

**BEFORE THE NEW YORK STATE
PUBLIC SERVICE COMMISSION**

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**Petition of Consolidated Edison Company :
of New York, Inc. for Approval of the : CASE 17-G-_____
Smart Solutions for Natural Gas :
Customers Program :**
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**PETITION OF CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
FOR APPROVAL OF
THE SMART SOLUTIONS FOR NATURAL GAS CUSTOMERS PROGRAM**

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OF NEW YORK, INC.

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I. Executive Summary

Consolidated Edison Company of New York, Inc. (“Con Edison” or the “Company”) is committed to meeting its customers’ demand for natural gas. To do so, and to address a forecasted growing shortfall of peak gas day pipeline capacity, the Company requires additional pipeline capacity or alternative means to balance supply and demand on its natural gas system. This petition sets forth a program that will enable the Company to continue to satisfy its customers’ demand for natural gas.

Natural gas use in the Company’s service territory has grown substantially in recent years and this upward trend is expected to continue for the foreseeable future.¹ Over the six-year period starting in 2011, weather-adjusted firm natural gas peak day demand in Con Edison’s service territory has grown by more than 30 percent and is projected to grow more than an additional 20 percent over the next 20 years. Customers are transitioning to natural gas for several reasons: environmental benefits, including community clean heat programs requiring customers to switch from residual heating oil to other cleaner heating fuels; the value proposition of natural gas; and the reliability of natural gas supply.

On the supply side, pipeline capacity coming into the Company’s service territory is fully contracted. Since 2014, the Company has worked with various pipelines to develop new projects that would increase the pipeline capacity to New York city gates. When pipeline development

¹ This growth provides significant environmental and human health benefits to the region by reducing the use of more expensive and polluting fuels, especially residual oil. In the past five years (2011-2016), building conversions from oil to natural gas have dramatically reduced emissions of sulfur dioxide, nitrogen dioxide, fine particulate matter, nickel, and greenhouse gases in the Company’s service territory. Fine particulate matter emissions, for example, have been reduced by more than 500 tons on an annualized basis, equivalent to eliminating the particulate emissions from 1.6 million cars. <https://www.edf.org/blog/2013/11/14/air-quality-improvements-are-saving-lives-new-york-city>

projects in New York recently encountered increased difficulty in securing necessary pre-construction permits, the projects on which the Company was working were not considered viable and were therefore not initiated. The Company is currently pursuing projects that take into consideration the new approval process landscape and the Company's changing pipeline capacity needs, gas demand and opportunities for alternative solutions.

Given the increased growth in the Company's pipeline capacity needs as well as the lack of unsubscribed pipeline capacity, the Company needed to increase its purchases of pipeline capacity controlled by other shippers bundled with supply ("Delivered Services"²) to supplement firm pipeline capacity to meet natural gas demands on peak gas days. As a result, Delivered Services now constitute 17 percent of the Company's supply portfolio and, absent the addition of firm pipeline capacity or significant demand reduction, are expected to rise to 22 percent by 2023. While an appropriate amount of Delivered Services can play an important role in a utility's pipeline capacity portfolio, undue reliance on Delivered Services should be avoided because of the risk that Delivered Services will not be available at needed levels in future years.

To address the increased demand and limited capacity, the Company has developed the Smart Solutions for Natural Gas Customers Program ("Program"), an innovative, integrated, multi-solution strategy to decrease gas usage and procure alternative resources. The Program is designed to meet customers' heating needs cost-effectively, avoid a moratorium on new gas customer interconnections, and contribute to the achievement of State and local environmental goals.

² Delivered Services are products offered by third parties that have firm contractual rights to pipeline capacity and are willing to sell the capacity, bundled with natural gas commodity, for short durations (15 or 30 days). Delivered services do not include long term renewal options.

The Program includes four non-traditional solutions:

- A doubling of the Company's existing gas energy efficiency program;
- A gas demand response program to reduce net customer demand during the entirety of a peak gas demand day(s);
- A gas innovation program for renewable alternatives to natural gas heating; and
- A market solicitation for additional non-pipeline solutions on either the supply or demand side, which will provide a pathway for the advancement of new technologies and facilitate new abilities to engage with and deliver services to customers; examples could include beneficial electrification of heating or localized natural gas storage alternatives.

The Company understands that meeting the pipeline capacity shortfall through the non-traditional programs will be challenging. The Company recognizes that major structural changes in the economy and electric and gas systems may be needed before Con Edison can rely on innovations, including renewable resources and adaptive customer response, to meet its customers' gas needs. As a result, if these non-traditional solutions do not provide sufficient capabilities, as a fifth solution, the Company is undertaking efforts to develop a traditional pipeline expansion project to meet a material portion of the projected customer demand.

While focusing on its paramount responsibility to meet its customers' demand for safe and reliable natural gas, Con Edison supports the clean energy programs of New York State and New York City, and remains committed to working alongside policy makers and stakeholders to develop solutions that will support a cost-effective transition to a low-emissions future.

Consistent with that support, the Program has the potential to be a model for utilities to engage customers so that they become active partners in managing the natural gas system (including

upstream pipeline capacity needs) through increased energy efficiency, new demand response capabilities, and developing, operating, and maintaining renewable heating and cooling assets.

The Company respectfully requests that the New York State Public Service Commission (the “Commission”) approve the Program; allow for cost recovery for the various elements of the Program; allow incentives for the non-pipeline solutions; and provide budget flexibility among the various elements of the Program. Importantly, whether or not the non-traditional solutions can defer or avoid the need for new pipeline capacity, the Program will provide Con Edison with flexibility to encourage the development of new programs and ultimately to adjust its portfolio of resources to meet future customer needs.

II. Background – Meeting Growing Customer Needs for Clean and Reliable Heating

Con Edison delivers gas to 1.1 million customers in Manhattan, the Bronx, parts of Queens, and most of Westchester County. Natural gas is delivered by pipelines to the Company at various points in or near its service territory (referred to in the industry as “city gates”) and is distributed to customers through approximately 4,300 miles of mains and 370,000 service lines. Con Edison must have sufficient pipeline capacity available to meet its customers’ demand on a peak design day.³ The Design Day customer demand only reflects gas used by firm gas customers, which does not include, for example, electric generating stations; to the extent interruptible customers (like generating stations) require fuel on these coldest days of the year, they are required to use an alternate fuel.

