

**STATE OF NEW YORK
PUBLIC SERVICE COMMISSION**

In the Matter of Earnings Adjustment Mechanism	x
and Scorecard Reforms Supporting the	x
Commission's Reforming the Energy Vision	x

Case 16-M-0429

Joint Utilities' System Efficiency Earnings Adjustment Mechanism Filing

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I. INTRODUCTION

Central Hudson Gas and Electric Corporation (“Central Hudson”), Consolidated Edison Company of New York, Inc. (“Con Edison”), New York State Electric & Gas Corporation (“NYSEG”), Niagara Mohawk Power Corporation d/b/a National Grid (“National Grid”), Orange and Rockland Utilities, Inc. (“O&R”), and Rochester Gas and Electric Corporation (“RG&E”) (collectively the “Joint Utilities”) submit this system efficiency earnings adjustment mechanism (“System Efficiency EAM”) filing in compliance with the New York State Public Service Commission’s (“Commission”) *Order Adopting a Ratemaking and Utility Revenue Model Policy Framework* (“Track Two Order”) in the Reforming the Energy Vision (“REV”) Proceeding.¹ The Commission subsequently established two new case numbers to facilitate the tracking of ratemaking reform proposals with EAMs and Scorecards to be filed in Case 16-M-0429.²

II. EXECUTIVE SUMMARY

The Track Two Order required that the Joint Utilities file a proposal by December 1, 2016 presenting a System Efficiency EAM aimed at peak load reduction and load factor improvement.³ The Joint Utilities propose in this filing that a System Efficiency EAM contain at least the following three elements: (1) a MW load reduction metric; (2) a metric geared toward improving load factor; and (3) a metric measuring distributed energy resources (“DER”) utilization, or innovative alternative metrics that address similar objectives.⁴ As explained more fully in this filing, the specific details of the proposed metrics and targets are not provided here but rather are, as recent experience

¹ Case 14-M-0101 – *Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision* (“REV Proceeding”), Order Adopting a Ratemaking and Utility Revenue Model Policy Framework (issued May 19, 2016) (“Track Two Order”), pp. 154, 156.

² Case 16-M-0429, *et al.*, *In the Matter of Earnings Adjustment Mechanism and Scorecard Reforms Supporting the Commission’s Reforming the Energy Vision, et al.*, Notice of New Case Numbers Relating to Utility Revenue Reforms (issued August 9, 2016).

³ *Id.*, pp. 25, 72, 154.

⁴ While energy intensity metrics do address elements of system efficiency, they also address energy efficiency outcomes and as such were considered in detail by the Clean Energy Advisory Council (“CEAC”). Thus, the Joint Utilities believe that comments on energy intensity are best addressed as part of comments on Energy Efficiency EAMs also filed on December 1, 2016.

in the Con Edison Rate Case⁵ demonstrates, best left for development during individual rate cases and/or other regulatory processes that the utilities may initiate or the Commission may require.

The purpose of this filing is to present the Joint Utilities' perspective on the topic of System Efficiency EAMs and the appropriate metrics. Targets, specific metrics, and implementation details, including funding, are best addressed in utility-specific rate cases or related proceedings where utilities can propose specific plans and actions. At the outset, the Joint Utilities note that system efficiency metrics have been recommended in the Con Edison EAM Proposal⁶ and are described in more detail below. The remaining utilities are generally supportive of the types of outcome-based metrics presented in the Con Edison EAM Proposal, but note that the specific elements of and approach to each metric may differ by utility due to their unique service territory and customer characteristics. Moreover, it is possible that, in keeping with these differences, some of the utilities will propose additional or alternative system efficiency metrics from those in the Con Edison EAM Proposal. Finally, NYSEG and RG&E are making a contemporaneous filing covering several proposed EAMs, including various system efficiency metrics.

