

PART 1

**SUMMARY OF
PHASE III IMPLEMENTATION PLAN**

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Part 1

PHASE III IMPLEMENTATION PLAN

I. OVERVIEW OF THE LI CHOICE PROGRAM

The Long Island Choice Program is offering electric customers of the Long Island Power Authority¹ the opportunity to choose their supplier of electricity. Approved by the Authority's Board of Trustees in May of 1998, LI Choice is a key element of Governor Pataki's and the Authority's plan to foster competition for electricity supply on Long Island. In May of 1998, the Authority reduced electric rates an average of 20% for all customers. Through LI Choice, the Authority is encouraging the development of a competitive power market as a means to provide consumers choice and the opportunity for additional power supply cost savings.

It is the "commodity" or "electric generation" portion of electricity that is open to competition in L.I. Choice. This "electric generation"² portion includes energy, generation capacity, ancillary services and related costs. On average it is about 40% of a typical customer's electric bill. The remainder of the bill is for transmission and distribution and other costs LIPA incurs no matter who supplies power for a customer. LI Choice customers choose an Energy Service Company (ESCO) for the electric generation portion and continue to pay LIPA for delivering the electricity and for remaining services LIPA provides.

LI Choice is being implemented in three phases. Phase I made the Program available to both residential and non-residential customers. There was a total participation cap of 400 megawatts (MW) of LIPA system load. Power deliveries for Phase I began August 1, 1999. Power deliveries for Phase II began May 1, 2000. The total customer load eligible for participation in Phase II was increased to 800 MW. Phase III is the final phase of the Program phase-in. All LIPA's eligible customers may choose an ESCO if the ESCO is willing to serve them. There is no MW cap. Power deliveries for Phase III are scheduled to begin February 2002.

¹ Within the Phase III Implementation Plan, the Long Island Power Authority (Authority) generally refers to the Authority in its role of establishing and overseeing LI Choice. LIPA generally refers to the transmission and distribution subsidiary of the Authority that delivers electricity to the consumer and manages the day-to-day operations of the electric power system.

² The term "energy" is often used throughout this plan to mean "electric generation". When the term energy is used in the narrower meaning as a kilowatt hour (e.g., the energy component of the bill credit), it should be clear from the context.

Main Provisions of LI Choice Program

The following summarizes the main provisions of the Program for Customers, ESCOs and LIPA.

Customers may:

1. Purchase energy and related services from an ESCO and delivery services from LIPA.
2. Authorize their ESCO to act as their agent for transmission and balancing of energy to the LIPA distribution system.
3. Authorize LIPA to provide prospective ESCOs the customer's historical energy usage.
4. Authorize LIPA to provide their ESCO with the customer's current billing information.
5. Switch ESCOs or take bundled service from LIPA.
6. Resolve billing questions about energy charges with their ESCO and about delivery charges with LIPA.
7. Act as their own ESCO by being licensed as a Direct Retail Customer (DRC).

ESCOs must:

1. Be licensed by the Authority. This requires signing service agreements with the New York Independent System Operator (NYISO) and an Operating Agreement with LIPA.
2. Contract with its customers to meet their energy needs and act as their agent to deliver energy to the LIPA system.
3. Act as its customers' agent for receiving billing information from LIPA.
4. Provide its residential customers with standardized bills and contracts.
5. Comply with NYISO requirements as its customers' agent for scheduling energy deliveries to LIPA system.
6. Comply with NYISO balancing requirements for settling any differences between actual energy deliveries and actual or estimated customer usage.

7. Meet Program and NYISO installed capacity (ICAP) requirements.
8. Provide LIPA with required documentation of its power imports in a timely manner to receive transmission benefits from the TTA (Transitional Transmission Allocation) incentive.
9. Be responsible for billing its LI Choice customers and collecting from them applicable charges *unless* the ESCO enters into an agreement with LIPA wherein LIPA includes the ESCO's charges on LIPA's bill.
10. Pay LIPA within 20 days of invoice for any net amounts due from any financial adjustments (e.g., Bill Credit Adjustment (BCA) or Fuel and Purchased Power Cost Adjustment (FPPCA)) or services rendered by LIPA to the ESCO (e.g., enhanced metering).
11. Comply with LIPA's customer enrollment procedures.
12. Comply with the Authority's rules about *slamming* and *cramming* and other unfair and unethical practices.