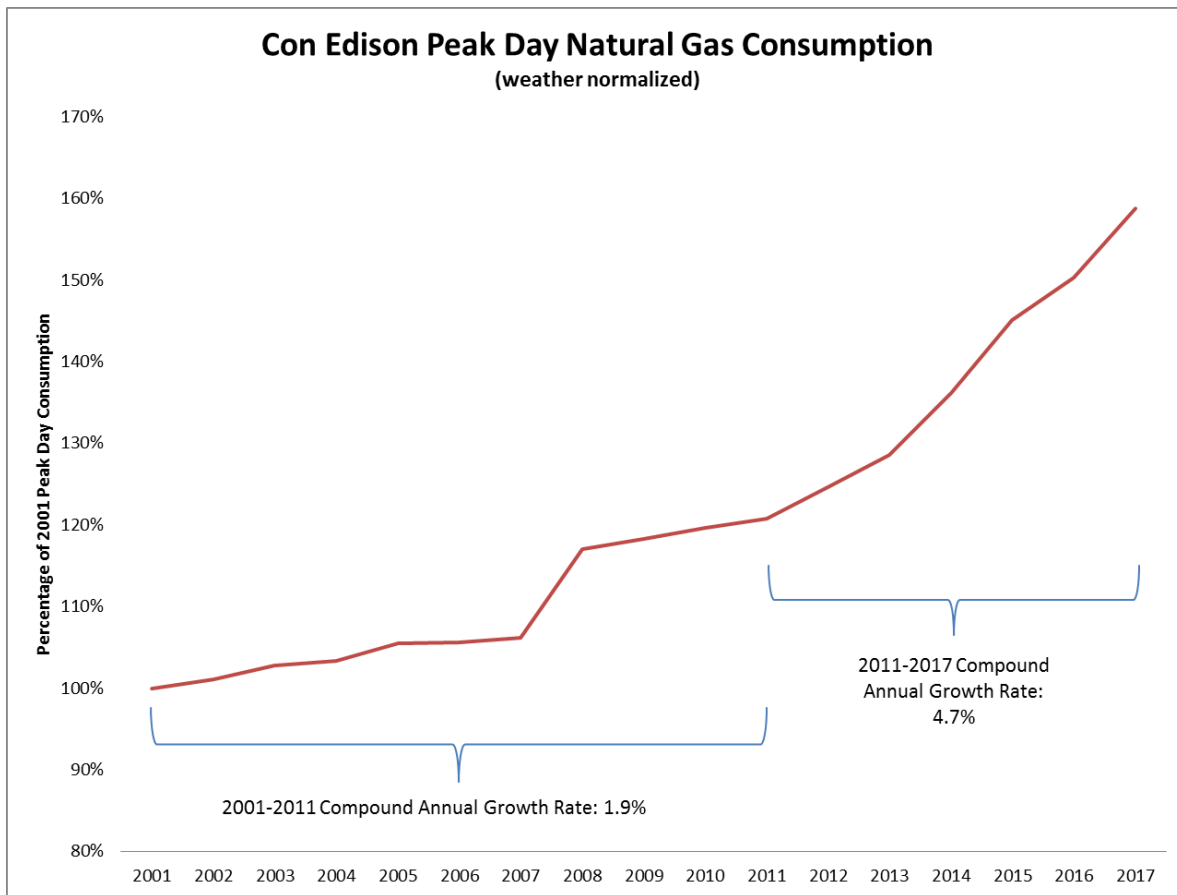
³ The Con Edison gas supply portfolio is designed to meet the needs of its firm customers for a 0° Temperature Variable that is equal to 70 percent of the current day’s Gas Day Average dry bulb temperature and 30 percent of the prior day’s Gas Day Average dry bulb temperature (the “Design Day”).

A. Increasing Demand for Natural Gas

Con Edison's growth in firm customer peak day pipeline capacity needs has recently accelerated, growing at an annual rate of 4.7 percent since 2011. By comparison, firm customer peak day pipeline capacity needs grew at an annual rate of 1.9 percent during the ten years ending in 2011. These amounts reflect the impact of existing gas energy efficiency programs.

See Figure 1.

Figure 1. Growth in Peak Day Natural Gas Demand, 2001-2017



Growth drivers over the 2011-2016 period include: local regulations that require customers to cease burning certain grades of fuel oil; customer interest in the environmental

benefits resulting from oil-to-gas conversions; cost advantages of natural gas as compared to other fuel sources (which have provided economic benefit to businesses and residents of New York City and Westchester County); residential and commercial building developers' strong preference for natural gas over other heating fuels in new construction projects; and general population growth in the area. Growth has been partially mitigated by natural gas energy efficiency programs offered by Con Edison and the New York State Energy Research and Development Authority ("NYSERDA") as well as reduced usage that results when customers replace existing less efficient equipment and appliances with higher efficiency equipment. Con Edison forecasts an additional 23 percent growth in natural gas demand over the next 20 years.

B. Environmental Benefits Achieved

Growth in natural gas use has provided significant environmental and human health benefits to the region. In the past five years (2011-2016), Con Edison has converted more than 6,500 large buildings in New York City to natural gas largely based on recent local laws. The conversions have reduced emissions by more than 500 tons of fine particulate matter on an annualized basis, equivalent to eliminating the particulate emissions from 1.6 million cars. Conversions to natural gas from dirtier heating oils have reduced greenhouse gas emissions from converted buildings by 27 percent.⁴ In addition, these conversions have significantly reduced emissions of nitrogen oxides (NO_x), sulfur oxides (SO_x), volatile organic compounds (VOC), and formaldehyde⁵ – several of which are known carcinogens, and each of which have significant impacts on human health and the environment. In short, natural gas is playing an important role

⁴ United States Energy Information Administration, "How much carbon dioxide is produced when different fuels are burned?", <https://www.eia.gov/tools/faqs/faq.php?id=73&t=11> accessed on September 29, 2017.

⁵ U.S. Environmental Protection Agency, AP-42: Compilation of Air Emission Factors. Viewed at: <https://www3.epa.gov/ttnchie1/ap42/ch01/final/c01s03.pdf> on September 1, 2017.

in New York’s path to a clean energy future, and has contributed to the highest air quality in New York City in the last 50 years.⁶

Equally important, as discussed below, the Company believes, and has heard from various stakeholders, that its program to reduce gas demand must be based on real reductions, not through customers switching to less environmentally friendly alternatives, such as oil.

C. Natural Gas Pipeline Capacity Marketplace and Meeting Firm Customer Needs

As the local distribution company (“LDC”), Con Edison procures pipeline capacity and equivalent resources to provide reliable service to customers taking service under “firm” distribution tariffs. Con Edison has contracts with interstate pipeline companies for pipeline capacity from upstream points to Con Edison’s distribution system.⁷ The Company’s portfolio of pipeline capacity rights, which it manages jointly for itself and its affiliate Orange and Rockland Utilities, Inc. (“O&R”), includes contractual rights on six interstate pipelines (Transco, Texas Eastern, Tennessee, Iroquois, Algonquin and Columbia/Millennium) that connect to the Company’s distribution system at more than 20 city gates.

The Company’s contractual rights for pipeline capacity typically include a renewal right at the end of the contract allowing the Company to retain the capacity, if needed. Renewal rights provide the Company with the certainty that pipeline capacity will be available to meet customer needs in future years and the flexibility to manage its pipeline capacity portfolio effectively as

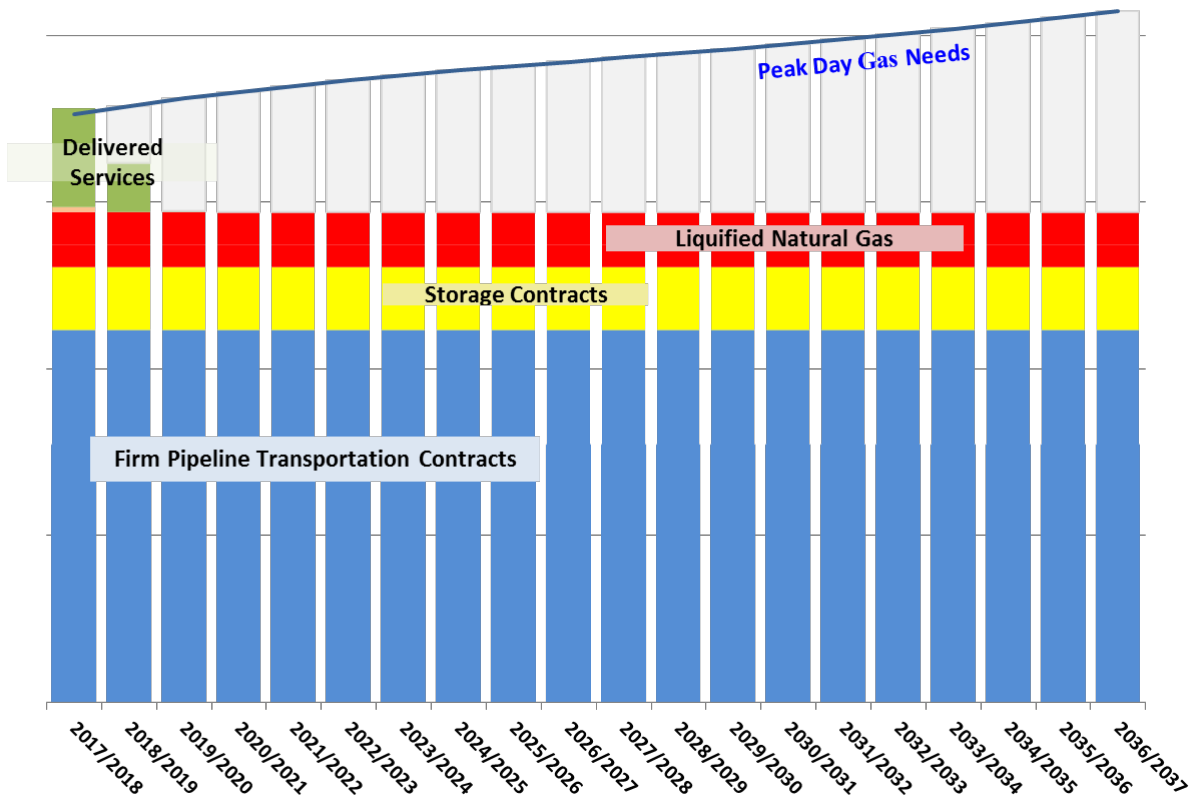
⁶ <http://www1.nyc.gov/office-of-the-mayor/news/311-13/mayor-bloomberg-new-york-city-s-air-quality-has-reached-cleanest-levels-more-than#/0>

