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December 31, 2019

Hon. Kimberly D. Bose, Secretary
Federal Energy Regulatory
Commission 888 First Street, N.E.
Washington, DC 20426

Re: Central Hudson Gas & Electric Corporation's Hurley Avenue System
Deliverability Upgrade Facilities Charge, Rate Schedule under the
NYISO OATT; Docket No. ER20-_____.

Dear Secretary Bose,

Pursuant to Section 205 of the Federal Power Act¹ and Part 35.13 of the Federal Energy Regulatory Commission's ("Commission") Regulations,² and Rate Schedule 12 (Section 6.12) of the New York Independent System Operator, Inc. ("NYISO") Open Access Transmission Tariff ("OATT"), Central Hudson Gas & Electric Corporation ("Central Hudson") submits to the Commission a new rate schedule pursuant to Rate Schedule 12 of the NYISO OATT.³ This rate schedule establishes the Highway Facilities Charge for the Hurley Avenue System Deliverability Upgrade ("Hurley-FC"),⁴ which will allow Central Hudson to recover costs related to common Highway System Deliverability Upgrades ("SDU") being installed on Central Hudson's transmission facilities. These upgrades are required to provide four Large Generating Facility Developers with Capacity Resource Interconnection Service, which they had requested of the NYISO as part of their interconnection to the New York State Transmission System.

In accordance with Rate Schedule 12 of the NYISO OATT and as explained below, Central Hudson is seeking to establish just and reasonable rates through the Hurley-FC, to recover costs not paid by developers for the approved SDUs it has been

¹ 16 U.S.C. § 824d.

² 18 C.F.R. Part 35.13 (2016).

³ The NYISO is submitting this filing in FERC's e-Tariff system on Central Hudson's behalf solely in its role as the Tariff Administrator. The burden of demonstrating that the proposed tariff amendments are just and reasonable rests on Central Hudson, the sponsoring party. The NYISO takes no position on any substantive aspect of the filing at this time. Capitalized terms not otherwise defined here shall have the meaning specified in the NYISO OATT.

⁴ The proposed Hurley-FC rate schedule is set forth as Application Attachment 6. Specifically, Central Hudson proposes to set forth the project-specific rate recovery mechanism in a newly proposed Attachment 1 (Section 6.12.3.5) to Rate Schedule 12 of the NYISO OATT.

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directed by the NYISO to construct as part of its tariff obligations. Specifically, the Hurley-FC will provide Central Hudson with full recovery of all reasonably incurred costs related to the development, construction, operation and maintenance of the Hurley Avenue Highway SDU undertaken pursuant to Attachment S of the NYISO OATT (including costs for a Highway SDU that is subsequently halted through no fault of the constructing Transmission Owner) that are allocated to Load Serving Entities (“LSEs”). Pursuant to § 6.12.1 of Rate Schedule 12 of the NYISO OATT, the Hurley-FC will also provide Central Hudson with a reasonable return on its investment.

The Hurley-FC will be calculated pursuant to NYISO OATT Rate Schedule 12. Total project construction costs are expected to be \$20,179,439⁵ which excludes operation and maintenance (“O&M”) and other costs such as removal costs net of salvage.⁶ Developers will pay their capped share of the costs with the remainder being allocated to LSEs using the formula at § 6.12.3.5.1 of Rate Schedule 12 of the NYISO OATT. Project costs recovered by Central Hudson and allocated to the LSEs pursuant to Rate Schedule 12 of the NYISO OATT are expected to be \$2,557,690⁷ plus O&M and other applicable costs.⁸ Central Hudson proposes to annually update the share of the costs allocated to LSEs in accordance with the procedures described in Application Attachment 6. The annual updates will incorporate an estimate of the cost of removal net of salvage at the end of the asset service life, which will permit Central Hudson to recover the difference between the actual net salvage value and the depreciation expense over the life of the Hurley-FC, and property tax expense on the total project cost.

I. Background

Central Hudson is a regulated utility operating in the State of New York. It is engaged in the transmission, distribution, and retail sale of electric power and natural gas in the Hudson Valley of upstate New York. Central Hudson is a founding member of the NYISO and a signatory to the ISO-TO Agreement.⁹ It is also a participant in the NYISO electricity markets on behalf of certain of its end-use customers and serves as a load-serving entity to its retail customers.

Through the NYISO Class year processes for 2009, 2010, and 2011, four large generating facility Developers accepted their respective Project Cost Allocations and have posted Security as required.¹⁰ Interconnection to the New York State Transmission System is required by the NYISO OATT.¹¹ The SDUs were necessary for the

⁵ Application Attachment 5, Project Assumptions.

