Mary Krayeske
Assistant General Counsel
Law Department

February 24, 2022

Honorable Michelle Phillips
Secretary
State of New York Public Service Commission
Three Empire State Plaza
Albany, NY 12223-1350

Dear Secretary Phillips,

Attached please find the Petition of Consolidated Edison Company of New York, Inc. to Support Clean Heat Market Growth Through Transfer of Unspent and Previously Authorized Funding.

Please contact me if you have any questions.

Sincerely,

/s/ *Mary Krayeske*

Mary Krayeske

Attachments

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STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of a Comprehensive Energy Efficiency Initiative	))	Case 18-M-0084

PETITION OF CONSOLIDATED EDISON COMPANY OF NEW YORK, INC. TO SUPPORT CLEAN HEAT MARKET GROWTH THROUGH TRANSFER OF UNSPENT AND PREVIOUSLY AUTHORIZED FUNDING

I. INTRODUCTION

Consolidated Edison Company of New York, Inc. ("Con Edison" or the "Company") seeks the New York Public Service Commission's ("Commission") approval to transfer and use unspent and authorized funding to support the Company's implementation of the New York Clean Heat Program ("Clean Heat" or the "Program") pending the New Efficiency New York ("NENY") Interim Review Order.[1] Given current incentive levels and application volumes, the Company projects that it will achieve its cumulative (2020-2025) NENY Clean Heat savings target at a lower cost than the Commission authorized during the first quarter of 2022.[2] Specifically, the Company projects to fully expend its $227 million NENY Clean Heat budget allocation by the end of the first quarter of 2022. To meet the continued customer request volume, the Company implemented the NENY Order's flexibility to use future budgeted amounts to achieve the six-year cumulative target in just two years. However, this change alone does not provide sufficient funding to address the volume of incentive requests. Thus, the

[1] The Clean Heat Program was authorized under the New Efficiency New York Proceeding., Case 18-M-0084, *In the Matter of a Comprehensive Energy Efficiency Initiative* ("NENY Proceeding"), Order Authorizing Utility Energy Efficiency and Building Electrification Portfolios Through 2025 (issued January 16, 2020) ("NENY Order"), pp. 53, 59-61. The NENY Order expects that an interim review, that will address funding for the remainder of the NENY term, will commence in 2022.
[2] As of January 31, 2022, the Company had achieved 97 percent (965,700 MMBtu) of its cumulative NENY Clean Heat target.

Company requires additional funding, through transfers of unspent and previously authorized funding, to continue the Program. As explained below, the total request for potential transfer to the Clean Heat Program is $418 million. The Company expects to transfer a total of up to $348 million to the Clean Heat Program in 2022 and up to an additional $70 million in 2023, if necessary. To be clear, the Company asks for budget flexibility to effectuate these already authorized funding transfers to maintain the momentum the Program has built and keep it running.

First, using the existing budget flexibility authorized in the NENY Order, the Company will transfer $216 million of unspent funds from its non-Low- and Moderate-Income ("LMI") electric energy efficiency programs to the Clean Heat program because the Company has demonstrated expected achievement for these goals without using the non-LMI electric energy efficiency program's full allocation.[3] This $216 million is comprised of 2020-2021 unspent funds and projected unspent funds for 2022-2025 that arise because the Company is providing programs at a lower cost than the NENY Order anticipated.

Second, to address needed funding beyond Summer 2022, the Company proposes to transfer up to $202 million to offset projected Clean Heat costs from two sources: $46 million of previously-collected unspent funds from legacy energy efficiency programs and $156 million previously-authorized NENY funds. The Company projects that these transfers will sustain the Clean Heat program into the first quarter of 2023.[4] This petition requests that the Commission: (1) approve the transfer of previously-collected unspent funds, and (2) to transfer this portion of

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[3] As is explained below, the NENY Order allows for this transfer of funds so long as the Company demonstrates that it can achieve the goals. *See*, NENY Proceeding, NENY Order, pp. 69-70.

