, Attachment 62, p.7.

²⁰ *Id.*

²¹ *Id.* at 8.

²² *Id.* at 11-12.

²³ IR-009, Attachment 54, p.10.

²⁴ IR-009, Attachment 58.

Central Hudson stated, “The system needs to bill and manage these types of net-metering accounts: monetary, volumetric, CDG & Remote Net-Metering.”²⁵ The Company went on to state, “The system shall be flexible and allow the enrollment and billing including but not limited to community solar (e.g. CDG portal).”²⁶ Included in the list were over 30 system requirements directly related to complex billing scenarios including CDG & net-metering.²⁷

E. PROJECT PHOENIX

On October 11, 2019, Ernst & Young (EY) submitted a proposal dubbed “Project Phoenix”. Recognizing Central Hudson’s need to address complex billing scenarios, EY stated, “Community Distributed Generation and Community Choice Aggregation will be using the Market Process Management (MPM) / IDEX solution for service providers integrated to Device Management, FICA and Billing for account set up and bill charges.”²⁸ EY went on to say, “Energy Data Management and Time of Usage and Real Time Pricing will be used in the ISU billing master data to charge and build complex billing rates.”²⁹

Central Hudson awarded the system integrator contract to Ernst & Young in January of 2020, and on June 30, 2020 the Company submitted its Distributed System Implementation Plan to the Commission wherein the utility announced, “The Company has embarked on the transformation of its Customer Information System, called Project Phoenix, which will bring industry-leading functionality to Central Hudson’s business processes by improving the customer experience, supporting emerging customer expectations, and laying the groundwork for future capabilities compelled by the CLCPA.”³⁰ The Company went on to say,

“Central Hudson has launched a major, multi-year system modernization project to replace the current legacy CIS with an enterprise resource planning software package. While this software will still provide the necessary day-to-day process functionality of customer data maintenance and billing, it will move the Company away from a transactional system that merely records data toward a system that will enable the Company to provide customers with more personalized experiences, enhance digital self-service options, increase energy choices, seamlessly integrate distributed generation onto the

²⁵ *Id.*

²⁶ *Id.*

²⁷ *Id.*

²⁸ IR-009, Attachment 11, p.11.

²⁹ *Id.*

³⁰ Cases 16-M-0411 *et al.*, In the Matter of Distributed System Implementation Plans, Central Hudson’s 2020 Distributed System Implementation Plan, p.12.

electric grid, and allow for more robust and efficient data processing functionality... Currently, the Company anticipates that the new CIS platform will be operational in the third quarter of 2021, with enhanced customer data functionality following in 2022.³¹

F. DELAYS & INCREASED COSTS

On November 14, 2019, Central Hudson advised the Commission that the Company's evaluation was complete, that contracts had been signed, and that "the new software [would] be purchased in 2019 and funding for [the] project [was] forecast to be overrun by \$4.43M or 71% at year end."³²

Three months later, on February 14, 2020, Central Hudson advised the Commission that it had selected Ernst & Young as its system integrator for the SAP platform. It indicated that the project would continue throughout 2020 with a go-live date scheduled for the third quarter of 2021. The Company stated, "Based on the outcome of contract negotiations, payment for the software was made in Q4 which resulted in a budget overrun of \$4.96M or 84% at year end."³³

On May 15, 2020, Central Hudson advised the Commission that "Based on the outcome of contract negotiations with E&Y milestone-based payments have been structured for the implementation which result (*sic*) in an underrun of \$0.247M or 12%. This underrun is not expected to continue throughout 2020 as the project is currently forecasted at \$16.653M of capital expenditures in 2020."³⁴

A month later, on June 15, 2020, Central Hudson advised the Commission, "This project has a \$8,144,503 overrun due to a change in the scope of the project prior to initiation. The budget was originally developed under the implementation assumption of leveraging a "bolt-on" approach. Through the preparation for this project, the approach shifted to a migration of functions to the SAP... solution, thus increasing the costs."³⁵

On August 14, 2020, Central Hudson advised the Commission:

³¹ *Id.* at 237.

³²Cases 17-E-0459 *et al.*, Central Hudson Gas & Electric Company-Rates, 2019 Q3 Information Technology Capital Projects Variance Report, p.4.

³³ Cases 17-E-0459 *et al.*, Central Hudson Gas & Electric Company-Rates, 2019 Q4 Information Technology Capital Projects Variance Report, p. 3.

³⁴ Cases 17-E-0459 *et al.*, Central Hudson Gas & Electric Company-Rates, 2020 Q1 Information Technology Capital Projects Variance Report, p. 4.

³⁵ Cases 17-E-0459 *et al.*, Central Hudson Gas & Electric Company-Rates, 2020 Annual Information Technology Projects Report, p.5.

The project is currently well underway and will continue throughout 2020 and 2021 with a go-live scheduled for mid-2021. Based on E&Y's milestone-based payments and the large amount of internal effort that has been allocated to the project for blueprinting/design work, the project is reflecting a quarter to date overrun of \$0.888M or 21%. This overrun is expected to continue throughout 2020 as the project is currently forecasted at \$16.653M and budgeted at \$8.51M of capital expenditures in 2020.³⁶

On October 30, 2020, Central Hudson advised the Commission that the CIS Modernization project had “an anticipated 2021 overrun of \$2,703,481 due to timing of certain development components that were originally planned for 2020.”³⁷

On November 13, 2020, Central Hudson summarized the project and advised the Commission:

The CIS Modernization initiative was a key focus in the 2017 rate case testimony. The drivers for the initiative were described along with the approach to modernization. Working with a third party, the Company has elected to replace the existing CIS Mainframe system with the SAP ... platform. E&Y has been selected as the system integrator. The project scope is focused on the SAP Customer Relationship & Billing (“CR&B”) business processes (Meter to Cash). The project is currently well underway and will continue throughout the balance of 2020 and 2021 with a go-live scheduled for mid-2021. Based on E&Y's milestone-based payments and the large amount of internal effort that has been allocated to the project for blueprinting/design work, the project is reflecting a quarter to date overrun of \$3.9M or 60%. This overrun is expected to continue throughout the balance of 2020 as the project is currently forecasted at \$13.3M and budgeted at \$8.51M of capital expenditures in 2020.³⁸

G. BILL ESTIMATION PETITION

Unlike most utility companies in New York, Central Hudson does not read each meter every month. Instead, the Company reads customer meters every other month and provides an estimated bill during the interim months. On December 23, 2020, Central Hudson filed a petition with the Commission seeking to modify its

³⁶ Cases 17-E-0459 *et al.*, Central Hudson Gas & Electric Company-Rates, 2020 Q2 Information Technology Capital Projects Variance Report, p. 4.

³⁷ Cases 17-E-0459 *et al.*, Central Hudson Gas & Electric Company-Rates, 2021 Annual Information Technology Projects Report, p.4.

³⁸ C Cases 17-E-0459 *et al.*, Central Hudson Gas & Electric Company-Rates, 2020 Q3 Information Technology Capital Projects Variance Report, p. 5.

estimation calculation process claiming that the change was necessitated by the implementation of the new SAP system.³⁹ In a subsequent clarification document associated with the filing, Central Hudson stated:

The SAP... solution includes best meter to cash practices for utilities. As part of the solution, standard configurations are available for calculating estimated consumption. This technology has been used by many utilities for decades and has been proven by them to be effective. With the SAP system, estimation methods will be less cumbersome, more standardized, and easier to explain to customers. Any attempt to modify or customize the out of the box solution adds risk and complexity to implementation of the core system and ability to adopt future releases, as well as additional costs to customers, which Central Hudson has chosen to avoid. Customization of core SAP code is not recommended and adds risk as changing core, proven technology could lead to more inaccurate results and could impact system stability.⁴⁰

In response to the application, DPS staff made inquiries concerning the accuracy of the new bill estimating methods. In response, Central Hudson represented:

Staff can be comfortable that SAP's bill estimating methods will produce reasonable results because Central Hudson's system is being configured to ensure that similar methodology for the estimation of consumption (finding a comparable historical period for the premise to use for estimating the current period) will remain the same as the methodology being used with the current system.⁴¹

Central Hudson also assured DPS that customer complaints associated with the new estimate methods and billing system were not expected and that therefore no testing or studies were conducted to mitigate that risk. Central Hudson stated:

Although there have not been any testing, analysis or studies done, Central Hudson does not anticipate that implementation of this system will result in more complaints to the Public Service Commission related to bill estimations. For 95% of customers, the estimation calculation, while different, is not expected to create significant

³⁹ Case 21-M-0045, Petition of Central Hudson Gas & Electric Corporation to Revise the Heating and Non-Heating Procedures Used to Calculate Bill Estimates, Petition, p.1.

⁴⁰ Case 21-M-0045, Petition of Central Hudson Gas & Electric Corporation to Revise the Heating and Non-Heating Procedures Used to Calculate Bill Estimates, Petition Supplement, p.14.

⁴¹ Case 21-M-0045, Petition of Central Hudson Gas & Electric Corporation to Revise the Heating and Non-Heating Procedures Used to Calculate Bill Estimates, Updated Petition Supplement, p.16.

changes in interim bills because they will continue to be based on a Comparable Billing Period in a prior year.⁴²

Based upon representations and assurances made by Central Hudson, the petition was granted. However, in its decision granting the petition, the Commission stated:

While the Company worked to identify and address several issues that needed more clarification and details with the bill estimation procedures, the Commission is concerned that the Company did not conduct any studies to determine how the new procedures would impact customers and, by reducing the number of methods and modifying the calculations used to estimate bills, some customers may receive bills with estimates that are not as accurate as those produced using the current bill estimation procedures.⁴³

The order went on to direct Central Hudson to file four years' worth of reports related to customer complaints, quarterly reports related to customer complaints, and quarterly reports related to meter-reads.⁴⁴

H. MORE DELAYS & COSTS

On February 15, 2021, Central Hudson advised the Commission, “The project is currently well underway and is scheduled for a mid-2021 go-live. Based on E&Y’s milestone-based payments and the large amount of internal effort that has been allocated to the project for blueprinting/design work, the project reflected a year-end overrun of \$5.1M or 59%.”⁴⁵

Three months later, on May 14, 2021, Central Hudson advised the Commission, “The project is currently well underway and is scheduled for a July go-live. Based on the system implementer’s milestone-based payments and the large amount of internal effort that has been allocated to the project for System

⁴² *Id.* at 14.

⁴³ Case 21-M-0045, Petition of Central Hudson Gas & Electric Corporation to Revise the Heating and Non-Heating Procedures Used to Calculate Bill Estimates, Order Approving Revised Bill Estimation Methods, p.8.

⁴⁴ Case 21-M-0045, Petition of Central Hudson Gas & Electric Corporation to Revise the Heating and Non-Heating Procedures Used to Calculate Bill Estimates, Order Approving Revised Bill Estimation Methods p.13. (The Commission’s original August 16, 2021, order contained an error related to ordering clauses, which was subsequently clarified)

⁴⁵ Cases 17-E-0459 *et al.*, Central Hudson Gas & Electric Company-Rates, 2020 Q4 Information Technology Capital Projects Variance Report, p.4.

Development, Configuration and Testing, the project reflected an overrun of \$3.5M or 130%. This overrun is expected to continue through year-end.”⁴⁶

Ten days later, on May 24, 2021, Central Hudson and Ernst & Young leadership changed the Project Phoenix go-live date.⁴⁷ This change occurred approximately five weeks before the scheduled July 1 go-live date. On July 30, 2021, a Go-Live Extension Change purchase order was signed extending the go-live date by 60 days to September 1, 2021. This Central Hudson issued change order document stated, “The planned financial impact is \$4,400,000, which includes 3.4M in fixed fees, and a \$1M special payment associated with the completion of the planned September 1, 2021, go live. This is in addition to existing monthly base and milestone payments, and previously executed and pending change orders...”⁴⁸

On August 13, 2021 (50 days after deciding to delay the initial go-live date and 18 days before the deferred go-live date), Central Hudson advised the Commission:

The project is currently well underway and is scheduled for a September go-live. Based on the system implementer’s milestone-based payments and the large amount of internal effort that has been allocated to the project for System Development, Configuration and Testing, the project reflected a quarter-to-date overrun of \$6.046M or 82%. The Company expects this overrun to continue through year-end.⁴⁹

I. GO-LIVE

On September 1, 2021, following 4 years of preparation, Central Hudson Gas & Electric Company went live with the new SAP billing system. The Company immediately experienced problems. The system was riddled with defects and programming errors. The CEO would later write:

We are now 106 days since Go-Live for Project Phoenix and the progress of remediation of defects has been frustrating. The open defect count has remained consistently in the range of ~300, indicating that the root causes of issues are not being resolved and this continues to occur. Post Go-Live the outstanding defect total was 373. We have increased our internal and contract resources to address defects and

⁴⁶ Cases 17-E-0459 et al., Central Hudson Gas & Electric Company-Rates, 2021 Q1 Information Technology Capital Projects Variance Report, p.3.

⁴⁷ IR-007, Attachment 54, p.1.

⁴⁸ *Id.*

⁴⁹ Cases 17-E-0459 et al., Central Hudson Gas & Electric Company-Rates, 2021 Q2 Information Technology Capital Projects Variance Report, p.3.

conduct testing, but E&Y needs to provide more developers to correct the programming errors, and we continue to press E&Y. Our focus for the balance of the year is on billing errors. Until all the billing errors are resolved, we can't accept the solution E&Y has delivered as a working solution. Billing errors, that include bills not released to customers, are driving customer dissatisfaction and complaints. Volumes in all our communication channels are increasing as several thousand bills are being released each week to customers for the first time since cutover.⁵⁰

IV. THE PROBLEMS

A. COMPLEX BILLING SCENARIOS REVISITED

Central Hudson's primary justification for the total replacement of both its customer relationship management and customer billing engine was the new system's supposed "ability to handle complex billing scenarios" including Community Distributed Generation and Net-Metering.⁵¹ Yet inexplicably, on September 1, 2021, Central Hudson went live with the new CIS even though the system was not yet ready to handle CDG or Net-Metering. Central Hudson stated that while it intended to automate CDG billing in SAP, "(d)uring testing, some defects were found. Therefore, Central Hudson could not automate the CDG process at go-live."⁵² In fact, as late as June of 2022, regarding CDG, Central Hudson stated that the Company was still "addressing automation during stabilization."⁵³ Similarly, net-metering, which had been billed manually prior to cutover, continued to be billed using a manual process after go-live.⁵⁴ Complex billing scenarios were the main drivers of the project. Yet not only was the new system unable to handle complex billing, but the system failures related to complex billing were the cause of most of the problems that arose following go-live.

B. OVERCHARGES

Following system implementation, manual and SAP system controls failed to prevent incorrect bills from being sent to many customers. System problems lead to overcharges affecting over 8,050 customer accounts, including:

⁵⁰ IR-008, Attachment 121.

⁵¹ Interview of Central Hudson Chief Technology Officer, June 2, 2022, transcript, p.2.

⁵² IR-030.

