

Attachment 1

Central Hudson Gas and Electric Corporation (Central Hudson)
Response to Deficiency Letter Dated September 21, 2023
Rate Schedule 19 Transmission Formula Rate Proposal
Docket No. ER23-2507
October 23, 2023

Formula Rate Template

1. Central Hudson proposes to include depreciation rates in Workpaper 8: Electric and Common Depreciation and Amortization Rates.¹ Central Hudson notes that the depreciation rates were approved by the NYPSC,² but Central Hudson did not submit a depreciation study with the filing in support of the proposed depreciation rates for the CLCPA Eligible Projects. Please provide the depreciation studies, including all supporting documentation and workpapers, to support the proposed depreciation rates for the CLCPA Eligible Projects as just and reasonable.

Central Hudson Response: Attached to this filing are numerous documents supporting the depreciation rates included in Workpaper 8 – Depreciation Rates of Central Hudson’s proposed formula rate template to be included within Section 6.19.9.2.2 of Attachment 4 to Rate Schedule 19 of the New York Independent System Operator, Inc. (NYISO) Open Access Transmission Tariff (OATT). Attachment 4 is the depreciation rate testimony filed by Central Hudson in its last New York Public Service Commission (NYPSC) rate case filed in 2020 (Cases 20-E-0428 and 20-G-0429). Attachment 5 contains Central Hudson’s depreciation study from its 2020 rate case proceeding (2020 Depreciation Study). Attachment 6 contains an Excel spreadsheet that includes the depreciation rate calculations. Attachment 7 contains the NYPSC order issued November 18, 2021 with the joint proposal (settlement) attached related to Central Hudson’s 2020 rate case proceeding. See page 35 and Attachment V to the joint proposal for depreciation rate information and the depreciation rates approved by the NYPSC to be effective July 1, 2021.

In addition, the depreciation rate for Account 356.3, Smart Grid Device, resulted from the settlement in Docket No. ER20-715 addressing Central Hudson’s proposal for cost recovery of its Hurley Avenue System Deliverability Upgrade pursuant to Rate Schedule 12 of the NYISO OATT. Attachment 8 contains Central Hudson’s response to a data request in that proceeding that describes the development of the Smart Grid Device depreciation rate. The data request

¹ Dumais Testimony, Exh. CH-001, at 30.

² *Id.*

includes an attached Excel spreadsheet.

Lastly, Central Hudson proposes incremental changes to Workpaper 8 – Depreciation Rates of the formula rate template proposed for inclusion in Section 6.19.9.2.2 of Attachment 4 to Rate Schedule 10 of the NYISO OATT as part of this filing. The proposed incremental changes are to reflect more granularity in the proposed depreciation rates, as was done in setting Central Hudson’s depreciation rates by the NYPC, and to add several intangible asset accounts not included in the NYPSC rate case. Attachment 9 contains an Excel version of Central Hudson’s proposed formula rate template with the incremental revisions to Workpaper 8 – Depreciation Rates shown in redline. Clean and redline versions reflecting the proposed incremental changes to Section 6.19.9.2.2 of Attachment 4 to Rate Schedule 10 of the NYISO OATT are also included in Attachments 2 and 3, respectively, to this filing.

Protocols

The Commission established its policy regarding transmission formula rate protocols in a series of cases involving Midcontinent Independent System Operator, Inc.’s (MISO) Open Access Transmission, Energy and Operating Reserve Markets Tariff.³ The resulting MISO Protocol Orders have served as the benchmark for proceedings involving the justness and reasonableness of formula rate protocols.⁴

2. This Commission precedent requires that formula rate protocols include certain provisions for the disclosure of information. Central Hudson’s proposed Protocols require Central Hudson to disclose this information in its Actual Annual Revenue

³ *Midwest Indep. Transmission Sys. Operator, Inc.*, 139 FERC ¶ 61,127 (2012), *order on investigation*, 143 FERC ¶ 61,149 (2013) (MISO Investigation Order), *order on reh’g*, 146 FERC ¶ 61,209, *order on compliance*, 146 FERC ¶ 61,212 (2014) (MISO Compliance Order), *order on reh’g*, 150 FERC ¶ 61,024, *order on compliance*, 150 FERC ¶ 61,025 (2015) (MISO Compliance Order II) (collectively, MISO Protocol Orders).

