Filed Session of December 19, 2001
Approved as Recommended
and so Ordered
By the Commission

JANET HAND DEIXLER
Secretary
Issued and Effective December 19, 2001

STATE OF NEW YORK
DEPARTMENT OF PUBLIC SERVICE

November 29, 2001

TO: THE COMMISSION

FROM: OFFICE OF ELECTRICITY AND ENVIRONMENT–RATES & TARIFFS

SUBJECT: CASE 00-E-1273 – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Central Hudson Gas and Electric Corporation for Electric Service.

CASE 00-G-1274 – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Central Hudson Gas and Electric Corporation for Gas Service.

Tariff amendments filed in compliance with the Commission's October 25, 2001 order in these proceedings.

SUMMARY OF RECOMENDATION: Staff recommends that the amendments listed in Appendix I be authorized to become effective on a permanent basis on December 20, 2001, as discussed herein.

Summary

Central Hudson Gas and Electric Corporation (Central Hudson) filed amended tariff leaves (see Appendix I) in compliance with the Commission's Order Establishing Rates issued and effective October 25, 2001 in Cases 00-E-1273 and 00-G-1274 (October 25 order).

The October 25 order adopted the terms of the Joint Proposal that was filed in these proceedings on August 21, 2001. The Joint Proposal established a rate and regulatory plan to take effect as of July 1, 2001 and continue for at least three years from that date.

The company has proposed two administrative modifications to the Joint Proposal. These modifications concern the electric Competitive Transition Charge (CTC) and electric Market Price Charge (MPC) and were necessitated by limitations of the company’s billing system. There is insignificant customer impact due to these modifications. The company has also proposed to recover about $840,000, related to the effect of deferring the impact of the electric rate change from July 1, 2001 through October 31, 2001, from electric ratepayers on a cents/kWh basis over a one-month period.

Staff has reviewed the filing and finds it to be in compliance with the October 25 order, but the $840,000 amount related to the electric rate change should be recovered through a charge to the Customer Benefit Fund rather than from electric ratepayers directly. The filing should be authorized to become effective on a permanent basis on December 20, 2001.

Background

By its October 25 order, the Commission directed the company to file on not less than one day’s notice, to take effect no later than November 1, 2001 on a temporary basis, such further tariff changes as are necessary to effectuate the provisions adopted in the order. The tariff revisions are subject to refund if any showing is made that the revisions are not in compliance with the order. In addition, the Commission also directed the company to serve copies of the compliance filing on all parties to these proceedings, allowing ten days for comments. According to the order, the amendments will not become effective on a permanent basis until approved by the Commission.

Compliance Filing

On October 31, 2001, Central Hudson filed electric and gas tariff amendments, currently effective on a temporary basis, in compliance with the Commission's October 25 order.

For electric service, the tariff amendments effectuate an overall electric delivery rate reduction, revise the electric rate design and reconnection charges, modify the Competitive Transition Charge, eliminate certain discount provisions, implement an Energy Cost Adjustment Mechanism to replace the current Energy Supply Charge, and provide for three new rate factors. These new rate factors are a System Benefits Charge, Customer Refunds (which total $75 million on a pre-tax basis) and Retail Access back-out credits (See Appendix II)

For gas service, the tariff amendments unbundle tariff rates, revise the gas rate design, gas supply charge mechanism and reconnection charges, allow for the imputation of interruptible revenue and set a gas merchant back-out credit (See Appendix II.)

Central Hudson has also addressed the effect of the electric rate change deferred through the extension period (July 1, 2001 through October 31, 2001) to comply with orders issued in this proceeding extending the suspension period.[1]

[1] Orders issued in this proceeding June 25, August 29, and September 28, 2001.

Discussion

Administrative Modifications

In implementing the October 25 order, Central Hudson made two administrative updates to the order's requirement, which were necessitated by limitations of its billing system. These modifications involve the electric Competitive Transition Charge and the electric Market Price Charge portion of the Energy Cost Adjustment Mechanism (ECAM).

The CTC[2] was to be applied to a customer’s bill as a separately identified charge, prorated between the prior CTC and the CTC effective with new rates. The CTC will be eliminated with the sale of Nine Mile Point 2. Central Hudson notes the sale of Nine Mile Point 2 would require the proration of the CTC among three different values (prior, new and zero). However, the billing system is unable to separately identify three different CTCs on a customer’s bill. Therefore, the CTC was included in the Miscellaneous Charges Factor of the ECAM for billing purposes. There is no impact on any customer’s bill.

