

PART 1

SUMMARY OF PHASE I IMPLEMENTATION PLAN

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SUMMARY OF PHASE I IMPLEMENTATION PLAN

I. INTRODUCTION AND OVERVIEW OF THE LI CHOICE PROGRAM

The Long Island Choice Program will offer 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 will encourage the development of a competitive power market as a means to provide consumers choice and the opportunity for additional power supply cost savings.

In developing the Phase I Implementation Plan, staff undertook the following activities:

- reviewed the characteristics of other programs throughout the country;
- conducted focus groups with residential and commercial customers to identify customer needs;
- held informal discussions with large commercial customers and Energy Service Companies (ESCOs)²;
- conducted public input sessions in Nassau and Suffolk Counties;
- conducted a public input session with ESCOs; and
- conducted a two-day ESCO workshop outlining a draft of the plan.

In addition, the Authority conducted two public hearings on this matter on January 12, 1999.

Currently, LIPA's avoidable cost of power supply is approximately 30% of a typical customer's electric bill. The remaining 70% of a customer's bill is for costs for service other than power supply, including transmission and distribution, customer operations and maintenance, debt service, administration, customer service and other costs incurred regardless of who supplies power for a customer. LI Choice participants will be choosing an ESCO for the 30% electric generation portion of the bill, and will

¹ Within the Phase I 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 In addition to ESCOs, the Phase I Implementation Plan documents also specifically address "Aggregators" (a subcategory of ESCOs that will enroll customers in the LI Choice Program and then contract with an ESCO for provision of services to customers) and "Direct Retail Customers", DRCs (customers large enough to procure and schedule their own power supplies and that will operate like ESCOs serving their own loads). For ease of discussion, this Summary refers specifically only to ESCOs.

continue to pay LIPA for the remaining services. The actual percentages experienced by individual customers will vary by rate class and usage pattern.

LI Choice provides for implementation in three phases. The first phase, targeted to begin with the solicitation of customers in March of 1999, will make retail choice available to both residential and non-residential customers representing, in the aggregate, 400 MW of LIPA's system load. Delivery of this power is scheduled to commence on August 1, 1999. Of this total, 180 MW will be allocated to residential participants, 80 MW to small commercial participants, 100 MW to large commercial participants, and 40 MW to governmental participants. In Phase II, scheduled to begin in May 2000, maximum participation will double to 800 MW with allocation to customer segments to be determined after evaluation of Phase I. During the course of Phase III³, all eligible customers will have the option to choose their own supplier. The timing of Phases II and III are dependent on the results of Phase I. All LIPA customers will be eligible to purchase electricity from the power suppliers of their choice by January 1, 2003.

Integral to the successful implementation of LI Choice are a number of policy documents that set forth program requirements and procedures. These documents are referenced throughout the Phase I Implementation Plan and include the following:

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 3).
3. ESCO Operating Procedures - Requirements and procedures for ESCOs participating in LI Choice (Part 4).
4. ESCO License Application - Application instructions and form to be completed by ESCOs in order to be licensed by the Authority and thereby be able to enroll customers and provide service under LI Choice (Part 4).
5. ESCO Customer Contract Requirements - Provides standard contract terms and conditions of service between LI Choice residential customers and their ESCOs, and provides the required provisions for all nonresidential contracts between ESCOs and their customers (Parts 5 and 6).

Significant provisions of these documents are described below.

II. DESIGN PARAMETERS

In developing the Phase I Implementation Plan, a number of design parameters were followed that are consistent with the retail choice guidelines included in the May, 1998 LI Choice Plan and the guidelines of the Public Authorities Control Board.

³ Phase III is scheduled to begin deliveries on May 1, 2001 and is scheduled to result in choice for all customers by January 1, 2003.

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.

The Phase I Implementation Plan is designed under the assumption that LIPA would be a member of a fully functional and operating New York Independent System Operator (NYISO) at the time deliveries begin. To date, the Federal Energy Regulatory Commission has not approved the New York Power Pool's (NYPP) proposed NYISO plan and many details of the NYISO plan are still under development. It is likely that this Implementation Plan will be modified in the future as the NYISO plan is refined. In the event that the NYISO is not operational at the time the LI Choice Program begins, LIPA has developed temporary back-up systems to perform the services that will eventually be provided by the NYISO.

