

PROPOSAL CONCERNING UTILITY 2.0 INVESTMENTS

Requested Action

PSEG Long Island, LLC (“PSEG Long Island”) is requesting that the Trustees of the Long Island Power Authority (the “Authority”) issue a resolution approving the implementation of the “Utility 2.0 Long Range Plan – Update” (“Utility 2.0 Update”) dated October 6, 2014 that accompanies this Proposal, along with those aspects of the July 1, 2014 Utility 2.0 Long Range Plan (“Utility 2.0 Plan”) previously submitted to the Authority that remain unchanged by the Utility 2.0 Update. The Utility 2.0 Plan and Utility 2.0 Update will be referred to collectively as the “Plan.” This Proposal and Utility 2.0 Update is contemporaneously being provided to the New York Department of Public Service (“DPS”). As reflected in the July 1, 2014 filing, PSEG Long Island requests that the Authority’s Board of Trustees approve this Proposal and the accompanying Plan at the December 17, 2014, meeting of the Trustees.

Background

On July 1, 2014, PSEG Long Island submitted the Utility 2.0 Plan in accordance with Public Authorities Law Section 1020-f(ee) and the Amended and Restated Operations Services Agreement (“OSA”) dated December 31, 2013, for approval by the Authority and review by the DPS. The Utility 2.0 Update is intended to reflect the input received from stakeholders since the initial filing. The comments received through this process, which included a July 24, 2014 technical conference, a number of public hearings, collaborative discussions held with the Authority and DPS, and oral and written public comments, were generally supportive of the programs proposed by the Utility 2.0 Plan. The changes, described briefly below, and in greater detail in the Utility 2.0 Update, include:

- Portfolio revision to better align with goals of the Authority, DPS's REV and related proceedings, and New York State Energy Plan and related goals
- Further program definition on approaches, updated program costs and expected savings, including expected carbon emissions savings
- Updated cost effectiveness tests including avoided costs of capacity, energy, and where applicable avoided transmission and distribution infrastructure ; and
- Revised compensation plan to optimize the value of the program for customers by utilizing the Authority's low-cost capital and establishing performance-based incentives

As indicated in the Utility 2.0 Update, the ultimate goal of this Utility 2.0 Plan is to reduce peak electricity demand, which will improve the efficiency and resiliency of the power system. The focus is on cost effective projects that defer capacity, energy, and transmission and distribution infrastructure costs to help us provide affordable service for all customers. Key objectives of the original Plan remain intact: integrating distributed energy resources into long-term system and capital planning, empowering customers with energy choices tailored to their needs and preferences (including providing programmatic opportunities for all customers), developing a cleaner electric system with fewer harmful emissions, and supporting a sustainable clean energy market.

Expanded Utility 2.0 Projects

In response to public comment, the Utility 2.0 Update has expanded from the \$215 million over four years and 185 MW of savings originally proposed in July to \$345 million over four years for 250 MW of savings, due to higher goals for several of the programs and addition of some new offerings. As with the original plan, these investments will be made over the four year period commencing 2015 through 2018 if and to the extent they satisfy the updated benefit-to-cost criteria described briefly below and in further detail in the Utility 2.0 Update. These investments are as follows:

PSEG Long Island Utility 2.0 Long Range Plan 2015 - 2018					
Program	Description	Annual Demand Savings (MW)	Annual Energy Savings (MWh)	Total Investment ¹ (\$M)	CO ₂ Reduction ² (T)
Direct Load Control Program Modernization and Expansion	Enhance existing direct load control program with modern technology and increase customer participation. PSEG Long Island would procure a contractor to deliver load control capability from central air conditioning and pool pumps. Incentives will be allowed to promote participation.	125	3,386	\$106	27,472
Residential Home Energy Management	Provide targeted home energy reports and guidance to customers to reduce demand for 500,000 residential customers.	20	50,000	\$16	121,702
Advanced Metering Initiative	Deploy advanced metering to ~50,000 customers including large commercial and industrial customers and customers with billing complications and/or difficult meter locations.	20	60,000	\$25	1,352,228
Far Rockaway - Infrastructure Deferment	Seek load relief to serve as an alternative to address emerging needs in the Far Rockaway load pocket. Includes market-based solicitation for distributed resources and demand-side management.	25	N/A	\$76	N/A
Far Rockaway - Universal Access	Energy efficiency enhancements for low-income multi-family housing, public facilities, and other customers on the Rockaways.	2	8,800	\$5	114,237
Targeted Solar PV Expansion - Utility Scale	PSEG Long Island would invest in utility scale solar PV projects (over 200 kW in size) and enter into a long term Power Purchase Agreement with the Authority to provide energy, capacity, and renewable energy credits from such solar systems. Program will offer premium incentives for peak capacity and/or quantifiable locational benefits.	20	66,666	N/A	1,352,228
Targeted Solar PV Expansion - Customer Sited	Provide incentives to commercial net metered solar PV, targeting Long Island customers unable to access existing incentives.	10	23,529	\$15	477,253
Combined Heat & Power	Provide incentives for commercial CHP installations, targeting Long Island customers unable to access existing incentives.	5	39,000	\$6	632,849
Geothermal Heating and Cooling	Expand rebates for geothermal heating and cooling systems.	5	7,820	\$10	126,894
Targeted Energy Conservation Program for Hospitals	Design and offer energy efficiency retrofit program tailored for hospital customers. Priority to facilities that may provide load relief to defer infrastructure investments.	5	28,000	\$30	454,353
South Fork Infrastructure Deferment - Guaranteed Capacity Relief	Required capacity relief component to South Fork plan. Could include mix of energy efficiency, direct load control, and distributed generation.	13	N/A	\$40	2,848
South Fork Infrastructure Deferment - Battery Storage and Microgrid	PSEG Long Island would own and operate a battery storage system on the South Fork. When coupled with the anticipated installation of one or more large solar arrays, this system will demonstrate important components of a future micro grid. PSEG Long Island will apply for NY Rising grant to reduce the cost and partner with the Clean Coalition to evaluate its effectiveness.	N/A	N/A	\$15	N/A
South Fork Infrastructure Deferment - Supply Resources	South Fork Infrastructure Deferment includes solar PV and peaking generation. Bids are now under review by the Authority.	N/A	N/A	N/A	N/A
Electric Vehicles Charging Infrastructure	Offer electric vehicle charging stations and smart charging equipment to workplaces that commit a target number of employees to electric vehicles.	N/A	N/A	\$1	N/A
GRAND TOTAL		250	287,201	\$345	4,662,065
Notes:					
1. Total savings and investment figures are preliminary and rounded. Actual figures will be determined following request for proposals to provide services.					
2. CO ₂ Reduction estimated using average emissions rate of LMS 6000 Oil-fired peaker.					