[4] Because the Clean Heat market and program continue to develop, the Company's Clean Heat program growth forecasts are uncertain. For this reason, the Company proposes to only transfer the above-identified funds to the program if such transfers are necessary to continue to fund the program.

the previously authorized NENY amounts, and (3) change the NENY non-electric LMI goals from annual to cumulative.

Finally, the Company requests a Continuity Funding mechanism to be drawn upon if necessary, should previously-authorized funding be exhausted before the Commission completes the NENY Interim Review, at a cost of approximately $32.5 million per month in 2023.

Continuing the Clean Heat program will assist the State in meeting its Clean Energy goals and should be addressed as soon as practicable so that the existing program momentum can continue. Today, utility-run Clean Heat programs provide crucial support to the heating electrification market. To remain consistent with Commission policy that the Clean Heat program be designed to "provide a clear and stable market signal,"[5] any short-term market disruption, such as an interruption of the Clean Heat program due to lack of funding, must be avoided during the market's growth. Such disruption could cause the market to lose the ground it is gaining – both in terms of customer interest in the technology and the growth of the contractor installation businesses – and jeopardize achievement of the State's goals for greenhouse gas reduction and one million electrified and one million electrification-ready homes. As such, the Company requests expedited treatment for this petition, including issuing a decision at the June 16, 2022 Open Session.

II. BACKGROUND

A. Clean Heat Program

Transitioning heating from fossil fuels to electricity supports New York's greenhouse gas emissions reduction objectives as outlined in the Climate Leadership and Community Protection

[5] NENY Proceeding, Order Adopting Accelerated Efficiency Targets (issued December 13, 2018) ("2018 NENY Order"), p. 61.

Act ("CLCPA").[6] Most recently, Governor Kathy Hochul announced the new goal of electrifying one million homes and making another one million homes electrification-ready by 2030.[7] Assuming a load-ratio-share basis[8] for the electrification of the initial one million homes, the Company must convert approximately 350,000 homes in its service territory. By contrast, the NENY Order allocated amounts for the equivalent conversion of only approximately 20,000 homes in Con Edison's territory. Thus, there is a large gap between the original NENY Order goals and current State goals.

To assist in converting homes to electric heat, the Commission established utility-specific budgets and targets for New York Clean Heat, the State's statewide space and water heating electrification program.[9] Since its introduction in March 2020, the Clean Heat Program has offered contractor and customer incentives to reduce the costs of air-source and ground-source heat pumps to install these technologies to heat homes and businesses.

New York electric utilities implement the statewide Clean Heat program with input from the New York State Energy Research and Development Authority ("NYSERDA")[10] through the Joint Management Committee ("JMC") structure, with oversight from Department of Public

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[6] S.B. S6599, Climate Leadership and Community Protection Act, p. 11. *See*, https://www.nysenate.gov/legislation/bills/2019/s6599

[7] New York State of the State Address 2022 (January 5, 2022), p. 127. *See*, https://www.governor.ny.gov/sites/default/files/2022-01/2022StateoftheStateBook.pdf

[8] Load Ratio Share refers to the percentage of the total volumetric electricity delivered statewide that is delivered by Con Edison to its delivery customers. According to Con Edison's 2020 10-K Annual Report, the Company delivered approximately 55,154 GWh of electricity to its customers in 2019, equating to roughly 35 percent of the statewide total of 155,848 GWh found in the New York Independent System Operator's ("NYISO") 2020 Load and Capacity Data Report ("the "Gold Book"). Con Edison Inc., 2020 Annual Report, p. 22, and NYISO, 2020 Load and Capacity Data Report, p. 13.

[9] NENY Proceeding, NENY Order, Appendix C, Table C1.

[10] NYSERDA supports the Clean Heat Program through its market education and outreach efforts as well as through programs like its Flexible Technical Assistance energy auditing offering for qualifying buildings. This petition does not propose any changes to NYSERDA's role in the implementation of the Clean Heat Program. Cases 14-M-0094, et al., Proceeding on Motion of the Commission to Consider a Clean Energy Fund, Order Approving Clean Energy Fund Modifications (issued Sept 9, 2021), p. 94.

