**Before the**
**New York Public Service Commission**

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| Proceeding on Motion of the Commission | ) | |
| as to the Rates, Charges, Rules and | ) | Case 17-E-0238 |
| Regulations of Niagara Mohawk Power | ) | |
| Corporation for Electric Service | ) | |

# Rebuttal Testimony of
# Tim Woolf & Melissa Whited

On the Topic of
Earnings Adjustment Mechanisms

On Behalf of
Advanced Energy Economy Institute

September 15, 2017

## Table of Contents

## 1. INTRODUCTION AND QUALIFICATIONS

**Q. Please state your name, title, and employer.**

A. **Woolf:** My name is Tim Woolf. I am a Vice President at Synapse Energy Economics, located at 485 Massachusetts Avenue, Cambridge, MA 02139.

A. **Whited:** My name is Melissa Whited. I am a Principal Associate at Synapse Energy Economics, located at 485 Massachusetts Avenue, Cambridge, MA 02139.

**Q. Are you the same witnesses who provided direct testimony in this docket on behalf of Advanced Energy Economy Institute?**

A. Yes.

**Q. What is the purpose of your rebuttal testimony?**

A. The purpose of our rebuttal testimony is to respond to several intervenors who commented on the Earnings Adjustment Mechanisms (EAMs) proposed by Niagara Mohawk (Niagara Mohawk or the Company). We focus on the direct testimonies of the Staff Earnings Adjustment Panel, the Utility Intervention Unit (UIU) Earnings Adjustment Panel, Pace Energy and Climate Center, and the Advanced Metering Infrastructure (AMI) Metrics Panel.

## 2. STAFF EARNINGS ADJUSTMENT MECHANISMS PANEL

**Q. Please summarize the Staff's overall recommendations regarding EAMs.**

A. Staff provided five overall recommendations regarding EAMs:

1. EAMs should be earned on performance during each rate year, instead of each calendar year.

2. The Company should not be allowed to earn EAMs for 2017.

3. For the electric EAMs, the Company should be allowed to earn awards of 9.0, 21.5, and 45.0 basis points for the minimum, mid-point, and maximum levels, respectively.

4. The EAMs should ultimately be expressed in terms of absolute dollars, not basis points.

5. The EAM metrics, targets, and incentives should be set for three years, regardless of whether this proceeding results in a one-year or a multi-year plan.

**Q. Do you agree with Staff's overall recommendations?**

A. We agree with all but one of Staff's overall recommendations:

1. We disagree with the logic of aligning the EAM reporting and awards with the rate cases. Aligning the EAM reporting and awards instead with calendar years will allow for comparison of metrics across utilities and increase uniformity.

2. We agree that the Company should not be allowed to earn EAMs for performance in 2017. It is not appropriate to provide a financial incentive for performance that occurred before an EAM was established by the Commission.

3. We disagree with the recommendation to limit the electric EAMs to a maximum of 45 basis points. If the Commission wants to fundamentally shift the mindset, the activities, and the performance of the utilities in order to achieve key state policy goals, then it must provide EAMs that are of a sufficient magnitude to capture the attention and alter the performance of utility management. In order to achieve this

shift in utility incentives, the EAMs should be of sufficient magnitude to offset the current financial incentive to invest capital in conventional technologies and activities. In our direct testimony, we recommend that the electric EAMs be expanded to 100 basis points.

4. We agree that the EAM awards should ultimately be awarded in terms of absolute dollars and not basis points. Using basis points provides a helpful benchmark to assess what the absolute dollars of the EAMs should be, but the actual amounts offered through EAMs should not depend upon the magnitude of the Company's shareholder equity. This approach is also consistent with the Commission's direction in the Track Two Order.[1]

5. We agree that the EAM metrics, targets, and incentives should be set for three years, so that they will be fully aligned with the period covered by the Company's current rate case. We note, however, that the Commission should provide the Company with some guidance about what to expect for EAMs beyond the next three years, to help provide consistency and support for the long-term initiatives related to the EAMs. For example, the Commission could find in this case that the EAMs approved in this rate case will continue after the next rate case, unless some new development or evidence warrants their termination. The metrics, targets, and financial incentives might be modified during the next rate case, but the set of EAMs will be presumed to continue. We also note that the EAMs should support activities with benefits that extend

[1] Order Adopting a Utility and Revenue Model Policy Framework, in proceeding 14-M-0101. May 19, 2016. Page 69.

beyond three years, and this three-year EAM timeframe should not be interpreted to exclude those longer-term activities.