One of the Joint Utilities' key considerations in preparing this filing involved assessing the best approach for developing a metric that would encourage improved load factor outcomes. The Joint Utilities agree with the Commission that there are benefits to improving system load factor and enlisted The Brattle Group ("Brattle") to assist with an analysis of load factor-based metrics. After extensive research and analysis, both Brattle and the Joint Utilities concluded that a metric based on system load factor is unlikely to produce changes that could be relied on with any reasonable degree of statistical confidence. This result appears to be due to at least three considerations. First, it is unlikely that there will be sufficiently large levels of DER to have a meaningful impact on system load factors. Second, because the energy-to-peak ratio⁷ of the expected portfolio of DER is similar to the system load factor, any increase in penetration of these types of DER will not cause a

⁵ Case 16-E-0060, *et al.*, *Proceeding on Motion of the Commission as to the Rates, Charges, Rules, and Regulations of Consolidated Edison Company of New York, Inc. for Electric Service, et al.* ("Con Edison Rate Case"), Joint Proposal (filed September 20, 2016).

⁶ Con Edison Rate Case, Comments Supporting Resolution of Outcome-based EAM Collaborative Issues (filed November 1, 2016) ("Con Edison EAM Proposal").

⁷ The energy-to-peak ratio of DER represents the ratio of annual average MWhs reduced by DER to peak MWhs reduced by DER. This is computed by taking the annual energy (MWhs) and dividing the annual peak (MWhs) multiplied by the number of hours in a year (8760).

substantive change to the system load factor. Lastly, annual variations in load factor are significantly greater than measured changes from DER penetration which impair the ability to accurately measure the impacts of DER on the system load factor.

The Joint Utilities, however, recognize the Track Two Order's emphasis on the need to encourage load factor improvements through outcome-oriented incentives. Moreover, the Joint Utilities also recognize that the Con Edison EAM Proposal includes a load factor EAM that is not focused on system load factor; rather, it is focused on a more localized load factor outcome that Con Edison may not control but can meaningfully influence. Given these considerations the remaining utilities support the concept of encouraging load factor improvement by focusing the system efficiency incentive metric on more granular performance data that can meaningfully be influenced by the actions of the utility and DER providers. For Con Edison, the granular performance data was based on a mix of customers across its service territory. The remaining utilities generally support this approach but note that the specific focus of a load factor metric may need to vary among the utilities. Thus, the appropriate approach will depend on each utility's specific customer and electric distribution system characteristics.

III. BACKGROUND

A. Overview

The Track Two Order identifies improving system efficiency as one of the most important objectives of REV.⁸ The Track Two Order prioritizes peak reduction and load factor improvement as the means for achieving system efficiency, and requires the Joint Utilities to propose an EAM based on these two elements. However, the Track Two Order recognizes that there can be tension between these goals, as well as the related "highly important goal" of carbon reduction through energy efficiency,⁹ and directs the Joint Utilities to develop the System Efficiency EAM in light of the energy efficiency targets determined under the Clean Energy Advisory Council ("CEAC")

⁸ REV Proceeding, Track Two Order, p. 72.

⁹ See *id.*, p. 73, where the Commission notes, *e.g.*, that "[m]any desirable efficiency measures, such as LED street lighting and efficient combined-heat-and-power, may have the effect of reducing load factor, so a sole focus on load factor may produce unintended and undesirable consequences." See *also*, p. 73, where the Commission states "load factor could be improved simply by increasing total usage, but that may have a harmful effect on carbon goals."

process.¹⁰ Finally, the Track Two Order notes that other relevant metrics may be included in the System Efficiency EAM.¹¹ Based on these broad considerations, the Track Two Order directs the Joint Utilities to implement a System Efficiency EAM that achieves an optimal balance among these three policy goals.¹²

The Joint Utilities recognize the complex, and sometimes countervailing, dynamics of addressing system efficiency through peak reduction and load factor improvement, while also considering energy efficiency and other public policy aspects of REV. As the Energy Efficiency Procurement & Markets Working Group of CEAC pointed out in the *Energy Efficiency Targets and Metrics Options Report*:

In order to create metrics and incentives that are not competing with each other in a manner as to preclude a reasonable and optimal balancing among objectives, strategies should be designed to optimally realize the benefits of both energy efficiency and system efficiency goals while at the same time recognizing competing factors.¹³

Accordingly, the Joint Utilities thoroughly analyzed these matters to consider the challenges associated with load factor improvement. Whereas developing an EAM component for peak reduction is relatively straightforward, the development of an EAM component for load factor is more complex and challenging. To that end, Brattle conducted a series of analyses related to load factor improvement. In sum, Brattle analyzed the historical impact of DER (including energy efficiency measures) on system load factor, the likely future impact of DER on system load factor, and the level of DER required to materially impact load factor in the future. These analyses are described in more detail later in this filing.

