

**STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION**

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In the Matter of Earnings Adjustment Mechanism	x	<b>Case 16-M-0429</b>
and Scorecard Reforms Supporting the	x	
Commission's Reforming the Energy Vision	x	
	x	

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**Joint Utilities' Energy Efficiency Earnings Adjustment Mechanism Filing**

December 1, 2016

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## TABLE OF CONTENTS

I.	INTRODUCTION.....	1
II.	EXECUTIVE SUMMARY.....	1
III.	BACKGROUND.....	2
IV.	ELEMENTS OF AN ENERGY EFFICIENCY EAM.....	5
V.	NEXT STEPS.....	5
VI.	CONCLUSION.....	7

## I. INTRODUCTION

Central Hudson Gas and Electric Corporation (“Central Hudson”), Consolidated Edison Company of New York, Inc. (“Con Edison”), New York State Electric & Gas Corporation (“NYSEG”), Niagara Mohawk Power Corporation d/b/a National Grid (“National Grid”), Orange and Rockland Utilities, Inc. (“O&R”), and Rochester Gas and Electric Corporation (“RG&E”) (collectively the “Joint Utilities”) submit this Energy Efficiency Earnings Adjustment Mechanism (“Energy Efficiency EAM”) filing in compliance with the New York Public Service Commission’s (the “Commission”) *Order Adopting a Ratemaking and Utility Revenue Model Policy Framework* (“Track Two Order”) in the Reforming the Energy Vision Proceeding (“REV”).<sup>1</sup> The Commission subsequently established two new case numbers to facilitate the tracking of ratemaking reform proposals with EAMs and Scorecards to be filed in Case 16-M-0429.<sup>2</sup>

## II. EXECUTIVE SUMMARY

The Track Two Order required that the Joint Utilities file a proposal on December 1, 2016 presenting an Energy Efficiency EAM related to the Clean Energy Advisory Council (“CEAC”) recommendations on energy efficiency targets and metrics.<sup>3</sup> As explained in this filing, the specific details of the metrics and targets are not provided here but rather are, as recent experience in the Con Edison Rate Case<sup>4</sup> demonstrates and the CEAC recognizes,<sup>5</sup> better left for development in ongoing rate case processes, future rate cases, and/or other regulatory processes that the Commission may require.

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<sup>1</sup> Case 14-M-0101 – *Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision* (“REV Proceeding”), *Order Adopting a Ratemaking and Utility Revenue Model Policy Framework* (issued May 19, 2016) (“Track Two Order”).

<sup>2</sup> Case 16-M-0429, *et al.*, *In the Matter of Earnings Adjustment Mechanism and Scorecard Reforms Supporting the Commission’s Reforming the Energy Vision, et al.*, Notice of New Case Numbers Relating to Utility Revenue Reforms (issued August 9, 2016).

<sup>3</sup> REV Proceeding, Track Two Order, pp. 25, 72, 154.

<sup>4</sup> Case 16-E-0060, *et al.*, *Proceeding on Motion of the Commission as to the Rates, Charges, Rules, and Regulations of Consolidated Edison Company of New York, Inc. for Electric Service, et al.*, (“Con Edison Rate Case”), Joint Proposal (filed September 20, 2016) (“Joint Proposal”).

<sup>5</sup> Matter 16-01006 – *In the Matter of the CEAC’s Energy Efficiency Procurement & Markets Working Group*, Energy Efficiency Metrics and Targets Options Report (filed November 3, 2016) (“Options Report”), pp. 42, 46, 55, 60.

The Joint Utilities support the establishment of a hybrid energy efficiency incentive approach that contains both a MWh reduction metric and an outcome-based metric (*e.g.*, the energy intensity metric recently proposed in the Con Edison Joint Proposal). The Joint Utilities also recognize that the CEAC Energy Efficiency Procurement & Markets Working Group (“EEPM Working Group”) produced a report, (“Options Report”) on November 3, 2016, that did not conclusively endorse any specific energy efficiency metrics or targets but did find that there were potential problems with the use of energy intensity as an EAM metric. Thus, the Joint Utilities believe that the outcome-based metric for each utility is best determined based on the unique facts and circumstances of each utility and its service territory, customer mix, and measurement capabilities. Targets, specific programmatic and outcome-oriented metrics, and implementation details including funding are best addressed in utility-specific rate cases or related proceedings where utilities can propose the plans and actions that will be employed to meaningfully impact the specific metrics. Con Edison has already proposed energy efficiency incentive metrics, NYSEG and RG&E will file a comprehensive EAM proposal on or about December 1, 2016, and the remaining utilities plan to file EAM proposals as part of rate case or regulatory filings in 2017.

