STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service Commission held in the City of Albany on January 24, 2017

COMMISSIONERS PRESENT:

Audrey Zibelman, Chair
Patricia L. Acampora
Gregg C. Sayre
Diane X. Burman, abstaining

CASE 15-E-0229 - Petition of Consolidated Edison Company of New York, Inc. for Implementation of Projects and Programs That Support Reforming the Energy Vision.

ORDER APPROVING SHAREHOLDER INCENTIVES

(Issued and Effective January 25, 2017)

BY THE COMMISSION:

INTRODUCTION

On March 4, 2016, Consolidated Edison Company of New York, Inc. (Con Edison or Company) made a filing in compliance with the Commission's December 17, 2015 Targeted Demand Management (TDM) Program Order (TDM Order).[1] In the TDM Order, the Commission adopted the TDM Program, allowing Con Edison to engage in Non-Wire Alternative (NWA) projects which replace or defer the need for transmission and distribution (T&D) system infrastructure through the use of customer-side distributed energy resources (DERs) or load reductions (customer-side solutions or CSS), with a program budget of $60 million over two

[1] Case 15-E-0229, Targeted Demand Management Program, Order Implementing with Modification the Targeted Demand Management Program, Cost Recovery, and Incentives (issued December 17, 2015).

years. The TDM Order rejected the Company's proposed incentive mechanism under which the Company would earn an enhanced return of up to 150 additional basis points in return on its TDM Program expenditures, and instead required Con Edison, in consultation with Department of Public Service Staff (Staff), to develop an incentive mechanism which is not directly related to the costs incurred by the Company to achieve the required load reduction.

Con Edison's March 4, 2016 filing includes a description of the Company's proposed incentive mechanism, along with exhibits containing a spreadsheet which illustrates the proposed detailed process for calculating the incentive and a flow chart which provides a visual illustration of that process. The Company proposes to earn an incentive based on a share of the difference in the present values of the net benefits of a NWA project versus the net benefits of the traditional T&D infrastructure that would otherwise have to be built. The "share the savings" incentive mechanism would reward the Company for maximizing customer benefits and minimizing the costs required to achieve such benefits.

Separately, under the terms of the Joint Proposal in the Con Edison Rate Case,[2] the Company would replace the TDM Program with the generic NWA-related provisions in the Joint Proposal, and receive an incentive for its NWA projects pursued during the term of the rate plan subject to the terms and conditions approved in this proceeding.

This Order adopts Con Edison's proposed incentive mechanism, with modifications, which provide 30% of the net benefits to shareholders and 70% to ratepayers. As the

[2] Case 16-E-0060, Con Edison Electric Rates, Joint Proposal (submitted September 20, 2016) (Con Edison Rate Case).

Commission articulated in the REV Track Two Order,[3] incentive opportunities should be financially meaningful and structured such that they encourage enterprise-wide attention at the utility and spur strategic, portfolio-level approaches beyond narrow programs. Further, incentive opportunities should be commensurate with the level of financial risk borne by utility shareholders. The 30% sharing adopted here represents a financially meaningful incentive opportunity that should encourage Con Edison to pursue the innovative portfolio-level approach to implementing NWA projects, while producing significant net benefits to customers and reflecting the financial risk required of Con Edison shareholders.

THE FILING

Incentive Structure

The Company proposes to separate projects into two categories, referred to as Large and Small. Con Edison defines Large projects as those that seek to defer infrastructure at the area station level or higher voltages (at or above the 69 kilovolt (kV) level). Con Edison states that Large projects, compared to Small projects, generally require greater quantities of load relief, provide for longer lead times to implement a solution, and generally defer higher-cost T&D infrastructure. The Company defines Small projects as those that seek to defer infrastructure at the primary level or lower voltages (below 69 kV level). The Company proposes similar incentive mechanisms for both Large and Small projects. However, in order to react to shorter project lead times and implement solutions more

[3] Case 14-M-0101, Reforming the Energy Vision, Order Adopting A Ratemaking and Utility Revenue Model Policy Framework, (issued May 19, 2016) (REV Track Two Order).

quickly, the process and incentive calculation for Small projects would be streamlined.

