NY PSC ORDER ADOPTING A RATEMAKING AND UTILITY REVENUE MODEL AND POLICY FRAMEWORK

Utilities Earnings Going Forward:

1. Cost of service earnings
2. Strategies that reduce capital spending and provide customer benefit
3. Market-facing platform activities
4. Transitional outcome-based performance metrics

Three Framework Principles:

1. Grid evolves into diverse distributed model that engages customers and third parties
2. Utilities still must ensure universal, reliable, resilient, and secure delivery service at just and reasonable rates.
3. Maximize system efficiency and consumer value by achieving a more productive mix of utility and third party investments.

Order Summary

1. **Earning opportunities**- Regulated Utilities
   a. **Platform service revenues:** Platform non-wires alternatives, others proposed in rate cases
      i. Example from other markets: financial markets and ATMs, apps and smart phones.
      ii. Critical to constantly assess progress, being prepared to make changes in direction, including the role of individual utilities as the DSP, if warranted by the facts.
      iii. **Criteria for Approval**
         1. **Non-competitive services**- Demonstrate that the underlying product or service is inherently a monopoly function that cannot effectively be performed by non-utility parties; OR
         2. **Competitive Services**- ex.- **data analysis**, **customer origination** Contingent upon consideration of:
            a. Whether the service facilitates growth and operation of markets;
            b. Whether there is a third party market for the service;
            c. Whether utility economies of scale and/or existing utility expertise are likely to result in cost-effective market stimulation;
            d. Whether utility provision of the service is likely to prevent other providers from entering the market;
            e. The extent to which a utility has proposed placing shareholder funds at risk
      iv. **Pricing method-** Utilities to propose approaches, possibly leveraging below-cost pricing in the early days and value-based pricing in a mature market citing April 2016 NY DPS/NYSERDA Whitepaper on the subject
      v. **Allocation Formula**- allocation of revenues between ratepayers and shareholder will be responsive to developments in DSP markets, and the allocation of ratepayer and shareholder risk. In the near term, PSRs will be used to create customer credits, and as the market matures they will be imputed into utility revenue requirements when developing rate plans
      vi. **Approval Process**- Each utility will file Approval Criteria and pricing method for each PSR as tariff amendments; Allocation of PSRs between ratepayers (80%) and shareholders (20%) is presumptively reasonable
   b. **Earning Adjustment Mechanisms (EAM)s -** originally proposed as earnings impact mechanisms, will be a bridge between the current system and the envisioned PSR system**, will vary by utility and be filed within rate cases**

i. **Structure of (EAM)s:**
   1. **Outcome-based-** Embracing metrics beyond the control of the utility
   2. **Avoid counterfactuals-** fixed targets are preferable to metrics that require ex ante and/or ex post analytic exercises that rely on contestable calculations and input assumptions, but **some counterfactuals may be necessary in the early stages** of REV
   3. **Symmetry**- EAMs should be focused on positive adjustments, and negative adjustments for EAMs should not be routine
   4. **Size**- absolute dollar figure equal to **100 basis point ceiling** for all new incentives under first round of EAMs
   5. **Shape of the Line**- performance reward should be based on a **linear slope**, with ceilings and floors reflecting a reasonable range of desired outcomes
   6. **Time Frame for achievement**- multi-year basis, during rate cases
   7. **Process for considering new EAMs**- flexible framework based upon: (a) importance of developing REV and value for customers; (b) whether EAM is sufficiently developed; and (c) whether the EAM is broad-based or targeted to a specific outcome.

