

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held in the City of
Albany on June 21, 2021

COMMISSIONER PRESENT:

John B. Howard, Interim Chair

CASE 17-G-0432 - Petition of New York State Electric & Gas
Corporation for Authorization to Construct a
Natural Gas Compressor Pilot Project in
Tompkins County, NY.

ORDER APPROVING PETITION FOR NON-PIPE
ALTERNATIVE PROJECTS, WITH MODIFICATIONS

(Issued and Effective June 21, 2021)

INTRODUCTION

On September 1, 2020, New York State Electric & Gas Corporation (NYSEG or the Company) filed a petition seeking authorization to implement a Non-Pipe Alternative (NPA) Project designed to eliminate the need for natural gas compressor stations in the Town of Lansing in Tompkins County (Compressor Project).¹ As part of its petition, NYSEG includes analysis of the results of its second Request For Proposals (RFP) to procure market-based resources in lieu of the Compressor Project, a description of its proposed portfolio of solutions resulting from such RFP (NPA Portfolio), and a proposal for regulatory treatment of costs associated with implementing its proposed NPA Portfolio.

¹ The Compressor Project was approved by the Commission in this proceeding on November 16, 2017, in its Order Authorizing Natural Gas Compressor Pilot Project (Compressor Pilot Order).

BACKGROUND

NYSEG's Ithaca Division has experienced significant growth on its natural gas distribution system resulting in lower system operating pressures. During peak day conditions, minimum acceptable delivery pressures cannot be maintained at the north end of Ithaca's gas distribution system in Lansing, New York, resulting in reliability concerns on very cold days. NYSEG's gas distribution system is designed to maintain a portion of the Maximum Allowable Operating Pressure (MAOP) during very cold days. NYSEG's MAOP for the Lansing area is 60 pounds per square inch-gauge (psig).² NYSEG begins monitoring and evaluating the need for system reinforcements at or below 70% of MAOP (42 psig), and considers pressures between 50% (30 psig) and 70% of MAOP to have limited capacity for additional load growth. NYSEG typically seeks to maintain 50% of the MAOP at minimum to ensure safe operation of its system on peak days. NYSEG reports that its modeling currently results in pressures during a design day of between 14 psig (23% of MAOP) and 6.8 psig (11% of MAOP). Due to these reliability concerns, since 2015 NYSEG has operated under a moratorium on new or expanded gas service in the Lansing area.³

Prior to issuing its moratorium, NYSEG developed and proposed traditional infrastructure solutions which would both eliminate reliability concerns in the Lansing area for existing customers, as well as lift the 2015 moratorium, allowing new

² Pressures on fluid systems can be measured either on a gauge-basis or an absolute-basis. Gauge pressures measure the pressures inside a pipe not including atmospheric pressure, whereas absolute pressure includes both gauge pressure and atmospheric pressure. Generally absolute pressures are approximately 14 pounds per square inch greater than gauge pressures.

³ Moratorium Notification Letter to Secretary, NYSEG Moratorium (submitted February 9, 2015).

customers to take gas service, and existing customers to expand the use of natural gas in the affected area. NYSEG proposed and was granted authorization for the Lansing/Freeville Reinforcement Pipeline Project (Pipeline Project) as part of its 2015 gas rates proceeding,⁴ but was subsequently unable to obtain the necessary easements to implement such project.

Following its failure to obtain the necessary easements to implement the Pipeline Project, NYSEG requested authorization from the Commission to implement a Compressor Pilot Project to test whether the Company could alleviate the reliability issues in the Lansing area using less-expensive compressors.⁵ In its ruling, the Commission authorized NYSEG to implement its proposed compressor pilot program, and also directed NYSEG to develop and publish a RFP to seek market-based solutions for enough load relief to ameliorate both the Company's reliability issues and lift the moratorium in the Lansing area.⁶ NYSEG issued its RFP on December 18, 2017 (first RFP),⁷ seeking new supply or load relief equivalent to 430 thousand cubic feet per hour (MCFH) to achieve system pressures of at least 70% of the MAOP.