⁷ The Company contracts for incremental pipeline capacity through open seasons or individually negotiated arrangements. An open season occurs when an interstate pipeline offers firm transportation capacity (“FT”) for a defined period, where market participants will bid up to the tariff rate for the period of service. Interstate pipeline capacity is marketed at various service priority levels, with FT as the highest priority. During periods of lower (non-peak) demand, interstate pipelines allow for lower priority flows, referred to as secondary or interruptible.

market conditions and demand requirements shift over time. Many of the rights that the Company has for long-term pipeline capacity are renewed annually.

To address firm customer needs during periods when daily demand from its customers exceeds the Company’s contracted pipeline capacity, the Company purchases Delivered Services. The Company also utilizes its on-system liquefied natural gas (“LNG”) facility to meet customer needs on days with high customer demand, generally the coldest winter days. Figure 2 shows the Company’s current usage of available resources to meet customer peak day gas demand.

Figure 2: Resources to Meet Customer Peak Day Needs



D. Current Ability to Meet Customer Peak Day Needs

The Company currently has a portfolio of pipeline capacity rights and other equivalent resources that can meet about 83 percent of the combined needs of both Con Edison and O&R customers. Based on Company research into the contractual status of the pipelines delivering gas into its service territory, there is currently no unsubscribed pipeline capacity available on any existing pipelines. To fill the gap between existing pipeline capacity contracted by the Company with interstate pipelines and the total needs of customers on peak gas days, the Company relies on purchasing Delivered Services from the market. At appropriate levels, Delivered Services can result in lower costs for customers because the pipeline capacity is only dedicated to the Company for a specified number of days during the year, allowing others to use and pay for the costs of that pipeline capacity during the remainder of the year.

Because of the recent growth in customer demand, and the fact that existing capacity is fully contracted, the Company has increased its dependency on Delivered Services from about five percent of its total needs in Winter 2014/2015 to 17 percent of its total needs in Winter 2017/2018. The Company's current forecast of pipeline capacity shortfall increases to 22 percent by 2023/2024.

Historically, the Company has sought to use Delivered Services to meet no more than ten percent of its customers' peak gas day needs. Unlike the Company's contractual rights for pipeline capacity, there is no renewal right for Delivered Services and, therefore, no certainty that the Company can continue to rely on the same or increasing levels of Delivered Services from year to year, even at current usage levels, to reliably meet customer heating needs.

In addition to its service area shortfall in pipeline capacity, the Company is also experiencing locational pipeline capacity constraints at certain city gates. In some instances, the

Company has been able to utilize its joint portfolio to redirect pipeline capacity to locations experiencing a shortfall.

The natural gas system has an inherent capability to store natural gas within the supply day (for example, by increasing pressures prior to peak hours), but in order to reduce peak day needs, the aggregate reductions must occur for a 24-hour period beginning at 10:00 AM Eastern Standard Time. This fact influences the design of the Company's Program: individual customer actions that shift gas consumption from one part of the gas day to another portion of the gas day without achieving a net reduction of gas usage over the gas day do not provide the necessary relief because such actions will not mitigate the need for daily pipeline capacity.

Absent Company actions, the Company forecasts that in the near term it may be unable to meet demand from new customers on extremely cold days, resulting in the need to institute moratoriums on attaching new firm customers in areas where pipeline capacity is severely constrained. This would deprive these customers of the environmental and economic benefits of using natural gas that would otherwise be available to them. Therefore, a plan for incremental natural gas pipeline capacity or alternatives is needed to serve new customers.

III. Smart Solutions to Meet Customer Heating Needs

Con Edison proposes the Smart Solutions for Natural Gas Customers Program, a non-traditional, multi-solution portfolio comprised of alternatives to natural gas pipeline capacity to meet customers' heating needs combined with a parallel track to develop traditional pipeline capacity rights, with the goals of managing the growth of peak demand, meeting resource constraints, mitigating risk, and enhancing the flexibility of its natural gas system while considering the overall cost impact to customers. This portfolio is intended to bring the benefits of innovative thinking to the natural gas system by developing new concepts to achieve desirable

outcomes. Actions by the Company, customers and market participants in the electric system have deferred the need for new electric infrastructure, and through the Program, the Company is investigating whether similar outcomes are achievable on the natural gas system. The Company will seek input from the Department of Public Service Staff (“Staff”) and other stakeholders as it develops a Benefit Cost Analysis framework (discussed later) for use in evaluating the impacts of substituting non-traditional measures for pipeline capacity.

The expertise acquired through the Program will provide important lessons to establish the pathway toward a low-emissions future. New data on how broader-scale deployment of renewable heating and cooling technologies can support both the natural gas and electricity systems in New York City and Westchester County and will help to inform further efforts to integrate these technologies. Assessing customers’ ability to respond to natural gas demand response requests through thermostatic temperature controls, fuel switching (other than to oil) or other methods could form the basis for future programs that may increase participation levels of many low- to moderate-income tenants in older housing stock, while at the same time managing demands on the natural gas system. Opening up a new market for non-pipeline solutions could result in additional customer value through development of new and innovative solutions and business models.

The reliability of the Company’s natural gas deliveries to customers is paramount to public health and safety, especially given its use by firm customers for heat during the winter. Furthermore, the ability to support additional customers as they seek to convert from oil to cleaner natural gas is critical to meeting near-term state and local air quality and carbon reduction goals. While alternative technologies are available, customer choice and cost effectiveness will also impact heating fuel choices, which will be reflected in buildings’

emissions profiles. In the absence of natural gas availability, many customers may choose oil as a heating fuel for new boiler systems, reducing the ability to achieve environmental and public health goals. This may be a lost opportunity for the next 25 to 35 years because customers typically only replace this type of equipment at end of equipment life.

Because the Company is uncertain about the ability of non-traditional solutions to meet its aggregate needs for pipeline capacity, as part of the multi-solution portfolio the Company proposes to begin the initial steps needed to develop a traditional solution while the results of the new and innovative programs can be evaluated. If non-traditional programs can reliably and cost-effectively meet customers heating needs, the need for an infrastructure solution will be reduced or eliminated.