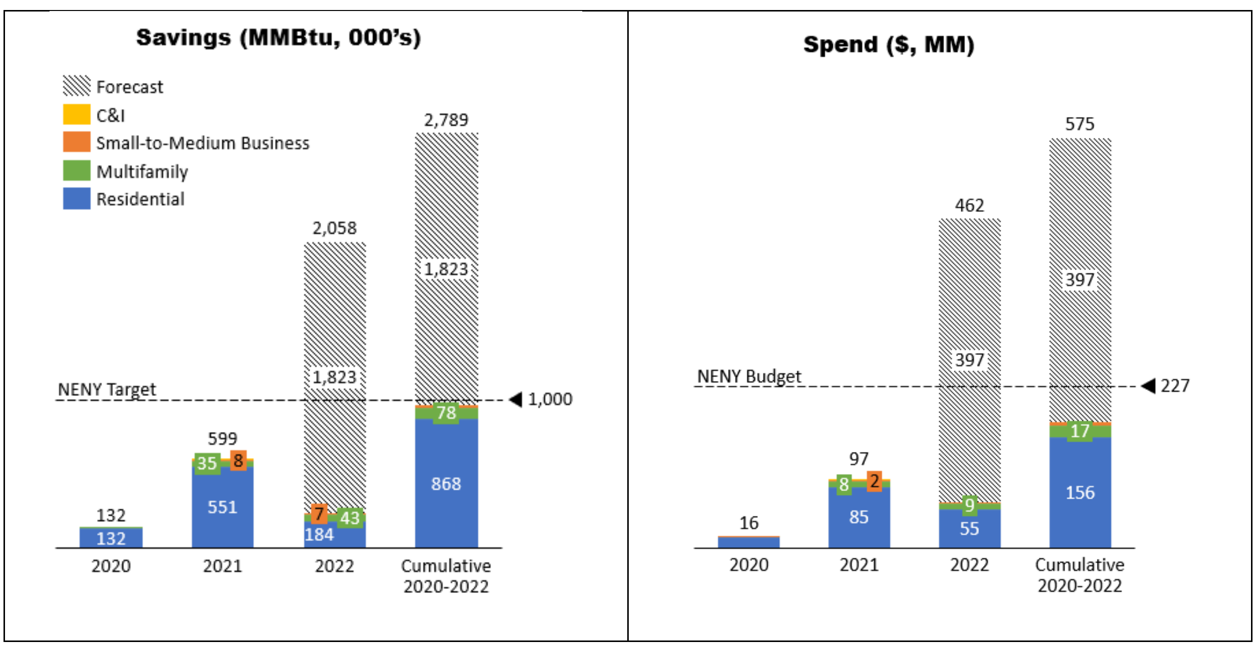
Service Staff ("DPS Staff"). Through the Program, the Company has supported the growth of the market for clean heat in its service territory, including businesses, such as installation contractors, equipment distributors, and equipment manufacturers.

B. Con Edison Clean Heat Program Achievement, Expenditures, and Forecast

As of January 31, 2022, Con Edison's Clean Heat Program had achieved 97 percent (965,700 MMBtu) of its cumulative NENY MMBTU savings target, electrifying approximately 3,000 homes in 2020, and just under 10,000 in 2021. The Program's incentive-based structure has attracted contractors and customers with rapid growth in the second half of 2021 and continuing into 2022. Ninety-eight percent of the Clean Heat projects were in the residential sector. Given this level of growth, the Company forecasts significant Program growth in 2022.

Figure 1 shows the current spending and savings achieved since 2020, demonstrating the growth that has been occurring.

