

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

CASE 14-M-0101 - Proceeding on Motion of the Commission in
Regard to Reforming the Energy Vision.

RULING ISSUING TRACK 2 QUESTIONS
AND ESTABLISHING A RESPONSE SCHEDULE

(Issued May 1, 2014)

ELEANOR STEIN, Administrative Law Judge:

Appended to this ruling is a compilation of Regulatory Changes and Ratemaking Questions prepared by Department of Public Service Staff (Staff). These questions represent some of the regulatory and ratemaking issues, related to Track 2 of this proceeding, under consideration by Staff in preparation of a Track 2 straw proposal. Along with the collaborative meetings in Track 2, commencing July 21, 2014, your input on these questions will be of assistance to Staff in formulating its straw proposal anticipated to be issued October 2, 2014.

As noted in the attached document, there is no requirement that parties respond to any or all of these questions; but parties with an interest in these areas have this opportunity for early input. Parties with a similar interest should combine their responses into one filing, to maximize the efficacy and efficiency of the process. Responses should be filed electronically with the Office of the Secretary by June 13, 2014.

(SIGNED)

ELEANOR STEIN

REGULATORY CHANGES AND RATEMAKING QUESTIONS

To help inform the development of a Track 2 Straw Proposal on Ratemaking and Rate Design, Staff requests input on the following issues presented in Case 14-M-0101 “Reforming the Energy Vision” Staff Report and Proposal. We do not expect responses to all questions from all parties; rather we offer these as an outline to structure the issues. Please provide responses to any or all of the questions while maintaining the numerical order. This will be most helpful to Staff when reviewing the responses. If there are additional questions that are omitted that you would like to address; please add those at the end of each section. To facilitate and streamline the process we encourage parties with similar interest to combine responses into one filing. Please provide your responses electronically by June 13, 2014 to Secretary@dps.ny.gov.

I. Outcomes-Based Ratemaking

- 1) Incentives and disincentives in current ratemaking
 - a. How should existing incentive mechanisms (reliability, service, safety or other targeted performance incentives) be modified? Should any be eliminated?
 - b. Should rewards (revenue adjustments) be provided for superior reliability, service, or safety performance?
 - c. How would superior performance be defined and measured?
- 2) New outcomes/metrics
 - a. What new targeted performance incentive approaches should be considered?
 - b. What specific outcomes of REV should be incentivized? What percentage of utilities potential earnings or how many basis points of earnings should be tied to these incentives at standard and superior performance levels?
 - c. Should metrics tied to new outcomes be generic across all utilities or utility specific?
 - d. How should a distribution system efficiency incentive be designed? What performance measures and targets need to be developed for a distribution system efficiency incentive?
 - e. Can utility incentives stimulate changes in customer behavior? Should incentives be used in this way?
 - f. Can utility performance targets and incentives be helpful in ensuring reasonable working relationships between distribution utilities and market participants such as ESCOs or DER providers, for example facilitating interconnections or encouraging microgrids?
 - g. What utility incentives are necessary to promote comprehensive integrated resource planning at the distribution level that would consider all DER alternatives to satisfy system expansion, system replacement, and / or to meet clean energy goals? Are there examples for multi-year performance metrics which would be superior in providing value to customers compared with an annual metric?

3) Inputs

- a. Are there instances where utility inputs are a proper metric to assess performance? For example, employees per MW served, cost per distribution MWh, cost per customer, or some other metric (please specify).

4) Accommodating bridge investments. Bridge investments are long term projects that may require several years or levels to achieve.

- a. Should the Commission incent utilities to build/acquire bridge investments?
- b. If so, what incentives will engage utilities in “bridge investments” necessary to meet the Commission’s goals for the new system? (For example, one incentive approach is to establish incentives to achieve milestones along the path to conclusion rather than establish an incentive at the conclusion of the project.)
- c. What ratemaking should apply to bridge investments that do not produce complete results during the term of the incentive period?

5) Symmetry options

- a. What are the advantages and disadvantages of symmetrical, penalty only and asymmetrical incentives relative to the Commission’s goals in this proceeding?
- b. In order to achieve the Commission’s objectives, how should the Commission determine which metrics and associated value to tie to such incentives?

6) Benchmarking

- a. Should the Commission consider cost and performance benchmarking to determine utility performance on pre-established metrics?
- b. If so, what measurements/metrics should the Commission benchmark and how should the benchmarks be developed (e.g., across the entire state, outside the state, level of benchmarking complexity)? Should non-utility companies or utility companies from outside the state be included? Does benchmarking require a sophisticated statistical model?
- c. The U.K. Ofgem’s RIIO approach employs some benchmarking techniques in determining utility rates. What are the advantages and disadvantages of adopting a similar benchmarking approach to meet the Commission’s goals? If adopted, what, if any, modifications should the Commission consider?
- d. Societal values – are there appropriate metrics over which the utility has less than full control that can be useful in promoting public policy goals (e.g. fuel diversity, CO2 reduction, new market development) while also being manageable for the PSC?

