



July 18, 2014

VIA ELECTRONIC MAIL

Hon. Kathleen Burgess
Secretary to the Commission
New York State Public Service Commission
Empire State Plaza
Agency Building 3
Albany, NY 12223-1350
Email: secretary@dps.ny.gov

RE: CASE 14-M-0101, *Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision* - **TRACK I INITIAL COMMENTS OF PSEG LONG ISLAND LLC**

Dear Ms. Burgess:

PSEG Long Island LLC ("PSEG Long Island") submits these comments in response to a Ruling Posing Questions on Selected Policy Issues and Potential Outcomes, Establishing Comment Process, and Revising Schedule (the "Ruling") in the Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision (the "REV Proceeding").¹

In the Ruling issued June 4, 2014, Administrative Law Judges Eleanor Stein and Julia Smead Bielawski posed a series of questions on major policy issues for comment by July 18, 2014. These questions were related to Track 1 of the REV Proceeding, which sought information from stakeholders on the Distributed System Platform Provider ("DSPP") model described in the New York Department of Public Service ("DPS") Staff Report and Proposal on Reforming the Energy Vision, issued April 25, 2014, with the New York Public Service Commission ("PSC") Order initiating the REV Proceeding.

On July 1, 2014, in accordance with Public Authorities Law Section 1020-f(ee) and the Amended and Restated Operations Services Agreement ("Amended and Restated OSA") dated December 31, 2013, PSEG Long Island submitted a Utility 2.0 Long Range Plan ("the Utility 2.0 Plan") for approval by the Long Island Power Authority ("the

¹ PSEG Long Island and the Long Island Power Authority entered into an Amended and Restated Operations Services Agreement, dated December 31, 2013, pursuant to which PSEG Long Island manages overall operations of the transmission and distribution system, including promoting, administering, planning, developing and implementing energy efficiency, demand response, load management, and renewable energy programs in the Long Island service territory.

Authority”) and review by DPS in Matter Number 14-01299. The Utility 2.0 Plan proposes targeted and programmatic investments with a focus on improving energy efficiency and reducing peak load to address emerging capacity and system needs across Long Island and in load pockets. We have a particular interest in providing opportunities for customer segments that find it difficult to participate in existing energy efficiency and renewable energy programs. Our proposal builds upon the Authority’s sizable investments in clean energy resources and includes a mix of energy efficiency, distributed generation, renewable energy, and direct load control programs. We also included a plan for the South Fork load pocket that will add distributed supply and demand-side resources to defer costly transmission upgrades and resource needs, and a targeted deployment of Advanced Metering Infrastructure (“AMI”) to large commercial and industrial customers that will enable peak demand savings through additional visibility of energy end use and enhanced metering data.

PSEG Long Island is collaborating with the Authority and DPS to develop the Utility 2.0 Plan in such a way that it will integrate existing state-wide and local initiatives to improve service delivery for customers, transition to a more customer-centric utility business model and establish a market where third parties can provide cost effective offerings. We will continue to seek to align with energy policy and initiatives supported by the Authority, the PSC, and the government of the State of New York.

In this regard, we submit the following response to the policy issue questions posed in June 4 Ruling.

I. Potential REV Outcomes

ALJ Question

“Please comment on whether the anticipated outcomes identified in the outcomes matrix are the appropriate results that the Commission should be striving for in this effort. Once the Commission has established the appropriate outcomes, parties will be asked to weigh in on the metrics to be used to most effectively achieve those results.”

PSEG Long Island’s Utility 2.0 Plan shares many of the same goals as the REV Potential Outcomes matrix included in the June 4 Ruling:

- Direct investments and/or incentives for energy efficiency, direct load control, and distributed energy resources (“DER”) that will advance clean energy and reduce emissions of greenhouse gases and other air contaminants
- Design demand-side management offerings that reduce peak demand and result in improved system efficiency and deferment of resource and system investments
- Develop markets for innovative energy services, working with Energy Service Companies (“ESCOs”) and other third party providers to identify and overcome barriers and broaden the market
- Continue the responsibility of the utility to provide universal access to all customer segments, and design programs that reach multi-family housing, lower