A. Solution 1: Enhanced Gas Energy Efficiency Program

1. Overview

The Company currently offers a number of energy efficiency programs for its natural gas customers, and will seek to expand the current programs to achieve greater levels and penetration of gas efficiency (the “Enhanced Gas EE program”). The Company seeks approval of its proposed budget, cost recovery mechanisms, and program enhancements, as detailed below, in time to begin enrollment in the first quarter of 2018.

Con Edison proposes to double its spending on its gas energy efficiency programs, making several enhancements to focus program spending on peak gas day customer usage reductions. The Enhanced Gas EE program will contribute to offsetting the Company’s forecasted pipeline capacity shortfall, while controlling costs for participating customers as well as providing environmental benefits by reducing emissions. This program expansion, if sustained through 2023, would reduce Con Edison’s winter 2023-2024 peak gas day forecast by

approximately 1.6 percent, assuming, among other forecasting assumptions, that existing levels of organic energy efficiency are maintained.

Since the inception of the Company's existing gas energy efficiency programs, customer incentive funding has been fully expended each year and energy reduction targets have been met.⁸ The Company believes that with a proportionally larger budget the gas energy efficiency programs could achieve a proportionally larger amount of energy savings and peak demand reduction. Specifically, the Company projects that increasing the gas program portfolio annual budget from \$14.5 million to \$29 million could increase annual savings from approximately 273,000⁹ dekatherms/year to approximately 546,000 dekatherms/year.¹⁰

2. Program Enhancements

Historically, Con Edison has sought to reduce consumption of natural gas throughout the year, rather than focusing on peak day load reductions. To better align the programs with the customers' peak day capacity needs, several strategic enhancements will be made:

- Incentives will be increased by a range of 18 percent to 175 percent, an average of 75 percent, for specific measures that yield the highest rate of peak demand reduction (measured in therms per peak day) relative to their baseline usage and unit cost. Measures that will be eligible for these increased incentives are expected to include condensing furnaces and boilers, Wi-Fi enabled thermostats,

⁸ The Company recently hired Navigant Consulting to perform a study on gas EE potential. That report, which is expected to be published shortly, demonstrates that there is potential to increase the dekatherm savings above the current levels and perhaps even beyond the level requested in this filing. The Company proposes to test this by doubling the existing spending now. As circumstances dictate, the Company may propose additional increases in gas EE spending.

⁹ Case 15-M-0252, *In the Matter of Utility Energy Efficiency Programs*, Order Authorizing Utility-Administered Energy Efficiency Portfolio Budgets and Targets for 2016-2018 (issued January 22, 2016), Appendix B, p. 2.

¹⁰ A dekatherm is an industry standard term referring to a quantity of natural gas containing 1 million British thermal units of energy, and represents about 1,000 cubic feet of natural gas. A typical residential Con Edison heating customer uses approximately 120 dekatherms per year.

and Energy Management Systems (“EMS”), which reduces customer usage compared to the baseline simply through installation.

- A new Hot Water Direct-Install component will offer free installations of energy efficiency measures, such as hot water heater blankets, hot water tank temperature reset, low flow devices, and hot water pipe insulation. This measure is more expensive than other programs and to maximize benefits it would be offered only to customers signing up for the Gas Demand response program.
- A streamlined customized-measure process will be established to allow for new technologies to be implemented on a greater scale. This includes introducing additional assessment report templates, standardized savings calculation models, and well-defined measurement and verification (“M&V”) review criteria for custom measures that show a common application and a high degree of repeatability. This concept was first introduced earlier this year in the Company’s Multifamily Program to support the 1-Pipe Steam Retro-commissioning measure, enabling more custom projects to be processed than in prior years. Potentially, this concept could be expanded to include 2-Pipe Steam Retro-commissioning and Air Sealing. See Con Edison’s 2017 Energy Efficiency Transition Implementation Plan (“ETIP”) filing for further information on these measures.¹¹
- For the Enhanced Gas EE program, a peak gas day reduction target, measured in dekatherms per day, will be used to gauge program performance in addition to the annual volumetric savings targets that have been used historically. Con Edison estimates that its existing gas energy efficiency program has reduced peak gas day

¹¹ Case 15-M-0252, *In the Matter of Utility Energy Efficiency Filings*, Draft Energy Efficiency Transition Implementation Plan (ETIP) 2017-2020 (filed June 1, 2017).

load by approximately 0.2 percent to 0.25 percent each year the program has been offered, which is expected to increase to approximately 0.5 percent annually through the 2023/2024 heating season based on the program enhancements and improved program targeting.

While these key program changes are expected to improve winter peak demand reduction across the Company’s gas system, the Company may choose to focus these enhancements on geographically targeted areas (based on the locations where its supply shortfalls are most severe) should the need arise.

Table 1 provides a breakout of the proposed annual targets and budgets, including the current gas energy efficiency program.

Table 1: Energy Savings and Budgets for Gas Energy Efficiency Program

Program Segment	2018 ETIP Energy Savings (Dt/year)	2018 Smart Solutions EE Energy Savings (Dt/year)	2018 ETIP Peak Day Reduction (Dt/day)	2018 Smart Solutions Peak Day Reduction (Dt/day)
Residential	201,500	248,000	3,000	4,200
Commercial	71,500	25,000	500	300
Total	273,000	273,000	3,500	4,500

Program Segment	2018 ETIP Budget	2018 Smart Solutions EE Budget
Residential	\$8,581,496	\$11,329,491
Incentives & Services	\$6,000,534	\$7,399,466
Program Implementation	\$2,580,962	\$3,930,025
Commercial	\$2,770,089	\$1,318,924
Incentives & Services	\$1,881,076	\$1,218,924
Program Implementation	\$889,013	\$100,000
Portfolio Admin and EM&V	\$3,181,881	\$1,885,051
	\$14,533,466	\$14,533,466

3. Marketing and Outreach

The success of the Enhanced Gas EE program will depend upon the degree to which customers and market partners are engaged in program offerings. As a result, outreach, education, and marketing efforts are a critical part of the planned approach.

Con Edison will create educational materials and forums to educate customers about the benefits of investing in gas energy efficiency. In addition, the Company intends to utilize its robust program awareness platforms, including social media, digital advertising, e-mail blasts, and bill inserts, to inform its gas customers of available opportunities. Also, the Company will increase training for Company's call center, marketing and business development teams (internal and external) so that they are better positioned to work one-on-one with customers to answer their questions and enroll customers in these programs.

Con Edison's market partner network of plumbers, engineers, electricians, energy consultants, and general contractors has been an effective channel for recruiting customers to the Company's programs. These market partners will be critical to the success of the Enhanced Gas EE program. The Company has already had preliminary discussions with some key market partners about their ability to ramp up and participate in the Company's enhanced programs. In addition to the planned outreach and education mentioned above, the Company will provide market partners with an in-person orientation class at least one month in advance of the program rollout to provide training on new measures and requirements and distribute Company branded informational materials to be used when speaking to customers.

Programmatic changes are opportunities to deepen the Company's existing collaboration and cooperation with NYSERDA, leveraging NYSERDA's expertise from decades of

conducting energy efficiency research and operating innovative programs. The Company will seek out such additional cooperative opportunities as it fine-tunes program designs.¹²

4. Risk Mitigation and Measurement and Verification (“M&V”) Activities

The Enhanced Gas EE program will be a critical component of the Program. Therefore, the Company will maintain the strict M&V of program results, as well as other quality assurance and quality control procedures that are in place for the current program.

5. Schedule and Approval requested

To implement this Enhanced Gas EE program, the Company is:

- Undertaking preparatory activities during the fourth quarter of 2017, by: modifying M&V vendor contracts, modifying contracts for sales and installation vendors, updating internal information technology systems to accommodate program expansion, developing market partner training materials, and revising internal processes and staffing, as needed.
- Proposing to file an implementation plan by the end of 2017, reflecting stakeholder input.
- Ready itself to implement the program as soon as Commission approval is received.