¹⁰ *Id.*, p. 74, where the Commission directs that the Clean Energy Advisory Council (“CEAC”) “analyze the potential impacts of energy efficiency measures on peak reduction and load factor, and individual utilities should take this analysis into account in making system efficiency proposals.” The Track Two Order envisions energy efficiency EAM targets pursuant to ETIPs being identified and filed on the same timeline as the system efficiency EAM, *i.e.*, on December 1, 2016.

¹¹ *Id.*, p. 73.

¹² *Id.*, p. 74.

¹³ Matter 16-01006, *et al.*, In the Matter of the CEAC’s Energy Efficiency Procurement & Markets Working Group, *et al.*, Energy Efficiency Metrics and Targets Options Report (“Options Report”) (filed November 3, 2016), p. 70.

B. Procedural Considerations

The Track Two Order requires each utility to file a System Efficiency EAM proposal, including peak reduction and load factor targets by December 1, 2016. However, the Track Two Order also recognizes that details regarding each utility's EAMs should be developed and implemented in the utility's next rate filing or as provided for in the terms of an existing multi-year rate plan.¹⁴ The November 1, 2016 filing of the Con Edison EAM Proposal demonstrates that it is possible to develop both metrics and targets within the rate case process. The system efficiency metrics contained in that proposal represent potential metrics that the Joint Utilities have been evaluating to determine their applicability to their own service territories. Finally, two utilities, NYSEG and RG&H, are making a comprehensive EAM proposal based on discussions with New York State Department of Public Service Staff ("Staff") stemming from the Commission's decision in their last rate cases.¹⁵ Because of these considerations this filing provides the Joint Utilities' unified perspective on the System Efficiency EAM and the appropriate metric areas. As the Commission noted, specific metrics, targets, and implementation considerations will be addressed in subsequent filings.¹⁶ This will allow for utilities to perform the specific analysis which is required to inform detailed metrics and targets. The subsequent filings can also allow for stakeholder collaboration, similar to those in the Con Edison Rate Case, in consideration of System Efficiency EAMs.

C. Con Edison's EAM Proposal

The pending settlement in the Con Edison Rate Case proposes two detailed program-based EAMs and outlines three outcome-based EAMs. The two program-based EAMs in the Joint Proposal are Incremental GWh Savings and Incremental System Peak MW Reductions.¹⁷ The three outcome-based EAMs, Energy Intensity, Customer Load Factor, and DER Utilization, were further

¹⁴ See *id.*, p. 60, where the Commission states "[t]o the extent possible, the financial details of EAMs should be developed in rate proceedings, because the relative weight of each EAM will vary by utility based on its potential value within the service territory, the capabilities of the utility, and the unique financial situation of each utility."

¹⁵ Case 15-E-0283, *et al.*, *Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of New York State Electric & Gas Corporation for Electric Service, et al.*, Order Approving Electric and Gas Rate Plans in Accord with Joint Proposal (issued June 15, 2016), p. 60.

¹⁶ The subsequent filings would be either individual rate cases or other regulatory filings.

¹⁷ Con Edison Rate Case, Joint Proposal, pp. 74-78, sets forth the Con Edison programs associated with these program-based EAMs--the Company's Energy Efficiency Transition Implementation Plan, Energy Efficiency Program, and System Peak Reduction Program.

developed through a collaborative process, as required by the Joint Proposal, and submitted to the Commission on November 1, 2016. Following a series of working sessions, Con Edison, along with supporting parties from the collaborative process (the “Supporting Parties”),¹⁸ submitted details regarding the three outcome-based EAMs in a November 1, 2016 filing with the Commission.¹⁹

The Con Edison EAM Proposal is the first instance of system efficiency performance metrics coming before the Commission. These system efficiency metrics and outcomes have been under consideration by the Joint Utilities and this filing presents the Joint Utilities’ collective thoughts on these metrics and potential alternative approaches that could be followed to support similar outcomes.

