

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held in the City of
Albany on July 13, 2017

COMMISSIONERS PRESENT:

John B. Rhodes, Chair
Gregg C. Sayre
Diane X. Burman
James S. Alesi

CASE 14-E-0302 - Petition for Extension of Time to Implement
Brooklyn/Queens Demand Management Program.

ORDER EXTENDING BROOKLYN/QUEENS DEMAND MANAGEMENT PROGRAM

(Issued and Effective July 13, 2017)

BY THE COMMISSION:

INTRODUCTION

On January 19, 2017, Consolidated Edison Company of New York, Inc. (Con Edison or Company) submitted a petition requesting an extension of time to implement its Brooklyn/Queens Demand Management (BQDM) Program. In its petition, Con Edison requests to continue the BQDM Program beyond the original three-year scope previously authorized by the Commission, without additional program funding or modification to the shareholder incentive mechanisms already in place, to create additional opportunities for infrastructure deferral.

Con Edison first requested authorization to begin the BQDM Program on July 15, 2014 to alleviate the forecast overload conditions on sub-transmission feeders serving the Brownsville

No. 1 and No. 2 area substations in 2018 (BQDM Petition).¹ The Brownsville No. 1 and No. 2 area substations serve parts of southwest Queens and northern Brooklyn in the Ridgewood, Crown Heights, and Richmond Hill distribution networks (B/Q Area). In the absence of the BQDM Program to meet the anticipated load growth in the B/Q Area, Con Edison forecasted that it would have to construct a new distribution substation (New Substation), construct a new switching station on the existing property of the Gowanus Station (Gowanus Switching Station), and construct sub-transmission feeders between the New Substation and the Gowanus Switching Station, to be in service by the summer of 2017 (collectively, the New Substation/Gowanus Expansion). Instead, the Commission authorized Con Edison to implement the BQDM Program in its December 12, 2014 Order.² The BQDM Order established a \$200 million budget for Con Edison to acquire 41 megawatts (MW) of customer-side distributed energy resources and load reduction solutions (customer-side solutions, or CSS), and 11 MW of non-traditional utility-side solutions (USS),³ with the combined 52 MWs of CSS and USS to be in place for the summer of 2018.

As initially proposed by Con Edison, the BQDM Program, as well as 17 MW of load relief through traditional utility-side

¹ Case 14-E-0302, Brooklyn/Queens Demand Management Program, Petition of Consolidated Edison Company of New York Inc. for Approval of Brooklyn/Queens Demand Management Program (filed July 17, 2014).

² Case 14-E-0302, Brooklyn/Queens Demand Management Program, Order Implementing Brooklyn/Queens Demand Management Program (issued December 12, 2014) (BQDM Order).

³ USS refers to utility-side efforts outside the usual scope of utility infrastructure investment, including battery energy storage connected to substations, and conservation voltage optimization focused on decreasing peak demands.

solutions,⁴ would defer the need for the need for the New Substation/Gowanus Expansion from 2017 to 2019. In addition to the BQDM Program and the 17 MW of traditional utility solutions, Con Edison planned to undertake several traditional infrastructure projects to be in place for the summer of 2019, in order to further delay the need for the New Substation/Gowanus Expansion to 2026. Specifically, the additional traditional solutions include one new transformer each at the Newtown and Glendale substations, and a 60 MW load transfer⁵ to the Glendale network (Glendale Project).⁶

This Order recognizes the success of the BQDM program and authorizes Con Edison to continue the BQDM Program for the benefit of customers beyond the original three-year term of the program, subject to the original \$200 million budget and the existing shareholder incentive provisions.⁷ Through the BQDM Program, Con Edison has been consistently successful in meeting its implementation checkpoints on time and under budget. Con Edison will be allowed to continue to obtain CSS and USS beyond the original summer 2018 BQDM program expiration to continue to delay the New Substation/Gowanus Expansion, defer the need for the Glendale Project, and also enable possible future deferral of other traditional infrastructure projects.

⁴ The Company stated in the BQDM Petition that it planned to obtain a total of 17 MW load relief through traditional solutions, including 6 MW of capacitor banks and 11 MW of load transfers at a cost of \$12.3 million.

⁵ The BQDM Petition stated that the Glendale Project would include an 80 MW load transfer, however, the Company currently forecasts the need for only a 60 MW load transfer.

⁶ In its BQDM Petition, Con Edison estimated the total cost of the new transformers and Glendale Project to be \$305 million.

⁷ Case 14-E-0302, supra, Order Revising Diversity Index for Brooklyn/Queens Demand Management Program and Clarifying Filing Date for Benefit Cost Reports (issued March 21, 2016).