⁴ *See, e.g., Black Hills Power, Inc.*, 150 FERC ¶ 61,198 (2015); *UNS Elec., Inc.*, 153 FERC ¶ 61,132 (2015); *The Empire Dist. Elec. Co.*, 153 FERC ¶ 61,127 (2015); *Kansas City Power & Light Co.*, 153 FERC ¶ 61,150 (2015); *Louisville Gas & Elec. Co.*, 153 FERC ¶ 61,126 (2015); *Westar Energy, Inc.*, 153 FERC ¶ 61,143 (2015); *Alabama Power Co.*, 182 FERC ¶ 61,015 (2023).

Requirements (ATTR)⁵ and Annual True Up Adjustments⁶ posting, but the Protocols do not require the disclosure of the information in the Annual Update posting for “Projected ATTRs.”⁷ While Central Hudson’s Annual Update posting for “Projected ATTRs” provides for information exchange and challenge procedures for “Projected ATTRs,” it does not appear to specifically provide the necessary disclosures.⁸ For example, the Commission has found that formula rate protocols must require transmission owners to disclose any change in accounting during the rate period that affects inputs to the formula rate or the resulting charges billed under the formula rate. Specifically, a change in accounting may involve: (1) the initial implementation of an accounting standard or policy; (2) the initial implementation of accounting practices for unusual or unconventional items where the Commission has not provided specific accounting direction; (3) corrections of errors and prior period adjustments; (4) the implementation of new estimation methods or policies that change prior estimates; and (5) changes to income tax elections. The formula rate protocols must also provide for identification of items included in the formula rate at an amount other than on a historical cost basis (e.g., fair value adjustments).⁹ Please explain how Central Hudson’s proposed Protocols comply with these requirements.

Central Hudson Response: As the question states, Central Hudson’s proposed

⁵ Central Hudson’s Protocols Section 1.d. define Actual ATTRs as “the actual annual revenue requirement of Central Hudson’s CLCPA Eligible Projects for a Rate Year calculated in accordance with the Formula Rate and posted on the ISO website no later than June 15 following the end of such Rate Year.”

⁶ Central Hudson’s Protocols Section 1.e. define Annual True-Up Adjustments as “the difference between the revenues collected for that Rate Year under the Formula Rate based upon a Projected ATRR (not including the True-up Adjustment or Corrections) and an Actual ATRR for the same Rate Year. The Annual True-up Adjustment is included in the applicable Annual Update for the next Rate Year.”

⁷ For example, *see* Central Hudson’s Protocols, Section 3.c, 3.g (Actual ATRR Requirements), 3.h (Projected ATRR Requirements).

⁸ Central Hudson’s Protocols, Sections 3.h, 6.a, 8.a. Central Hudson’s Protocols, Section 1.p. defines Projected ATTRs as “the projected annual revenue requirement of Central Hudson’s CLCPA Eligible Projects for the upcoming Rate Year calculated in accordance with the Formula Rate and posted on the ISO website no later than the Posting Date.”

⁹ MISO Investigation Order, 143 FERC ¶ 61,149 at P 87.

formula rate protocols (Protocols) require it to provide, as part of its posting of its Actual ATRR and filing of the related Informational Filing, the above-described information for accounting changes and for any item recorded at an amount other than using original cost. Though Central Hudson believes providing this information at the time of posting its Actual ATRR provides adequate transparency to stakeholders, Central Hudson agrees to revise its Protocols to require this information also to be provided with the posting of its Projected ATRR. To be clear, Central Hudson will provide with the posting of its Projected ATRR information required for accounting changes, for any item which amount differs from original cost and for any reorganization or merger transactions. Central Hudson will also provide a narrative explanation of the individual impact of such changes on the Projected ATRR. Central Hudson provides, within Attachments 2 and 3, clean and redlined versions, respectively, of the proposed Protocols (Section 6.19.9.2.1 of Attachment 4 to Rate Schedule 19 of the NYISO OATT) incorporating these changes.