⁶ *Id.*

⁷ Application Attachment 1 at Appendix A.

⁸ See Application Attachment 1.

⁹ The ISO-TO Agreement can be found at:

http://www.nyiso.com/public/webdocs/markets_operations/documents/Legal_and_Regulatory/Agreements/NYISO/nyiso_to_agreement.pdf.

¹⁰ The four Developers are Stony Creek Energy LLC (Stoney Creek Wind Farm”), TBE Montgomery, LLC (“Taylor Biomass”), CPV Valley, LLC (“CPV Valley”) and Ball Hill Windpark, LLC.

¹¹ See NYISO OATT at § 25.1.1.

Developer's generation projects to be interconnected to the New York State Transmission System and receive Capacity Resource Interconnection Service. Two of these Large Generating Facilities in the NYISO interconnection queue have been built, CPV Valley and Stony Creek Wind Farm. The Taylor Biomass facility remains under development. One Developer, Ball Hill Windpark, LLC, ultimately terminated its project but based on the NYISO tariffs is still obligated to fund the SDU. Each of the three remaining Developers asked NYISO to provide it with Capacity Resource Interconnection Service.

Through the NYISO Tariff, affected Transmission Owners are identified through the Class Year process and are required to build the SDU. The affected Transmission Owners required to build this SDU identified in the 2009, 2010, and 2011 class years were Central Hudson and Niagara Mohawk Power Corporation d/b/a National Grid ("National Grid"). Because Central Hudson is required to build the vast majority of the required SDUs, National Grid has contracted with, and agreed to have, Central Hudson build the entire SDU including equipment and labor associated with the equipment on the National Grid transmission system.

NYISO initiated discussions with Central Hudson, National Grid, CPV Valley, Stony Creek Energy, Taylor Biomass and Ball Hill Windpark, LLC regarding the Rest-of-State Highway SDU identified for those projects in NYISO's respective 2009, 2010, or 2011 Class Year Studies. The discussions were focused on the development of an Engineering, Procurement, and Construction ("EPC") agreement, to cover the engineering, design, and construction of the SDU. Central Hudson will be the entity performing the engineering, procurement, and construction under the EPC agreement set forth as Application Attachment 2. Having entered into the EPC Agreement with NYISO and the Developers, Central Hudson files this Application to establish the Hurley-FC to recover costs not recovered from Developers and to earn a reasonable return on that portion of SDU constructed facilities.

Specifically, Central Hudson seeks cost recovery and a reasonable return on investment pursuant to Rate Schedule 12 of the NYISO OATT.¹² Rate Schedule 12 of the NYISO OATT permits a Transmission Owner, such as Central Hudson to recover SDU costs that are allocated to it and not recovered from Developers.¹³

II. Description of the Filing and Statement of Reasons

Central Hudson is filing for a new rate mechanism under the NYISO OATT to establish the Hurley-FC, which will enable Central Hudson to recover the costs related to the required SDU and earn a reasonable return on investment on that portion of the Hurley-FC not recovered from Developers. The Hurley-FC rate mechanism will be established in, and assessed through, Rate Schedule 12 of the NYISO OATT.

¹² NYISO OATT § 6.12.1.

¹³ *Id.*

A. The Hurley-FC Will Result in Just and Reasonable Rates

As noted above, the Hurley-FC will allow Central Hudson to recover the SDU costs that are needed to achieve interconnection for the Developer's Large Generating Facilities and permit Central Hudson a reasonable return on its investment in the SDU. Central Hudson will install an innovative solid state electronic device instead of a capacitor bank, to bring the New York State Transmission System into compliance with applicable reliability requirements.¹⁴

The total project construction cost of the Hurley-FC is expected to be \$20,179,439.¹⁵ Of the \$20,179,439 total cost Central Hudson will recover approximately \$17,621,749¹⁶ from Developers¹⁷ and the remaining \$2,557,690¹⁸ from LSEs. Cost recovery will be adjusted to actual costs and if actual costs are \$17,621,749¹⁹ or less all costs will be recovered from Developers. If costs exceed expectations incremental costs will be recovered from LSEs pursuant to Rate Schedule 12 of the NYISO OATT and subject to the limitations set forth in Section 25.8.6.4 of Attachment S and Section 6.12.3.3 of Rate Schedule 12 of the NYISO OATT.

