

BEFORE THE
NEW YORK STATE
PUBLIC SERVICE COMMISSION

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

Case 23-E-_____

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

Case 23-G-_____

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**DIRECT TESTIMONY OF
POLICY PANEL**

July 31, 2023

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I. INTRODUCTION

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- Q. Please state the names of the members of the Policy Panel (“Panel”).
- A. Our names are Joseph J. Hally and Mark S. Sclafani.
- Q. Mr. Hally, please state your current employer and business address.
- A. I am employed by Central Hudson Gas & Electric Corporation (“Central Hudson” or the “Company”) and my business address is 284 South Avenue, Poughkeepsie, New York 12601.
- Q. Mr. Hally, in what capacity are you employed by Central Hudson and what is your scope of responsibilities?
- A. My current position is Vice President, Regulatory Affairs. In that capacity, I am responsible for Regulatory Affairs, Regulatory Planning, Cost, Rates and Forecasts, Energy Policy and Regulation, and Regulatory Compliance.
- Q. Mr. Hally, what is your educational background and professional experience?
- A. I hold a Bachelor of Science degree in Business Administration with a dual concentration in Management and Finance from The State University of New York at Albany and a Master of Business Administration degree in Finance from The State University of New York at Albany. I joined Central Hudson as a Financial Analyst in 2004 and have held positions of increasing responsibility including Director – Treasury Services, Director Strategic Planning, Manager – Finance & Planning and Strategy, Manager - Energy Transformation & Solutions, and Manager - Regulatory Affairs,

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1 prior to assuming my current role. Prior to joining Central Hudson, I was
2 employed by Orange and Rockland Utilities, Inc. as a Finance and
3 Planning analyst.

4 Q. Mr. Hally, have you previously testified before the New York State Public
5 Service Commission (“PSC” or the “Commission”)?

6 A. Yes, I have testified before the Commission in Cases 20-E-0428 and 20-
7 G-0429, 17-E-0459 and 17-G-0460, and 14-E-0318 and 14-G-0319.

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

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

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

13 A. My current position is Senior Director of Energy Policy and Regulation.

14 Q. Mr. Sclafani, what is your educational background and professional
15 experience?

16 A. I graduated from SUNY Binghamton in 2008 with a Bachelor of Science in
17 Mechanical Engineering. I began working at Central Hudson in 2008 as a
18 Junior Gas and Mechanical Engineer. From 2009 to 2012 I was an
19 Assistant Energy Efficiency Engineer for the Company, responsible for
20 developing, implementing, and evaluating energy efficiency programs.
21 From 2012 to 2015, I was an Associate District Director of Business
22 Development, where I was responsible for new business and key account
23 management within the Kingston and Newburgh districts. In 2015, I took

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1 on the role of Senior Program Coordinator of Demand Response. In
2 September of 2017, I assumed additional responsibilities associated with
3 the role of Director of Energy Efficiency and Demand Response, including
4 but not limited to oversight of the Company’s energy efficiency portfolio.
5 In October of 2021 I was promoted to Senior Director of Energy Policy and
6 Regulation.

7 Q. Mr. Sclafani, have you previously testified before the Commission?

8 A. Yes, I have testified before the Commission in Cases 20-E-0428 and 20-
9 G-0429, as well as Cases 17-E-0459 and 17-G-0460.

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II. PURPOSE OF TESTIMONY

12 Q. What is the purpose of the Panel’s testimony in these proceedings?

13 A. The Panel’s testimony provides an overview of Central Hudson’s electric
14 and gas rate filing. The filing is consistent with and furthers the
15 environmental goals of the Climate Leadership and Community Protection
16 Act (“CLCPA”) and it is aligned with New York State’s goals to support
17 customers located within a Disadvantaged Community (“DAC”). The
18 Panel’s testimony includes the drivers that have made filing a Rate Case
19 at this time necessary and the steps that Central Hudson has undertaken
20 to mitigate customer bill impacts. The Panel also discusses current
21 external factors that have occurred in the aftermath of the COVID-19
22 Pandemic, including increases in inflation, interest rates, utility arrears,
23 supply prices, and employment trends. Next, The Panel addresses the

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1 status of the Company’s Management Audit Implementation Plan. Finally,
2 the Panel concludes by introducing Central Hudson’s other panels and
3 witnesses.

4 Q. Is the Policy Panel sponsoring any exhibits in support of its testimony?

5 A. No.

6 **III. OVERVIEW OF RATE FILING**

7 Q. Please provide a brief overview of Central Hudson’s rate filing.

8 A. Central Hudson is driven to meet its obligation to provide essential gas
9 and electric services in a safe and reliable manner. It is also vital that
10 Central Hudson recover the costs it incurs to continue combating climate
11 change by effectively responding to major storms and extreme weather
12 events and working towards achieving the critically important and
13 ambitious goals of the CLCPA. This rate filing reflects Central Hudson’s
14 core obligation to provide safe and reliable service at just and reasonable
15 rates and puts forth a plan identifying the initiatives and investments that
16 Central Hudson will need to accomplish within the Rate Year ending June
17 30, 2025 (“Rate Year”) to meet this obligation. Additionally, this rate filing
18 continues to devote significant Company resources, time, and attention to
19 the pursuit and facilitation of the CLCPA’s goals. These efforts are
20 consistent with achieving New York’s 2030 greenhouse gas emissions
21 (“GHG”) emissions reduction target as discussed in the direct testimony
22 and exhibits of the Climate Leadership and Sustainability Panel.