3. The Commission has further found that all interested parties should be able to identify and understand all accounting changes that affect inputs to the formula rate or the resulting charges billed under the formula rate.¹⁰ The Commission found that provisions that limit utility disclosure of accounting changes to only those that are “material” are insufficient to ensure just and reasonable rates and that the word “material” must be removed from the description of the accounting changes that will be disclosed.¹¹ The Commission noted that “by adding the concept of materiality to the accounting changes that must be disclosed, the MISO Transmission Owners reduced the transparency of financial information used in formula rate billings without sufficient support.”¹² Central Hudson’s proposed Protocols state that, with respect to Accounting Changes that Central Hudson will disclose, such disclosures are limited to “correction of *material* errors and *material* prior period adjustments that impact an Annual True-up Adjustment calculation or prior Annual True-up Adjustments.”¹³ It appears that Central Hudson’s proposed Protocols also do not require Central Hudson to disclose this information in its Annual Update posting.¹⁴ Please demonstrate how Central Hudson’s proposed

¹⁰ MISO Compliance Order, 146 FERC ¶ 61,212 at P 66.

¹¹ *Id.* P 65.

¹² *Id.*

¹³ Central Hudson’s Protocols, Section 3.g.vi.C.

¹⁴ Central Hudson’s Protocols, Section 3.c., 3.g.

Protocols comply with these requirements.

Central Hudson Response: Central Hudson agrees to eliminate the materiality threshold from accounting change disclosures provided in both the Actual ATRR and Projected ATRR sections of the Protocols and to include this information with the posting of its Projected ATRR (Annual Update) (see the response to Item 3 above). Central Hudson provides, within Attachments 2 and 3, clean and redlined versions, respectively, of the proposed Protocols (Section 6.19.9.2.1 of Attachment 4 to Rate Schedule 19 of the NYISO OATT) incorporating these changes.

4. The Commission has previously found that the formula rate protocols must provide that the informational filing include the information that is reasonably necessary to determine, among other things, the reasonableness of projected costs included in the projected capital addition expenditures (for forward-looking formula rates).¹⁵ The Commission required that the forward-looking formula rate protocols apply to the projected revenue requirement, in addition to the true-up revenue requirements.¹⁶ Please explain whether Central Hudson's proposed Protocols, especially section 3.g with respect to the "Actual ATRR" and section 3.h with respect to "Projected ATRRs," comply with these requirements.

Central Hudson Response: Subparagraph ii in Section 3.g. of the proposed Protocols addresses actual information, not projected, so the above requirement regarding providing information on projected capital additions does not apply to this section. Subparagraph ii in Section 3.h of the proposed Protocols requires Central Hudson to "[p]rovide supporting documentation and workpapers for all Schedule 19 Projects being added to operating property in the upcoming Rate Year that are used in the respective Projected ATRRs, including projected costs of each project, expected construction schedule and in-service dates." Central Hudson believes that this satisfies the requirement to include "...the information that is reasonably necessary to determine, among other things, the reasonableness of projected costs included in the projected capital addition expenditures." Central Hudson will be posting such information with its Projected ATRR. For clarity, Central Hudson agrees to add the requirement to provide this information in its Informational Filing. Central Hudson provides, within Attachments 2 and 3, clean and redlined versions, respectively, of the proposed Protocols (Section 6.19.9.2.1 of Attachment 4 to Rate Schedule 19 of the NYISO OATT) incorporating this change.

¹⁵ MISO Compliance Order, 146 FERC ¶ 61,212 at P 22.

¹⁶ *Id.* P 62.

