STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

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

NOTICE OF TECHNICAL CONFERENCE REGARDING EARNINGS IMPACT MECHANISMS, MARKET BASED EARNINGS, STANDBY RATES AND RELATED ISSUES

(Issued January 4, 2016)

PLEASE TAKE NOTICE that Staff will convene an on-the-record technical conference on Thursday, January 28, 2016 from 10:30 A.M. to 5:00 P.M. and Friday, January 29, 2016, from 9:00 A.M. to 4:00 P.M. to discuss Earnings Impact Mechanisms ("EIMs"), Market Based Earnings ("MBEs") and standby rates, and explore actions the Commission may take on these issues in furtherance of Reforming the Energy Vision ("REV") objectives. The purpose of the technical conference is to obtain additional information on the proposed EIM framework, proposed EIMs, MBEs and standby rates as contemplated in the Staff White Paper on Ratemaking and Utility Business Models ("Staff Whitepaper") in furtherance of the record on these REV issues. Discussion of EIMs will focus upon key aspects influencing greater use of performance incentives to motivate change in the utility business model and drive a range of market, customer, and environmental goals. The MBEs discussion will focus on the level of utility involvement and ability to charge for market based services. Standby rates will also be considered in the technical conference with specific focus on actions and reforms necessary to establish a sustainable framework for distributed generation deployment. The specific issues to be addressed are detailed below.

The on-the-record technical conference will take place at the Empire State Plaza Convention Center Meeting Room #1. Webcast viewing will also be made available. For those wishing

to participate by asking questions remotely, webcast viewing and teleconferencing will be made available from the New York City, Buffalo and Long Island Offices.[1] Information to access the live webcast will be provided along with the agenda at a later date.

Parties may express interest in making a brief presentation as part of a panel at the technical conference on one of the topic areas identified below by contacting Ms. Amanda Mulhern at 518-473-5267, or Amanda.Mulhern@dps.ny.gov, by Friday, January 8, 2016. A detailed agenda for the technical conference will be issued thereafter. If the number of parties expressing interest in presenting on a topic area exceeds that which time will permit, Staff will work to ensure that all viewpoints are represented during the technical conference. Parties that are not presenters will have an opportunity to participate by asking questions.

(SIGNED) KATHLEEN H. BURGESS
Secretary

[1] If you plan to attend the Buffalo, New York City, or Long Island location, please e-mail Sandra Bruce at Sandra.Bruce@dps.ny.gov by no later than Tuesday, January 26, 2016 to comply with security arrangements. Locations of offices: New York City, 90 Church St. New York, NY 10007; Buffalo office, Ellicott Square Bldg., 295 Main St., Buffalo, NY 14203, Long Island Office, 125 E. Bethpage Road, Plainview, NY 11803.

Technical Conference on Earnings Impact Mechanisms ("EIMs"), Market-Based Earnings ("MBEs") and Standby Rates

Topic Areas

The issues to be addressed at the Technical Conference are identified below. Each section outlines specific topic areas relating to ratemaking and utility business model issues, explains the importance of these topic areas to advance the goals for REV, and identifies preliminary questions for presentation and discussion at the technical conference. While these questions are designed to focus and guide the discussion during the technical conference, they are not intended to limit the conversation and preclude discussion of other aspects of these topic areas that parties desire to discuss.

Earnings Impact Mechanisms ("EIMs")

As a means of better aligning utilities' financial interests with performance and outcomes within electricity markets, Staff has recommended adoption of EIMs to encourage desired REV outcomes and objectives. In the Staff Whitepaper, five EIMs are identified as holding the greatest potential to influence changes in the utility business model while supporting development of REV markets, particularly in the near-term. Complemented by adoption of scorecard-based metrics, Staff's thesis is that EIMs will incent utility behavior and action towards outcomes and enhanced customer value, system efficiency and deployment of DER.

1. Generic Issues and Industry Context

Before investigating the specific EIMs put forward in the Staff Whitepaper, there are several threshold questions surrounding the EIM framework that warrant discussion. In considering these questions, we encourage participants to be as

specific as possible and to build upon previously stated positions as presented in parties' responses to the Ruling Issuing Track 2 Questions and Establishing a Response Schedule along with comments on the Staff Whitepaper.

1.1. How many basis points/or dollars in total should be tied to the new EIMs in order to influence utility behavior, what should the criteria be for determining these, and how should these be allocated among the various EIMs?

1.2. Taking into account that many REV objectives rely on customer choice and market activities, should new EIMs be outcome based, based on outcomes of which the utility can directly influence, or based on items and activities within the utilities' control?

1.3. How should the overall utility incentive framework be considered and balanced between existing incentives, new EIMs, program specific areas (e.g., BQDM/Con Ed TDM) and any other area?

2. Peak Demand Reduction

Reducing peak demand on the bulk electric system, to reduce costs and improve system efficiency, is a major objective under REV that will bring immediate benefits. Staff proposed, for comment, a metric tied to leveling the peak 100 hours over a five-year period.

2.1. What goals or targets should a peak demand reduction EIM aim for and over what period of years should this EIM focus upon? What are the appropriate metrics for evaluating a peak demand reduction EIM?

2.2. Should goals or targets be established for individual utilities? If so, how?

2.3. Should performance for the peak reduction EIM be measured over the average load of the top peak load days or the top peak hours of each year? If the latter, will this lead to the frequent dispatching of DR and result in customer fatigue with and customer attrition from DR programs, or can the reduction be achieved with a portfolio of DER measures?