¹² NYSERDA and Con Edison already coordinate the operation of a number of residential and commercial programs to provide customers with deeper opportunities to increase the energy efficiency performance of customer facilities. For example, NYSERDA’s Multifamily Performance Program (“MPP”) has been accepting referrals from Con Edison’s Multifamily Program of customers who have performed a single-measure upgrade and are now looking to integrate it into a whole-building efficiency package. While the Company’s Multifamily Program does not handle these complex projects due to the extensive energy modeling and lengthy construction timeline, MPP has proven to be a complementary program to accommodate these customers’ needs.

Con Edison expects to file a detailed implementation plan for its Enhanced Gas EE program by the end of 2017. The implementation plan will discuss which programs will be changed and planned enhancements, and will provide benefit-cost analyses and detailed budgets.

The Company requests Commission approval of an annual increase of \$14.5 million in each year, *i.e.*, total gas EE program will increase in each of 2018 and 2019 to \$29 million. If the Commission approves the Enhanced Gas EE program in January 2018, customer enrollment and training of market partners could begin as soon as the first quarter of 2018.

B. Solution 2: Gas Demand Response Program

1. Overview

The Company will develop a gas demand response (“Gas DR”) program to mitigate pipeline capacity needs for firm customers during the heating season. The Gas DR program is expected to result in net reductions during program events from each participating customer, and to the Company’s knowledge, will be the first in the United States designed to address a system-wide need for peak gas day interstate pipeline capacity. The Company is planning to commence this program for the 2018/2019 heating season (November 1, 2018 – March 31, 2019). The Gas DR program will require multi-year funding to encourage ongoing customer participation. Based on a preliminary evaluation of potential load reductions, Con Edison estimates that a Gas DR program could meet approximately one percent of the pipeline capacity shortfall by 2023 through net reductions in customer peak gas day requirements.

2. Gas Demand Response Program Design Development

A key objective of this initiative is to create a Gas DR program that addresses the Company’s pipeline capacity shortfall and reflects the principles underlying the Reforming the

Energy Vision (“REV”) proceeding.¹³ The program will be sufficiently broad-based to allow the marketplace and third-party demand response aggregators to work with gas customers to find innovative ways of reducing consumption on peak gas days.

An essential element of the Gas DR program design is the need for customers to reduce net load over a 24-hour period corresponding to the natural gas day. Individual customers will not necessarily be required to continually reduce their usage for a full 24-hour period, provided their actions result in a net reduction in gas use for the day, compared to their individualized baselines of likely usage of natural gas on that day. The Company understands the difficulty associated with long reduction periods and intends to incorporate stakeholder input to develop a program that will attract participants.

Con Edison expects that customers may be able to utilize a range of approaches to participate in the Gas DR program. For example, gas heating customers who also have an air source heat pump could potentially operate their heat pump to offset natural gas use, if doing so would reduce its total gas use for the day. Residential customers may be able to leverage the capabilities of smart thermostat controls. Commercial/industrial customers could lower gas usage by employing variable-speed refrigerant systems as air source heat pumps.

While the Gas DR program will welcome a broad range of approaches, the Company plans to exclude: (a) peak day load reductions that would be provided by supplementing or replacing gas use with less environmentally friendly fuels such as fuel oil and (b) interruptible customers. The use of oil in lieu of natural gas would increase emissions of criteria pollutants, greenhouse gases, and air toxics, undermining progress that has been made towards achievement

¹³ See Case 14-M-0101, *Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision*, Order Adopting Regulatory Policy Framework and Implementation Plan (issued February 26, 2015).

of state and local environmental objectives. Stakeholders have advised the Company that increased emissions associated with increased use of oil would be an unacceptable outcome of the Gas DR program.

The Company will develop a Gas DR program that will consider the following design elements:

- Incentive structure,
- Eligible technology types,
- Different designs to resolve upstream supply issues,
- Activation criteria,
- Call durations/Cap on number of calls,
- Timing of call notifications,
- Potential emissions impacts,
- Locational needs when supply issues are more acute in specific areas of the Company's service territory,
- Customer eligibility/segmentation/technology potential,
- Impacts on and interaction with the retail access/gas marketer program,
- M&V of response.

The Company will seek input from stakeholders, including electric DR aggregators, during the development of its program structure and incentives.

As noted in the discussion of the Enhanced Gas EE program, the Company will seek to leverage its gas energy efficiency efforts to encourage increased participation in the Gas DR program, for example, by offering increased efficiency incentives for customers who participate in the Gas DR program and who demonstrate superior performance rates as well as incentives for

customers using Wi-Fi thermostats and EMS programs. The Company will seek similar opportunities to increase individual customer achievements through leveraging related program designs, including programs offered by NYSERDA.

3. Schedule and Budget

The Company is still developing the details of its Gas DR program and is not requesting any Commission approval for this program at this time.

The Company will prepare and validate program concept designs during the remainder of 2017. It will work with stakeholders to amend and perfect a conceptual design in early 2018, with a goal of filing tariff sheets and procedures during Spring 2018, with Commission anticipated action during Summer 2018.

The Company intends to file annual reports on this program.

C. Solution 3: Gas Innovation Program

1. Overview

The Company's Gas Innovation program is designed to take proven technologies, like renewable heating & cooling ("RH&C"), and test the ability of various business models to increase penetration of those technologies in the Company's service territory. The desired outcome is to determine if this technology could be scaled to have a greater impact in the long term on gas demand. Implementation of the Gas Innovation program will assist in achieving the City's and State's goal of reducing greenhouse gas emissions by 80 percent by 2050. The Gas Innovation program will explore cost-effective approaches to advance RH&C and other clean thermal technologies. For example, the program could examine whether there are benefits from developing large geothermal loops that can be utilized to heat and cool multiple facilities or whether electrification of heating systems should be accompanied by the development of

batteries or thermal storage devices. The program is likely to provide a small portion of the Company's peak gas day needs by 2023, but is anticipated to provide valuable insights and much larger long term benefits.¹⁴

The Company will solicit market participants to propose projects that would use innovative business models to speed adoption of clean thermal technologies by customers. Based on feasibility studies performed by an external engineering firm or internal analysis, the Company believes the greatest opportunities within its service territory lie in two technologies:

- Cold-climate air source heat pumps (“ccASHP”),
- Ground-source (geothermal) heat pumps (“GSHP”).

The Company's current market understanding is that there are promising opportunities for these technologies. Proposals focusing on other zero or low-emissions technologies must include associated technology and market supporting data to be considered.

The Gas Innovation program is designed to assess the ability of RH&C to reduce peak gas day demand by achieving the following goals:

- Demonstrating the ability of RH&C to reduce energy cost to customers,
- Testing different ownership and financing models as a means of reducing barriers to entry in the RH&C market, including the roles of the utility, third parties, and customers,
- Identifying customer demand and preference for various RH&C technologies,
- Examining locational benefits of RH&C adoption to the Con Edison gas system,

¹⁴ The Gas Innovation program is not an R&D program that will test the effectiveness of different technologies, nor will the Gas Innovation program focus on resource acquisition to maximize load reductions in the near-term to offset the Company's pipeline capacity shortfall, although it will contribute to mitigating those needs.

- Quantifying the benefit of uptake of RH&C to the gas system and ability to support continued conversions of oil-heat customers to natural gas, and
- Calculating the financial benefits to the electric grid of electrifying heating.

2. Schedule, Budget, and Potential Savings

Con Edison will issue a solicitation requesting proposals addressing the goals of the Gas Innovation program, and will update the Commission after the solicitation is released.