III. THE AUTHORITY'S ROLE

In addition to establishing the LI Choice Program, the Authority's role will include licensing of ESCOs, monitoring their performance under the Program, ensuring ESCOs' compliance with LI Choice Program requirements (including compliance with all consumer protection requirements), establishing product disclosure requirements and standard customer contract terms, resolving disputes between ESCOs or between ESCOs and LIPA involving the Program, and suspending or revoking ESCOs' licenses if warranted.

A. ESCO LICENSING

An important aspect in establishing retail choice is providing an environment for ESCOs to efficiently serve LI Choice customers while protecting those customers from unfair or unethical business practices. Licensing ESCOs is a necessary component of promoting customer choice while maintaining reasonable consumer protections. The LI Choice licensing process is outlined below:

1. The ESCO signs an Operating Agreement with LIPA prior to filing a license application with the Authority.
2. The ESCO completes the Authority's ESCO license application and submits it to the Authority.
3. The Authority reviews the application to ascertain whether it is complete. If it is, the Authority reviews the application for 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 security requirements set forth in the Operating Procedures.
5. The Authority adds the ESCO to 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 phase-in and enrollment 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 4).

Also, the Authority expects to sign a Memorandum Of Understanding (MOU) with the New York State Department of Public Service (DPS) in order to exchange information regarding ESCO licensing and related matters.

B. CONSUMER PROTECTION

The Authority will monitor the performance of ESCOs to ensure that LI Choice customers are protected from unfair and unethical business practices. These practices include:

1. "slamming" (the unauthorized switching of customers); and,
2. "cramming" (the inclusion of unauthorized charges on a customers' bill).

Any ESCO that engages in these types of practices is subject to having its license suspended or revoked by the Authority. Under LI Choice, the Authority has the power to investigate or audit ESCOs regarding their business practices and other matters.

In addition, the anticipated MOU between the Authority and the DPS will allow information to be shared about any ongoing investigations of ESCOs while maintaining the ability for both agencies to act independently. Further, to provide consumer information, the Authority plans to issue an ESCO Report Card.

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 customers' 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 (Part 2) 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 monitor ESCO's compliance with the LI Choice Operating Agreement and Operating Procedures. Information regarding compliance with NYPP and 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/REVOCAION

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 standardized label to their customers without demand meters. 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 information.

A sample label format is included as an attachment to the Operating Procedures (Part 4). The ESCO will be required to 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.

After operation of the NYISO begins, the New York State Public Service Commission (PSC) expects to establish an administrative process for transaction-based environmental disclosure. If the information provided by this process is suitable and the cost of participating in the process is reasonable, the Authority will implement a comprehensive disclosure process for its customers based on the PSC process.

Prior to that time, the Authority will implement a temporary claims-based product disclosure process. Under this process, if an ESCO makes no claims about the fuel characteristics of its product, then it will only be required to disclose to LI Choice customers a historic 12-month average Long Island fuel mix. If the ESCO makes a "green" or other product claim, it will be required to compare in its disclosure statement the average Long Island fuel mix to its product's prospective 12-month average fuel-mix estimate. Fuels source categories included in the fuel mix disclosure are: biomass, coal, gas, hydro, nuclear, oil, solar, solid waste, wind, and unknown external purchase.

Complaints about ESCO's "green" or other product claims will be investigated by the Authority. The Authority may review an ESCO's power supply contracts to verify claimed fuel mixes. The Authority has the ability to suspend or revoke an ESCO's license for false product claims.

IV. CUSTOMER ENROLLMENT

A. CUSTOMER ELIGIBILITY

In Phase I, all metered customer accounts generally are eligible to enroll in the LI Choice Program. 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. In order to participate in Phase I of the LI Choice Program, New York Power Authority customers, Municipal Distribution Agency customers, and LIPA's SC-13 commercial customers (i.e., customers with individually negotiated power contracts) would need to terminate these contractual arrangements.