⁵³ *Id.*

⁵⁴ *Id.*

- Over 975 net-metered budget customers double-billed.
- 399 net-metered customers overcharged due to their “banked generation” not being updated properly.
- 980 net-metered customers overbilled due to generation miscalculations.
- Over 1,050 customers overcharged due to rate category mismatches.
- Over 1,300 Energy Affordability Program (HEAP) participants overcharged.
- Over 2,100 customers overcharged for weather normalization miscalculations.⁵⁵

C. DELAYED BILLS

Following the September 1 go-live implementation of the system, several problems caused billing delays. The delays primarily revolved around CDG, net-metered, and Retail Access customers.⁵⁶ CDG bills are not sent until the host is billed. The process was meant to be handled by CIS post-cutover; however, Central Hudson had “difficulties being able to create the host allocation... summary...for the hosts inside of SAP.”⁵⁷ CDG customer accounts were bill-blocked at go-live “due to the need to manually process the allocation forms provided by the hosts to update their subscribers and the related allocations for each prior to billing.”⁵⁸ Meanwhile, net-metered customers also experienced delays in billing due in part to a backlog of transactions caused by a shifting of staff to be trained in order to meet the September 1 go-live date. Central Hudson “didn’t have a full staff on to handle all the transactions.”⁵⁹

Additionally, there were complications within SAP causing miscalculations of banked generation. In some instances, the SAP system incorrectly interpreted the meter indices in the determination of the current period of usage for the calculation of the customer’s bill.⁶⁰ Retail Access customers experienced delays “resulting from issues within the customer data including misalignment of dates and status pertaining to enrollment/drops/switches which are used for pricing and misalignment of tax rates applied to consolidated billed customers where the [Energy Service Company] has provided override rate to use.”⁶¹ These problems, and others, resulted in alerts in the Business Process Exception Management (BPEM) tool. The BPEM tool is designed to alert the Company to billing exceptions that require attention. Central Hudson sets invoicing thresholds that, if exceeded create a BPEM which is then reviewed. The thresholds are \$4,000 for Residential

⁵⁵ IR-004, Attachment 1.

⁵⁶ IR-024.

⁵⁷ Interview of Central Hudson Project Manager, August 5, 2022, transcript, p.51.

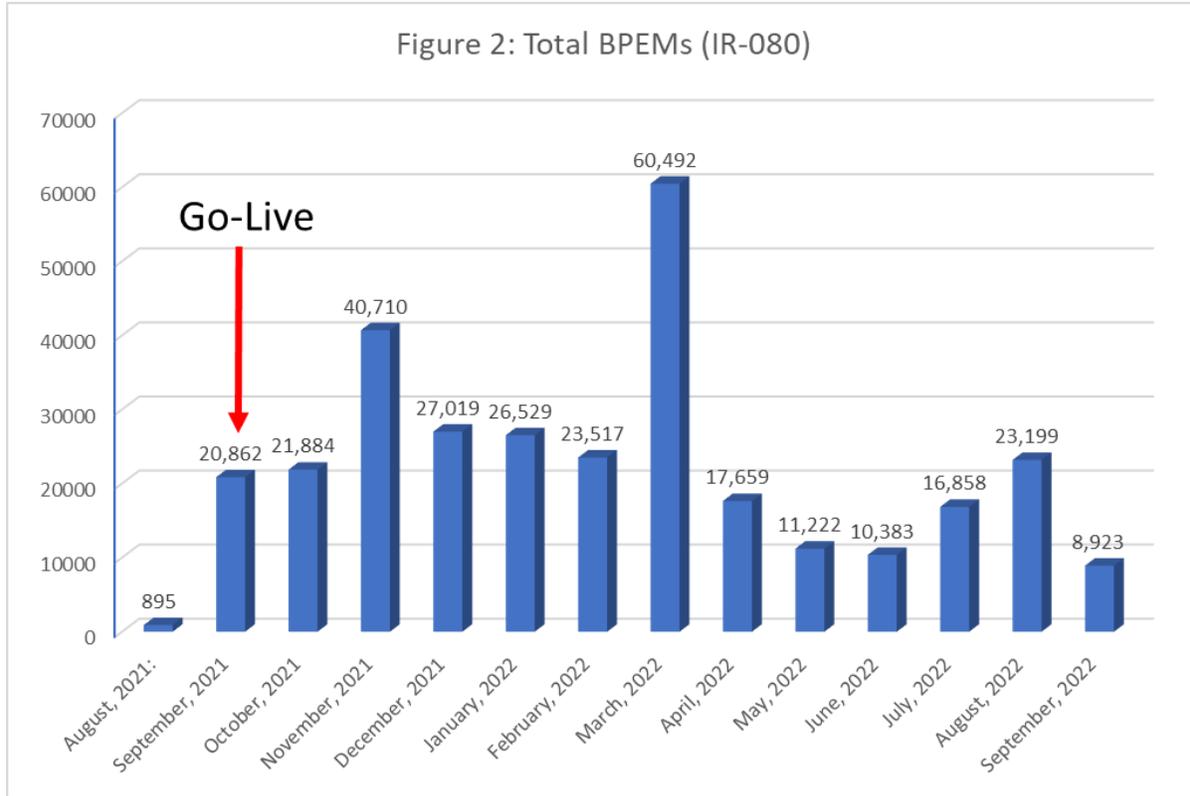
⁵⁸ IR-024.

⁵⁹ Interview of Central Hudson Chief Technology Officer, June 2, 2022, transcript, p.8.

⁶⁰ IR-024.

⁶¹ *Id.*

customers, \$30,000 for Small Commercial customers, and \$60,000 for Industrial customers.⁶² These thresholds are not specific to the customer and do not take into account the customer’s previous bills.⁶³ Following go-live, due in part to errors, the system generated thousands of BPEMs resulting in delayed bills.⁶⁴ (Figure 2).



Following go-Live, BPEMs increased dramatically in the first month. They continued to increase to a high of over 60,000 BPEMs in March of 2022. While Central Hudson claims to have system problems under control, one year following go-live, as reflected in the above Figure, BPEMs were still significantly higher than before system implementation (895 versus 8,923).

The BPEMs and other problems resulted in billing delays for thousands of Central Hudson customers, with over 4,800 customers not receiving a bill for over 3 months.⁶⁵ As of March 4, 2022, 20,511 customers continued to experience negative impacts caused by billing delays.⁶⁶ By the end of April 2022, that number decreased to 4,058⁶⁷, however by June 22, 2022, that number had increased to 5,037.⁶⁸ The

⁶² IR-034, Attachment 1.

⁶³ Interview of Central Hudson Project Manager, August 5, 2022, transcript, p. 57.

⁶⁴ IR-080, Attachment 1.

⁶⁵ IR-032, Attachment 1.

⁶⁶ IR-026.

⁶⁷ *Id.*

⁶⁸ IR-035.

Company reported that as of September 11, 2022, over 8,000 customers' bills were still not current.⁶⁹

D. AUTOMATIC WITHDRAWALS FROM CUSTOMERS' BANKS

Not only were bills delayed, but several customers also had considerable amounts of money erroneously automatically withdrawn from their bank accounts. One customer who was accustomed to bills in the range of approximately \$500, had automatic bank withdrawals from 2 accounts. One withdrawal was for \$12,107.52, and the other was for \$16,212.74.⁷⁰ After learning of the error from the customer, Central Hudson issued refund checks in January of 2022. However, six months later the customer still did not have clarity from Central Hudson on the proper billing for those accounts. According to the customer, several calls to Central Hudson went unanswered.⁷¹ Other customers had automatic withdrawals in the sums of \$30,534.27, \$12,472.08, \$12,354.20, \$10,769.76, \$8,067.40, \$5,330.64, \$3,206.86, and \$936.10, all based on erroneous billing calculations.⁷²

In addition to automatic electronic withdrawals based on erroneous calculations, several customers whose bills were delayed as the result of system errors, suddenly had money withdrawn from their accounts for multiple months' worth of bills. Between September 2021 and June 2022, over 30,000 customers who were accustomed to receiving a monthly bill, had multiple months' worth of charges automatically withdrawn from their bank accounts. During that period, Central Hudson automatically withdrew over sixteen million dollars (\$16,000,000) from customers' bank accounts in this manner.⁷³

E. IMPACT ON COMMUNITY SOLAR & RETAIL ENERGY PROJECTS

On July 18, 2019, New York State enacted the Climate Leadership and Community Protection Act into law.⁷⁴ "New York State's Climate Act is among the most ambitious climate laws in the world and requires New York to reduce economy-wide greenhouse gas emissions 40 percent by 2030 and no less than 85 percent by 2050 from 1990 levels."⁷⁵ The Public Service Commission has taken several steps to assist the State in its goal to reduce carbon emissions. By way of example, in 2015, the Commission issued an Order Establishing a Community

⁶⁹ IR-085.

⁷⁰ IR-004, Attachment 11

⁷¹ Staff interview with customer. July 27, 2022.

⁷² IR-004, Attachment 11

⁷³ IR-081

⁷⁴ [NY State Laws of 2019, Chapter 106.](#)

⁷⁵ <https://climate.ny.gov/>

Distributed Generation (CDG) Program to assist customers in participating in solar and other forms of clean distributed generation, and to “promote New York’s clean energy policies.”⁷⁶

Between the September 1, 2021, go-live date and April 25, 2022, 14,245 Central Hudson CDG customers received a late bill. New York State Energy Research & Development Authority (NYSERDA) reported that as of July 2022, 1,300 Central Hudson CDG customers had experienced delayed billing, some over 6 months.⁷⁷ NYSEDA also observed that customers were receiving multiple bills in different amounts for the same time frame. NYSEDA further reported other CDG customer complaints including: a lack of actual meter reads, estimated usage at twice normal usage, and an inability to speak to someone at Central Hudson who could resolve their issues.⁷⁸ CDG hosts reported an inability to accurately account for credits and bill customers in a timely fashion, as well as unreliable and incorrect host report data.⁷⁹ Relatedly, providers reported not receiving payments in a timely manner for net-crediting projects and an inability to accurately assist customers due to a lack of information from the utility.⁸⁰ NYSEDA reported that billing issues related to CDG by Central Hudson and other companies were causing “reputational damage” to the CDG industry and were causing customers to cancel subscriptions.⁸¹

Central Hudson subsequently sent letters to its CDG customers apologizing for the impact the system transition was having on bills. Central Hudson stated:

We apologize that your Central Hudson account has not been billed properly over the last several months. We assured you seamless integration between your community distributed generation program and your Central Hudson account. Right now, that standard is not being met and we apologize for the frustration and inconvenience this has caused.⁸²

Central Hudson’s billing issues also caused problems related to energy services companies (ESCOs). On March 25, 2022, Agway Energy Services filed a petition with the commission for a declaratory ruling concerning Central Hudson’s

⁷⁶ Case 15-E-0082, Proceeding on Motion of the Commission as to the Policies, Requirements and Conditions for Implementing a Community Net Metering Program, Order Establishing a Community Distributed Generation (issued and effective July 17, 2015)

⁷⁷ CDG Billing and Crediting Issues Survey Report Out, NYSEDA, July 22, 2022, p.3.

⁷⁸ *Id.* at 3.

⁷⁹ *Id.*

⁸⁰ *Id.*

⁸¹ *Id.* at 6.

⁸² Central Hudson Customer Account Services letter to CDG Customers.

failure to provide accurate bills.⁸³ The petition alleged that Central Hudson’s new billing system was causing numerous problems which were impacting customers who purchased energy through ESCOs. Agway complained of customers being overbilled, underbilled, not being billed at all, and in some instances receiving large, multi-month bills after not being billed for several months.⁸⁴ Additionally, Agway complained that Central Hudson’s new billing system was causing numerous errors related to EDI.⁸⁵ EDI is the “uniform system used by...(ESCOs) and utilities for the electronic exchange of retail access data.”⁸⁶ In its petition, Agway claimed, “[n]umerous EDI-related issues have arisen since Central Hudson’s system went online in September, which have directly impacted Agway and cost Agway thousands of dollars in lost productivity and staffing costs.”⁸⁷ Agway went on to say:

[T]he errors number in the thousands and include EDI file formatting errors that prevent Agway processing EDI records without manual intervention; payment files that do not match the corresponding POR cash payments sent to Agway; cancel transactions without matching rebill transactions; invoice transactions without corresponding meter read transactions; incorrect dollar amounts or meter reads (often the amounts are double-charged on invoice transactions); doubled units on EDI invoices (EDI 810); and drop transactions that do not relate to Agway’s customers.⁸⁸

Agway also criticized Central Hudson for publishing an inaccurate “Ineligible Customer List” which is needed to assure the ESCO that it is not selling gas and electric to low-income individuals in violation of Public Service Commission orders.⁸⁹ In response, Central Hudson filed a motion wherein the Company stated, “*Central Hudson is required to provide ESCOs with an ineligible customer list. Nothing in the Commission’s Order requires the ineligible customer list to be accurate*, although that is certainly the intent, and Central Hudson strives for

⁸³ Case 22-E-0121, Petition of Agway Energy Services, LLC for a Declaratory Ruling Concerning Failure of Central Hudson Gas and Electric Corporation to Provide Accurate Electronic Data Interchange Information or Provide Accurate Client Bills, Petition of Agway Services (March 25, 2022).

⁸⁴ *Id.* at pp. 3-4.

⁸⁵ *Id.* at 5.

⁸⁶ Case 12-M-0476, Proceeding on Motion of the Commission to Assess Certain Aspects of the Residential and Small Non-residential Retail Energy Markets in New York State. Order Approving Modifications to the Electronic Data Interchange Standards, pp. 1-2.

⁸⁷ Case 22-E-0121, Petition of Agway Energy Services, LLC for a Declaratory Ruling Concerning Failure of Central Hudson Gas and Electric Corporation to Provide Accurate Electronic Data Interchange Information or Provide Accurate Client Bills, Petition of Agway Services. p.5.

⁸⁸ *Id.*

⁸⁹ *Id.* at 12.

accuracy.”⁹⁰ Central Hudson went on to state that there was nothing wrong with the EDI system but admitted that it was being impacted by other defects in the billing system. The Company stated:

The EDI system is picking up defects associated with the transition to the SAP...ERP system... Central Hudson has identified four SAP...ERP system defects that may explain the issues referenced by the Petition, including: (1) Invoices that contain multiple billing period documents that caused data inaccuracy within some outbound 810 EDI files, this is an open SAP...ERP system defect that Central Hudson’s subject matter experts are reviewing because there is an issue regarding tax charges having the same date and spanning a long rebill period; (2) Training for the SAP...ERP system is required as defects are identified and corrected. Central Hudson has, and is, amending training procedures but during this enhanced training, previously unknown and just discovered defects have caused incorrect processing of cancel/rebills, including the failure to process full reversals (reversing invoice and not bill document or all bill documents related to invoice); (3) Record lock error causing invoice reversals to complete without reversing the underlying billing document. Central Hudson escalated this issue to SAP and is currently preparing to test the correction; and (4) Budget accounts were receiving one invoice for multiple billing periods. These have been addressed and corrected.⁹¹

On March 18, 2022, the Retail Energy Supply Association (RESA) filed a response to Agway’s petition.⁹² RESA describes itself as “a non-profit organization and trade association that represents the interests of its members in regulatory proceedings in the Mid-Atlantic, Great Lakes, New England, and New York regions.”⁹³ In its filing, RESA supported Agway and went on to assert: “RESA member companies have experienced, and continue to experience, issues with Central Hudson’s provision of data that are comparable to those that Agway described in the Petition.”⁹⁴ RESA pointed out that Central Hudson’s data issues

⁹⁰ Case 22-E-0121, Petition of Agway Energy Services, LLC for a Declaratory Ruling Concerning Failure of Central Hudson Gas and Electric Corporation to Provide Accurate Electronic Data Interchange Information or Provide Accurate Client Bills, Central Hudson Gas & Electric Corporation’s Verified Motion to Dismiss and, in the Alternative, Opposition to the Petition of Agway Energy Services, LLC for a Declaratory Ruling, p.19 (March 18, 2022) (emphasis added).