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1 Q. What are the external factors that are impacting the Company and its rate
2 filing?

3 A. Central Hudson’s rate filing is being made in the aftermath of the COVID-
4 19 Pandemic and the Company is experiencing associated increases in
5 arrears balances, changes in employee expectations and behaviors,
6 significant inflationary pressures, supply price increases, increases in
7 interest rates, along with increased pressure on utility credit ratings and
8 financial integrity. All of these factors impact the Company’s rate filing.

9 Q. Please discuss how the COVID-19 Pandemic has impacted the
10 Company’s arrears balances.

11 A. As discussed further in the direct testimony of the Customer Experience
12 Panel, customer arrears balances have grown significantly since the
13 Company suspended collections activity for all customers in March of
14 2020. The suspension of collection activities continued until very recently
15 in light of the COVID-19 Pandemic, the Parker-Mosley Act of 2020, the
16 Parker-Richardson Act of 2021, and collection limitations included within
17 the Arrears Reduction Programs. Additionally, since March 2020, market
18 driven electric and gas commodity prices have increased by more than
19 100%. These factors have contributed to significant growth in Central
20 Hudson’s arrears balances. From February 2020 through June 30, 2023,
21 residential arrears balances greater than 60 days grew by 1,044% to \$96
22 million while non-residential arrears grew by 1,971% to \$29 million.
23 Additionally, the number of residential customers with arrears greater than

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1 60 days has grown by 224% to 66,000, while the number of non-
2 residential customers with arrears has grown by 401% to 10,000.

3 Although the Company has begun a very measured approach to restarting
4 collections activities, it is expected that these balances will continue to
5 grow prior to the start of the Rate Year (i.e., July 1, 2024). The
6 Company's measured approach to collection activities will provide time for
7 customers to acclimate to such activities. It will also provide the Company
8 time to best help customers that require assistance with entering into
9 deferred payment arrangements, enrolling in the Energy Affordability
10 Program, and obtaining Home Energy Assistance Program benefits.

11 Q. Have the increased customer arrears balances and increased number of
12 customers in arrears raised the level of uncertainty surrounding
13 uncollectible write-off levels?

14 A. Yes. Reaching the unprecedented number of customers that are currently
15 in arrears and changing customer behaviors will take time. As a result,
16 the Company cannot reasonably predict the level of write-offs that will
17 occur in the Rate Year. There is a significant level of uncertainty
18 surrounding the level of uncollectible write-offs that may be experienced
19 by the Company, as well as uncertainty as to the timing of such write-offs.
20 As a result of this high level of uncertainty, the Company requires a true-
21 up of uncollectible costs as discussed in the direct testimony of the
22 Accounting and Tax Panel.

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1 Q. How have recent inflationary pressures negatively impacted the
2 Company's operations?

3 A. High levels of inflation continue to place pressure on the cost of the labor
4 and materials necessary for the Company to provide safe and reliable
5 service. As discussed in the direct testimony of the Forecasting and
6 Rates Panel, in recent periods inflation has been significantly higher than
7 the historic level of 2%. These higher than normal rates are generally
8 reflected within the historic period data as the inflation rate was 5.8% in
9 2021 and 7.5% in 2022. However, inflation is still projected to be higher
10 than 2% going forward with projected rates of 3.8% and 2.5% in 2023 and
11 2024, respectively. These inflation levels have caused persistent cost
12 increases for Central Hudson's operations. Furthermore, examples of
13 extreme inflation are reflected within the direct testimony of the Electric
14 Capital and Operations Panel Testimony with respect to electric
15 transformers and the direct testimony of the Gas Capital and Operations
16 Panel Testimony with respect to gas meters.

17 Q. When did Central Hudson last seek a major base rate increase?

18 A. Central Hudson last sought a major base rate increase in Cases 20-E-
19 0428 and 20-G-0429 on August 27, 2020. The Commission issued its
20 Order Adopting Terms of Joint Proposal and Establishing Electric and Gas
21 Rate Plan on November 18, 2021 ("2021 Rate Plan").

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1 Q. What revenue increases are reflected in the proposed rates and tariffs that
2 the Company is filing in these cases?

3 A. The rates and tariffs include an electric delivery revenue increase of
4 \$139.5 million and a gas delivery revenue increase of \$41.5 million,
5 excluding revenue taxes. These revenue increases represent the change
6 in the Company's revenue requirement to include current recovery of
7 essential costs (e.g., operations and maintenance, labor, energy
8 efficiency, heat pumps, major storm response). The new rates are
9 designed to recover the revenue requirements developed by the
10 Company's Revenue Requirements Panel and supported by the
11 Company's cost of service studies. The Company is open to
12 consideration of a multi-year settlement and therefore will also
13 contemporaneously or shortly after the rate case filings provide schedules
14 showing two additional Rate Years of information solely for use in any
15 settlement negotiations regarding a potential multi-year settlement
16 agreement.

