

Proposal Concerning Modifications to LIPA's Tariff for Electric Service

Requested Action:

Staff proposes to modify its Tariff for Electric Service relating to LIPA's economic development program to: (1) adjust downward the standardized discounts for eligible businesses to reflect LIPA's current cost to serve; and (2) expand the eligibility criteria to allow existing commercial customers to access modified time of use rates.

Background and Proposal:

LIPA has two provisions in the Tariff which are utilized to promote business development: a Business Development Rate (BDR) provision which authorizes standardized adjustments to rates for smaller commercial customers, and the Empire Zone program which provides long term fixed discounts to customers that locate in municipally designated areas of the service territory. Both provisions require that businesses meet defined program qualification criteria. The applicability of the two alternative provisions is based on the size of the customer, and the BDR program contains a provision which allows an eligible business to select a modified time of use rate as an alternative to explicit rate discounts.

Staff proposes to adjust downward the standardized discounts allowed under the tariff provisions for attraction or expansion customers (BDR) and Empire Zone (EZ) customers to more accurately reflect LIPA's cost to serve. LIPA's current BDR program applies these discounts on a declining scale basis (50% in year 1, 40% in year 2 and so on, with 0% discount in year 6) on specific portions of the Power Supply and Delivery charges. The EZ program offers a 50% discount in every year on portions of the Power Supply and Delivery charges. These percentage discounts were designed on the basis of LIPA's rate structure prior to the redesign of all our rates into separate Delivery and Power Supply Charges that was approved by the Board effective July 5, 2006. Recent analyses performed by Staff shows that these standardized discounts now exceed LIPA's marginal cost to serve. In order to rectify this situation, and ensure that all other rate payers are benefiting from the program, Staff proposes to apply the standardized discounts to the energy (¢ per kWh) charges in the Delivery rates only, and eliminate the discount that currently applies to the portion of the Power Supply Charge previously known as the "base cost of fuel" (equal to 3.92¢ per kWh). The proposed change will apply to all new applicants that qualify for the BDR program after the effective date of the proposed change. Existing businesses already qualified under the program will continue to receive the discount for the remainder of the 5 year program term that was originally offered to them under the Tariff when they qualified.

The table below shows how the discount is currently calculated, and how it would be calculated under the proposed methodology.

Example of Excluding the Base Cost of Fuel from the BDR Discounts Calculation

On 7/5/06, the "base cost of fuel" (3.92¢ per kWh) was removed from the base energy rate and added to the Power Supply Charge. However, it remained eligible for the discount provided for BDR and Empire Zone Customers

<u>Typical Summer Bill for a Rate 285 Customer</u>	<u>First Year Discount Under Current Methodology</u>		<u>First Year Discount Under Proposed Methodology</u>				
	<u>Unit Rate</u>	<u>Billing Units</u>	<u>Standard Charge</u>	<u>Subject to Discount</u>	<u>50% Discount</u>	<u>Subject to Discount</u>	<u>50% Discount</u>
Daily Service Charge							
Service Charge	\$0.7220	30	\$21.66	\$0.00	\$0.00	\$0.00	\$0.00
Meter Charge	\$0.2263	30	\$6.79	\$0.00	\$0.00	\$0.00	\$0.00
Energy Charge							
Period 1	\$0.0237	14,616	\$346.40	\$346.40	\$173.20	\$346.40	\$173.20
Period 2	\$0.0485	31,248	\$1,515.53	\$1,515.53	\$757.76	\$1,515.53	\$757.76
Period 3	\$0.0378	17,136	\$647.74	\$647.74	\$323.87	\$647.74	\$323.87
Demand Charge							
Period 2	\$19.65	225	\$4,421.25	\$0.00	\$0.00	\$0.00	\$0.00
Period 3	\$4.68	250	\$1,170.00	\$0.00	\$0.00	\$0.00	\$0.00
Power Supply Charge							
Base Cost of Fuel	0.039200	63,000	\$2,469.60	\$2,469.60	\$1,234.80	\$0.00	\$0.00
Excess Cost of Fuel	0.053842	63,000	\$3,392.05	\$0.00	\$0.00	\$0.00	\$0.00
Total Charge	0.093042						
Subtotal before Other Charges			\$13,991.01	\$4,979.27	\$2,489.63	\$2,509.67	\$1,254.83
Discount from Standard Bill					17.8%		9.0%

The example is similar for Empire Zone customers with two small exceptions. Empire Zone customers are currently eligible for a discount on their Period 3 demand charges. Staff proposes to eliminate this portion of their Delivery Charge for consistency and to more closely match LIPA's avoided costs. In addition, Empire Zone customers are entitled to the 50% discount in every year. Staff does not propose to change the 50% discount on the Base Rate Energy Charge but proposes to eliminate the 50% discount on the Winter (October through May) Demand Charges. Empire Zone customers are entitled to larger discounts than other BDR customers as part of the Empire Zone program design.