B. CUSTOMER SEGMENT ALLOCATION

Under Phase I of LI Choice, participation will be limited to 400 MW allocated among the following customer segments:

- 180 MW (45 percent) will be allocated to LIPA's residential customers (Residential Service Classifications included under SC1 except Wind Generation;)

- 80 MW (20 percent) will be allocated to LIPA's small commercial customers (Small Commercial Service Classifications including General-Small, General-Small Voluntary MRP, and excluding unmetered outdoor area lighting);
- 100 MW (25 percent) will be allocated to LIPA's large commercial customers (Large Commercial Service Classifications excluding supplemental, backup and maintenance service, flexible rates, and real-time pricing); and
- 40 MW (10 percent) to LIPA's governmental customers which include federal, state, and local municipal entities.

During Phase I of the LI Choice Program, no LI Choice customer may enroll for more than 5 percent of the MW load cap for its customer segment. For the governmental customer segment, a customer may enroll each of its LIPA customer accounts separately, or enroll one group of LIPA customer accounts such that it remains within its enrollment size limit.

In Phase I, customers must participate through an ESCO. In later phases it is anticipated that large customers will be able to participate as Direct Retail Customers (DRCs). Any customer who participates in Phase I will be eligible for subsequent phases of LI Choice. A three-month enrollment period for Phase I will run from March 1999 through May 1999.

C. CUSTOMER SELECTION PROCESS

If a customer class segment is under-subscribed, all customers in that segment will be selected for program participation. If a customer class is substantially under-subscribed after the enrollment period, the Authority may, at its discretion, open customer class enrollment on a first-come first-served basis until the program is fully subscribed. Over-subscription will be handled in the following ways:

- Residential - LIPA will conduct a lottery by account;
- Commercial - LIPA will allocate each ESCO MWs for each commercial segment and each ESCO will choose customers within that segment it wishes to serve. The small commercial customer segment will be allocated in proportion to the ESCO's MWs of customer enrollment compared to total small commercial enrollment. The large commercial customer segment allocation will be tied to the incentive program discussed below; and,
- Governmental - LIPA will conduct a lottery by account or grouped customer accounts.

A residential and small commercial customer enrollment incentive is included that provides ESCOs with a guarantee for a larger share of large commercial customers. Specifically, for every 2.5 MW of residential load selected, an ESCO will be guaranteed 1 MW of large commercial load. Additionally, for every 4 MW of small commercial load selected, an ESCO will be guaranteed 1 MW of large commercial load.

D. CUSTOMER ENROLLMENT PROCESS

The proposed enrollment process is designed to take advantage of electronic communications while ensuring that customer confidentiality is protected and that customer authorization is provided regarding intended enrollment. A summary of the process follows:

- Prior to the enrollment period for each phase of the LI Choice Program, the Authority will assist customers in making the transition to LI Choice by providing interested customers with educational materials regarding the Program.
- A customer may authorize an ESCO to obtain historic usage data by providing a valid LIPA customer account number and the customer name of record. The ESCO must obtain written authorization or taped verbal authorization from the customer.
- The ESCO will provide LIPA with the customer's name and LIPA customer account number electronically. LIPA will verify the customer's eligibility.
- LIPA will provide the requesting ESCO with customer usage information (typically containing 24 months of usage information or the life of the account, whichever is less) including service classification, billing address, metering information, consumption (including kWh and, if available for the particular customer service classification, kW demand, on-peak, off-peak, and recorded hourly interval data). The customer data provided by LIPA will not contain payment status or credit information. All historical customer usage information obtained by an ESCO must be kept confidential unless its release is specifically authorized by the customer.
- Historical data for periods greater than 2 years and 15-minute interval data, if available, will be provided to the ESCO for a fee in accordance with provisions in the proposed Tariff.
- The ESCO will provide the eligible customer with a contract (a Standard Agreement for residential customers or an Agreement containing the Authority's required provisions for nonresidential customers).
- Once a contract has been signed, the ESCO will inform LIPA electronically of the enrollment. LIPA will send a letter to the customer confirming enrollment in the LI Choice Program and identifying the ESCO that will provide electric generation service and related services to the customer if the eligible customer is selected to participate in the LI Choice Program. The letter will also request the customer to contact LIPA if the information in the letter is incorrect regarding the customer's desire to participate in the LI Choice Program or if the ESCO identified in the confirmation letter is not the ESCO with which the customer has a contract. If the customer has not contacted LIPA within 7 days of the letter's postmark, LIPA will enroll the customer with the ESCO consistent with the information in the confirmation letter.

