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PUBLIC SERVICE COMMISSION

Regular Meeting of the Public Service Commission

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Agency Building 3
19th Floor
Albany, New York

COMMISSIONERS:

GARRY A. BROWN, Chairman
PATRICIA L. ACAMPOREA
ROBERT E. CURRY, JR.
MAUREEN F. HARRIS
JAMES J. LAROCCA
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CHAIRMAN BROWN: Good morning. I would like to call the June 2012 session of the Public Service Commission to order.

Madam Secretary, are there any changes to the agenda today?

SECRETARY BRILLING: There are changes.

There is one item that has been put over, and it is from the consent agenda, item 167, case 12-T-0114, Norse Energy Corporation USA and Emkey Resources LLC, and that's the joint petition for approval to transfer two Article VII certificates.

And we added one item to the agenda, and that is item 378, case 11-E-0176, tariff filings by New York State Electric & Gas Corporation and Rochester Gas & Electric Corporation to revise their electric tariff schedules with regard to the allocation of the capacity requirement for customers participating in the Recharge New York program.

And that concludes the changes.

CHAIRMAN BROWN: Okay. Thank you.

Let's move to the consent agenda. Is anyone abstaining or recusing themselves from voting on any of the consent agenda items today?

Hearing none, let's go to a vote. All those
in favor of the recommendations on the consent agenda
please say aye.

(Response of "aye".)

Opposed?

(No response.)

Hearing no opposition, the recommendations are adopted.

Anything else on the consent agenda?

Hearing nothing, let's move to the regular agenda.

Let's today just for fun go in reverse numerical record. We will start with item 301, the O&R rate case, go to item 203, the customer service quality, and then item 102, the gas safety performance measures report.

So, the first item for discussion is item 301, case 11-E-0408, Orange & Rockland Utilities - amendments to the FSC two year electricity, effective 8/28/11 and etc.

This item will be presented by Administrative Law Judges David Prestemon and Kim Harriman in the Office of Hearings and Alternative Dispute Resolution. And also available for questions is Tom D'Ambrosia, Chief in the Office of Accounting &
Item 301 addresses Orange & Rockland Utilities, Inc. electric rate filing that was provided on July 29th of 2011, and as amended on December 23, 2011. The company had requested an increase in its electric delivery revenues of approximately 31.39 million. Parties to the proceeding commenced negotiations and were able to enter into a joint proposal which was filed on February 24, 2012. That joint proposal set forth terms and conditions for service as well as rates for service for a three-year timeframe. The draft order before you, if adopted, would adopt terms of the joint proposal and establish a three-year electric rate plan for the company, with rates coming into effect on July 1, 2012 and continuing through June 30, 2013. The joint proposal and the draft order before you proposed to have a levelized increase in the electric delivery revenue requirement of the company of
approximately 15.2 million each year, which equates to about an average annual increase of 5.8 percent.

The increase in revenue requirement is largely due to four items. First is necessary capital additions. Second is an increase in the rate of return on equity. Third, property tax increase, both due to property tax rates in the municipalities in which they operate, as well as new capital being subject to taxation. And lastly, as a result of labor, including new hires, wage increases and general drivers.

The rates are proposed to be set on an ROE of 9.4 in the first rate year, 9.5 in the second rate year and 9.6 in the third rate year.

This is the first time in recent memory that the Commission is contemplating a rate plan with a graduated ROE, and it is largely due to the low, or historically low, interest rate period that we are in right now, and a reflection that over a three year term interest rates could, in effect, rise.

So the parties resolved on addressing that uncertainty regarding the rise in interest rates as well as the three-year period by proposing a graduated ROE plan.

There is some positives, quite a few
actually, that the parties have come up with as part of
the joint proposal. One is that there is an earnings
sharing mechanism that is proposed that would enable
shareholders to enjoy earnings associated with efficient
operation of the company, but at the same time reserve
some of those benefits for ratepayers.

In addition, the proposal would continue the
customer service and reliability performance mechanisms,
and it would enhance the low income program so that low
income heating customers would receive a monthly bill
credit of $17.40, which would be an increase of $2.40
over what they are currently receiving under the
company's program.

Non-heating customers would receive a
monthly bill credit of $7 starting in rate year one, $8
in rate year two, and $9 in rate year three. So, with a
proposal to increase the electric delivery revenue
requirement comes also some proposals to enhance
programs for the benefit of customers.

One thing to note: In the draft order
before you there is a typographical error that I want to
make clear on page 33 of that order -- I am sorry --
it's the last page of the order before the ordering
clauses, which is page 34.
There are certain terms in the joint proposal that the Commission doesn't adopt as part of a rate plan because they affect the relationship among the signatory parties.

It is noted on that paragraph -- it's about the second paragraph above -- that those paragraphs, numbered 25 through 31, which are the paragraphs that represent the relationship among the parties and would not be adopted by the Commission. It should start at paragraph 26 through 31, not 25 through 31.

25 is the all important, the provisions in the JP will continue beyond the term or the rate plan unless otherwise acted on. So, we want to make sure that that is included for adoption.

CHAIRMAN BROWN: Good catch.

JUDGE HARRIMAN: There are some other items that came up in this case that are noteworthy, and Judge Prestemon will be addressing those.

JUDGE PRESTEMON: The first item actually involves two issues that you will all undoubtedly remember from the last O&R rate case. The first of those is the annual team incentive plan of Orange & Rockland, which is their incentive compensation plan for management employees.
And the second is the potential efficiencies to be gained from implementation of the recommendations of the Liberty management audit of Orange & Rockland's affiliate, Con Edison. 

In this case, Orange & Rockland requested $1.2 million to fund its ATIP incentive compensation program.

As you recall in last year's order, you provided some guidance to the company and other companies as to how they should -- what they should present to demonstrate that their incentive compensation plans are part of an overall compensation scheme that is reasonable and comparable to other utilities.

The company did present comparable compensation studies. The staff had concerns about those studies, and in its testimony it opposed funding for the ATIP program in full. That would have been $1.2 million reduction in the request of O&R.

In addition, with respect to the management audit, you required in last year's order that the utility file a report within 120 days giving a cost/benefit analysis, to the extent practicable, of the implementation of the recommendations from the Liberty audit.
The company did file that report. Again, the staff took exception with it, felt that there were not as many efficiencies identified as should be achieved. And staff recommended that $485,000 be imputed as savings against revenue requirement.

Combined, the ATIP and audit issues created about a $1.7 million gap between the staff position and the company's position. In the joint proposal, these two issues were settled as a purely monetary matter. The parties agreed that, rather than $1.7 million, revenue requirement would be reduced by $1 million. No discussion of the substantive issues. It's a pure compromise.

The draft order finds that, given the litigious nature of these issues, the uncertainty as to the outcome of the litigation, and in the context of the overall joint proposal, which has a lot of good things in it, this is a reasonable compromise. It does not discuss the issues except there was one unusual provision in the joint proposal, a footnote that said any of the parties could present in their statements in support of the joint proposal arguments about how information on comparable compensation studies should be presented in O&R's next rate filing.
Staff had some concerns about the methodology used by O&R. It also had some procedural concerns about getting the information necessary to analyze these studies.

The company responded that it made no sense to establish fixed requirements for a filing that wasn't going to come for three more years on an issue that the Commission is undoubtedly going to have to address more than once during those three years.

And furthermore, that the staff’s concerns had not been litigated at all. There was no cross-examination. There was no briefing. So, there was really no basis for adopting them.

The order agrees with that position, but it also notes that these issues have been raised by staff. They should be paid attention to and should be addressed in any future rate filing, but they don't make any specific requirements for how the company is to do that.

The second issue involves the mandatory day ahead hourly pricing program. Staff proposed in this case for the first time to reduce the threshold for mandatory participation in this program to a hundred kilowatt demand.

Currently, I believe the lowest demand --
lowest threshold for any utility is 250 kilowatts on
National Grid. Most of the others are at 300 or still
at 500. O&R was supposed to reduce the threshold to 300
effective actually next year, 2013. This would have
taken them to 100.