Pursuant to Section 6.12.1.2 of Rate Schedule 12 of the NYISO OATT, Central Hudson is entitled to recover its costs and earn a reasonable return on its investment. Central Hudson has proposed a base return on equity ("ROE") of 9.6% calculated in a manner consistent with the Commission's calculation of ROE presented in its October 16, 2018 Order in Docket EL11-66. In addition to the calculated base ROE, Central Hudson seeks a 50 basis point Regional Transmission Operator ("RTO") membership incentive because these facilities will be under the operational authority of the NYISO and but for its membership in NYISO Central Hudson would not have built the SDU, and a 50 basis point ROE incentive adder for its use of solid state power electronic flow control technology in lieu of traditional series compensation originally proposed by the NYISO.²⁰ Thus Central Hudson seeks a total ROE of 10.6%.

Central Hudson's request to recover SDU costs of \$20,179,439,²¹ less the costs paid for by Developers (\$17,621,749),²² plus ongoing O&M and other costs and receive a 10.6% ROE on a \$2,844,832²³ investment results in a just and reasonable Hurley-FC

¹⁴ The ordinary solution for this SDU would be to install a capacitor bank. The solid state electronic device offers flexibility to meet future needs that the capacitor bank does not and therefore, may contribute to future cost avoidance.

¹⁵ Application Attachment 5.

¹⁶ Application Attachment 2 at Appendix A at 160 of 181.

¹⁷ Each Developer will pay their share of the SDU costs as follows: CPV Valley LLC \$15,605,297, Stony Creek Energy LLC \$1,144,490, Taylor Biomass Energy LLC \$181,830 and Ball Hill Windpark, LLC \$1,164,437.

¹⁸ See Application Attachment 1 at Appendix A.

¹⁹ Application Attachment 2 at Appendix A at 160 of 181.

²⁰ See Application Attachment 4 describing the new technology.

²¹ Application Attachment 5 (Project Assumptions).

²² Application Attachment 2 at Appendix A at 160 of 181.

²³ See Application Attachment 1 at Tab 4 Incentives (Rate Base).

annual revenue requirement of \$1,764,119²⁴ for the first year the asset is placed in service. Central Hudson will also recover from Developers through the CIAC, pre-in-service date Development costs and CWIP segregated by capital and expense. The just and reasonable Hurley-FC rate will be allocated to LSEs pursuant to § 6.12.3.5.1 of Rate Schedule 12 of the NYISO OATT.

The NYISO will calculate and bill the Hurley-FC separately from other charges under the NYISO OATT. The NYISO will collect the Hurley-FC from LSEs to which the costs of the SDU have been allocated.²⁵ The manner in which these LSEs will be identified is discussed in Section II(B) of this filing letter and is set forth in Rate Schedule 12 of the NYISO OATT.

Central Hudson will utilize the Commission's Uniform System of Accounts amended pursuant to Orders of the New York State Public Service Commission ("PSC") to maintain consistent accounting for federal and state jurisdictional assets. Similarly, Central Hudson will use the cost allocation methodology set forth on Hurley-FC Application Attachment 1 to assign costs of the SDU facilities to LSEs.²⁶ The annual Hurley-FC revenue requirement will be calculated based on the methodology set forth in the Testimony of Mr. Joshua C. Nowak, Assistant Vice President with Concentric Energy Advisors, Inc., and set forth as Application Attachment 3, pursuant the procedures set forth in Central Hudson's proposed rate schedule for the Hurley-FC. In accordance with Rate Schedule 12 of the NYISO OATT, the NYISO will utilize this annual revenue requirement to determine the applicable charges to each LSE for the Hurley-FC.

Central Hudson will track the gross plant costs of the Hurley-FC SDU. The Hurley-FC revenue requirement will equal Central Hudson's trued up rate base, at the Commission approved ROE, and ongoing O&M and other costs based on the entire project cost. Based on those actual costs the Hurley-FC revenue requirements will be adjusted annually. Central Hudson will determine its annual adjusted revenue requirement as described in Application Attachment 6. Such a system average approach is widely used in formula rates approved by the Commission.²⁷ Under these circumstances it would be infeasible to track the operating and overhead costs of these facilities separately.

As described in the procedures set forth in its proposed rate schedule for the Hurley-FC, Central Hudson will recalculate the Hurley-FC revenue requirement, prospectively for the rate to be charged over the next year and retrospectively as a true up to actual rate base and expense, annually with the new rates to be effective each June 1, to permit the Hurley-FC to be adjusted to actual costs. The annual update will reflect the FERC Form 1 Report data from the most recent calendar year for all

²⁴ *Id.* at Appendix A.

²⁵ LSEs include energy supply companies, National Grid and the other New York Transmission Owners with respect to their full-service customers, and public power and municipal/cooperative entities.

²⁶ See Section 6.12.3.5.1 of Rate Schedule 12 of the NYISO OATT.

