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On July 1, 2014, PSEG Long Island (PSEG-LI) proposed its Utility 2.0 Long Range Plan ("Utility 2.0 Plan" or "Plan") to reduce power usage and increase energy efficiency over the next four years. To take effect, PSEG-LI's Utility 2.0 Plan must be approved by the Trustees of the Long Island Power Authority ("LIPA") as well as reviewed by the New York State Department of Public Service ("DPS"), as required by PSEG-LI's contract with LIPA and the LIPA Reform Act. PSEG-LI is seeking approval for the Plan by December 1, 2014. To that end, it will hold a technical conference on the Plan at Stony Brook University on July 24, 2014, and public hearings throughout Summer 2014.

While PSEG-LI anticipates spending $200 million in executing the Plan, it expects only minimal rate increases for customers, which would occur only after the current rate freeze expires in January of 2016. PSEG-LI expects that any rate increased would be offset by the cost savings associated with the Plan. The Plan calls for PSEG-LI to use its own capital for funding, an investment which it would then recover, with a profit over the next decade while the Plan's programs are active.

The Utility 2.0 Plan calls for a phased approach between 2015 and 2018 which would introduce a number of new initiatives, methods and technologies with the aim of reducing peak energy demand and overall

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energy consumption in the PSEG-LI service area of approximately 1.1 million customers. These initiatives include:

- $60 million investment in developing and installing programmable thermostats to remotely reduce temperatures in homes and businesses to enhance direct load control during periods of high heat;
- $45 million for targeted solar photovoltaic expansion to provide incentives to Island customers not currently able to take advantage of existing incentives;
- $8 million for home energy use reports for 250,000 residential customers to provide energy reduction guidance;
- $30 million for general investment in cost effective technologist for underserved customers;
- $30 million to be spent designing energy efficient retrofits for hospitals to reduce energy use;
- $13 million for a program offering energy efficiency technologies to low-income multi-family housing and public facilities in the Rockaways;
- $5 million in incentives for commercial, and $9 million expanding the use of geothermal energy systems.

PSEG-LI projects that these "Utility 2.0 Investments" will result in approximately 170 Megawatts in annual energy demand savings.

In addition to the Utility 2.0 Investments, PSEG-LI also proposes two other projects which would be included the capital budget of PSEG-LI. The first is an approximately $15 million project to deploy advanced metering for large customers, 25,000 of whom represent approximately 20% of Long Island's electric load. Second, PSEG-LI will invest an as yet undetermined amount toward strategically adding energy sources and energy storage in areas of higher peak use throughout its service area, including the South Fork. Together with the Utility 2.0 Investments, PSEG-LI projects a total savings of 185 Megawatts.

To recover the costs of its initial investment, PSEG-LI has proposed two alternative models: a Performance Driven Recovery Model and a Savings Driven Recovery Model. The Performance Driven plan would entail PSEG-LI establishing a base repayment schedule, based upon the approved size of the program and agreed upon rate of return. The rate of return would increase or decrease based the cost-effectiveness of the program relative to pre-established targets and incentive payments. Both increases and decreases in rate of return would be capped. The Savings Driven plan would see PSEG-LI compensated based upon energy and demand savings of the program. Overall program returns that exceeded a pre-determined threshold would be shared with customers.

PSEG-LI’s Utility 2.0 Long Range Plan notes previous initiatives implemented by LIPA, and states that the Utility 2.0 Plan is intendes to complement such programs. For example, LIPA issued an RFP for New Generation, Energy Storage, and Demand Response Resources on October 18, 2013, soliciting three different blocks of resources: Block #1 includes up to 250 MW of peaking generation or energy storage (up to 50 MW) in the East End; Block #2 includes up to 880 MW of peaking generation and energy storage (up to 100 MW) in the E.F. Barrett and Holtsville areas; Block #3 includes up to 500 MW of peaking generation, energy storage, and demand response system-wide. LIPA also issued a second RFP on October 18, 2013, for up to 280 Megawatts of renewables, such as solar, offshore wind and fuel cells. It is not clear how PSEG-LI’s Utility 2.0 Plan will fit in with current LIPA RFPs for additional generation.

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