17 Q. What are the total bill impacts associated with residential or Service
18 Classification ("S.C.") No. 1 in Central Hudson's rate filing?

19 A. As discussed in the direct testimony of the Forecasting and Rates Panel,
20 the total bill impacts, after mitigation, are approximately 16.4% and 19.0%
21 for S.C. No. 1 electric and gas customers, respectively, at typical usage
22 levels.

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IV. SAP CUSTOMER INFORMATION SYSTEM TRANSITION

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Q. Will the Panel please describe the status of the Company’s SAP Customer Information System (“CIS”) transition?

A. On September 1, 2021, Central Hudson launched its new SAP CIS. Immediately after the launch, there were challenges with the new SAP CIS that resulted in impacts to a portion of customers, including delayed and inaccurate bills. Despite its best efforts to correct these issues, Central Hudson experienced a rise in customer complaint levels, harsh criticism from the media and politicians, and questions from the Commission and others seeking to understand the problems with the SAP CIS. Central Hudson has incurred significant incremental expense and expanded its efforts with the help of its union and management employees, third-party experts, and contractors to correct the SAP CIS transition issues. To measure progress and increase transparency with stakeholders, the Company developed a dashboard which tracks Central Hudson’s progress on six key metrics. This dashboard and the six metrics are included within Exhibit __ (CEP-1) of the Customer Experience Panel. Importantly, significant improvement can be seen in all of the metrics relative to the peak of the SAP CIS issues and the metrics are close to levels associated with the period prior to the SAP CIS launch. Additionally, the Company is currently working on all outstanding issues and expects to meet or exceed baseline performance levels for each of the six key metrics prior to July 1, 2024.

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1 Q. Is the SAP CIS transition a driver of the costs in this rate filing?

2 A. No. As discussed in the direct testimony of the Revenue Requirements
3 Panel, approximately \$9 million of incremental expenses that the
4 Company incurred within the test year associated with the SAP CIS
5 transition were excluded from the calculation of revenue requirements
6 during the Rate Year. Further, the Commission has issued the Order to
7 Commence Proceeding and Show Cause within Case 22-M-0645 and
8 issues surrounding Central Hudson’s implementation of the SAP CIS
9 system are being addressed and resolved in that proceeding and not in
10 this rate case.

11 Q. Excluding transition costs, are there any costs included within Revenue
12 Requirements associated with the SAP system or customer billing?

13 A. Yes, ongoing costs associated with the SAP system and customer billing
14 are essential to Central Hudson’s business and are appropriately included
15 within Revenue Requirements. These costs include the customer billing
16 department which was assembled in August 2022 for the purpose of
17 issuing accurate and timely customer bills. Future costs associated with
18 implementing SAP upgrades and enhancements necessary to support
19 new and evolving complex billing requirements are also included.

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V. COST DRIVERS

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Q. Please briefly describe the major categories of cost that are driving the need for the Company to request rate relief at this time.

A. Despite Central Hudson’s ongoing efforts to mitigate bill impacts, rate relief is necessary due to numerous cost drivers. More specifically, the top six drivers, accounting for more than 80% of the electric and gas increases are: 1) infrastructure investment driven by the replacement of aging or obsolete infrastructure; 2) workforce expansion, attraction, and retention; 3) capitalization costs; 4) recovery of major storm expense; 5) recovery of Energy Efficiency Programs and New York State Clean Heat Program (“Clean Heat Program”) costs; and 6) recovery of Low Income Bill Discount Program Expenses.

Q. Please describe why Central Hudson’s electric infrastructure investment is a main driver of the electric rate request.

A. The capital program and the associated increase in net plant is driven by the need to replace aging or obsolete electric and common infrastructure. Replacement of electric transmission and distribution infrastructure is required due to the underlying age and condition of the assets and accounts for approximately 75% of the planned Electric Five-Year Capital Plan expenditures. In fact, approximately 20% of the Company’s in-service electric infrastructure assets are beyond their expected useful life. The primary benefit of this Five-Year Capital Plan and the replacement of infrastructure is to maintain system integrity and customer reliability;

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1 additionally, the Five-Year Capital Plan also serves to significantly
2 increase the capacity to host additional Distributed Energy Resources
3 (“DER”) in support of CLCPA targets. This additional hosting capacity is
4 significant and, over the five-year forecast, represents an increase of 547
5 MW or two times Central Hudson’s currently interconnected DER
6 renewable nameplate capacity. Investments in electric infrastructure are
7 discussed in much greater detail in the direct testimony of the Electric
8 Capital and Operations Panel.