The MPC is a class specific factor that represents the cost of all generation needed to serve the company’s full service customers. The billing system is unable to bill different MPCs for the SC No. 5 Area Lighting and SC No. 8 Public Street and Highway Lighting classes. However, for these classes the MPC is very similar.[3] Therefore, the company used an average MPC for these two classes rather than the class specific

[2] The current CTC includes Nine Mile Point 2 costs and costs associated with hydro and gas turbines. The CTC effective with new rates includes only Nine Mile Point 2 costs.

[3] The MPCs for the SC No. 5 Area Lighting and SC No. 8 Public Street and Highway Lighting classes differ by only $.00007/kWh.

MPC. This modification is revenue neutral and the customer impact is insignificant.[4]

Rate Change During Suspension Period

Central Hudson proposes to recover about $840,000 from ratepayers. This amount reflects for the July 1, 2001 through October 31, 2001 period the base delivery rate decrease and the recovery of the following items: (1) the five percent discount available to full service delivery customers taking service under SC No. 13 – Large Power Substation and Transmission Service, (2) deferred fuel items, and (3) working capital and uncollectible allowances on ECAM items. The amount of the recovery would have been about $137,000 greater, but the company accepted a Rates Staff adjustment to eliminate a possible double count of hydro and gas turbine costs.[5]

The five percent discount is one of several rate discounts that were set to expire on June 30, 2001. The application of all the discounts was continued through the extension of the suspension period. The total amount of all such discounts, for all service classifications, is about $365,000. Central Hudson is absorbing about $236,000 which is the amount of all the economic development discounts and is proposing to recover about $129,000 which is the amount of the SC No. 13 five percent discount. Unlike the economic development discounts, no action was required by the SC No. 13 customers to qualify for the five percent discount. The utility

[4] The use of an average MPC will cause the SC No. 8 Public Street and Highway Lighting class to experience an insignificant annual increase of less than $500 on revenues of almost $4 million.

[5] Staff adjustment of $137,000 eliminated a potential double recovery of certain hydro and gas turbine costs; once through the current CTCs and again through the new electric base delivery rates.

is proposing to recover this discount in accord with the orders extending the suspension period.[6]

Finally, the $840,000 includes certain deferred fuel items (related to wheeling and capacity costs involving Gilboa and Nine Mile Point 2) and working capital and uncollectible allowances. These adjustments are appropriate because the ratepayers through the ECAM, rather than through the delivery service rates, pay these same costs.

Central Hudson proposes to recover the $840,000 through an adjustment to bills, on a cents/kWh basis over a one month period. Staff believes the amount to be recovered from ratepayers should be accomplished through a charge to the Customer Benefit Fund, which is in accord with orders extending the suspension period.[7]

Conclusion

Staff concludes that the company's tariff amendments listed in Appendix I are in compliance with the Commission's October 25, 2001 order in Cases 00-E-1273 and 00-G-1274. No comments were received in response to the October 25 order.

Recommendation

It is recommended that:

1. the amendments listed in Appendix I be authorized to become effective on a permanent basis on December 20, 2001; and

2. the $840,000 amount to be recovered from ratepayers should be accomplished through a charge to the Customer Benefit Fund;

[6] Ordering clause 4.

[7] Ordering clause 4.

3. these proceedings be continued.

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Amendments to Schedule P.S.C. No. 15 – Electricity

Original Leaves Nos. 163.1, 163.2, 163.3, 163.4, 165.1, 169.1, 178.1, 186.1, 194.1, 206.2, 222.2, 237.1
First Revised Leaves Nos. 179, 181, 182, 184.1, 184.2, 196, 198, 202.1, 202.2, 206.1, 211.1, 267.1, 267.2, 267.7
Second Revised Leaves Nos. 94, 207, 218.1, 221, 222.1, 223, 225, 226, 246.1, 249, 250, 251, 258, 259, 267.6
Third Revised Leaves Nos. 14, 106, 107, 124, 165, 168, 171, 174, 178, 183, 184, 185, 186, 190, 194, 201, 202, 205.1, 210, 211, 217, 219, 222, 247, 260, 262, 264, 265, 266
Fourth Revised Leaves Nos. 3, 104, 105, 109, 199, 200, 206, 220, 246
Fifth Revised Leaves Nos. 205, 216, 218, 237
Sixth Revised Leaves Nos. 169, 256
Statement of Customer Refund CR-1
Statement of System Benefits Charge SBC-1
Statement of Purchased Power Adjustment PPA-1
Statement of Miscellaneous Charges MISC-1
Statement of Market Price Charge and Market Price Adjustment MPC-1
Statement of Revenue Tax Surcharge RTS-7