NYSEG received 13 proposals in response to its first RFP, however none of the responses met all the requirements of

⁴ Case 15-G-0284, et al., NYSEG Gas - Rates, Order Approving Electric and Gas Rate Plans in Accord with Joint Proposal (issued June 15, 2016).

⁵ Case 17-G-0432, NYSEG Lansing Compressor Pilot and NPA Projects, Petition of New York State Electric & Gas Corporation to Construct a Natural Gas Compressor Pilot Project in Tompkins County, NY (filed July 19, 2017) (Compressor Pilot Petition).

⁶ Case 17-G-0432, supra, Order Authorizing Natural Gas Compressor Pilot Project (issued November 16, 2017).

⁷ Case 17-G-0432, supra, Lansing NPA Request for Proposal (submitted December 17, 2017).

the RFP. NYSEG thereafter issued a Request for Information (RFI)⁸ on June 28, 2018, followed by a second RFP on December 4, 2019.⁹ The second RFP was focused on alleviating the reliability concerns in the Lansing area without seeking to lift the moratorium, thus the second RFP was designed to procure approximately 120 MCFH of load relief compared to the 430 MCFH goal of the first RFP.

Contemporaneous with its efforts to procure market solutions through its various RFPs and RFI, NYSEG also developed plans to alleviate the Lansing area's reliability concerns through traditional infrastructure projects in its recent rate proceedings. Specifically, in addition to its approved compressor pilot, the Company proposed a small capital project along East Shore Drive in Lansing (East Shore Drive Project) to support local pressures by interconnecting higher operating pressure portions of the distribution system to lower operating pressure portions of the system. The East Shore Drive Project is expected to increase operating pressures in the Lansing area by 14.9 psig. The Commission authorized the East Shore Drive Project as part of its Order Approving Electric and Gas Rate Plans in Accord with Joint Proposal, with Modifications on November 19, 2020.¹⁰

⁸ An RFI differs from an RFP in that there is no commitment to procure any of the submitted bids, even if such bids meet all requested criteria. Results from RFIs are often used to help determine interest in later procurements, or can be used to develop future procurements.

⁹ NYSEG issued a Request for Proposals soliciting for 120 MCFH in either gas demand reductions or increase in gas supply.

¹⁰ Case 19-G-0378, et al., NYSEG and RG&E Electric and Gas Rates, Order Approving Electric and Gas Rate Plans in Accord with Joint Proposal, with Modifications (issued November 19, 2020) (NYSEG and RG&E Rate Order).

PETITION

The Company states that it received 16 proposals from 15 respondents in response to its second RFP. NYSEG states that the submitted proposals include non-gas solutions such as various heat pump applications using air, ground, water, and community loop type technologies, heat recovery, energy efficiency measures, hydrogen injection, dynamic electrification, a demand response thermostat program, and an outreach and education program. The Company states that it received a number of supply proposals including use of Compressed Natural Gas (CNG), Liquefied Natural Gas (LNG), and Renewable Natural Gas as a supply component of the LNG proposal. The submitted proposals include various delivery models such as shared savings, direct installs/builds, installer consortium with enhanced rebates, not-for-profit outreach that included low to moderate income customers and utility distribution of products.

The Company states that it conducted research and multiple rounds of questions and answers with the responding developers, during which three of the proposals were eliminated from further consideration because they did not meet the needs or the system design characteristics as required and explained in the RFP, or because of lack of operating data to allow NYSEG to confirm the potential efficacy of certain technologies or determine if they were commercially available for a sufficient time. NYSEG states that it initiated two further iterations of review on the remaining 13 proposals which included a technical review and then a Benefit Cost Analysis (BCA) review. The Company states that the technical review process consisted of auditing the gas demand savings proposed by each developer and proposal to ensure attainability. After the technical analysis was completed and any necessary gas demand savings adjustments

were determined for each of the remaining proposals, the BCA review process was completed for each of the 13 remaining proposals. NYSEG states that it clarified specific data with the developers for each of the remaining proposals to accurately complete the BCA as part of this review phase. NYSEG states that it performed a detailed review of the assumptions made regarding which streams of costs and benefits were included in the analysis and consulted with Department of Public Service Staff.

