

STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION

CASE 07-M-0548 – Proceeding on Motion of the Commission Regarding an Energy Efficiency Portfolio Standard.

**Comments of the New York Independent System Operator on  
Performance Incentive Guidelines and Models**

The New York Independent System Operator (NYISO) respectfully submits these comments in response to the New York Public Service Commission's May 30, 2008 Notice Soliciting Comments on the Guidelines and incentive model prepared by the Department of Public Service Advisory Staff.

As Energy Efficiency Portfolio Standard (EEPS) programs are implemented, their impact on electric load will influence the planning and forecasting aspects of the NYISO's responsibility to the State's bulk power system. The NYISO's role in electric load forecasting and planning prompts its interest in the precision of modeling and (measurement and verification) M&V methodologies for EEPS utility performance incentives and for all EEPS programs. The NYISO applies its experience and expertise in planning and management of the State's bulk power system to the following comments.

**NYISO Comment 1**

The NYISO supports a performance-based approach for assuring the financial viability of the funding for the Energy Efficiency Portfolio Standard (EEPS). Once the Commission decides upon goals and targets for the EEPS, its implementation can then proceed without additional regulatory approvals associated with utility rate cases. The idea that a performance-based incentive method would be most appropriate for the EEPS,

as opposed to including the financial mechanisms in a rate case, is supported by the following recent experience:

Con-Edison's most recent energy and demand forecast included new energy efficiency programs designed to achieve as much as 641 MW of peak demand reductions by 2016. Soon after this forecast was provided for the NYISO's 2008 short-term and long-term planning processes, however, the Commission's decision on the rate case excluded the necessary funding for the company's conservation plans, and deferred action to future proceedings. See NYPSC Case No. 07-E-0523. As a result, the NYISO's Electric System Planning Working Group had no firm basis on which to decide whether or not to include these plans in its draft Comprehensive Reliability Plan that was developed this spring. This type of situation could be avoided in the future if a performance-based approach were to be used as the method for developing financial incentives to meet established conservation targets.

### **NYISO Comment 2**

The use of incentives to promote performance is laudable, as is the idea to allow for both positive and negative incentives. The specific structure described in the Illustrative Example<sup>1</sup>, however, is unnecessarily convoluted. It has too many inflection points, which would most likely be very costly to administer. We believe it would be better, administratively, to use a simple linear ramp between the highest and the lowest incentive levels. Failing that, the next best alternative would be a stair-case function with

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<sup>1</sup> State of New York Public Service Commission Case 07-M-0548. "Notice Soliciting Comments," Issued May 30, 2008. Illustrative Example graph. pg 4.

identical step heights and widths. The California incentive mechanism<sup>2</sup> is based on a staircase function with (nearly) equally sized steps.

### **NYISO Comment 3**

The NYISO continues to be a strong proponent of M&V of the EEPS activities. Energy efficiency programs should perform at an equivalent level of reliability to generation resources if they are to achieve the goals of the EEPS. Based upon the discussion at the PSC Session on June 18, the NYISO understands that M&V funding will be increased from two to five percent of total program funding. The NYISO applauds this measure of the Commission's support of M&V for EEPS programs.

The NYISO has participated in the EEPS Working Group 3 on M&V, as well as examined the California Energy Commission's Energy Efficiency Evaluation Protocols<sup>3</sup>. An accepted standard among energy efficiency program evaluators appears to be emerging that a 90 percent confidence level is considered the standard when designing an impact evaluation. This means that for a given program evaluation, the same result would be obtained in nine out of 10 identical studies. Based upon the discussion at the PSC Session on June 18, the NYISO understands that the Commission will be adopting a 90 percent confidence level. The NYISO applauds the Commission's decision on this point as well.

There is less agreement on the level of accuracy that is required for an impact evaluation of energy efficiency programs, and on how often such studies should be performed. Since specific program elements (or wedges) will all have different costs,

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<sup>2</sup> Public Utilities Commission of California. Rulemaking 06-04-010. Decision 07-09-043. September 20, 2007. Figure 1: Adopted Incentive Mechanism Earnings/Penalty Curve. pg 8.

<sup>3</sup> Public Utilities Commission of California. Rulemaking 06-04-010. Decision 07-09-043. September 20, 2007.

different levels of savings, and different numbers of participants, it is not possible to provide any more specific comments at the present moment.

It does seem appropriate, however, to ask the Commission to provide guidance on the overall level of accuracy they wish to obtain for the total EEPS goal. A total goal of about 27,000 GWh is the approximate amount that is being considered. The Commission could direct EEPS Working Groups and stakeholders to prepare estimates of the cost for M&V to assure that the savings are measured to within +/-5 percent, +/-10 percent, and +/-15 percent of the goal. M&V budgets could then be developed in accordance with an informed choice by the Commissioners as to what they believe an appropriate M&V policy for the EEPS should be.

Precise planning and M&V of programs that impact electric load is essential to the success of EEPS programs and, ultimately, achieving the 15 x 15 goal. These prerequisites are also essential to the ongoing reliability of New York State's bulk power system. Accuracy in forecasting, with specific discussion of goal setting and M&V for the EEPS, is called out as a key consideration for planning in the NYISO's 2008 Comprehensive Reliability Plan. Bearing this in mind, the NYISO continues to offer its support and expertise in the development of performance and M&V protocols, including

providing technical and other support to the M&V Advisory Board, as well as any other aspects of the EEPS to which it can contribute.

Respectfully submitted,

*/s/ Carl F. Patka*\_\_\_\_\_

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**CERTIFICATE OF SERVICE**

Carl F. Patka, an attorney admitted to practice in the Courts of the State of New York, hereby affirms that on June 20, 2008 I caused to be served on the parties in the above-captioned proceeding a copy of the Comments of the New York Independent System Operator on Performance Incentive Guidelines and Models by electronic mail pursuant to the rules for services established in the May 30, 2008 Notice Soliciting Comments issued by the Secretary to the Commission.

    /s/ Carl F. Patka