

XI. Response to Recommendation 11

Recommendation

Improve the supply planning and procurement processes and execution, including the following elements:

- a) Improve the qualifications and training for the ERG personnel. Consider recruiting outside personnel with more expertise in innovative energy resource procurement and management. (Refers to Finding VI-2).
- b) Complete the ERG procedures manual, including:
 - Explanation of the processes used to conduct near term supply planning and procurement.
 - Specifying approvals and controls for electric purchases.
 - Identification of record keeping, decision support analysis and other documentation requirements for decisions and contracts.
 - Clarifying the separation between front and back office activities. (Refers to Findings VI-6 and VI-7).
- c) Develop and implement a process to prepare long term energy resource plans for gas and electric incorporating, for example, trends in capacity and usage, a thorough review of all capacity under contract compared to the system load for which the company is responsible (e.g., the gas system load less transport), and exploration of alternative supply management options (e.g., external management). On the gas side, include strategies for reducing the capacity reserve margin to more appropriate levels over the next three to five years. Include regular review of the plans by ERM and inclusion in the company's strategic plan. (Refers to Findings VI-3, 4, 11, 12, 13, 16 and 19).
- d) Improve monitoring and review of ERG activities.
 - Develop performance metrics to assess the performance of the group and the supply plans and implementation. (Refers to Finding VI-25).
 - Have Internal Audit review ERG functions at least biannually. (Refers to Finding VI-10).
 - Have the ERM review energy procurement activities and status at least quarterly; consider making the Manager ERG a full-time member of the ERM. (Refers to Finding VI-8).
 - Develop and use a measure to evaluate the effectiveness of the natural gas hedging program. (Refers to Finding VI-24).

Recommendation Implementation Team

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Description of Scope and Plan

- a) Outside training for the Energy Resources Group has been included in the 2011 budget and training will continue to be provided as relevant courses and seminars become available. In addition, Fuels Buyers/Power Marketers will continue to attend industry meetings and seminars and conferences. All Fuels Buyers have and will continue to attend the Northeast Gas LDC Forum held each year in addition to pipeline customer meetings, industry meetings held by producers, suppliers, and DPS Staff, etc. These meetings provide Central Hudson with company specific information as well as with an opportunity to network with industry peers, suppliers, producers and pipeline personnel. Energy Resources also, on a regular basis, meets with suppliers who discuss industry trends and product offerings such as new hedging techniques and load shaped energy products.
- As in the past, Central Hudson will seek to recruit at least one outside individual to supplement the existing Energy Resources staff with additional capabilities, perspectives and experience.
- b) Central Hudson recognizes that comprehensive electric and gas supply procurement policies and procedures are critical to the procurement of electric and gas supply. These policies and procedures will clearly articulate the actions required for each step in the procurement process. The procedures will provide detailed step-by step actions and associated roles and responsibilities for completing each phase.

The Energy Resources Group procedures manual will be updated as follows:

1. Enhance procedures to include detailed processes used to conduct near term supply planning and procurement.
2. Include section for approvals and controls for electric purchases as identified in SOX matrix/narratives.
3. Include reporting procedures, which will set forth the processes by which plans, staffing projections, and expense budgets are reported for functional, and management requirements. This procedure will outline the process for decision support analysis including documentation of decisions and contracts. This section will also include a description of

the front, middle and back office with a description of separation of duties.

c) **Gas Planning** – Energy Resources has completed plans as follows– immediate (seasonal/monthly/weekly/daily), and long-term (two to five years out).

1. **Immediate** – The objective of the seasonal supply plan is to ensure that a sufficient quantity of reliable gas supply is available to meet firm customer load while maximizing revenues from off systems sales, capacity release and streaming arrangements. The Energy Resource’s seasonal gas supply plan takes into consideration trends in capacity and usage. The seasonal plan uses at least three past years like-month average system send out to forecast the current month’s send out. The plan takes into account firm, retail suppliers, customers that have migrated off the Central Hudson system to retail aggregators or transporters, as well as storage inventory levels, supply contracts, capacity and capacity available for release. Through discussions with pipelines, marketers and requests for proposals, the market is continuously reviewed for off-system sales, capacity release and streaming arrangements.
2. **Long Term** – Energy Resources has completed and documented a thorough review of all capacity under contract as compared to the system load for which the company is responsible taking only firm system load requirements into account (excludes SC 11 (firm transport) and both classes (SC 8 and 9) of interruptible customers). Estimated annual, winter season and peak day requirements for the next five years is based on the most recent sales forecast using the methods included in the Company’s rate order in Case Number 09-G-0589. The sales forecast incorporates weather in terms of degree-days, with normal weather determined from a ten-year average of monthly degree-days for the most recent ten year period ending December 31. The system peak day projection is a design day estimate at –5 degrees Fahrenheit or 70-degree days. The peak day requirements include providing gas to only those customers for whom the company has an obligation to serve and excludes transport customers that are not subject to mandatory capacity assignment and both classes of interruptible customers. The plan concludes that no further commitment on capacity is anticipated during the five-year window. In addition, there is no planned change to our strategy for using storage assets going forward in light of Marcellus area production, however; Energy Resources will continue to evaluate all options.

d). **Electric Planning** –The Energy Resources Group is responsible for providing Central Hudson customers with economical, reliable energy. This is accomplished with a strategy for annual purchases and purchases for the following three years including a combination of physical purchases as well as financial swaps or Contracts for Differences (“CFDs”). The Electric Supply Plan is presented to the Company’s Enterprise Risk Management Committee for review and approval. The Plan includes approximately 50 – 70% of Central Hudson’s customer load based on a fixed price in order to limit customer price volatility. On an annual basis, the prior year’s Control

Area load and the corresponding average, minimum and maximum temperature data as maintained in the Company's Data Collector is reviewed and analyzed in order to forecast the long-range system load. Also taken into consideration is the economy, the effects of conservation and new or vacant structures.