9 Q. Is Central Hudson’s gas infrastructure investment similarly driven by
10 infrastructure replacement?

11 A. Yes. Over the five-year period approximately 62% of the expenditures
12 within the Gas Five-Year Capital Plan are dedicated to replacing aging or
13 obsolete equipment. The majority of this spending is dedicated toward the
14 continued elimination of Leak Prone Pipe (“LPP”), which is an essential
15 factor in enhancing the safe delivery of natural gas throughout the
16 Company’s service territory. The continued elimination of LPP at a level
17 of 15 miles per year (the amount required in the 2021 Rate Plan) is the
18 primary cost driver in the gas business. The direct testimony of both the
19 Gas Capital and Operations Panel and the Gas Safety Panel discuss the
20 Company’s LPP program and other gas capital expenditures in further
21 detail. Finally, the direct testimony of the Technology Capital and
22 Operations Panel discusses the value of IT infrastructure investments and
23 how those investments support customer experience optimization,

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1 cybersecurity, infrastructure hardening and resiliency, and enhance the
2 efficiency of business processes. These common capital expenditures are
3 allocated according to the Company's common allocation of 80% and 20%
4 to electric and gas, respectively.

5 Q. Please describe how the aftermath of the COVID-19 Pandemic continues
6 to impact the Company's capital expenditure forecasts.

7 A. Continuing supply chain issues and material cost increases have had a
8 large impact on the Company's Capital Plans. Generally, higher than
9 normal inflation has caused increases in the Company's Capital Plan, but
10 certain capital expenditure categories have faced extreme inflation. Two
11 examples of extreme inflation can be seen within our electric transformers
12 expenditure forecast and our gas meters expenditures forecast. As
13 discussed in the direct testimony and exhibits of the Electric Capital and
14 Operations Panel, unit prices for transformers from 2021 to 2023, rose by
15 121%. Additionally, as discussed in the direct testimony and exhibits of
16 the Gas Capital and Operations Panel, the unit price of a residential gas
17 meter has increased on average 56% from 2020 to 2023, which is well
18 above normal inflation rates. These inflationary cost increases have been
19 factored into Central Hudson's Capital Plan.

20 Q. Is the need for significant capital investment an important factor in why the
21 Company filed these rate cases?

22 A. Yes. Central Hudson continues to invest heavily in its gas and electric
23 systems to provide safe and reliable service. However, the Company's

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1 current Rate Plan does not include a capital investment tracker or other
2 regulatory provision that would allow the Company to maintain its financial
3 integrity while continuing to make these numerous and large capital
4 investments beyond the term of the rate plan. While Central Hudson has
5 filed in these proceedings traditional one-year rate cases, it is open to
6 participating in settlements negotiations to develop a multi-year
7 settlement. Such settlements frequently benefit customers and the
8 Company by providing rate predictability, opportunities to shape or levelize
9 rates over time, and the potential to incorporate regulatory provisions that
10 promote stability of investment over time, such as a capital investment
11 tracker.

12 Q. Please discuss the current status and plans for the Enterprise Resource
13 Planning (“ERP”) Phase III project.

14 A. The ERP Phase III project encompasses the transition of Central
15 Hudson’s finance system and Enterprise Work and Asset Management
16 system out of the legacy mainframe environment and into a modern cloud-
17 based software system. Central Hudson postponed the implementation of
18 this next phase of the ERP Transformation to focus efforts on stabilizing
19 the SAP CIS, implementing optimizations to improve business operations,
20 and to allow time for more robust planning for the ERP Phase III project.
21 Due to this delay in implementation, approximately \$5.2 million in costs
22 included within the revenue requirements in the 2021 Rate Plan for the
23 ERP Phase III project has been recorded as a regulatory liability and will

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1 be returned to customers. Additionally, the Company has not included
2 incremental costs for ERP Phase III within this rate filing but has instead
3 proposed a deferral for completion of the ERP Phase III Assessment and
4 Project Readiness work. This proposal is discussed in greater detail in the
5 direct testimonies of the Technology Capital and Operations Panel and the
6 Accounting and Tax Panel.

7 Q. Please discuss the basis for the increase in the revenue requirement
8 associated with Central Hudson’s Clean Heat Program and Energy
9 Efficiency Programs.

10 A. Central Hudson is proposing recovery within rates of approximately \$23.2
11 million for the Clean Heat Program and Energy Efficiency Programs.
12 Targets and budgets associated with these programs were prescribed
13 within the January 16, 2020 Commission Order Authorizing Utility Energy
14 Efficiency and Building Electrification Portfolios Through 2025, in Case 18-
15 M-0084. In an effort to continue to mitigate customer bills, the Company is
16 proposing a ten-year amortization of \$19 million of energy efficiency and
17 heat pump costs deferred during the 2021 Rate Plan.

18 Q. Please discuss the methodology employed to calculate the revenue
19 requirement associated with the major storm response reserve.

20 A. The Company based the allowance on a ten-year average of major storm
21 activity, which conforms with the New York State Department of Public
22 Service (“DPS”) Staff’s generally accepted methodology in the Company’s

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1 recent rate proceedings. This result in a \$14.8 million major storm reserve
2 allowance, an increase of \$10.1 million over current rates.