⁹¹ *Id.* at 11.

⁹² Case 22-E-0121, Petition of Agway Energy Services, LLC for a Declaratory Ruling Concerning Failure of Central Hudson Gas and Electric Corporation to Provide Accurate Electronic Data Interchange Information or Provide Accurate Client Bills, Response to Petition for Declaratory Ruling and Corrective Action Plan. (March 18, 2022)

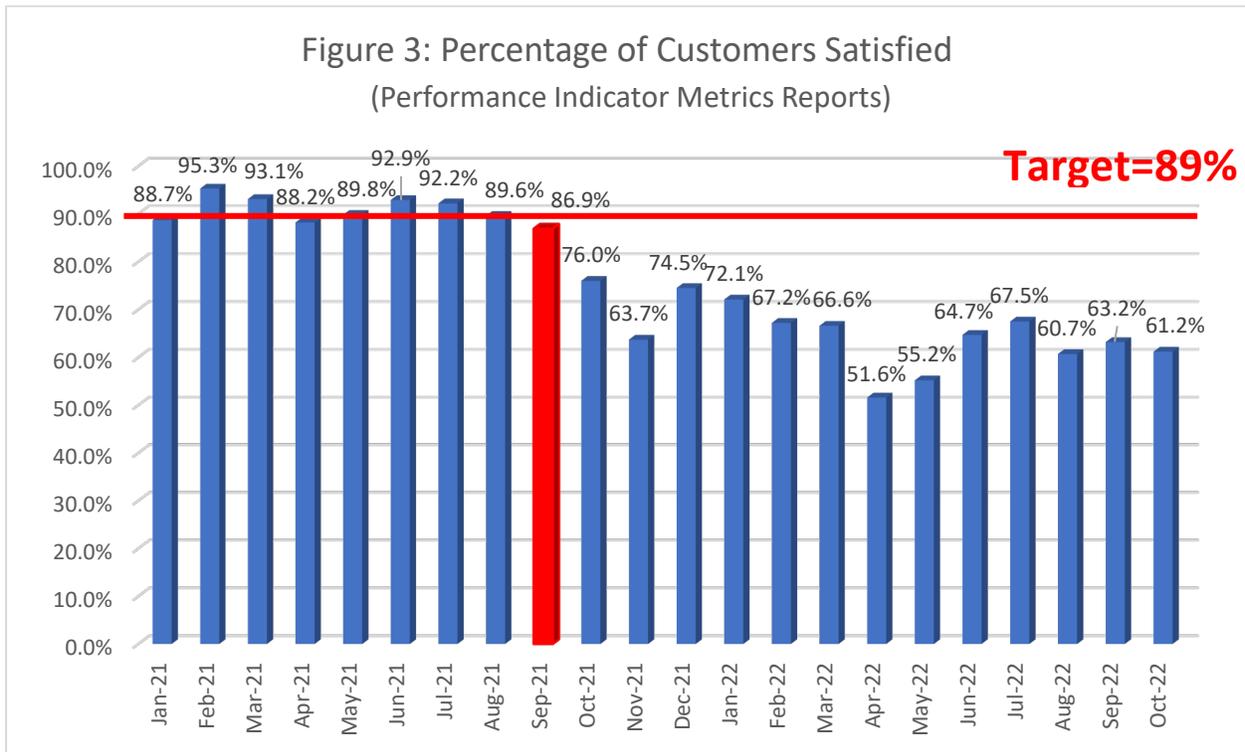
⁹³ *Id.* at 2.

⁹⁴ *Id.* at 3.

“affect fundamental aspects of ESCO retail supply operations and have the potential to cause significant disruptions for ESCOs and their customers alike.”⁹⁵ RESA then identified several problems relating to inaccurate Central Hudson data and the impact it was having on “ESCOs ability to enroll customers and/or to change from dual billing to utility consolidated billing.”⁹⁶

F. CUSTOMER SERVICE PERFORMANCE INDICATORS

In its RFP for the billing system upgrade, Central Hudson stated that its goal was to create a “seamless customer experience” which would be measured through “PSC Customer Satisfaction Survey, PSC Complaint Rate, and PSC Contact Center ASA.”⁹⁷ DPS staff measures overall customer satisfaction through several metrics that are included in the Customer Service Performance Indicator Report. Based on these measures, customer satisfaction greatly decreased upon the implementation of Central Hudson’s new billing system. As reflected in the 2021-2022 Performance Indicator Metrics Reports, Central Hudson missed its customer satisfaction goal of 89% every month following go-live. (Figure 3).

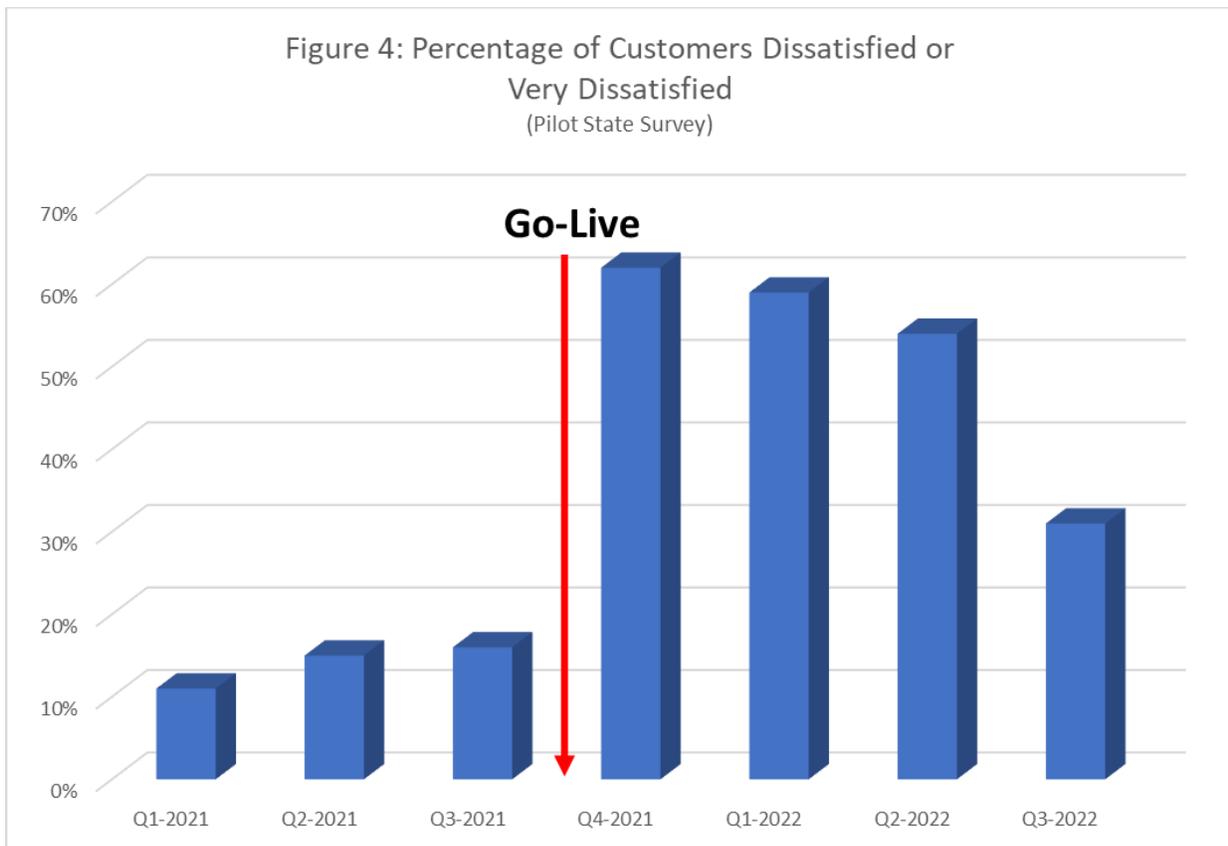


⁹⁵ *Id.*

⁹⁶ *Id.* at 4.

⁹⁷ IR-009, Attachment 62, p. 7.

In addition to Performance Indicator Reports filed each month, Central Hudson also files Pilot Customer Satisfaction Survey reports each quarter pursuant to Public Service Commission Order.⁹⁸ While the Customer Satisfaction Survey reports are filed pursuant to a pilot program, they are nevertheless illustrative of the precipitous drop in customer satisfaction reported by Central Hudson customers following the go-live implementation of the SAP system. The percentage of customers dissatisfied or very dissatisfied with their most recent interaction with the Company rose from 11% in the first quarter of 2021, to 62% post-launch in the fourth quarter.⁹⁹ The trend continued into 2022 with the percentage of customers being dissatisfied or very dissatisfied at 59.1% for the first quarter, 54.2% for the second quarter, and 31% for the third quarter. (Figure 4)¹⁰⁰

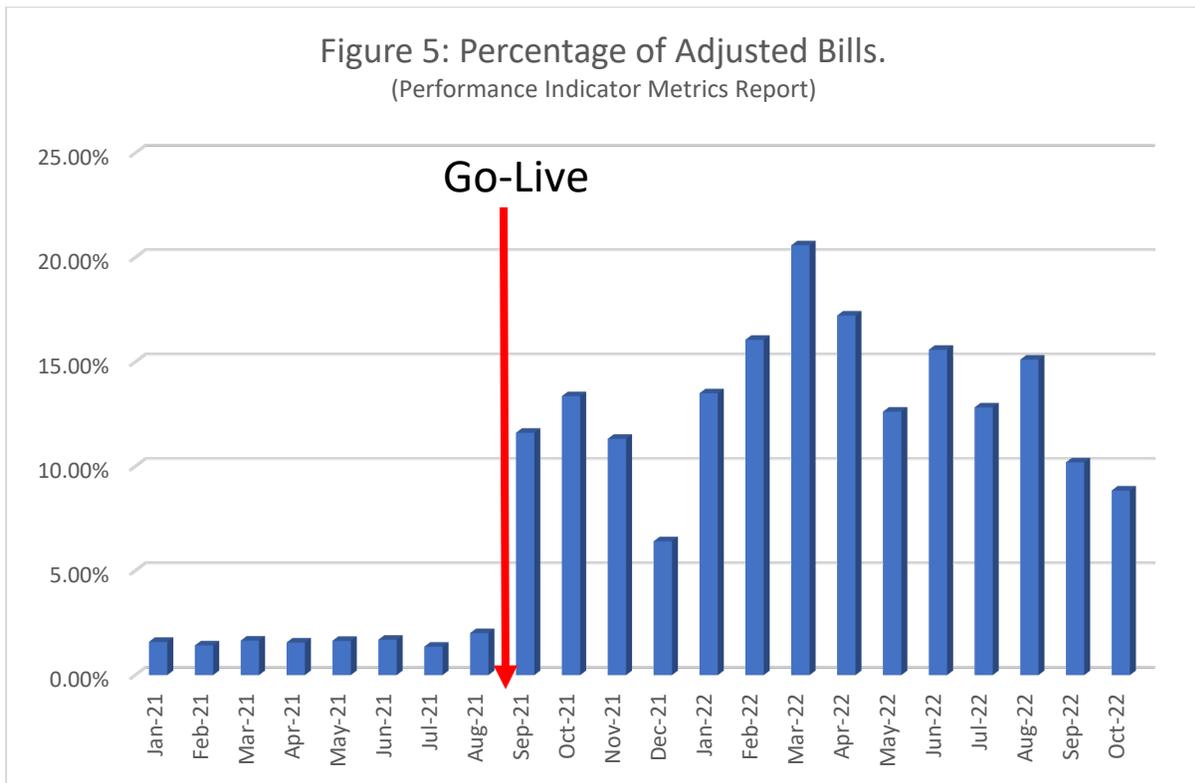


⁹⁸ Case 15-M-0566, In the Matter of Revisions to Customer Service Performance Indicators Applicable to Gas and Electric Corporations, Order Authorizing Implementation of a Pilot Statewide Customer Satisfaction Survey (issued and effective October 18, 2018).

⁹⁹ Case 15-M-0566, In the Matter of Revisions to Customer Service Performance Indicators Applicable to Gas and Electric Corporations, Central Hudson Performance Indicator Metrics Report, December 2021.

¹⁰⁰ Case 15-M-0566, In the Matter of Revisions to Customer Service Performance Indicators Applicable to Gas and Electric Corporations, Central Hudson 2022 Quarter 3 Pilot Statewide Customer Satisfaction Survey Report.

In addition to a drop in satisfaction, Central Hudson customers also experienced an increase in bill adjustments following go-live. The percentage of adjusted bills¹⁰¹, which had remained below 2% in each of the first 3 quarters of 2021, jumped up to 11.61% in September, 13.63% in October, 11.32% in November, and 6.41% in December.¹⁰² The trend continued into 2022 with adjusted bills at 13.50% in January, 16.06% in February, 20.58% in March, 17.22% in April, 12.62% in May, 15.58% in June, 12.82% in July, 15.11% in August, 10.19 in September, and 8.84 in October. (Figure 5)¹⁰³



DPS’s Office of Consumer Services summarized the problems in a July 18, 2022, letter to Central Hudson, stating:

Central Hudson’s poor customer service operations is documented in the service quality metrics it submits to the Department. The

¹⁰¹ An adjusted bill is a second or subsequent bill that is rendered to correct a previously rendered bill for service.

¹⁰² Case 15-M-0566, In the Matter of Revisions to Customer Service Performance Indicators Applicable to Gas and Electric Corporations, Central Hudson Performance Indicator Metrics Report, December 2021.

¹⁰³ Case 15-M-0566, In the Matter of Revisions to Customer Service Performance Indicators Applicable to Gas and Electric Corporations, Central Hudson Performance Indicator Metrics Report, November 2022.

Company's reporting shows a precipitous drop off in adjusted bills, customer satisfaction, and complaint rate since its new billing system went live. Specifically, average performance for the 12 months ending August 2021 was 1.57% for adjusted bills, 91% for customer satisfaction, and a 0.32 complaint rate. In contrast, average performance from September 2021 through May 2022 was 13.66% for adjusted bills, 69.88% in customer satisfaction, and a 2.30 complaint rate. This self-reported poor performance strongly suggests Central Hudson has not devoted sufficient resources to adequately respond to its customers impacted by the implementation of the Company's new billing system.¹⁰⁴

Between September 1, 2021 (go-live) and September 1, 2022, the Department of Public Service's Office of Consumer Services was inundated with complaints from Central Hudson customers. Through its Call Center, DPS's Office of Consumer Services received over 2,000 complaints for problems including, high bills, estimated bills, inaccurate bills, and delayed bills.¹⁰⁵ By comparison, the Call Center had received fewer than 200 similar complaints for the 2 years prior to the cutover.¹⁰⁶ DPS also received over 4,000 complaints submitted as public comments through its Document and Matter Management System (Figure 6).¹⁰⁷

¹⁰⁴ Office of Consumer Services-CH Complaint Responsiveness Letter, July 18, 2022.