LIPA will:

1. Provide informational materials and a list of ESCOs to customers interested in the Program.
2. Provide ESCOs with historical usage of a potential customer if the ESCO has that customer's authorization to receive it.
3. Provide ESCOs with current billing information (e.g., kWh and kW usage) about their LI Choice customers (ESCOs need this to bill customers for energy).
4. Provide the NYISO with required actual or estimated hourly energy usage information of the ESCO's customers so the NYISO can perform energy balancing reconciliations with the ESCO.
5. Make available to ESCOs generic load profiles that LIPA uses as required to provide estimated hourly energy usage information to the NYISO in cases where hourly interval metering is not used (ESCOs may use these profiles for energy scheduling or related purposes.)

6. Provide ESCOs with certain transmission incentives (TTA) in return for the ESCOs' importing power to the LIPA service area at a projected lower cost than it could be generated within the area.
7. Calculate the monthly BCA financial adjustment and issue a monthly BCA Statement.
8. Invoice ESCOs monthly for any net financial adjustments (e.g., BCA) and services rendered (e.g., enhanced metering).
9. Provide the ESCO with its local ICAP requirements and so inform the NYISO.
10. Maintain, own, install and read all metering used for billing purposes.
11. Monitor the Program for compliance with requirements.
12. Act as Provider of Last Resort (POLR) for customers unable or unwilling to take service from ESCOs.

Program Documents

The following documents describe Program requirements and procedures and are referenced throughout this Plan:

1. Tariff for Electric Service - Rates, charges and terms of service for customers and ESCOs participating in LI Choice (Part 2).
2. ESCO Operating Agreement - Agreement defining responsibilities between LIPA and the ESCO (Part 4).
3. Operating Procedures - Requirements and procedures for ESCOs participating in LI Choice (Part 5).
4. ESCO License Application - Form to be completed by ESCOs to be licensed by the Authority and thereby be able to enroll customers and provide service under LI Choice (Part 5).
5. ESCO Customer Contract Requirements - Provides standard contract terms and conditions of service between LI Choice residential customers and their ESCOs, and required provisions for all nonresidential contracts between ESCOs and their customers (Part 6).

Program Changes for Phase III

There are a number of changes for Phase III. The changes are based on experience with the Program and the evolving wholesale and retail electricity markets in the state³. They are motivated by the Authority's ongoing desire to help develop meaningful retail competition on Long Island.

The changes ensure that the Program remains on solid economic ground by modifying the LI Choice customer bill credits and ESCO financial adjustments to better reflect market prices. In addition, the Program will now be open to nearly all LIPA customers well ahead of schedule.

Changes for Phase III

1. Removal of the 800 MW Cap

Removal of the 800 MW enrollment cap opens the Program to nearly all LIPA customers. This advances the date for opening the Program to all customers from January 2003 as targeted in the Phase II Plan to January 2002.

2. Increase the LI Choice Customer Bill Credit

The bill credit is increased from an average of \$0.035/kWh to \$0.045/kWh. Existing energy, installed capacity (ICAP) and ancillary services bill credit components have been adjusted to better reflect market values. The new credit also includes a new component which is the New York Power Authority (NYPA) Transmission Adjustment Charge (NTAC).

3. Provide local ICAP for ESCOs

The installed capacity (ICAP) that LIPA provides the ESCO is the local ICAP that the NYISO requires the ESCO to maintain. LIPA provides this at no cost to the ESCO. Capacity costs remain embedded in LI Choice customer delivery rates. The ICAP component of the LI Choice customer bill credit has been adjusted to reflect the remaining ICAP that the ESCO must procure.

4. Expand the BCA (Bill Credit Adjustment) to Include NTAC and ICAP

The BCA is applied to ESCOs based on their megawatt hour (MWh) energy usage. It trues up differences between the customer bill credit and actual market prices. The BCA

³ The Phase III Plan assumes LIPA continues to be a member of the NYISO.

will now include adjustments for NTAC and ICAP in addition to adjustments for energy and ancillary services.

5. Simplify the TTA (Transitional Transmission Allowance) Award

The TTA award is simplified by allocating TTA megawatts to ESCOs only once before each NYISO Summer and Winter capability period instead of monthly and by eliminating potential MW reallocations between residential and nonresidential sectors. Nine (9) MW continue to be allocated to the residential sector and 11 MW to the nonresidential sector. ESCOs must continue to actually import power to earn a TTA award.