3 Q. Please describe the drivers of the \$10.1 million increase.

4 A. In Case 20-E-0428 Central Hudson proposed to limit its rate allowance for
5 the major storm reserve to \$4.7 million in order to mitigate the rate
6 increase during a time when customers and society were struggling with
7 the COVID-19 Pandemic. At that time, the ten-year average methodology
8 produced a \$9.9 million rate allowance. Therefore, approximately \$5.2
9 million, or roughly 50% of the increase, reflects a true-up to the rate
10 allowance from the prior period. The remaining increase is associated with
11 more frequent and severe storm activity and escalating costs for
12 employees, contractors, and mutual aid crews to respond to these major
13 storm events in a safe and effective manner as discussed in the direct
14 testimony of the Electric Capital and Operations Panel.

15 Q. Is the Company able to continue to defer cost recovery for energy
16 efficiency and heat pump programs and major storm expense as it did
17 under the 2021 Rate Plan?

18 A. No. Timely recovery of energy efficiency and heat pump programs as well
19 as major storm expense is necessary to prevent further deterioration of
20 Central Hudson's credit metrics and financial integrity, which would
21 increase future capital costs for customers. The revenue requirement
22 increases associated with these items are also necessary for Central
23 Hudson's continued provision of safe and reliable service.

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1 Q. Are there other revenue requirement increases associated with major
2 storm response amortizations?

3 A. Yes, as a result of the cost mitigation offered by the Company in the
4 funding of the major storm reserve in Case 20-E-0428 described above,
5 Central Hudson estimates it will have accrued costs of over \$41 million
6 related to major storm response as of June 30, 2024. In an effort to
7 continue to mitigate customer bills, the Company is proposing to recover
8 these costs over a ten-year period.

9 Q. Would you please describe the increase in labor costs?

10 A. Yes. As discussed in the direct testimony and exhibits of the Workforce,
11 Compensation, and Benefits Panel (“Workforce Panel”), the increase in
12 labor costs is primarily driven by the addition of 243 incremental positions
13 and a proposed variable incentive compensation program for
14 management employees to bring compensation in line with competitive
15 market compensation.

16 Q. Why is the Company proposing to add 243 incremental internal positions
17 within the bridge period and the Rate Year?

18 A. There are diverse and varied reasons for Central Hudson’s employee
19 growth as discussed in the direct testimony and exhibits of the Workforce
20 Compensation, and Benefits Panel and in various other Panel’s
21 testimonies. Central Hudson is looking to hire a significant number of
22 employees to: 1) support and facilitate projects and programs supportive
23 of the CLCPA; 2) implement the growing capital plan; 3) improve customer

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1 experience and implement the transition to monthly meter reading; 4)
2 continue the Company’s measured approach to collections activities in
3 order to reduce customer arrears, and 5) to bolster the Company’s efforts
4 to attract, develop, and retain a skilled work force.

5 Q. Does the Company’s rate filing contain changes to equity ratio, cost of
6 debt and cost of equity?

7 A. Yes, as discussed in much greater detail within the direct testimony of the
8 Finance Panel, the Company is proposing to increase the Company’s
9 equity ratio, cost of debt, and cost of equity. Each of these proposals
10 support improvement in credit rating agency metrics, support financial
11 integrity and reflect the appropriate and fair cost of capital.

12 Q. Please discuss how increases in interest rates have impacted the
13 Company in the wake of the COVID-19 Pandemic.

14 A. During the aftermath of the COVID-19 Pandemic the Federal Reserve has
15 struggled to control inflation and attain a target inflation rate of 2%. The
16 federal funds rate has grown to over 5% from a rate of nearly 0% in
17 January 2021. Consequently, as described in the direct testimony and
18 exhibits of the Finance Panel, increases in the cost of Central Hudson’s
19 long-term debt have occurred and are expected during the Rate Year.
20 The Finance Panel further describes how Central Hudson’s cost of long-
21 term debt is also being impacted by recent ratings downgrades and
22 increased scrutiny of the Company and New York utility regulation in
23 general by the credit rating agencies.

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1 Q. Has the Company proposed measures in this rate case to provide support
2 for preventing further decline in the Company’s credit rating?

3 A. Yes, as discussed in the direct testimony of the Finance Panel, the
4 following proposed actions are supportive of preventing further decline in
5 Central Hudson’s credit rating, which would result in higher capital costs
6 and increases to future customer bills:

- 7 • Increase in the equity ratio to 50%;
- 8 • Increase in ROE to 9.8% to appropriately reflect the cost of equity;
- 9 • Rates that reflect current cash recovery of Energy Efficiency and Heat
10 Pump program costs;
- 11 • Rates that reflect current cash recovery of the Company’s response to
12 major storms and extreme weather events; and
- 13 • Continuation of the Rate Adjustment Mechanism surcharge as
14 described in the direct testimony of the Forecasting and Rates Panel.