Figure 1: Con Edison's Clean Heat Program Achievement and Spending by Year



As Figure 1 shows, the strong growth of the Clean Heat Program will exhaust authorized funding in early 2022. The Commission initially authorized $227 million for the 2020-2025 Clean Heat Program. As Figure 1 illustrates, the Company spent approximately $16 million on Clean Heat in 2020, and approximately $97 million in 2021.[11] Moreover, the Company has received incentive invoices totaling $62 million in January 2022.[12] While the Company is reducing incentives given the rising volume of incentive requests, effective March 1, 2022, the Company forecasts that the volume of projects during the normally busy summer months will continue above 2021 levels. This will result in higher overall Program costs despite per-project incentive optimization.

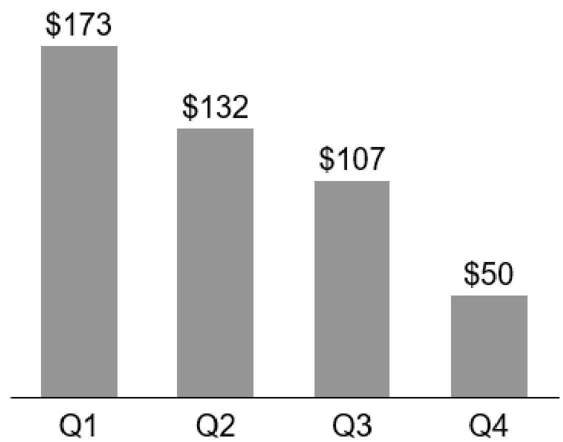
Currently, approximately $114 million remains of the initial $227 million Clean Heat Program authorization.[13] Based on increasing program uptake, the Company projects first quarter 2022 Clean Heat spending of $173 million. This would exhaust the remaining $114 million. The Company's current projections for 2022 Clean Heat spending by quarter are illustrated in Figure 2. The Company's Clean Heat spending forecast includes extrapolations from current Program project volumes adjusted to reflect underlying seasonality and trends coupled with current and future incentive levels.

[11] Roughly 90 percent of program expenditures are incentives. The remainder covers the costs of implementation contractor contracts, labor expenses, and support activities including Evaluation, Measurement, and Verification costs.

[12] This is driven in part by the higher incentives paid to customers who install a heat pump and remove their existing fossil fuel heating equipment.

[13] NENY Proceeding, NENY Order, Appendix C, Table C1.

Figure 2: Projected 2022 Clean Heat Spending by Quarter (million $)



Given the forecasted incentive requests from customers, in total, the Company projects Clean Heat spending of $462 million in 2022 and $390 million in 2023.

III. TRANSFER FUNDING REQUEST

The Company requests using two funding sources – already collected unspent funds and authorized and uncollected funds – to meet the forecasted Clean Heat funding gap. First, the Company proposes to transfer $18 million from legacy Energy Efficiency Portfolio Standard ("EEPS") and $28 million from Clean Energy Fund interest accounts. The Company also proposes to transfer funds from the NENY non-LMI electric authorization to the Clean Heat Program, as described below. These transfers are consistent with Commission statements in the NENY proceeding that "[h]eat pumps can also be one of the most cost-effective means of achieving TBtu reductions."[14] Moreover, the Commission foresaw in the NENY Order the need for budget changes by providing that program "implementation will be subject to pragmatic

[14] NENY Proceeding, 2018 NENY Order, p. 59.

adjustments in light of actual experience and market realities, with reduction of costs to utility customers a primary consideration."[15] Given the pace and scale of the Clean Heat program, the suggested transfers are a pragmatic adjustment.