- 7) Utility as DSPP and as DER-owner: neutralizing incentives
 - a. Can ratemaking or structural mechanisms be established to remove the utility bias in favor of DER investments owned by the utility or its affiliates?
 - b. If the utility owns DER investments, is it better if they are rate based and rate regulated, or owned by unregulated affiliates? Is there another option? Does this provide utility incentives to misallocate costs between regulated and unregulated products?
 - c. What, if any, incentives are required for the utility to make the necessary up front investments in the DSPP?
- 8) Removing bias toward increasing capital expenditures
 - a. What ratemaking mechanisms or incentives would encourage the most efficient mix of capital expenditures and operational expenses?
 - b. Should the Commission employ any mechanisms to eliminate the bias in favor of managing operating expenses (O&M vs. capital issue)? Should the Commission develop mechanisms to treat capital savings the same as O&M savings?
 - c. The current ratemaking paradigm provides utilities with earnings based on the size of the rate base (amount of infrastructure investment). Are there other ways to provide utilities with earnings that would not be dependent upon/linked to the size of a utilities rate base?

II. Long Term Rate Plans

- 1) Pros and cons of long term rate plans
 - a. What are the pros/cons of an extended rate plan term (i.e., greater than three years)?
 - b. How can long term planning and priorities be better encouraged under the current rate making approach?
 - c. Are longer term rate plans a preferable way to enable utilities to achieve identified strategic outcomes?
- 2) Optimal number of years
 - a. What is the optimal length for a long term rate plan? Are there any impediments to achieving the recommended term, or negative aspects to such terms, and how can they be mitigated?
- 3) Baseline cost-of-service recovery; ROE
 - a. For current multi-year rate agreements, the Commission sets rates (including the ROE) for the initial rate year. What are the challenges you expect in setting initial rates under outcome-based ratemaking?

- b. What are the advantages and disadvantages of setting initial rates under outcome-based ratemaking?
 - c. How should the Commission set initial rates under outcomes-based ratemaking?
 - d. Earnings sharing mechanisms are a key feature in the current ratemaking system. They provide for the sharing of efficiency gains during the term of the rate plan, and potentially militate against unintended consequences. Should these be retained, modified, or eliminated?
 - e. What are the advantages and disadvantages of maintaining the Commission's current methodology for setting the ROE in multi-year rate plans under outcome-based ratemaking? What, if any, modifications should the Commission make to its return on equity methodology in the new incentive environment?
- 4) Interim investment provisions (avoiding deterioration)
- a. Capital expenditure reconciliations are an important feature in the Commission's current ratemaking system. They provide for the capture of under spending during the term of the rate plan as a secondary measure which potentially militates against unintended future service or reliability consequences. Should these be retained, modified, or eliminated?
 - b. Should there be additional upside protections against capital spending in excess of forecasts?
 - c. Should downward only capital expenditures mechanisms be modified to allow utilities to keep the benefits of efficiencies implemented in capital budgeting (projects completed at lower cost than expected)? How?
- 5) Reopening conditions
- a. What sort of mid-term reopeners are needed to evaluate long term plans?
 - b. Should a long term rate plan be terminated if certain performance targets are not met mid-way through the rate-plan period?
- 6) Exogenous factors and reconciliations
- a. What uncertainty mechanisms would be needed for long term plans to deal with unexpected costs or new governmental requirements?
 - b. Typically, utilities are provided with protections against certain risks during long term rate plans (e.g., commodity pass through, uncontrollable costs provisions, etc.). In return, the utility must absorb any deficient returns. Should this type of approach be retained or modified? What costs should be included?
 - c. Should we consider changing the existing pass through recovery of electric commodity costs by electric utilities? Explain.