BACKGROUND

In its petition, Con Edison seeks additional time to implement the BQDM Program in order to achieve additional demand reductions and defer further traditional infrastructure investments, without additional funding. The Company states that the BQDM Program is being successfully implemented, and states that projections show that it will achieve an increased demand reduction than originally assumed necessary and doing so under budget. The Company states that it is on track to meet its 41 MW CSS and 11 MW USS goals by June 1, 2018, and that peak demand forecasts in the B/Q Area have declined driven by lower economic growth forecasts and slower than anticipated new construction. Furthermore, the Company states that load factor improvements as a result of capacitor bank installations have improved the load-serving capability of the subtransmission system. Due to the successes implementing the BQDM Program to date, revised peak load forecasts, and increased load serving capacity of the subtransmission system, the Company anticipates that pursuing load relief opportunities beyond 2018 would result in additional deferral opportunities. Specifically, it will be able to defer the Glendale Project, part of the traditional solutions of the overall BQDM Program, which would otherwise need to be in service in 2019. Therefore, the Company requests that the Commission grant an extension of the BQDM Program with no termination date and with no change to authorized budget or shareholder incentive mechanisms.

NOTICE OF PROPOSED RULE MAKING

Pursuant to the State Administrative Procedure Act (SAPA) §202(1), a Notice of Proposed Rulemaking was published in the State Register on February 8, 2017 [SAPA No. 14-E-0302SP4]. The time for submission of comments pursuant to the Notice

expired on March 27, 2017. Comments were submitted by New York Battery Energy Storage Consortium (NY-BEST) and the City of New York (City) on April 3, 2017, and Peak Power, LLC (Peak Power) submitted its comments on April 4, 2017. Con Edison submitted comments in reply to NY-BEST, the City, and Peak Power on May 17, 2017.

COMMENTS

NY-BEST supports the Company's request to extend the BQDM Program, stating that a continuation would allow additional benefits to grow including load relief, extended deferral of infrastructure investments, and expanded market development. Based upon review of the Company's quarterly reports, NY-BEST agrees that the BQDM Program demonstrates the benefits of a Non-Wires Alternative (NWA) approach. NY-BEST also expresses support for the Company's plans to defer the Glendale Project, allowing Con Edison time to explore opportunities that could defer or completely offset the need for the Project. NY-BEST states that significant progress has been made as the result of the BQDM Program, and that by continuing it the Company will be able to further develop the Distributed Energy Resource (DER) market.

The City generally supports Con Edison's request to continue the BQDM Program, provided that doing so ultimately offers cost savings to customers while also maintaining comparable levels of reliability. However, the City states that the Petition lacked information and analyses regarding the Company's plans for providing further load relief and infrastructure deferral, how the Company will better manage performance and forecasting risks as a result of extending the BQDM Program, and the extent to which extending the BQDM Program will allow the Company to defer the Glendale Project. The City

asserts that the Company should provide more transparency and analyses concerning the cost-effectiveness of NWAs versus traditional infrastructure investments, and expressed concern regarding the use of short-lived non-traditional solutions since customers would pay for both those solutions as well as the traditional infrastructure projects shortly thereafter. The City notes that additional information is needed to determine the cost-effectiveness of additional non-traditional measures as program costs to date have been well below the Company's initial estimates, and that it is concerned that additional CSS may be more costly to procure since the less costly "low-hanging fruit" solutions have already been targeted. The City asserts that additional details are needed regarding the revised peak load projection in Brownsville, stating that it is unclear the extent to which relief is needed today or in the future.

Finally, the City expressed concern regarding the potential for providing the Company with double incentives for the work being performed under the BQDM Program. The City cites the specific shareholder incentives authorized for the BQDM Program as well as shareholder incentives recently approved by the Commission authorizing incentives for NWA projects (NWA Incentives Order).⁸ The City states that it does not support providing shareholder incentives twice for the same activity, and suggests that more clarity is needed to determine the extent to which an extension may result in inappropriate shareholder incentives.

Peak Power submitted comments in opposition to the Company's request for extension, and in opposition of the BQDM Program itself. Peak Power states that it interprets the Company's petition as reporting that only the traditional

⁸ Case 15-E-0229, NWA Shareholder Incentives, Order Approving Shareholder Incentives (issued January 25, 2017).

solution related to the BQDM Program would remain necessary, and that the non-traditional solutions are no longer needed. Peak Power asserts that the public record of the overall economics of the BQDM Program is inaccurate and extremely limited. Peak Power suggests further detail and critical analysis is needed concerning changes to demand forecast and reallocation among customer-side solutions. Peak Power also questions Con Edison's ability to accurately forecast and plan for the BQDM Program, given its analysis of the size of the BQDM program compared to forecasting errors, and states that sharing old and new forecast inputs would be useful in understanding the scale of a potential non wire solutions and utility forecasting.