A. Previously Collected, Unspent Funds

As the Commission required, the Company collected customer funds for legacy energy efficiency programs ("EEPS/ETIP") and earned interest on Clean Energy Fund balances.[16] Table 1 sets forth the remaining unspent funds for these programs. These funds are not currently used and can provide immediate additional funds for the Clean Heat Program.[17] Thus, the Company requests Commission authorization to transfer $46 million from these sources to support the Clean Heat Program in 2022.[18]

Table 1: Previously Collected, Unspent Funds, By Source

Funding Source	**Principal ($M)**	**Interest ($M)**	**Total ($M)**
EEPS/ETIP	3	15	18
CEF Interest – Current		26	26
CEF Interest – Projected 2022		2	2
Total	**3**	**43**	**46**

B. NENY Authorized Budget

These are the two categories of authorized NENY funding that the Company can transfer to provide the additional funding needed to continue the Clean Heat Program. One transfer can be

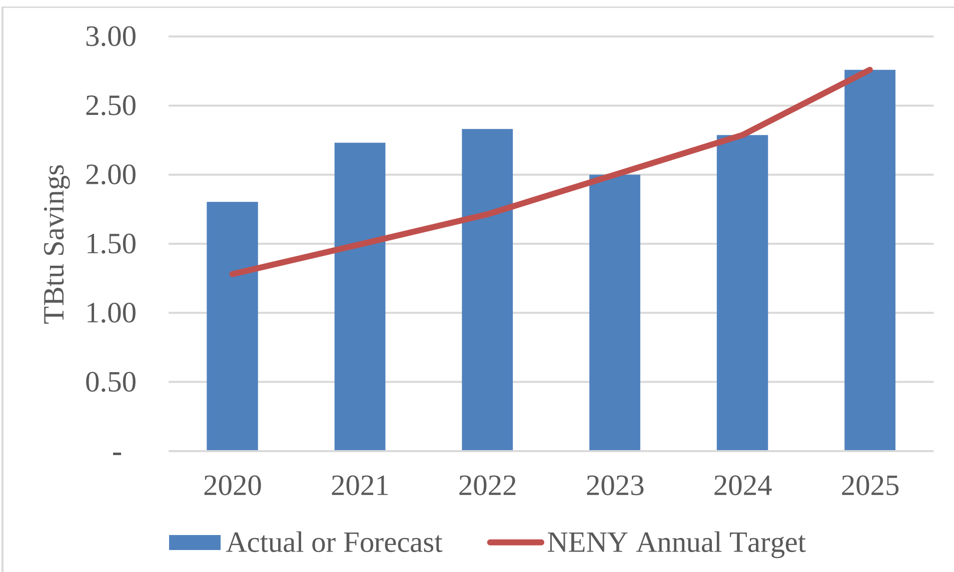
[15] *Id.*, p. 18.
[16] NENY Proceeding, 2020 NENY Order, p. 68 ("utilities are authorized to utilize the accrued interest on balances resulting from NYSERDA CEF collections, under the Bill-As-You-Go process.").
[17] *Id,* p. 114, allowing "each utility to use its unspent energy efficiency funds to fund the activities" authorized in NENY.
[18] The Company's rate filing assumes that these amounts would be available in future years to offset NENY costs. This transfer would expend these amounts prior to the end of the current rate year.

done by the Company pursuant to the existing NENY Order, and the other requires Commission approval to modify the NENY Order as described below.

1. Currently Authorized Transfer from Non-LMI Electric Funding to Clean Heat

The NENY Order permits a utility to move funds among gas, electric, and heat pump budgets, "if it can demonstrate that it will meet the annual target for the portfolio from which funds are being transferred."[19] Figure 3 shows the Company's current and forecasted non-LMI electric achievement meeting the required annual NENY target for each year.

Figure 3: Con Edison Actual and Forecast NENY non-LMI Electric Savings by Year Consistent with Meeting NENY Annual Targets (TBtu)



The Company was able to achieve its 2020-2021 non-LMI electric savings at less cost than the NENY Order's projection. The savings achieved thus far, and those the Company forecasts through 2025, have an average unit cost of $65.58/MMBtu, lower than the $96.10/MMBtu average unit cost that was originally assumed in the NENY forecast. In 2020-2021, the NENY

[19] NENY Proceeding, NENY Order, p. 70.

budget was $284.7 million, while the Company spent $200.1 million, $84.6 million less than the authorized funding level, an amount available to support the Clean Heat Program.