**Q. Which of the more specific Staff EAM recommendations do you agree with?**

A. We agree with the following Staff recommendations:

- Regarding the Peak Reduction EAM, we agree with the three modifications proposed for the Peak Reduction metric.[2]

- Regarding the DER Utilization EAM, we agree that there may be benefits to assigning separate targets to different types of DER. This would provide greater transparency regarding the Company's goals and achievements. This would also, prevent sudden or unexpected growth in any one type of DER from causing the utility to easily meet its metrics. Any such surge in one technology is likely to be due to market conditions outside of the utility's control. If technology-specific targets are used, one should be developed for fuel cells. We agree with staff's approach for developing DER-specific baselines.[3]

- Regarding the Incremental Energy Efficiency EAM, we agree that the targets should be more aggressive than those proposed by the Company.[4] We also agree that the Company should somehow be held to maintaining the Estimated Useful Life (EUL) of its portfolio as a precondition to earning incentives through this

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[2] Direct Testimony of Staff EAM Panel, page 13, line 22 through page 14, line 14.
[3] Direct Testimony of Staff EAM Panel, page 31, lines 8-12.
[4] Direct Testimony of Staff EAM Panel, page 37, lines 8-11.

EAM.[5] However, the Company should be able to request a modified EUL, if justified by appropriate changes in program technologies or design.

- Regarding the Residential and Commercial Energy Intensity EAMs, we agree with the Staff's proposal to base the targets on standard errors.[6]

**Q. Do you agree with Staff's recommendation to reject the Customer Engagement EAMs?**

A. We agree with the Staff that there will be some overlap between the Customer Engagement EAMs and other EAMs.[7] However, we do not agree that there should be no EAM for these activities at all. The Customer Engagement EAMs are focused on specific activities that warrant utility attention but might not be sufficiently incentivized with the other, related EAMs. For example, the Company might reach its targets for the Incremental Energy Efficiency EAM without necessarily providing efficiency services to a broad range of customers. The Customer Participation EAM will encourage the Company to expand the base of customers participating in DER programs, thereby enabling more customers to experience the direct benefits of DERs and mitigating against customer equity concerns.

5 Direct Testimony of Staff EAM Panel, page 37, lines 12-16.
6 Direct Testimony of Staff EAM Panel, page 46, line 18 through page 48, line 16.
7 Direct Testimony of Staff EAM Panel, page 57, lines 19-23.

**Q. The Staff made several modifications to the Company's benefit-cost analysis (BCA). Do you agree with these modifications?**

A. We generally agree with Staff modifications to the Company's BCA. We particularly agree with (a) updating several important inputs; (b) including certain items that were omitted from the Company's BCA (such as avoided distribution capacity costs); and (c) applying the BCA to more of the initiatives associated with the EAM. We have not had the opportunity to review the Staff's BCA in detail, but these modifications are clearly significant improvements upon the Company's BCA.

We recommend that the Commission require the Company, and all other New York utilities, to provide comprehensive benefit-cost analyses (similar to the Staff's BCA) for each EAM filing provided in the future. These analyses are essential for understanding the allocation and magnitude of the EAM awards and for monitoring the EAMs, and the associated EAM initiatives, over time.

## 3. UTILITY INTERVENTION UNIT EAM PANEL

**Q. Please describe which of the recommendations from the UIU EAM Panel you would like to comment on.**

A. We would like to comment on the following recommendations from the UIU EAM Panel:

1. The Company should propose peer group-based EAMs, particularly for the Peak Reduction EAM, the DER Utilization metric, and the Customer Intensity metrics.