The JP called for a plan for implementation
of the reduction to be provided by O&R within 90 days,
100?

JUDGE HARRIMAN: Six months of issuance date
of the order.

JUDGE PRESTEMON: Six months.
The question arose as to -- there was some
issues or questions or concerns that arose as to whether
or not this would be a cost effective move, the move to
this 100 kilowatt hour level.

Some of the concerns raised included the
fact that this level would bring in at least a couple
residential buildings. That there was the potential
that the implementation of MDAHP on residential
buildings could be a disincentive to submetering
because, as you know, landlords are not allowed to pass
through hourly price costs. They can only pass through
costs at the...

JUDGE HARRIMAN: They are not allowed to
charge their customers any more than what the utility
would charge.

There was a discussion as to we need to
further develop that issue, and that's now been
incorporated in the draft order as part of the plan that
the company would file.

JUDGE PRESTEMON: So, as a result, the draft
order provides that when they submit their plan in six
months they will also have an analysis of the cost and
benefits of moving to the 100.

CHAIRMAN BROWN: So, let me be clear about
this. We are going to, at a later time, be voting on
whether to move to the 100 separate -- or approval of
today's O & R order would not indicate agreement that
100 is the proper level at this point in time until we
get more information.

JUDGE PRESTEMON: That's right. You will
have the information in the study done by O&R before you
decide on that change.

The final issue that I am going to discuss
concerns the major storms of 2010, of which you all are
very well aware. The two that primarily affected O&R
were hurricane Irene in August. O&R incurred
approximately $10 million in storm restoration costs as
a result of hurricane Irene. And a major early
snowstorm in October, O&R incurred over $15 million in
costs for that storm.

The JP provides for the recovery of those
costs, in each case over five years. The hurricane
Irene cost recovery to begin this year at 2 million per
year, and the October storm costs to begin -- recovery
to begin in 2013 at 3.1 million per year.

Now, this agreement was reached at a time
necessarily in the proceeding when the staff's ongoing
evaluation of the utility's responses to these storms
were still underway, had not been completed, and I guess
it is still underway now.

So, the joint proposal also said that
nothing in the agreement for the amortization would
preclude the Commission from considering the result of
staff's evaluation of these storms.

As you know, we received comments in the
public statement hearings, particularly in Ramapo, that
expressed very serious concerns with O&R's response,
particularly to the October storm, mainly to the October
storm, from supervisors of the Town of Ramapo, Town of
Clarkstown, town council members, county legislative
members, fire, police, building inspectors. So, there
was a lot of concern about that response.

The order makes it clear that the Commission will still be able to respond to staff's report and adjust this recovery as necessary based on those findings.

CHAIRMAN BROWN: Commissioner Curry.

Let's open it up for comments and questions.

COMMISSIONER CURRY: Judge Prestemon, when you dealt with the incentive pay issue which, as you correctly pointed out, was here before us, did you have the sense that there was enough clarity from the discussions and the back and forth between staff and the utility that the next petitioner who is looking for this kind of tool to incent employees could reasonably progress it to an understanding of what's needed, what staff needs, what the pluses and minuses are?

This is really extraneous to the vote, but this is a matter, I think, of significant interest because I happen to think it's a useful tool in incenting people in getting them to do better at their job.

So, what's your sense of that?

JUDGE PRESTEMON: I was able to understand staff's concerns, and I think the other utilities will,
too. I think staff explained pretty well what it found
to be methodological inadequacies in the studies
provided by O&R.

Now, O&R, as I say, responded that they have
to deal with major consultants who do these kinds of
studies, and those consultants have proprietary models.
They have their companies cooperate with them to give
them information.

COMMISSIONER CURRY: Set up a peer group
situation.

JUDGE PRESTEMON: Right, peer group issues.
You can't just go out and start asking
people what they pay their employees. No one is going
to answer.

So, I'm not sure how it will be worked out
but I think parties will understand clearly what staff
is looking for.

JUDGE HARRIMAN: A little later today you
are going to hear a presentation from Judge Rudy
regarding the National Grid Electric & Gas case. I am a
co-judge with Judge Rudy on that case.

And it appears, from just initial review of
the company's filing in that case, they are seeking
revenue requirements to fund incentive compensation.
On initial glance it looks like some of the concerns that staff had raised in the O&R case have been addressed, at least in the methodology proposed by National Grid.

So, your question was the petitioner. I think the utilities are getting a sense of what staff is looking for as far as the methodological basis to successfully argue for revenue requirement to fund incentive compensation.

National Grid, I believe, is the next case that will come before you that will have that issue. I think, from just review of the testimony thus far, we are on the right track to develop a record on that.

COMMISSIONER CURRY: A question then from a totally different direction.

These are the proposed allowed ROEs. What is the historical in terms of allowed versus earned for ROE?

MR. D'AMBROSIA: Yes, Commissioner Curry. We took a quick look at the preliminary filing the companies made. And in 2008 the Commission approved a three year rate plan for O&R electric. In that rate plan we allowed a 9.4 percent return on equity.
In a filing that O&R made in the fall of 2011, at the end of that term, they reported a return on equity achieved of about 8 percent for those three years.

And on a preliminary basis, we found that the difference between the allowed return, about 140 basis points, was mainly due to the companies' missed forecasts of rate base.

They actually forecasted a much lower rate base than they actually had, and it was primarily driven by two main elements. They had too many deferred tax credits projected and there was an additional rate base missed forecast due to working capital requirements.

So, those were the main elements that drove the difference.

COMMISSIONER CURRY: Thank you.

CHAIRMAN BROWN: Commissioner Acampora.

COMMISSIONER ACAMPORA: During last year's rate case, and also this year's rate case, there were many allegations from customers that the companies' lack of using social media to get information to them was something that really stood out.

So, in the JP, have they made some kind of allowance to improve upon their communication with their
MR. ELFNER: I will take a shot at this, and maybe the judges can refresh my memory on some issues, but there's no explicit provision in this JP on that. However, we have been working separately on an ongoing basis with all the utilities, including O&R, on this issue.

You will see in the storm reports, which will be presented at an upcoming session, that's one of the times when customers are most eager to use newer technologies to get as much information on as timely a basis as they can from the company.

And you will see there that what the utilities have been doing and what staff's recommendations are for continued improvement.

COMMISSIONER ACAMPORA: So, you will be monitoring to make sure?

MR. ELFNER: We will continue.

In fact, absolutely, right. I will be sure I speak with you about what we have learned in the last couple months.

COMMISSIONER ACAMPORA: Because I really feel that with 21st century the technology is there and the customers become very frustrated. So, if you are...
going to make them pay more they should be getting something for what they are paying for.

JUDGE PRESTEMON: I would add that the JP does have a provision to bring their telephone system up to the 20th century. The parties agreed on, in addition to revenue requirement of about --

COMMISSIONER ACAMPORA: I don't even want to go there.

JUDGE PRESTEMON: That should improve the telephone response. When customers called in, as you know, the phones were pretty jammed during these storms.

COMMISSIONER ACAMPORA: Yeah, thank you.

COMMISSIONER HARRIS: Following up on Commissioner Acampora's point, though, which is we will have storm report but there may not be, there may not be an opportunity to actually act upon a recommendation for improving social media at that point.

Is, I mean this --

CHAIRMAN BROWN: I am not sure if it's that capital intensive that -- I think it's more technology intensive -- that as the storm report, I think, will make a series of recommendations for all utilities, not just O&R, to improve the use of new media.

The fact that there's no specific capex --
and I will look at Tom and you guys -- the fact that
there's no specific capex in here I don't think should
act as a barrier to implementation of those sort of
things. If the worse of it is cost intensive we could
use a deferral mechanism.

COMMISSIONER HARRIS: It's not just cost
intensive. It's being ordered to do.