The Company expects similar average unit cost results in 2022-2025. Table 3 summarizes the Company's non-LMI electric spending by year and the total NENY budget through 2025. For the years 2022 through 2025, the spending quantities are consistent with the savings quantities presented in Table 2 below.

Table 2: Con Edison Actual and Forecast non-LMI Electric Spending Consistent with Meeting NENY Annual Targets ($ million)

	2020 Actual	2021 Actual	2022 SEEP	2023 SEEP	2024 SEEP	2025 SEEP	**Total**
Actual/Forecasted in SEEP	$ 99.4	$ 100.8	$ 125.5	$ 122.3	$ 178.6	$ 252.9	**$ 879.3**
NENY	$ 133.9	$ 150.9	$ 168.2	$ 190.8	$ 213.6	$ 251.0	**$ 1,108.3**
Change from forecast	$ (34.5)	$ (50.1)	$ (42.7)	$ (68.5)	$ (35.0)	$ 1.9	**$ (229.0)**

The combination of previously unspent non-electric LMI programs ($85 million) and the projected 2022-2025 projected underspending ($144 million) is $229 million. Even with transferring the $229 million of both realized and expected savings, the Company projects it will still meet the annual targets and budgets for non-LMI programs as required by the NENY Order.[20] Thus, given that the Company has met the NENY Order's demonstration requirement, the Company plans to transfer $229 million from the NENY non-LMI electric budget into the Clean Heat or gas programs.[21]

[20] NENY Proceeding, Con Edison System Energy Efficiency Plan ("SEEP") 2019-2025 (filed December 23, 2021), p. 34.
[21] Company forecasts suggest that it will need to transfer $12.65 million from the non-LMI electric budget to the non-LMI gas budget to assist the gas portfolio to achieve its NENY cumulative target.

2. Request for Increased Flexibility to Allow Additional Transfers

Even with the transfer of funds described above, the Company still projects a shortfall in the Clean Heat Program budget to meet demand for incentives. Therefore, the Company requests a change to the NENY Order to eliminate the need to meet annual targets in 2022-2025 for the non-LMI programs and rely instead solely on meeting the cumulative 2020-2025 targets as described below. The NENY Order set cumulative electric and gas targets "to align with policy goals."[22] Today, these policy goals include both CLCPA's aggressive greenhouse gas reduction goals *and* Governor Hochul's goal of one million electrified homes, which increases the urgency of prioritizing heating electrification to manage the use and growth of fossil fuels for heating. The CLCPA policy goals also include the overall fuel-neutral energy savings target of 185 TBtu of savings statewide by 2025, equivalent to three percent of electric sales. This target, disaggregated by fuel and territory, yields a non-LMI electric target of 11.5 TBtu for the Company through 2025.

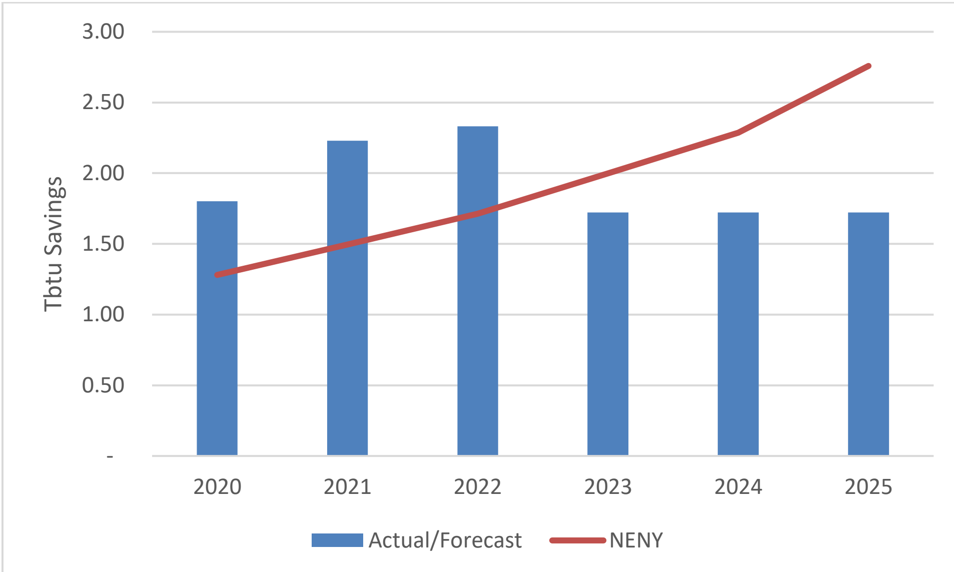
As shown in Figure 3, in 2020-2021, the Company achieved a total of 4.1 TBtu savings. Adding 2022's expected performance of 2.3TBtu, the Company projects to achieve 6.4 TBtu in three years. Assuming that the Company continues with similar performance in 2023-2025, the Company would deliver 13.4 TBtu of non-LMI electric savings 1.9 TBtu – or 16 percent – above the 2020-2025 11.5 TBtu target in the NENY Order.[23]