E. STANDARD CONTRACT TERMS

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

- the ESCO's Terms and Conditions of Service detailing the customer's rights and responsibilities under a potential service agreement with the ESCO, rates for all services being offered and expected costs to the customer receiving services from the ESCO;
- 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; and
- a signature page to be executed by the eligible customer if the customer wishes to enter into an Agreement with the ESCO.

Enrollment with the ESCO shall not be effective unless the ESCO provides all the required information to the customer and obtains a signed signature page.

Part 5 of the Phase I Implementation Plan contains the requirements for a standard residential customer Agreement and Part 6 contains the requirements for nonresidential Agreements.

V. THE ROLES OF ESCOS AND LIPA

A. POWER DELIVERY

ESCOs will procure energy and capacity from various sources on or off Long Island subject to transmission and generation constraints⁴. An ESCO's customer will take title to the power before the power is delivered to LIPA. The ESCO, acting as agent for the customer, will arrange for transportation of the energy to LIPA and LIPA will deliver the power across its system to the customer.

1. ESCO Scheduling Protocols, Wholesale Balancing and Retail Settlement

Under the Program, the LI Choice customer 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 system to LIPA's service territory. LIPA will then provide delivery service over its transmission and distribution system to the customer.

ESCOs will be required to provide electronically to the NYISO and LIPA the scheduled hourly energy and/or ancillary services deliveries. These wholesale

⁴ As a result of transmission constraints coming into Long Island, a significant portion of installed generation capacity requirements will need to be procured from sources located on Long Island. This on-island generation capacity requirement is described in the Installed Capacity Requirements section below.

schedules will be submitted according to NYISO procedures. The ESCO can elect to purchase the wholesale energy and/or related ancillary services at the locational price on Long Island or pre-schedule the wholesale delivery via a bilateral contract with a power suppliers. ESCOs, acting as agents for their customers, will arrange for the transmission needed to support such transactions. These scheduling requirements are necessary in order to match generation with load, insure system reliability and provide a framework for the billing process.

A financial settlement will occur each month between the NYISO and each ESCO to reconcile energy-related imbalances. This settlement is to reconcile imbalances between what the ESCO delivered at the wholesale level and the aggregate use of that ESCO's customers at the retail level. During this retail settlement, differences between scheduled supply and actual use are purchased from or sold back to the NYISO at spot market prices. LIPA will provide appropriate metering data to the NYISO for it to perform the retail settlement process.

In the event the NYISO is not operational at the time LI Choice deliveries begin, scheduling will be done through LIPA and other transmission providers under their respective Open Access Transmission Tariffs (OATT). ESCOs, acting as agents for their customers, will receive network service and ancillary services from LIPA. LIPA will allow ESCOs to schedule system energy on a day-ahead basis at LIPA's forecast of the market price for Long Island, and will also provide a wholesale balancing service for under- or over-deliveries according to LIPA's OATT. LIPA will calculate the retail settlement debits/credits and assess a penalty for suppliers who do not accurately schedule supply within a plus or minus 10% bandwidth. Once the NYISO is operational but prior to it performing the retail settlement function, LIPA will calculate retail settlement debits/credits at the NYISO market rate for Long Island and will not assess retail settlement penalties.

2. Load Profiling

The retail settlement process described above requires each customer's hourly usage pattern in order to develop each ESCO's aggregated actual usage. LI Choice, similar to other retail choice programs throughout the country, will require hourly customer usage data. In the absence of metered hourly interval data, a typical hourly load profile will be developed for each customer. The load profiles can be used by ESCOs to schedule power deliveries and LIPA will use the profiles for the retail settlement process. Load profiles for Phase I of LI Choice will be based on existing load research data for all major electric rate classes. The load profiles will be time differentiated by temperature, season, and day type. In the future, new load profiling methodologies may be developed using updated load research data. ESCOs will be given an opportunity to provide input into the new load research and profile design.