- income demographics, hospitals, and other customer segments with unique barriers to offerings from third party providers
- Deploy AMI to targeted customers and build advanced communication networks to increase accessibility of customer energy usage information and develop effective energy conservation solutions
- Maintain safe and reliable service, and enhance system resiliency, through ongoing infrastructure hardening projects and DER investments
- Mitigate customer bill impacts by applying a cost effectiveness test to potential projects and offsetting program costs with anticipated benefits, including avoided cost of capacity and energy through reduced peak demand and energy consumption

In addition, PSEG Long Island's key objectives include integrating the programs proposed in our Utility 2.0 Plan into resource planning and annual long-term budgeting processes. As part of this integration, we would consider DER on equal footing with traditional investments. We anticipate incorporating projected demand savings into PSEG Long Island's upcoming review of the Authority's integrated resource plan and the investments and programs described in the Utility 2.0 Plan into the budget process.

II. Optimal Ownership Structures for Distributed Energy Resources

ALJ Question

"Please comment on the framework of analysis presented in the Staff Report, see pages 26-28, and discuss which of the potential approaches to utility engagement in DER and other models is preferable to ensure a robust DER market, and why."

PSEG Long Island agrees with DPS that utilities have several natural advantages that can be used to implement successful demand-side offerings. Further, we agree with DPS that potential market power issues can be addressed through market rules and rate tariffs that clearly address conflicts between utility responsibilities to manage the system and opportunities to offer innovative energy options.

The utility has specific responsibilities for system planning and operations that will inform the need for and value of DER. The utility's role is to identify resource and system needs through planning processes and address with solutions. This unique knowledge of the system, in combination with customer relationships and relatively low cost capital deployed by utilities (as well as public power entities), is why PSEG Long Island proposes financing up to \$200 million in certain projects described in the Utility 2.0 Plan. PSEG Long Island would utilize our low cost, patient capital to mitigate annual customer costs and, per the Amended and Restated OSA, would be responsible for planning, contracting, and operating the proposed programs in the Long Island service territory. In our role as Service Provider, we are best positioned to design and implement investments that address the Authority's resource and system needs.

In addition, acting as the utility, PSEG Long Island has a responsibility to provide universal access to service, including customers that have been unable to directly utilize clean energy programs. As proposed, the Utility 2.0 Plan would leverage the combined experience of PSEG Long Island, Lockheed Martin, the Authority, and Public Service Electric & Gas (“PSE&G”), our New Jersey utility affiliate, all of whom have implemented successful energy efficiency, direct load control, and renewable energy programs. We have proposed to expand the use of DER and broaden the market for energy services beyond where third party providers may be willing to reach.

This does not preclude third party providers from offering energy services. We anticipate engaging third parties for many of the programs described in the Utility 2.0 Plan. Increased market penetration of DER will build customer experience with energy end use management and can create demand for complementary or competitive services from third parties. We opened dialogue with leading DER providers during production of the Utility 2.0 Plan and we anticipate continued feedback on how Utility 2.0 can broaden the market for innovative energy services.

III. DSPP Identity

ALJ Question

“Please address the analysis contained in the Staff Report, see pages 24-26, as related to the question of whether incumbent utilities, or an independent entity, should serve as the DSPP.”

PSEG Long Island agrees with DPS that the incumbent distribution utility is best suited to serve as the DSPP and that creating a separate DSPP would impose redundant costs onto customers.

Distribution utilities have specialized knowledge and personnel, access to critical data, and existing responsibilities to plan and operate reliable systems. We believe that there will be ongoing traditional utility responsibilities including grid interconnection, basic service, metering and billing, and customer data management. Planning and operations functions will continue to be core utility functions as well. Least cost planning can be best implemented by a centralized utility that has natural advantages including economies of scale, access to data, and low cost capital. Planning and operations will need to adapt to manage and integrate decentralized electricity production as customer-sited resources are added to the system. The utility should be incentivized to focus on maintaining reliability with the lowest cost resource, including end use efficiency, direct load control, or other options.