5. The Commission has found that “formula rate protocols must require a transmission owner to provide: (1) a detailed description of the methodologies used to allocate and directly assign costs between the transmission owner and its affiliates by service category or function *for the applicable rate year*, including any changes to such cost allocation methodologies from the prior year, and the reasons and justification for those changes; and (2) the magnitude of such costs that have been allocated or directly assigned between the transmission owner and each affiliate by service category or function for the applicable period.”¹⁷ Please explain how Central Hudson’s proposed Protocols providing this information for the “prior Rate Year,” and not the “applicable rate year,” complies with this requirement.

Central Hudson Response: Central Hudson agrees to change the language in Section 3.g.x. of its proposed Protocols from “prior Rate Year” to “applicable rate year” and provides, within Attachments 2 and 3, clean and redlined versions, respectively, of the proposed Protocols (Section 6.19.9.2.1 of Attachment 4 to Rate Schedule 19 of the NYISO OATT) incorporating this change.

6. The Commission also provided that, following the annual update, interested parties must be afforded the opportunity to obtain upon request, information on procurement methods and cost control methodologies used by the transmission owner.¹⁸ Please explain how Central Hudson’s proposed Protocols comply with this requirement.

Central Hudson Response: Sections 6.a.vii and 6.a.ix of the proposed Protocols provide that Interested Parties can request information on “the accuracy of actual costs and expenditures” and “any other information that may reasonably have a substantive effect on the calculation of the Projected ATRRs or Actual ATRRs pursuant to the Formula Rate.” Notwithstanding, Central Hudson agrees to identify specifically in this section of the proposed Protocols, among information that Interested Parties can request, procurement approaches and cost control methodologies. Central Hudson provides, within Attachments 2 and 3, clean and redlined versions, respectively, of the proposed Protocols (Section 6.19.9.2.1 of Attachment 4 to Rate Schedule 19 of the NYISO OATT) incorporating this change.

¹⁷ *Commonwealth Edison Co.*, 182 FERC ¶ 61,156, at P 28 (2023) (emphasis added).

¹⁸ MISO Investigation Order, 143 FERC ¶ 61,149 at P 90.

7. The Commission has found that formula rate protocols cannot define the scope of various types of future section 205 filings, and the Commission will determine the scope of any future section 205 filings when such filings are made.¹⁹ Central Hudson's proposed Protocols provide that "Central Hudson may also make a limited section 205 filing to request recovery of extraordinary property losses or to change or to add new depreciation and amortization rates. In each case, the sole purpose of any such limited section 205 filing shall be to address whether such proposed changes are just and reasonable and shall not include other aspects of the Formula Rate."²⁰ Please explain how Central Hudson's proposed Protocols comply with this Commission precedent.

Central Hudson Response: Though Central Hudson is aware of many other transmission formula rate protocols that provide for limited section 205 filings for items such as those included in its proposed Protocols, Central Hudson agrees to remove this language. Central Hudson provides, within Attachments 2 and 3, clean and redlined versions, respectively, of the proposed Protocols (Section 6.19.9.2.1 of Attachment 4 to Rate Schedule 19 of the NYISO OATT) incorporating these changes.

¹⁹ *ATX Sw., LLC*, 152 FERC ¶ 61,193, at P 85 (2015) ("We reject ATX Southwest's proposed Section IV.J, which attempts to define the scope of various types of future section 205 filings and is inappropriate to include in the formula rate protocols. The scope of any future section 205 filings will be addressed when such filings are made."); *Transource Kansas, LLC*, 163 FERC ¶ 61,176, at PP 13-17 (2018); *Indicated RTO Transmission Owners*, 161 FERC ¶ 61,018, at P 13 (2017) (declining to make an advance determination on single issue ratemaking for transmission owners of PJM Interconnection, LLC and Southwest Power Pool, Inc. on the basis that it was "unclear whether the specific revisions [] will affect other unchanged components of their formula rates"); *Commonwealth Edison Co.*, 182 FERC ¶ 61,156 at P 27.

²⁰ Central Hudson's Protocols, Section 3.k.