Received: October 31, 2001 Effective: November 1, 2001

Amendments to Schedule P.S.C. No. 12 – Gas

First Revised Leaves Nos. 160, 161, 190
Second Revised Leaves Nos. 4, 63, 68, 71, 72, 74, 148, 149, 150, 151, 152, 153, 154, 158, 188, 189, 193, 194
Third Revised Leaves Nos. 73, 187
Fourth Revised Leaves Nos. 69, 70, 186, 191, 192
Fifth Revised Leaf No. 159
Statement of Gas Supply Charge GSC-1
Statement of Firm Transportation Rates FTR-29
Statement of Interruptible Gas Rates IGR-30
Statement of Interruptible Transportation Rates ITR-29
Statement of Revenue Tax Surcharge RTS-7

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PROPOSED ELECTRIC CHANGES

Rate Design

Service Classification No. 1 - The monthly customer charge will be increased, on a revenue neutral basis, to $9.75 effective November 1, 2001, to $11.50 effective July 1, 2003 and to $12.00 effective July 1, 2004. The customer charge for customers enrolled in the Company's "Powerful Opportunities" low-income program will be $5.00 per month.

Service Classification No. 2 - The non-demand monthly customer charge will be increased, on a revenue neutral basis, to $12.00 effective November 1, 2001, to $13.00 effective July 1, 2002 and to $14.00 effective July 1, 2003. The secondary demand and primary demand monthly customer charge will be increased to $20.00 and $80.00, respectively.

The electric heating provision will be closed to new customers as of November 1, 2001. These customers have been notified by the Company of the elimination of this service. Existing customers taking service under this provision will be switched to a corresponding standard rate under Service Classification No. 2 coincident with their next billing occurring on or after November 1, 2001. Existing customers will receive the Customer Refund and will be billed the System Benefits Charge for service on and after November 1, 2001.

Service Classification Nos. 3 and 13 - The monthly customer charge for Service Classification No. 3 (primary) and Service Classification No. 13 (substation and transmission) customers will be set at $250.00 and $500.00, respectively. A single energy delivery charge for primary, substation and transmission service will replace the separate energy delivery charges for on and off peak usage. A single basic demand charge for primary, substation and transmission service will be applicable for all demand. The peak demand charge in effect from June 16 through September 15 and November 16 through February 15 is eliminated.

Service Classification No. 6 (Residential Time of Use) - The monthly customer charge will be increased to $12.00 effective November 1, 2001. The customer charge for customers enrolled in the Company's "Powerful Opportunities" low-income program will be $5.00 per month.

Service Classification No. 9 (Traffic Signals - Unmetered) - This Service Classification will be closed to new customers as of November 1, 2001. All new traffic signal accounts will be metered and take service under Service Classification No. 2.

Service Classification No. 10 - (Purchase of Electric Energy and Capacity From Customers With Qualifying On-Site Generation Facilities) - Revisions to Service Classification No. 10 will be filed with the Commission under separate cover on November 15, 2001 to allow the Company additional time to make required tariff changes. The Company currently has seven customers that take service under this Service Classification, all of which are billed at month end.

Service Classification No. 12 (Commercial Time of Use) - This Service Classification will be closed to new customers as of November 1, 2001. Existing customers taking service under this Service Classification will be switched to a corresponding standard rate under Service Classification No. 2 coincident with their next billing occurring on or after November 1, 2001. These customers have been notified by the Company of the elimination of this service. Existing customers will receive the Customer Refund and will be billed the System Benefits Charge for service on and after November 1, 2001.

Competitive Transition Charge

Based on the Commission's approval of the sale of the Nine Mile Point 2 nuclear generating plant, the expectation that such sale closing will be completed in November 2001, and due to billing system constraints, the separately identified Competitive Transition Charge (CTC) will be eliminated effective November 1, 2001. An estimate of the CTC for the period November 1, 2001 until such time as the sale of the plant is completed will be applied to customer bills on a per kWh basis over a one month period through the Miscellaneous Charges Factor, which is described below.