6. Eliminate Licensed Aggregator

The Licensed Aggregator category originally envisioned that an aggregator, which is a third party providing middleman marketing and administrative services to ESCOs, would need to be licensed to access LIPA customer data and bill customers. Experience shows there is no interest in or need for this category. ESCOs can use contractors to perform sales, billing and other marketing and administrative functions. As agents of the licensed ESCO, such contractors would be able to access LIPA customer data, enroll customers and bill customers based on their arrangement with the ESCO. Removing this category simplifies the Program.

7. Eliminate Minimum Annual Energy Requirement and ESCO Pooling

This eliminates the ESCO minimum annual energy requirement of 8,760 MWh and the pooling option allowing ESCOs to add their loads together to meet this minimum requirement. There is no need for the minimum requirement since the NYISO sets its own requirements in this regard and licensed ESCOs in LIPA's service area must be members of the NYISO. Eliminating this requirement simplifies the Program.

8. Simplify ESCO Licensing

This provides for the Authority, in its discretion, to waive any or all LI Choice ESCO licensing application requirements if the ESCO is already registered as an ESCO with the NYS Department of Public Service.

II. PROGRAM GUIDELINES

The Phase III Implementation Plan is designed to be consistent with guidelines included in the Authority's May, 1998 LI Choice Plan and the guidelines of the Public Authorities Control Board listed below:

1. All customer classes must experience cost reductions in approximately the same proportions;
2. Customers within localized load pockets must experience cost reductions commensurate with other customers in their classes;
3. The safety and reliability of the electric system must not be impaired;
4. LIPA must remain the electric provider of last resort, at just and reasonable rates;
5. If LIPA purchases KeySpan generating facilities, or develops generating facilities of its own, it must subsequently divest itself of such facilities, unless such divestiture is not financially sound or any such facility is needed to meet LIPA's obligations as the provider of last resort;
6. Customer protections must be maintained;
7. Residential customers must receive standardized bills and standardized contracts;
8. Access to the distribution system will be limited in a manner that restricts the importation of electricity from power systems with high emissions of regulated air contaminants;
9. LIPA's workforce must be protected against any unfair impacts of a transition to competition; and
10. Energy efficiency programs must be maintained.

III. THE AUTHORITY'S ROLE

In addition to establishing the LI Choice Program, the Authority's role will continue to include:

1. licensing ESCOs and monitoring ESCO performance under the Program,
2. ensuring ESCO compliance with Program requirements, including consumer protection measures,
3. establishing product disclosure requirements and standard customer contract terms,

4. resolving disputes about the Program between ESCOs or between ESCOs and LIPA, and suspending or revoking ESCOs' licenses if warranted.

A. ESCO LICENSING

The licensing of ESCOs is appropriate to maintain reasonable consumer protections. The LI Choice ESCO licensing process is outlined below:

1. The ESCO signs an Operating Agreement with LIPA prior to filing a license application with the Authority (Part 4).
2. The ESCO completes the Authority's ESCO license application and submits it to the Authority.
3. The Authority reviews the application for completeness and consistency with the Authority's LI Choice requirements. If the application is incomplete or inconsistent with the Authority's requirements, the Authority notifies the ESCO of these deficiencies. If the application meets the Authority's requirements, the Authority provides preliminary written approval within 30 days.
4. The ESCO becomes licensed after complying with LIPA's financial security requirements set forth in the Operating Procedures.
5. The Authority includes the ESCO on its approved ESCO list that is provided to all who request it and is maintained on the Authority's website.
6. The ESCO is eligible to solicit LIPA customers consistent with LI Choice procedures.

Specific ESCO licensing requirements are set forth in the Authority's ESCO license application and instructions found in attachments to the Operating Procedures (Part 5). The Authority may in its discretion waive some or all of its licensing application requirements if the ESCO is already registered with the New York State Department of Public Service to sell electricity to retail customers in New York.

B. CONSUMER PROTECTION

The Authority will continue to monitor the performance of ESCOs to ensure that LI Choice customers are protected from unfair and unethical business practices. These practices include "slamming" (the unauthorized switching of customers) and "cramming" (the inclusion of unauthorized charges on a customer's bill). Any ESCO that engages in such practices is subject to having its license suspended or revoked by the Chairman of

the Authority. Under LI Choice, the Authority has the power to investigate or audit ESCOs regarding their business practices and other matters.