So, we can make recommendations, but if
there's no force and effect to order them, I mean if
this was something that was a major -- I'm just saying
maybe we could put a provision in this JP, following up
on this recommendation, that we need to come back in six
months and see what a plan is, or whatever, I mean in
conjunction with this, to make sure that there's some
sort of ordering clause so that it's a mandatory
provision.

It doesn't have to be cost intensive but
this way it has the force and effect of actually doing
it.

MR. ELFNER: Trying not to get too far ahead
of -- because we do have a plan for this in the storm
reports. All right? We do have a proposal to work with
the utilities to get their information, to evaluate the
information.
And if there is problems, if there is utilities that aren't making best use of these tools for the benefit of their customers, we have a suggestion -- again, not to get too far ahead -- about how to deal with it in that case.

JUDGE HARRIMAN: Adoption of the three-year rate plan right now would not preclude the Commission from taking subsequent action with respect to O&R's use of social media, as part of what Doug Elfner was talking about, the storm response.

There is revenue requirement included in the three-year rate plan to support the company's public outreach activities, as well as the current activities they have. They do have a web based system that they conduct outreach on.

So, the question is what should more specifically be directed of the company with respect to utilization of web based systems. And it sounds like, from Doug Elfner's comments, that that is going to be picked up and addressed as part of the storm evaluation.

So, there is nothing in voting today to establish rates for three years that would preclude the Commission from saying, I want you to do A, B and C with respect to your use of social media. And to the extent
that there's costs associated with it that we have not
foreseen in setting rates for three years you can
address it at that time, but there is money in revenue
requirement right now that supports that kind of web
based system.

And the question is what is the incremental
effect of using more of a social media tool.

MR. ELFNER: And just one more comment,
again, trying to make you comfortable with the approach
here. What we might have thought were best practices
for social media a year ago are dramatically different
today.

So, this is one of the things where we
continue to work with utilities to make sure that the
customer needs are being met in the most effective
manner.

So, we wouldn't want to be prescriptive in
any particular sense. This is the kind of issue, I
think where, as the judges say, we give the utility a
budget and we work with them over the term of a rate
plan to make sure that the budget is spent in the most
prudent way to meet customer needs.

COMMISSIONER ACAMPORA: Is the low income
group included and integrated into the social media
outreach?

MR. ELFNER: I am not -- I can't speak to
that at this time. My off the cuff reaction is --

COMMISSIONER ACAMPORA: To be continued.

MR. ELFNER: -- that generally low income
customers are not the highest users of social media.

CHAIRMAN BROWN: As it has been alluded to,
we are planning a session on storm response. And I
think this would be an appropriate place -- I think
Commissioner Harris' concerns are valid.

Are we missing an opportunity here in this
order to do something that -- but we have had pretty
good luck with the utilities in terms of storm response
and them reacting to our recommendation.

So, we can certainly make sure that we have
a report after we do the recommendations to come back to
us to determine where they are at with these various
initiatives that they are going to undertake pursuant to
the storm report.

Commissioner Larocca.

COMMISSIONER LAROCCA: Just one small item.

There is a footnote, I believe it's on page
30, footnote number 26, that makes reference to an
assumption concerning the development of SIR policy.
And we are still in the midst of that process. So, I think that that footnote might best be removed at this point.

CHAIRMAN BROWN: Which footnote is it?

COMMISSIONER LAROCCA: Make sure I have the right draft. There's been a couple of drafts. I think I have the most current draft. It's page 30, footnote number 26.

Kim, if you would just read it aloud for a moment.

JUDGE HARRIMAN: Sure. The footnote states in reference to allowing the company full recovery of SIR costs, it's footnoted that we do not expect our generic policy proceeding on SIR cost in case 11-M-0034 to impact the recoverability of these costs over the term of the rate plan.

COMMISSIONER LAROCCA: That may develop to be the case, but we don't really know that at this point, so, because we are still in that process, I think it would be best to remove it.

CHAIRMAN BROWN: So, the footnote prediction business, we are going to try to get out of it.

Anybody have a concern with removal of that footnote?
Hearing none, as part of our vote the removal of the footnote will be -- and the subsequent renumbering of the rest of the footnotes.

JUDGE HARRIMAN: And that just other minor movement of paragraphs 25 to 26, both in the paragraph of the order as well as in the ordering clause.

CHAIRMAN BROWN: Any other comments or questions since we kind of just summarized where we are at.

Let's go to a vote then. All those in favor of the recommendations as enumerated by the judges and staff with those two changes that we just noted please say aye.

(Response of "aye").

Opposed?

(No response.)

Hearing none, the recommendations are adopted.

Thank you. Thank you, judges and staff, for all the hard work on that case.

Let's go to item 203, case 12-M-0170, matter of energy utility customer service quality staff reports on 2011, energy utility service quality performance.

This will be presented by Betsy Katz, Consumer Policy
Analyst in the Office of Consumer Policy. With her is Doug Elfner, Director of the Office of Consumer Policy, will be available for questions.

Betsy, thank you.

MS. KATZ: Thank you. Good morning, Chairman Brown and Commissioners.

This item is a summary of the performance of the major electric and gas utilities on measures of customer service quality for 2011. The Office of Consumer Policy presents this information to you each year so no decision is required.

We monitor customer service quality in two ways. The first is to look at the set of measures we call performance indicators, which include standardized measures of customer service that are reported by all the utilities. These are things such as the call answer rate, appointments kept, and adjusted bills.

The second analysis focuses on the utilities' customer service performance incentives, CSPIs for short, which are generally negotiated in the context of rate cases and provide financial consequences for substandard service.

Each utility's CSPI mechanism includes measures for its FSC complaint rate and for its customer
satisfaction service. Other measures may be included to address specific areas where a utility's performance showed a deficiency.

The Commission approves these measures, the specific service quality targets, and the applicable financial incentives in individual rate cases.

Performance incentives help to align shareholder and ratepayer interest by providing potential earning consequences for the quality of service to utility customers.

Every major gas and electric company in New York State has a customer service performance incentive in place. These are aggregate measures of service quality and do not necessarily reflect how utilities have handled individual cases.

We are very pleased to report that for the second year in a row each of the electric and gas utilities met or exceeded the standards for performance on all of the measures of customer service established within their individual rate plans.

Overall, the electric and gas utilities' performance during the reporting period on measures of customer service quality is satisfactory. The service quality incentive mechanisms adopted by the Commission,
coupled with staff's ongoing monitoring efforts, have been effective in establishing customer service quality as a corporate priority, and in ensuring the quality of customer service.

Staff will send a copy of the report to each of the utilities, and we will continue to monitor and evaluate the quality of customer service provided by the utilities, and bring any concerns to your attention.

I would be happy to answer any questions you may have.

CHAIRMAN BROWN: So, thank you.

I will just note that this is for the electric and gas companies, and I am pleased that the response has been positive, that they are meeting their metrics.

I see, you know, there is some differences I can see in some of the charts here of things they do, but they all are within the range. So, obviously, you can always improve.

Any comments or questions here?

Hearing none, thank you for the very nice and brief report for us today. Good news. Thank you very much.

MS. KATZ: Thank you.
CHAIRMAN BROWN: Third item for discussion is item -- we just need a time out. Little technical glitch. We have got a connection issue with New York City, but people can do it by internet.

MR. STOLICKY: Good morning, Chairman Brown and Commissioners.

Item 102 is the gas safety performance measures report for 2011. This is the ninth annual report that examines New York's local distribution companies', also known as LDCs, performance on three areas pertaining to gas safety: Excavation damage prevention, emergency response to gas leak and odor calls, and leak management.

These performance measures are the result of collaborative efforts between staff and the LDCs to identify area that are critical to gas safety. This report is intended to serve as a management tool by allowing for analysis of trends, identification of areas in need of improvement. Overall, the data indicate that LDC performance has greatly improved across the state.

