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June 15, 2017

Hon. Kathleen H. Burgess
Secretary to the Commission
New York State Department of Public Service
Three Empire State Plaza
Albany, NY 12223

Re: 14-E-0302 – Petition of Consolidated Edison Company of New York, Inc. for
Approval of Brooklyn/Queens Demand Management Program

Dear Secretary Burgess:

As required by the New York State Public Service Commission's ("Commission") December 12, 2014 *Order Establishing Brooklyn/Queens Demand Management Program* ("December Order"), in the above-referenced proceeding,¹ Consolidated Edison Company of New York, Inc. ("Con Edison" or the "Company") submitted its report on Brooklyn Queens Demand Management ("BQDM") Program earnings opportunities on January 31, 2017 ("January Report").² The BQDM earnings opportunities, as set forth in the December Order, are based upon (i) peak demand reductions ("Peak Demand") from customer-side distributed energy resources ("DER") (up to 45 basis points), (ii) diversity of customer-side DER providers ("Diversity") (up to 25 basis points), and (iii) reduction in dollar/MW costs ("Cost Reduction") (up to 30 basis points).³

The Company submits this revised report to provide three updates, described below, to the January Report. This report is supported by the attached spreadsheet, based on the total amount of contracted load relief with DER solution providers as of January 31, 2017. In total, the updates reduce the Company's BQDM earnings opportunities by 23 basis points. As set forth in the December Order and noted in the January Report, the basis points earned will be applied to the applicable effective earnings base for the cost

¹ Case 14-E-0302, *Petition of Consolidated Edison Company of New York, Inc. for Approval of Brooklyn/Queens Demand Management Program* ("BQDM Proceeding"), Order Establishing Brooklyn/Queens Demand Management Program (issued December 12, 2014) ("December Order"), Appendix B, pp. 2-4.

² BQDM Proceeding, Report on Additional Earnings Opportunities (filed January 31, 2017) ("January Report"), pp. 1-3.

³ BQDM Proceeding, December Order, Appendix B.

amortization period. Further, in compliance with the December Order and noted in the January Report, the Company will report, on an annual basis, the total peak demand reduction from customer-side DER and a description of the contemporaneous total portfolio of customer-side DER and associated contracts.

Impact of Revised Methodology for Computation of Peak Demand Basis Points

The Company recalculated the Peak Demand basis points using a revised methodology, with a higher baseline, resulting in a 20 basis point reduction compared to the basis points earnings opportunity stated in the Company's January Report. Specifically, the January report assumed that the Company would earn 21 basis points beginning at a peak demand reduction of 21 MW, with an additional basis point for each additional MW of peak reduction. This revised methodology is based upon the Company earning zero basis points for the first 20 MW of peak demand reduction and one basis point for each additional MW beginning at 21 MW.

Impact of Corrected Total Peak Demand Reductions

As described in the Company's BQDM Quarterly Report for the first quarter of 2017,⁴ the Company identified through its measurement and verification process that its contracted energy efficiency related demand reductions attributed to the peak period were lower than previously estimated. After making the adjustment, as detailed in the attached spreadsheet, the Company's signed contracts with DER providers, as of January 31, 2017, represented a cumulative quantity of 37.8 MW of peak demand relief in the area targeted by the BQDM Program instead of the previously reported 44 MW.⁵

A. Recalculation of Peak Demand Reduction Basis Points

Correcting for the peak demand reductions (37.8 MW instead of 44 MW) and counting MW reductions starting at 21 MW results in a 27 basis-point reduction (from 44 basis points to 17 basis points).⁶

B. Recalculation of Diversity Basis Points

The diversity index described in the December Order, as modified in the Commission's March 21, 2016 *Order Revising Diversity Index for Brooklyn Queens Demand Management Program and Clarifying Filing Date for Benefit Cost Reports*,⁷ is calculated based on the portfolio of customer-side DERs, namely, each DER provider's, its

⁴ BQDM Proceeding, Q1 2017 BQDM Quarterly Report (filed May 30, 2017).

⁵ *Id.*, p. 5.

⁶ The Company is allowed to earn one basis point for each whole MW reduced beginning at 20 MW.⁷ BQDM Proceeding, Order Revising Diversity Index for Brooklyn Queens Demand Management Program and Clarifying Filing Date for Benefit Cost Reports (issued March 21, 2016).