Incentive Calculation

For Large projects, the Company proposes to use a Benefit Cost Analysis (BCA) to compare the present value of the net costs and benefits of implementing the NWA versus the present value of the net costs and benefits of building the associated traditional T&D project. These present values would be calculated inclusive of all cost and benefit categories outlined in the BCA Framework Order.[4] The Company would perform its BCA calculations using its BCA Handbook.[5]

For Small projects, as previously indicated, Con Edison proposes to use a streamlined BCA which would consider a narrower array of costs and benefits in order to advance Small projects more quickly. As proposed by Con Edison, the streamlined BCA would include the major cost and benefit categories applicable to an NWA project, including avoided carbon dioxide (CO_2) emissions. However, the streamlined BCA would not include non-energy benefits other than reductions in CO_2 emissions, nor would it consider any benefits that might otherwise be realized by implementation of the traditional T&D project. Under each approach, Con Edison proposes to determine the Net Benefit of employing an NWA by taking the difference between the present value of net costs and benefits of the proposed NWA and the present value of the net costs and benefits of the traditional T&D project. Con Edison states that it will develop its BCA procedures applicable to the TDM Program in

[4] Case 14-M-0101, supra, Order Establishing the Benefit Cost Analysis Framework (issued January 21, 2016) (BCA Framework Order).

[5] Case 16-M-0412, Benefit Cost Analysis Handbook, Revised BCA Handbook (submitted August 22, 2016) (BCA Handbook).

consultation with Staff until such time as the Commission approves formal BCA procedures under the BCA Framework Order.

Con Edison proposes a multi-step process for determining the incentive the Company would receive for implementing NWA projects. The incentive would be based on a 50/50 sharing of the Net Benefits calculated by the BCAs. For Large projects, the Company proposes to establish an Initial Incentive based on a 50/50 share of the Net Benefits at the time when the Company has either entered into contracts with CSS providers for the entire NWA portfolio, or when the Company and Staff agree that there is reasonable certainty regarding the price of the portfolio of CSS. For Small projects, the Company proposes a 50/50 share of the Net Benefits similar to its proposal for Large projects. However, the Small projects incentive will be calculated on a per megawatt (MW) basis (Initial Unit Incentive). The Initial Unit Incentive will be determined by dividing the Company's proposed 50% share of the Initial Net Benefits by the number of MW to be procured for the NWA project.

Further, to spur the Company to manage and reduce the costs associated with a NWA project, Con Edison proposes to adjust the incentive throughout its implementation. The Company proposes to share the difference between the total utility cost assumed in the Initial Net Benefits calculation and the actual total utility cost of the NWA project 50/50 with customers to determine the Final Incentive. Therefore, the Final Incentive would equal the sum of the Initial Incentive, and 50% of the cost overruns or underruns of the NWA project. Con Edison proposes that the Final Incentive be subject to both a floor and a cap, such that the Final Incentive shall neither be less than $0, nor greater than 75% of the Initial Net Benefits.

Recovery of the Incentive

For Large projects, Con Edison proposes to begin collecting the Final Incentive from customers once 70% of the MW of CSS have become operational. The Company defines operational as CSS which have been installed and verified through the Company's Measurement and Verification (M&V) procedures. For Small projects requiring more than 1 MW of CSS, the Company proposes to begin collecting on an amount equal to the Initial Unit Incentive as each MW of the NWA portfolio becomes operational. For Small projects less than 1 MW, the Company proposes to collect the Final Incentive once the entire NWA portfolio is implemented. The incentive would be collected from Con Edison customers through the Monthly Adjustment Clause and from New York Power Authority (NYPA) customers through a NYPA surcharge. The Company proposes to amortize the Final Incentive over the course of the remaining deferral period for the Traditional T&D project, inclusive of carrying costs on the unamortized balance at the Company's Commission-approved Weighted Average Cost of Capital (WACC)[6].