The Customer Load Factor EAM is designed to incentivize Con Edison to improve the load factor of poor load factor customers whose peak is coincident with network or local load area demand.²⁰ The Customer Load Factor metric is defined as the ratio of the average summer customer demand to the peak customer demand for an identified subset of Con Edison’s low load factor customers.²¹ For the first year (“RY1”), the Customer Load Factor EAM does not include targets or allocate incentives. Rather, information obtained during RY1 will be employed to inform the development of a specific metric for the second year and beyond.²²

The DER Utilization EAM is designed to encourage Con Edison to work with DER providers and expand the use of DER to reduce customer reliance on grid-supplied electricity and to support beneficial electrification.²³ The DER utilization metric is calculated as the sum of the MWhs produced, consumed, discharged, or reduced by DERs including solar photovoltaic (“PV”), thermal storage, combined heat and power, heat pumps, fuel cells, electric vehicle (“EV”) charging,

¹⁸ The Supporting Parties are Con Edison, Department of Public Service Staff, Environmental Defense Fund, Association for Energy Affordability, Inc., Acadia Center, Pace Energy and Climate Center, and Natural Resources Defense Council.

¹⁹ Con Edison Rate Case, *supra* note 6.

²⁰ *Id.*, p. 8.

²¹ *Id.*, p. 9, provides the proposal’s detailed process for how the low load factor customers will be determined.

²² *Id.*, pp. 9-10.

²³ *Id.*, p. 3.

battery storage, and demand response.²⁴ The Con Edison EAM Proposal provides details regarding assumptions, calculations, targets, and dollar allocations regarding the DER Utilization EAM.

The Energy Intensity EAM is intended to incentivize efforts that will result in a decrease in energy intensity for Con Edison's customers beyond recent trajectories.²⁵ To the extent that the decline in energy intensity improves beyond the trend that has taken place since 2010, Con Edison will earn the outcome-based Energy Intensity EAM. The Energy Intensity EAM has two components: (1) energy use per customer for Service Classification 1 ("SC1") (*i.e.*, residential customers), and (2) energy use per employee for the combined Service Classification 2 ("SC2") and Service Classification 9 ("SC9") (*i.e.*, commercial customers). The metrics in each month will be expressed as the 12-month rolling average of weather normalized kWh use per customer for SC1 and the 12-month rolling average of weather normalized kWh use per employee for the combined SC2 and SC9, and sales will be adjusted for identified incremental beneficial usage.

IV. ELEMENTS OF A SYSTEM EFFICIENCY EAM

A. Background

The Con Edison EAM Proposal contains one programmatic System Efficiency incentive (MW Reductions) and three outcome-oriented System Efficiency metrics: (1) Load Factor; (2) DER Utilization, and (3) Energy Intensity. The Energy Intensity metric, while related to System Efficiency and explained herein, will be addressed by the Joint Utilities as part of a contemporaneous Energy Efficiency EAM filing, as the bulk of work related to Energy Intensity occurred within the CEAC Energy Efficiency Procurement and Markets working group.

B. MW Reduction

The Track Two Order expressed strong support for the use of peak reduction as one element of an incentive package aimed at improving system efficiency.²⁶ The utilities fully support this metric and to the extent they have not already done so, will propose a MW reduction metric in

²⁴ *Id.*, p. 4

²⁵ *Id.*, p. 10.

²⁶ REV Proceeding, Track Two Order, p. 75.

subsequent filings or an innovative alternative that addresses similar concerns. It is also important to note that while the Con Edison EAM Proposal classifies the MW reduction metric as a programmatic metric, the outcome of this metric, MW reductions, over time can transition to an outcome-based metric spurred not only by utility programs but also by utility actions supporting DER penetration and increased customer knowledge regarding how consumption patterns impact system costs.

C. Load Factor

a. Brattle Analysis

The Commission stressed the importance of benefits obtained by improving the system load factor.²⁷ The Joint Utilities agree that improvements in system load factor have the potential to provide benefits for the public and enlisted Brattle to evaluate how to most effectively develop a load factor metric consistent with the goals of REV. This analysis included two components: (1) an evaluation of recent trends in system load factor and the contribution of DER to that trend; and (2) an evaluation of the impact of a range of DER scenarios on system load factor going forward. For the first task, using data supplied by each of the utilities, Brattle computed the actual coincident load factors for each utility over the 2010-2015 period. These actual coincident load factors were termed “net” system load factors because they reflect DER impacts. Brattle then backed out DER impacts to produce a “gross” system load factor which does not reflect any impact of DER. The results of the analysis are presented below.