As part of this solicitation process, solicitation respondents are expected to work with the Company to further develop their plans and include the following elements in their plans:

- Risk Identification and Mitigation – Responses to the solicitation will be expected to identify risks to the success of the demonstration and plans to mitigate those risks.
- Customer Engagement, Communication, Outreach, Marketing, and Acquisition – Proposed solutions must have a defined approach to customer engagement, communication and acquisition, and allow for Company oversight of marketing and customer communication efforts.
- M&V – In addition to the overarching business model elements being tested, other barriers to be addressed, if any, will be identified. The solicitation response must help identify M&V processes to determine the success of the demonstration.

The Company proposes to file a detailed project implementation plan regarding the opportunities that it believes should advance to the implementation phase. The Company will review its final budget and project plans with stakeholders. The Company also proposes to file semi-annual status reports each year after the implementation plan has been submitted.

The Company requests approval of a Gas Innovation program budget of up to \$10 million.

D. Solution 4: Market Solicitation for Non-Pipeline Solutions

1. Overview

The Company plans to issue a request for information to the market soliciting innovative demand-side and supply-side measures (the “Non-Pipeline RFI”).¹⁵ This is the largest and most important component of the Company’s non-traditional solutions to achieve the reduction goals.

The Non-Pipeline RFI will seek a broad array of potential non-pipeline solutions, recognizing that the proposals accepted by the Company must address the pipeline capacity shortfall in the Company’s service territory in a safe, cost-effective, reliable and environmentally-sound manner. This solution will primarily be a resource acquisition program that seeks to reduce the Company’s peak gas demand. Con Edison expects to receive varied demand-side reduction and alternative non-pipeline supply-side solutions from market participants, possibly including, but not limited to:

- Biogas,
- Innovative non-pipeline supply-side solutions,
- Electrification of space heating and/or hot water heating, including RH&C installations,
- Measures to store natural gas or thermal energy, and
- Further efforts to deploy additional energy efficiency and demand response measures.

As with the Gas DR program, the Company plans to exclude measures that would result in the use of oil in lieu of natural gas.

¹⁵ While the Non-Pipeline RFI will seek solutions that can defer or eliminate the need for incremental pipeline capacity, it is possible that continued future growth will not be able to be met with non-pipeline solutions and some future pipeline capacity will still be required.

Although details of the Non-Pipeline RFI are under development, some characteristics of the measures likely to be proposed through the solicitation are clear. The Company will develop environmental, feasibility, and reliability criteria to evaluate solutions. Emphasis may be placed on selecting proposals that address areas with locational pipeline capacity shortfalls. Measures that are potentially replicable or scalable may also be given additional weight. Proposals submitted in response to the Non-Pipeline RFI will likely also be permitted to utilize other existing customer incentive programs.

3. Non-Pipeline RFI Program Design Development

Con Edison is in the process of developing various aspects of the Non-Pipeline RFI.

These aspects include:

- functional requirements of proposed solutions (*i.e.*, times and durations for load reductions, and feasibility of solutions),
- M&V standards,
- financial and technical qualifications,
- outreach and engagement strategy, and
- guidelines to aid in ranking and selecting proposals.

A sample illustrative portfolio of potential measures will be developed to aid in the establishment of an initial budget for the Non-Pipeline RFI and to inform the marketplace with examples of the types of projects that may provide particular value.

4. Approval and Schedule

Con Edison intends to release the Non-Pipeline RFI in the fourth quarter of 2017, with responses from market participants due in the first quarter of 2018. A copy of the Non-Pipeline

RFI and a preliminary budget based on an illustrative portfolio of projects will be filed with the Commission. The Company will provide this information to the Commission shortly after the Non-Pipeline RFI is released.

Following receipt of proposals, the Company will consult with Staff and other stakeholders prior to selecting an appropriate portfolio of projects and determining a final budget for which it will seek Commission approval.

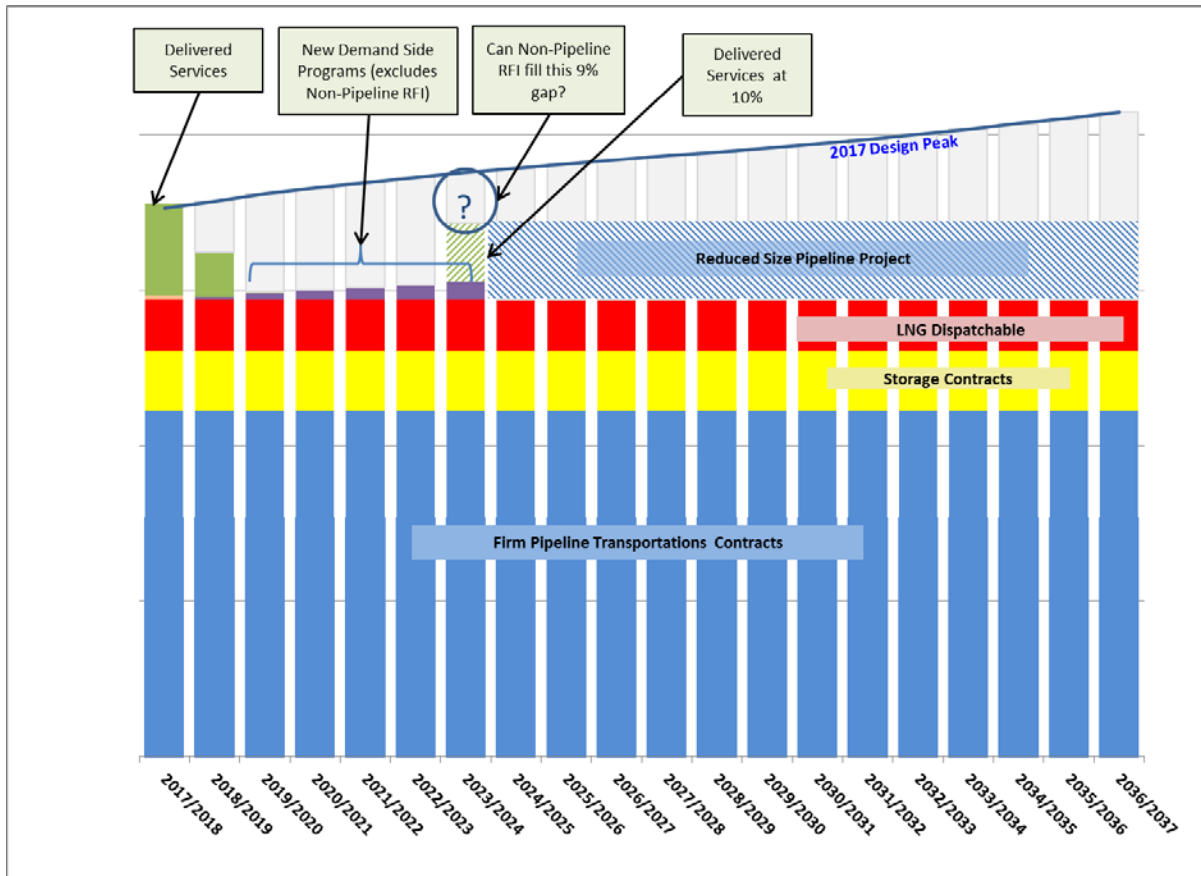
The Company would note that the budget for non-traditional solutions may be substantial, if the portfolio of solutions can reliably offset the need for pipeline capacity.

E. Impact of Non-Traditional Solutions

Based on current forecasts, the Company's projected reliance on Delivered Services in lieu of firm pipeline capacity rights held by the Company is estimated to be 22 percent in 2023. Figure 3 shows the impact of the demand side solutions on the Company's gas pipeline needs. In total, the Company believes that the Enhanced Gas EE Program, the Gas DR Program, and the Gas Innovation Program may provide relief to meet approximately three percent of the Company's overall pipeline capacity needs by 2023. Assuming a gas supply portfolio that would include up to 10 percent of Delivered Services, the Company still anticipates a shortfall of approximately nine percent of peak day gas needs in 2023, prior to the impact of the Non-Pipeline RFI.