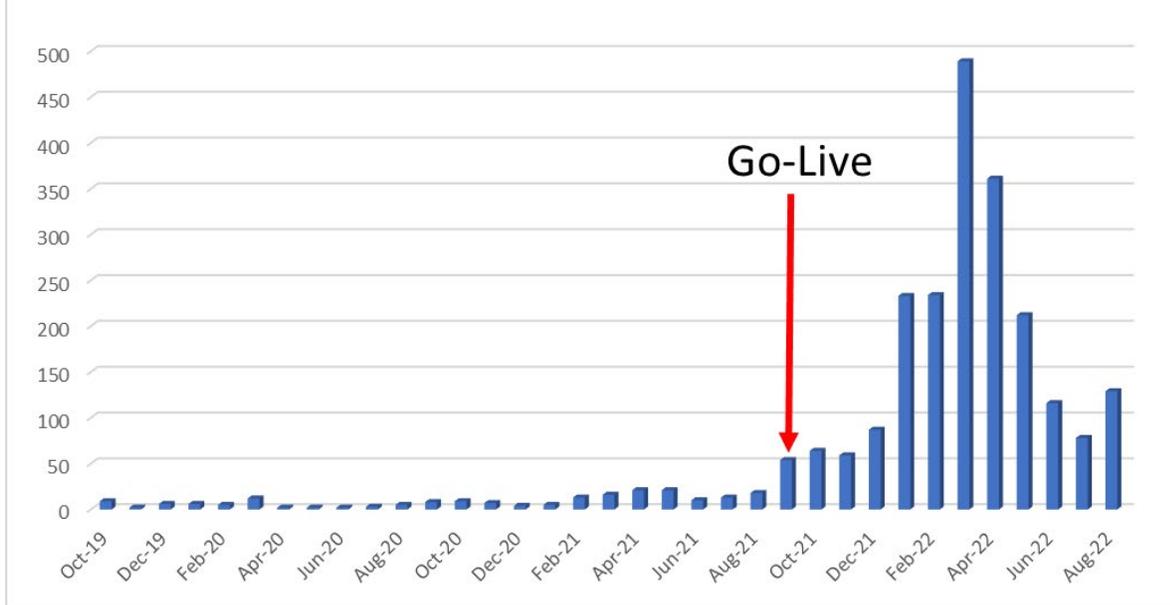
¹⁰⁵ Call Center Complaint Report, September 2021 through September 2022.

¹⁰⁶ Call Center Complaint Report, October 2019 through August 2022.

¹⁰⁷ Matter 22-00666, In the Matter of Staff's Investigation into Central Hudson's Customer Information System Implementation and Resulting Billing Errors.

Figure 6: Billing and Customer Service Related Complaints Against Central Hudson received through PSC's regular complaint handling procedures.

(Excludes public comments filed in Matter 22-00666)



Central Hudson’s goal of creating a “seamless customer experience” failed by nearly every measure.

V. ROOT CAUSE ANALYSIS

OIE’s investigation revealed several Company failures that lead to the above-described problems. System defects and programming errors, inadequate training, inadequate testing, inadequate staffing, and a lack of candor with customers and the public, all combined to prevent Project Phoenix from taking flight.

A. SYSTEM DEFECTS / PROGRAMMING ERRORS

As previously described, Central Hudson’s billing system was riddled with defects at launch. Many of these defects were known to the Company, and many were not. Finding and rooting out defects is a vital part of system development. Central Hudson utilized a “bug and issue tracking tool” called JIRA to assist in this process.¹⁰⁸ During system development, defects were logged into JIRA and assigned to Central Hudson staff to remedy. Central Hudson categorized defects as “critical”, “major”, or “minor”. A critical defect is when “the system has a major

¹⁰⁸ <https://www.atlassian.com/software/jira/features/bug-tracking>

performance problem.”¹⁰⁹ A major defect is one wherein the system works, but there may be an isolated incident that “impacts a small process”.¹¹⁰ Central Hudson developed defect standards that needed to be met before it would go live with the new system. Central Hudson was willing to accept major defects in the system prior to go-live if it believed the defects had a workaround.¹¹¹ The existence of critical defects, on the other hand, would prevent cutover to the new system. The goal was zero critical defects prior to go-live.¹¹²

Central Hudson was aware of major defects associated with complex billing prior to go-live.¹¹³ Nevertheless, the Company hastily proceeded with the launch, and post go-live, hundreds more defects were discovered.¹¹⁴ Central Hudson soon discovered that there were defects within the system that were causing inaccurate bills to be sent to customers.¹¹⁵ In the months following launch, the Company continued to discover hundreds of major and critical defects. Between January 31, 2022, and April 13, 2022, JIRA tracked 45 defects related to CDG billing alone; 22 of the CDG defects were categorized as major, and 23 were critical.¹¹⁶ Had the Company been aware of the critical defects, it would not have gone live on September 1, 2021.¹¹⁷ In fact, the original cutover date of July 1, 2022, was delayed due to the discovery of critical defects during testing.¹¹⁸

The premature launch was the direct result of poor planning, inadequate training, and undue pressure to launch the system prior to Company readiness.

B. INADEQUATE TRAINING

On February 14, 2020, Central Hudson advised the Commission of its intention to go live with CIS Modernization in the 3rd quarter of 2021.¹¹⁹ Less than a month later, New York State declared a state of emergency related to the COVID-19 pandemic.¹²⁰ What followed was several months of significant operational impact for all businesses operating in NY and elsewhere. Central Hudson’s Project Manager stated that COVID-19 had a “very, very large impact” on Project

¹⁰⁹ Interview of Central Hudson Chief Technology Officer, June 2, 2022, transcript, p.10.

¹¹⁰ *Id.*

¹¹¹ Interview of Central Hudson Project Manager, August 5, 2022, transcript, p. 29.

¹¹² *Id.*

¹¹³ Interview of Central Hudson Project Manager, August 5, 2022, transcript, p. 45.

¹¹⁴ IR-008, Attachment 121.

¹¹⁵ Interview of Central Hudson Chief Technology Officer, June 2, 2022, p. 15.

¹¹⁶ IR-002, Attachments 2 & 3.

¹¹⁷ Interview of Central Hudson Chief Technology Officer, June 2, 2022, p. 11.

¹¹⁸ *Id.* at 13.

¹¹⁹ Cases 17-E-0459 *et al.*, Central Hudson Gas & Electric Company-Rates, 2019 Q4 Information Technology Capital Projects Variance Report, p. 3.

¹²⁰ New York State Executive Order 202, March 7, 2020.

Phoenix.¹²¹ The execution of the project design relied heavily on Central Hudson’s ability to host design workshops for its staff, yet the Company was only able to conduct very few of the workshops before remote work began.¹²² Mandated work-from-home was not built into Central Hudson’s project plan or contingency plans.¹²³ Central Hudson staff was not completely back on site until approximately June 2021.¹²⁴ The remote work impacted the ability of new Central Hudson staff to “get up to speed and build proficiency” with the project.¹²⁵ The pandemic “required all resources to work remotely during portions of the development, transition, implementation, and post go-live periods.”¹²⁶ Yet despite all the impacts, Central Hudson still proceeded with its original plan of going live in the third quarter (3Q) of 2021, only 2 months later than originally scheduled.

Effective training of customer service representatives was a vital component of ensuring the successful transition from Central Hudson’s 30-year-old system to the new CIS solution. Central Hudson completed over 14,000 hours of training covering over 50 unique courses.¹²⁷ Yet, while the primary justification for the transition was the need to have a system that was capable of handling complex billing scenarios, the planned training curriculum contained *zero hours* of training for “Complex Billing”, *zero hours* for “Net Metering“, and *zero hours* for “Manage Retail Choice Suppliers”.¹²⁸ Rather than dedicate training to these complex scenarios, Central Hudson instead chose to hope that employees would pick up proficiency through testing in a manner that was “ad hoc” and “not tracked.”¹²⁹ When the project manager sought more resources from the steering committee to address the shortfall, he was denied some of his requests.¹³⁰ Not surprisingly, the number of employees proficient in complex billing was “insufficient to address the billing issues that arose” post go-live.¹³¹

In the months preceding go-live, several risks associated with training were identified by Central Hudson staff. Once identified, the risk was categorized as either mitigated (solved), accepted (the risk is accepted and the Company moved

¹²¹ Interview of Central Hudson Project Manager, August 5, 2022, transcript, p. 5.

¹²² *Id.*

¹²³ *Id.*

¹²⁴ *Id.* at 6.

¹²⁵ *Id.*

¹²⁶ CH SAP Implementation Presentation to DPS Staff- Slide Deck, April 11, 2022.

¹²⁷ IR-021, Attachment 3.

¹²⁸ *Id.*

¹²⁹ IR-066.

¹³⁰ Interview of Central Hudson Project Manager, August 5, 2022, transcript, p. 12.

¹³¹ Interview of Central Hudson Project Manager, August 5, 2022, transcript, pp. 8-9.

forward), or realized (the risk materialized).¹³² When concerns arose, leadership repeatedly delayed resolution until after go-live.

In June of 2021, a Central Hudson employee identified a risk related to a lack of net-metering training. She stated:

The decision was made to have [employee 1] own training content development specific to net metering. Some net metering content was created long ago but, it's out of date and needs to be updated before the course can be delivered. Due to competing priorities the content is not being updated by the workstream and the training developers are not able to update it themselves because of lack of knowledge, inability to get time with functional team, lack of test cases, and an FS that needs to be updated. The course has repeatedly rescheduled yet no progress is being made on development.¹³³

Rather than solve the issue, Central Hudson decided to close the risk as “realized” postponing the classes to post go live.¹³⁴ Central Hudson leadership should have heeded the employee’s warning. The Company’s ability to handle net metering accounts became a problem post go-live.¹³⁵

Other training related to complex billing was being impacted by late design changes. In March of 2021, a risk was identified and described in the following way: “Design changes on the functional side that impact the viability/value of training content...The courses we know about that fall into this category of open design changes. (as of 3/24/21) are: ...Net Metering...Complex Billing...Budget Billing.”¹³⁶ The risk was categorized as “realized”, and Central Hudson chose to update training content “at a later date during EUT (End User Training).”¹³⁷

On March 18, 2021, a Central Hudson employee wrote, “It should be noted that significant flux in membership over the course of last months has had enduring effects that can be seen in training content ownership and development inconsistencies and knowledge gaps, as well as tracker issues.”¹³⁸ The next day on March 19, 2021, just 3 months prior to the original go-live date, another risk associated with training was identified. It was described in the following way:

Without dedicated data preparation support, the readiness of EUT [End User Training] is at risk. The ability to EUT depends heavily on

¹³² *Id.* at p. 32.

¹³³ IR-031, Attachment 1, Risk 133.

¹³⁴ *Id.*

¹³⁵ Interview of Central Hudson Project Manager, August 5, 2022, transcript, p. 40.

¹³⁶ IR-031, Attachment 1, Risk 101.

¹³⁷ *Id.*

¹³⁸ IR-031, Attachment 1, Risk 77.

the preparation of data in the Training Environment. Training Data is an essential component of EUT Delivery because it provides hands-on practice opportunities for participants as they learn to execute new processes in SAP. The current team cannot fulfill responsibilities for development, review and finalization of training content, and creation of data. Per the SOW [Statement of Work], CH Trainers will stage all data in the Training Environment, but this plan has not come to fruition and skillsets do not exist.¹³⁹

The contingency plan developed to deal with this risk was to “Push EUT schedule and conduct some courses after go-live.” The risk was categorized as “realized”.¹⁴⁰

While the Company had contracted with a third-party, work-from-home, call center, Alorica, to handle customer calls, Central Hudson’s ability to train Alorica employees was hampered. In March of 2021, Central Hudson discovered that Alorica representatives did not have access to the training environment. The Central Hudson employee who documented the issue stated:

This greatly impacts the quality and overall value of their TTT [Train the Trainer] experience, which began 3/8. Until issue is resolved...they will not be executing transactions as part of the necessary hands-on element of TTT. Risk is to their ability to go back and teach Alorica reps to be ready to support CH go-live on day 1.¹⁴¹

Central Hudson dealt with the problem by giving the Alorica representatives access to workbooks, but still no access to the system during the critical Train the Trainer preparation phase.¹⁴²

On July 26, 2021, a Central Hudson employee noted that the “[h]igh number of classes being cancelled and needing to be rescheduled exceeds the available time in the schedule. 2 main causes of cancellations are resources not available to attend (scheduled vacations, short staff) and system/service issues.”¹⁴³ The contingency plan developed and adopted by the team was to “extend training delivery and resources after go live and increase support from Alorica”.¹⁴⁴

On August 12, 2021, less than 3 weeks prior to the already-deferred go-live, a Central Hudson employee noted another risk associated with training. While the Company had originally tested Central Hudson system users for proficiency by

¹³⁹ IR-031, Attachment 1, Risk 99.

¹⁴⁰ *Id.*

¹⁴¹ IR-031, Attachment 1, Risk 100.

¹⁴² *Id.*

¹⁴³ IR-031, Attachment 1, Risk 138.

¹⁴⁴ *Id.*

measuring time per transaction, a change was made wherein it would merely have a trainer do a visual assessment of the user.¹⁴⁵ The employee wrote:

Adjustment to proficiency lab approach made. Measurements of time per transaction no longer being taken from end users on high volume/high impact transactions with a goal of tracking to 70% proficiency prior to go live. Structured scenarios no longer being provided. Adjusted approach is general practice time (blitz) being the focus with users given high level scenario and nothing to track to accuracy.¹⁴⁶

Not only did Central Hudson stop conducting objective testing, but the Company also chose to revise the proficiency metric downward, lowering the goal from 70% proficiency to 60%.¹⁴⁷

On August 12, 2021, less than 3 weeks prior to go-live, a Central Hudson employee wrote, “Business Readiness - 3 key Categories at Risk. We have 3 key areas from a BRV perspective that we need to monitor closely. Resourcing, BPEM's and Training really go hand in hand, and each have their own issues.”¹⁴⁸ The risk was marked as “Accepted”.¹⁴⁹

As previously discussed, an inability to efficiently handle Business Process Exceptions (BPEMs) following go-live was the primary factor which led to delayed billing. Central Hudson was well aware of deficiencies involving training related to the handling of BPEMs prior to go-live and chose to push forward in the face of those risks. In May 2021, a Central Hudson employee spotted an issue related to BPEM training. She wrote:

The Training Team must initiate development of BPEM training content beyond the foundational course EM-00. The suggested approach is to train to more specific groups on high impact/high volume BPEM cases closer to and after go-live. However, our ability to document training content and prepare to train it depends on the closure of decisions on org structure and processor roles, which determine where BPEMs should be routed.¹⁵⁰

Central Hudson’s leadership response was to say that the Company would eventually determine BPEM routing, and in the meantime the training would have to be limited to the foundational EM-00 course and all other training documentation

¹⁴⁵ IR-031, Attachment 1, Risk 148.

¹⁴⁶ *Id.*

¹⁴⁷ *Id.*

¹⁴⁸ IR-031, Attachment 1, Risk 152.

¹⁴⁹ *Id.*

¹⁵⁰ IR-031, Attachment 1, Risk 113.

would remain on hold.¹⁵¹ In June of 2021, problems related to BPEM training continued. A central Hudson employee summarized the issue in the following way:

Lack of identification of HIHV [High Impact, High Value] BPEM case categories is preventing training development...The top 10-15 BPEM case categories per workstream have not been identified by the tower leads. This prevents development of the pages documenting the resolution steps from being created for use during training and at go-live and beyond.¹⁵²

Once again, Central Hudson chose to postpone the resolution of a challenge and deal with the problem at a later date. The Company marked the risk as “realized” and decided that the contingency plan would be to “push [(i.e., delay and defer)] all workshops to go live or beyond and develop pages at that time.”¹⁵³

The lack of training was a common subject of conversation amongst customer service representatives. Less than a month before go-live, employees wrote back and forth about the issue through a chat application:

Employee 1: idk what they are doing and why...I just know sept is coming close and I am def not ready for go live. like at this point we should have all training done and doing proficiency to sharpen up prior if it were me running this. but what do I know lololol.