Peak Power also expressed concerns regarding Con Edison's auction procurement mechanism. Peak Power states that the Company's direct traditional direct procurement methods have been successful, citing the Company's use of its Small Business Direct Install (SBDI) energy efficiency program, whereas the demand response auction undertaken by Con Edison has resulted in a number of participants stating that they were unable to provide the load reductions pledged. Peak Power suggests that the Company continue its direct resource procurement mechanism into the future, and advises a review of procurement methods used in the BQDM Program and future NWA's.

In its reply comments, Con Edison provided additional information in response to the City and Peak Power. In response to the City's request for information regarding the amount of load relief needed to achieve additional deferral, the Company states that an anticipated 10-19 MWs of non-traditional solutions will be needed for the deferral of the Glendale Project to 2021, and that the need will be able to be met without the need for any additional funds beyond the already-authorized budget for the BQDM Program. Regarding the additional

information requested regarding peak demand forecasts, the Company states that the decline in the forecasted demand is due to three main factors: (1) the completion of load transfers; (2) achieved BQDM load reductions; and, (3) reduction in the amount of new business in the B/Q Area than was originally anticipated. Regarding the City's concerns about the possibility of double incentives, Con Edison states that it is not requesting any additional BQDM Program-specific incentives through the extension period beyond what the Company will achieve from BQDM Program achievements through 2018, as originally authorized by the Commission.

In response to Peak Power's comments, the Company states that the conclusions drawn by Peak Power were flawed and inaccurate, based on a poor understanding of the BQDM Program. Contrary to Peak Power's interpretation that Con Edison views the non-traditional solutions portion of the BQDM Program as no longer needed, the Company states that it expects to continue to implement a portfolio of customer-side DER resources to meet the required load reductions including DR, energy efficiency, fuel cells, combined heat and power, solar, battery storage, and thermal storage. Replying to Peak's assertion of a limited record, Con Edison states that detailed and transparent data has been submitted to the Commission since the BQDM Program was proposed. The Company notes that it provides comprehensive data detailing the portfolio of customer-side and non-traditional utility-side solutions, expenses incurred, demand reductions achieved, and information and benefits provided to the local community in its quarterly reports. The Company states that it also files a semi-annual benefit-cost analysis. Con Edison states that the most recent benefit-cost analysis results in a

net benefit of approximately \$24.5 million to customers.⁹ Finally, Con Edison states that it uses industry-standard forecasting methodologies to develop its network peak demand forecasts, and that additional information is available regarding these methodologies in its 2016 Distribution System Implementation Plan.¹⁰

DISCUSSION

As stated by both Con Edison and NY-BEST, the BQDM Program has been successful to date in avoiding costly traditional utility infrastructure upgrades, animating the DER market in the B/Q Area. The BQDM Program has also provided a wealth of learning opportunities for other utilities, stakeholders, and the Commission as NWA projects become a part of the New York State utilities' standard business practices. Con Edison's proposal to extend the BQDM Program beyond 2018 without a pre-determined end-date without modifying the currently-authorized budget or shareholder incentive mechanisms, is approved. Adopting Con Edison's proposal to extend the BQDM Program will not only unlock further deferral of the New Substation/Gowanus Expansion, but will also allow for a wider scope of customer benefits by deferring the need for the Glendale Project. Con Edison's proposal to use only the remainder of its authorized funding, without modifying the Company's shareholder incentives to achieve these further deferrals of utility infrastructure, will further improve the cost-effectiveness of the BQDM Program.

⁹ Case 14-E-0302, supra, BQDM Program Cost Benefit Model (Filed 2.28.2017) - NPV to 2014; Pre-Tax WACC (filed February 28, 2017).

¹⁰ Case 16-M-0411, Distributed System Implementation Plans, Con Edison Distributed System Implementation Plan (filed June 30, 2016).

The Commission does not agree with Peak Power's characterization of Con Edison's reporting on the BQDM Program as being not transparent or that this proceeding lacks a record to support the Company's proposal. As required by the BQDM Order, the Company submits quarterly reports to the Commission on BQDM Program expenditures and program activity.¹¹ The quarterly reports provide detailed information regarding the portfolio of customer-side solutions and non-traditional utility-side solutions that have been developed, that are being implemented, and that are being considered. The quarterly reports also provide both the expenses incurred during the quarter and cumulatively, as well as demand reductions provided by customer-side solutions.

In addition to the quarterly reports, Con Edison submits semi-annual benefit cost analysis (BCA) reports as ordered by the Commission in April 2015.¹² The BCA reports provide cost and benefit information related to the portfolio of CSS and USS projects associated with the BQDM Program that enabled deferral of the New Substation/Gowanus Expansion, the enabling traditional utility infrastructure projects including the Glendale Project, as well as the traditional utility infrastructure projects that would have been implemented in the absence of the BQDM Program including the New Substation/Gowanus Expansion. The Commission finds that the current quarterly reports and semi-annual BCA reports are sufficient, and directs Con Edison to continue quarterly and semi-annual reporting throughout the extended BQDM Program, maintaining the current filing dates.