ii. **Near-term EAMs** will include
   1. **System efficiency** (positive incentives only) – each utility will propose unique targets for **peak reduction** and **load factor improvement** under a defined cost-effective strategy over a period of **five years;** proposals will also include:
      a. Description of stakeholder consultation
      b. Weather normalization factors
      c. Methods and budgets proposed to achieve targets
      d. Description of how strategy supports overall goals of REV
      e. Delineation of bulk system targets from distribution or circuit targets, explaining optimization of peak reduction across all systems, as well delineation of peak coincident v. non-coincident reductions
      f. Business case estimates for the strategy, based on BCA handbook
      g. Demonstration of how peak/load factor reduction values will be monetized to benefit customers (e.g.- overall cost reduction, or aggregation of DR to bid into ISO-markets)
   2. **Energy efficiency** – One metric will be system-wide energy usage intensity. Any earning adjustments related to net savings should be tied to advances in (EM&V) that utilize direct customer information. ETIP/CEF targets are a floor, but supplemented by CEAC recommended targets that also include:
      a. EE measures responding to **DSIP identified locational needs;**
      b. EE measures **bundled with other DERs by third party providers**; and
      c. **Market transformation** efforts, in cooperation with NYSERDA and local governments
   3. **Interconnection** - doesn't apply to projects under 50kW, will build upon standardized interconnection requirements Order's standards including 10 day period to review and determine completeness of applications, 15 day preliminary review period, third party audit of failed applications—possibility of **negative earnings adjustments** on a case-by-case basis
   4. **Customer Engagement**- No general customer engagement EAM, but Commission will consider them **if proposed for specific programs** (ex. smart home rate uptake, fuel switching)
   5. Affordability is now a scorecard metric- not an EAM

c. **Greenhouse Gas Reductions**- Utilities will be encouraged to propose programs to accelerate the **conversion of transportation and building end uses to efficient electric alternatives**, and will track via scorecard, not to be double counted as part of customer engagement or peak reduction metrics
d. **Scorecard Metrics**- monitored utility performance attributes with no impact on earnings, including:
   i. affordability, resilience, system utilization and efficiency, DER penetration, Time of use rate embrace, market development, market-based revenues, carbon reduction, conversion of fossil fuel end uses, customer satisfaction, and customer enhancement

2. **Competitive Market-based Earnings**
   a. **Unregulated utility subsidiaries** can engage in services within code of conduct, utilities can engage **in value added services** based in platform service provision
   b. **Distributed System Platform investments that are initially approved by the Commission** will face a **lower standard for retrospective scrutiny,** in order to encourage innovation and investments, while also attempting to lower a utility's risk on the investment and associated cost of capital
3. **Data Access**
   a. Certain basic levels of information will be free of charge, while utilities may charge a fee for provision of more refined data or analysis.
   b. **Information should be free of charge where the cost** of installation and use of utility meters and the information they generate **is borne by utility customers** as part of the regulated rates.
   c. Utilities **can charge** ESCOs and other vendors for monthly **data requests** that **cover a period of more than 24 months**
   d. **Green Button Connect My Data is adopted**, but the **level of granularity** included in the connected data is still **to be determined**, but Con Edison has been required to consult with vendors and file a proposal on this issue as part of its **Consumer Engagement Plan filing, due by July 29, 2016.**
   e. Utilities can collect **platform service revenues for analysis and assessment** of energy data.
   f. Customer data only released to third parties through **opt in basis**.
   g. Utilities will file **a Data Privacy Policy Statement by October 1, 2016**, and a **progress report** on automation and green button efforts by **December 1, 2016**.
4. **Clawback Reform**
   a. Utilities will be encouraged to displace capital expenditures with third party DER investment through a clawback mechanism change, allowing the utilities to retain earnings on capital investments that are already reflected on base rates until the next rate case. In exchange, the utilities would absorb the operating costs of procuring the DER.
   b. At the next rate case, the DER expenses would be incorporated into base rates and the earnings associated with the foregone capital project would be removed.
   c. While such a reform could inadvertently provide an incentive for utilities to inflate their initial estimates of capital costs, public comment and other input opportunities should limit this downside.
   d. Consideration will be given to a **shared savings mechanism**, dividing the savings between the ratepayers and the utilities, but this will be done **during each individual rate case**
   e. The Commission declines to combine operating and capital expenditures in a manner similar to the Totex approach of the UK.
   f. However, numerous **IT applications which would have previously been contracted for under a lease agreement—and therefore defined as operating expenses—may now be included in a utility's rate**

base if they are prepaid, offering the utility a rate of return (p. 102). These include contracts for software as a service offerings.

g. Long term rate plans, similar to those currently used in the UK, will not be developed at this time.

