



**Department of  
Public Service**

## Staff Proposal on Interconnection Earnings Adjustment Mechanisms

16-M-0429- In the Matter of Earnings Adjustment Mechanism and Scorecard Reforms Supporting the Commission's Reforming the Energy Vision.

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

October 24, 2018

## Introduction and Background

In 2015, in the context of the Reforming the Energy Vision (REV) proceedings, Department of Public Service Staff (Staff) filed a white paper discussing the need to align utilities' earning opportunities with customer values.<sup>1</sup> The Staff White Paper proposed, among other things, that the Public Service Commission (Commission) adopt new performance incentives, referred to as earnings impact mechanisms (EIM), so that future utility revenue would be earned on outcome-based performance and achievement rather than capital investment. In the White Paper, Staff recommended two EIMs related to the interconnection process, one related to timely approval of applications of 50 kilowatts (kW) or smaller, and another for timeliness and efficient cost of compliance regarding projects greater than 50 kW.<sup>2</sup>

The Commission addressed the Staff proposals and stakeholder comments regarding the White Paper in the REV Track Two Order, and updated the label EIM to the term earnings adjustment mechanism (EAM).<sup>3</sup> The Track Two Order established an interconnection EAM intended to align utilities' interests with developers' interest in the efficient processing of interconnection applications. The EAM was established for distributed generation projects sized above 50 kW whose interconnections were subject to the New York Standardized Interconnection Requirements (SIR) in order to increase the speed and affordability of the interconnection process.<sup>4</sup> Specifically, the Commission stated that high quality applications, timeliness, and reasonable costs should be addressed in an interconnection EAM.<sup>5</sup> The Commission also determined that the interconnection EAM should have a threshold condition linked to meeting the SIR timeliness requirements and offer a positive adjustment based on application quality and the satisfaction of applicants with the process. Satisfaction would be measured by: 1) a survey of applicants to assess overall satisfaction, and 2) a periodic and selective third party audit of failed applications to assess accuracy, fairness, and key drivers of

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<sup>1</sup> Case 14-M-0101, Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision, Staff White Paper on Ratemaking and Utility Business Models (filed July 28, 2015) (White Paper).

<sup>2</sup> Case 14-M-0101, supra, White Paper, pp. 58-59.

<sup>3</sup> Case 14-M-0101, supra, Order Adopting a Ratemaking and Utility Revenue Model Policy Framework (issued May 19, 2016) (Track Two Order).

<sup>4</sup> Id., p. 85.

<sup>5</sup> Id.

failure in order to support continual process improvement.<sup>6</sup> Each utility was directed to file an interconnection survey process and proposed EAM in compliance with the Track Two Order.<sup>7</sup>

On September 2, 2016 the Joint Utilities<sup>8</sup> filed a proposed survey process, requested that targets and EAMs be set on a utility-specific basis as part of a rate case filing or other utility specific filing, and suggested a review of withdrawn or abandoned applications instead of an EAM related to independent audits of failed applications.<sup>9</sup> On March 9, 2017 the Commission rejected the Joint Utilities' proposed interconnection survey framework and EAM, and directed the Joint Utilities to submit a revised filing.<sup>10</sup> The Joint Utilities complied on May 8, 2017,<sup>11</sup> and made a supplemental interconnection EAM survey metrics filing on August 28, 2017,<sup>12</sup> based on public comments and Staff feedback.

During this same period, responding to a severe slow-down in the interconnection process, the Commission addressed delays and backlogs in utility interconnection queues.<sup>13</sup> Monthly data submitted by the Joint Utilities showed a large spike in interconnection applications beginning in May 2015 and continuing through the Spring of 2016; aligning with when the Track Two Order was issued.<sup>14</sup> In response to developers' mounting complaints of the

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<sup>6</sup> Id., pp. 86-87.

<sup>7</sup> Id., p. 154.