Change in NWA Portfolio MW Amounts

Con Edison also proposes to modify its incentive in the event that the number of MWs required to effectuate the NWA project changes in response to annual reliability needs assessments, which the Company posits would occur relatively infrequently. The Company states that in many cases, changes to the reliability needs assessment would result in either extending or curtailing the length of the deferral period, and would not typically result in a material change in the amount of CSS MWs required to achieve deferral.

[6] The Company's Weighted Average Cost of Capital for the Twelve Months Ending December 31, 2017 is 6.82%.

In the event that the reliability assessment results in the determination that additional CSS MWs are needed to achieve the intended deferral of traditional infrastructure, the Company will notify Staff, and increase the CSS MWs accordingly. If it is feasible to increase the CSS MWs to continue implementing the NWA project, the Company proposes to receive cost recovery of the expenditures incurred in obtaining the additional CSS MWs, including carrying charges at its effective WACC, on these deferred costs until recovered from ratepayers. The Company, however, would forego earning any additional incentives related to obtaining the addition CSS MWs. Con Edison proposes that expenditures related to these additional MWs would not be considered in the calculation of the Difference in Utility CSS Costs for calculating the Final Incentive. This process would be the same for both Large and Small projects.

If the Company determines that increasing the number of CSS MWs are technically or operationally infeasible, it will then plan to implement a traditional solution. Alternately, if the reliability needs assessment results in the determination that an increased amount of CSS within the same NWA area could result in additional opportunities for deferral of traditional infrastructure, Con Edison proposes to then develop a new NWA portfolio and earn an incentive for that project in the same manner.

In the event that the reliability assessment results in the determination that fewer CSS MWs are needed to achieve the intended deferral of traditional infrastructure, the Company will notify Staff, and decrease the CSS MWs accordingly, to the extent contractually feasible. Con Edison proposes different processes for responding to a decreased need for CSS MWs for Large and Small projects.

For Large projects, the Company will plan to reduce CSS MWs only when the reliability needs assessment demonstrates a consistent downward trend in the amount of MWs needed for load relief that is sustained over a period of at least three years, and which results in a material reduction of 30% or more of the CSS MWs which were initially determined to be necessary to effectuate deferral of the traditional infrastructure. For Small projects, the Company will consider each annual assessment, as opposed to requiring a consistent downward trend over the course of three years. However, Con Edison will only reduce the amount of CSS MWs for Small projects when the reliability needs assessment results in a material 30% decrease in CSS necessary to effectuate deferral. The Company proposes to consult with Staff before effectuating any reductions in CSS MWs, and would continue to procure the original amount of CSS MWs if directed to do so by the Commission.

For both Large and Small projects, the Company proposes to true-up the incentive earned by Con Edison in the event of a reduction in required CSS MWs. Con Edison would true-up the incentive by converting the Initial Incentive into an Initial Unit Incentive, as previously described for Small projects. The Company would then calculate the difference in utility CSS cost on a per-MW basis (Unit Difference in Utility CSS Cost). The Final Incentive would be calculated as the sum of the Initial Unit Incentive plus or minus the Unit Difference in Utility CSS Cost, multiplied by the reduced amount of CSS MWs determined to be necessary. Con Edison proposes that the Final Incentive determined using this mechanism would be subject to the same cap and floor provisions of 75% of Initial Net Benefits, and $0, respectively. The true-up mechanism would result in both a reduced Final Incentive paid to the Company, as

well as a reduced level of required CSS MWs operational for the Company to begin collecting the incentive payments.

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 April 13, 2016 [SAPA No. 15-E-0229SP2]. The time for submission of comments pursuant to the Notice expired on May 30, 2016. No comments were received.