In response to the RFP, NYSEG received the following proposals:

Proposal One is by a consortium of heat pump and HVAC installers. This proposal includes the installation of residential heat pumps along with supportive or complimentary energy efficiency solutions to customers within the zone of highest impact in the moratorium area and expected to achieve an hourly gas demand savings of 42.7 MCFH after an installation period of three years. This proposal includes NYSEG marketing efforts to assist in achieving the customer acquisition goals and has a current reported BCA ratio of 0.29.

Proposal Two includes the implementation at a single non-residential building of a ground source heat pump and additional energy efficiency solutions to be installed in 2020. This facility is located in the second highest impact zone and is expected to provide an hourly gas demand savings of 0.41 MCFH in the moratorium area with a reported BCA ratio of 0.04.

Proposal Three is the installation of a community loop ground source heat pump project along with gas energy efficiency solutions for a specific neighborhood in the highest impact zone. This project is expected to be implemented in 2021 and provide an hourly gas demand savings of 2.05 MCFH with a reported BCA of 0.13.

Proposal Four involves the installation of a geothermal heat pump and energy efficiency solutions at a non-residential building located in the zone of highest impact. This project was completed in 2019 with an estimated gas demand reduction of approximately 1.8 MCFH and a reported BCA ratio of 0.06.

Proposal Five and Six are two proposals from the same developer, presented as mutually exclusive options for load relief achieved from the same site. Proposal 5 includes the implementation of gas energy efficiency solutions at two buildings and the installation of new energy efficient natural gas boilers at one of those buildings, both owned by a public authority in Lansing and located in the zone of highest impact. These solutions are expected to be installed in 2020 and 2022 with an expected total gas demand savings of 4.08 MCFH with a reported BCA of 0.10. Proposal 6 includes installation of an electric heat pump at the same site and serving the thermal needs of the same two buildings, providing an estimated gas demand reduction of 6.2 MCFH, with a resulting BCA of 0.07.

Proposal Seven is the implementation of a waste heat recovery solution for an industrial gas customer and located in the zone of highest impact. This solution is expected to be installed in 2021 with an expected gas demand savings of 5.3 MCFH with a reported BCA of 2.60.

Proposal Eight is a developer implementation of a demand response solution of several non-residential customers switching fuel from natural gas to electric. This solution would be located in the zone of highest impact and dispatched when needed for a reliability event with an installation schedule in 2021, an estimated gas demand reduction of 1.42 MCFH and a reported BCA ratio of 0.29.

Proposal Nine is a developer implementation of a smart thermostat gas demand response solution in the zone of highest impact. This solution would be implemented in 2021 and operate through 2025 with an estimated gas demand reduction of 2.0 MCFH and a reported BCA ratio of 0.02. Additionally, this solution would require NYSEG marketing efforts and the creation and implementation of a gas demand response program.

Proposal Ten proposes the installation of proprietary heat pumps targeted to customers across all three zones and would also require NYSEG marketing efforts. This solution would begin implementation in 2021 and operate through 2023 with an estimated peak demand savings of 1.4 MCFH at the end of the three years and a reported BCA ratio of 0.11.

Proposal Eleven is the installation of a proprietary fuel cell solution for residential and commercial customers and included a hydrogen injection component into the NYSEG gas distribution system. This solution was targeted for the zone of highest impact but did not meet the requirements to move on to the BCA evaluation step.

Proposal Twelve offered a hydrogen generation and injection solution for the NYSEG gas distribution system. This solution was deemed an unproven technology and did not meet the RPF requirements, so the BCA was not performed.