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VI. MITIGATION AND POTENTIAL MODERATION

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Q. In recognition of the increases in rates and customer affordability
18 concerns, has the Company utilized rate mitigation as part of its current
19 rate request?

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A. Yes, in order to reduce the bill impact on all of its customers, the Company
21 has mitigated the increase or revenue requirements within the Rate Year.
22 The Company has included the following mitigation in the calculation of its
23 electric and gas revenue requirements:

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1 witness Joshua C. Nowak. This 50 basis point reduction offers
2 mitigation of electric and gas bills of \$6.3 million and \$2.6 million
3 respectively;

4 Q. Please describe the moderation the Company included in the filed electric
5 and gas revenue increases.

6 A. Central Hudson currently projects an electric net regulatory asset balance
7 of approximately \$38 million. Instead of collecting this regulatory asset
8 during the Rate Year, as previously discussed, the Company proposes to
9 collect approximately \$60 million of regulatory assets associated with
10 deferred storm response costs and heat pump and energy efficiency costs
11 over a ten-year period, thereby preserving a net regulatory liability balance
12 of \$22 million for electric and \$12 million for gas that can be used to
13 moderate customer bill impacts. The Company is open to future
14 discussions with Staff and other parties regarding the use of these net
15 regulatory liabilities.

16 Q. What is the Company's proposed treatment of the regulatory asset
17 balances associated with deferred storm response costs and heat pump
18 and energy efficiency costs?

19 A. In lieu of more immediate recovery, Central Hudson has proposed to
20 recover the \$60 million of costs associated with deferred storm response,
21 energy efficiency and heat pump programs through a ten-year
22 amortization, which provides immediate moderation of approximately \$54
23 million for electric customers within the Rate Year.

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- 1 Q. Are there any other additional sources of potential bill moderation that
2 might be utilized as part of a balanced multi-year settlement?
- 3 A. Yes, the following additional sources of moderation could potentially be
4 utilized within a multi-year settlement that incorporates measures to
5 appropriately balance the customer bill impacts with the resultant cash
6 flow and financial integrity impacts. As previously discussed, the first
7 source of potential moderation is the net regulatory liability of \$22 million
8 for electric and \$12 million for gas. Another additional source of potential
9 moderation for electric customers is approximately \$32 million associated
10 with an electric rate base credit that originated from the sale of the
11 Danskammer and Roseton generating plants and Central Hudson's
12 interest in the Nine Mile Point No. 2 generating plant. As discussed in the
13 direct testimony of the Accounting and Tax Panel, the third potential
14 source of rate moderation is utilizing the over funding within the
15 Company's VEBA to decrease medical expense by an estimated \$5
16 million. The fourth potential source of moderation could be realized by
17 basing the Environmental Site Investigation and Remediation ("SIR") rate
18 allowance on a forecast of spend in the Rate Year instead of the
19 traditional methodology, which uses an average of the prior three-year
20 actual spend through the Test Year as the basis for determining the
21 revenue requirement. This change would result in a combined change to
22 the electric and gas revenue requirements of \$4 million. Within the
23 context of multi-year settlement negotiations, Central Hudson is open to

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1 discussions regarding additional moderation that can be utilized to reduce
2 the bill impact to customers.

3 **VII. ADVANCING CLIMATE AND ENERGY LEADERSHIP**

4 Q. Please discuss the ambitious goals set forth in the CLCPA.

5 A. The CLCPA is the nation-leading legislation that provides specific goals
6 for New York’s clean energy transition. The CLCPA mandates substantial
7 reductions in GHG across all sectors of the State’s economy and
8 accelerated deployment of clean energy technologies. There are many
9 critical milestones established within the CLCPA, including the reduction
10 of economy-wide GHG by 40 percent by 2030, 70% of electricity
11 generated by renewable sources by 2030, 100% of electricity generated
12 by emissions free sources by 2040, and an 85% reduction in statewide
13 GHG by 2050. Utilities are part of this effort via implementation of
14 initiatives aimed at reducing GHG emissions to achieve these State goals.
15 In addition, the CLCPA states that, to the extent practicable, spending on
16 clean energy and energy efficiency programs, projects, or investments
17 shall be directed in a manner that ensures that DACs receive at least 35
18 percent, with the goal of 40 percent, of such spending.

19 Q. How does Central Hudson support the CLCPA?

20 A. As discussed in the direct testimony of the Climate Leadership and
21 Sustainability Panel, Central Hudson has worked to support and facilitate
22 the accomplishment of the goals of the CLCPA, while also taking steps to

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1 enhance corporate focus on sustainability and incorporate climate change
2 considerations into its electric and gas operations.

3 Q. Has Central Hudson included new initiatives within this rate filing that
4 support the CLCPA through the reduction of GHG emissions?