<sup>8</sup> The Joint Utilities include: Central Hudson Gas & Electric Corporation, Consolidated Edison Company of New York, Inc., New York State Electric & Gas Corporation, Niagara Mohawk Power Corporation d/b/a National Grid, Orange and Rockland Utilities, Inc. and Rochester Gas and Electric Corporation.

<sup>9</sup> Case 16-M-0429, In the Matter of Earnings Adjustment Mechanism and Scorecard Reforms Supporting the Commission's Reforming the Energy Vision, Interconnection Survey Process and Proposed Earning Adjustment Mechanism (filed September 2, 2016).

<sup>10</sup> Case 16-M-0429, supra, Order Directing Modifications to the Joint Utilities' Proposed Interconnection Earning Adjustment Mechanism Framework (issued March 9, 2017).

<sup>11</sup> Case 16-M-0429, supra, Modified Interconnection Survey Process and Proposed Earning Adjustment Mechanism of the Joint Utilities (filed May 8, 2017).

<sup>12</sup> Case 16-M-0429, supra, Supplemental IEAM (filed August 28, 2017).

<sup>13</sup> See Case 14-E-0151 et al., Petition of Hudson Valley Clean Energy, Inc. for an Increase to the Net Metering Minimum Limitation at Central Hudson Gas & Electric Corporation., Order Modifying Transition Plan and Making Other Findings (issued December 16, 2016) (Order Modifying Transition Plan), p. 11.

<sup>14</sup> The Commission noted that over 1,000 applications were submitted to the utilities between mid-2015 and mid-2016, and found that this surge contributed to delays in the interconnection process. See Case 14-E-0151 et al., supra, Order Modifying Transition Plan and Making Other Findings (issued December 16, 2016), p. 11.

Joint Utilities' failure to meet interconnection deadlines, a dedicated Distributed Generation Ombudsman was designated within the Department of Public Service. In partnership with the New York State Energy Research and Development Authority (NYSERDA), Staff formed the Interconnection Policy Working Group (IPWG) to facilitate utilities and stakeholders collaboratively solving the ongoing delays caused by the high volume of applications.

In the Order Modifying Transition Plan, the Commission adopted a queue management plan proposed by IPWG stakeholders that was intended to resolve the large backlog of interconnection applications.<sup>15</sup> Hundreds of inactive applications were weeded out of the queue over the following months, clearing interconnection queues and reducing interconnection delays for applicants ready to proceed.

#### Staff Proposal

Current interconnection circumstances suggest that an interconnection EAM is not necessary. As stated in the Track Two Order, the Joint Utilities interconnection improvements have been detailed in the Distributed System Implementation Plans (DSIP) and through SIR updates.<sup>16</sup> The DSIP filings require each utility to outline a number of tools and capabilities related to interconnections, including the utility's means and methods for tracking and managing its distributed energy resource (DER) interconnection application process to ensure SIR performance timelines.<sup>17</sup> Furthermore, the IPWG and the Interconnection Technical Working Group (ITWG) have successfully proposed a number of SIR revisions to clarify and improve implementation of the SIR.<sup>18</sup>

The collaborative nature of the IPWG and ITWG, the short and long-term planning requirements in the DSIP, and the improved SIR are all tools available to the Joint Utilities that have resulted in more efficient interconnection application processing and increased developer satisfaction. Staff believes these tools are more effective than an EAM, and proposes to eliminate the interconnection EAM. Outcome-based performance incentives are an effective tool to incent a regulated entity towards achieving greater customer value than traditional utility

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<sup>15</sup> Id.

<sup>16</sup> Case 14-M-0101, supra, Track Two Order, p. 85.

<sup>17</sup> Case 16-M-0411, In the Matter of Distributed System Implementation Plans, Staff Guidance for 2018 DSIP Updates (filed May 29, 2018), p. 26.