Proposal Thirteen offered a CNG delivery and injection solution into the NYSEG gas distribution system and included on-site compression and decompression capabilities providing 120 MCFH in supply during a peak day. The solution would require a ten-year contract commencing in 2021. This solution did not meet the RPF requirements, so a BCA was not performed.

Proposal Fourteen included the implementation of an LNG supply solution providing 120 MCFH in supply during a peak

day. The solution would require a ten-year contract commencing in 2021 with a reported BCA ratio of 0.95.

Proposal Fifteen included the implementation of an LNG supply solution providing 120 MCFH in supply during a peak day. This solution offered an option to incorporate RNG attributes, for an additional cost, as part of the LNG supply. The solution would require a ten-year contract commencing in 2021 with a reported BCA ratio for the supply option with and without RNG of 0.86 and 1.12, respectively.

Proposal Sixteen is the implementation of an education and outreach program in the Lansing School District area coupled with additional heat pump incentives for interested households to switch from gas space heating or hot water heating to electric heat pumps. The proposed rebates for this solution would be in addition to the existing rebates associated with NYSEG's energy efficiency heat pump incentives. The program would target customers within the highest impact zone and operate for five years. This solution would use a program delivery model attracting participants through school-based education and community outreach with a suggested gas demand savings of 9.7 MCFH and a reported BCA of 0.43. For this proposal only, the education and outreach elements of the solution are included in the Company's proposed NPA portfolio.

The Company states that the gas supply proposals were not aggregated into various potential portfolios because the gas supply proposals each met the MCFH need identified in the RFP. NYSEG, however, does not recommend moving forward with the gas supply proposals due to local concern for resulting safety and environmental issues and that the inclusion of those solutions would generate public opposition which may result in increased costs and delays.

Because none of the individual non-supply proposals met the entire MCFH need identified in the RFP, the Company states that it completed benefit-cost analyses for various combinations of non-supply proposals in different portfolios. NYSEG states that it then examined the various portfolios for cost effectiveness, gas demand savings achievement potential, and how the costs associated with the various portfolios compared to the estimated costs for various physical infrastructure options. The Company states that it also implemented two additional criteria due to proposals that were competing for the same residential gas heating and hot water customer base. NYSEG determined whether the proposal provided a complete and viable program providing confidence for the expected gas demand savings and whether the proposal would detract or compete with the ability of other proposals to achieve a greater than projected gas demand savings. Finally, NYSEG states that it optimized a portfolio from the non-gas proposals to achieve the highest MCFH savings potential with the greatest customer impact and diverse set of solutions, keeping the total developer cost of the solutions at less than the avoided cost of the compressor project.

NYSEG's Petition recommends the implementation of an NPA Portfolio comprised of Proposal One, Proposal Two, Proposal Three, Proposal Four, Proposal Five, Proposal Seven, and Proposal Sixteen. NYSEG states that implementation of its proposed NPA Portfolio would result in gas peak hour demand savings of 56.34 MCFH and that the portfolio would also provide increased service reliability to existing customers in the Lansing area. The Company further argues that the portfolio is consistent with and progresses toward the goals identified in the Climate Leadership and Community Protection Act (CLCPA), NYSEG's goal of no net increase in gas utilization included in

its most recent Joint Proposal,¹¹ and supports local environmental advocacy.

NYSEG requested that the accounting and regulatory treatment of NPA costs follow the NPA-related cost recovery provisions included in its then-recently filed Joint Proposal.¹² NYSEG states that the terms of its Joint Proposal allow for costs incurred for implementation of new NPAs during the Rate Plan to be deferred with carrying costs, and amortized over the anticipated used and useful life of the installed assets and equipment, with offsetting credits to the extent that a project defers the need for traditional infrastructure included in the Company's Average Gas Plant in Service Balance. NPA projects without a clearly measurable period of amortization shall use a 20-year default amortization period. During the term of the Rate Plan and until base rates are reset, the amortized portions of such cost will be recovered through a separate surcharge. Any unamortized costs plus carrying charges will be incorporated into base rates when gas base rates are reset.