The key question is whether the Non-Pipeline RFI can meet such a substantial level of pipeline capacity shortfall.

Figure 3. Impact of Demand Side Resources on the Company’s Peak Gas Day Needs



The Company is using its best efforts to meet the challenge of addressing the shortfall. But whether or not the Company’s efforts to defer the need for pipeline capacity achieve the targeted result, there will nevertheless be significant customer benefits in having initiated a market for non-traditional solutions.

First, enhanced gas energy efficiency measures are likely to be cost-effective from a BCA perspective and will have the further benefit of reducing energy costs for participating customers.

Second, the Company anticipates that the Gas DR program may have significant operational or distribution system benefits, for example, if the Company encounters local

distribution constraints that can be cost effectively addressed with a short term demand response effort.

Third, the Gas Innovation program and the Non-Pipeline RFI will likely result in the advancement of programs and technologies that will help develop a path to an 80 percent reduction in greenhouse gas emissions by 2050.

At this time, it is impossible to predict if these non-traditional programs will provide the needed relief. As a result, the Company plans to move forward with the preliminary steps necessary for the development of a traditional pipeline solution. The Company notes that these efforts are needed because growth is expected to continue after the 2023/24 heating season.

F. Solution 5: Parallel Planning for a Traditional Solution Initiative

In 2014, the Company forecasted a need for additional pipeline capacity and began reviewing several proposed pipeline projects that could provide new pipeline capacity to the service area with a planned in-service date by the 2019/2020 heating season. As a result of this review, in early 2016, the Company was working toward agreements with the pipeline developers to move forward on two to three projects.

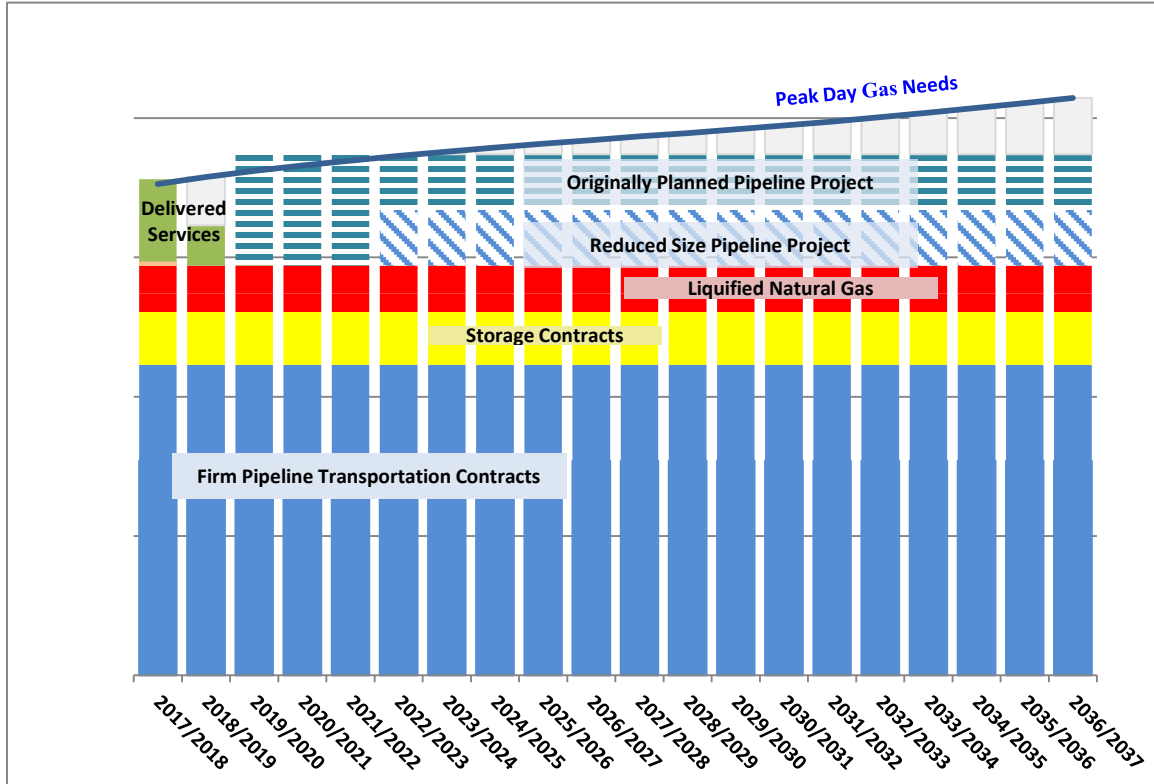
As this work was ongoing, the landscape for pipeline projects in the Northeast was changing. Proposed pipelines were having issues with procuring the necessary permits, resulting in project delays and cancellations. It became increasingly unclear whether the projects selected by the Company would be able to successfully complete the permitting process as these projects had aspects similar to some of the projects facing challenges. Accordingly, in late 2016, the Company modified its plan for procuring additional pipeline capacity based on the on-going events.

The Company has identified a different pipeline expansion project, the design of which acknowledges and seeks to address the permitting concerns raised to date, and hence the permitting challenges faced by pipeline developers. In addition, the project's capacity is smaller, reflecting the potential of the programs proposed in this petition.

The project under consideration, if constructed, would deliver incremental pipeline capacity to Con Edison's service area, solving pipeline capacity needs and providing additional reliability benefits by adding additional city gates. Unfortunately, the lead time associated with pipeline project development has also increased, so the planned in-service date of the new project will be no earlier than the 2023/2024 heating season.

Figure 4 shows the potential impacts of both the originally proposed additional pipeline capacity as well as the impact of the reduced size pipeline project on meeting customer peak gas day needs.

Figure 4. Potential Impacts of Future Pipeline Projects on Meeting Customer Needs



Given the current landscape and the nature of the Program, the Company anticipates that the precedent agreement¹⁶ for the pipeline project under consideration will include two provisions not heretofore included in pipeline precedent agreements to which the Company was a party - one which would allow Con Edison to cancel its participation in the project if the Company's need for such capacity is reduced or eliminated, and a second that would require the Company to share in the accrued development costs in the event the project is terminated after a specified date as a result of failing to secure needed construction permits. While the Company will negotiate to avoid or minimize the level of cost sharing included in the precedent agreement for either or both of these circumstances, accepting some level of financial exposure may be

¹⁶ A precedent agreement is the term used in the pipeline development industry to describe a contract between a potential shipper on a planned pipeline and the pipeline developer, committing the shipper to subscribe to the planned pipeline if the pipeline is built.

necessary to obtain a commitment from the project developer to advance the project. As discussed below, if the Company cannot execute a precedent agreement without a provision to share development costs if the project is terminated, the Company seeks confirmation that the incurrence of such development costs will be treated the same as other gas supply costs for purposes of cost recovery.

Con Edison expects to conclude a precedent agreement by the end of 2017 or early 2018, with a target in-service date of 2023-2024.

If the non-traditional solutions cannot meet the pipeline capacity needs of the Company's customers, and additional pipeline capacity is pursued in the near-term to serve these customers, the Company will have the flexibility over the long-term to continue to "right-size" its firm pipeline capacity portfolio, as needed, by releasing unneeded capacity the Company controls on other pipelines.

G. Benefit-Cost Analysis Framework for Natural Gas

Con Edison is developing a BCA framework to evaluate responses to the Non-Pipeline RFI and, eventually, to aid in assessing other programs and initiatives described in this filing. The BCA framework will be documented in a new BCA Handbook for natural gas programs, which Con Edison expects to complete in the first quarter of 2018. The new BCA Handbook will be modeled on the Company's existing BCA Handbook used for analysis of non-wires solutions, and will outline the methodologies that will be used to compare non-pipeline solutions with the benefits and costs of conventionally meeting gas needs, such as additional interstate pipeline capacity and Delivered Services contracts. Con Edison expects that a societal net benefits test, which will recognize the relative carbon emissions of different options, will be an important metric prescribed by the new BCA Handbook.