- 7) Reporting requirements
 - a. What level of financial monitoring is necessary during a long term plan? What reporting requirements are necessary under a long term plan?
 - b. What level of service quality and other performance reporting and monitoring is necessary?
 - c. How should the Commission monitor cost allocations to other subsidiaries including unregulated subsidiaries?
- 8) Application of RIIO concepts (to the extent not addressed above)
 - a. Should the Commission focus more on outputs and less on inputs? If so, by which means should the Commission accomplish this? Which outputs and inputs would be appropriate?
 - b. If the NY Commission were to focus on outputs as is done in RIIO, which outputs should we focus on? Which ones should we ignore or add?
 - c. What are your thoughts (pros/cons) on the 8 year rate plan length?
- 9) 11-month suspension period and establishing a long-term plan
 - a. Is it a reasonable expectation that an extended rate plan can be redesigned within the statutory 11 month suspension period or will it take more time (how long)?
- 10) Financial implications of ratemaking changes
 - a. How can we insure that any new incentives do not adversely affect the utility's credit rating?
 - b. Under US GAAP Accounting Standards Codification (ASC) 980-Regulated Operations utilities are permitted to record regulatory deferrals. Would a revised regulatory regime focused on performance-based ratemaking impact utility qualification under ASC 980? To what extent is that a concern?
 - c. Would there be any concerns about asset impairment under a revised regulatory regime focused on performance based ratemaking? How much of a concern is that and how can any concern be mitigated?

III. Rate Design

- 1) How do the customer incentives and disincentives under current rate design affect DER participation?
- 2) Tariffs for DSPP products
 - a. How should non-monetized benefits and costs (e.g., carbon) be accounted for in rates, if at all?
 - b. Which non-monetized benefits should be accounted for, if any?

- 3) For each of the products and services to be *procured* by the DSPP, how should the pricing be determined? (If the answers differ by product, please specify to the extent possible)
 - a. Should pricing be based on embedded cost of service?
 - b. Should pricing be determined through a market mechanism which might reflect locational based marginal pricing?
 - c. Should pricing be determined via request for proposals and individually negotiated contracts? Should individually negotiated contracts be made available for public inspection?
 - d. Should pricing be administratively determined to provide an incentive to achieve a predetermined outcome? If so, what level of granularity is needed (e.g., peak/off-peak vs. hourly)?
 - e. Should the pricing vary by time and / or geographic location?
 - f. Should the pricing be differentiated for products related to reliability, economics, or public policy?
- 4) For each of the products and services to be *offered* by the DSPP, how should the pricing be determined?
 - a. Should delivery services be unbundled into reliability, power quality, ancillary services components and other value added services? What value added services need to be unbundled?
 - b. Should pricing be based on embedded cost of service?
 - c. Should pricing be determined through a market mechanism which might reflect locational based marginal pricing? If so, how should any remaining revenue requirement be collected?
 - d. Should pricing be determined via request for proposals and individually negotiated contracts?
 - e. Should pricing be administratively determined to provide an incentive to achieve a predetermined outcome?
 - f. Should the pricing vary by time and / or geographic location?
- 5) New rate designs
 - a. Should rate designs reflect different levels of service, e.g. essential monopoly service versus non-essential value-added competitive service? Can fees from non-monopoly services constitute a portion of the incentives otherwise provided through ratemaking?
 - b. Should the products and services procured and offered by the DSPP be offered on a service class basis or uniform pricing for all customers? If the answer differs by product, please specify.
 - c. Should rates for products or services procured to achieve certain incentives, like more efficient utilization of the distribution system through peak load

- reductions, be set by the Commission or allowed to be set by the utility companies as necessary?
- d. Should the current volumetric rate designs used to recover embedded costs be revised to move toward fixed pricing? What are the tradeoffs or unintended consequences of moving towards fixed pricing that should be considered?
 - e. To what extent should the existing revenue decoupling mechanisms (RDM) continue to be applied and what modifications would be necessary?
 - f. Should lost revenues due to customer bypass be fully, partially, or not included and recovered in the RDM, or some other, reconciliation process?
 - g. What payment structure would facilitate distribution utility ownership of DER behind customers' meters? For example, should a customer be provided with a direct payment for allowing the utility to locate the DER on its property or should the customer be allocated a portion of the ongoing DER benefit?
 - h. How can rates best be structured to equitably share system benefits among participating and non-participating customers (i.e. customers without DER onsite)?
- 6) Enhanced service and basic service
- a. How should default service be defined?
 - b. Should the DSPP offer default service and if so what products and services should be included and what rate design should be employed?
 - c. Should there be different levels of default service, for example basic and enhanced and what features would each have?
- 7) Standby rates
- a. How can the current standby rate design be revised to reflect the diversity of DER and the unlikelihood that all DER resources would fail at once and all during the system peak hour?
 - b. How can the current standby rate design be revised to reflect environmental or system values of certain types of DER?
 - c. How would the current standby rate design need to change to be applicable to multi-customer microgrids?
 - d. How should the prices for products and service reflect the additional system and environmental values represented by technologies that are currently eligible for net metering?
- 8) Gas and steam rate implications
- a. How do the current gas and steam rate designs encourage or discourage the installation of DER, specifically gas fired DG and CHP?
 - b. Which aspects should be eliminated, expanded, or redesigned, and how?