Employee 2: I feel like our trainings are rushed...and Im gonna be drowning so bad come go live. I'm petrified of getting a 911 call, or gas leak or something and not doing it properly.

Employee 1: how ya gonna give us training 2-3 wks before you expect me to do it proficiency alone during a call...come on...with no practice actually talking and trying to navigate...idk if we will even get proficiency training on all of it in reality...gonna be crazy times.¹⁵⁴

One week before go-live, employees continued to discuss the lack of proper training.

Employee 1: how long was our initial training again? my brain has blocked out that time to preserve my sanity.

Employee 2: 3 months it was rushed tho and was type shortened soo yeah 2 and something.

¹⁵¹ *Id.*

¹⁵² IR-031, Attachment 1, Risk 128.

¹⁵³ *Id.*

¹⁵⁴ IR-001, Attachment 16, pp. 2-3.

Employee 1: yea-I couldnt remember how much we had vs how much we were suppose to have had.

Employee 2: we were supposed to get 3 full months but we got shortened

Employee 1: and then time with someone while you take call right?

Employee 2: is what I remember from like end of Jan onward it was messy/rushed¹⁵⁵

Concerns related to a lack of preparedness was not limited to a few employees. Such concerns were widespread, and more troubling, were well known to Company leadership. As part of the Project Phoenix implementation plan, Readiness Surveys were conducted to enhance the Company's "understanding of Project Phoenix readiness and adoption before and after go-live." The surveys were meant to give leadership "a pulse and understanding" of employees' "readiness for the activities and readiness for cutover", and to measure "the ability of the staff to transact in the system."¹⁵⁶ The original goal was to "collect applicable metrics at significant points in time leading up to go-live."¹⁵⁷ Those significant points were scheduled for 13, 9, 5, and 2 months prior to go-live.¹⁵⁸

In the last scheduled survey in May of 2021, one employee responded with the following comment:

I feel as a tester in the Billing tower that this is very rushed especially nearing the end. There are *so many defects* related to the *basics of billing* and *especially for the complex billing* that it does not make me confident at all that this will actually work go live. There are a lot of things that we definitely covered in the "as is mapping" more than a year ago that are now being questioned or programmed incorrectly due it being missed or misinterpreted. Just seems like with each mock data download the more things went wrong. I know myself and the other testers in my area are working our absolute hardest at helping see this through, but it can be very frustrating and feel all over the place and very frantic and all different people constantly contacting us telling us to do the same thing.¹⁵⁹

Another employee expressed similar concerns:

¹⁵⁵ IR-001, Attachment 39, pp. 22-23.

¹⁵⁶ Interview of Central Hudson Project Manager, August 5, 2022, transcript, p. 13.

¹⁵⁷ *Id.* at 2.

¹⁵⁸ *Id.*

¹⁵⁹ IR-054, Attachment 4 (emphasis added).

I think there are still a lot of gaps in what we need to know to perform our job- in specific, trainings keep referring to not being sure what the new business processes will be, which should be identified this close to go-live. It is hard to train when testing is still being executed and OPPS are changing as tests update. We also have big gaps in knowledge on how accounting reporting will be replaced and how this will impact our current jobs and it's concerning that many things that should be automatic processes (receiving of vendor files) are still having major issues importing and posting incorrectly in testing. I feel like the timeline between getting topics sorted in testing, and training to truly understand how it will impact our jobs is rushed.¹⁶⁰

In response to the questions, “For your specific role, what has NOT been answered? What remains outstanding?”, one employee wrote, “Pretty much everything. Again, the training has been very confusing and unorganized. I do not feel the Project Phoenix team focused on individual department needs. It seems the training was all geared toward the CSR's.”¹⁶¹ Another employee wrote:

So much remains unanswered at this late date...Since testing scripts are still failing, procedural documentation in OPSS is still incomplete in many areas. Exposure to the SAP environment has been limited to training classes (with limited licensing, so staff is unable to review the lesson once the class is complete). I've been told that SAP's reporting capabilities are robust, but I have not seen the product. Without access to it so that we can test and configure custom reports for this department's operations we will not have a successful go-live. Since work-flow is unknown with the SAP system, it's impossible to judge the staffing needed to assist the department during the early days of SAP.¹⁶²

The data collected in the surveys was analyzed and provided to Company leadership in a report. The June 2021 Company Awareness and Readiness Survey #4 Analysis made it clear to leadership, that the Central Hudson staff was not ready for go live. The analysis showed that all readiness metrics were heading in the wrong direction.¹⁶³ The report stated:

There is a decrease in agreement when it comes to understanding the benefits of updating to a new CIS for both the company and the customers. Results suggest some employees are not convinced that

¹⁶⁰ *Id.*

¹⁶¹ *Id.*

¹⁶² *Id.*

¹⁶³ Interview of Central Hudson Project Manager, August 5, 2022, transcript, p. 19.

they have received sufficient information about Project Phoenix to date...Results suggest decreased support for Project Phoenix over the last few months. There is less agreement about employees having a clear understanding of the project approach and timeline...results suggest that many employees do not necessarily agree that Central Hudson is providing the necessary training for employees so that they can effectively use the new CIS to perform their jobs.¹⁶⁴

The Company's "Readiness Survey" report concluded, "The levels of disagreement are significant and indicate that project team challenges, attitudes and concerns may be impacting perceptions throughout the business."¹⁶⁵ The surveys also revealed that some employees were concerned about the way money was being spent and the impact on morale. One employee complained that departments were being asked to cut budgets while money was being spent on the Project Phoenix team for things like personalized jerseys and Eddie Bauer polos and bookbags.¹⁶⁶ In an effort to promote Project Phoenix internally, Central Hudson spent over \$30,000 on merchandise including backpacks, cardigans, hoodies, jackets, headphones, and temporary tattoos.¹⁶⁷

As a result of the June survey report, Central Hudson postponed the original July 1, 2021, go-live date to September 1, 2021.¹⁶⁸ However, Central Hudson only delayed the launch by 2 months, and, inexplicably, the Company stopped conducting the readiness surveys.¹⁶⁹ Instead, the Company replaced the anonymous surveys with a less reliable process of simply asking supervisors for feedback, an admittedly less direct measure of readiness.¹⁷⁰

Several months after go-live, when asked what could have been done differently, Central Hudson's Chief Technology Officer pointed to, among other things, the lack of sufficient training.¹⁷¹

C. INADEQUATE TESTING

Central Hudson's system transition called for significant testing prior to go live. The implementation plan called for several months of System Integration Testing (SIT) in the months preceding deployment.¹⁷² Throughout the planning

¹⁶⁴ IR-054, Attachment 8, p.4.

¹⁶⁵ *Id.* at 5.

¹⁶⁶ IR-054, Attachment 1.

¹⁶⁷ IR-072.

¹⁶⁸ Interview of Central Hudson Project Manager, August 5, 2022, transcript, p. 19.

¹⁶⁹ IR-068.

¹⁷⁰ Interview of Central Hudson Project Manager, August 5, 2022, transcript, p.20.

¹⁷¹ Interview of Central Hudson Chief Technology Officer, June 2, 2022, transcript, p.16.

¹⁷² IR-021, Attachment 1.

phases and three System Integration phases, thousands of billing scenarios were tested.¹⁷³ Of the scenarios, a mere 2.88% were dedicated to Retail Choice, 1.25% were dedicated to Net-metering, and less than 1% were dedicated to Community Distributed Generation (CDG).¹⁷⁴ Insufficient testing of these complex-billing scenarios, which had been the driving force behind Project Phoenix, was not merely an oversight. When asked about a lack of appropriate testing, Central Hudson's Chief Technology Officer stated, "It was the processes and the functionality of the system was tested a lot. I mean a lot. But there are certain scenarios that pop up in real life that you just do not think of, and that's where you might find a bug in a system and then you have to remediate it."¹⁷⁵ However, prior to go-live, many risks associated with the lack of testing had been identified by staff, and in many instances intentionally not addressed appropriately.

One Central Hudson tester alerted leadership to concerns regarding testing in a response to the May 2021 Employee Survey. The employee wrote:

As part of the Billing Tower test group of Project Phoenix since January, I feel our department in NOT at all ready for this change. During this testing process, communication on what is changing and when we can expect has been little to none. We were thrown into testing without any explanation of how the new system would be performing (*sic*) things different than legacy CIS. Nothing was properly defined, and basic billing processes were not programmed correctly. Most of the essential processes we need for billing to work STILL do not work. The testers within the Billing tower have been vocalizing our concerns and questions for month (*sic*) with little to no answers or explanations.¹⁷⁶

The employee continued:

The way the SIT testing and Mock data loads have been handled since the beginning of the testing phase of this project is absolutely ridiculous. Testers, especially with the billing tower, were given little to no information, told to test and then constantly harassed because we were not moving "fast enough". The components of the billing processes are so complex they need a serious amount of detail and time for each process. However, these programs were slapped together in an attempt to rush through the development process. Things we went over in detail during AS-IS planning were either completely ignored or outrageously misinterpreted. Since SIT 1 we have been repeatedly micro-managed and harassed about not executing enough, or not retesting defects quickly enough. Every script we have created in the

¹⁷³ IR-075, Attachment 1.

¹⁷⁴ *Id.*

¹⁷⁵ Interview of Central Hudson Chief Technology Officer, June 2, 2022, transcript, p.7.

¹⁷⁶ IR-054, Attachment 7.

Billing tower ends up having to be re-tested numerous times because there are constant issues and errors between programs not doing what they should be, bills not generating correctly, and copious amounts of bad data that causes us to stop completely until someone else fixes it. Numerous times we have been told to just accept and pass scripts because the account was manipulated and forced to be what we needed because no one took the time to ensure we have valid and acceptable data. We have been doing double the work to keep the regular CH billing processes running and get through this testing. Now we are being constantly micromanaged by about 15 different people including [Ernst & Young] employees numerous time (*sic*) every day because this whole project was not planned properly. This has caused the testers to resent this project. This was because no one planned ahead to ensure we had the extra help to really test properly. The rushed timeline for this entire project has negatively affected morale, processes and the success of this project. Personally, having seen the status of essential business processes I have no faith in anything working properly if we go live in July.¹⁷⁷

On July 14, 2021, a Central Hudson employee alerted the team to a risk associated with Retail Choice customer billing. She stated:

Migration & Processing of Retail Choice not completed...There is a manual post-migration cutover activity to load any pending retail choice activity (enrolls, drops, switches, changes, etc) with effective dates post cutover. This has not been tested and there is currently no way to ensure that the transactions will be uploaded or processed correctly when they reach their effective date in SAP.¹⁷⁸

On August 5, 2021, the team closed the item as “mitigated,” however, post go-live, the very customers identified to be at risk, experienced billing delays. Central Hudson described the problem: “Certain Retail Access Customers experienced delays resulting from issues within the customer data including misalignment of dates and status pertaining to enrollment/drops/switches which are used for pricing and misalignment of tax rates applied to consolidated billed customers where the ESCO has provided an override rate to use.”¹⁷⁹

Central Hudson was aware in early in 2021 that there was not enough time to complete testing originally scheduled to occur during the system integration phases (SIT 1-SIT 3). In March of 2021, an employee alerted the team:

¹⁷⁷ IR-054, Attachment 7.

¹⁷⁸ IR-031, Attachment 1, Risk 136.

¹⁷⁹ IR-024.

Test script scope may be more than the team can execute in SIT 3. Through SIT 1 and SIT 2, it appears the optimum throughput for test script execution is ~200 tests scripts per week. This implies that based on the duration of SIT 3, not all scripts in the test inventory can be executed during SIT 3. There are currently an estimated 1,800 test scripts in scope for test execution.¹⁸⁰

The risk was accepted as “realized”.¹⁸¹

Central Hudson’s tendency to delay corrections to identified implementation problems until after go-live was a recurring theme throughout the project. In May of 2021 a Central Hudson employee identified a problem related to the accuracy of customer invoices and payments in the Mobil Workforce Management (MWM) system. He stated:

During SIT 2 it was ascertained that a process had not been established to update the collection order data sent into MWM based on new invoices, customer payments, etc...Without this update the collectors will not have the most updated information when speaking with customers in the field, and old collection orders will just remain in MWM after they are no longer valid. This will lead to field inefficiencies, customer dissatisfaction and PSC complaints.¹⁸²

Rather than developing a solution with more testing, the mitigation plan developed on July 22, 2021, was to “hold field collections until post go live”, start the development process, and “continue/finish post go live if necessary.”¹⁸³ It was noted however, “there is still a risk since all of the Collection activities have not been completely tested.”¹⁸⁴

Central Hudson’s tendency to delay fixes was an inevitable consequence of the Company leadership’s need to go live on September 1. The Company was so desperate to hit that mark, that it offered Ernst & Young a 1-million-dollar bonus if Ernst & Young, as the “system integrator,” would get Central Hudson to go live on September 1, 2021.¹⁸⁵

In July of 2021, a Central Hudson employee identified a problem with the way data was being migrated into the SAP system. The employee identified that the wrong history was being used to calculate estimates for new customers at an

¹⁸⁰ IR-031, Attachment 1, Risk 102.

¹⁸¹ *Id.*

¹⁸² IR-031, Attachment 1, Risk 121.

¹⁸³ *Id.*

¹⁸⁴ *Id.*

¹⁸⁵ Interview of Central Hudson Project Manager, August 5, 2022, transcript, p28.

existing premises.¹⁸⁶ The employee was concerned that the problem would impact approximately 47,000 customers.¹⁸⁷ To address the problem, Central Hudson decided to conduct an “accuracy analysis” to measure differences between new and existing customers, and the then-current Legacy system versus the new SAP system that was about to be deployed to Central Hudson customers.¹⁸⁸ The Company decided that if there was a large variance between new and existing customers, the Company could change the way data was being migrated.¹⁸⁹ Central Hudson then took a sampling of interim estimates created for May of 2021, for both new and existing customers, and compared the accuracy of the Legacy system to the SAP system.¹⁹⁰ The testing revealed that whether using the Legacy or SAP system, estimates were inaccurate for both new and existing customers. In the testing, Central Hudson defined estimates that were between 40-60% of the actual read as “good” and estimates outside of those parameters as “high”, or “low”.¹⁹¹ For *new* customers, the testing revealed a modest increase of “good” estimates from 20% using the Legacy system, to 25% using the SAP system.¹⁹² However, the testing also revealed that for *existing* customers, the SAP system caused the percentage of “good” estimates to drop precipitously from 60% to 30%.¹⁹³ All told, what was learned from the testing was that using the new SAP system would result in “good” estimates for just 25% of new customers, and 30% of existing customers. Central Hudson’s excuse for not taking more time to properly test the system was essentially that more testing would have taken more time. Central Hudson decided to accept the risk stating,

This risk was accepted because the only mitigation plan would have been to migrate more consumption data to incorporate more customer actual reads. Added data would have resulted in data load timing issues, time required to test data, and other impacts on the overall migration of technical and business master data from Legacy into SAP.¹⁹⁴

Several months after go-live, when asked what could have been done differently, Central Hudson’s Chief Technology Officer pointed to, among other things, the lack of sufficient testing.¹⁹⁵

¹⁸⁶ IR-031, Attachment 1, Risk 134.

¹⁸⁷ *Id.*

¹⁸⁸ *Id.*

¹⁸⁹ *Id.*

¹⁹⁰ IR-073.

¹⁹¹ IR-073, Attachment 1.