The damage prevention metrics describe the LDC's ability to minimize damages to buried facilities caused by excavation activities, the leading cause of natural gas pipeline failures and accidents, both
There are four components of the damage prevention measure. Damages due to mismarks or inaccurate marking of the LDC's buried facilities, damages caused by company crews and the company's own contractors, damages resulting from third-party excavator error, and damages resulting from lack of notification by the excavator of the intent to dig, also referred to as no-calls.

These four components combined make the overall damage prevention performance measure, which improved six and a half percent statewide during 2011 when compared to 2010. Moreover, there's been a 67 percent improvement in the overall damage prevention program performance since 2003.

As can be seen by the graph, statewide performance has improved over the past several years. Note the blue columns in 2011, all four of the damage components improved. Note the improvement in damages due to no-calls. From 2003 to 2006 statewide improvement was 28 percent.

Since the middle of 2007, all LDCs have participated in an effort to provide staff with details of all damages due to no-calls for possible enforcement
action. Many have reported this to be a beneficial program that has contributed to greater awareness of the one-call regulations and these types of damages are clearly declined, 65 percent since 2006.

I will now discuss the emergency response measure. This measure tracks the LDCs’ ability to respond promptly to reports of gas leaks or emergencies by examining the percentage of calls that fall within various response times. There are three specific response goals.

Responded 75 percent of emergency calls within 30 minutes, 90 percent within 45 minutes, and 95 percent within 60 minutes. Performance improved in both the 30 and 45 minute goals and remained flat for the 60 minute goal.

The blue columns for 2011 performance. For the fourth time since 2003, all LDCs met all four response goals. This progress is due to LDCs adopting more efficient work practices, decreasing volumes of calls, utilization of technology such as global positioning systems to quickly identify the most appropriate employee to respond to emergency notification, and strategically increase employee levels at specific times in order to better respond to
increased volumes or leak and odor calls.

Finally --

CHAIRMAN BROWN: Chris, before you leave that one, let me ask a question on that. Are we setting our targets too low, considering the performance? I mean, if 95 percent is the target for 60 minutes, it's great that they are doing 99.4, but I would hate to see it retreat back to 95 percent.

MR. STOLICKY: Going back to 2003 when we started this collaborative effort with the LDCs, we derived these statewide goals, and actually are derived from our regulations, too, and reporting criteria within those.

But you make a good point because for four years in a row now all companies have exceeded these targets.

CHAIRMAN BROWN: Not just exceeded. I mean really exceeded. Which is great, I mean that's fantastic, it's good news, but it might be time to think about adjusting our targets because it's obviously doable to reach 99 percent. They've done it four, five years in a row, 99 percent.

MR. STOLICKY: I would note that this is the collective statewide performance. There are individual
companies who are much closer to these performance levels than others.

CHAIRMAN BROWN: Something to think about maybe for next year.

MR. DVORSKY: We will do that.

CHAIRMAN BROWN: I am sorry, Chris.

Continue.

MR. STOLICKY: Finally, the leak management measure describes LDCs' performance in effectively maintaining leak inventories, keeping potentially hazardous leaks to a minimum. It measures the yearend backlog of potentially hazardous leaks that require repair.

Performance for 2011 and below. There is a 22 percent decrease for the yearend backlog over 2010. Since yearend 2003, the statewide backlog has decreased 87 percent. The report provides greater detail into individual LDC performance over the past several years.

As LDCs work to eliminate aging infrastructure from the distribution systems through replacement with new material, the number of leaks discovered are expected to decrease.

During 2012, LDCs across the state expect to replace over 300 miles of leak prone pipe. Staff's
analysis of each performance measure identifies specific areas where certain LDCs have room for improvement. We are recommending that those LDCs perform self analyses in the area and identify and report to staff the actions they plan to implement to improve performance.

Thank you, Chairman and Commissioners. This concludes my presentation. I will be happy to answer any questions.

CHAIRMAN BROWN: Comments or questions?

Okay, please.

COMMISSIONER ACAMPORA: How often do you meet with the utilities to discuss best practices?

MR. STOLICKY: We try to meet with the utilities on a quarterly basis. And in those regular safety meetings their performance in the -- in these performance measures are always discussed.

As we learn best practices from other utilities through these meeting we also share those with the companies.

COMMISSIONER ACAMPORA: But is there ever a round table where all the companies come to the table, exchange the information, and then make decisions to go with a possible best practice that one of the other
companies may be leading in?

MR. DVORSKY: Every three years we pull all the utilities, the federal government interaction, to a grant. We hold a lot -- not only the safety indicators, but we hold a lot of other issues and there is a lot of discussion among the utilities as the regulator to have that dialogue.

This development of this -- these metrics were an outcome of a collaborative process. There is also the New England Gas Association and committees that we participate in throughout the year, throughout the years, basically, discuss specific issues. So, there are forums that we hold in a collaborative manner with all the utilities at the table.

COMMISSIONER ACAMPORA: Is there -- like you said, the Northeast Gas Association. Is there also a national group that we participate with also?

MR. DVORSKY: Yes. We are a member of the staff NARUC subcommittee. And also, when the federal government is thinking of new regulations, they usually tap our expertise or our input into the development of any new requirements, or we participated at meetings associated with new regulations or compliance with regulations on the federal or national level.
And we participate as much as possible with the NARUC gas safety subcommittee.

COMMISSIONER ACAMPORA: Since this issue is really on top of a lot of people's thoughts because of horrific accidents that have occurred, I just don't think meeting every three years is staying on top of it.

MR. DVORSKY: We don't -- that's just New York. We do meet also with the New England Association. There is New York representatives that we would have an opportunity to have a sidebar specific meeting. And also the federal government, there's conferences that they hold on specific items that we participate.

COMMISSIONER ACAMPORA: I mean considering the price of gas is at a low point, and it is the choice of many states to use gas more, I really think that it's an issue that needs to be -- we need to be on top of it.

MR. DVORSKY: Absolutely. It's very, as you know, a growth and conversions and newer franchise areas, initiating a whole new gas expansion initiative to control or also look at our policies to review how we could facilitate good gas expansion in our state.

Chris, did you want to add?

MR. STOLICKY: There are two other forums. You mentioned the Northeast Gas Association, which we
refer to as the NGA. They do hold regular operation level personnel meetings that we attend. Those happen pretty quarterly, on a quarterly basis.

In addition, there is a national group called the Common Ground Alliance. That's made up of both the utility representatives and people from the regulatory side. And we have a member of our staff actually was co-chair on the board of that at one point in time.

MR. DVORSKY: Actually he was recognized for a national award in his participation in that Common Cause initiative.

COMMISSIONER ACAMPORA: So I think maybe it might be a good idea, I'm speaking for myself but I think my colleagues might be interested, could we get more of that information after those meetings are held so we are aware of what's going on?

MR. DVORSKY: Absolutely.

CHAIRMAN BROWN: Let me build on Commissioner Acampora's -- one of our tools in our tool box is our Section 25 enforcement tools, so when there is a penalty we, under Section 25 of the Public Service Law, we have some options in terms of penalties.

I know counsel's office, in light of the
concern over gas safety and more the flashlight kind of shining on the issue, so, I was just going to ask Peter for a second to kind of describe what's happening in that realm.

MR. MCGOWAN: Gladly. And I think it's worth observing that the existence of this report today, and the ninth annual, kind of underscores the important role that the department and the Commission gives to ensuring that the gas systems are being maintained and operated in a safe manner.

So, safety is absolutely of critical importance, and for the reasons the Commissioner was just expressing it's only becoming more so. In light of all those things, we undertook a review about the scope of our enforcement authority because our enforcement authority, penalty enforcement authority under Section 25, is an important means by which we encourage compliance with statutes, Public Service Law, orders and regulations.

Pursuant to Public Service Law 25(1), each utility or gas pipeline company is required to comply with, among other things, the Commission's regulations, very detailed and comprehensive set of regulatory requirements, including safety and HEFFA regulations.
When such violations occur the department may seek a penalty under Public Service Law 25(2) or if the violation results in and contributes to a serious injury or death under Section 25(3) it may also pursue enhanced penalties.