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 October 7, 2020 [SAPA No. 17-G-0423SP2]. The time for submission of comments pursuant to the Notice

¹¹ NYSEG and RG&E Rate Order, Joint Proposal with Appendices - PUBLIC.

¹² These provisions were approved by the Commission and are contained in Appendices M and HH to the NYSEG and RG&E Rate Order. The Joint Proposal also included quarterly and annual reporting requirements related to ongoing NPA projects, which were similarly approved by the Commission and would also apply to the Company's NPA Portfolio.

expired on December 7, 2020. The comments received are addressed below.

COMMENTS

Comments were submitted by three parties: Cornell Cooperative Extension of Tompkins County (CCETC), Fossil Free Tompkins (FFT), and Multiple Intervenors (MI). Both CCETC and FFT were generally supportive of NYSEG's proposed NPA Portfolio, though both CCETC and FFT recommend certain modifications to the proposed NPA Portfolio, whereas MI recommended that the Commission reject the Company's proposal outright.

CCETC states that it submitted Proposal Sixteen. CCETC explains that its proposal is comprised of two parts: (1) outreach and education throughout the Lansing area on the benefits of electrification of appliances, particularly those used for water and space heating; and (2) to provide incentives to low- and moderate-income customers in the Lansing area to convert existing space and water heating equipment to heat pumps. CCETC explains that a major part of its planned outreach and education activities center around exposition of the heat pumps proposed in Proposal Six (replacing existing gas-fired boiler equipment with a geothermal heat pump system) at the Lansing Central School District (LCSD), as well as geothermal systems installed at other local sites. CCETC expresses concern that the effectiveness of its efforts would be jeopardized if the Commission accepts NYSEG's proposed NPA Portfolio containing Proposal Five (upgrading the existing gas-fired boiler in-kind to a more efficient model) instead of a portfolio containing Proposal Six. CCETC suggests that opting to support an in-kind replacement of the gas-fired boiler would send a strong message to the community that continuing to use natural gas is a responsible solution. CCETC recommends that the Commission

direct NYSEG to implement Proposal Six instead of Proposal 5 as part of its NPA Portfolio.

FFT states that it largely, but not entirely, supports NYSEG's proposed NPA Portfolio. FFT concludes that the NPA Portfolio is the only viable pathway for NYSEG to address reliability concerns in the Lansing area since gas-based alternatives have failed to gain siting permissions from landowners. FFT notes that the 56 MCFH of load relief provided by the NPA Portfolio would restore reliability in the Lansing area, provided there is no further growth in gas use, represents a 43 percent reduction in peak heating load, and a 23.5 percent reduction in overall peak gas load in the Lansing area.

MI recommends that the Commission deny NYSEG's petition in whole or in large part, since the proposals included in the NPA Portfolio do not pass the SCT test. MI states that it typically supports gas NPAs and electric Non-Wires Alternatives (NWAAs) as a method of satisfying gas and electric system needs at least cost to customers and in a cost-effective manner, however, MI points out that the Company's proposed NPA Portfolio would cost \$9.6 million and does not pass BCA tests. MI argues that BCA result for the overall NPA Portfolio is buoyed by a single high-ratio project, and that the NPA Portfolio proposed by the Company does not meet the 120 MCFH level initially requested. MI argues that the Company's proposed NPA Portfolio is neither cost-effective nor effective in addressing NYSEG's system need.

MI raises two further points beyond the specifics of the NPA Portfolio. First, MI argues that if the Commission were to approve the Company's NPA Portfolio it would signal that BCA results are essentially meaningless, and that the requirement of conducting BCAs might as well be eradicated. Second, MI notes that the Company's petition identifies community opposition as

the reason that gas reliability issues have taken so long to address and still remain, and that the Company has been unwilling or unable to pursue both the Pipeline Project and the Compressor Pilot. MI argues that community opposition to infrastructure projects should not be the basis for implementing uneconomic alternatives and impose significant additional costs on NYSEG's general body of customers.