2.4. Is it necessary to adjust peak reduction performance targets for changes in weather and economic conditions?

2.5. Does the proposed peak reduction EIM meet the distribution system critical peak loads which drive the need for distribution system infrastructure upgrades? Should the EIM reward both system-wide peak reduction as well as peak reduction on specific circuits to achieve capital and operations cost efficiency? Is circuit-level measurement necessary and if so is it available?

2.6. Is peak reduction the best metric for a system efficiency EIM? What alternatives should be considered?

3. Energy Efficiency

Achieving greater adoption of energy efficiency is a cornerstone for achieving REV and Clean Energy Standard objectives and outcomes. Recognizing that energy efficiency can play a role in permanent peak demand reduction, Staff’s proposal is based on the principle of no-back-sliding on current energy efficiency targets and the peak reductions they contribute, as well as at least 10% of the incremental peak reduction target being achieved through energy efficiency.

3.1. Will an EIM that rewards the achievement of a portion of any peak reduction target be beneficial or detrimental to the growth of third-party energy efficiency markets, and why? How might an energy efficiency based demand reduction EIM be improved?

3.2. What are the benefits and detriments to including an EIM based on MWh savings alongside the proposed EIM related to 10% of incremental peak reduction through energy efficiency? Can these co-exist in a productive manner?

3.3. How could an EIM be structured to reward (or penalize) the accuracy of energy efficiency savings claims?

3.4. How could an EIM or scorecard metric be structured to support increased third-party delivery of services through sustainable business models? How could this be measured?

3.5. Is an EIM that is structured around improvement in $/MWh feasible? If so, how is this best achieved?

4. Customer Engagement and Information Access

The overall success of REV depends on the ability of customers, utilities and DER providers to engage and participate in a transactional environment rooted in meaningful application of customer data and information. Understanding appropriate and effective design of tools and activities that utilities and DER providers can employ will be especially important for adoption of this EIM.

4.1. What should be the relationship between an EIM regarding consumer engagement and utility Demonstration Projects that have a substantial focus on consumer engagement?

4.2. What are the advantages and disadvantages of basing an EIM on customer awareness, customer understanding, and/or customer adoption of Demand Response and/or time-of-use programs? Precisely how should such an EIM be constructed and measured?

4.3. What are the advantages and disadvantages of an EIM related to access by consumers of their energy usage information, and/or access by ESCOs and DER suppliers of customer-specific data with customer authorization? Should the metric measure the extent to which certain tools providing this data have been implemented by utilities on time or ahead of schedule, the extent to which utility customers use those tools, and/or the extent to which ESCOs and DER suppliers are satisfied with the timeliness and accuracy of the data provided by these tools.

5. Affordability

With affordability as a core principle of REV, the purpose of this EIM is to drive utility progress towards increasing affordability for electric customers, in particular low income customers. Program implementation, customer participation, per-customer savings and access to DER are important considerations for establishing an effective affordability EIM, as are addressing terminations and uncollectibles.

5.1. What are the advantages and disadvantages of implementing an EIM regarding affordability?

5.2. What is an appropriate incentive to gauge affordability for residential customers, in particular low income customers?

5.3. What is an appropriate incentive mechanism related to terminations and uncollectibles, and how should data be normalized to reflect the effect of

economic indices, such as the unemployment rate on termination and bad debt? And/or is it necessary to normalize the economic indices?

5.4. How would DER penetration in low income communities be measured?

6. Interconnection

Building upon the Framework Order that established a schedule for utilities to develop capabilities that will allow them to process more interconnection requests in a timely manner, this EIM will help to effectuate progress towards more effective interconnection processes.

6.1. What should be the overall goal for the interconnection EIM?

6.2. Where should be the focus for the interconnection EIM?

i. Application Process
ii. Cost Estimates
iii. Overall Approvals
iv. Other

6.3. Should an interconnection EIM be symmetrical (positive and negative)?

6.4. Should interconnection issues and associated EIM be part of the DSIP efforts?

Questions on Market-based Earnings ("MBEs")

Staff described a utility business model for an environment of fully developed DER markets, in which utilities earn revenues from market-oriented activities as well as traditional cost of service recovery.

1. Under what conditions should utilities be allowed to collect platform service revenues (“PSRs”) for services related to monopoly functions? How should PSRs be established and allocated? How should PSRs be treated with regard to utility revenue requirements?

2. Under what conditions should utilities be allowed to earn through value added services? How should the fee or charge for value added services be established and how should revenues be allocated?

Questions on Standby Service Tariffs

Standby rates apply to larger customers that generate much of their power onsite and reflect the costs of using the distribution grid as a backup. With the expectation that REV will prompt increased self-generation projects and greater realization of system values, it is important to consider methodologies for cost allocation in considering standby rate design that can satisfy its purpose while offering a stable and sustainable foundation for DER investment.

1. How is the allocation of costs (secondary, primary, substation, transmission) between the Contract Demand and the As-Used Demand of the current standby service rate determined in each utility?

2. How should the allocation of cost be modified, and what analysis would be needed to do so?

3. What other methods of determining the Contract Demand and the As-Used Demand rates can be used and what analysis would be needed to do so?

4. How should the Commission proceed from a process perspective on re-examining the allocation of costs or determining an alternative method to arriving at the rates?