### III. BACKGROUND

#### A. Overview

An important outcome from REV is a decrease in the amount of energy consumed while an important outcome from increases in energy efficiency is carbon reduction. The Track Two Order acknowledges a tension between these goals and the system efficiency EAMs<sup>6</sup> and directs the Joint Utilities to develop the system efficiency EAM in light of the energy efficiency targets determined under the CEAC process.<sup>7</sup> The Joint Utilities’ system efficiency EAM filing, also submitted today,

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<sup>6</sup> See REV Proceeding, Track Two Order, p. 73, where the Commission notes, *e.g.*, that “[m]any desirable efficiency measures, such as LED street lighting and efficient combined-heat-and-power, may have the effect of reducing load factor, so a sole focus on load factor may produce unintended and undesirable consequences.” See also, p. 73, where the Commission states “load factor could be improved simply by increasing total usage, but that may have a harmful effect on carbon goals.”

<sup>7</sup> *Id.*, p. 74, where the Commission directs that the CEAC “analyze the potential impacts of energy efficiency measures on peak reduction and load factor and that individual utilities should take this analysis into account in making system efficiency EAM proposals.” The Track Two Order envisions energy efficiency EAM targets pursuant to Energy Efficiency Transition Implementation Plans (“ETIPs”) being identified and filed on the same timeline as the system efficiency EAM, *i.e.*, on December 1, 2016.

presents categories of metrics that are consistent with the Commission's directives; however, more work will be required so that the specific targets established for each metric do not undermine the economic signals created by other EAM metrics. The instant filing presents the Joint Utilities' current thinking regarding appropriate energy efficiency EAM metrics.

## **B. Procedural Considerations**

The Track Two Order requires each utility to file an energy efficiency EAM proposal with metrics and targets by December 1, 2016. This proposal was expected to be informed by recommendations from the CEAC report regarding metrics and targets which was to be submitted to the Commission on October 1, 2016. After receiving an extension,<sup>8</sup> the EEPM Working Group provided the CEAC the Options Report which was filed with the Commission by the New York State Department of Public Service Staff on November 3, 2016. Critically, the Options Report found that "significantly more analytical work is needed in order to determine the most appropriate energy efficiency metrics and targets to support an outcome-oriented, performance-based incentive for each utility."<sup>9</sup>

The Track Two Order also recognizes that details regarding each utility's EAMs should be developed and implemented in the utility's next rate filing or as provided for in the terms of an existing multi-year rate plan.<sup>10</sup> As discussed below in greater detail, this is exactly what has occurred for Con Edison when parties to its current rate case jointly developed EAM proposals that address a number of REV-related matters.<sup>11</sup> Moreover, as a follow-up action to their recently concluded rate cases, NYSEG and RG&E are filing a comprehensive EAM proposal on December 1, 2016. These activities demonstrate that EAM metrics and targets can be developed through rate case-related processes and regulatory filings. Given this fact, and the considerable uncertainty in the findings from the Options Report, the remaining utilities propose to develop the details of their energy efficiency EAMs as part of rate case or regulatory filings in 2017.

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<sup>8</sup> An extension to filing the November 4 was granted by letter from the Commission's Secretary on August 31, 2016.

<sup>9</sup> See Options Report, p. 3.

<sup>10</sup> See, e.g., REV Proceeding, Track Two Order, p. 60, where the Commission states "[t]o the extent possible, the financial details of EAMs should be developed in rate proceedings, because the relative weight of each EAM will vary by utility based on its potential value within the service territory, the capabilities of the utility, and the unique financial situation of each utility."

<sup>11</sup> See Con Edison Rate Case, Joint Proposal, pp. 74-78, where the Con Edison programs associated with these program-based EAMs are the Company's ETIP, Energy Efficiency Program, and System Peak Reduction Program.

### C. Con Edison's Energy Efficiency EAM Proposal

The pending settlement in the Con Edison Rate Case ("Joint Proposal") proposes two detailed program-based EAMs and outlines three outcome-based EAMs. The two program-based EAMs in the Joint Proposal are Incremental GWh Savings and Incremental System Peak MW Reductions.<sup>12</sup> As agreed to in the Joint Proposal, the three-outcome based EAMs, Energy Intensity, Customer Load Factor, and DER Utilization, were further developed through a collaborative process and submitted to the Commission on November 1, 2016.<sup>13</sup>

The Incremental GWh Savings EAM incentivizes energy savings obtained through both energy efficiency and system peak reduction programs. While the Energy Intensity metric encourages system efficiency, the metric is also intended to spur energy efficiency. Specifically, the Energy Intensity EAM is intended to incentivize efforts that will result in a decrease in energy intensity for Con Edison's customers beyond recent trajectories.<sup>14</sup> To the extent that the decline in energy intensity improves beyond the trend that has taken place since 2010, Con Edison will earn the Energy Intensity outcome-based EAM. The Energy Intensity EAM has two components: (1) energy use per customer for Service Classification 1 ("SC1") (*i.e.*, residential customers), and (2) energy use per employee for the combined Service Classification 2 ("SC2") and Service Classification 9 ("SC9") (*i.e.*, commercial customers). The metrics in each month will be expressed as the 12-month rolling average of weather normalized kWh use per customer for SC1 and the 12-month rolling average of weather normalized kWh use per employee for the combined SC2 and SC9, and sales will be adjusted for identified incremental beneficial usage.