In the past, and in response to a 1984 trial court decision where a violation of these regulations occurs, but the violation has not resulted in a serious injury or death, the department has declined to seek a penalty under Section 25(2).

The department has recently reviewed this practice and has determined that it should no longer decline to seek these penalties.

The department regards compliance with safety regulations as an important element in ensuring safe and adequate service. A violation of these regulations may result in substantial property damage, or pose significant risk to the public even though there was not an actual injury or a death.

Further, in many instances, the utility or pipeline company is solely responsible for the violation, and the only entity which could have prevented its occurrence, and in some cases the violator may have a prior history of safety violations.
In circumstances such as these, the public interest requires as complete a regulatory response as the Public Service Law allows. Accordingly, in these circumstances, it may be appropriate to seek a penalty under Public Service Law Section 25(2), and in the future the department may choose to do so as we monitor compliance.

So, this is a new thought that we have. We wanted to communicate it today and we plan to communicate this in the letter that is sent to the utilities transmitting the report that was provided to you today.

COMMISSIONER ACAMPORA: Thank you.

CHAIRMAN BROWN: We shouldn't have to wait for injury or death to potentially, at least, penalize somebody that is habitually making mistakes.

Anyway, Chris, thank you.

Any other comments or questions for Chris?

Thank you, again. This is a good news story. What's happened over the last seven, eight years is really very positive.

So, thank you and your crew and the folks for working this issue so hard. We can keep the commissioners up to date on things that are happening
here. And I think Peter's idea is an important one.

So, thank you very much.

The next two items are items that we started
this process a little while ago. It's to provide the
Commission with a couple of new proceedings that are
happening, new filings early on, to be able to have you
review what the filings look like, and if you have
issues that you are going to want considered as part of
the process, it's better to find that out early rather
than later.

So, these are both opportunities. In both
cases we are going to be describing what was filed, not
opining on the filing. That's not our job yet. So,
this is just more of a description of what it is that's
been filed with us.

The first one is cases 12-E-0201 and
12-G-0202, proceeding on motion of the Commission as to
the rates, charges, rules and regulations of National
Grid to increase its annual revenue for electric and gas
service.

And this case is being overseen by
Administrative Law Judge Rudy Stegemoeller, and once
again, Kim Harriman, in the Office of Hearings and
Alternative Dispute Resolution.
I believe Judge Rudy will be leading off. Judge.

JUDGE STEGEMOELLER: Thank you. Good morning.

We have an electric and a gas case and we are conducting them in tandem, although they are two separate cases. The last time the Commission voted on electric rates for Niagara Mohawk was January of last year, 2011. The last time that you voted on gas rates was all the way back to May of 2009.

So, this is just the overview of the electric increase. You can see its revenue requirement is increased by approximately 7 percent. At the same time, a deferral recovery surcharge that is currently in rates falls out automatically on March 31st of next year. So, the result of what the average residential ratepayer sees is a 2.1 percent decrease.

Now, just to refresh your memory on that deferral surcharge, in the last rate order in January we discussed the CTC, the competitive transition charge, which was scheduled -- I won't get into dates.

The CTC fell out of rates at the end of 2011, and the decision had been made to postpone the recovery of the other deferrals until the CTCs fell out.
So, those are being recovered on a 15-month basis and that's why they are there and that's why they will disappear on March 31st.

Here is just a summary of the major drivers for electric. That O&M number obviously is net of a lot of factors. There is a large decrease in benefit expenses, and that is offset by increases across a wide range of O&M categories.

Obviously, the largest driver here, the dominant driver, is the last one there, return on rate base. Of those 96 million, 24 million are attributed to an increase in the actual size of the rate base; 15 million are tax related, and that leaves about 57 million that are attributed to an increase in the return on equity and increase in the equity ratio.

The approved -- the allowed return on equity from the last case was 9.3 percent. The company has filed for 10.55 percent in this case.

Here you have the gas rate increase. Again, the base revenue requirement has increased 24.5 million. There are ratepayer credits, otherwise known as regulatory liabilities, that will be basically accounted for over a three-year period, which brings that annual amount down by 14.1, resulting in a net increase of 10.4
increase. So what the average residential customer will see is a 2.3 percent increase.

CHAIRMAN BROWN: Judge, in their filing, the 10.55 and maybe -- I see John Scherer behind you perhaps -- in the filing, how do they justify 10.55? Is it a formulaic approach that they take?

JUDGE STEGEMOELLER: I am not going to answer that question because I don't know. I mean unless you want to tackle it. I certainly --

CHAIRMAN BROWN: I can find out. I was just wondering exactly how they came to that number.

JUDGE STEGEMOELLER: We just haven't got to that.

MR. SCHERER: Chairman Brown, I'm not familiar with this particular filing, but generally utilities, they retain consultants to testify on behalf of them as to what an appropriate rate of return is. Some of them comport to the rough framework of the generic finance approach that we use here routinely.

Others try to employ other methodologies, such as comparable earnings and other approaches. But they do this through outside consultants and they commonly testify for a return that's well in excess of what you typically award.
CHAIRMAN BROWN: Maybe at some point offline somebody could provide that information.

MR. BOUTEILLER: We can give you a recitation of the kinds of approaches employed by this consultant to file for an earned return or allowed return higher than what the Commission has filed. In my experience as Administrative Law Judge we see this kind of difference. That's the kind of difference that you will have to address at the end.

CHAIRMAN BROWN: I know this isn't that unusual. I was just curious what the basis was.

MR. BOUTEILLER: We will provide you the basis for that.

CHAIRMAN BROWN: Thank you.

JUDGE STEGEMOELLER: These are the major drivers on the gas side. Unlike electric, there is no real dominant factor here.

The return on rate base is relatively a smaller contributor here largely because, again, the last gas order was 2009 and the allowed return on equity there was 10.2 percent. So, you don't have the same size increase in return on equity. This is just to give you an idea of the trends in capex. For electric it's up three percent in
the rate year, and then in the following three years it continues to increase at a gradual level.

Gas is up substantially in the rate year and then it levels off in following years. And that substantial increase is largely, I think -- again, everything I say is tentative right now -- but largely caused by response to safety rules.

And this is --

COMMISSIONER CURRY: Excuse me, Judge. Was that revised safety rules or existing safety rules?

JUDGE STEGEMOELLER: The safety rules are in flux. I know at the federal level there is process underway. Again, I hate to get into details unless I feel intimately familiar and I'm not.

COMMISSIONER CURRY: Keep moving, right, okay.

JUDGE STEGEMOELLER: Electric bill impacts, again, this is what the customers will see. The parentheticals are the reductions that will result from the existing surcharge falling out.

So, under each of those columns, the number on the left, not in parentheticals, is the sort of absolute increase in the revenue -- not the revenue
requirement, but the bill impact the customer would see. And the parenthetical on the right reflects the decrease that is the net after the deferral surcharge falls out. Obviously, there are numerous customer classes and these are just a representative sample.

Same thing for gas bills. The middle column, commodity, that's -- those are just the companies' forecasts. That's not something that we will be acting on. Some anomaly there with the large C&I, and I believe, but I'm not sure, that that just reflects a reassignment of certain cost categories out of delivery and into commodity.

CHAIRMAN BROWN: I think one thing I'm going to be interested in when we make our way through this is what the assumptions were there on commodity. I know this is not binding. I know they are just guesses, but what was the base number that they were working off of.

I think we have seen recently in a couple of cases some older gas numbers that were considerably higher that made its way through a rate case, and when we were looking at the commodity cost we were kind of off from where reality was.
So, it would be what the assumptions were that underlies that part of it, because obviously the gas bill impact is -- delivery is what percentage of gas bills?

MR. DVORSKY: Since the gas has been coming down, probably around 40 percent, 50 percent range.

CHAIRMAN BROWN: 40 to 50 percent.

MR. DVORSKY: It used to be a higher range in '08.