²⁷ See, e.g., Attachments N-1, GG, MM, and XX to the OATT of the Midcontinent Independent System Operator, Inc.; Attachments H-1, H-3, H-8, H-9, H-10, H-13, H-14, H-16, and H-17 to the OATT of PJM Interconnection L.L.C.; and Attachment H to the OATT of the Southwest Power Pool.

components of the allocation rate template methodology.²⁸ Central Hudson will coordinate with the NYISO to post the results of its annual updates to the NYISO's website.²⁹ The annual update will include supporting documentation and be subject to review and challenge as described in the procedures set forth in Central Hudson's proposed rate schedule for the Hurley-FC.³⁰

The NYISO will determine the applicable Hurley-FC rate and collect the appropriate Hurley-FC charges from the LSEs in each billing period and remit those revenues to Central Hudson in accordance with the requirements of Section 6.12.3.5 of Rate Schedule 12 of the NYISO OATT.

To the extent that the revenues received by Central Hudson for the Hurley-FC SDU in the prior year were greater or less than the annual Hurley-FC revenue requirement for the year as updated for actual costs and any variations in sales forecast, the current year's Hurley-FC revenue requirement will be decreased or increased by that difference.

Central Hudson has discussed the proposed design of the Hurley-FC rate recovery mechanism with the PSC, and the PSC raised no concerns, other than the RTO Adder to which it objects, about this proposal during a meeting with Central Hudson. Central Hudson has also discussed with the NYISO its proposal for developing the applicable annual revenue requirement for the Hurley-FC to be used in determining and assessing charges pursuant to Rate Schedule 12 of the NYISO OATT. The NYISO has not indicated any objections to the general structure of Central Hudson's proposed rate schedule.

B. The Proposal Results in the Proper Cost Allocation and Recovery

The Hurley-FC will result in the appropriate allocation of cost responsibility and cost recovery for Central Hudson's SDU. Without the Hurley-FC, the costs of the SDU not recovered from Developers would be allocated entirely to Central Hudson's retail customers through retail rates.³¹ This would be inconsistent with cost causation principles because the SDU would not be needed without a transmission project to address the NYISO interconnection needs associated with the Large Generating Facilities built by the Developers at the requested level of Capacity Resource Interconnection Service. The Developers whose projects resulted in the need for the SDU and the LSEs that benefit from the SDU will pay the costs of the SDU through the Hurley-FC. The revenue requirement will be allocated between the Developers and LSEs in accordance with the requirements of Attachment S and Rate Schedule 12 of the NYISO OATT.

²⁸ Application Attachment 6.

²⁹ *Id.*

³⁰ *Id.*

³¹ Prior to the Hurley SDU going into service Niagara Mohawk Power Corporation d/b/a/ National Grid will make comparable adjustments so none of the costs associated with the Hurley SDU are recovered through its state retail transmission and distribution service charge.

All SDU costs will be recovered from Developers and LSEs. LSEs will also be allocated their share of SDU costs pursuant to § 6.12.3 of Rate Schedule 12 of the NYISO OATT and billed in a manner consistent with the NYISO's billing and settlement processes as set forth in Rate Schedule 12 of the NYISO OATT.³²

It should be noted that Central Hudson's retail customers will bear a share of the SDU costs under this approach through allocation to the LSEs, but not all of the SDU costs. This is appropriate because SDUs are designed to benefit all customers in NYISO based on each LSE's proportionate share of the applicable NYCA ICAP requirement. Moreover, Central Hudson will recover no more and no less costs through the NYISO's collection of costs from LSEs than it would receive if it were to obtain all reimbursement from the Developers. In sum, the Commission should approve the cost recovery mechanism proposed in this rate schedule as just and reasonable.

C. Effect on Rates and Revenues

The Hurley-FC is a new charge to be paid by LSEs to allow Central Hudson to recover SDU costs not recovered from Developers and earn a reasonable return on its investment. Neither existing delivery rates, nor future delivery rates for Central Hudson's retail customers will be directly affected by this new charge because accounting will properly segregate them from state regulatory proceedings. The identification of the charged Developers and LSEs has and will occur through the process set forth in Rate Schedule 12 and Attachment S to the NYISO OATT. As noted above, the costs of the SDU are estimated to be less than \$20,200,000, with an estimated remaining balance to be recovered from LSEs of \$2,557,690³³ after accounting for the costs paid for by Developers (\$17,621,749).³⁴

III. Proposed Effective Date

Central Hudson requests an effective date immediately following the end of the sixty (60) day notice period. The EPC agreement is effective, costs are accruing and construction is necessary to maintain transmission reliability pursuant to the NYISO OATT. Central Hudson believes it is important to establish the Hurley-FC rate through this filing.