The hourly pattern for electric usage could be measured by replacing or retrofitting existing customer meters with hourly interval metering. However, while such metering is warranted for some customers, the high cost of such equipment does not

justify universal application. Under LI Choice, there is no current requirement for any customer regardless of size (kW) to have hourly interval metering installed. LIPA will initially allow the marketplace to decide when new hourly interval metering is installed.

3. Installed Capacity Requirements

ESCOs serving LI Choice customers will be required to procure installed capacity, including reserves, to serve their customers. The New York State Reliability Council (NYSRC) will determine what the State-wide installed capacity reserve requirement will be. Based on the NYSRC criteria, the NYISO will calculate each ESCO's total installed capacity requirement and any locational requirements such as the percentage of its total capacity requirement that must be physically located on Long Island. Each ESCO will then be required to secure enough resources to meet its overall capacity requirement, as well as its locational capacity requirement. If the NYISO establishes an installed capacity market, ESCOs will be able to procure installed capacity from the market or other providers. In Phases II and III of the Program, it is anticipated that LIPA may release some of its installed generating capacity to the NYISO market as available, with the proceeds of any sale of such capacity returned to the ESCOs through a capacity credit.

Prior to establishment of the NYISO, LIPA will require each ESCO to provide sufficient capacity to meet its customer load including losses and reserve margin requirements. In Phase I, the total installed capacity requirement is expected to be approximately 129% of an ESCO's peak load. For Phase I, the on-Island requirement for each ESCO will be set at 82.3%⁵ of the total requirement. During Phase I, the on-Island installed capacity requirement will be met by LIPA, with the associated costs being recovered from LI Choice customers through LIPA's delivery rates. ESCOs must contract with other on- or off-Island generators or suppliers for the remaining installed capacity requirement. LIPA will maintain the on-Island installed capacity requirement until the NYISO establishes a local installed reserve requirement applicable to Long Island. In Phase II and III of LI Choice, LIPA will conduct an auction for on-Island installed reserve capacity until the NYISO, or a Power Exchange, establishes a suitable substitute.

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 which will be owned, installed and maintained by LIPA. Customers that choose to take part in LI Choice can continue to use the same metering equipment and meter reading process that is in place at the time of their enrollment in LI Choice. For a fee, the customer or ESCO will also have the option to upgrade metering equipment. A schedule of options regarding enhanced metering capabilities for upgrade of existing LIPA meters and the costs associated with LIPA providing and installing

⁵ These percentages may be adjusted in the future as circumstances change.

those options is provided for in the Tariff. The customer may own, install, and maintain other metering equipment that is installed on the load side of LIPA's billing meter.

2. Meter Reading

LIPA will retain responsibility for reading all LIPA-owned LI Choice customer meters. LI Choice customer billings will be based on LIPA readings of LIPA-owned meters. LIPA's meter reading policy has been augmented to include:

- Special Readings - Special meter reading requests by ESCOs or LI Choice customers for an ESCO's purposes shall be done for a fee provided in the Tariff. Rules and procedures for special meter readings and the associated fees are provided in the Tariff.
- LI Choice Customer Billing Information - LIPA will make available to ESCOs electronically the individual energy consumption billing determinants of the ESCOs' LI Choice customers. LIPA will indicate whether the information is based on an actual or estimated meter reading.

3. Billing

The ESCO will be responsible for billing the electric generation service that it provides to its customers. This bill may include certain components associated with transmission service provided and scheduled by the ESCO, and related services that it may provide. Under Phase I of LI Choice, at the election of the ESCO, LI Choice customers have two options regarding the way they are billed for LIPA's delivery service and the ESCO's electric generation service and any related services:

1. In the standard option, the LI Choice customer will receive two bills for each service period: one from LIPA for delivery service and any other services it provides, and one from the ESCO for electric generation service and the related services it provides.
2. If an ESCO elects to offer this second option, the LI Choice customer will receive a statement from LIPA identifying the delivery and other services it provides, and LIPA will automatically debit the ESCO's bank account via electronic funds transfer for such services. The LI Choice customer would then be billed for LIPA's services on the ESCO's itemized customer bill.

The Authority will provide the ESCOs with a Form of ESCO Standard Residential Customer Agreement (Part 5), 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 and sample customer bills for all service classifications of LI Choice customers.