CHAIRMAN BROWN: So what -- this real impact on customers is going to be very dependent on where the commodity is and is going.

MR. DVORSKY: Right. We will try to do a bill impact, when it gets to the Commission we will try to update the commodity in terms so the customer at that time will get the sense of what the true impact is.

CHAIRMAN BROWN: It can go the other way.

MR. DVORSKY: I understand.

CHAIRMAN BROWN: If they came up with a real low forecast, so that's why I would be curious.

JUDGE STEGEMOELLER: This is the final slide, somewhat daunting slide, but just want to try to catch up on everything involved with this issue.

If you remember from the last time around --
well, I'll start from the top. The management audit that preceded the last rate case recommended a number of recommendations to formalize the relationship between the service companies and the other Grid subsidiaries.

Then, in the 2011 order, the Commission adopted $50 million on a temporary basis due largely to the difficulty of analyzing the allocations and the historic normalizations that were in the companies' case.

The Commission also cautioned the company that the Commission expected the next rate case to be delivered in a form that would be more amenable to staff review.

So, a number of things have happened in the meantime. The Liberty audit was -- that was undertaken independently by the company while the last case was -- last electric case was still pending.

The Overland audit, that is undertaken with -- that's the audit that is looking at the $50 million in temporary rates. That is happening in a different docket. Technically it doesn't necessarily have anything to do with this case, at least to the extent that it's looking retrospectively at the cost allocations from the previous case.
We do expect the Overland audit to include recommendations as well and we haven't seen those yet.

COMMISSIONER CURRY: Do you anticipate having those recommendations prior to this process getting to --

JUDGE STEGEMOELLER: We certainly don't know. There may be someone else here who can answer that question. I think there are.

COMMISSIONER CURRY: I will follow through.

CHAIRMAN BROWN: That's a question we would all be interested in, the timing. We don't expect you to answer.

JUDGE STEGEMOELLER: We have been told to expect that they will be done certainly before the Commission votes on this case, but exactly when that is, we don't really know.

March 2012, the company filed new allocation formulas that had been developed for it by a consulting firm. Then in October of this year those allocation formulas go into effect as part of the US Foundation Program where the platforms were -- part of the confusion had come from the fact that the KeySpan companies and the upstate companies had been on two different software platforms, and those will be unified
in October 2012.

The Ernst & Young audit is something that
the company undertook independently for this case. They
asked Ernst & Young to -- I believe the companies were
to scrub this filing for mistakes in allocations, and in
normalizations. And so that is presented in their case
essentially as a form of expert testimony in support of
the filing.

And that all culminates with the staff
review. The company says that it has met the
Commission's expectations, that it's filed a case that
allows a thorough and comprehensive review by staff, and
the staff review is going on as we speak.

They got off to a fast start. Discovery was
well underway by the time we had our initial conference.
We have a litigation schedule that -- we have an
11-month litigation schedule that provides time for
negotiation, and that's where we stand.

JUDGE HARRIMAN: We anticipate the company
filing its updates in July with intervenor and staff
testimony in August, evidentiary hearings to start
October 23rd. And the parties have built in enough time
between the submission of rebuttal testimony and the
commencement of evidentiary hearings to have hopefully
fruitful discussions and negotiations.

We are on track to meet the statutory 11-month window to bring a final recommendation for the Commission for action before the end of the suspension date.

COMMISSIONER HARRIS: Which is when?

JUDGE STEGEMOELLER: End of March 2013.

CHAIRMAN BROWN: Commissioner Curry.

COMMISSIONER CURRY: Quick question. Do you -- the allowed rate of return in the last case, do you know what the earned rate of return was?

JUDGE STEGEMOELLER: The companies' testimony -- I don't have the numbers right in front of me, but Mr. Dailey's testimony shows relatively low earned returns for the last four years in the range of four percent.

CHAIRMAN BROWN: Both electric and gas or is that just electric?

JUDGE STEGEMOELLER: It's for both.

JUDGE HARRIMAN: Combined. But Mr. Dailey breaks it out between gas and electric.

And I think, Commissioner Curry, what we don't have or part of the development of the case will be maybe an analysis of why there is a departure. So,
as Mr. D'Ambrosia provided you a reason for the O&R case, I think that is one of the issues that will be hopefully teased out in the record in this proceeding.

COMMISSIONER CURRY: Thank you.

CHAIRMAN BROWN: Anything else that you want to get on the radar screen at this point in this case?

Hearing none, thank you, judges.

And the fifth item for discussion today -- again, this falls into the category of preview -- a joint petition for Fortis, Inc. and CH Energy Group for approval of the acquisition of CH Energy Group, Inc. by Fortis, Inc. and related transactions.

This will be presented by Administrative Law Judges Howard Jack and a second appearance by Dave Prestemon in the Office of Hearings and Alternative Dispute Resolution.

So, Judge Jack, if you are ready, tell us about this case.

JUDGE JACK: Thank you, Mr. Chairman, commissioners. Good morning.

This case, as you indicated, involves the petition for Fortis, Inc. to acquire CH Energy Group, Inc., including Central Hudson Gas & Electric Corporation.
Fortis is a holding company headquartered in St. John's, Newfoundland in Labrador, Canada. I think that's probably the farthest -- the easternmost capital of any state or province in the northern -- in the western hemisphere. Not sure about South America.

It has 18 employees, only 18 employees, and its subsidiaries operate on a standalone basis. Fortis is the largest Canadian investor-owned distribution utility holding company. It has regulated electric distribution utilities in five Canadian provinces and two Caribbean countries.

It has a regulated gas distribution utility in British Columbia, and more than 2 million customers of cost of service regulated electric and gas utilities. And including its subsidiaries it has a total workforce of around 4700.

Its subsidiaries also include non-regulated electric generation commercial real estate and hotel assets. Most of those are outside the US and in Canada and the Caribbean. It has four small hydro generating facilities in upstate New York.

If we look at the transaction that's proposed, Fortis would purchase all, which is approximately 15 million, shares of the outstanding CH
Energy Group shares at $65 a share. So, this would be an all cash deal.

It's represented as being principally financed from the issuance of Fortis common stock, although there are also statements in the filing that say that would be financed with a combination of debt and equity consistent with Fortis' long term capital structure, which is not that much more heavily weighted toward equity than debt.

Fortis would also assume 500 million in Central Hudson debt. CH Energy Group merges with an acquisition subsidiary of Fortis, with CH Energy Group as the surviving entity as an indirect Fortis' sub as part of this transaction. And CH Energy Group is scheduled to have a shareholder vote next Tuesday, June 19th.

Post closing, the Fortis and Central Hudson corporate structure would look something like this. At the top there would be Fortis, Inc., which is a publicly traded Canadian company on the Toronto stock exchange.

Below Fortis, there would be various subsidiaries that are the Canadian and Caribbean subsidiaries with regulated utilities, hotels, commercial real estate, non-regulated generation in both
Canada and Belize.

And then parallel to that there would be a company known as Fortis US Holdings Nova Scotia Limited, which, as indicated, is a Nova Scotia company, and it's wholly-owned by Fortis, Inc.

Below that would be Fortis US, Inc., which is a wholly-owned Delaware corporation. And below Fortis US Inc. would be Fortis Energy Corporation which owns the hydro generation in New York State.

And then parallel to that would be CH Energy Group and its subsidiaries, Central Hudson Gas & Electric Corporation, Griffith Energy Services and Central Hudson Enterprises Corporation. Those are all current subsidiaries of CH Energy Group.

Taking a look at Fortis' financials now. Fortis went on US GAAP as of January 1st of this year. However, I should note that that is under a three-year exemption from a Canadian requirement to use International Financial Reporting Standards.