¹⁹² *Id.*

¹⁹³ *Id.*

¹⁹⁴ *Id.*

¹⁹⁵ Interview of Central Hudson Chief Technology Officer, June 2, 2022, transcript, p.16.

D. INADEQUATE STAFFING

A major contributor to Central Hudson’s billing problems was a lack of adequate staffing prior to go-live. Central Hudson identified that the Company would need more resources but underestimated – or did not account for -- the number of resources that the Company would need. The Company would later admit,

Central Hudson internal resources and Ernst & Young (“EY”) resources had the skill set to address billing issues, either through manual processes or by correcting defects to automate processes. In hindsight, however, the amount of these resources were insufficient to address the billing issues that arose, particularly regarding complex billing for Community Distributed Generation providers (“CDG”)¹⁹⁶

Once again, Central Hudson failed to adequately prepare for the very scenario that the Company identified to justify the project from its inception (i.e., complex billing). When asked why the Company did not anticipate the CDG workload, the project manager claimed that there was a sudden increase in CDG customers in September of 2021 that was not anticipated.¹⁹⁷ However, the numbers tell a different story. While Central Hudson’s CDG customers did increase following go live, the increase was consistent with a pattern that began earlier in the year. In January of 2021, Central Hudson had 8,101 CDG customers.¹⁹⁸ The number of CDG customers increased 13.47% in the first quarter, 10.10% in the second quarter, and 4.27% in the third quarter.¹⁹⁹ Following go-live, the CDG numbers increased 3.07% in October, and 1.77% in November.²⁰⁰ The customers increased 9.96% in December, and 16.5% in January, but this was long after the billing problems had already begun. (Figure 7)²⁰¹

¹⁹⁶ IR-042.

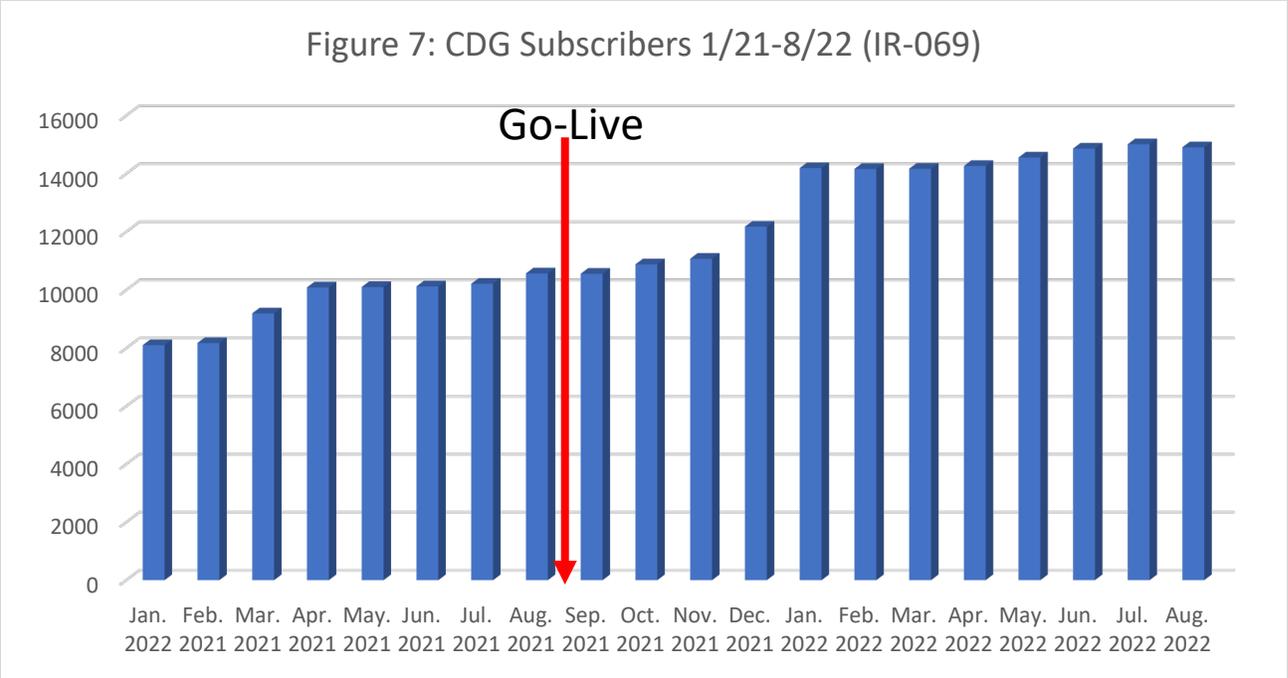
¹⁹⁷ Interview of Central Hudson Project Manager, August 5, 2022, transcript, pp. 9-10.

¹⁹⁸ IR-069.

¹⁹⁹ *Id.*

²⁰⁰ *Id.*

²⁰¹ *Id.*



With the steady increase in CDG customers throughout the first 2 quarters of 2021, Central Hudson should have anticipated CDG staffing needs. Nevertheless, the Company stated that, “without a vision into the need for additional resources because of the additional customers, we did not staff to that perimeter.”²⁰² Additionally, there were inadequate resources to handle CDG because the few employees who had the skills to handle it, were needed, “for other areas of operations in the organization.”²⁰³ When asked what should have been done differently, the Chief Technology Officer stated,

I think hiring more staff to help is with the transactional items, the incremental, because we estimate every other month when we fix something, we have to go all the way back to that month that was in error and cancel all of those bills and rebills. It’s a long process for a person to do. So it’s not like you just correct the latest bill. And so that’s a lot of effort. And that’s a significant more, so therefore we needed more people to do that type of work. So I think hiring more business people to help us until we stabilized. You go through hyper care, then you go through stabilization is the normal pattern. Once you get into stabilization, then you can, you know, kind of release that temporary help. But certainly, around that would be really important.

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²⁰² Interview of Central Hudson Project Manager, August 5, 2022, transcript, p. 9.

²⁰³ *Id.* at 9.

²⁰⁴ Interview of Central Hudson Chief Technology Officer, June 2, 2022, transcript, p.16.

The lack of adequate resources should not have been a surprise to Central Hudson leadership. In January of 2021, a Central Hudson employee identified a risk related to limited resources and informed Company leadership. The employee wrote, “CH Resource Constraint: Multiple-high priority activities require dedicated times from CH TLs (Tower-leads).”²⁰⁵ In April another employee reported, “Data extraction validation is behind schedule...PWC has requested data extraction validation for every data object that is being loaded. Currently, only 8 objects out of 51 has the validation exercise completed. The remaining objects need to be closed out prior to mock 4. In addition, the same exercise will need to take place for mock 4 and go-live. There is no room in the schedule for this activity and only a few resources who are able to perform the tie outs.”²⁰⁶ In May of 2021, a different employee reported, “We have a lack of complete data in SAP to accurately develop reporting views for month end close. When data is finally available we will not have any resources to complete knowledge transfer and training with the business to develop required views for month end close.”²⁰⁷

Central Hudson’s Chief Technology Officer (CTO) later stated, “[W]e didn’t have a full staff on to handle all the transactions.”²⁰⁸ She also admitted to not having sufficient staffing to handle the additional volume of calls that came after go-live.²⁰⁹ While the Company did increase some staffing, the CTO admitted, “[W]e didn’t hire enough.”²¹⁰

Central Hudson’s Chief Financial Officer and Treasurer was concerned about the wellbeing of employees and the amount of overtime being required of them during system testing.²¹¹ The CTO determined that the long hours were no longer sustainable and raised a flag with the leadership team.²¹² She asked for more resources for testing but was unable to get them in a timely manner.²¹³

Central Hudson’s Manager of Customer Experience and the Project Phoenix Project Manager expressed a need for more resources to the project steering committee but did not get all the resources he requested.²¹⁴ The project manager would later attribute the inability to address billing issues in a timely manner to the lack of resources.²¹⁵

²⁰⁵ IR-031, Attachment 1, Risk 88.

²⁰⁶ IR-031, Attachment 1, Risk 106.

²⁰⁷ IR-031, Attachment 1, Risk 122.

²⁰⁸ Interview of Central Hudson Chief Technology Officer, June 2, 2022, transcript, p.8.

²⁰⁹ *Id.* at 15.

²¹⁰ *Id.* at 16.

²¹¹ Interview of Central Hudson Chief Financial Officer, July 25, 2022, transcript, p. 17.

²¹² *Id.* at 18.

²¹³ *Id.* at 18-19.

²¹⁴ Interview of Central Hudson Project Manager, August 5, 2022, transcript, p. 12.

²¹⁵ IR-042.

E. LACK OF COMMUNICATION BETWEEN PROJECT TEAM AND CUSTOMER SERVICE REPRESENTATIVES

Central Hudson became aware of system transition issues immediately following go-live.²¹⁶ On September 11, 2021, just 11 days after go-live, Central Hudson's CEO wrote to his Board of Directors advising them of concerns related to the doubling of call wait times, defects, billing exceptions, and integration issues.²¹⁷ He wrote, "There remain a number of fixes needed in the system and we will have to continue to work them down. Hypercare will continue through to the remediation of critical and major defects...I remain confident that all critical and major defects will be addressed in a timely manner."²¹⁸

As previously described, billing exceptions drastically increased in the first month following go-live. The Project Phoenix Project Manager and the technology team knew there were defects in the system that were causing billing errors.²¹⁹ They knew that customers were experiencing issues with bills as a result of defects in the system. The CEO wrote in October 2021:

As expected, but maybe underestimated has been the Customer Services impact of the Project Phoenix implementation...The continuing defects combined with a backlog of work, inexperience using a new system and new defects discovered has caused growing customer frustration...The majority of the issues surround billing and payment (no bill received, bill received but incorrect, payments processed without authorization).²²⁰

Despite knowledge of the impact system defects were having on the accuracy and timeliness of bills, the Project Phoenix team did not create scripts for Customer Service Representatives (CSRs) to use when fielding calls from customers.²²¹ This resulted in Customer Service Representatives having little ability to resolve issues and at times blaming others for the system failings. In April of 2022, a Central Hudson customer called to ask why his bill reflected an over 900% increase in one month. After attempting to determine the cause of the problem, the Customer Service Representative recommended that the customer either send in a photograph of his meter or pay to have a Central Hudson technician come to look at the meter. When the customer protested, the customer service representative said to him, "Sir,

²¹⁶ IR-027.

²¹⁷ IR-008, Attachment 118.

²¹⁸ *Id.*

²¹⁹ Interview of Central Hudson Project Manager, August 5, 2022, transcript, p. 58.

²²⁰ IR-008, Attachment 119.

²²¹ IR-038.

you're not the only person with this high amount. It's crazy because the New York utility commissioner is the one who's doing this to you guys.”²²²

F. LACK OF CANDOR WITH CUSTOMERS AND PUBLIC

Five months after go-live, on March 5, 2022, Central Hudson's CEO sent a letter to his Board of Directors stating:

We continue to work through the most complicated Project Phoenix billing issues with E&Y. We are making progress toward resolving all billing issues but there is more work to do. Central Hudson resources has been the limitation in resolving all of these issues more timely. Hiring capable employees has been challenging and we are addressing our resource limitations...Billing issues are driving customer dissatisfaction and complaints, and we are dangerously close to failing our PSC Customer Complaint Rate Performance metric.²²³

Just weeks later on March 29, 2022, Central Hudson hosted a Facebook webcast entitled “Addressing your billing and energy concerns.” While Central Hudson did admit to having some “hiccups within the system” and explained how that was affecting a segment of its customers, a significant portion of the 40 minute webcast was spent blaming the billing problems on “energy supply prices,” “cold weather,” “increased global demand,” “International events in eastern Europe” [i.e., Russia's invasion of Ukraine], an inability to control supply prices due to Public Service Commission orders, an inability to offer fixed-rate options due to Public Service Commission orders, limitations on hedging due to Public Service Commission orders, cancelled pipeline projects as a result of New York State and New England policy issues, and “the closing of Indian Point.” At no point during the webcast did Central Hudson advise its customers that there were several critical defects within the Company's billing system that caused errors resulting in inaccurate and delayed billing.²²⁴

There is no question that commodity price increases impacted Central Hudson Customers. However, the lack of candor regarding the breadth of system problems resulted in more confusion, which led to more calls to Central Hudson Customer Service, which led to longer wait times and a lack of resolution for many customers.

²²² IR-005, Attachment 31.

²²³ IR-008, attachment 122.

²²⁴ <https://www.facebook.com/centralhudson/videos/1004162873529956/>

In May 2022, a Central Hudson spokesman stated, “We continue to hear concerns regarding high energy costs due to market volatility, which unfortunately is expected to persist throughout the year. We are working with state regulators to find ways to address this situation.”²²⁵ In reference to the billing system, the spokesman stated, “Nearly all known system issues have been fixed...”²²⁶ Yet, that very month, the SAP system reported over 11,000 billing exceptions (BPEMs).²²⁷ There were over 10,000 more in June, over 16,000 more in July, and over 23,000 more in August.²²⁸

After all of this, Central Hudson still seemed unwilling to explore the overall cause of its problems. Almost a year after the launch of Project Phoenix, Central Hudson had still not conducted a root-cause analysis or “lessons learned” examination of what led to Company failures.²²⁹

Not surprisingly, in August of 2022, yet another error occurred within the SAP system. The error caused the distribution of thousands of termination letters to customers.²³⁰ This error undoubtedly led to more stress for many Central Hudson customers. While the Company then corrected the problem, this mishap further illustrates the seeming lack of urgency on the part of Central Hudson to admit its shortcomings and to dedicate sufficient resources to stabilizing its systems.

VI. VIOLATIONS OF THE LAW

A. LACK OF PRUDENCE

The Public Service Commission has the authority to investigate the prudence of utility decisions in determining rate recovery, pursuant to Public Service Law §66.²³¹ “A prime function of the Commission, as a regulatory body, is to separate

²²⁵ Central Hudson Says Billing System Problems Nearly Fixed, Daily Freeman, April 26, 2022. <https://www.dailyfreeman.com/2022/04/26/central-hudson-says-billing-system-problems-nearly-fixed/>

²²⁶ *Id.*

²²⁷ IR-080, Attachment 1.

²²⁸ *Id.*

²²⁹ IR-077.

²³⁰ IR-078.

²³¹ As the courts have long held, the Public Service Commission has authority to investigate the prudence of utility decisions in determining rate recovery, pursuant to Public Service Law §66(12), which provides “[t]he PSC's power to investigate the propriety of costs incurred by a utility derives from its duty to set just and reasonable utility rates.” See, e.g., Long Island Lighting Co. v. Public Serv. Comm'n., 134 A.D. 2d 135 (3d Dept. 1987).

those costs which should be borne by ratepayers from those which are properly chargeable to shareholders.”²³²

Central Hudson’s expenditures related to its CIS modernization have spanned 2 rate cases. The first rate case ran from 2018-2020 and the second began in 2021 and continues until 2023. To date, Central Hudson affirmatively represents that it has spent over 88 million dollars on the CIS modernization project, with some additional spending expected. According to the Company, through June 30, 2023, it is expected that over 42 million dollars will have been either collected from Central Hudson’s ratepayers or borne by shareholders (direct and ancillary expenses, depreciation, and return on capital investment), with the unamortized capital expenditures expected by the Company, to be paid by customers over time. Of that 42-million-dollar figure, it is estimated that Central Hudson’s ratepayers will have paid 21 million dollars toward the project through June 30, 2023, as provided in the Company’s two most recent rate plans.