C. DISPUTE RESOLUTION

ESCOs, as a requirement of the licensing process, must provide the Authority with its proposed process for resolving customer complaints. The process must be easily understandable and reasonable. ESCOs are also required to provide a complete description of the dispute resolution process and the Authority's toll-free number along with the Standard Residential Customer Agreement. In addition, ESCOs must provide their toll-free telephone numbers on customer bills. When an ESCO's customer has a complaint involving the ESCO's services, the customer will use this dispute resolution process. Customers who believe that their ESCOs have engaged in unfair or unethical business practices may call the Authority's toll-free number. Finally, the Tariff also sets forth a dispute resolution process to address disputes between ESCOs or between LIPA and ESCOs involving the LI Choice Program.

D. ESCO PERFORMANCE MONITORING

To ensure safe, reliable operation of the electric system and to protect the Authority or LIPA from financial loss, the Authority and LIPA will continue to monitor ESCOs' compliance with the LI Choice Operating Agreement and Operating Procedures. Information regarding compliance with NYISO standards will be provided by ESCOs on an ongoing basis. The Authority also has the ability to review and audit power supply contract terms and other ESCO operating information as appropriate.

E. ESCO LICENSE SUSPENSION/REVOCATION

The Chairman of the Authority may suspend or revoke an ESCO's license to participate in the LI Choice Program based on non-compliance with the Program's requirements and procedures. During a license suspension, the ESCO may not solicit or initiate service to new customers or accounts. If an ESCO's license is revoked by the Authority, the ESCO may no longer supply electric generation service or any related services to LI Choice Customers as of the revocation's effective date. The Authority would notify the ESCO's customers of any license revocation. The Tariff includes license suspension and revocation criteria.

F. INTERIM PRODUCT DISCLOSURE AND PRODUCT LABELING

Prior to customer enrollment and on at least an annual basis, ESCOs are required to provide a standard product label to their residential customers. The label will include:

- the average electricity price per kWh for monthly customer usage levels of 250 kWh, 500 kWh and 1,000 kWh;
- a plain language summary of contract terms including pricing terms; and
- fuel mix and emissions information if the ESCO is claiming that its energy is environmentally cleaner than LIPA power

A sample product label is included as Attachment G to the Operating Procedures. The ESCO must include all necessary information in a plain language format. The Authority will approve the ESCO's standard label as part of the licensing process. Changes to the ESCO's standard label occurring after licensing will need to be filed with and approved by the Authority.

The New York State Public Service Commission (PSC) expects to establish an environmental disclosure process that will show how clean an ESCO's power is. If this process is suitable and the cost reasonable, the Authority may use the PSC disclosure process for LI Choice.

Meanwhile, the Authority continues to use a claims-based environmental disclosure process. If the ESCO claims its power is "green" or otherwise cleaner than the LIPA average based on fuel mix, the ESCO will have to show in the ESCO's disclosure statement to the customer a comparison of the average Long Island fuel mix to the ESCO's projected 12-month average fuel mix estimate. The fuel mix sources include biomass, coal, gas, hydro, nuclear, oil, solar, solid waste, wind, and unknown external purchase.

Customer complaints about an ESCO's product claims will be investigated by the Authority as appropriate. The Authority may review an ESCO's power supply contracts to verify claimed fuel mixes. The Chairman has the ability to suspend or revoke an ESCO's license for false product claims.

IV. CUSTOMER ENROLLMENT

A. CUSTOMER ELIGIBILITY

Nearly all metered customer accounts are eligible to enroll in Phase III. This includes service classifications 5, 7, 7A, and 10 (i.e., traffic lights, outdoor and street lighting). A

customer with multiple accounts may choose different suppliers for different accounts. For a particular account, a customer must take full requirements from a single ESCO. Ineligible customers include New York Power Authority customers, Municipal Distribution Agency customers, and LIPA's SC-13 commercial customers.

B. CUSTOMER ENROLLMENT PROCESS

The enrollment process uses electronic communications for speed and efficiency. It is designed to ensure that customer confidentiality is protected and that customer authorization is obtained by an ESCO before the ESCO receives historical data about a customer from LIPA or enrolls a customer in the Program. A summary of the process follows:

- The Authority provides interested customers with educational materials about the Program.
- A customer authorizes an ESCO to obtain the customer's historic electric usage data by providing the ESCO with a valid LIPA customer account name and number. The ESCO must obtain written authorization or taped verbal authorization from the customer (e.g., recording of phone call).
- The ESCO electronically provides LIPA with the customer's LIPA account name and number. LIPA verifies that the customer is eligible. If the ESCO requests it, LIPA provides the ESCO with the customer's historic electric usage data. The data typically contains 24 months of usage information or the life of the account, whichever is less. It includes service classification, billing address, metering information, and consumption data including kWh and, if available for the particular customer service classification, kW demand, on-peak, off-peak, and recorded hourly interval data. It does not include payment status or credit information.
- All historic electric usage data obtained by an ESCO must be kept confidential unless its release is specifically authorized by the customer.
- Historic electric usage data for periods greater than 2 years and 15-minute interval data, if available, is provided to the ESCO for a fee in accordance with the Tariff.
- The ESCO provides the eligible customer with a contract (a Standard Agreement for residential customers or an Agreement containing the Authority's required provisions for nonresidential customers). Customer

agreements may be written, electronic, or verbal as provided for in this Plan.