Rate Change During Suspension Period

An estimate of the net change in base delivery rates for the period July 1, 2001 through October 31, 2001 will be applied to customer bills on a per kWh basis over a one month period through the Miscellaneous Charges Factor, which is described below.

Discount Provisions

The Growth Incentive Discount available to Service Classification ("SC") Nos. 3 and 13, the Job Retention Rate available to SC Nos. 2 and 3 and the Five Percent Base Rate reduction available to SC No. 13 customers are terminated. customers taking service under the Economic Revitalization Discount, which was available to SC Nos. 2 and 3, prior to February 26, 1998 will continue to receive the discount on delivery service rates for their 60-month term. The discount for customers that qualified for the discount after February 26, 1998, and which was extended through the suspension period, will be terminated. A special meter reading will be performed for these customers on November 1, 2001. Customers impacted by any of the aforementioned discount changes have been notified by the Company.

Energy Cost Adjustment Mechanism

The Energy Cost Adjustment Mechanism is designed to replace the Company's Energy Supply Charge and is comprised of four factors which will appear as separate line items on customers' bills: Miscellaneous Charges Factor, Purchased Power Adjustment Factor, Market Price Charge and Market Price Adjustment Factor.

The Miscellaneous Charges Factor is designed to recover from or refund to all delivery customers, via a single factor for all service classifications, the cost or benefit of non-avoidable, variable energy related revenues and costs associated with the Company's remaining generating facilities and from mandatory IPP purchases, as well as all ancillary charges incurred on and after February 1, 2002, including reimbursements to ESCOs for ancillary service charges as described below. The Miscellaneous Charges Factor is subject to reconciliation for over and under recoveries.

The Purchased Power Adjustment (PPA) Factor is designed to refund to or collect from all delivery customers, via a single factor for all service classifications, the benefits or costs of the Company's Transition Power Agreement and Purchased Power Agreement with the new owners of the fossil generating and nuclear generating plants, respectively, previously owned by the Company. The measured value is based on the difference between the contract prices and the New York Independent System Operator (NYISO) Day Ahead Market Price (DAM). The following billing constraints apply to customers taking service under Service Classification Nos. 3 and 13: (1) if the amount of the PPA benefit in any given billing period exceeds the customer's billed delivery charges from Central Hudson, resulting in a net negative bill, Central Hudson will issue the customer a bill in the amount of zero dollars; or, (2) if the customer's billed delivery charges for any given billing period prior to the application of any PPA benefit are less than zero, no PPA benefit will be applied. Any PPA benefits not received by the customer due to operation of the above constraints will be reallocated to that customer in subsequent billing period(s). The PPA is subject to reconciliation for over and under recoveries.

The Market Price Charge (MPC) is a service class specific factor which represents the cost of all generation needed to serve the Company's full service customers based on the NYISO DAM. The MPC includes, but is not limited to, the cost of all commodity related purchases including energy, installed capacity, risk management and fees and charges assessed by the NYISO, as well as all ancillary charges incurred prior to February 1, 2002 as discussed below, made by the Company on behalf of its full service customers. The MPC will also include any amounts paid to customers, net of penalties received from customers, under the Company's Curtailable Electric Service Program (CESP) or under the NYISO's Emergency Demand Response Program, and any penalty amounts paid by the Company to the NYISO under the NYISO's Day Ahead Demand Response Program. Payments made to customers under the Company's CESP for curtailments called in August 2001 will be included in the MPC that will be filed as part of the first set of Statements of Energy Cost Adjustment Mechanism Factors issued subsequent to November 1, 2001.

The Market Price Adjustment Factor is also a service class specific factor and represents the reconciliation of over and under recoveries of prior billings of the Market Price Charge.

System Benefits Charge

All electric customers will be billed a System Benefits Charge ("SBC") which is a state mandated charge designed to fund energy efficiency programs, R&D and other initiatives. The SBC will appear as a separate line item on customers' bills with the rate effective November 1, 2001 set at $0.00326 per kWh.

Customer Refunds

All electric customers will receive a Customer Refund that is funded from the proceeds of the Company’s sale of its fossil generating stations. The refund, which totals $75 million on a pre-tax basis or $45 million on an after-tax basis, will remain in effect until June 30, 2004. The refund will appear as a separate line item on the majority of customers’ bills and will initially be set at ($0.00563) per kWh. Due to billing system constraints, the Customer Refund will be included in the Miscellaneous Charges for customers taking lighting service under Service Classification Nos. 5, 8 and 9.