The audit report recognizes that CH has made significant progress in improving its supply procurement activities including developing and implementing plans. The plans were recently reviewed with the Enterprise Risk Management Committee ("ERMC") at a quarterly status meeting held in March 2011. Energy Resources will continue to update/implement these plans on a routine basis.

- e) In addition to the annual review of internal controls related to Energy Resources' processes, Internal Audit would perform a review of Energy Resources functions at least biannually.

The Energy Resources Group will report to the ERMC on a quarterly basis to review energy procurement activities, the status of commodity markets and execution of the ERMC approved hedging plan.

The Company has established the following performance metrics for the supply procurement function.

Metric #1: Limit the quantity of Real Time NYISO purchases to +/- 10% of the total Central Hudson control area load.

Metric #2: Volatility Electric Commodity – Measures the price volatility of Central Hudson's hedged electric portfolio. The metric used is the coefficient of variation, which is the ratio between the average monthly price and the average monthly standard deviation. Central Hudson's metrics are calculated and reported quarterly to the PSC in compliance with the PSC's Order in Phase II of Case 06-M-1017.

Central Hudson will begin to collect this quarterly data from the other reporting New York utilities for comparison purposes.

Metric #3: Volatility Gas Commodity-Measures the price volatility of Central Hudson's hedged gas portfolio. The metric used is the coefficient of variation.

A scorecard of Metrics #2 and #3 is posted on the Central Hudson intranet to communicate progress to employees and maintain focus on corporate priorities.

Narrative Including Schedule/Milestones

Adopted, modified or rejected recommendation: Modified

Estimated Completion Date: See chart below, ongoing.

Priority: C

Summary of Cost/Benefit Inputs

There are no incremental costs associated with the implementation of this recommendation. While it is difficult to quantify the benefits of implementing the above recommendation, it is recognized that improved documentation and metrics will help to ensure providing our customers with stable, reliable energy supply.

Results/Measures of Success

Major Activities/ Milestones	Estimated Completion Date	Status
Training		In progress and on-going
Recruit for Energy Accounting position and Fuel Buyer position from outside company	December 31, 2011	Complete / In Progress
Complete/enhance documentation of natural gas and electric policies and procedures	June 30, 2012	Complete
Documentation of Planning Process Gas Near Term Long Term Electric		Complete
Internal Audit review of ERG Activities Electric Gas	September 30, 2011	Audit of Electric and Gas ERG Activities: Complete Included in future audit plan on a biannual basis: Ongoing
ERMC review of ERG Activities	Completed for quarter ended March 31, 2011	Completed and on-going
Performance Indicators Collect quarterly data from other reporting New York utilities for comparison purposes. Gas Coefficient of Variation Electric Forecast vs Actual	December 31, 2011	In progress and on-going Complete

Update and Progress Report as of October 15, 2011

Training for Energy Resource Group (ERG) personnel continues. Energy Resource employees attended the LDC forum in June 2011 and attended customer meetings held by Tennessee, Spectra, Millennium and Dominion in late summer. The Power Marketer will attend NYMOC training to be conducted by the NYISO in November 2011.

The ERG gas and electric policies and procedures manual has been updated and is being reviewed by senior management.

Central Hudson's Internal Audit group performed an Electric Procurement Audit in January 2011. The Gas Supply Procurement Audit was completed and the final audit report was issued on September 12, 2011. Internal Audit will perform a review of Energy Resources functions at least biannually.

The following Performance metrics have been developed to assess the performance of the group and the supply plans and implementation.

Metric #1 and 2 remain unchanged.

Metric #3 has been replaced with a comparison of the purchase price of gas at various receipt points to the Gas Daily Index at those same points.

Metric #4 – Electric Forecasting Accuracy – Comparison of the daily forecast to the actual load.

Metric #5 – Gas Forecasting Accuracy – Comparison of the daily forecast to the actual load.

Metric #6 – Gross off system gas sales

Metric #7 – Gross pipeline capacity release

Metric #4 - #7 will be posted on the Central Hudson intranet to communicate progress to employees and maintain focus on corporate priorities.

The Energy Resource Group attends the Company's Enterprise Risk Management Committee on a quarterly basis and reports on ERG activities as they relate to procurement, commodity markets and execution of the ERM approved hedging plan.

The Energy Analyst position was posted, interviews were completed and a candidate was selected to fill the position effective January 1, 2012. Energy Resources will recruit for the Fuels Buyer position when necessary.

Update and Progress Report as of February 15, 2012

Training for Energy Resource Group (ERG) personnel continues. The Power Marketer attended NYMOC training conducted by the NYISO in November 2011. The Energy Resources Analyst – Electric will be attending an advanced training course conducted by the NYISO in February 2012.

The Energy Accounting – Gas position was filled in January 2012 in anticipation of the retirement of the current individual in scheduled for October 2012. Training is currently in progress.

The ERG gas and electric policies and procedures manual is complete.

Central Hudson's Internal Audit group will perform a review of Energy Resources functions at least biannually.

The following 2012 Performance metrics have been developed to assess the performance of the group and will be reported to Senior Management on a monthly basis to communicate progress to employees and maintain focus on corporate priorities:

Metric #1 Electric Forecasting Accuracy – Comparison of the daily forecast to the actual load.

Metric #2 – Gas Forecasting Accuracy – Comparison of the daily forecast to the actual load.

Metric #3 – Gross off system gas sales

Metric #4 – Gross pipeline capacity release

The Energy Resource Group attends the Company's Enterprise Risk Management Committee on a quarterly basis and reports on ERG activities as they relate to procurement, commodity markets and execution of the ERM approved hedging plan.