5 A. Yes, within this rate filing, Central Hudson has included significant
6 initiatives including major ongoing projects within the Capital Plan such as
7 the CLCPA Phase 1 projects and Leak Prone Pipe removal, the
8 interconnection of DERs, and existing customer facing programs such as
9 the Clean Heat Program and energy efficiency programs. Additionally,
10 Central Hudson is proposing new initiatives that are further described
11 within the direct testimonies of the Climate Leadership and Sustainability
12 Panel and the Forecasting and Rates Panel. The following are new
13 proposals within this rate filing are consistent with achieving the CLCPA's
14 clean energy goals and GHG targets:

- 15 • the purchase of Responsibly Sourced Gas (“RSG” or “Certified Gas”)
16 reduces GHG emissions at the well head, which is the primary source
17 of natural gas GHG emissions;
- 18 • the assessment of potential sites for on-site clean hydrogen
19 production which may support decarbonization of sectors of the
20 economy or specific customers that are not viable candidates for
21 electrification;
- 22 • EV Charging Site Assessment Service Program for Multi-Unit
23 Dwellings which aims to remove barriers to electrification by providing

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- 1 technical assistance to Multi-Unit Dwellings in order to provide access
- 2 to residents seeking access to low-cost EV charging at or near home;
- 3 • EV Education and Outreach Initiative to educate the public and
- 4 customers about the benefits of transportation electrification, EV and
- 5 EV charging options available in the market, and the availability of
- 6 incentives;
- 7 • Onsite Solar generation will allow Central Hudson to offset its own
- 8 electricity use at Company-owned facilities and provide a strong
- 9 message for customers considering similar projects at their home or
- 10 business;
- 11 • Finally, the Company is proposing changes to continue moving
- 12 towards fully eliminating gas declining block rates and eliminate the
- 13 high volume usage discount offering for non-residential gas S.C. No. 6
- 14 customers in order to improve and simplify the delivery rate price
- 15 signal and align it with the energy conservation and emission
- 16 reduction goals of the CLCPA.

17 Q. Are Central Hudson’s programs aligned with achieving the GHG
18 emissions target within the CLCPA?

19 A. Yes, the Company is steadfast in its support of the economically efficient
20 attainment of the CLCPA goals. As discussed in the direct testimony of
21 the Climate Leadership and Sustainability Panel, the Company has
22 facilitated a number of initiatives to support the CLCPA and has
23 commissioned a third party to review the progress made in relation to the

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1 CLCPA’s 2030 GHG emissions reduction target. These initiatives have
2 provided a solid foundation supportive of the 2030 GHG emissions
3 reduction target, although success is largely dependent on the
4 development of large scale renewable generation.

5 Q. Are Central Hudson’s programs also aligned with providing a significant
6 portion of the achieved benefits to customers residing within a DAC?

7 A. Yes, as discussed by the Climate Leadership and Sustainability Panel, the
8 Company estimates that approximately 48% of the GHG benefits
9 associated with the Company’s programs would accrue to customers
10 within DACs.

11 **VIII. EAMS AND PERFORMANCE ADJUSTMENTS**

12 Q. Are the Company’s proposed Earnings Adjustment Mechanisms (“EAMs”)
13 aligned with the goals in the CLCPA?

14 A. Yes. EAMs are designed to incentivize utilities to facilitate specific
15 outcomes that are deemed beneficial to customers and align with State
16 policy and legislative goals. As further described in the direct testimony of
17 the Earnings Adjustment Mechanisms Panel, the Company proposes 60
18 basis points for electric EAM opportunities and 25 basis points for gas
19 EAM opportunities. These EAM opportunities are allocated among the
20 following six EAM measures: 1) Electric and Gas Disadvantaged
21 Communities Energy Efficiency Benefits; 2) Electric and Gas Peak
22 Reduction; 3) Distributed Energy Resource Utilization; 4) Direct Current
23 Fast Charger Electric Vehicle Supply Equipment and Infrastructure

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1 (“EVSE&I”), 5) Level 2 Charger EVSE&I, and 6) Electric Vehicle Adoption.

2 The Company also proposes three tracking only scorecard metrics, which
3 include a load factor metric, a residential energy intensity metric, and
4 commercial energy intensity metric for reporting purposes only.

5 Q. Is Central Hudson proposing any changes to its current performance
6 adjustment measures?

7 A. Yes. Central Hudson is proposing changes to certain performance
8 adjustment measures and these changes are discussed further within the
9 direct testimonies of the Electric Capital and Operations Panel, the
10 Customer Experience Panel, and the Gas Safety Panel. The Company is
11 not proposing a change in the target levels for SAIFI or CAIDI or the basis
12 points of potential Negative Revenue Adjustments (“NRA”) at this time but
13 notes that the ability for the Company to achieve the proposed levels of
14 reliability performance is dependent on the Company’s receiving the
15 requested Vegetation Management Program funding levels and the
16 funding levels necessary for execution of the Company’s proposed Capital
17 Plan. However, Central Hudson is proposing to modify the current SAIFI
18 negative revenue adjustment to a two-step structure. As such, the
19 measurement of annual performance would include an NRA of 10 basis
20 points for exceeding the minimum threshold of 1.30 and an additional NRA
21 of 20 basis points for exceeding a maximum threshold of 1.34, which
22 maintains the existing maximum NRA of 30 basis points. The proposed
23 two-step penalty level for SAIFI provides the Company with a financial

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1 incentive to improve reliability performance while maintaining aggressive
2 target levels that are aligned with historical results.