5. **StandBy service**
   a. Utilities will establish campus tariffs and reliability credits, as well as begin the process to modernize the calculation of standby tariffs (p. 130)
6. **Opt-in rate Design**
   a. Utilities will examine their own Time of use (TOU) rates and rates in other jurisdictions to consider how to encourage participation, while also developing improved promotion and education tools
   b. Utilities to collaborate with NYSERDA and third parties to develop smart home rate pilots
7. **Large Customer Demand Charge**
   a. Utilities will evaluate **large C&I customer demand charges** for opportunities to make them more **time-sensitive** within further rate cases
   b. Time sensitive commodity rates for mass market customers should be considered along with the reform of delivery rates.
8. **Mass-market rate design**
   a. Staff will report on bill impacts of **opt-out rate designs for time of use rates**, **demand charges**, and **peak coincident demand charges-** but no mandates in this Order
   b. Cites Rocky Mountain Institute Report on Alternative Rate Designs
   c. **Rate design principles** suggested by staff are adopted and include (p. 159):
      i. Cost causation, encourage outcomes, policy transparency, decision-making, fair value, customer-orientation, stability, access, gradualism, and economic sustainability,
   d. Adopting language suggested by the Clean Energy Organizations Collaborative, the PSC notes that "**Fixed charges should only be used to recover costs that do not vary with demand or energy usage**."

9. **Implementation Timeline and Dates of Note**- p. 153-155
    a. Most reforms are implemented in the next rate case or DSIP of each utility
    b. ***Platform Service Revenues***: Utilities may file tariffs, containing the information required above, at any time after the Secretary has established a service list to notify potentially interested parties as described above.
    c. ***Earning Adjustment Mechanisms***: Metrics will be established on the schedule described below. Individual utility EAMs will be implemented either in that utility's next rate filing or as provided for in the terms of an existing multi-year rate plan.
        i. **System efficiency:** Each utility will file a proposal including peak reduction and load factor targets as described above by **December 1, 2016**
        ii. **Energy efficiency:** The Clean Energy Advisory Council will propose metrics and targets by **October 1, 2016**. Each utility will propose an EAM associated with these metrics and targets by December 1, 2016.
        iii. **Customer engagement:** Utilities may file proposals as described above at **any time**.
        iv. **Interconnection:** Each utility will propose a survey process and EAM by **August 1, 2016.**
        v. **Clean Energy Standard**: **Within 90 days** of such time as the Commission **may adopt** a Clean Energy Standard, Staff will initiate a **stakeholder process to develop EAMs**.
    d. ***Clawback reform*****:** Each utility will propose this in the **next rate filing** following this order.
    e. ***C/I demand charge reforms*****:** These will be considered for each utility, either in a pending **rate case**, or pursuant to a filing by each utility by **April 1, 2017.**
    f. ***Data access charges:*** Tariffs for aggregated data will be filed **pursuant to the CCA order**. Tariffs for other charges described in this order may be filed at any time.
    g. ***Aggregated Data access requirements***: Each utility will file a **data privacy policy statement** by **October 1, 2016**. Each utility will file a **progress report on automation efforts by December 1, 2016.**
    h. ***Scorecard metrics*****:** Staff will initiate a collaborative process and will issue a **progress report** to the Commission by **May 1, 2017**
    i. ***Standby tariffs*****:** Each utility other than Con Edison will file tariff revisions to implement the offset tariff and reliability credit provisions as proposed by **August 1, 2016**. For Con Edison, such revisions related to the reliability credit will be incorporated into its current rate filing and made **effective January 1, 2017**. Each utility will file an **allocation matrix for review** and proposed revision by **October 1, 2016.**
    j. ***Opt-in rate design reforms****:* Each utility will include in its **next rate filing** a proposal to **revise its voluntary time-of-use rates for mass market customers**, including an analysis of how the proposed rate compares with rates in other jurisdictions as described above. Each filing will also include a **promotion and education tool**. For utilities with rate plans that expire after January 1, 2018, a filing will be made by **June 1, 2017** rather than waiting for the next rate filing. Each utility will propose one or more **Smart Home Rate demonstration projects by February 1, 2017.**
    k. ***Mass market default rate design reforms***: Staff will **report** to the Commission regarding the scope, feasibility, and deliverables of a potential study of bill impacts, by **October 1, 2017.**