Retail Access

Customers purchasing their energy from an ESCO or Retail Supplier will receive back-out credits which are service class specific and are intended to approximate the costs Central Hudson no longer incurs to serve these customers. Retail Access customers taking service under Service Classification No. 12, which will be eliminated as previously noted, will receive the back-out credit for usage on and after November 1, 2001.

Central Hudson will reimburse Retail Suppliers/Direct Customers for certain NYISO defined ancillary services incurred on and after February 1, 2002. Such reimbursement will include only those costs Retail Suppliers/Direct Customers incur, either from the NYISO or another ancillary services provider, as a result of providing service to customers pursuant to the Company’s Retail Access Program.

PROPOSED GAS CHANGES

Rate Unbundling

Central Hudson has unbundled its tariff structure to show the total gas costs and delivery service charges separately. To accomplish this, they have removed the base cost of gas and the factor of adjustment from Service Classification Nos. 1 and 2. The gas costs that were previously collected through their base rates will be collected through the Gas Supply Charge. Effective with this change, the rates for Service Classification No. 1 - Residence Delivery Service are identical to the rates for Service Classification No. 12 - Aggregated Firm Transportation - Residence. In addition, the rates for Service Classification No. 2 - Commercial/Industrial Delivery Service are identical to the rates for Service Classification No. 6 - Low Volume – Firm

Transport Commercial/Industrial and Service Classification No. 13 - Aggregated Firm Transportation - Commercial/Industrial.

Rate Design

The minimum charge in Service Classification Nos. 1, 2, 6, 12 and 13 has been increased to $7.20. To offset the increase in the minimum charge, the second block of S.C. 1 and 12 has been reduced and the third block of S.C. 2, 6, and 13 has been reduced. While rates have been redesigned, the net effect of these changes will not impact the Company's total revenues.

Gas Supply Charge

The Company has modified its gas cost adjustment calculation to follow the format outlined in the Commission's Notice of Proposed Rulemaking issued April 7, 1998 in Case 97-G-1178 and will refer to the gas cost collection factor as the Gas Supply Charge (GSC).

The GSC mechanism will collect all of commodity and upstream demand pipeline demand costs. In addition, the GSC will include uncollectibles, working capital and carrying costs on cash working capital requirements related to gas expense and lost and unaccounted for gas at a rate of 1.025.

Imputation of Interruptible Revenue

The Company has imputed $1,900,000 of interruptible profit from Service Classification Nos. 8, 9 and 14. Each August the Company will reconcile the annual interruptible profit received and all profit that exceeds the $1,900,000 imputation up to $2,299,999 will be shared in an 85% customer/15% shareholder ratio. Profit that is above $2,300,000 will be shared in an 80% customer/20% shareholder ratio. If the interruptible profit received is less than $1,900,000, the shortfall below $1,499,999 will be borne by Central Hudson. The shortfall from $1,500,000 up to $1,899,999 will be shared in an 85% customer/15% shareholder ratio.

Central Hudson will attempt to minimize the potential monthly shortfalls or over collections through a flow-through mechanism included in the GSC. Each month Central Hudson will compare the profit received from customers taking service under Service Classification Nos. 8, 9 and 14 to 1/12 of the annual imputation or $158,333 and if the monthly profit differs from the monthly imputation, Central Hudson will refund or surcharge the customers as appropriate.

Retail Access

Customers purchasing their natural gas supplies from an ESCO or Retail Supplier will receive a back-out credit which is intended to approximate the costs Central Hudson no longer incurs to serve these customers. Central Hudson will collect the total cost of the back-out credits from firm sales customers through a surcharge to be included in the GSC.

PROPOSED GAS AND ELECTRIC CHANGES

Reconnection Charges

The charge for electric or gas reconnections, excluding those requiring an electric line crew or gas mechanic crew, made between 8:00 a.m. and 4:30 p.m. on days the Company office is open will increase from $10 to $20. The charge for reconnections that occur at all other times, excluding those requiring an electric line crew or gas mechanic crew, will increase from $20 to $40. Reconnections that require an electric line crew or gas mechanic crew and are made during normal business hours will be assessed a $100 fee while those made at all other times will be assessed a $140 fee.