In determining the prudence of Central Hudson’s expenditures on Project Phoenix, it is important to determine what was promised versus what was delivered. On July 28, 2017, Central Hudson presented testimony to the Public Service Commission explaining the need to update its CIS. Central Hudson’s proposed plan was to invest in a new, “modern” CIS that would initially be interfaced with the Company’s legacy system (a so-called “bolt-on” approach) and would subsequently replace the legacy system. The Company stated that it anticipated that the initial bolt-on setup would take approximately one year, and the completed transition would occur over an estimated 6-year timeframe.²³³ Central Hudson justified the transition claiming that new and proposed rate designs required “modifications to hundreds of programs...resulting in significant testing time and very slow time to completion...”²³⁴ The Company went on to say, “As a result of... legacy limitations, the company has experienced roadblocks that have required implementation of manual billing for a number of rate structures including community distributed generation and remote net metering.”²³⁵ Central Hudson stated that the modernization investment was supported by, among other

²³² Rochester Gas & Elec. Corp. v. Pub. Serv. Comm’n of the State of N.Y., 51 N.Y.2d 823, 825, 413 N.E.2d 359 (1980).

²³³ Cases 17-E-0459 et al., Central Hudson Gas & Electric Company-Rates, Direct Testimony of Mark J. Holterman, p.27.

²³⁴ *Id.* at 15.

²³⁵ *Id.*

things, “the need to modernize customer interactions” and “the evolution of distributed generation offerings...”²³⁶

Central Hudson’s stated objectives were to “improve customer experience”, “improve system performance and resilience”, and to “improve productivity and efficiency”.²³⁷ The goal was to create a “seamless customer experience” which would be measured through “PSC Customer Satisfaction Survey, PSC Complaint Rate, and PSC Contact Center ASA.”²³⁸ That did not occur.

Five years later, and over 88 million dollars spent, and Central Hudson’s promised delivery of a modern CIS, capable of handling complex billing scenarios, has not been fulfilled. By Central Hudson’s very own metric of evaluating the success of the project through PSC customer service results, the project has failed. Central Hudson asserts that ratepayers have not been harmed in that all expenditures above those approved in rate cases have been borne by Company shareholders. Nevertheless, ratepayers have now spent over 21 million dollars on unfulfilled promises and a disastrous rollout that has wreaked havoc on customer accounts, impeded information transparency, and undermined the deployment of initiatives to expand renewable energy use. As this investigation has demonstrated, Central Hudson:

- Failed to properly train its staff,
- Failed to properly test the new system,
- Failed to properly allocate resources,
- Failed to address known system defects,
- Failed to address known process deficiencies,
- Rushed to go live, and
- Failed to have (or develop) a contingency plan to revert to the legacy system once problems manifested themselves across the customer base following go live.

As a result, Central Hudson customers have a new system that has resulted in:

- Overcharges,
- Delayed Bills,
- Inaccurate Bills,
- Erroneous Automatic Withdrawals from Customer Bank Accounts,
- Negative Impacts on Community Solar Projects,
- Customer Confusion and Frustration,
- Increased Complaints, and

²³⁶ *Id.* at 14.

²³⁷ IR-009, Attachment 62, p.7.

²³⁸ *Id.*

- An overall inferior customer experience that has eroded customer trust in the accuracy of Company bills and statements.

Not only has the customer experience drastically deteriorated, but after all of the time and money spent on Project Phoenix, the new system still cannot handle complex billing scenarios.

Central Hudson promised ratepayers and the Commission a modern system capable of handling complex billing and an improved customer experience. The Company spent over 21 million dollars of ratepayer money and delivered neither. Central Hudson's numerous failings have resulted in millions of dollars of wasted ratepayer money and has left ratepayers with a worse customer experience than before the project began. Central Hudson's actions and expenditures related to Project Phoenix were clearly imprudent and a prudence proceeding should be initiated to determine the extent of customer harm.

B. OVERCHARGES & DELAYED BILLING

Public Service Law §65, entitled Just and Reasonable Charges, states:

Every gas corporation, every electric corporation and every municipality shall furnish and provide such service, instrumentalities and facilities as shall be safe and adequate and in all respects just and reasonable. All charges made or demanded by any such gas corporation, electric corporation or municipality for gas, electricity or any service rendered or to be rendered, shall be just and reasonable and not more than allowed by law or by order of the commission. Every unjust or unreasonable charge made or demanded for gas, electricity or any such service, or in connection therewith, or in excess of that allowed by law or by the order of the commission is prohibited.

Central Hudson's failure to effectively implement the new CIS SAP billing system resulted in unjust and unreasonable charges for service, affecting over 8,050 customer accounts, including:

- Over 975 net meter budget customers double-billed.
- 399 net-metered customers overcharged due to their banked generation not being updated properly.
- 980 net-metered customers overbilled due to generation miscalculations.
- Over 1,050 customers being overcharged due to rate category mismatches.
- Over 1,300 Energy Affordability Program (HEAP) participants being overcharged.

- Over 2,100 customers being overcharged for weather normalization miscalculations.²³⁹

Not only were Central Hudson customers overcharged for service, many had tens of thousands of dollars automatically withdrawn from their bank accounts – often without advance warning.

Unlike occasional billing miscalculations that occur in the regular course of business and are swiftly corrected, the above overcharges were the direct result of Central Hudson’s systemic failings related to the SAP billing system implementation. The overcharges were unjust, unreasonable, and each instance a violation of PSL §65.

Central Hudson was not only required to furnish power to its customers, it was also required to appropriately and accurately bill for it. Failing to provide bills to its customers in a timely fashion was a clear violation of its duty to “provide...service as shall be...adequate and in all respects just and reasonable.”²⁴⁰ Billing system problems resulted in billing delays for tens of thousands of Central Hudson customers, with over 4,800 customers not receiving a bill for over 3 months.²⁴¹ As of March 4, 2022, 20,511 customers were still being impacted by billing delays.²⁴² By the end of April 2022, that number decreased to 4,058²⁴³; however by June 22, 2022, that number had increased to 5,037.²⁴⁴ As of November 11, 2022, over 8,000 customers were still experiencing billing delays.²⁴⁵

It is vitally important for customers to know how much energy they are using each month. Such information transparency plays a key role in a customer’s energy use and the interplay of supply and demand and price. The customer must receive a bill in order to know how much energy is being consumed and the cost of that use so that he or she can adjust accordingly. This is especially true during the winter months and was even more important during the winter of 2021-2022 when commodity prices skyrocketed.

It is well recognized that customers must receive a timely bill in order to measure their usage and have the ability to take conservation actions. The Commission has recognized that “the utility’s failure to bill promptly” may “deprive

²³⁹ IR-004, Attachment 1.

²⁴⁰ PSL§65.

²⁴¹ IR-032, Attachment 1.

²⁴² IR-026.

²⁴³ *Id.*

²⁴⁴ IR-035.

²⁴⁵ IR-085.

[] the [customer] of one of the components of adequate... service: prompt notice of usage and cost”, which may allow the customer “to conserve energy.”²⁴⁶

Central Hudson has repeatedly stressed to customers the importance of conservation. On October 4, 2022, Central Hudson held a webcast entitled, “The Story Behind Your Bill.” During the webcast, while discussing high energy supply prices, the Senior Vice President of Customer Services & Gas Operations stated:

What customers really need to recognize since they’re going to be here for a while is, you know, adjust some of your patterns. If you can engage in energy efficiency measures, you know, replacing your lightbulbs, engaging programmable thermostats, you should really look at those options. And look, we may have to look at something we haven’t talked about in a while here, energy conservation, right? Maybe just turning things down a little bit, an extra layer. It’s not the way we’re normally used to living, but maybe some of those things have to take place right now if the prices are going to remain high and you want to save a couple of dollars. I think it’s important that we take both energy efficiency and energy conservation into account here as we kind of plan our budgets going forward here.²⁴⁷

Central Hudson’s advice here in its webcast is good, but it assumes customers know when prices and usage increase, which customers have no way of knowing when they don’t receive a timely and accurate bill. As Central Hudson has stated, “Monthly billing aligns energy costs with household budgets...”, and “gives [the customer] more control and make[s] it easier to manage...energy costs.”²⁴⁸

Central Hudson’s failure to provide a bill to thousands of customers for several months hampered the ability of those customers to manage their energy costs during a particularly volatile winter. Central Hudson’s failure to provide timely bills undermined its customer’s confidence in accurate billing and was a breach of its duty to provide adequate service which was a clear violation of PSL §65.

²⁴⁶ 91-E-0176, In the Matter of the Rules and Regulations of the Public Service Commission. Contained in 16 NYCRR, in Relation to Complaint Procedures-Appeal by Long Island Lighting Company of the Informal Decision Rendered in Favor of Donald Johnson Filed in C26358 (E959005), Commission Determination (issued and effective July 15, 1991).

²⁴⁷ <https://www.facebook.com/centralhudson/videos/6072871436110497/>

²⁴⁸ <https://www.facebook.com/centralhudson/posts/were-switching-to-monthly-billing-in-july-why-its-easier-monthly-billing-aligns-/1200014163362436/>

C. BACKBILLING

There are limits on how long a utility may wait to bill a customer for services previously rendered, especially when the delay is the fault of the utility.

Public Service Law §41, Finality of Certain Utility Charges, states:

Notwithstanding any other provision of law, no utility corporation...may charge a residential customer for gas or electric service which was rendered more than six months prior to the mailing of the first bill to the customer for such service unless the failure of the corporation or municipality to bill sooner was not due to the neglect of the corporation or municipality or was due to the culpable conduct of the customer.

16 NYCRR §11.14(a) Backbilling on Residential Accounts, states:

No utility shall charge a residential customer for service rendered more than six months prior to the mailing of the first bill for service to the residential customer unless the failure of the utility to bill at an earlier time was not due to the neglect of the utility or was due to the culpable conduct of the customer.

16 NYCRR §13.9(b)(1) Limitations on backbill rendering. (Nonresidential Customers), states:

A utility shall not render a backbill more than six months after the utility actually became aware of the circumstance, error or condition that cause the underbilling, unless a court extends the time to render a backbill.

Central Hudson's Schedule for Electric Service (Tariff) states that with respect to Residential accounts, "The Company will not charge a residential customer for service rendered more than six months prior to the mailing of the first bill for service unless the failure of the company to bill at an earlier time was not due to the neglect of the Company or was due to the culpable conduct of the customer."²⁴⁹ For Nonresidential accounts, the tariff states, "The Company shall not render a backbill more than six months after the Company actually became aware of the circumstance, error or condition that caused the underbilling, unless a court extends the time to render a backbill."²⁵⁰

²⁴⁹ Central Hudson Gas & Electric Corp. Schedule for Electric Service, Leaf 32, Revision 2, Superseding Revision 1.

²⁵⁰ *Id.* at Leaf 34, Revision 1.

It's important to note that while 16 NYCRR §11.14(a) limits the backbilling of residential customers to 6 months, the Public Service Commission has expanded customer protections by limiting backbilling of residential customers to 4 months.²⁵¹ Therefore, Central Hudson was precluded from backbilling *nonresidential* customers 6 months after Central Hudson “became aware of the circumstances, error or condition that cause the underbilling”, and the Company was precluded from backbilling *residential* customers 4 months after becoming aware of the error.

Central Hudson admitted to becoming aware that system transition issues were causing billing delays immediately upon the September 1 go-live.²⁵² Therefore, any residential bill rendered more than 4 months, and any nonresidential bill rendered more than 6 months after September 1, 2021, was an illegal backbill.

Following system cutover, Central Hudson improperly sent 83 backbills to nonresidential customers, and 1,600 backbills to residential customers in violation of the Public Service Law, DPS regulations, and Commission Orders precluding backbilling beyond the prescribed time limits. These billings were a clear violation of regulations and Commission orders and Central Hudson should be ordered to refund those payments.

D. IMPROPER ESTIMATES IN VIOLATION OF REVISED BILL ESTIMATING METHODS PETITION AND ORDER.

16 NYCRR §11.13 Meter Readings and Estimated Bills (Residential), states:

A utility may render an estimated bill for any billing period if:

- (1) the estimated bill is calculated in accordance with a procedure approved by the commission...; and
- (2) the distribution utility has made a reasonable effort to obtain an actual meter reading; or
- (3) circumstances beyond the control of the distribution utility made an actual reading of the meter extremely difficult;
- (4) circumstances indicate a reported reading is likely to be erroneous;
- (5) an estimated reading has been prescribed or authorized by the commission for a billing period between periods when actual meter readings were scheduled; or

²⁵¹ 91-E-0176, In the Matter of the Rules and Regulations of the Public Service Commission, Contained in 16NYCRR, in Relation to Complaint Procedures-Appeal by Long Island Lighting Company of the Informal Decision Rendered in Favor of Donald Johnson Filed in C26358 (E959005), Commission Determination (issued and effective July 15, 1991).

²⁵² IR-027.

(6) the customer is a seasonal or short-term customer...”

Central Hudson was authorized to render estimated bills for billing periods between meter reads. However, the Company also used estimates to replace information recorded from actual meter reads. Such a replacement would only be allowed if: (1) it was based on a procedure approved by the commission, *and* (2) circumstances indicated the reported actual meter readings were likely to be erroneous.

Central Hudson’s approved estimation procedure is set forth in Case 21-M-0045, in Appendix B to their petition to change estimation routines. The Commission approved Central Hudson’s bill estimation only under the following conditions: “(1) when an actual read cannot be obtained due to circumstances beyond Central Hudson’s control... (2) when an actual read results in *usage* outside of usage thresholds for the rate and customer type. If the actual read is not validated within seven business days, an estimated bill is issued, (3) during interim months for customers read on a bi-monthly basis issued on a cycle, and (4) for “other business needs as deemed appropriate”.²⁵³

In the current circumstances, since actual meter reads had been obtained, Central Hudson was only approved to bill non-interim month customers, “when an actual read results in *usage* outside of usage thresholds for the rate and customer type.”

Central Hudson’s system is designed to flag meter-read results that are outside of usage thresholds.²⁵⁴ The invoicing thresholds were set to \$4,000 for residential customers, \$30,000 for small commercial customers, and \$60,000 for Industrial customers.²⁵⁵ As designed, if the system identified a bill above a threshold, it would create a Business Process Exception (BPEM) which would block the bill from being sent to the customer. Following go live, due to defects, the system created numerous BPEMs.²⁵⁶ By November, the BPEM number had ballooned to over 40,000.²⁵⁷

Central Hudson understood the Company did not suddenly have thousands of customers exceeding usage thresholds. The Company knew the new system was erroneously interpreting the data, creating BPEMs, and blocking bills. CDG customer bills were blocked due to SAP system errors related to the allocation of

²⁵³ Case 21-M-0045, Petition of Central Hudson Gas & Electric Corporation to Revise the Heating and Non-Heating Procedures Used to Calculate Bill Estimates, Updated Supplement to Petition, Appendix B. (Emphasis added)

²⁵⁴ Interview of Central Hudson Chief Technology Officer, June 2, 2022, transcript, p.15.

²⁵⁵ IR-034, Attachment 1.

²⁵⁶ IR-024.

