

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held in the City of
Albany on March 18, 2003

COMMISSIONERS PRESENT:

William M. Flynn, Chairman
Thomas J. Dunleavy
James D. Bennett
Leonard A. Weiss
Neal N. Galvin

CASE 03-E-0640 - Proceeding on Motion of the Commission to
Investigate Potential Electric Delivery Rate
Disincentives Against the Promotion of Energy
Efficiency, Renewable Technologies and
Distributed Generation.

ORDER INSTITUTING PROCEEDING

(Issued and Effective May 2, 2003)

BY THE COMMISSION:

INTRODUCTION

It is rational for electric rate policy-makers to review their policies periodically to ensure that rate incentives, and the underlying regulatory structures that create or support those incentives, are aligned properly with goals. In that regard, the Commission's policies on rate structures that encourage electric utilities to promote energy efficiency, renewable technologies and distributed generation have been the subject of numerous reviews over the years.

In an effort to reverse a growing dependence on foreign oil in the 1970's and ineffectual supply side planning strategies in the 1970's and 1980's preferring development of

large-scale power production facilities that were subject to protracted construction schedules and significant uncontrolled cost escalations, the Commission instituted "integrated resource planning" policies. These policies required utilities to integrate consideration of demand side options on an equal footing with supply side options to arrive at "least cost" planning solutions. To that end, the electric utilities were directed¹ to encourage their retail customers' to participate in utility-sponsored end-use energy efficiency and peak-load reduction demand side management programs.

The implementation of load reduction initiatives meant a corresponding reduction in electric sales revenues and profits for utilities, putting the financial interests of electric utility shareholders at odds with their customers' interests. In order to re-align those interests, the Commission adopted various alternative ratemaking models, combining sales revenue adjustments with outright financial incentive payments to utilities, in essence giving utilities a share of the savings resulting from demand reductions to offset lost revenues and profits.

When the Commission decided to restructure the electric market to wholesale and retail competition, utility-sponsored demand side management programs were largely discontinued, along with the alternative ratemaking models. In their place, demand side and renewable energy projects are now implemented through NYSERDA programs funded by a System Benefits Charge collected from delivery utility customers. The electric delivery function remains a regulated monopoly service.

¹ Case 29409, Proceeding on Motion of the Commission to Examine the Plans for Meeting Future Electricity Needs in New York State, Opinion No. 88-20 (issued July 26, 1988).

A claim was made in Case 01-M-0075² that most efficiency-related net lost revenue effects have been significantly reduced for electric delivery rates because such rates have been restructured to shift recoveries from volumetric to fixed charges, and to base commodity costs on market prices. However, there may remain a net lost revenue and profit effect that discourages some electric delivery utilities from promoting energy efficiency, renewable technologies and distributed generation. In furtherance of the State's energy policy objectives, it is important to identify the degree to which this may be the case at each of the electric delivery utilities. In addition, to the extent any disincentives may continue to exist, it is useful to identify appropriate remedies. Accordingly, we will institute a proceeding pursuant to Public Service Law §§5(2) and 66 to investigate potential electric delivery rate disincentives against the promotion of energy efficiency, renewable technologies and distributed generation. The proceeding should be structured in such a way as to incorporate a report to the Commission, including recommendations for any necessary rate design changes. We direct the Administrative Law Judge to request at a minimum the following information and analysis:

1. A detailed "typical bill" analysis by each of the electric delivery utilities in a format that will permit comparisons with the results presented in Niagara Mohawk's November 15, 2002 Report on Environmental Collaborative filed in Case 01-M-0075.

² Case 01-M-0075, Joint Petition of Niagara Mohawk Holdings, Inc. Niagara Mohawk Power Corporation, National Grid plc and National Grid USA for Approval of Merger and Stock Acquisition, Report on Environmental Collaborative (November 15, 2002).

2. Comments on the degree to which current rate designs discourage electric delivery utilities from promoting energy efficiency, renewable technologies and distributed generation.
3. An indication by each of the electric delivery utilities of the feasibility of, and their interest in, making cost-based electric delivery rate design modifications for each service classification that remove such disincentives, should they exist, and an identification of the extent to which such modifications could be implemented under their current rate plans. In addition, other interested parties should have an opportunity to provide their views or comments on the provided material.
4. Other recommendations, by any party, to remedy any identified rate design disincentives against the promotion of energy efficiency, renewable technologies and distributed generation.

The Commission orders:

1. A proceeding is instituted under the guidance of the Office of Hearings and Alternative Dispute Resolution to identify the degree to which New York electric delivery utility rate structures produce financial disincentives against the promotion of energy efficiency, renewable technologies and distributed generation and to develop recommendations for any necessary rate design changes to eliminate the disincentives.

2. The Administrative Law Judge shall establish a suitable procedure and schedule aimed towards the production of a comprehensive report to the Commission on these issues.

3. This proceeding is continued.

By the Commission,

(SIGNED)

JANET HAND DEIXLER
Secretary