Cost Benefit Evaluation

As set forth in Appendix A of the attached Utility 2.0 Update, PSEG Long Island has updated the cost benefit criteria it will use to evaluate the proposed Utility 2.0 investments which include the New York Independent System Operator's Cost of New Entry for a peaking unit as a proxy for avoided costs of programs that support demand savings. The Utility 2.0 Update further proposes to keep the Program Administrator Cost or PAC test in place. The PAC test evaluates the present value of program benefits against costs borne by PSEG Long Island and the Authority. A further explanation of this cost/benefit test analysis is contained in Appendix A of the attached Utility 2.0 Update.

Proposed Investment Recovery Model

Consistent with the OSA, the Utility 2.0 Plan filed on July 1st contemplated the use of PSEG Long Island capital to invest in Utility 2.0 Projects and two alternative investment recovery models that could be used to calculate the repayment by the Authority to PSEG Long Island, both of which were tied to customer savings: (1) a Performance Driven Investment Recovery Model; or (2) a Savings Driven Investment Recovery Model. PSEG Long Island proposed to align investment recovery with the rate case to be filed in 2015 so that the Utility 2.0 Plan would not have any rate impacts until 2016:

Upon further collaboration with DPS and the Authority, it has been determined that instead of using PSEG Long Island capital to fund the Utility 2.0 Projects, the Authority can provide the capital for these projects. Thus, the Utility 2.0 Update proposes that the Authority use tax-exempt debt to fund the proposed Utility 2.0 Projects, defer associated cost recovery until 2016 and then once cost recovery commences, amortize these costs over time to minimize customer bill impacts in a manner consistent with what was proposed by the Utility 2.0 Plan filed on July 1st. PSEG Long Island further proposes a revised incentive compensation model similar to the Shared Savings Driven Investment Recovery Model proposed in the Utility 2.0 Plan. These updates are reflected in Section 4 of the Utility 2.0 Update.

Financial/Rate Impacts

Insofar as PSEG Long Island is proposing a deferral by the Authority of the costs associated with Utility 2.0 Projects until at least 2016, the proposed Plan, as updated by the Utility 2.0 Update will not have any current rate impacts because they will not require an increase to the Authority's revenue at this time. The revenue increases necessary to recover the

costs of the Utility 2.0 reimbursements are expected to be included in the proposed revenue requirement in the 2018 rate case and any tariff changes required to implement any associated rate changes will also be proposed in that case. The 2015 rate case is expected to result in the implementation of new rates effective 2016.

Request for Expedited Action and Proposed Immediate Action

PSEG Long Island requests that the Authority's Board of Trustees approve this Proposal and the Plan, inclusive of the Utility 2.0 Update and the Utility 2.0 Plan not otherwise changed by the Utility 2.0 Update by December 17, 2014 and take the following action:

1. Approve approximately \$ 2 million in the 2015 Operating Budget for development costs to further research and develop full cost estimates for each of these programs, including through the issuance of RFPs and analysis of bids. Such amounts would be invested in 2015. PSEG Long Island will provide updated program and cost estimates to the DPS and the Authority over the course of 2015 and seek approval of certain programs at different points during 2015.
2. Approval of \$13.3 million in the 2015 Operating Budget to implement certain programs:
 - Direct Load Control Modernization & Expansion
 - Residential Home Energy Management
 - Far Rockaway Infrastructure Deferral – Universal Access
 - Targeted Energy Conservation for Hospitals. (2015 implementation would include investment grade audits for approximately 15-20 hospitals, which will identify energy efficiency upgrades to be submitted for approval to the Authority in 2015 for installation over the following three years)

PSEG Long Island will commit that these investments will be economic as indicated by exceeding 1.0 in the PAC and/or RIM test. PSEG Long Island will return in the second quarter of 2015 with firmed cost estimates for the next phases of these programs so they can be implemented expeditiously.

3. Approval of approximately \$3.1M in the 2015 Capital Budget for Advanced Metering Initiative
4. Agreement to defer collection of the above costs until 2016 and to then amortize costs over a multi-year period and included for recovery through rates to be proposed in the

rate case to be filed in February 2015.

5. Approval of the shared savings incentive construct outlined herein the costs of which will be included for recovery through the rates to be proposed in the rate case to be filed in February 2015.

This request for relief is further reflected in Section 5 of the Utility 2.0 Update.

Proposed Tariff Changes

To the extent this Proposal and Plan are approved, tariff changes may subsequently be proposed as appropriate to incorporate project terms and conditions into the Tariff. Again, because the proposed Plan does not involve a rate increase at this time, there are no rate changes that need to be reflected in the Tariff.