DISCUSSION AND CONCLUSION

The NPA portfolio proposed by NYSEG is approved with modifications, as discussed below. As noted above, and described in detail below, NYSEG is directed to implement an NPA Portfolio with modifications to the individual component projects in that portfolio. I do not anticipate that the Commission will regularly make specific findings or directives related to a utility's selection of component projects that make up a typical NPA. However, the service conditions in the Lansing area and the Company's proposed NPA Portfolio are not typical. As noted in the Petition, an NPA solution is needed to support system reliability since there are few other options, absent the NPA Portfolio, for the Company to meet those needs in reasonable time and at a reasonable cost.

However, as discussed in greater detail below, I find that one of the component projects that the Company has selected for inclusion in the NPA Portfolio is unreasonable. Furthermore, the NPA portfolio, as modified, is reasonable in this case primarily because it can be implemented at a lower cost than the infrastructure project it was designed to avoid, therefore, the component projects must be carefully selected to provide a portfolio that meets the load relief requirements needed to avoid the Compressor Project while maintaining the cost of the portfolio below that of the cost of the Compressor

Project. Due to these factors, it is reasonable in this unique instance for to take the atypical step of directing NYSEG to implement a portfolio of component projects which differs from the Company's proposed NPA Portfolio.

There are three main areas of focus for a successful NWA or NPA project: (1) any alternative to a traditional utility infrastructure project must satisfy any required reliability improvements that prompted the need for the traditional project; (2) the utility should conduct a BCA for all viable alternatives and use an appropriate application of the Societal Cost Test (SCT); and (3) consider whether the alternative project(s) cost less, or provide greater net benefits, than the traditional infrastructure alternative on a Net Present Value (NPV) of Revenue Requirement basis. Ideally, a NWA/NPA project would both pass the SCT and cost less on an NPV basis, however, NWA/NPA projects that meet only one of these criteria may still be reasonable. NWA/NPA projects which pass the SCT test, in particular those that provide the greatest net benefits, by definition, result in net benefits for society as a whole and should usually move forward, provided that resulting bill impacts are not unreasonable. NWA/NPA projects that cost less, on an NPV-basis, than the traditional alternative, support the Commission's longstanding goal of providing safe and reliable service at least cost, provided, however, that the alternative project is consistent with the State's policy objectives and that the alternative project adequately addresses any system reliability need.

Both FFT and MI submitted comments regarding the Company's BCA, MI claiming that the NPA Portfolio is not cost-effective and FFT arguing that the Compressor Project is not a reasonable alternative to compare NPA Portfolio costs against, however, both commenter's conclusions are off the mark. As

noted by the Company, NYSEG has failed to obtain permission from landowners to site the compressor stations through traditional means, however, it has not exhausted all means of building such a project, such as the use of eminent domain. Absent the NPA Portfolio, NYSEG would likely have to pursue obtaining the necessary land to support reliability of its system through eminent domain, which would almost certainly result in significantly higher Compressor Project costs. While it is a surety that Compressor Project costs would rise if the Company were to obtain the necessary land through eminent domain, such additional costs are currently unknown and would likely be significant. Since the true costs of the Compressor Project achieved through eminent domain are unknown and very difficult to forecast, it is reasonable to rely on the initial cost estimates of the Compressor Project as the point of comparison for the NPA Portfolio.

