CH Energy Group, Inc.
Central Hudson Gas & Electric Corporation

December 15, 2004

Hon. Jaclyn A. Brilling
Secretary
New York State Public Service Commission
Three Empire State Plaza
Albany, N.Y. 12223-1350

Dear Secretary Brilling:

Re: Case 00-M-0504: Statement of Policy on Further Steps Toward Competition in Retail Energy Markets

Enclosed is an original and fifteen (15) copies of Central Hudson's Plan to Foster the Development of Retail Energy Markets ("Plan") being filed in response to the Order issued in the above referenced proceeding on August 25, 2004.

The Plan was prepared in collaboration with Staff and other interested parties over a period of several months.

Copies are being served on all parties who were active in the collaborative process and all those on the service list for case 00-M-0504.

Questions related to this filing should be directed to Michael F. Voltz at (845) 486-5317.

Yours very truly,

Arthur R. Upright
Senior Vice President
Regulatory Affairs,
Financial Planning and Accounting

cc: Service List with enclosure (via e-mail)

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Proceeding on Motion of the Commission
Regarding Provider of Last Resort Responsibilities, **Case 00-M-0504**
The Role of Utilities in Competitive Energy Markets
and Fostering Development of Retail Competitive
Opportunities - Statement of Policy on Further
Steps Toward Competition in Retail Energy Markets

PLAN TO FOSTER THE DEVELOPMENT OF RETAIL ENERGY MARKETS

Dated: December 15, 2004

CENTRAL HUDSON GAS & ELECTRIC CORPORATION
284 South Avenue
Poughkeepsie, N.Y. 12601

December 15, 2004

CENTRAL HUDSON GAS & ELECTRIC CORPORATION

Case 00-M-0504 - Proceeding on Motion of the Commission Regarding Provider of Last Resort Responsibilities, the Roles of Utilities in Competitive Energy Markets, and Fostering the Development of Retail Competitive Opportunities.

PLAN TO FOSTER THE DEVELOPMENT OF RETAIL ENERGY MARKETS

On August 25, 2004, the Commission issued its Statement of Policy on Further Steps toward Competition in Retail Energy Markets in Case 00-M-0504 (Statement of Policy). Ordering clause number 1 states that "the utilities shall prepare plans to foster the development of retail energy markets in collaboration with Staff and other interested parties, as discussed herein".

Central Hudson Gas and Electric Corporation (Central Hudson or the Company) began a collaborative process with Department of Public Service staff (Staff) and interested parties, including many energy service companies (ESCOs), in June 2004 as part of its Joint Proposal for Rate Plan Modification[1] approved by the Commission at that time. Based on discussions with Staff and other parties, the Company agreed to continue the collaborative process to fulfill the Commission's Statement of Policy.

Background

To date, the Company has not experienced significant levels of customer migration. Those customers who have migrated tend to be large users, resulting in a significant portion of overall annual sales being provided by competitive suppliers. As of December 1, 2004, the following numbers of customers are buying from ESCOs, along with the associated percentage of annual sales:

[1] Cases 0-E-1273 and 00-G-1274 Order Modifying Rate Plan Issued and Effective June 14, 2004.

	Customers	Percent of Annual Sales
Electricity:	1,829	17.9%
Gas:	1,242	13.1% [2]

This low customer penetration can be attributed, at least partially to relatively low commodity prices and a small franchise area. Customer satisfaction tends to be high and satisfied customers may be less likely to seek alternatives. Further, only one competitive supplier has been actively marketing to residential customers in the franchise area. Other ESCOs have contacted the Company and the PSC to inquire about entry into the market, and several are expected to become active in 2005.

One of the main components of this plan is an attempt to encourage new ESCOs to serve residential customers in Central Hudson's territory. During November 2004, the Company contacted twelve ESCOs by telephone, letter, or e-mail and encouraged them to consider participating in the Company's Retail Access Program, with particular emphasis on serving the residential market. These contacts were timed to coincide with an offer to purchase ESCO's accounts receivable without recourse as described below. To date, three additional ESCOs have submitted applications to become approved suppliers in the Central Hudson franchise, and all three have expressed a desire to serve the residential market.

Listed below are some actions that the Company has taken to date, along with plans for future initiatives to foster the development of retail markets for electricity and natural gas.