¹¹ The Company submitted its latest quarterly report on May 30, 2017 in this proceeding.

¹² Case 14-E-0302, supra, Order Granting Rehearing and Granting Clarification in Part (issued April 20, 2015).

While the Commission supports the current schedule for quarterly reports and BCA reports, we do find that Con Edison should submit greater detail regarding its plans to implement the extended BQDM Program, and the impact of the extension on the costs and benefits of the BQDM Program. Therefore, in order to maintain transparent operation of the BQDM program, Con Edison shall submit an updated detailed Implementation and Outreach Plan within 60 days of the issuance of this Order specifying how it plans to achieve deferral of both the New Substation/Gowanus Expansion and the Glendale Project and reflecting any other decisions being made by this order. Furthermore, Con Edison shall submit an updated BCA report reflecting the expanded scope of the BQDM Program the next regularly-scheduled BCA report filing following its update to the Implementation and Outreach Plan, on February 28, 2018.

Regarding the City's concern that load reductions from certain customer-side DER will be short lived, Con Edison should balance the anticipated useful life of customer-side DER with expediency of achieved load reductions necessary to ensure maximum benefit of the BQDM Program. Specifically, Con Edison should manage its DER portfolio to maximize the anticipated useful lifetime of customer-side DER and load reductions while ensuring that such load reductions are in place to enable continued deferment of the New Substation/Gowanus Expansion and the Glendale Project. This approach should be reflected in the updated implementation plan.

In regard to Peak Power's concern about the uncertainty of Con Edison's 2017 and 2018 Demand Response Auction results, Con Edison should continue to explore market-based or auction procurement mechanisms while also engaging in more traditional utility direct procurements, balancing the procurement risk of market-based procurements with traditional direct procurements.

The Commission will formally adopt the \$50 million budget as originally proposed in Con Edison's BQDM Petition as a cap on USS expenditures, inclusive of the USS-spending to date and through 2018, in order to ensure that Con Edison continues to pursue CSS throughout the BQDM Program as the Company continues to procure DER for the extended period.¹³ If, however, Con Edison determines that it will not spend its entire USS budget, it may instead reallocate such funding to support its CSS procurement efforts.

Finally, the Commission is sensitive to the City's concern that Con Edison may earn double financial incentives for BQDM Program activities related to deferral of the Glendale Project. We recognize that the Company stated that it is not requesting any additional BQDM Program-specific incentives beyond those which were originally authorized through the extension period, however, the Commission believes that it is important to provide regulatory clarity for future NWA projects which may result in similar circumstances. Because the Glendale Project was part of the portfolio of traditional utility solutions planned to enable the BQDM Program, and would not have been planned in the absence of the BQDM Program, it would be inappropriate to consider deferral of Glendale Project as separate from the BQDM Program when considering financial incentives for NWAs. Therefore, although the Commission has adopted an incentive mechanism in the NWA Incentives Order whereby Con Edison would be eligible to earn additional incentives for an NWA project that leads to additional opportunities for infrastructure deferral, deferring the Glendale project shall be considered to be part of the BQDM

¹³ While the BQDM Order established the \$200 million BQDM Program budget cap, it did not specifically delineate individual caps for CSS or USS expenditures.

Program instead of as a separate NWA, and shall not be eligible for further shareholder incentives beyond what has already been authorized for the BQDM Program.

The Commission orders:

1. Consolidated Edison Company of New York, Inc. is authorized to extend the BQDM Program indefinitely, but shall not exceed the existing \$200 million budget cap and shall be subject to the existing shareholder incentive mechanism.

2. Costs incurred by Consolidated Edison Company of New York, Inc. for utility-side non-traditional solutions in the BQDM Program shall not exceed \$50 million, inclusive of such expenditures as of the date of issuance of this Order.

3. Consolidated Edison Company of New York, Inc. shall file with the Secretary to the Commission quarterly reports regarding BQDM Program activities and expenditures as described in the body of this Order within 60 days after the end of each quarter.

4. Consolidated Edison Company of New York, Inc. shall file with the Secretary to the Commission semi-annual benefit cost analysis reports as described in the body of this Order within 60 days after the end of the second and fourth quarters of each year.

5. Consolidated Edison Company of New York, Inc. shall file with the Secretary to the Commission an Implementation and Outreach Plan for the BQDM Program as described in the body of this Order, within 60 days of the issuance date of this order, and shall submit an updated plan at least annually thereafter.

6. In the Secretary's sole discretion, the deadlines set forth in this order may be extended. Any request for an extension must be in writing, must include a justification for

the extension, and must be filed at least one day prior to the affected deadline.

7. This proceeding is continued.

By the Commission,

(SIGNED)

KATHLEEN H. BURGESS
Secretary