



HEATHER C. BRICCETTI, ESQ.
President & CEO

May 2, 2013

Hon. Jeffrey C. Cohen, Esq.
Acting Secretary
New York State Public Service Commission
Three Empire State Plaza
Albany, NY 12223-1350

Re: Case 12-M-0192 – Joint Petition of Fortis, Inc. et al. and CH Energy Group, Inc. et al. for Approval of the Acquisition of CH Energy Group, Inc. by Fortis, Inc. and Related Transactions

Dear Secretary Cohen:

I write on behalf of The Business Council of New York State, Inc. to express support for the Joint Proposal in Case 12-M-0192.

The Business Council is the leading business organization in New York State, representing the interests of nearly 2,500 member businesses statewide. Our membership is composed primarily of electric power consumers, including more than 1,100 manufacturing firms. The primary function of The Business Council is to serve as an advocate for its members in policy matters affecting economic development, jobs and the general business climate in the state.

The members of The Business Council own, maintain, and operate numerous facilities throughout the Central Hudson Gas & Electric Corporation (“Central Hudson”) service territory. The Business Council supports the acquisition of Central Hudson by Fortis because the acquisition is in the best interest of Central Hudson’s customers and the public at-large. The Joint Proposal contains numerous long term and short term beneficial measures, including substantial customer benefits,



additional funding for economic development grants, and assistance for low-income customers.

The Joint Proposal unequivocally provides customers the best of both worlds, ensuring that customers realize real and substantial savings from the acquisition while also continuing to benefit from a “stand-alone” corporate philosophy that ensures the same high quality utility that customers of the Hudson Valley have come to depend on from Central Hudson.

Customer Benefits

The Joint Proposal contains numerous customer benefits. In its Statement in support of the Joint Proposal, the Department Of Public Service estimates that on average, Central Hudson residential ratepayers will save approximately \$164 per customer. This level of benefit has been determined by the Department of Public Service to be consistent with the benefit per residential customer in past proceedings.

Customer savings will be achieved by a proposed rate freeze for twelve months, and by Central Hudson’s opting not to file a rate case application. The one year rate freeze will provide a long-run economic benefit for customers, and immediately provides the local economy with short term rate relief as rates are held constant for a year. The Department of Public Service has determined that agreeing to a rate freeze will permit customers in the short term to avoid an estimated \$24.4 million, or 8.9%, increase for electric operations and \$0.6 million, or 0.8%, for gas operations.

The Joint Proposal provides for \$40 million of Positive Benefit Adjustments (PBAs) with \$35 million being used to write off existing regulatory assets representing deferred expenses owed to Central Hudson by ratepayers and \$5 million for a Community Benefit Fund to be used for low-income customer assistance and economic development. The proposed PBAs provide an additional monetary benefit for ratepayers, beyond other advantages of the acquisition.

Specifically, the Joint Proposal calls for Central Hudson to record a \$35 million write off of regulatory liability due to storm costs deferrals. According to the Department of Public Service, at the time the Joint Proposal was filed, Central Hudson had two pending storm restoration deferral petitions. The first proposed to defer approximately \$11.0 million from Hurricane Irene, and the second proposed to defer about \$1.6 million related to a snow storm that occurred in October 2011, and a

third storm restoration deferral petition requesting to defer approximately \$9.7 million of costs related to Super-storm Sandy. The Joint Proposal provides that the three deferral requests will be reviewed by the Department of Public Service. Additionally, if a difference exists between the storm cost deferrals and the agreed upon write off, the difference will be reserved as a regulatory liability with carrying charges at the pre-tax rate of return.

The acquisition will result in synergy savings. Reduced costs are projected because Central Hudson will be a small proportion of the compliance costs of Fortis. In addition, because Fortis's insurance program provides the necessary insurance coverage for all its subsidiaries, Central Hudson will see a reduction in insurance costs. The lower insurance cost results from Fortis's group purchasing power and risk diversification.

The Joint Proposal provides for Central Hudson's customers to immediately begin realizing \$1.85 million of benefits from synergy savings. To the extent that any synergy savings are greater, customers will realize the savings in subsequent rate cases. As a result, any and all synergy savings will be captured for ratepayer benefit in both the short and long term, and customers are assured to receive a minimum of \$9.25 million in savings over five years.

Funding for Economic Development

Historically, Central Hudson has been an outstanding partner to economic development projects in the Hudson Valley. The Joint Proposal continues this historic commitment to the continued economic growth of the region. The Joint Proposal dictates \$5 million to a Community Benefit Fund for economic development and low income customer assistance programs. The funding for this program will be through \$4.5 million from the remaining balance of the \$5 million Community Benefit Fund and \$500,000 from Central Hudson's Competition Education Fund. The details of the program will be finalized upon the acceptance of the Joint Proposal.

Currently, Central Hudson has a number of well-crafted economic development incentives. One program provides approved projects with up to \$200,000 for assistance with the State Environmental Quality Review Act approval process or up to \$200,000 for utility infrastructure improvements. Additionally, projects can receive \$100,000 when a project sponsor creates quality new jobs in high tech, green tech or other emerging growth industries in the service territory. In addition, Central Hudson has committed to the redevelopment of underutilized sites in the

service territory, by committing up to \$100,000 per site toward the revitalization of older, abandoned industrial buildings.

Low Income Customers

The Joint Proposal provides that the existing funding for the low income program will be supplemented with \$500,000 from the Community Benefit Fund, as well as an additional \$500,000 in unspent funds from the current low income programs. As detailed in the Joint Proposal, Central Hudson's low income program provides a generous benefit to economically disadvantaged customers.