Comparison of Net and Gross Coincident Load Factors, 2010-2015

	Net Load Factor						Gross Load Factor					
	2015	2014	2013	2012	2011	2010	2015	2014	2013	2012	2011	2010
Central Hudson	0.594	0.617	0.539	0.559	0.531	0.525	0.594	0.614	0.540	0.560	0.532	0.526
Con Edison	0.577	0.564	0.521	0.560	0.535	0.553	0.578	0.566	0.524	0.562	0.537	0.554
National Grid	0.651	0.728	0.600	0.593	0.597	0.610	0.650	0.724	0.602	0.595	0.598	0.610
NYSEG	0.678	0.763	0.640	0.637	0.638	0.647	0.669	0.749	0.635	0.633	0.635	0.647
O & R	0.485	0.491	0.425	0.442	0.422	0.426	0.484	0.490	0.426	0.442	0.422	0.426
RG&E	0.592	0.723	0.570	0.549	0.594	0.589	0.591	0.714	0.568	0.548	0.593	0.589
Total	0.605	0.632	0.554	0.572	0.560	0.573	0.596	0.621	0.548	0.564	0.553	0.565

²⁷ *Id.*, pp. 75-76.

These results show that while the gross load factor has been less than the net load factor in each of the last six years, DER penetration has produced only a modest improvement in system load factors. However, the annual differences in the results from this table cannot be relied upon with any degree of statistical confidence because they fall well within the margin of error. Thus, while the historical load factor results point in the direction hypothesized by Brattle, there is no evidence that the results are material. This is likely attributable to two considerations. First, the level of DER penetration may not have been large enough to produce a meaningful impact. Second, other than demand response programs, other forms of DER have energy-to-peak profiles that are not markedly higher (and in some cases, lower) than the current system load factor.

Given the historic results, Brattle next performed a forward-looking analysis to assess the impact of varying levels of DER penetration on the system load factor. Brattle considered five scenarios, a “likely” scenario and four scenarios representing a range of more aggressive targets and varying resource combinations. The most aggressive scenario assumed that between now and 2020 savings from energy efficiency measures would increase by about 6,800 GWh, generation from solar PV resources would increase by about 3,500 GWh, combined heat and power would produce an additional 470 GWh, and MWs saved by demand response would be double the 2016 level. None of the scenarios, including the aggressive scenario, produced more than a 1.5 percent increase in load factor, a result that is not statistically meaningful.

Finally, Brattle considered a variety of potential portfolios of resources to determine the types of resource mixes having the greatest potential to improve load factor. Based on that analysis, Brattle developed two alternative portfolios to illustrate the amount and type of DER penetration necessary to meaningfully improve the system load factor. The two portfolios assumed that between now and 2020 generation from solar PV resources would increase by between 2,600 GWh and 3,000 GWh, and combined heat and power would produce an additional of between 260 GWh and 400 GWh. Both portfolios also assumed that demand response savings would rise from 29 MW in 2016 to 2626 MW in 2020. The main difference between the portfolios was that one assumed energy efficiency savings increasing by about 4,500 GWh while the other assumed an increase of over 20,000 GWh.

Brattle’s analysis found that these portfolios had the potential to improve the 2020 system load factor by between 3.6 percent and 4.0 percent. However, both stretch portfolios reflected an

extraordinary increase in peak-targeted demand response programs over a compressed period. Because the peak impacts of demand response in those portfolios are unrealistic, these two portfolios should be viewed as illustrative. Overall Brattle concluded that while DER will improve system load factor, the impacts over the next few years will be far less than the historic year-to-year variations in load factor.