DISCUSSION AND CONCLUSION

The Commission finds the general framework of the proposed incentive mechanism to be reasonable, and it will therefore be adopted with the modifications described below. The incentive mechanism is well suited to providing Con Edison a meaningful incentive to seek out NWA opportunities and to continue to find opportunities for cost reductions as NWA projects are implemented. The incentive mechanism not only avoids the perverse outcome of increasing the Company's incentive amount as the cost of NWA projects increase, but reinforces Con Edison's incentive to provide the most cost effective solutions, as Con Edison's incentive increases with increasing Net Benefits to customers. The incentive mechanism protects customers with its incentive cap and utility share of NWA cost overrun provisions.

For the purposes of integrating the TDM Program and the terms of the Joint Proposal in the Con Edison Rate Case, the Commission will require that the TDM Program shall end as of the effective date of this Order. Henceforth, any NWA project shall be completed under the NWA provisions of the rate plan adopted in the Con Edison Rate Case. Any project undertaken as part of the TDM Program to date shall instead be evaluated and managed

in accordance of those provisions and held to the same scrutiny and standards. The Commission notes that, in addition to successfully deferring or avoiding traditional infrastructure-related expenditures, NWA projects should be designed to also consider the impact of such projects on issues such as DER integration, Clean Energy Standard (CES) compliance,[7] and environmental justice concerns. The incentive mechanism approved herein shall be effective for the duration of the rate plan. As we learn from experience, the share-of-savings incentive structure could be standardized over time in combination with our implementation of outcome-based Earnings Adjustment Mechanisms and become a normal part of the utility business model.

While the Commission adopts the general framework of the proposed incentive mechanism, there are several provisions which warrant modification, specifically: (1) the Company's share of the Initial Net Benefits; (2) the Company's proposed cap on the Final Incentive; and, (3) inclusion of provisions in the event that a NWA project is not able to successfully defer the related traditional infrastructure as intended. Regarding the Company's proposed Initial Incentive comprised of a 50% share of the Initial Net Benefits, the Commission finds that a 30% share is appropriate. Regarding Con Edison's proposed Final Incentive Cap comprised of up to 75% of the Initial Net Benefits, the Commission will instead adopt a Final Incentive Cap of up to 50% of the Initial Net Benefits.

The modifications noted above to the incentive mechanism are commensurate with the level of investment risk that will be undertaken by the Company to achieve the incentive. First, the Company has the authority, under the terms of the

[7] Case 15-E-0302, Clean Energy Standard, Order Adopting a Clean Energy Standard (issued August 1, 2016).

Joint Proposal, to recover all prudently-incurred NWA project costs, as well as the ability to earn its allowed return on such deferred costs. NWA project cost recovery is provided even if, ultimately, the construction of the traditional T&D capital project is not deferred for the full period envisioned when the NWA project was implemented. Second, due to the proposed incentive floor of $0, the incentive mechanism is an asymmetrical, reward-only incentive. Therefore, the Company's exposure to NWA project cost overruns is limited to its share of the Initial Net Benefits under the incentive mechanism. Finally, the 30% sharing adopted here represents a financially meaningful incentive opportunity that should encourage Con Edison to pursue NWA projects.

Similar to the financial incentive mechanism approved by the Commission for the NWA project at Central Hudson Gas and Electric Corporation (Central Hudson),[8] recovery of any incentive, if applicable, will be halted, without requiring a refund of amounts collected to date, if at any time it is determined that continuing the NWA project is operationally or technically infeasible. As noted in the Central Hudson Order, the Commission finds this approach to be fair and equitable to both the Company and customers.

While the incentive mechanism approved here shall act as the default option for NWA project incentives, the Commission would consider NWA-related incentives with a greater percentage share of savings provided that Con Edison demonstrate that it will materially decrease the allocation of risk to customers. An incentive mechanism which may warrant a higher percentage

[8] Case 14-E-0318, Central Hudson Electric Rates, Order Implementing with Modification the Proposal for Cost Recovery and Incentive Mechanism for Non-Wire Alternative Project (issued July 15, 2016) (Central Hudson Order).

share might include, but is not necessarily limited to, a cost recovery cap guaranteeing that customers pay no more for the NWA than a certain fixed amount.