Although MI is correct that the current reported SCT result of the NPA Portfolio is less than 1.0, it is important to keep this measure's construct and purpose in perspective. First, and foremost, this BCA ratio does not include any estimate of the reliability benefits provided by any of the projects that are being compared to the traditional solution and each other. In fact, had the same BCA approach been used by the Company to value the traditional infrastructure project, that project's BCA ratio would have been calculated to be zero. The problem is not the total net value that these projects provide to society; the problem is that all these BCA ratios exclude the

most important benefit provided by the projects.¹³ Second, this result likely does not factor in any unknowable incremental costs NYSEG may incur due to public opposition to its originally proposed compressor project. The BCA result presented herein is, in effect, a very conservative estimate whose result would likely be substantially improved if it were possible to forecast the incremental costs of eminent domain. Rather being a gauge of whether these projects are a net benefit to society, , these ratios actually represent a relative evaluation of the additional benefits above and beyond the fundamental reliability benefits which any of these proposals must provide, and simply serve as a way to rank alternatives. It is simply unnecessary to re-evaluate here the costs and benefits of long-held, fundamental reliability standards that are required for proper reliable utility service, and these benefits are not included in any of the BCAs. It is also simply inaccurate to claim that these ratios indicate that any of these projects or portfolios "fail" the Societal Cost Test.

While BCA is a critical decision-making tool, it is not the only tool. Whether a program is reasonable to implement requires wider consideration than whether it does or does not pass BCA tests. Not all programs which pass BCA tests are inherently reasonable, nor are all programs which do not pass BCA tests inherently unreasonable. In addition to the BCA-

¹³ Typically, reliability-based projects are not subjected to the typical SCT since their need is driven by system conditions as required under long-standing engineering reliability standards. In most cases these standards have been developed over decades of prudent utility practices that have balanced the costs of maintaining those standards against the system reliability that they ensure. Comparison of the benefits versus the costs of these standards is not required to be conducted every time a reliability-based project is needed and proposed. Thus, for such projects, the evaluation usually reduces to the simple comparison of the costs of alternatives.

related issues previously discussed, implementing an NPA project is reasonable in this instance since the NPA project presents a least-cost scenario for meeting reliability needs in the Lansing area.

The Company's proposed NPA Portfolio therefore is modified by removing one project and substituting another in its place. The decision to modify a submitted NPA Portfolio is not taken lightly, nor is it anticipated that modifying future NPA project portfolios will be a common occurrence, however, certain proposals that NYSEG has chosen to include in its NPA Portfolio are not reasonable. Specifically, Proposal Four (the geothermal heat pump system located at Lansing Airport) is not reasonable to include in the NPA Portfolio. Proposal Four was completed prior to the date that the second RFP was published, and therefore it could not possibly provide the incremental load relief requested in the RFP. The airport made its business decision to invest in the geothermal system and knew or should have known all of the risks associated with that decision - it is not reasonable to expect customers to subsidize the project after the fact when it provides no incremental benefits responsive to the present RFP. Similarly, it is not reasonable to include the load relief associated with Proposal Four to be part of the load relief amount achieved by the NPA Portfolio, since such load relief was already in place prior to the RFP being issued.

In place of Proposal Four, NYSEG is directed to include Proposal Eight (the non-residential firm customer Demand Response program) in the NPA Portfolio. This project would add an additional 1.42 MCFH to the remainder of the NPA Portfolio and has the highest individual BCA ratio of the non-supply proposals which had not been part of the Company's proposed NPA Portfolio. That is, Proposal Eight provides necessary

additional load relief at the best BCA ratio of the non-supply proposals not already included in the Company's proposed NPA Portfolio. Therefore, the modified NPA Portfolio shall consist of Proposals One, Two, Five, Seven, Eight, and Sixteen (Modified Portfolio). The Modified Portfolio is estimated to cost \$9.7 million and provide 56.0 MCFH of peak hour load relief.

The request made by both FFT and CCETC, that the Commission direct NYSEG to implement Proposal Six (the geothermal heat pump system at LCSD) instead of Proposal Five (the gas EE boiler upgrade at LCSD), is rejected. As discussed above, what is important for this project is that the Company's reliability needs are met, and that the costs of implementing the modified NPA Portfolio are less than those of implementing the Compressor Project. Although implementing Proposal Six instead of Proposal Five would result in approximately 2.2 additional MCFH of load relief, Department of Public Service Staff reports that there is approximately a \$4.5 million difference in cost between Proposals Five and Six, enough to make the Modified NPA Portfolio more expensive than the Compressor Project if Proposal Six were included in lieu of Proposal Five.