We believe the utility role will continue to evolve and expand to include integrating DER solutions, facilitating a market for DER, participating in markets for energy solutions along with third party providers, and ensuring that all customers realize benefits. Additionally, the utility can play an important role in delivering energy efficiency to

customer segments where program participation and third party provider offerings typically do not reach, such as multifamily housing units in lower income neighborhoods or public hospitals. In doing so, the utility can provide universal access for energy efficiency, which aligns well with the goals of the PSC.

IV. Benefits and Costs

ALJ Question

“Discuss the preferred analytical framework to assessing benefits and costs, with particular attention to the different ways that benefits and costs may need to be considered in various stages of this initiative, and the methodologies and tools that may be appropriate to each. For example, what benefits and costs related to environmental externalities should be monetized in considering DER pricing? Consider that the outlook on broad, long-term benefits and costs that informs a Commission policy decision may be different from the business case supporting a utility investment plan, which may in turn differ from the analysis supporting a particular investment, or supporting the pricing of products and services that contribute to DSPP objectives.”

PSEG Long Island considers avoided costs of capacity and energy to be the primary benefits of energy efficiency and distributed resources. On Long Island, the value of proposed Utility 2.0 investments represents avoided costs of the incremental capacity to be procured through long term power purchase agreements. Avoided costs of transmission and distribution investments may be applicable in situations where distributed resources can defer or displace the need for such investments.

Considering avoided costs allows energy efficiency and DER to be evaluated on equal footing with conventional resources. Above all else, the resource must be a viable solution and provide reliable and resilient service to customers. But it makes economic sense to invest in the least cost option that delivers the same level of reliable service, whether it is reduction in energy use, a distributed resource, or conventional generation. The focus should be on minimizing total costs to the customer, considering bill impacts of energy, emissions (i.e., NO_x, SO₂, CO₂), capacity, and transmission and distribution infrastructure. Though the application of energy efficiency and DER is localized, the economic benefits of avoided and/or deferred resource needs by the Authority are realized by all customers since those resource costs are socialized system-wide.

PSEG Long Island has recommended a process of evaluating cost effectiveness for its proposed Utility 2.0 Plan that aligns investment incentives with customer interests in maintaining resource adequacy and affordability. The benefits of projects described in the Utility 2.0 Plan include the avoided costs of capacity and energy, and transmission and distribution investments resulting from the program. These extend over the expected useful life of the measure and/or program. In addition, some programs may benefit customers by deferring or displacing planned capital investments. Though the

application of DER in distribution planning would be localized, the economic benefits of potential deferments are realized by all customers since those costs are socialized.

Though traditionally New York favors the Total Resource Cost test (“TRC”), PSEG Long Island recommends using the Program Administrator Cost test (“PAC”) as an analytical framework for evaluating projects, and also considered and presented the TRC for each of the programs proposed in the Utility 2.0 Plan. The PAC test captures the costs that accrue to the program administrator, including costs of equipment, installation, program administration, and customer incentives. These costs are compared to the net present value of estimated benefits that extend over the useful life of the investment. Participants decide the merit of paying the incremental cost of the energy conservation measure, based on their direct or indirect benefits. The TRC test mirrors the PAC test but also includes the incremental cost of energy conservation measures.

In order to assure results truly provide the most economical solution for customers, this cost effectiveness measure should be the single incentive, and should not compete with other goals or incentives. This provides clarity to all resource developers and assures customers will benefit from the lowest-cost suite of resources.

V. Transition for Clean Energy Programs

ALJ Question

The Staff Report (see page 21) envisions the integration of distributed energy resources into DSPP system planning to maximize system value, with NYSERDA’s portfolio expected to refocus on market and technology transformative strategies to provide temporary intervention to overcome specific market barriers while continuing to provide access to clean energy for low-income customers. How can we ensure the transition from current renewable and energy efficiency programs without backsliding on the State’s environmental goals?

With limited exceptions, electric customers in the Long Island Control Area are ineligible for NYSERDA program offerings and incentives. Instead, the Authority’s customers contribute to the State’s clean energy goals through programs specific to Long Island. These goals are consistent and aligned with New York’s state-wide goals. For example, the Authority’s solar programs contribute to the State Renewable Portfolio Standards, and are adapting to NYSERDA’s proposed MW Block incentive structure.