While the Commission will not require further modification to the incentive mechanism, we will require several additional checkpoints throughout the process. First, instead of only consulting with Staff, the Company shall make a filing in compliance with this Order with the Secretary to the Commission when it determines it has reasonable certainty as to the costs of the NWA portfolio. Second, in the event that an increase or reduction in the MW of CSS portfolio is warranted, the Company shall file an updated Implementation Plan and BCA for that NWA project. Con Edison shall also update its Implementation Plan and BCA in the event that the length of the deferral period for the traditional infrastructure related to each NWA project is modified. In addition, the Company shall file a detailed operating procedure for calculation of all applicable steps for both Large projects and Small projects, as well as a detailed accounting procedure for the recovery of earned incentives, within 30 days of the effective date of this Order. Implementation Plans and BCAs, and updates thereto, as well as the operating procedure and accounting procedures, shall be filed in Case 16-E-0060.

The Company's proposal to share in 50% of the Difference in Utility CSS Cost, up to the modified Final Incentive Cap, is adopted as proposed. There are several reasons for adopting the Company's proposed 50/50 share. First, maintaining a 50% share of the Difference in Utility CSS Cost provides a strong incentive for Con Edison to seek any cost reductions possible; an incentive which would be diluted if the sharing percentage were to be reduced. Second, retaining the Company's proposed 50% share in the Difference in Utility CSS

Cost will better protect customers from NWA project cost overruns, and will provide Con Edison a more meaningful incentive to reduce or eliminate cost overruns to the extent possible, versus a lowered sharing percentage.

The Commission finds that the proposed use of the BCA Framework Order for Large and Small projects, as defined in the Company's BCA Handbook and described above, to be reasonable. However, the Company should always endeavor to remain aware of, and consider, significant non-monetized external concerns associated with these projects, such as local community impacts, and bring these to Staff's attention when they exist. Finally, with respect to the monetization of environmental externalities in Net Benefit calculations, the BCA Framework Order states that the United States Environmental Protection Agency's CO_2 values should be replaced with the CES Renewable Energy Credit (REC) compliance costs, once that program is established. In May 2016, the New York State Energy Research and Development Authority (NYSERDA) conducted its latest procurement of multi-year RECs. NYSERDA recently released the results of that procurement,[9] and noted that the average REC purchase price was $24.24 per megawatt-hour. The Company should consult with Staff on including this compliance value in the Net Benefit calculations.

The Commission orders:

1. The incentive mechanism proposed by Consolidated Edison Company of New York, Inc. is adopted, with the modifications discussed in the body of this Order.

[9] https://www.nyserda.ny.gov/All-Programs/Programs/Clean-Energy-Standard/Renewable-Portfolio-Standard/Past-Main-Tier-Solicitations

2. Consolidated Edison Company of New York, Inc. shall develop an operating procedure for the calculation of financial incentives, as described in the body of this Order, and file such procedure in Case 16-E-0060 within 30 days of the effective date of this Order.

3. Consolidated Edison Company of New York, Inc. shall develop a detailed accounting procedure for the recovery of financial incentives, as described in the body of this Order, and file such procedure in Case 16-E-0060 within 30 days of the effective date of this Order.

4. Consolidated Edison Company of New York, Inc. shall file, in Case 16-E-0060, updated Implementation Plans and Benefit Cost Analyses, as described in the body of this Order.

5. 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.

6. This proceeding is closed.

By the Commission,

(SIGNED) KATHLEEN H. BURGESS
Secretary

Commissioner Diane X. Burman, abstaining:

As reflected in my comments made at the January 24, 2017 session, and consistent with my voting history for similar items, I abstain from voting on this item.