- Once a contract has been signed or electronically or verbally authorized, the ESCO informs LIPA electronically of the enrollment. LIPA sends a letter to the customer confirming enrollment in the LI Choice Program and identifying the ESCO. The letter asks the customer to contact LIPA if the information in the letter is incorrect. If the customer has not contacted LIPA within 5 calendar days of the letter's postmark, LIPA enrolls the customer with the ESCO.

C. STANDARD CONTRACT TERMS

If the ESCO agrees to provide electric generation service and any related services to an eligible customer, the ESCO provides the eligible customer with an Agreement that includes as standard terms:

- the ESCO's Terms and Conditions of Service detailing the customer's rights and responsibilities with the ESCO, rates for all services being offered and expected costs to the customer receiving services from the ESCO; and
- a statement designating the ESCO as agent for receiving customer billing information from LIPA and procuring and scheduling transmission and ancillary services necessary to deliver electric generation service purchased by the customer to the LIPA system.

Enrollment with the ESCO will not be effective unless the ESCO provides all the required information to the customer and obtains written, electronic, or verbal authorization from the customer.

Part 6A of this Plan contains the standard requirements for the residential customer Agreement and Part 6B contains the standard requirements for nonresidential customer Agreements.

V. THE ROLES OF ESCOS AND LIPA

A. POWER DELIVERY

Energy deliveries are scheduled to LIPA's service territory by the ESCO as agent for its LI Choice customers. These deliveries occur at the wholesale level. The LI Choice customer, through its ESCO, will take title to the power before it is delivered to LIPA. The ESCO, as agent for the customer, will arrange for delivery of the power over the

NYISO bulk transmission system to LIPA's service area. LIPA will then provide delivery service over its transmission and distribution system to the customer.

1. Energy Imbalance

If the ESCO's customers consume what the ESCO scheduled then the transaction between the NYISO and the ESCO is in balance. Any energy differences ("imbalances") are reconciled between the ESCO and the NYISO.

The NYISO's energy imbalance settlement process requires the aggregate of an ESCO's customers actual or estimated hourly energy usage. LIPA provides the NYISO with each ESCO's aggregate monthly energy consumption as required for the reconciliation. LI Choice uses load profiles to estimate hourly customer usage data. Absent metered hourly interval data, a typical hourly load profile is developed for each customer. LIPA provides the generic load profiles for each service classification to licensed ESCOs at no charge; ESCOs may find them useful for determining their energy requirements.

Load profiles for Phase III of LI Choice are based on existing load research data for all LIPA's major rate classes. The load profiles vary by temperature, season, and day type.

2. Installed Capacity (ICAP) Requirements

The NYISO requires ESCOs serving LI Choice customers to procure installed capacity (ICAP). The required total ICAP includes the customer load at the meter adjusted for line losses and reserve margin. The NYISO sets each ESCO's total and local ICAP requirements. The local ICAP requirement is the ICAP that must be physically located in LIPA's service area.

In Phase III, LIPA provides the ESCO's local ICAP at no charge to the ESCO. The LI Choice customer pays for the local ICAP in the LIPA delivery rate. Each ESCO must procure its ICAP in accordance with NYISO requirements.

B. METERING AND BILLING

1. Provision of Meters

All electric generation service delivered by LIPA to LI Choice customers must be measured by electric meters that are owned, installed and maintained by LIPA. LI Choice customers can continue to use the same meters that are in place at the time of their enrollment in the Program. For a fee, the LI Choice customer or ESCO can have LIPA upgrade its metering. A schedule of options for enhanced metering is included in the Tariff.

2. Meter Reading

LIPA reads all LIPA-owned LI Choice customer billing meters. LI Choice customer billing is based on LIPA readings of LIPA-owned meters. LIPA's meter reading policy includes:

- LI Choice Customer Billing Information - LIPA makes available to ESCOs electronically the individual energy consumption billing determinants of the ESCOs' LI Choice customers. LIPA indicates whether the information is based on an actual or estimated meter reading.
- Special Readings - Special meter reading requests by ESCOs or LI Choice customers are performed for a fee. At least 72 hours notice is required. Rules and procedures for special meter readings and the associated fees are provided in the Tariff.