The Multiple Intervenor's Reply Comments in Support of the Joint Proposal states the following:

Central Hudson's current low income program was approved in the 2009 Rate Order and is made up of two components: the Enhanced Powerful Opportunities Program ("EPOP"), which is a targeted program open to selected participants, and a broad-based discount program that provides a monthly bill credit to all customers who are HEAP recipients. Under the terms of the 2009 rate plan the EPOP budget was set at \$1.747 million in Rate Year 1, \$1.957 million in Rate Year 2 and \$2.170 million in Rate Year 3. Also, under the 2009 rate plan the bill discount program budget was set at \$974,400 in Rate Year 1 with a \$7.00 bill credit; \$1,252,800 in Rate Year 2 with a \$9.00 bill credit and \$1,531,200 in Rate Year 3 with an \$11.00 bill credit. (MI p. 6)

The additional funds provide enhanced low income benefits during the rate freeze period, including discrete benefits for electric and gas customers as proposed by the Utility Intervention Unit ("UIU"), and greatly enhanced benefits for heating customers. Dual-service customers will now receive a separate discount for both services. The UIU noted in its statement of support that the new discount for Central Hudson heating customers "will be one of the largest in New York State for these eligible participants and constitutes a 60% increase in the discount for heating customers." In addition, Central Hudson will waive service reconnection fees for customers in either the EPOP or bill discount programs. EPOP and its associated funding will remain unchanged.

These enhancements to the low income program will further ensure affordability of service for disadvantaged customers while reducing bad debt expense and collection

costs that are borne by all customers. These provisions further help ensure that low income customers receive a fair share of the benefits of the acquisition.

Finally, Central Hudson has agreed to propose a limited pilot program to test specific ideas on how to economically expand gas to customers. This potential to expand the natural gas system customer base, and the likely benefits associated with conversion to natural gas from other fossil fuels, is required to be explored to ensure that Central Hudson is encouraging expansion and maintenance of the natural gas distribution system in a way that maximizes benefits to current and potential Central Hudson ratepayers. Natural gas conversion can result in substantial benefits to customers and to the environment.

Continued High Quality Service

The Joint Proposal commits Central Hudson to providing continued high quality service, by ensuring the corporate headquarters remain within Central Hudson's service territory, providing continuity in the management and staffing of Central Hudson, and through the continuation and adoption of several gas safety performance metrics.

Central Hudson customers can be assured that because of Fortis's "stand-alone" corporate philosophy, the Central Hudson that customers have grown to depend upon will be the same Central Hudson after the acquisition. Central Hudson was recently recognized by the Edison Electric Institute ("EEI"), an association of electric companies representing 70% of the U.S. electric power industry, for its restoration work in response to Superstorm Sandy. Several FortisOntario crews worked with Central Hudson employees to reconnect some 104,000 customers who had been impacted by the storm. Two previous EEI Emergency Recovery Awards recognized Central Hudson's recovery efforts following severe snowstorms in October 2011 and February 2010, the latter being the most severe storm in the utility's history.

The Joint Proposal provides that Central Hudson will continue to be governed, managed and operated on a stand-alone basis. The Central Hudson Board will continue to be responsible for management oversight, including capital and operating budgets, dividend policy, debt and equity requirements. Central Hudson also agrees to maintain for at least two years post acquisition the current level of operating employees.

Resistance to Change

Many of the arguments in opposition to the Joint Proposal appear to have been fueled by last minute special interests, speculation and/or misinformation. The Business Council believes that the arguments in opposition to the Joint Proposal are without merit and as such should be rejected.

The Joint Proposal is supported by the Department of Public Service and the UIU. The UIU of the New York State Department of State's Division of Consumer Protection is committed to representing the interest of New York customers during the administrative process. During the development of the Joint Proposal the UIU was a strong advocate for the interest of consumers resulting in substantive modifications to the Joint Proposal.

Critics of the UIU often possess their own agendas which may not be consistent with the best interest of Central Hudson customers or recognize that Central Hudson is a delivery utility only. Voices in opposition have expressed concern over energy extraction techniques that do not apply to Central Hudson as it only delivers energy since deregulation. Central Hudson no longer generates electricity and it has never extracted natural gas.

Specifically, arguments have been advanced regarding a perceived failure to calculate the risks associated with the North American Free Trade Agreement ("NAFTA"). The Multiple Intervenor's Reply Comments in Support of the Joint Proposal state the following:

PULP's theory, however, is no more than speculation piled upon supposition. NAFTA dates back to 1992-1993. (*See id.* at 12, n.28.) To Multiple Intervenors' knowledge, NAFTA has never been interpreted in a manner detrimental to the interests of utility customers, and PULP's comments are devoid of citations from court cases or regulatory decisions arising in this or a similar context. (MI at p.10)

Unfortunately, PULP's "speculation piled upon supposition" has fueled additional unfounded conclusions. Repeated claims regarding NAFTA are either intended to be inflammatory, or represent a gross misreading of the treaty and case law.

Conclusion

The members of The Business Council own, maintain, and operate numerous facilities throughout the Central Hudson service territory. The Business Council

supports the acquisition of Central Hudson by Fortis because the acquisition is in the best interest of Central Hudson's customers and the public at-large. The Joint Proposal contains numerous long term and short term beneficial measures, including substantial customer benefits, additional funding for economic development grants, and assistance for low-income customers.

The Joint Proposal provides customers the best of both worlds, ensuring that customers realize real and substantial savings from the acquisition while also continuing to benefit from a "stand-alone" corporate philosophy that ensures the same high quality utility that customers of the Hudson Valley have come to depend on from Central Hudson.

Sincerely,

A handwritten signature in black ink, reading "Stephen C. Brucetta". The signature is written in a cursive style with a small mark above the 'e' in "Brucetta".