2. The Company should replace the Substation Load Factor EAM with an EAM based on a comparison of actual peak load to the rated substation capacity, for each substation of interest.

3. The Company should propose a Cost-Effectiveness EAM, which would be an outcome-based metric focused on holding down overall system-wide costs.[8]

**Q. Do you agree with the recommendation to use peer group-based EAMs?**

A. We agree that peer group-based information could be a very useful indication of utility performance in some areas. However, we note that some peer group-based metrics are better suited for Scorecard metrics than for EAMs, at this time. There may be many reasons why one utility's performance in any given area is very different from another's, due to factors beyond either utility's control. There may also be important differences in the metric data available across utilities, as well as reasons why the baselines, targets, or financial incentives should be different across utilities.

We recommend that the Commission require the Company to submit a set of peer-group-based Scorecard metrics, simply for the purpose of monitoring relative utility performance over time. Some of these could be related to existing EAMs, while others might not. These metrics could include, for example, the following:

- Annual peak reduction, as a percent of total system peak, by customer class.
- Annual energy efficiency savings from the Company energy efficiency programs, as a percent of retail sales, by customer class.

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[8] UIU EAM Panel Testimony, page 57, lines 5-6.

- Annual peak demand savings from the Company's demand response programs, as a percent of peak demand, by customer class.
- Annual capacity of installed distributed solar resources, as a percent of peak demand, by customer class.
- Percent of customers owning an electric vehicle, by customer class.
- Annual capacity of installed behind-the-meter storage technologies, as a percent of peak demand, by customer class.
- Percent of customers enrolled in voluntary time-varying rate programs, by customer class.
- Percent of customers owning electric vehicles enrolled in voluntary time-varying rates programs, by customer class.

We further recommend that the Commission require each electric utility in New York to provide the same Scorecard metrics, using the same definitions and formulas. The Commission should also require the Company to present and compare the same metrics for its sister companies in Massachusetts and Rhode Island. Over time, this would allow for comparisons across utilities within New York and within National Grid across states. In the future, once the information has been vetted and the utilities' performance has been better understood, the Commission may choose to use some of these Scorecard metrics for EAMs.

**Q. Do you agree with the recommendation to replace the Substation Load Factor EAM with one based on a comparison of actual peak load to the rated substation capacity?**

A. In our direct testimony, we recommend that the Commission reject the Company's proposal for a Substation Load Factor EAM, because load factor is not an unambiguous indication of good performance. Substation load factors could be increased by simply increasing electricity consumption, without necessarily reducing costs or providing benefits. The UIU EAM Panel direct testimony shares our concerns about this EAM, but instead of rejecting it outright, the panel recommends that the Company propose a different substation EAM, based on a comparison of actual peak load to the rated substation capacity, for each substation of interest.

We agree that the substation EAM proposed by the UIU EAM panel would be reasonable, and would clearly be an improvement over the Company's proposal.

**Q. Do you agree with the recommendation to propose a Cost-Effectiveness EAM?**

A. No. While there is an obvious appeal to reward the Company for holding down system-wide costs, an EAM is not the relevant mechanism for doing so. The many components of the multi-year rate plan have been designed to provide the Company with financial incentives to operate more efficiently and achieve cost savings system-wide. Creating an EAM to provide additional incentives toward this goal creates the risk of double recovery, as well as confusion or inconsistencies between the two types of financial incentives. Ideally, the multi-year rate plan and associated mechanisms will provide the Company with the proper financial incentive to reduce overall system-wide costs, and the

EAMs will provide financial incentives for specific initiatives and outcomes that are important to achieving REV goals but might otherwise not be addressed within the multi-year rate plan incentives.