Under the terms of the proposed Hurley-FC, Central Hudson will charge accrued costs, including development and CWIP to Developers, but NYISO will not actually begin charging the Hurley-FC to LSEs until after the SDU is placed into service, unless otherwise determined by the Commission.³⁵

³² See NYISO OATT Rate Schedule 12, § 6.12.3 (charging the Highway Facilities Charge to LSEs).

³³ Application Attachment 1 at Appendix A.

³⁴ Application Attachment 2 at Appendix A at 160 of 181.

³⁵ See Section 6.12.2.3 of Rate Schedule 12 of the NYISO OATT.

IV. Additional Information

A. Communications

Please place the names of the following persons on the official service list established by the Secretary in this proceeding:

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*Designated to receive service. Pursuant to 18 C.F.R. § 385.2010, Central Hudson respectfully requests waiver to permit more than two individuals to receive service in this proceeding.

B. List of Documents Submitted With Filing

Together with this filing letter, Central Hudson submits the following:

Application Attachment 1	Illustrated Populated Version of the Hurley FC Rate Template
Application Attachment 2	Executed EPC Agreement
Application Attachment 3	Testimony of Mr. Joshua C. Nowak, Assistant Vice President with Concentric Energy Advisors, Inc.

Application Attachment 4	Description of new technology
Application Attachment 5	Project Assumptions
Application Attachment 6	Proposed Revisions to Rate Schedule 12 of the NYISO OATT to incorporate the Hurley- FC rate template and annual update process as a new Attachment 1 (Section 6.12.5) to Rate Schedule 12

C. Requests for Waiver

To the extent that waivers of any applicable requirements in 18 C.F.R. § 35.13 are necessary, Central Hudson respectfully requests such waivers. Good cause exists for waiver. The annual Hurley-FC revenue requirement to be recovered pursuant to Rate Schedule 12 of the NYISO OATT is estimated to be less than \$1,800,000 so that an abbreviated filing is appropriate and no customer consent is required.³⁶ The information, documents and attachments accompanying this filing, together with the Central Hudson's publicly available FERC Form 1 information, substantially comply with the Commission's cost support regulations and provide ample support for the reasonableness of the proposed Hurley-FC rate. Further, cost of service statements typically are not needed where the proposed rates are based on actual costs as reflected in the applicant's audited books and records.³⁷ Although Central Hudson is proposing a new charge, that charge is calculated based on NYISO OATT provisions approved by the Commission. As a result, waiver, if necessary, would be consistent with Commission precedent for a rate filing of this nature.

Finally, the information submitted with this filing substantially complies with the requirements of Part 35 of the Commission's rules and regulations applicable to filings of this type. Central Hudson requests a waiver of any applicable requirement of Part 35 for which a waiver is not specifically requested, if necessary, in order to permit this filing to become effective as proposed.

D. Service

Central Hudson has served a copy of this filing electronically on the PSC and on the NYISO. The NYISO has agreed to send an electronic link to this filing on behalf of

³⁶ Central Hudson is seeking cost recovery and a reasonable return on an investment of \$2,103,946 with an equity layer of 49% and a return on equity of 10.8%.

³⁷ Public Service Company of Colorado, 149 FERC ¶ 61,208 (2014); PJM Interconnection, L.L.C., Duke Energy Ohio, Inc., Duke Energy Kentucky, Inc., 139 FERC ¶ 61,068 (2012); Southern California Edison Co., 136 FERC ¶ 61,074 (2011); Pub. Serv. Elec. & Gas Co., 124 FERC ¶ 61,303 (2008); Oklahoma Gas & Elec. Co., 122 FERC ¶ 61,071 (2008); Am. Elec. Power Serv. Corp., 120 FERC ¶ 61,205 (2007); Commonwealth Edison Co., 119 FERC ¶ 61,238 (2007); Trans-Allegheny Interstate Line Co., 119 FERC 61,219 (2007); Duquesne Light Co., 118 FERC ¶ 61,087 (2007); Idaho Power Co., 115 FERC ¶ 61,281 (2006); Allegheny Power Sys. Operating Cos., 111 FERC ¶ 61,308 (2005).

Central Hudson to designated representatives of all NYISO customers. This will ensure that LSEs receive notice of this filing.

Please contact the undersigned at (845)486-5831 or pcolbert@cenhud.com with any questions regarding this matter.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "P. A. Colbert".

Paul A. Colbert
Associate General Counsel
Regulatory Affairs

*On behalf of Central Hudson Gas & Electric
Corporation*