3. Billing

In Phase III of the Program, LI Choice customers may have two options regarding the way they are billed for LIPA's delivery services and the electric generation service and any related services provided by their ESCOs.

- If an ESCO decides to participate in the Single Bill Option, the LI Choice customer will receive one bill from LIPA for its delivery services and the ESCO's electric generation service and any related services.
- The Two Bill Option is the default condition. For each service period the LI Choice customer receives one bill from LIPA for delivery service and any other services it provides, and one bill from the ESCO for electric generation service and any related services it provides.

The Authority will provide the ESCOs with a Form of ESCO Standard Residential Customer Agreement (Part 6), and other requirements which specify LI Choice customer billing requirements. In addition, as part of the ESCO LI Choice license application, ESCOs are required to provide the Authority with sample customer Agreements for all LI Choice customers and sample customer bills for all residential LI Choice customers.

4. Credit Procedures

To determine an ESCO's ability to meet its financial obligations, LIPA will follow reasonable credit review procedures. The LI Choice Operating Procedures specify that

LIPA may require an ESCO to provide and maintain in effect security deposits or other guaranties as security. The security deposit amount will be based on not more than two months of an ESCO's highest projected electric generation service billings to all its customers in the service area.

C. PROVIDER OF LAST RESORT

LIPA will provide service to customers who do not take service from ESCOs, including customers who choose ESCOs initially but then return to LIPA service. As Provider of Last Resort (POLR), LIPA will charge such customers its standard bundled service rates.

VI. TARIFF DESCRIPTION

A. OVERVIEW OF LI CHOICE TARIFF

The LI Choice Tariff is part of LIPA's Electric Tariff. The LI Choice Tariff contains provisions, terms and rates for LIPA delivery service to all eligible residential and nonresidential LIPA retail customers. It also contains provisions, terms and rates for LIPA service to ESCOs and DRCs.

For retail customers, the LI Choice Tariff shows the bill credits for each eligible service classification and rate code. For ESCOs and DRCs, it describes metering, meter reading and historical data fees and other terms and provisions applicable to financial adjustments such as the BCA.

The BCA is an adjustment between LIPA and ESCOs that reconciles the difference between the bill credit LIPA provides LI Choice customers and LIPA's actual costs. The BCA and the customer bill credit together ensure that the ESCO and LI Choice customer receive the value of LIPA's actual avoided cost attributable to the Program. The bill credits and the BCA are discussed further below.

1. LI Choice Customer Bill Credits

LI Choice customers do not take service under an unbundled rate which charges explicitly for delivery services such as transmission and distribution. Instead, they pay the regular bundled rate but receive a bill credit applied to it. The bill credit is meant to pass on to the customer the avoided cost LIPA enjoys as a result of the ESCO providing the electricity commodity. The total bill credit a LI Choice customer receives on a monthly bill is equal to the product of the specific unit bill credit for that customer's rate class in \$/kWh and the customer's kWh consumption. The bill credit is subtracted from the customer's bill.

Although the unit bill credits (\$/kWh) vary by rate class and even season or time-of-day,

they are fixed in that the values do not change based on fluctuating market prices. Therefore, a LI Choice customer, for a given level of kWh consumption, can be certain of the total bill credit he or she will receive from LIPA. The Authority may change bill credits in the future through the normal tariff revision process.

The components of the bill credit are described below.

(a) Energy Bill Credit

LI Choice customers receive a bill credit for energy (kWh) based on LIPA's projected average annual marginal energy cost of \$38.60/MWh.

(b) ICAP Bill Credit

LI Choice customers receive an ICAP bill credit averaging \$1.10/MWh for the ICAP cost LIPA avoids as a result of ESCOs procuring the difference between their total and local ICAP requirements.

(c) NTAC (NYPA Transmission Adjustment Charge) Bill Credit

Under NYISO rules all LSEs (Load Serving Entities) including ESCOs are subject to monthly NTAC charges. These NTAC charges allow NYPA to recover certain transmission costs. NTAC charges are on a \$/MWh basis and can vary monthly. They apply to all load within the NYCA (New York Control Area). LIPA avoids some NTAC charges as a result of ESCOs serving LI Choice customers. Therefore, LIPA provides LI Choice customers with credits based on LIPA's projected NTAC avoided cost. LI Choice customers receive a bill credit averaging \$0.50/MWh on an annual basis based on LIPA's projected avoided NTAC charges.