Staff also proposes one other change related to the Empire Zone program. In the past, customers located in the Calverton Empire Zone in Riverhead have received a substantially smaller discount than customers located in every other Empire Zone (6% compared to 50%). This was appropriate because the Calverton Zone was established under unusual conditions that required LIPA to make significant capital investments to provide service to that area. However, with the adjustment to the methodology for calculating the bill discounts combined with changes to LIPA's property tax payments for investments in the Calverton Empire Zone has substantially improved the economics of

serving this area, and the applicability of the typical 50% Empire Zone discount is now justified.

Modified Time of Use rates differ from the standard time of use rates available to business in that they have a shortened on peak period. The modified time of use rate is more beneficial to businesses that possess a higher percentage of discretionary load that can be shifted to the off peak periods of the rate. However because of the shortened on-peak period, there is some potential for businesses to benefit while not shifting load, which essentially amounts to an unintended subsidy by all other ratepayers. As such, only businesses who meet the eligibility criteria for the business development program can access the rate. Key to the eligibility criteria within the tariff is a showing that all ratepayers would benefit on an applicant-specific basis. It is important to note that the modified time of use rates are not discounted through negotiation, but rather are defined and contained within the Business Development tariffs. These modified time of use rates were approved by the LIPA Board of Trustees for expansion and attraction customers in December 2000.

Staff proposes to extend the eligibility for Modified Time of Use Rates to all large commercial customers that are able to shift their peak load, so long as they can also demonstrate a benefit to all other rate payers. By requiring each customer to demonstrate their ability to shift load in a beneficial manner, and by allowing LIPA to remove customers from the Modified Time of Use Rates where no benefit exists, Staff believes that certain customers can assist LIPA in reducing our peak load requirements, without receiving a subsidy from all other customers. Modified Time of Use rates first were authorized for BDR situations, and then were approved for the Smart Meter pricing experiment as well. So far, there are 2 large commercial customers enrolled under the Modified Time of Use Rates, and Staff is requesting this additional authorization under specific circumstances so that we can expand our experience with this promising alternative to the existing Time of Use rates. As staff learns more about customer behavior and their ability to control load in these most critical summer hours, we will revise our assessment of the Modified Time of Use Rates and make further recommendations to either expand or pull back on their application to additional customers.

Financial Impacts:

The financial impact of the modified rating periods is estimated to be minimally positive, as the modified rating periods induce margin-neutral shifts in behavior among the participating customers. If a participating customer does not change its usage behavior, its bill will be the same as under standard rating periods, and there is no change in revenue to LIPA. If the customer does reduce load in the modified on-peak hours, then LIPA avoids marginal generation and transmission capacity costs of approximately \$70 per kW-year currently (based on LIPA's summer peak load), which is projected to grow as capacity tightens on Long Island. Since the Rate 285 on-peak demand charge recovers only \$56 per kW across all four summer months, the cost savings more than justify the reduced revenue, which savings are passed through to all other customers through the Power Supply Charge.

The financial impact of removing the discount for the base cost of fuel is approximately 1.2¢ per kWh on average for the five years of the BDR discount. With BDR incremental enrollment running at approximately 10 million kWhs per year, that translates into approximately \$196,000 of increased revenue in the first year (based on 10 million kWhs) growing to \$588,000 per year by the fifth year (based on 50 million kWhs). For the Empire Zones, removing the discount for the base cost of fuel is worth approximately 1.96¢ per kWh in every year. Empire Zone enrollment is approximately 38 million kWhs per year and the estimated revenue increase from adjusting the basis for the discount is \$745,000 per year. In addition, removal of the discount on the Period 3 demand charges for Empire Zone customers increases revenues by an additional \$200,000 per year.

Proposed Tariff Changes:

1. **Insert, tariff language authorizing retention customers to participate in modified rating periods only.**

Affected Tariff Leaves: 173 and 175

Reason for Tariff Change

These changes will create a retention program which offers modified rating periods only.

2. **Insert language that limits the discount on the base cost of fuel to existing participants.**

Affected Tariff Leaves: 209, 210, 217, 223, 230 and 231.

Reason for Tariff Change

These changes will better align the discounted rates with LIPA's current costs.

Summary of Proposed Changes:

In summary, the proposed changes to LIPA's Tariff for Electric Service will enhance business development on Long Island by providing limited benefits to load retention situations and protect other rate payers by better matching the discounted rates with LIPA's cost of serve.

The proposed revised Tariff Leaf Nos. 173, 175, 209, 210, 217, 223, 230 and 231 are attached.