Fortis went on US GAAP because of a lack of provisions in the IFRS for rate regulatory accounting. They are hoping that there will be some resolution of that IFRS lack and an SEC determination on the future of US GAAP by January 1st of 2015 when that three-year
exemption will be up.
Fortis' assets, it has a total of 14.2 billion. Of that, its regulated utility subsidiaries represent about 12.9 billion. Fortis had 2011 operating revenue of 3.7 billion. Its common equity is about 6.1 billion, and long term debt is around 5.8 billion. It has 2.2 in outstanding credit facilities. 1.9 billion of that was unused as of December 31st of last year.

Fortis' ratings are -- under S&P are A minus and on the Dominion Bond Rating Service it has an A low rating.

Looking at CH Energy Group's financials, it has assets of about 1.7 billion. Its 2011 operating revenue was 988 million, and had net income of 45 million. 97 percent of that was from Central Hudson Gas & Electric.

The consolidated common equity for CH Energy Group is 506.7 million. Consolidated long term debt is about 494 million. Now, audit and finance reports also that, as of March 31st, CH Energy Group and -- on a consolidated basis with Central Hudson, had preferred stock of about 21 million. That's been reduced by about 12 million since then to about 9 million.

We don't know how much of that is taken out
by debt, but probably most of it, which would mean that
the consolidated capital structure is pretty close to 50
percent equity and 50 percent debt now.

On the ratings, CH Energy Group is rated A
by S&P, A by Fitch and an A3 by Moody's. After the
announcement of the proposed acquisition, Fitch and
Moody's ratings were confirmed, but S&P placed it on a
credit watch pending consummation of the merger and
seeing what kinds of conditions might be imposed on it.

And I'll turn over the rest of the
presentation to Judge Prestemon.

JUDGE PRESTEMON: Thank you.

As Judge Jack indicated, Fortis is a pure
holding company with only 18 employees. It buys utility
properties and owns them for appreciation. It is an
investor -- it describes itself as an investor, not an
operator.

In real estate terms, you could say that it
seeks out prime properties, not fixer uppers. It has a
portfolio of what it considers to be valuable utility
properties. Its business reasons for acquiring Central
Hudson are that it sees Central Hudson as a very well
run utility.

Central Hudson is subject to cost of service
regulation of the type that Fortis is familiar with in
Canada and its other properties. It gives the company
further jurisdictional geographic diversity. This would
be its first distribution utility owned in the United
States. And it sees Central Hudson as presenting an
opportunity for long term organic growth in the Hudson
Valley area.

Fortis, in their filing, they freely admit
that they have attempted to address all of the concerns,
or as many as they can find, of the concerns that have
been expressed by the Commission in recent acquisition
decisions. They say if you made a list they tried to
check off every box.

And the first concern, I guess, is that the
acquisition do no harm. And in this regard, Fortis
emphasizes its business model, which is standalone
utility operation.

It does not run the utilities itself. It
does not have separate shared services' entities that
raise cost allocation issues. It will have -- it will
provide that the majority of the directors of Central
Hudson, and a majority of the board of directors' audit
committee, will all be independent directors,
independent of Fortis.
Its proposal states that the current management and staffing levels will be retained for at least two years. The Central Hudson name will be retained and the headquarters in Poughkeepsie will be maintained.

Other local commitments include their commitment to continue the IBEW contract applicable to the utility. They will continue existing employee benefits for at least two years.

They will maintain the current level of contributions, charitable contributions and committee involvement investments made by Central Hudson for at least five years.

And, in addition, Fortis will make a one-time contribution of $5 million from its shareholders for low income economic development, energy efficiency, and similar community benefit programs in the Central Hudson service territory.

This actually gets us into the positive benefit adjustment realm. This could be considered the first of their offers in terms of positive benefit adjustments.

A second major issue for the Commission has been the maintenance of the financial integrity of the
utility, obviously. And here it's clear that Fortis is aware of the issues that have been raised in recent cases.

They state that there will be no consideration of goodwill or acquisition costs in rate base, or in the determination of rates whatsoever.

There will be no Fortis or Central Hudson cross default divisions in any financing instruments affecting Central Hudson; no pooling of money with other entities other than regulated US utilities.

And they are agreeing upfront to create a new class of preferred stock type that's been referred to as the golden share, the one vote that can prevent the directors from voting voluntarily to put Central Hudson in bankruptcy. They also agree to comply voluntarily with Sarbanes-Oxley.

The benefits that could be described as related to the transaction itself are some synergistic cost savings.

Fortis identifies its insurance coverage and says that by combining Central Hudson under its coverage there will be savings, and there will also be savings from -- security and compliance costs will be lowered for Central Hudson itself.
They guarantee, whether they achieve it or not, that $2 million in savings will be credited to ratepayers each year for five years as credit against revenue requirement regardless of whether the savings are actually achieved. So, this is an additional positive benefit adjustment.

The other transaction-related benefit they mentioned is that Central Hudson will now have ready access to equity capital for Fortis with substantial transactional cost avoidance in raising that capital.

Some other ratepayer and public benefits they note from this -- from the transaction are offered as a part of the proposal. Fortis would freeze Central Hudson rates for one year beyond the expiration of the current rate plan, which expires June 30, 2013.

So, rates would be frozen through June 30, 2014. This is in addition to the $2 million per year credit. So there would actually be some rate reduction.

All reliability, safety, customer service, low income, outreach and education, and RDM provisions of the current rate plan would be continued for that period.

New net plant, they would continue the reconciliation mechanism for net plant. They propose
that at the end of 2013 there would be new net plant targets put into effect as a result of collaboration during the year with staff and interested parties.

An additional benefit for ratepayers would be a modification of the sharing mechanism that's currently in place. Fortis would agree to eliminate the dead band, so that if as a result of any synergy savings or other savings achieved as a result of the acquisition earnings at Central Hudson increased beyond allowed return they would be immediately shared with ratepayers without any dead band for shareholders, and all the sharing level bands would be correspondingly reduced. So you would more quickly get to the 75 percent and 90 percent sharing levels.

And finally, another positive benefit adjustment is that Fortis agrees to write off $5 million in regulatory assets currently on the Central Hudson books for the benefit of ratepayers.

On the issue that is always present in these cases of vertical market power, Central Hudson owns a small amount of generation that they were allowed to keep as part of their restructuring. It's 63 megawatts. It is all east of the central east, total east constraint.
The generation owned by Fortis in the US is about 23 megawatts of run-of-river hydro which is all west of the central east, total east constraint.

Fortis argues in their filing that there is nothing that Central Hudson can do to benefit Fortis generation west of the constraint without benefitting everybody who is west of the constraint, and that the location, size, and size of the generation involved generally presents no material risk of any exercise of vertical market power.

That is the extent of the filing. As far as where we are, we have had a prehearing conference or procedural conference with the parties at which we received all this information in a technical presentation by the company.

We have established a schedule that requires the parties by June 27th to report to us on their progress in discovery. And with that report, we will establish a schedule for further proceedings, which will include receiving comments from all interested parties.

And there is no evidentiary hearing required. As you know, in the case, it's a Section 90 under the Public Service Law but a hearing may be held if there appear to be issues that require it.
That is something we will determine depending on the comments we receive later.

Sorry. Section 70.

CHAIRMAN BROWN: Thanks. I got a couple areas that I'd like exploration. We could go around the table. I think one of them I'm going to hit is one that Commissioner Larocca's convinced me of, which is, I heard about -- I think I heard boards in Newfoundland, Nova Scotia, Delaware and New York.

And the real obvious question that jumps out is where is the decision making going on? Who has got supremacy and final decision making here? How does that whole relationship work.

Don't need an answer today. It just is something that I would like to have explored during the process so we have an understanding if this new owner comes in -- obviously this is related to things we've seen with management audits of other companies that have been bought by larger organizations, and there being at least some confusion on where the real decision making process lies.

So, I think it's something that we are going to need to explore to gain a little bit of comfort level here.
The other one that I just wanted to know more about during the process is this is an electric and gas company. I have no clue whether -- what their experience is in gas companies, whether they are Canadian assets or combined assets.