**4. PACE ENERGY AND CLIMATE CENTER**

**Q. Please describe which of the recommendations from Pace you would like to comment on.**

A. We would like to comment on the following recommendations from Pace:

1. The Company's proposal for the Incremental Energy Efficiency EAM should be based on significantly higher energy savings baselines, supported by significantly higher energy efficiency program budgets.[9]

2. The Revenue Decoupling Mechanism (RDM) should not be used to compensate for lost revenues created by activities that also earn EAM incentives.[10]

**Q. Do you agree that the Incremental EAM should be based on significantly higher baselines, supported by significantly higher energy efficiency budgets?**

A. Yes. There is no question that energy efficiency offers one of the greatest opportunities for reducing electricity costs, reducing customer bills, complying with the state's Clean Energy Standard, reducing carbon emissions, and meeting REV goals in general. The Company's current efficiency programs are lagging far behind the programs offered by National Grid in Massachusetts and Rhode Island, as well as utilities in other leading

9 Direct Testimony of Karl Rabago, pages 21-22.
10 Direct Testimony of Karl Rabago, page 25, lines 8-10.

states.[11] We agree with Pace that the Company should have begun the EAM process by establishing higher efficiency program budgets in this rate case, in order to be able to capture those cost-effective efficiency savings. Those higher budgets should have been used to create the baseline for the Incremental Energy Efficiency EAM.

**Q. Do you agree that the RDM should not be used to compensate for lost revenues created by activities that also earn EAM incentives?**

A. No. First, the RDM and EAMs are designed to accomplish two different, but related, goals. The RDM is designed to make the Company indifferent to the increases and decreases in sales (and revenues) that might result from distributed energy resources and related utility actions. This decoupling of sales from revenues is necessary to mitigate the utility financial disincentives to distributed energy resources. The EAMs are not intended to address this *negative* financial incentive; rather they are intended to provide *positive* financial incentive for the utility to support distributed energy resources and related activities—to make the positive financial incentives comparable to those that the Company faces regarding investments in conventional distribution facilities and infrastructure. The absence of a disincentive is not the same as the presence of a positive incentive.

Second, from a practical perspective it would be extremely difficult to treat the changes in sales from DERs separately under the RDM mechanism. While it might be feasible to

[11] Synapse Energy Economics, *Aiming Higher: Realizing the Full Potential of Cost-Effective Energy Efficiency in New York*, prepared for Natural Resources Defense Council, E4TheFuture, CLEAResult, Lime Energy, Association for Energy Affordability, and Alliance for Clean Energy New York, April 2016, available at: http://www.synapse-energy.com/project/support-ny-rev-track-2-changes-regulatory-designs-and-incentives-structures

develop workable estimates for energy efficiency savings estimates to exclude from the RDM, it would be much more difficult to do so for customer actions, third-party initiatives, electric vehicles, heat pumps, and storage technologies. As the state moves to increasing reliance upon customer-based and market-based energy efficiency and distributed energy resource initiatives, it will be increasingly important to apply the RDM universally to all of the Company's sales.

## 5. THE ADVANCED METERING INFRASTRUCTURE METRICS PANEL

**Q. The Advanced Metering Infrastructure Metrics Panel provided several recommendations for additional Scorecard metrics. Do you agree with this panel's recommendations?**

A. In general, yes. We agree that the Company should be subject to the same AMI metrics that the Commission required of Con Edison in its 2017 Rate Order.[12] A new technology such as AMI warrants comprehensive monitoring by the Commission, and we see no reason why Niagara Mohawk should be subject to fewer AMI metrics than Con Ed.

We also agree that the customer engagement metrics should be collected and reported separately by service class and by income level (low-income versus non-low-income).[13]

Further, we agree that the Company should propose a scorecard metric or metrics that measure the extent to which third parties are providing DER technologies and services, and to demonstrate the Company's success in encouraging and supporting DER markets

[12] Direct Testimony of the AMI Metrics Panel, page 6. Lines 15-19.
[13] Direct Testimony of the AMI Metrics Panel, page 8. Lines 6-15.

in general.[14] Third party provision of DER technologies and services is a critical element for meeting the Commission's REV goals, and it will be important to monitor the development of that market.

**Q. Does this conclude your rebuttal testimony?**

A. Yes, it does.

[14] Direct Testimony of the AMI Metrics Panel, page 13,