The Authority finances its energy efficiency and behind-the-meter renewable energy programs through a separate surcharge on its customers’ bills, similar in nature to the systems benefits charge and the energy efficiency and renewable portfolio standards surcharges collected by New York’s investor-owned utilities to finance NYSERDA programs. The Authority separately funds its demand management program through the operating budget, and the utility-scale solar projects, Clean Solar and Clean Renewable

Energy Initiatives (as well as projects selected and approved through the requests for proposals) through the Fuel and Purchased Power Charge.

Since the Long Island programs are already focused on peak coincident capacity reduction and largely self-contained, they represent an example of a utility financing clean energy investments and integrating programs into long term resource planning and capital budgeting. Results of the energy efficiency and renewable energy programs are integrated into load forecasts as load reductions and considered in long term planning to defer the need for other resources. In addition, specific resource procurement and system investment decisions are made with consideration of energy efficiency and renewable energy:

- The Clean Energy Initiative deployed significant energy efficiency measures, as well as distributed solar and demand response, resulting in 170 MW peak load reduction through the end of 2008.
- In 2009, a new 520 MW demand reduction goal was established to be met by a series of energy efficiency investments through 2018. According to the latest independent evaluation, the energy efficiency and behind-the-meter renewable energy programs have resulted in 222 MW of demand reduction through 2013.
- The Programmable Thermostat Program deploys direct load control demand response using thermostats to control central air conditioners, and other devices to control pool pumps on peak demand days. The program was called on two occasions during July 2013 and achieved about 35 MW of peak demand reduction.
- The Clean Solar Initiative procured 50 MW solar PV generation capacity system-wide.
- The Clean Solar Initiative II solicitation will add an additional 100 MW system-wide.
- The Clean Renewable Energy Initiative has been offered for 20 MW of renewable generation.
- A request for proposals for New Generation, Energy Storage and Demand Response Resources closed in March 2014 and selection is targeted for 2014.
- A request for proposals for 280 MW of New, On-Island, Renewable Capacity and Energy closed in March 2014 and selection is targeted for 2014.
- As described in the Utility 2.0 Plan, a plan has been developed for the South Fork load pocket that includes solar PV, energy efficiency, direct load control, and energy storage to defer costly planned transmission reinforcements and contribute to clean energy goals.

In summary, the energy efficiency, renewable energy, and direct load control programs are largely self-contained and self-financed with customers largely experiencing both the cost and benefit of these programs. Distributed resources have been integrated into system planning in a similar nature to that envisioned for the DSPP, achieving reduction in peak demand, growth of green jobs and businesses, and advancement of renewable energy production, contributing to regional and state clean energy goals.

VI. Enhanced Services

ALJ Question

The Staff Report (see page 61) describes the potential for a regulated utility offering enhanced services to create revenues, some or all of which may accrue to revenue requirements. Please discuss the regulatory issues related to this potential, e.g. the definition of basic services, and the relationship between enhanced services offered by a regulated utility and the monopoly function of the utility.

Utilities ratebase investments that broadly benefit their customer base, from system infrastructure upgrades to billing and data management functions. This can also include enhanced services that provide broad benefits. For example, all customers benefit indirectly from utility investments that result in load reduction that defers the need for alternative, higher cost resources, and improves system load factor and asset utilization, reduces emissions, and expands green jobs and businesses.

Some enhanced services may only directly benefit the participant customer. An example is the use of distributed generation to enhance reliability for a single customer. The utility industry has developed a robust, interconnected electric system achieving strong reliability as measured by industry performance metrics (i.e. SAIDI, SAIFI, CAIDI). In response to storms and other threats to reliability, PSEG Long Island is implementing a variety of investment programs and best practices to cost-effectively enhance the system and achieve high reliability targets. Customers that choose to deploy resources that supplement utility service can do so where it makes sense, but where system reliability is not also improved the cost of such resources should not be borne by all customers. It should be possible for utilities to provide certain enhanced, optional services to customers who may find value in such services, utilizing equipment and facilities that are ratebased and integrating their deployment into planning. The prices for such services should be tariff based and should ensure proper cost allocation and avoid inappropriate subsidies.

Respectfully Submitted,

PSEG Long Island LLC

Dated: July 18, 2014

By_____

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