3 Central Hudson is also proposing changes to the Residential Customer
4 Satisfaction Survey and the PSC Complaint Rate in order to measure
5 customer sentiment more accurately and appropriately and better align the
6 Company's metrics with statewide methodologies. Finally, Central
7 Hudson is proposing modifications to metrics and new positive revenue
8 adjustments associated with Gas Safety.

9 **IX. FORECASTING AND RATE DESIGN**

10 Q. Does the Company propose changes to rate design in this filing?

11 A. Yes. The Company is proposing to: 1) continue the elimination of gas tail
12 block rates; 2) eliminate the high volume usage discount offering for non-
13 residential gas S.C. No. 6 customers; and 3) provide a Low Power
14 Attachment Program electric service offering to eligible customers within
15 S.C. No. 2.

16 Q. Please discuss the rationale for continuing the elimination of the gas
17 declining tail block rates and eliminating the S.C. No. 6 high volume usage
18 discount offering.

19 A. The elimination of the gas declining tail block rates and the elimination of
20 the S.C. No. 6 high volume usage discount improves the price signal of
21 delivery rate design and is aligned with the energy conservation and
22 emission reduction goals of the CLCPA.

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1 Q. Why is the Company proposing the Low Power Attachment Program
2 service at this time?

3 A. The Company proposes to add this service offering to provide a more
4 customer-friendly option and to meet increasing municipal customer
5 requests to attach small-powered devices to existing poles but who find
6 the cost of metering and new service installation required under the
7 Company's current tariff to be difficult and cost prohibitive.

8 **X. MANAGEMENT AUDIT**

9 Q. Please discuss the status of Central Hudson's Implementation Plan within
10 the Matter of a Comprehensive Management and Operations Audit of
11 Central Hudson Gas & Electric Corporation, Case 21-M-0541.

12 A. As directed in the Commission's Order Releasing Audit Report issued and
13 effective April 20, 2023, Central Hudson filed its Management Audit
14 Implementation Plan on May 22, 2023. The Implementation Plan
15 addresses a total of 37 recommendations that includes 31
16 recommendations adopted by Central Hudson and six recommendations
17 that were modified by the Company. As of the date of this filing, the
18 Implementation Plan is undergoing a public review and comment process
19 in accordance with the State Administrative Procedure Act ("SAPA").

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1 Q. Are the financial impacts of the recommendations addressed within the
2 Implementation Plan reflected in the development of revenue
3 requirements?

4 A. Yes, costs that were specifically identified within the Implementation Plan
5 have been included within the direct testimony and exhibits of the
6 Revenue Requirements Panel. However, the Implementation Plan will be
7 subject to a SAPA process which includes review and comment by DPS
8 Staff and other stakeholders before it can be finalized. Following the
9 review, revisions to the Implementation Plan may occur that result in
10 modifications to the identified costs or add incremental costs. Therefore,
11 the Company is seeking deferral treatment for any incremental costs
12 ultimately included in the Final Implementation Plan that is approved by
13 the Commission.

14 **XI. COMPANY PANELS AND WITNESSES**

15 Q. Would you please introduce the other panels and witnesses that will
16 provide testimony in support of the Company's filing?

17 A. The panels and witnesses that will provide direct testimony in support of
18 the Company's filing are listed in Table 1 below.

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Table 1: Company Panels and Witnesses

1

Panel / Witness	Major Topics of Interest
Accounting and Tax Panel	Accounting information; taxes; net plant; CWIP; deferrals
Climate Leadership and Sustainability Panel	CLCPA; RSG; clean hydrogen; electrification of fleet; onsite solar
Common Capital and Operations Panel	Common capital expenditures (excluding Information Technology); security
Concentric Energy Advisors, Inc. (Joshua C. Nowak)	Capital structure and cost of capital
Cost of Service Panel	Embedded and marginal cost of service studies
Customer Experience Panel	Performance metrics; uncollectible accounts; credit/debit card payment; Energy Affordability Program
Earnings Adjustment Mechanisms Panel	EAMs
Electric and Gas Procurement Panel	Electric and gas procurement; forecasting and hedging; RSG
Electric Capital and Operations Panel	Electric capital expenditures; reliability targets; T&D trimming projections; T&D maintenance expense
Finance Panel	Capital structure and cost of capital
Forecasting and Rates Panel	Electric and gas forecasting; rate design
Gas Capital and Operations Panel	Gas capital expenditures; gas operational proposals
Gas Safety Panel	Gas safety metrics; infrastructure enhancements
Policy Panel	Policy and overview
Revenue Requirement Panel	Projection of income; rate base; rate moderators; SIR projections and project status
Technology Capital and Operations Panel	Information technology
Workforce, Compensation, and Benefits Panel	Workforce, workforce development, training, compensation, and benefits

2

3 Q. Does this conclude your direct testimony at this time?

4 A. Yes, it does.