b. Joint Utilities' Proposed Load Factor Metric

The Joint Utilities agree with the Commission that it is in the public interest to improve system load factors and support the use of a System Efficiency EAM that includes a load factor metric or an innovative alternative that addresses similar concerns. Brattle's analysis, however, shows that the use of a system load factor metric as a part of a System Efficiency EAM will not meaningfully capture the impact of activities by utilities and DER providers that improve existing asset utilization or load factor. The Joint Utilities, nevertheless, think that it is possible to develop a metric based on variations to the load factor definition that focus on specific outcomes that can be influenced by the actions of utilities and DER providers. Thus, the use of a more granular performance metric, such as the customer-based metric proposed by Con Edison, is appropriate for inclusion as a metric for a System Efficiency EAM. Given this conclusion, the utilities will develop load factor metrics based on load factor improvements that can measurably be impacted by the actions of utilities and DER providers. Options the utilities are considering include, but are not limited to, load factor improvements for: (1) groups of similar customers throughout the service territory with poor load factors; (2) mixes of customers throughout the service territory with poor load factors; and/or (3) groups of customers in the same geographic area based on substations and circuits with poor load factors. Because of the varying characteristics of each utility's service territory, customer mix, measurement capabilities, and other resources, the specifics of each load factor metric are likely to differ among the utilities. The specific load factor metrics and targets will be addressed in individual utility rate case or regulatory filings.

D. DER Utilization

The Con Edison EAM filing, as previously noted, includes a DER Utilization metric. This metric measures new entry DER and provides rewards as more DER enter Con Edison's service territory. The DER Utilization metric considers all MWhs produced, consumed, discharged, or reduced by all forms of DER. The Con Edison EAM Proposal notes that the purpose of this metric

is to encourage Con Edison to work with DER providers and expand the use of DER to reduce customer reliance on grid-supplied electricity and support beneficial electrification.

The remaining utilities support the use of a system efficiency metric that captures the extent to which DER is expanding within their service territories, as this outcome is a key policy objective of REV, or the use of an innovative alternative that addresses similar concerns. As with the load factor metric, it is important to recognize the varying characteristics of each utility's service territory, customer mix, measurement capabilities, and other resources. Thus, while the remaining utilities anticipate filing a metric capturing the extent to which DER is expanding in their service territories, the metric may not be identical to that proposed for Con Edison. The specific DER utilization metrics and targets will be addressed in individual utility rate case or regulatory filings.

V. NEXT STEPS

The Joint Utilities view the process to implement all EAMs as best addressed within utility rate case filings or alternatively specific regulatory filings. The process is likely to evolve over time as experience is gained regarding the robustness of metrics and the accuracy of targets. Nevertheless, the most immediate consideration for the utilities is the first step of filing proposed EAM metrics and obtaining stakeholder input to bring the EAMs before the Commission. The individual utility regulatory filings and/or rate cases will propose utility specific targets, budgets, and incentive structure/cost recovery supporting the System Efficiency EAM elements discussed in this filing. In that vein the Joint Utilities see the following next steps for each utility. As noted previously, the Con Edison EAM Proposal is now before the Commission for review and the proposed EAMs and programmatic incentives will commence upon approval. NYSEG and RG&E are filing a comprehensive EAM proposal today and the point in time when specific metrics become operational will depend on the process that the Commission establishes to review the proposal. The remaining utilities are assessing the Con Edison EAM Proposal and are considering options different from what has been proposed to determine if further innovation in metric design is possible for them.

National Grid is planning to file a rate case in April 2017 that will contain System Efficiency EAM proposals. National Grid will include system efficiency metrics that address MW reductions,

DER utilization, and load factor. National Grid is also considering the inclusion of other system efficiency metrics.

O&R plans to make a comprehensive regulatory filing in early 2017 that will include metrics, targets, budgets, and incentive structures for a collection of EAMs that will include system efficiency. O&R will address MW reductions, DER utilization, and load factor. O&R is also considering the inclusion of other system efficiency metrics.

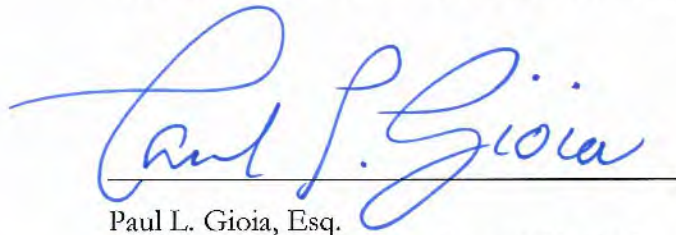
Central Hudson is planning to make a regulatory filing in the summer of 2017 that will contain System Efficiency EAM proposals. Central Hudson's size and service territory characteristics may result in the company pursuing innovative metric alternatives that are consistent with REV objectives but may not precisely match those filed by others.

VI. CONCLUSION

The Joint Utilities appreciate the opportunity to provide this filing on System Efficiency EAMs and the next steps for implementation.

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