Although it is not reasonable to require NYSEG customers at large to fund this incremental cost, stakeholders in Lansing should be afforded the opportunity to install the proposed geothermal system at LCSD if they can provide the \$4.5 million cost differential between Proposals Five and Six, that is, implementing Proposal Six at the same cost to overall NYSEG customers as would have been incurred to implement Proposal Five. NYSEG is directed to allow stakeholders 60 days to execute a contract with the Company to provide the cost

differential between Proposals Five and Six.¹⁴ If NYSEG and Lansing stakeholders execute such contract within the specified time period, the Company shall implement Proposal Six in lieu of Proposal Five as part of the Modified NPA Portfolio. NYSEG is directed to file a letter with the Secretary to the Commission once contract negotiations have concluded stating whether the Company will implement Proposal Five or Proposal Six.

NYSEG specifically requested that costs related to its proposed NPA Portfolio be recovered in the same manner of NPA project costs included its 2020 Joint Proposal, which was later approved by the Commission in the NYSEG and RG&E Rate Order. As previously discussed, the Modified NPA Portfolio is considered an NPA Project, and is therefore eligible for the accounting and regulatory treatment applicable to NPA projects as approved in the NYSEG and RG&E Rate Order. The Joint Proposal also included quarterly and annual reporting requirements related to ongoing NPA Projects, which the Company is similarly required to satisfy here with its Modified NPA Portfolio.

The Modified NPA Portfolio will provide sufficient hourly demand reductions needed to bolster system reliability to meet the winter peak conditions noted by the Company, provided that there is minimal gas demand growth from existing customers in the moratorium area. Out of an abundance of caution, however, it is reasonable to closely monitor conditions on system and require that NYSEG stand ready to respond quickly in the event that conditions call for action from the Company to ensure the continued provision of safe and reliable service. In addition to the quarterly and annual reporting required of all NPA projects, NYSEG is directed to continue monitoring the pressure at the Lansing School. For the entire duration of the

¹⁴ If additional time is needed, NYSEG may request an extension of this deadline from the Secretary to the Commission.

moratorium, NYSEG shall report monthly, November through March, the pressure, average daily temperature, and date of occurrence for the lowest incurred pressure for each reporting month. In the event that the pressure readings at the Lansing School reach 31 psig or lower, a value that is approximately 20% below the NYSEG Pressure reading of 38.74 psig that occurred on February 8, 2021, NYSEG, in consultation with Staff, shall file a contingency plan within 30 days of such occurrence detailing the actions it will take to maintain system reliability if pressures drop below the specified threshold. This contingency plan must include an emergency supply source necessary to maintain system pressures as needed. NYSEG must also engage with stakeholders and seek feedback before finalizing its contingency plan. NYSEG will not be required to implement its contingency plan and associated alternate supply source if it is able to reduce peak day demand and maintain the system pressure at the Lansing School above the 31 psig threshold.

It is ordered:

1. New York State Electric and Gas Corporation shall implement the Modified NPA Portfolio as directed in the body of this Order.

2. New York State Electric and Gas Corporation shall provide 60 days from the effective date of this Order to allow for negotiations and contract execution for stakeholders to provide the difference in cost between Proposal Five and Proposal Six.

3. New York State Electric and Gas Corporation shall file a letter with the Secretary to the Commission in this proceeding regarding the status of the contract negotiations and execution provided in Ordering Clause No. 2 once such

negotiations are concluded or when such contract has been executed.

4. New York State Electric and Gas Corporation shall monitor pressures at the Lansing School and report monthly in accordance with the directives in the body of this Order.

5. New York State Electric and Gas Corporation shall develop and file a contingency plan, as directed in the body of this Order, if the pressures at the Lansing School fall to or below 31 pounds per square inch gauge.

6. 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 three days prior to the affected deadline.

7. This proceeding is continued.

(SIGNED)

Commissioner