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<sup>12</sup> The Con Edison programs associated with these program-based EAMs are the Company's ETIP, Energy Efficiency Program, and System Peak Reduction Program. See Con Edison Rate Case, Joint Proposal, pp. 74-78.

<sup>13</sup> See Con Edison Rate Case, Comments Supporting Resolution of Outcome-based Collaborative Issues (filed November 1, 2016); see also Consumer Power Advocates Statement on Outcome-based EAMs (filed November 4, 2016), City of New York Comments in Opposition to Proposed Outcome Based EAMs (filed November 8, 2016), Reply Comments of Supporting Parties Regarding Output-based EAM Collaborative Issues (filed November 14, 2016), and Reply Comments of Acadia Center, Association for Energy Affordability, Environmental Defense Fund, Pace Energy and Climate Center and Natural Resources Defense Council on Comments Supporting Resolution of Outcome-based EAM Collaborative Issues (filed November 14, 2016).

<sup>14</sup> *Id.*, Comments Supporting Resolution of Outcome-based Collaborative Issues, p. 10.

#### **IV. ELEMENTS OF AN ENERGY EFFICIENCY EAM**

The Joint Utilities support a hybrid approach to energy efficiency incentives that includes both programmatic performance and outcome-based metrics as part of a transition required to fully implement REV. To prevent backsliding on energy efficiency, as new but unproven market-based approaches for acquiring energy efficiency are tested, programmatic incentives linked to reductions in consumption must continue and be ramped up to help the State move toward its clean energy objectives. The Joint Proposal, which ramps up Con Edison's energy efficiency program and establishes MWh incentive targets, is an example of a program-based metric which the Joint Utilities support and believe should be continued for the foreseeable future.

The Joint Utilities support coupling the MWh metric with an outcome-based metric such as the energy intensity metric reflected in the Con Edison Joint Proposal. However, the Options Report does not recommend an energy intensity metric for all utilities in all situations; rather, the report describes strengths and concerns for potential energy intensity metrics.<sup>15</sup> Given the absence of clear findings, the Joint Utilities believe the better approach for now is to develop the details of this outcome-based energy efficiency EAM metric through rate cases or regulatory filings that permit the utilities and interested parties the opportunity to determine what metrics work best given the characteristics of the utility's service territory, customer mix, and measurement capabilities.

#### **V. NEXT STEPS**

The Joint Utilities view the process to implement all EAMs as one which is best addressed within utility rate case filings or alternatively specific regulatory filings. The process is likely to evolve over time as experience is gained regarding the robustness of metrics and the accuracy of targets. Nevertheless, the most immediate consideration for the Joint Utilities is taking the first step of filing proposed EAM metrics and obtaining stakeholder input to bring the EAMs before the Commission. The individual utility regulatory filings and/or rate cases will propose utility-specific targets, budgets, and incentive structure/cost recovery supporting the EAM elements discussed in this filing. In that vein, the Joint Utilities see the following next steps for each utility.

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<sup>15</sup> Options Report, pp. 19-23.

As noted previously, the Con Edison EAM Proposal is now before the Commission for review and the proposed EAMs and programmatic incentives will start upon approval. NYSEG and RG&E are filing a comprehensive EAM proposal today and the operational date of the specific metrics will depend on the process that the Commission establishes to review the proposal. The remaining utilities are assessing the Con Edison EAM Proposal and are considering different options from what has been proposed to determine if further innovation in metric design is possible consistent with each utilities' characteristics. Each of the remaining utilities will file comprehensive EAM proposals by early summer as part of a rate case or regulatory filing.

Specifically, National Grid is planning to file a rate case in April 2017 that will contain energy efficiency EAM proposals. National Grid is considering a hybrid energy efficiency incentive proposal focused on MWh reductions and other outcomes that are consistent with REV energy efficiency objectives.

O&R plans to make a comprehensive regulatory filing in early 2017 that will include metrics, targets, budgets, and incentive structures for a collection of EAMs which will include energy efficiency. O&R is considering a hybrid proposal focused on MWh reductions and other outcomes that are consistent with REV energy efficiency objectives.

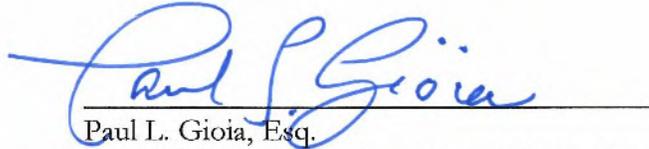
Central Hudson is planning to make a regulatory filing during the summer of 2017 that will contain EAM proposals. While Central Hudson anticipates proposing a MWh reduction incentive, its size and service territory characteristics may result in the company's pursuing innovative energy efficiency EAM metric alternatives that are consistent with REV objectives but may not precisely match those filed by the other utilities.

VI. CONCLUSION

The Joint Utilities appreciate the opportunity to provide this filing on Energy Efficiency EAMs.

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