LIPA will establish a billing account for each ESCO to accumulate the debits or credits associated with wholesale balancing and retail settlement (before the NYISO provides these services to ESCOs) and other special fees and charges as described in

the Operating Procedures and the Tariff. This billing account shall be settled monthly for charges or credits in excess of \$100.

4. Credit and Collection

Under LI Choice, ESCOs are responsible for collecting all amounts billed by them to their customers. LIPA will remain responsible for collecting all amounts billed by LIPA to its customers. For the purposes of determining an ESCO's ability to meet its financial obligations, LIPA will impose 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 guarantees as security. The security deposit amount shall be based on not more than two months of an ESCO's highest projected electric generation service billings to all of its customers.

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 revert back to service from LIPA. As Provider Of Last Resort (POLR), such customers will be charged LIPA's standard bundled service rates.

VI. TARIFF AMENDMENTS

In order to implement LI Choice, LIPA has amended its Tariff for Electric Service (Tariff) to include:

- a new service classification for ESCOs that identifies additional rates and charges;
- bill credits for each eligible LI Choice customer class that reflect the reduction in LIPA's energy supply cost; and,
- appropriate modifications to other sections of the Tariff.

A more detailed discussion of these Tariff provisions and leaves is contained in Part 2 of this Phase I Implementation Plan.

A. NEW SERVICE CLASSIFICATION FOR ESCOS

A separate service classification for ESCOs has been developed and includes provisions designed to recover LIPA's costs for providing additional services to ESCOs. These ESCO charges include a retail settlement processing fee and charges for special services such as enhanced meter reading options, additional historic billing information, and special meter reads.

B. DELIVERY SERVICE RATE STRUCTURE

LIPA's rate structure for the LI Choice Program provides for bill credits to be applied to LIPA's current, fully bundled rates. LI Choice customers will be charged a rate for LIPA's delivery service that reflects bill credits equal to the generation-related

energy and capacity costs that LIPA can avoid as a result of the program. The LI Choice Program creates a fixed bill credit based on expected avoided costs and also includes variable ESCO credits that will return to (or collect from) ESCOs the difference between the fixed bill credit and the actual realized savings. The variable ESCO credits are intended to track the actual avoided costs of the Program and allocate to the ESCOs a share of any profits from the sale of energy from LIPA's unavoidable generating capacity used to serve Long Island ESCO load.

LIPA's delivery rates include a distribution charge plus a transmission charge. The transmission charge will be based on LIPA's Transmission Service Charge (TSC) contained in the proposed NYISO Tariff. Prior to the establishment of the NYISO, the transmission charge will be based on the LIPA OATT. In addition, the proposed NYISO Tariff has provisions which may result in additional revenues to LIPA when third parties (such as ESCOs) use transmission service. To the degree that LIPA's LI Choice customers do not otherwise recover these monies through other mechanisms, LIPA anticipates providing a variable transmission credit to ESCOs.

C. MODIFICATIONS TO OTHER TARIFF PROVISIONS

In order to assure balanced treatment of LI Choice customers, adjustments were made to the following Tariff provisions:

- Fuel and Purchased Power Cost Adjustment (FPPCA);
- Ratepayer Class Action Refund;
- The Shoreham Property Tax Settlement Factor; and
- The Adjustments to Rates to Encourage Business Development.

D. SIZE OF THE BILL CREDIT

The energy and capacity bill credits range from approximately 2.5 to 4.3 cents per kWh depending upon the customer class, season and time of use. While participating customers and ESCOs would prefer the bill credit to be as large as possible, non-participating customers would be harmed if the bill credit were larger than cost savings achieved by the Program. Therefore, no extra "incentive" has been included in the bill credits.

LI Choice customer savings will come from two potential sources. When ESCOs purchase power at rates lower than the bill credits and the variable ESCO credits discussed above, a portion of the cost savings can be passed on by the ESCO to the customer. A second potential source of customer bill reductions is tax savings. Several proposed changes to utility tax laws may change how taxes on bundled service and separate delivery service and ESCO generation service will be taxed. The impact of these changes is uncertain at this time.

The bill credit methodology and the rationale for the Tariff modifications are explained in more detail in Part 2.