Occasionally we have seen gas companies be the stepchild of the organization, and with the importance of natural gas in New York's future -- not talking about fracking, just talking about commodity and low prices -- I think it's going to be important that there remains a commitment to the gas company and just would like to know more about Fortis' experience in running gas companies.

JUDGE PRESTEMON: I can give you a little on that. They own a major gas distribution company in British Columbia and they did emphasize in their presentation to us that they are experienced in both gas and electric distribution utilities.

CHAIRMAN BROWN: As Tom Dvorsky alluded to earlier, I think there is going to be an interest in at least exploring expanding gas franchises, and getting it to new customers that currently don't have access to it.

And perhaps part of this process could explore that as well for Central Hudson, which I think
has some opportunities from some major pipelines going through it. That's it for me.

Commissioner Curry.

COMMISSIONER CURRY: Just following along the same approach from a management standpoint. It has been pointed out that they only have people at headquarters and the rest are operating units, yet at the same time they perhaps deserve, certainly have asked for credit, for running an 800,000 customer gas distribution company in British Columbia.

So, in looking at experiences such as we have seen in other foreign takeovers, sometimes there has been a co-chief operating officer appointed, some person from the host or the owning entity, one from the local delivery company.

What has been the experience -- obviously I am not asking you this question, say, from an exploration standpoint. It goes back to Commissioner Larocca's point, which I share, where does the buck stop in terms of decision making? How is expertise shared among the portfolio companies?

Do they loan people out? Do they fly them in for the day? Do they have a systematic way of sharing the expertise of the different delivery
companies that they currently own with this new
acquisition here in the states?

I guess a subset of that is some portion of
the ultimate report that would be helpful to know the
major ways the Canadian regulatory scheme conforms with
what we do here in New York and where it differs from
what we do here in New York.

Because, again, we have the experience of
dealing with an acquirer who had a totally different
regulatory experience and the addition of New York
hasn't changed their visceral reaction to how a
regulatory contract, if any, or compact, if any, is
observed.

So, I think some sense, if you can derive it
from testimony, as to how folks regulate in Canada.
I've had some experience with the Ontario Securities
Commission, which is vastly different from the SEC, but
it controls the Ontario Stock Exchange.

There are sometimes pointed differences and
sometimes there's a lot of similarities, so, to the
extent that you can adduce that in testimony it would be
helpful.

JUDGE PRESTEMON: I can respond a little bit
about one of your points. The company did emphasize in
its presentation that they have -- part of their
business model is a sharing of expertise among all of
their utilities. I didn't list that as a benefit but
that is one that they point to.

COMMISSIONER CURRY: I would just like to
know how they do it.

COMMISSIONER ACAMPORA: In piggybacking on
Commissioner Curry, because their companies are spread
out throughout Canada and they are various provinces
which has different regulators, and the fact that they
also have a company I think in the Caribbean, is it?

JUDGE JACK: Yes, in the Turks and Caicos
and in Belize. They no longer have a utility in Belize
but they do own hydro generation there.

COMMISSIONER ACAMPORA: I think that I would
be interested in seeing how they do deal with the
various regulators, what their reputation is as far as
compliance with regulators in these other areas.

CHAIRMAN BROWN: Commissioner Harris.

COMMISSIONER HARRIS: Judge Prestemon, you
had mentioned about the synergy savings and the
projections that the company had proposed relating to
insurance and securities compliance.

Was that it for synergy savings?
JUDGE PRESTEMON: That's it. That's it as far as their filing is concerned.

JUDGE JACK: They maintain that that's because of their lack of shared services and the fact that the companies are run on a standalone basis.

JUDGE PRESTEMON: They say they expect that the sharing of expertise among their various utilities should help Central Hudson.

COMMISSIONER HARRIS: To that end, I would like to explore the possibility of beyond two years a workforce reduction, especially with senior management and those with significant expertise and that would offset the shared experience of the other companies.

I just want to explore that possibility. Since there is a commitment for two years, if they have any projections for beyond.

CHAIRMAN BROWN: Commissioner Larocca.

COMMISSIONER LAROCCA: Just following on the synergy question, in transactions that we have seen here and elsewhere, the synergy calculus is always an important one because it's often offered as translating into a direct and immediate benefit in the product or service that's provided.

If you can knock out all kinds of overheads
by combining them with others your bottom line looks better. That seems not, at least at this phase of things, to be a major part of the rationale for this transaction.

I am not quarreling with that. I'm just observing, based on what you said. There is not a big number associated with it, apparently.

The ultimate question for us is how -- if and how this is in the public interest. And when you look through the inventory of measures that you might examine to determine public interest, we are at a starting gate here where one of those is di minimus, apparently, in terms of what it might translate to to rate effects.

So, I just want to emphasize that in any transaction like this, but especially given our experiences now where distant ownership has been part of the picture, that the public interest test is the ultimate test, and it should have as much flesh on it as we can possibly understand in the application process.

I think the way it works is there are pluses and minuses to any proposition, but at the end of the day you all will make a recommendation that represents a netting of equities and balances and so forth.
I would want and hope that this process will produce as much particularity as possible. Exactly how would such a transaction be in the public interest. Needs to be more than intuitive. Needs to be more than goodwill. Give us as much as you can find in this record that you will create.

A second issue very much on my mind is the governance issue, and you are attentive to that already, and it's one we have examined and continue to examine in other contexts. I don't think we offer a model of what that governance needs to look like, but we should look very critically at what is being offered and whether and how it works.

You heard that a little bit from my colleagues. And ultimately how it fits into a public interest rationale. Instinctively, if we were to see governance as moving away from this geography we would want to know why, and whether that's a good or a bad thing for the people who are served by a particular company.

So, it's part of the public interest analysis, but our experiences have been that we have learned a lot about how these mechanisms work in these international arrangements. And so we will look
particularly at that in this case, with no prejudice,
but knowing that it's an important part of the
examination, at least for this commissioner.
Thank you.
CHAIRMAN BROWN: Any other comments or
questions?
COMMISSIONER ACAMPORA: One more.
CHAIRMAN BROWN: Commissioner Acampora.
COMMISSIONER ACAMPORA: You said previously
that they abided by Sarbanes-Oxley?
JUDGE PRESTEMON: They are agreeing to
comply voluntarily with Sarbanes-Oxley.
COMMISSIONER ACAMPORA: So what accounting
practices are they using presently?
JUDGE PRESTEMON: I believe they stated that
they are accounting in a manner that complies with
Sarbanes-Oxley.
JUDGE JACK: I believe CH Energy Group
currently has to comply with Sarbanes-Oxley, and they
would continue then to do it on a voluntary basis even
though they would no longer be a publicly traded
comp any.
CHAIRMAN BROWN: Maybe along the process we
need to understand exactly how that works as well.
COMMISSIONER ACAMPORA: Exactly, because that's the question we've asked previously in other cases and somehow it has not worked out.

COMMISSIONER CURRY: So the proffer is to maintain the accounts of the operating subsidiary pursuant to Sarbanes-Oxley, but not to incorporate its provisions at the holding company level; is that right?

Do I have that right or is it an exact --

JUDGE JACK: As far as we know. I mean we have relatively limited information based on --

CHAIRMAN BROWN: Why don't we just put it on the tick list of things we are going to want to understand along the way.

Good. I think this was extremely useful in terms of getting to the judges some of the considerations that the commissioners are going to have when we have to make a final determination. Hopefully get a more fulsome record along the way.

So, there is no action necessary on this item.

So, thank you very much, judges, and good luck in this proceeding.

Madam Secretary, is there anything further to come before us today?
SECRETARY BRILLING: There is nothing further today. The next regularly scheduled session will be held July 12th here in Albany at 10:30 in the morning. And there will be a special session to be held here in Albany on June 28th, that is a Thursday, at 10:30 a.m.

CHAIRMAN BROWN: That will be to review all the storms-related issues and some other service quality information about responses. So, that will be June 28th.

I think we are ready to adjourn. So, this meeting is adjourned.

(Meeting adjourned.)