²⁵⁷ IR-032, Attachment 1.

credits.²⁵⁸ Net metered customers had bills blocked because the system was incorrectly interpreting meter indices for bill calculations.²⁵⁹ Retail Access customers had bills blocked due to a misalignment of customer data and tax rates.²⁶⁰ Other customers had their bills blocked for various problems related to the accuracy of the data in the system.²⁶¹

Central Hudson was aware that defects in the new system were erroneously creating BPEMs and blocking bills. However, due to a lack of resources, the Company was unable to correct the errors within 7 days, and estimates were then sent out to customers in lieu of more accurate actual meter reads.²⁶² While Central Hudson was authorized to send estimates to address *actual usage* beyond thresholds, the Company and its leadership was not authorized to send estimates due to system defects. Rather than dedicate appropriate resources to address the exceptions, Central Hudson intentionally chose to allow estimates to go out in place of actual meter reads.²⁶³ This was not a procedure approved by the Commission, and therefore was a violation of 16 NYCRR §11.13.

Even if the procedure had been approved by the Commission, Central Hudson would additionally have to show that “circumstances indicate a reported reading is likely to be erroneous.”²⁶⁴ Central Hudson was aware that the reading was not erroneous, but rather that the problem was within the system itself. Nevertheless, because Central Hudson had insufficient resources to review the BPEMs and send out the most accurate bills, Company decisionmakers chose to send estimates instead.

Central Hudson’s justification for estimation is the need to bill the customer monthly in lieu of an actual read. However, customers who desire a more accurate reading have the option of reading their own meter and submitting it through Central Hudson’s website.²⁶⁵ It is clear that the justification for estimates is to provide a bill when actual reads are not available. This is made more evident when reviewing Central Hudson’s tariff as it relates to estimated bills. Central Hudson’s Tariff states, “When the Company has rendered estimated bills to a residential customer for a period of four months, the Company shall take reasonable actions to obtain an actual meter reading.”²⁶⁶ The tariff goes on to set forth actions to take including making appointments to read the meter and offering the customer the

²⁵⁸ IR-024.

²⁵⁹ *Id.*

²⁶⁰ *Id.*

²⁶¹ *Id.*

²⁶² Interview of Central Hudson Project Manager, August 5, 2022, transcript, pp. 59-61.

²⁶³ Interview of Central Hudson Chief Financial Officer, July 25, 2022, transcript, p. 15.

²⁶⁴ 16 NYCRR §11.13(a)(4).

²⁶⁵ <https://www.cenhud.com/forms/meterreading/>

²⁶⁶ Central Hudson Gas & Electric Corp. Schedule for Electric Service, Leaf 57, Revision 5, Superseding Revision 4.

ability to send in a reading.²⁶⁷ The tariff makes clear that estimates are designed to act as a placeholder in order to give the Company time to obtain an actual meter read. Estimates are not meant to replace actual and accurate meter reads that the Company already possesses in order to buy time to fix system defects.

While the law allows Central Hudson to use an estimate in limited circumstances when “circumstances indicate a reported *reading* is likely to be erroneous”, here it was not the meter *reading* that was erroneous, it was the new system’s interpretation based on defects and programming errors that was causing the bills to be delayed. Central Hudson knew this, nevertheless, due to a lack of resources, the Company was unable to address the BPEMs in a timely manner, and improperly used estimates in violation of §11.13 of the Commission’s regulations.

Additionally, the use of estimates under these circumstances did not comport with the estimating procedures as approved by the Commission in case 21-M-0045. The approved estimating procedures allow an estimate during interim months, when an actual meter read cannot be obtained, or when an actual meter read results in *usage* outside of usage thresholds. While the system, due to defects and programming errors, may have given indications of readings outside of thresholds, the actual *usage* for the majority of the customers was well within thresholds, yet Central Hudson still sent estimates. Estimates jumped from 6266 in August of 2021, to 13957 in September of 2021.²⁶⁸ Central Hudson knew that the errors were within the new billing system, not from the customer’s meters. The “circumstances” did not indicate that a reported reading was erroneous or that the usage was beyond thresholds. The circumstances made it quite obvious that the defect was within the new billing system. Knowing it did not have the resources to address the problem, Central Hudson replaced actual meter reads and illegally sent estimates to thousands of customers.

As discussed in this report, on October 4, 2022, Central Hudson held a webcast entitled, “The Story Behind Your Bill.” During this public presentation, Central Hudson’s Manager of Regulatory Affairs described Central Hudson’s process of reading meters every other month and providing an estimated bill between. He stated, “I think as we look forward to the future, we want to move away from that dynamic. We want to start reading meters or having meter-reads every month. So that it aligns with the billing periods much more closely and takes a little bit of uncertainty away from our customers. That’s something we really understand here at Central Hudson. We understand that our customers don’t like

²⁶⁷ *Id.*

²⁶⁸ 15-M-0566, In the Matter of Revisions to Customer Service Performance Indicators Applicable to Gas and Electric Corporations, Central Hudson Performance Indicator Report, December 2021.

estimates. We want to move away from estimates as much as possible. And that's one place where we will be looking in the future to do that.”²⁶⁹

The issues with bill estimating should not have come as a surprise to Central Hudson. On June 25, 2021, over 2 months prior to go live, a Central Hudson employee noted, “Due to Central Hudson estimating bills every other month, the second month bill issued out of SAP either an estimate following previous actual, or vice versa is important to test and validate since it will take two full cycles to analyze billing behavior. There has been very little to no testing of these situations and could have adverse impacts that won't be seen until the second month after go-live.”²⁷⁰ Approximately one week later, the same employee noted another issue where for some customers, the system was estimating based upon the prior month rather than a prior year comparable period.²⁷¹ She stated, “With approximately 47K installation impacted, more than 10% of customers will be impacted.”²⁷² Central Hudson decided to accept the risk and later stated it was possibly the cause of some of the problems that occurred after go-live.²⁷³

E. OTHER VIOLATIONS RELATED TO REVISED BILL ESTIMATING METHODS PETITION AND ORDER

On December 23, 2020, Central Hudson filed a petition with the Commission seeking to change the Company's estimation calculation process claiming that the request was necessitated by the implementation of the new SAP system.²⁷⁴ While considering Central Hudson's request, DPS Staff expressed some concerns about a potential increase in customer complaints as a result of the proposed changes to the estimation procedures. Staff asked, “How can Staff be comfortable that using only four methods will produce reasonable results?”²⁷⁵ In a July 8, 2021 response, Central Hudson stated, “Staff can be comfortable that SAP's bill estimating methods will produce reasonable results because Central Hudson's system is being configured to ensure that similar methodology for the estimation of consumption (finding a comparable historical period for the premise to use for estimating the

²⁶⁹ <https://www.facebook.com/centralhudson/videos/6072871436110497/>

²⁷⁰ IR-031, Attachment 1, Risk 132.

²⁷¹ IR-031, Attachment 1, Risk 134.

²⁷² *Id.*

²⁷³ Interview of Central Hudson Project Manager, August 5, 2022, transcript, pp. 37-38.

²⁷⁴ Case 21-M-0045, Petition of Central Hudson Gas & Electric Corporation to Revise the Heating and Non-Heating Procedures Used to Calculate Bill Estimates, Petition, p.1 (filed December 23, 2020).

²⁷⁵ Case 21-M-0045, Central Hudson Gas & Electric Corporation's Updated Supplement to the Petition Requesting the New York State Public Service Commission Approve Central Hudson Gas & Electric Corporation's new procedures for bill estimates, Appendix C, p.3 (filed July 8, 2021).

current period) will remain the same as the methodology being used with the current system.”²⁷⁶ Staff also asked, “Has there been any testing or studies done to provide comfort that a change will not result in more complaints?”²⁷⁷ In response, Central Hudson stated, “Although there have not been any testing, analysis or studies done, Central Hudson does not anticipate that implementation of this system will result in more complaints to the Public Service Commission related to bill estimation.”²⁷⁸

What Central Hudson failed to mention to DPS Staff was that one week prior to the Company’s July 8, 2021 response, a Central Hudson employee had identified a risk associated with the migration of data into the new system and the potential impact it could have on estimation calculations.”²⁷⁹ In response to the concern, Central Hudson conducted an “accuracy analysis” comparing estimates generated by the legacy system versus the new, to-be-deployed SAP system.²⁸⁰ The testing revealed that in certain circumstances, the SAP system was causing a drop in the percentage of “good” estimates as compared to the legacy system.²⁸¹ The testing also showed that in certain circumstances, using the new SAP system would result in “good” estimates for just 25% of new customers, and 30% of existing customers.²⁸²

While the testing was conducted on July 12, 2021, 4 days after Central Hudson submitted its petition supplement to the Commission and DPS Staff, nevertheless, from an elementary duty of candor perspective, the Company should have alerted the Commission and Staff to the results of the tests. The Company should also have done so since the Company made the following affirmative commitment in its July 8, 2021, letter to the Commission: “Central Hudson will promptly provide any additional information necessary to facilitate the Commission’s prompt consideration of this request.”²⁸³

On August 16, 2021, unaware of the testing Central Hudson had conducted, the Commission issued an Order Approving Revised Bill Estimation Methods.²⁸⁴ In the order, the Commission expressed concerns with Central Hudson’s lack of testing related to the new estimation methodologies, stating, “The Commission’s primary

²⁷⁶ *Id.*

²⁷⁷ *Id.* at Appendix C, p.1.

²⁷⁸ *Id.*

²⁷⁹ IR-031, Risk 134. (Created July 1, 2021)

²⁸⁰ *Id.*

²⁸¹ IR-073, Attachment 1.

²⁸² *Id.*

²⁸³ Case 21-M-0045, Petition of Central Hudson Gas & Electric Corporation to Revise the Heating and Non-Heating Procedures Used to Calculate Bill Estimates, Central Hudson Cover Letter, p.2. (Filed July 8, 2021).

²⁸⁴ Case 21-M-0045, Petition of Central Hudson Gas & Electric Corporation to Revise the Heating and Non-Heating Procedures Used to Calculate Bill Estimates, Order Approving Revised Bill Estimation Methods. (Issued and Effective August 16, 2021).

area of concern is the lack of testing or studies done by Central Hudson to analyze the impact to customers of changing the bill estimating procedures, which could result in less accurate bill estimations and therefore yield more customer complaints and customer dissatisfaction.”²⁸⁵ The Commission approved the new estimation procedures. However, to alleviate some of the Commission’s concerns, it ordered Central Hudson to file within 30 days of the issuance of the order, “a report to include, at a minimum, complaints it received associated with adjusted bills, estimated bills, high bills, inaccurate bills, and any complaints related to actual meter readings or bill estimates for 2017, 2018, 2019, and 2020.”²⁸⁶ The Commission also ordered Central Hudson to file quarterly reports detailing the same information as in the original report.²⁸⁷

Central Hudson subsequently failed to abide by the Commission orders related to customer complaint reports. On September 14, 2021, Central Hudson filed a letter with the Secretary to the Commission stating, “Central Hudson does not track complaints at the granular level included in Ordering Clause 4.”²⁸⁸ Central Hudson subsequently filed inadequate reports on October 15, 2021, January 14, 2022, April 19, 2022, July 15, 2022, and October 14, 2022. None of the reports provided the detailed information required by the August 16, 2021, Commission order.

VII. CONCLUSION

On January 6, 2020, Central Hudson filed a CIS Modernization Plan with the Commission. On page 1 of the plan, Central Hudson stated that the Company sought to “mak[e] a foundational investment to modernize and improve customer experience” by replacing its existing Customer Information System.²⁸⁹ The Company stated that the investment was “necessary to meet: (1) evolving customer expectations, [and] (2) regulatory changes including more dynamic and complex billing formulations...”²⁹⁰ Nearly 3 years later, Central Hudson customers are left

²⁸⁵ *Id.* at p.9.

²⁸⁶ *Id.* at 13.

²⁸⁷ *Id.* The original order referenced Ordering clause 3 in error. It was subsequently clarified as was referenced in Central Hudson's October 15, 2021 filing.

²⁸⁸ Case 21-M-0045, Petition of Central Hudson Gas & Electric Corporation to Revise the Heating and Non-Heating Procedures Used to Calculate Bill Estimates, Central Hudson September 14, 2021 Report.

²⁸⁹ Cases 17-E-0459 et al., Central Hudson Gas & Electric Company-Rates, Central Hudson CIS Modernization Overview, p.1.

²⁹⁰ *Id.*

with a system that is incapable of processing complex billing formulations and provides customers with a markedly inferior experience.

System transition problems were foreseeable and avoidable, yet negligent and reckless actions on the part of decision makers lead to a disastrous outcome for many Central Hudson customers. While Central Hudson has described the problems as “hiccups within the system,” such a characterization minimizes the real pain some customers have experienced and trivializes the failures to identify and address numerous problems, in addition to failures to address known issues in advance of the go-live date. The problems Central Hudson experienced were not merely fleeting minor issues associated with system stabilization. They were significant and long-lasting -- and the direct result of a lack of preparation, testing, training, staffing, communication, and candor.

OIE’s investigation revealed several Company missteps that lead to months of hardship for many of its customers. However, what was also revealed is that Central Hudson Gas & Electric’s greatest strength is the work ethic and dedication of many of its employees. Despite some of leadership’s lack of proper planning and allocation of resources, Central Hudson employees continued to work countless hours to try to make the transition work. Employees worked nights and weekends, and some put in over 24-hour shifts to solve problems.²⁹¹ Nevertheless, a consistent failure of leadership continued to hamper employee efforts. Central Hudson states that it has “always operated very lean,”²⁹² and it ultimately hoped to operate even leaner by reducing staffing in their contact center following the system upgrade.²⁹³ However, it was leadership’s tendency to undervalue employees and employee opinions that lead to many of the system transition problems. When employees spoke up and said they were not ready for the transition, Central Hudson delayed go-live for a mere 60 days -- and then stopped asking for feedback. When employees brought up concerns about training, testing and readiness, leadership consistently postponed taking action to address the concerns, and then failed to adequately prepare for the consequences of inaction after go-live. At system launch, many of those employees’ prescient concerns came to fruition. The system was riddled with defects and Central Hudson failed to have a backup plan. Company leadership was “all in” with the transition and slow to admit the breadth of the problems to their customers and to the public. When asked why the Company failed to roll back the system after identifying the billing issues, Central Hudson stated, “[a] system rollback was not executed and not necessary as the cut-over criteria was successful...The new SAP system works as it was designed.”²⁹⁴

²⁹¹ Interview of Central Hudson Chief Technology Officer, June 2, 2022, transcript, p.16.

²⁹² Interview of Central Hudson Chief Financial Officer, July 25, 2022, transcript, p. 17.

²⁹³ Central Hudson 2018-2019 CIS Modernization Report, p.28.

²⁹⁴ IR-016.

VIII. RECOMMENDATIONS

The Office of Investigations and Enforcement provides the following recommendations:

- 1) Central Hudson should be required to show cause why the Public Service Commission should not commence a civil penalty action and/or an administrative penalty action, pursuant to Public Service Law §§ 25 and 25-a, for violations of the Public Service Law, associated regulations, and Commission orders identified in this report.
- 2) Given the magnitude of the Company deficiencies identified during OIE's investigation and the resulting impact on customers, OIE recommends that the Commission initiate an administrative prudence proceeding to recoup imprudently incurred expenses made by the Company related to the development, preparation, and implementation of the CIS system and Project Phoenix as well as consequential expenses related to the Company's post "go-live" remediation efforts that were and are necessary to address defects and shortcomings in the system and address negative impacts to customers.
- 3) The Commission and DPS Staff should consider requiring the Company to conduct actual reads of customer meters each month and discontinue alternative month estimates.
- 4) The Commission should order the Company to refund payments made by customers who were illegally backbilled.
- 5) Copies of this report should be delivered to chief executives and general counsel of other gas and electric utilities in New York.

Dated: December, 2022
Albany, New York