<u>Purchase accounts receivable at a discount without recourse</u> – The highest priority of the ESCOs participating in the collaborative process was to have the Company purchase accounts receivable without recourse. The parties negotiated an agreement and tariffs were filed with a proposed effective date of November 1, 2004. The Commission

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[2] Percent of firm sales volume

approved the new tariffs, and the Company is now purchasing accounts receivable at an initial discount of 0.90% for all ESCOs who choose consolidated billing.

Move Charges for Pipeline Capacity, Storage, and Peaking Service off the Customer Bill

Another impediment to retail access, according to participating ESCOs, was the customer confusion that occurred when they switched to a competitive supplier and then received delivery bills with charges for pipeline capacity, storage, and peaking service. In the past, such charges had never been itemized on their bills. The parties negotiated an agreement whereby these charges will now be billed to the ESCO who, in turn, include these charges as part of the commodity price. Tariffs were filed on November 1, 2004 with a requested effective date of April 1, 2005. ESCOs stated that they need time to prepare for this change because it affects the commodity price they charge their customers. Once this change is implemented, direct comparisons can be made between the Company's Gas Supply Charge (GSC) and offers from competing ESCOs (net of the back out credit).

<u>Hourly Pricing for SC3 and SC 13 Customers</u> – Tariffs requiring all SC 3 and SC 13 customers to take hourly electric pricing or choose a competitive supplier were filed on November 1, 2004 with a requested effective date of April 1, 2005. In response to concerns from Staff and SCMC[3], the Company has agreed to include changes to the method used to calculate unforced capacity (UCAP) charges and add an energy-balancing factor. Once these tariffs go into effect, large electric customers will be subject to market price volatility unless they elect to purchase a fixed-price product or other less volatile pricing mechanism from an ESCO. The Company anticipates that this change will cause increased migration to ESCOs. In order to facilitate the transition, outreach and education training sessions will be conducted by the Company targeting all affected customers in January 2005. In addition, a Central Hudson Customer Services Group representative will personally visit those customers unable to attend a training session.

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[3] Small Customer Marketer Coalition, a participant in the collaborative process.

Metering Initiative - the Company is working with Staff to offer web-based access to hourly electric consumption and pricing information for all customers on SC 3 and SC 13. If funding is available, this initiative may be expanded to offer the service to some smaller commercial customers on SC2. The goal is to have this software in place by April 1, 2005 to coincide with the effective date for the hourly electric pricing tariffs.

Web Site Enhancements – the Company is continuing to upgrade its web site to include more information for ESCOs. A few examples that will be in place early in 2005 include:

- A fully functioning Market Match feature that will enhance the ability of non-residential customers and ESCOs to exchange information, and ease the process of making and receiving energy price offers.
- Availability of billing determinants for natural gas pipeline capacity, storage and peaking service.

Natural Gas Balancing and Cash Out Issues – A desirable feature of the Company's gas retail access program is that it allows ESCOs to use Company storage. However, due to the levelized nature of daily deliveries, the Company only performs cash out once per year using average annual gas prices. Staff and the ESCOs have expressed a desire that cash outs be done more frequently. The Company continues to look for a solution that provides for more frequent cash outs while preserving the ESCOs use of Company storage capability.

"Energy CHoice" Program – Several ESCOs have participated in the O&R Power Switch Program whereby customers are guaranteed savings for the first two months of service. The Company has agreed to implement changes necessary to allow for enrollment of customers in a similar program, tentatively to be called "Energy CHoice", no later than December 1, 2005. After an initial public information campaign developed collaboratively by the parties and training of Central Hudson's customer service representatives, Company personnel will receive telephone calls, enroll customers in the program and calculate the initial discount price to be charged for at least the first 60 days. After 60 days, the ESCO and the customer will make mutually agreeable pricing arrangements. The Company will perform consolidated billing services with purchase of accounts receivable for all customers in the program. Customers will also be able to self-enroll in the program through the Company's website.

The Company would consider accelerating the schedule for Energy CHoice, but must balance the necessary programming changes with competing demands for internal resources. Hiring outside contractors to make these changes is not practical because the Customer Information System is a proprietary mainframe software system.

The Company proposes to file an updated schedule for implementation of the Energy CHoice program on March 1, 2005, making every effort to accelerate implementation. To the extent that the Company is successful in implementing this program by September 30, 2005, a carryover provision for the migration incentive is recommended as described below.