<sup>18</sup> See Case 18-E-0018, In the Matter of Proposed Amendments to the New York State Standardized Interconnection Requirements (SIR) for Small Distributed Generators.

capital spending. In this case, the utilities have had to accommodate increased DER deployment driven by third party developers, with varying levels of success over time and utility territories. More cooperative and efficient relationships between utilities and third party developers are a necessary feature of a bi-directional transactive electric system, and Staff advises that this fundamental behavior is not effectively encouraged by performance based regulation such as an interconnection EAM.

Staff notes that the status of interconnection EAM measures currently being implemented by Niagara Mohawk Power Corporation d/b/a National Grid (National Grid),<sup>19</sup> Central Hudson Gas & Electric Corporation (Central Hudson),<sup>20</sup> and Consolidated Edison Company of New York, Inc. (Con Edison).<sup>21</sup> will need to be addressed.

Con Edison's effective rate plan provides for a collaborative process to develop interconnection EAM tools and targets, and designates five basis points for rate years two and three.<sup>22</sup> National Grid's current rate plan provides for an EAM to increase the effectiveness of the company's distributed generation interconnection process, but defers setting associated targets to this case, 16-M-0429.<sup>23</sup> Central Hudson's current rate plan provides the company with one basis point minimum, two and one-half basis point midpoint, and five basis point maximum for interconnection-related EAMs approved in an expected future Commission order.<sup>24</sup>

As the Commission clearly stated in the Order Adopting Terms of Joint Proposal and Establishing Electric and Gas Rate Plans for National Grid, associated statewide policy objectives may impact utilities during their rate plan terms.<sup>25</sup> As the Commission stated in Con Edison's Order Approving Electric and Gas Rate Plans, a distributed generation EAM should

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<sup>19</sup> Case 17-E-0238, Niagara Mohawk Power Corporation d/b/a National Grid - Electric Rates, Order Adopting Terms of Joint Proposal and Establishing Electric and Gas Rate Plans (issued March 15, 2018) (National Grid Rate Plan).

<sup>20</sup> Case 17-E-0459, Central Hudson Gas & Electric Corporation - Electric Rates, Order Adopting Terms of Joint Proposal and Establishing Electric and Gas Rate Plan (issued June 14, 2018) (Central Hudson Order Approving Rate Plan).

<sup>21</sup> Case 16-E-0060, Consolidated Edison Company of New York, Inc. - Electric Rates, Order Approving Electric and Gas Rate Plans (issued January 25, 2017) (Con Edison Order Approving Rate Plan).

<sup>22</sup> Case 16-E-0060, supra, Con Edison Order Approving Rate Plan, p. 83.

<sup>23</sup> Case 17-E-0238, supra, National Grid Order Approving Rate Plan, p. 72.

<sup>24</sup> Case 17-E-0459, supra, Central Hudson Order Approving Rate Plan, p. 63.

<sup>25</sup> Case 17-E-0238, supra, Central Hudson Order Approving Rate Plan, p. 26.

better align Con Edison's interconnection procedures to incent the company to maintain or improve alignment between customer interest and interconnection procedures.<sup>26</sup> While Staff recognizes the time and effort spent designing these interconnection EAMs through negotiated rate cases, such an incentive is no longer needed nor justified to maintain efficient interconnection procedures.

#### Conclusion

Throughout the REV proceeding, the Commission has explained that changes being made to the electrical system must be done so with deliberative caution. Over the last two years since the Track Two Order and the introduction of EAMs, interconnection issues have arisen and been successfully managed. Though one of the five measures to which Staff originally recommended an EAM, interconnection issues have been resolved in more direct and effective ways than through improving utility performance through an incentive metric. Elimination of the interconnection EAM may impact potential utility earnings, but the Commission's ability to implement changes pursuant to changing operating environments is not hindered by possible utility earnings expectations from outcome and performance-based EAMs.

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<sup>26</sup> Case 16-E-0060, supra, Con Edison Order Approving Rate Plan, p. 84.