The BCA framework will be used to evaluate demand response program alternatives, solutions proposed in response to the Non-Pipeline RFI, and project proposals under the Gas Innovation program. It will not initially be applied to the Enhanced Gas EE program because that program seeks to expand existing efforts and may be implemented prior to the completion of the BCA Handbook. The Company will rely on its existing benefit-cost approach to evaluate energy efficiency program concepts until the BCA framework is completed.

A draft BCA framework will be developed in 2017, with major elements identified prior to the release of the Non-Pipeline RFI. Con Edison expects to have a draft Handbook available for stakeholder review and comment in early 2018. Following stakeholder discussion, a final version of the Handbook will be filed with the Commission.

H. Stakeholder Engagement

The Company has received input from the numerous parties participating in the Gas Peak Demand Reduction collaborative. Con Edison plans to continue discussion of the details of the non-traditional components of the Program with those parties. The Company's goals in engaging in extensive stakeholder interactions are to: (1) allow stakeholders to have a full understanding of the petition, and (2) obtain input from Gas Peak Demand Reduction collaborative parties so that the Company can benefit from the collective interest and knowledge of those stakeholders while developing the implementation details of the Program. Stakeholder engagement in the Gas Peak Demand Reduction collaborative also allows stakeholders to share their varying viewpoints with each other and potentially reach consensus agreement on controversial issues.

I. Program Reporting and Management

The Company will provide the Commission with quarterly reports describing Program expenditures, the extent to which expenditures have been recovered through customer surcharges, and major activities.

In order to implement the Program, the Company requires flexibility to respond to market needs and opportunities. The Company proposes that it be given broad authority to work with customers and offer them the types of business terms that will achieve the desired outcome and best fit their needs, including consideration of ownership, lend/lease, and co-ownership of materials and assets installed within their premises and located behind the utility meter.

The Company's goal is to find and deploy technology solutions in both targeted areas and across its gas service territory that will reduce peak gas day needs and also advance a future with more clean thermal energy resources than exists today. Flexibility regarding the utility role may help achieve this goal. For example, the owner or manager of a multifamily residential building (or building owners in a neighborhood) may have no interest in undertaking a complex ground source thermal heating solution, but may be amenable to accessing a utility-owned geothermal loop, if it facilitates renewable heating and cooling and lowers the customer's energy costs.

The Company will need flexibility to invest in various types of business relationships. Similarly, the Company may need to retain some or all aspects of operation, maintenance, and technical support responsibility for customer-side solutions offered under the program in order to maximize reliability.

J. Cost Recovery, Incentives and Budget Flexibility

1. Cost Recovery for Non-Traditional Solutions

The Company proposes that expenditures for the Enhanced Gas EE program, the Gas DR program, the Gas Innovation program, and the Non-Pipeline RFI be deferred as a regulatory asset (for non-traditional solutions), accrue interest at the Company's weighted average cost of capital as set forth in its most recent gas rate case, and be recovered over a ten-year schedule through the existing surcharge mechanism, the Monthly Rate Adjustment ("MRA"), until the Company's next gas rate filing. At that time, the Company would seek cost recovery for unamortized expenses by rolling those expenses into base rates. Collecting these program costs over a ten-year period will lessen the immediate customer bill impact and better align the recovery of program costs with the delivery of benefits to customers. For capitalized utility sided solutions, the Company proposes to defer the carrying charges on those expenditures and also collect them through the MRA until base rates are reset.

2. Incentives for the Market Solicitation for Non-Pipeline RFI Solutions

Con Edison is requesting that incentives comparable to those provided for non-wires solutions (*i.e.*, a 70/30 customer/shareholder sharing of any net savings) be provided for any non-pipeline solutions procured through the Non-Pipeline RFI. Con Edison requests that any program incentives be recovered from firm customers via the MRA over the course of no longer than 24 months from the point at which the incentives are deemed to be earned in order to provide for revenue recognition at the time the incentive is earned. The Commission has highlighted, in other proceedings, that such incentives are appropriate to offset the financial risk associated with procuring electric non-wires solutions and to encourage innovative, portfolio-

level approaches to electric system planning. These same rationales apply to the Company's pursuit of alternatives to traditional interstate gas supply options.

3. Cost Recovery for Pipeline Development Costs

As part of the development of an interstate natural gas pipeline project, the traditional solution to meeting forecasted growing customer demand, the Company plans to sign a precedent agreement with a pipeline developer. As discussed above, given the current challenges regarding pipeline construction in the region, pipeline developers may be unwilling to sign a precedent agreement without some level of cost sharing with shippers if after the pipeline begins incurring significant development costs, the pipeline developer is unable to secure state or local permits needed to proceed to construction, or Con Edison is able to secure (and then exercises) an option to cancel the precedent agreement if the Program is successful in eliminating or reducing the need for new pipeline capacity. Con Edison will vigorously negotiate with the pipeline developer to reduce or eliminate any cost-sharing related to the pipeline's development costs. However, where agreement to such cost-sharing is required to advance to a precedent agreement, the Commission should recognize that sharing in development costs is a necessary cost of doing business and recoverable as part of the Company's gas supply costs. Accordingly, the Company hereby requests the Commission confirm that the Company is authorized to recover costs that may arise from cancellation or termination of a precedent agreement via the existing terms of the MRA, subject to the same retrospective review by Staff and the Commission as other costs recovered through the MRA.¹⁷ If the Commission deems that a modification to the MRA is

¹⁷ To the extent that any tariff revisions are required to effectuate this request, the Company will file such revisions subsequent to and in accordance with the Commission's ruling on this petition. O&R would seek authorization to recover its portion of these costs (under the joint portfolio) in a separate filing.

necessary to effectuate such recovery, the Company requests that the Commission order in this proceeding direct the Company to make the appropriate compliance filing.

The Company will make Staff aware of any such cost-sharing provision before executing a precedent agreement containing such a provision as part of the Company's ongoing consultations with Staff regarding gas supply matters.

4. Budget Flexibility

The Program includes a number of initiatives that are either completely new (*e.g.*, a gas DR program) or have not be tested in a natural gas context (*e.g.*, REV-inspired non-pipeline solicitations). The ability to flexibly shift Program funding from one of the demand-side/alternative supply initiatives to another is important to the overall success of the program. The Commission has already allowed similar flexibility for Con Edison to implement its energy efficiency programs.¹⁸ Therefore, the Company requests an oversight mechanism that would allow the Company, in consultation with Staff, to react quickly to initiative successes or failures and shift approved funds rapidly, as long as the Company keeps within the overall budget for the Program and consults with Staff.

¹⁸ See Case 07-M-0548, *Proceeding on Motion of the Commission Regarding an Energy Efficiency Portfolio Standard*, and Case 15-M-0252, *supra*, Order Authorizing Utility-Administered Gas Energy Efficiency Portfolios for Implementation Beginning January 1, 2016 (issued June 19, 2015), pp. 3, 9. (The Commission provided electric and gas utilities with “more flexibility in designing and managing their programs within authorized portfolio budgets, as opposed to specific program authorizations, to achieve energy efficiency objectives in support of overall REV outcomes through the use of new and innovative approaches.”)

IV. Conclusion

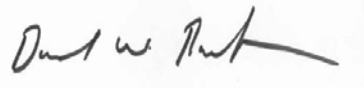
For the reasons stated herein, the Company respectfully requests that the Commission approve the Smart Solutions for Natural Gas Customers Program.

New York, New York
September 29, 2017

Respectfully submitted,

CONSOLIDATED EDISON COMPANY
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