(d) Ancillary Services Bill Credit

LI Choice customers receive a bill credit for ancillary services based on LIPA's system average annual cost of \$2.10/MWh for such services. This is warranted because LI Choice customers pay these embedded ancillary services costs in their delivery rates.

Exhibit 3 in Part 3 of the Plan contains the bill credits and component credits for the various residential and nonresidential rates. The net credits showing the transmission service charge (TSC) explicitly backed out can also be found in Leaves Nos. 310, 311 and 312 of the LI Choice Tariff. The TSC, or "Transmission Charge" as it called in the Tariff, is explicitly shown to make it clear that LIPA charges LI Choice customers the same embedded transmission charge LIPA charges bundled customers.

2. Bill Credit Adjustment (BCA)

The BCA is a monthly adjustment applied to ESCOs. It reconciles the four (4) components of the LI Choice customer bill credit with actual market prices. The components are the energy, ancillary services, ICAP and NTAC credits. The reconciliations for each component are described below:

(a) energy bill credit - The energy bill credit (\$38.60/MWh) is compared to LIPA's system weighted average day-ahead Long Island zonal Locational Based Marginal Price (LBMP) for each month. The difference is the adjustment. The LBMP is calculated as the hourly day-ahead Long Island zonal LBMP weighted by LIPA's hourly system loads. The LBMP is a proxy for LIPA's avoided cost of energy. This part of the BCA adjustment ensures that the ESCO receives an energy bill credit equivalent to LIPA's avoided cost of energy.

(b) ancillary services bill credit - The ancillary services bill credit is compared to LIPA's actual cost of ancillary services. The difference is the adjustment.

(c) ICAP bill credit - The avoidable ICAP reflected in the customer ICAP bill credit is compared to the market price of off-Island (or rest-of-state) ICAP for the NYISO summer or winter capability periods. The difference is the adjustment.

(d) NTAC bill credit - The avoidable NTAC reflected in the customer NTAC bill credit is compared to LIPA's actual cost of NTAC. The difference is the adjustment.

In the sample monthly BCA statement contained in Part 3 of the Plan, the \$9.24/MWh credit is applied to the energy consumption of the ESCO's LI Choice customers. The consumption is the metered MWh consumption allocated to the calendar month.

BCA adjustments may be subject to final revision by LIPA based on later changes to LBMP, ancillary services cost, ICAP costs, NTAC costs, ESCO energy consumption, or similar data.

3. ICAP (Installed Capacity)

The NYISO requires that ESCOs maintain certain levels of installed capacity or "ICAP" based on the electric demand of their customers. The ICAP requirement is to ensure the reliability of the electric system by having enough generating plants to meet demand.

This ICAP requirement typically means ESCOs must have rights to electrical capacity of actual electric generating plants. Such plants must meet NYISO specifications to qualify as ICAP.

For the LIPA service area, Local ICAP requirements are shown in Statement No. 5 –ICAP (Part 3 of this Plan). As of September 2001, for example, the Local ICAP requirement is 83.4% of total ICAP. LIPA provides ESCOs with their local ICAP requirements at no charge. ESCOs are responsible for procuring their remaining ICAP (16.6% as of September 2001). ESCOs may procure this remaining ICAP from on or off-Island sources in accordance with NYISO requirements. To pass along avoided capacity cost savings arising from the fact that ESCOs must procure their remaining ICAP, LIPA includes in the LI Choice customer bill credit a capacity credit proportional to the remaining ICAP. The credit is based on an annual capacity avoided cost of \$24.60/kW and is expressed in \$/kWh for the different service classifications based on class load factors and summer consumption.

Any differences between the LIPA system average capacity bill credit based on the base value of \$24.60/kW and the actual capacity costs are adjusted in the BCA. The adjustment bases actual capacity costs on the average cost of off-Island (or rest-of-state) ICAP for the 6 month NYISO Summer and Winter capability periods.

4. TTA (Transitional Transmission Allowance)

The TTA is an incentive to encourage ESCOs to import low cost power to LIPA's service area and attract ESCO interest in the Program. LIPA awards a maximum of 20 MWs worth of TTA incentives. The TTA incentive is funded by congestion rents LIPA collects as a Transmission Congestion Contract (TCC) owner. LIPA shares its congestion rent revenues with ESCOs based on the ESCO's TTA allocations and actual power imports.