<u>Migration Incentive</u> – the Joint Proposal for Rate Plan Modification provides for an incentive of up to 30 basis points on electric and gas earnings in each rate year, tied to the number of customers that migrate to competitive suppliers. The maximum incentive is achieved if 5% of total customers migrate in each rate year. Thus far, the biggest challenge in meeting this incentive is to attract ESCOs to serve residential markets. The Company has made substantial changes to its retail access program that are expected to increase migration:

11-1-04	Consolidated billing with purchase of accounts receivable, no recourse
4-1-05	Move pipeline capacity, storage, and peaking off customer bills
4-1-05	Hourly electric prices for SC3 and SC13 customers
12-1-05	Energy CHoice Program[4]

[4] If possible, accelerate implementation to September 30, 2005

Although the Central Hudson Retail Access Collaborative began in June 2004, most of the changes that are expected to cause increased migration will occur in 2005. As a result, the Company is unlikely to earn the maximum incentive of 30 basis points for customer migration during the rate year ending June 30, 2005 for either electric or gas. The Energy CHoice program described above is expected to be one of the largest contributors to achieving the goal. The Company is hereby requesting a carryover provision allowing any migration incentive not earned as of June 30, 2005 to carry over into the next rate year. For example, if the Company earned an incentive of 20 basis points on electric earnings in the first rate year, the remaining 10 basis points would be carried over and added to the available incentive in the second rate year. In this way, the Company would maintain an incentive to reach towards an overall migration rate of 10% for both electric and gas customers by June 30, 2006.

Customer Education Program – the Joint Proposal for Rate Plan Modification provides $250,000 of customer benefit funds in each of the next two rate years for customer education concerning retail access. With the exception of a small amount of funding used for a market expo, all of these funds remain available. At the present time, only one ESCO in Central Hudson's service area is serving residential customers. As discussed above, the Company is actively recruiting new ESCOs and will launch an education campaign, to be developed in collaboration with interested parties, when we are confident that a sufficient number of ESCOs will respond to customer inquiries from residential customers and offer to sell electric and gas supply to this customer class. The Company has plans for a bill insert in the January- February 2005 time period, which will be used to collect names of customers who are interested in seeking alternative suppliers. The bill insert will be supplemented by

selective newspaper advertising. The list of names and contact information will then be provided to all active ESCOs.

The Company will periodically evaluate the customer education needs that may result from this Plan, and work collaboratively with interested parties to develop appropriate consumer education vehicles (community forums, informational meetings, media plans, customer mailings, and phone and web-based customer information tools) to anticipate and or/respond to customers' needs regarding education and awareness of competitive issues in the service territory.

<u>State Agencies Light the Way Campaign</u> – the Company provided a list of state facilities to Staff so that they can be targeted for retail access as part of the proposed campaign entitled State Agencies Light the Way. The campaign, currently being developed collaboratively with the utilities, the Commission, the New York State Energy Research and Development Authority, the Office of General Services, and individual state agencies, will educate and inform state agency procurement managers about energy choice, green power (to meet recently enacted state standards), and the procurement process to acquire an alternate supplier of energy.

<u>Auctioning Blocks of Customer Load</u> – some utilities are in the process of developing a plan to auction blocks of customers to competitive suppliers. Specifically, at the request of Centrica, Con Edison is beginning a collaborative process to determine the rules and procedures for implementing such an auction. In addition, Niagara Mohawk is considering whether or not to offer an auction for its remaining SC3 customers who have not already migrated. The Company will monitor the activities of other utilities in the State to determine if an auction may be an effective means to cause customer migration.

<u>Summary</u> – the Company, working collaboratively with interested stakeholders, is making every effort to encourage customer migration to competitive suppliers. Early signs are encouraging, as three new ESCOs have recently applied to do business in the

Central Hudson franchise area. Tariff changes have been made or are currently being considered by the Commission to provide for the purchase of accounts receivable without recourse, move gas charges for pipeline capacity, storage and peaking service off customer bills, and require large interval-metered electric customers to purchase electricity at hourly prices. Prior to the end of 2005, the Company will, in cooperation with ESCOs, offer a guarantee of savings for the first 60 days for any customer who chooses to migrate to a participating ESCO. These changes are expected to foster the development of retail energy markets in Central Hudson's franchise area and increase the number of customers who choose an alternate supplier.