Given the State's focus on heating electrification, and that the Company expects to achieve the NENY Order's cumulative goals, there is a benefit to moving additional non-LMI electric funding to continue to incent heating electrification. To do this, the Company requests the Commission remove the existing annual targets for non-electric LMI programs for 2022-2025

[22] NENY Proceeding, NENY Order, p. 70.
[23] *Id.*, Appendix A.

and instead focus solely on the *cumulative targets*. The schedule for NENY non-LMI electric achievement that meets the 11.5TBtu target is given in **Figure 4**.

Figure 4: Con Edison Actual and Forecast NENY non-LMI Electric Savings by Year Consistent with Meeting NENY Cumulative Targets (TBtu)



Removing the annual requirement would allow the Company to transfer an additional approximately $156 million from the non-LMI electric budget to the Clean Heat Program as illustrated in Table 3.

Table 3: Proposed Non-LMI Electric Spending to Meet Cumulative Achievement Target and Deliver Increased Support to Clean Heat ($ million)

	2020	2021	2022	2023	2024	2025	Cumulative
Actual/Forecast	$ 99.4	$ 100.8	$ 125.5	$ 105.4	$ 134.6	$ 157.9	$ 723.5
NENY Budget	$ 133.9	$ 150.9	$ 168.2	$ 190.8	$ 213.6	$ 251.0	$ 1,108.4
NENY Authorized Flexibility for Clean Heat	$ 34.5	$ 50.1	$ 42.7	$ 68.5	$ 35.0	$ (1.9)	$ 229.0
Additional Flexibility for Clean Heat	**$ -**	**$ -**	**$ -**	**$ 16.9**	**$ 44.0**	**$ 95.0**	**$ 155.9**

This approach to increase flexibility to deploy previously authorized funds will mitigate customer bill impacts that would result from other approaches, such as a supplemental spending authorization. The Company would only transfer the necessary quantity of funds to support the Clean Heat Program.[24]

3. Overall Transfer Request

In total, the Company has four categories of funding transfers.

Table 4: Summary of Funding Transfers

Source of Funding Transfer	**Amount ($MM)**
2020-2021 Non-LMI Electric NENY Program Underspend; Met Annual Targets	85
2022-2025 Projected Non-LMI Electric NENY Program Underspend; Meets Annual Targets	131
Collected and Unspent Funds from ETIP/EEPS & CEF Interest[25]	46
2020-2025 Non-LMI Electric NENY Program Underspend; Meets 2020-2025 Cumulative Target only[26]	156
Total *(Projected to Cover Clean Heat Program Costs Through Q1 2023)*	**418**[27]

To reach the goal of electrifying one million buildings by 2030, New York must accelerate heat pumps for space and water heating. Transferring the requested amount to Clean Heat will convert 16,800 more homes and provide additional support to move toward that goal.