Of the 20 MW maximum allocation, 11 MW is reserved for the nonresidential sector and 9 MW for the residential sector. ESCOs are not charged negative rent because of any allocation of TTAs to them. That is, ESCOs receive positive credits or no credits as a result of the TTA incentive.

5. Bilateral Contracts

LIPA may offer bilateral energy purchase contracts to ESCOs from time to time on a nondiscriminatory basis. Interested ESCOs should contact LIPA for details. There may be limitations on the amount of energy available for such contracts and such contracts may be offered on a first-come, first-served basis.

6. Application of FPPCA (Fuel and Purchased Power Cost Adjustment) to ESCOs

ESCOs are subject to the same FPPCA as bundled customers. The FPPCA is a per kWh charge or credit that is applied to the ESCO's kWh consumption. LI Choice customers are not subject to the FPPCA. The FPPCA is described on Leaf No. 166 of the Tariff. As indicated in the FPPCA, BCA adjustments are included within the FPPCA mechanism.

B. CHARGES FOR TRANSMISSION SERVICE

Wholesale transmission service by LIPA is provided under the NYISO Open Access Transmission Tariff (OATT) Tariff. The LI Choice delivery rate includes the Transmission Service Charge (TSC). The TSC is separately stated for LI Choice customers to show that these customers are paying the same transmission service costs as the wholesale customers of LIPA.

The LIPA TSC is based on the cost to own and operate the LIPA transmission system. The transmission charge for LI Choice takes the monthly LIPA TSC and adjusts it on an annual coincident peak demand basis, and then apportions the charge across annual energy consumption using the load factor for each class.

C. MISCELLANEOUS SERVICE CHARGES TO LICENSED ESCOS

Under Service Classification No. 14 of the LI Choice Tariff, ESCOs are subject to charges for enhanced metering options, certain customer billing history information, special meter readings, and energy balancing processing fees. Each of these charges is intended to recover LIPA's additional costs of providing these services to ESCOs. Service Classification No. 14 also contains special provisions for the level of capacity reserves and system losses, load balancing, and financial security and customer enrollment.

LIPA will continue to provide, at an ESCO's request, enhanced metering at customer locations. Enhanced metering provides ESCOs with more consumption information than the standard LIPA meter. The ESCO will be charged a one-time fee to cover the incremental capital cost associated with the meter, including the embedded cost of installation and removal of the existing meter. There will be no recurring charge associated with enhanced metering. The standard service charge will continue to apply to the delivery rate.

Licensed ESCOs can obtain approximately 24 months of billing history information, if available, at no cost, as part of their participation in the LI Choice Program, and subject to the approval of the customer. Charges for additional years of billing history and consumption information are based on LIPA's additional costs of retrieving the information from data archives.

Special meter readings are not required under the LI Choice Program. Customers who enter or leave the program, or switch ESCOs, will receive estimated bills that prorate consumption between meter readings. ESCOs and customers may also, for a fee, request special meter readings to accommodate specific billing situations where partial cycle consumption data is required. Requests for special meter readings may be denied or rescheduled if LIPA does not have sufficient meter readers to handle the request.

D. PARTICIPATION REQUIREMENTS FOR RETAIL CUSTOMERS

During Phase III of the LI Choice Program, retail customers electing to participate must take their full capacity and energy requirements for any given electric account from a single licensed ESCO. The following customers are not eligible to participate in Phase III:

1. Customers served under special contracts (Service Classification Nos. 2-VRTP and 13);
2. Customers that receive a portion of their requirements from NYPA;
3. Customers who wish to sell excess power back to LIPA (Service Classification No. 11);
4. Customers using partial requirements service (Service Classification No. 12); and
5. Customers who receive service under provisions related to Residential Off-Peak Energy Storage and residential windmills served under Service Classification No. 1, and residential small solar electric generation served under Service Classification Nos. 1, 1-VMRP (L) and 1-VMRP (S).

E. PARTICIPATION REQUIREMENTS FOR ESCOS

S.C. No. 14 sets forth procedures by which an ESCO becomes licensed by the Authority. It also sets forth the Program requirements that ESCOs must comply with, including the Authority's Operating Procedures, and customer enrollment, consumer protection, and product disclosure requirements. As discussed, S.C. No. 14 also addresses LI Choice billing and metering matters and sets forth various services LIPA will provide ESCOs. It further provides for Authority access to ESCOs' records to ensure compliance with LI Choice Program requirements. S.C. No. 14 also sets forth license suspension and revocation criteria and procedures.