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Public Service Commission Approves Restructuring of Utility Regulations to Combat Climate Change & Achieve Nation-Leading Clean Energy Goals

Unprecedented energy modernization reforms will create cleaner, smarter electric grid, while providing greater cost savings to consumers

The New York State Public Service Commission (Commission) today approved historic structural reforms to the regulations governing electric utilities, providing more choice and cost-saving opportunities for New Yorkers by expanding clean and renewable power. This new framework, unprecedented in its breadth and scope, further advance New York State's national leadership on climate change and energy innovation.

The State Public Service Commission today established new financial mechanisms that will help utilities meet the clean energy goals set forth in Reforming the Energy Vision (REV), Governor Cuomo's strategy to lead the fight against climate change and grow New York's economy. Under these and other REV reforms, New York's power system is on track to be 50% renewable by 2030, while providing new choice and value for New Yorkers.

"New York is taking a new direction today by creating the most-advanced and forward-thinking business model for electric utility rates anywhere in the country," said **Public Service Commission Chair Audrey Zibelman**. "By aligning utility profits with market-enabling activities, residential and business customers can lower their energy bills through advances in digital technology and power-saving systems built for private homes and apartments, as well as entire neighborhoods."

Today's order moves New York away from decades of rate-setting decisions which encouraged investment in large, centralized power systems. The electric grid of the past century was built to meet the peak electric demand that occurs only a few days each year, resulting in an energy and financially inefficient system.

Utilities will be required to develop a more efficient and cleaner network through retail markets for distributed energy resources like solar, geothermal, wind, fuel cells, combined heat and power and battery storage, energy efficiency, and other advanced energy services. These new products and services help customers manage their energy usage and reduce their energy bills by creating a two-way, "transactive" grid between customers and energy providers.

One example already underway is the Brooklyn-Queens Demand Management Program (BQDM), which allowed Consolidated Edison to defer the construction of a \$1 billion electrical substation in Brooklyn in favor of less-costly distributed energy resources like solar, batteries and energy

efficiency. These technologies reduce consumer demand and improving overall efficiency, creating a cheaper and cleaner power system for all customers.

With today's decision, each of the major electric utilities will be required to file an overall system efficiency proposal by December 1, 2016 to reduce high-cost, energy generation during times of peak energy demand. Utilities must identify new, more efficient ways to deliver power by promoting the deployment of smaller, cleaner power systems and enabling more control for customers in managing their energy bills.

Regulatory changes also include the opportunity for utilities to achieve financial rewards for activities that increase consumer economic and environmental benefits. These include:

- Reducing greenhouse gas emissions through cost-effective means;
- Energy efficiency achievements above and beyond current targets;
- Customer engagement in innovative programs that will help customers and utilities manage electricity usage;
- Faster pace of interconnections between the electric grid and new solar and other renewable power projects; and,
- Reductions in carbon emissions such as investments that support conversion to electric vehicles and geothermal heat pumps, along with reductions in costs related to the Clean Energy Standard -- Governor Cuomo's "50 by 30" initiative to expand renewable power in order to meet half of New York's electricity needs by 2030.

About Reforming the Energy Vision

Reforming the Energy Vision (REV) is Governor Andrew M. Cuomo's strategy to lead on climate change and grow New York's economy. REV is building a cleaner, more resilient and affordable energy system for all New Yorkers by stimulating investment in clean technologies like solar, wind, and energy efficiency and generating 50 percent of the state's electricity needs from renewable energy by 2030. Already, REV has driven 600 percent growth in the statewide solar market, enabled over 105,000 low-income households to permanently cut their energy bills with energy efficiency, and created thousands of jobs in manufacturing, engineering, and other clean tech sectors. REV is ensuring New York State reduces statewide greenhouse gas emissions 40 percent by 2030 and achieves the internationally-recognized target of reducing emissions 80 percent by 2050. To learn more about REV, including the Governor's \$5 billion investment in clean energy technology and innovation, please visit www.ny.gov/REV4NY and follow us at @Rev4NY.

Fact Sheet:

Background:

The combination of large impending infrastructure needs, decreasing system efficiency, environmental demands, weather and customer driven resilience requirements, and an increasing ability for customers to choose other options, present challenges to utilities and regulators that are both constructive and disruptive. Left unaltered, the current utility and regulatory model could lead to uneconomic grid defection and eventually result in stranded investments and increasing financial challenges.

Highlights:

1. The focus of this decision is to create a modern regulatory model that challenges utilities to take actions to achieve objectives that align utility shareholder financial interest with consumer interest.
2. Like all of REV, the order seeks to improve the overall efficiency of the system, along with consumer value and choice, to achieve a more-productive mix of utility and third-party investment.

3. The conventional cost-of-service ratemaking approach must be reformed by adding a combination of market-based, platform earnings and outcome-based earnings opportunities.
4. Under the new order, utilities will have four ways of achieving earnings:
 - Traditional cost-of-service earnings;
 - Earnings tied to achievement of alternatives that reduce utility capital spending and provide definitive consumer benefit;
 - Earnings from market-facing platform activities; and,
 - Transitional outcome-based performance measures (see Earned Adjustment Mechanisms – EAMs).

These additional measures are collectively intended to create a regulatory environment where utilities can create shareholder value, comparable to or superior to conventional investments, by integrating third party solutions and capital that improve the efficiency, resiliency and flexibility of the physical networks, reduce consumer total costs and achieve the State's policy objectives.

5. Earning Adjustment Mechanisms (EAMs). This is a near term approach, which we expect will be a transition toward mature markets that won't need directed incentives. EAMs are oriented toward activities that will help to build the new markets:
 - First is system efficiency, defined as a combination of peak reduction and load factor improvement. Each utility will be required to propose a system efficiency targets, with a strategy to achieve it, a demonstration of cost effectiveness, and an earnings incentive.
 - Second is energy efficiency. EAMs will be tied to targets recommended by the Clean Energy Advisory Council (part of the new Clean Energy Fund), that are above and beyond the currently approved targets. Metrics will be based on system wide outcomes.
 - Third is interconnection, encouraging better cooperation between utilities and developers of solar and other renewable power projects by providing a positive incentive tied to developers indicating satisfaction with utility responses.
 - Fourth is customer engagement. This is a critical area for the success of REV. Utilities are encouraged to propose EAMs tied to customer uptake in specific innovative programs.
6. All ratemaking encourages some actions and discourages others. The traditional revenue model ("cost-of-service" ratemaking) encourages investment in a utility system that is based on central station generation, unidirectional flows (both of power and transactions) and minimal elasticity of demand.
7. Cost-of-service ratemaking has allowed regulated distribution utilities to be insulated from the opportunities and the competitive pressures of the modern information economy. As a result, gains in capital productivity remain low and the efficiencies made possible by information technologies and new business models have been slow to materialize in the utility sector.
8. By aligning utility profits with market-enabling activities, New York is encouraging the development of new consumer choices through advances in digital technology and power-saving systems built for private homes and apartments, as well as entire neighborhoods.
9. The reforms approved today will encourage utilities to allow the market to pace the rate of change. The reforms will enable deployment of smart meters and other data-driven technology, and once these systems are in widespread use, special rates can be established for the time of day when energy is used, where power is generated, and whether that power is from a renewable source. Today's action also lays groundwork for more accurate electric prices relating to demand charges paid by commercial and industrial customers.