[24] To manage overall cost-effectiveness of the Clean Heat Program, the Company proposes to target matching its spending per MMBtu of energy savings achieved to the cumulative 2020-25 average heat pump unit cost of $227 / MMBtu from the NENY Order. NENY Proceeding, NENY Order, Appendix C.

[25] This expenditure and associated MMBTU savings achievement should be excluded from the Company's 2022 Earnings Adjustment Mechanism ("EAM") calculations as the Company should neither benefit from nor be penalized for a change in the budgets and targets that were not anticipated in the NENY Order.

[26] For the same reason above, the expenditure and associated savings should be excluded from the Company's 2022 EAM.

[27] The resolution of the Company's pending rate filing should consider EAM targets associated with both this petition and the NENY interim review. *See*, Case 22-E-0064 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,* ("Con Edison 2022 Rate Case Proceeding") Consolidated Edison Company of New York, Inc. Electric Rate Case 2022 Filing fFiled January 28, 2022) ("Con Edison 2022 Rate Case Filing"), Exhibit __ (CES-9).

IV. CONTINUITY FUNDING MECHANISM

As shown above, even with the transfers described above that total $418 million, the Clean Heat Program transferred funds could be exhausted the before completion of the NENY Interim Review. As a result, to maintain the program, the Company requests that the Commission authorize a Continuity Funding Mechanism to allow the Company the ability to recover additional costs during the interim period to cover Clean Heat Program expenditures if the transferred funds are exhausted. The Company forecasts that based on the current expenditure levels, for each month in 2023 that the NENY Interim Review is not completed, it will need approximately $32.5 million to meet Clean Heat incentives.[28]

The Company would only initiate the Continuity Funding Mechanism to the extent it becomes necessary, subject to consultation with and oversight by DPS Staff. The Company would initiate the Continuity Funding Mechanism by filing a letter in the NENY Proceeding when $50 million of the transferred funds for Clean Heat remain. The Company will report program spending and updated forecasts to Staff at least quarterly while the Continuity Funding Mechanism is effective.[29] If the Commission approves this part of the Petition, the Company further requests that the Commission to direct the Company to submit a compliance filing tariff with language to incorporate the Continuity Funding Mechanism surcharge.

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[28] If all this funding is used up to the Company's proposed cap, the customer bill increase would be approximately $39 million in 2023 under the current amortization rules.

[29] The Company proposes that spending associated with both the already authorized electric funding transferred from the electric energy efficiency budgets and with the Continuity Funding Mechanism be recovered in a manner consistent with recovery for Clean Heat expenditures defined by the rate plan in place at time the expenditure is made. Recovery is as a regulatory asset with a 10-year amortization in the current rate plan, and a proposed 15-year amortization in the Company's current rate filing. Case 19-E-0065, *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*, Order Adopting Terms of Joint Proposal and Establishing Electric and Gas Rate Plan, Appendix A, p. 44, and Con Edison 2022 Rate Case Proceeding, Con Edison 2022 Rate Case Filing, CES Testimony, p. 117.

V. NEED FOR EXPEDITED REVIEW

The Company seeks the Commission's expedited review and approval of this petition by the June 16, 2022 session so that the Program can continue and not run out of funding. The Company projects that at the current pace of incentive reimbursement, the existing NENY allocation will be used by early July 2022. As discussed above, slowing down or ceasing incentive reimbursement would result in this Program losing momentum or even coming to a full stop, either of which is contrary to the State's goal of significantly increasing heating electrification. This undesirable outcome runs counter to the ability for the State to achieve its one million home conversion and broader CLCPA goals.

VI. CONCLUSION

The Company supports the New York State goal of transitioning space and water heating away from fossil fuels, a cornerstone of the broader clean energy policy goals. The Clean Heat Program is a core element of achieving the State's objectives and is expected to exhaust existing funding in Con Edison's service territory in the immediate future. Con Edison urges the Commission to expeditiously approve this proposal to sustain this crucial program.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

By: */s/ Mary Krayeske*

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