⁷ BQDM Proceeding, Order Revising Diversity Index for Brooklyn Queens Demand Management Program and Clarifying Filing Date for Benefit Cost Reports (issued March 21, 2016).

independent subcontractor's, or a uniquely designed customer solution's individual market shares. The Commission authorized one additional basis point for each 0.04 increase in the diversity index above a baseline of 1.25. As detailed in the attached spreadsheet, the Company calculates that, on a cumulative portfolio basis and reflecting the corrected peak demand reductions described above, the Company had entered into contracts with DER providers, as of January 31, 2017, to provide a portfolio that results in a diversity index of 1.9. Based on a diversity index of 1.9, the Company calculates that it has earned 16 Diversity basis points, out of a possible total of 25, rather than the 12 Diversity basis points reported in the January Report. The Diversity basis points increase because the 6.2 MW energy efficiency-related demand reduction noted above is largely attributable to small business energy efficiency-related demand reductions from a single provider, thus reducing the amount of highly concentrated small business demand reductions and resulting in a less concentrated BQDM Program portfolio and an increase in the diversity index.⁸

Recalculation of Cost Reductions

The Company is also authorized to earn an additional basis point, up to 30 basis points, for each percent reduction in the unit cost (“\$/MW”), based on the net present value (“NPV”) of the lifecycle costs and benefits the Company is able to achieve through the BQDM Program as compared to the unit cost of the traditional alternative. Further, the December Order requires that the discount rate used to calculate the NPV be based on the weighted average cost of capital, which was 9.61 percent on a pre-tax basis in January 2017.

As demonstrated in the attached spreadsheet and upon application of the revised estimates to contracted energy efficiency-related demand reductions discussed above using the same methodology as used in the January Report, the Company has achieved a 71 percent, instead of the 75 percent reported in the January Report, lower unit cost of the BQDM Program, based on the BQDM Program portfolio that the Company contracted as of January 31, 2017, relative to the traditional T&D solution. When comparing the unit cost of the overall BQDM deferral portfolio, including both the BQDM Program portfolio and the portfolio of traditional solutions that together enable infrastructure deferral, the Company would still achieve a 40 percent lower unit cost.

⁸ The diversity index provides a measure of the diversity of customer-side solutions in the BQDM Program portfolio. In general, an increase in the number of DER providers, independent subcontractors, or uniquely designed customer solutions, will result in an increase in the diversity index and will favorably impact the number of basis points for which the Company would be eligible. Additionally, in general, a more concentrated portfolio, *i.e.*, a portfolio that is more unequal in the demand reduction distribution of customer-side solutions among DER providers, independent subcontractors and uniquely designed customer solutions, results in a lower diversity index and will reduce the number of basis points the Company would be eligible to earn.

Based on the lower unit cost of the BQDM Program and overall portfolio relative to the traditional T&D solution exceeding the maximum threshold of 30 percent, the Company is making no change to the earned 30 basis points out of a possible 30 basis points attributable to Cost Reduction, as was included in the January Report.

Summary of Revisions to Additional Earnings Opportunities

Based upon the above revisions, the Peak Demand earnings total 17 basis points, a reduction of 27 basis points from that reflected in the January Report, due to both the 20 basis point reduction attributable to the revised methodology for computation of Peak Demand reductions and the seven basis point reduction attributable to the revised calculation of total Peak Demand reductions. Combined with the four basis point increase for the Diversity earnings and no change in the Cost Reduction earnings, this report shows a total reduction of 23 basis points from the January Report to a new total of 63 basis points.

The following tables provide an illustration of the changes to the basis points as a result of the updates discussed in this earnings opportunities report.

CHANGES IN METRIC CALCULATION

	January Report	Revised Methodology	Peak Energy Efficiency Restatement	Cost Reductions Methodology	Current Report
Peak Reduction (MW)	44	-	-6.2	-	37.8
Diversity Index	1.7	-	+0.2	-	1.9
Cost Reduction (%)	75	-		-4/-35	71/40

CHANGES IN BASIS POINTS

Basis Points	January Report	Revised Methodology	Peak Energy Efficiency Restatement	Cost Reductions Methodology	Current Report
Peak Reduction	44	-20	-7	-	17
Diversity Index	12	-	+4	-	16
Cost Reduction	30	-	0	0	30
Total	86				63

Please contact me if you have any questions or require any additional information.

Very truly yours,

A handwritten signature in black ink, appearing to read "David W. Pratt", is centered on a light gray rectangular background.

Attachment