



***Phase II  
Implementation Plan***

---

**May 1, 2000**



**LONG ISLAND CHOICE**  
**PHASE II IMPLEMENTATION PLAN**  
**TABLE OF CONTENTS**

PART 1        SUMMARY OF PHASE II IMPLEMENTATION PLAN

PART 2        TARIFF LEAVES

PART 3        FORM OF STATEMENTS

PART 4        FORM OF OPERATING AGREEMENTS

PART 5        OPERATING PROCEDURES

PART 6        FORM OF STANDARD CUSTOMER ELECTRICITY  
SALES AGREEMENT

# **PART 1**

## **SUMMARY OF PHASE II IMPLEMENTATION PLAN**

**PART 1**  
**SUMMARY OF IMPLEMENTATION PLAN**  
**TABLE OF CONTENTS**

I.	INTRODUCTION AND OVERVIEW OF THE LI CHOICE PROGRAM .....	1
II.	DESIGN PARAMETERS .....	2
III.	THE AUTHORITY’S ROLE.....	3
	A.    ESCO Licensing .....	4
	B.    Consumer Protection .....	4
	C.    Dispute Resolution .....	5
	D.    ESCO Performance Monitoring .....	5
	E.    ESCO License Suspension/Revocation .....	5
	F.    Interim Product Disclosure and Product Labeling .....	5
IV.	CUSTOMER ENROLLMENT .....	6
	A.    Customer Eligibility.....	6
	B.    Customer Segment Allocation.....	7
	C.    Customer Selection Process .....	7
	D.    Customer Enrollment Process.....	7
	E.    Standard Contract Terms.....	8
V.	THE ROLES OF ESCOS AND LIPA.....	9
	A.    Power Delivery .....	9
	1.    ESCO Scheduling Protocols, Wholesale Balancing and Retail Settlement .....	9
	2.    Load Profiling .....	10
	3.    Installed Capacity Requirements .....	10
	B.    Metering and Billing.....	11
	1.    Provision of Meters.....	11
	2.    Meter Reading .....	11
	3.    Billing.....	11
	4.    Credit Procedures.....	12
	C.    Provider of Last Resort .....	12
VI.	TARIFF DESCRIPTION.....	12
	A.    Overview of the LI Choice Phase II Tariff Proposal .....	12
	B.    Proposed Changes from Phase I .....	13

C. Separating the Charges for Transmission Service ..... 18

D. Miscellaneous Service Charges to Licensed ESCOs ..... 18

E. Participation Requirements for Retail Customers ..... 19

F. Participation Requirements for ESCOs ..... 20

## Part 1

### SUMMARY OF PHASE II IMPLEMENTATION PLAN

#### I. INTRODUCTION AND OVERVIEW OF THE LI CHOICE PROGRAM

The Long Island Choice Program is offering electric customers of the Long Island Power Authority<sup>1</sup> 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.

Under Phase I of LI Choice, customer enrollments commenced in the Spring of 1999 and deliveries began on August 1, 1999. In developing the proposed Phase II Implementation Plan, staff undertook the following activities:

- Conducted a workshop with energy service companies (ESCOs) outlining a draft of the plan;
- Evaluated the Uniform Business Practices of the New York Public Service Commission;
- Assessed the implications of the commencement of the New York Independent System Operator (NYISO); and
- Evaluated results of the Phase I Implementation process.

In addition to ESCOs and Aggregators, the Phase II Implementation Plan addresses Direct Retail Customers, "DRCs" (an eligible customer with a minimum annual load of at least 8,760 MWH that acts without an ESCO or an Aggregator to contract for and supply electric generation service and any related services solely for its own use). For ease of discussion, this Summary refers specifically only to ESCOs.

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 transmission and distribution, customer operations and maintenance, debt service, administration, customer service and other costs incurred by LIPA regardless of who supplies power for a customer. LI Choice participants will be choosing an ESCO for the

---

<sup>1</sup> Within the Phase II 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.

30% electric generation portion of the bill, and will continue to pay LIPA for the remaining services. These percentages are approximate and will vary by rate class and usage pattern.

The Long Island Choice Program is based upon conditions that may be subject to change and accordingly, the program may be revised as appropriate.

LI Choice is being implemented in three phases. Phase I began with the solicitation of customers in the Spring of 1999. Phase I made retail choice available to both residential and non-residential customers representing, in the aggregate, 400 MW of LIPA's system load. Deliveries under Phase I commenced on August 1, 1999. Deliveries under Phase II will begin on May 1, 2000. Phase II will increase the total eligible LIPA retail customer load for LI Choice participation from 400 MW to 800 MW. This Phase II allocation includes residential and non-residential customer segments. Open enrollment began in Phase I and will continue in Phase II until program caps are reached. During the course of Phase III, all LIPA's eligible customers will have the option to choose their own supplier. 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.

A number of documents set forth program requirements and procedures. These documents are referenced throughout this Phase II 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 4).
3. Operating Procedures - Requirements and procedures for ESCOs participating in LI Choice (Part 5).
4. ESCO License Application - Application instructions and 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).

Significant provisions of these documents are described below.

## **II. DESIGN PARAMETERS**

The Phase II 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.

The Phase II Implementation Plan reflects that LIPA is a member of a fully functional and operating New York Independent System Operator (NYISO).

## **III. THE AUTHORITY'S ROLE**

In addition to establishing the LI Choice Program, the Authority's role will continue to 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 (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).

## **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:

1. "slamming" (the unauthorized switching of customers) and
2. "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/REVOCAION**

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 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 product label is included as Attachment I to the Operating Procedures. 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 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**

In Phase II, all metered customer accounts generally are eligible to enroll in the LI Choice Program. Also, included in Phase II are 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. To participate in Phase II 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**

In Phase II, maximum participation will be increased from 400 MW to 800 MW allocated among the following customer segments:

- Minimum of 180 MW and up to 580 MW will be available to LIPA's residential customers (Residential service classifications included under SC1 except Wind Generation;) and
- Minimum of 220 MW and up to 620 MW will be available to non-residential customers. (All other service classifications defined as eligible customers in the LI Choice Tariff and not included as residential customers)

In Phase II, customers can participate through an ESCO, Aggregator or as Direct Retail Customers (DRCs).

## **C. CUSTOMER SELECTION PROCESS**

- Customer enrollment will be monitored by LIPA to minimize over subscription of the two customer segments. If enrollment approaches or exceeds a customer segment cap, enrollment for that or both customer segments may be closed. If total enrollment approaches or exceeds 800 MW, enrollment for all customers will be closed.

## **D. CUSTOMER ENROLLMENT PROCESS**

The 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:

- Deliveries for Phase II of the program will begin on May 1, 2000.
- The Authority will provide 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 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). Customer agreements may be written, electronic, or verbal as provided for in this LI Choice Implementation Plan.
- Once a contract has been signed or electronically or verbally authorized, 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 any related services to the customer if the eligible customer is selected to participate in the LI Choice Program. The letter will request the customer to contact LIPA if the information in the letter is incorrect. If the customer has not contacted LIPA within 5 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 any related services to an eligible customer, the ESCO will provide 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 shall 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 the Phase II Implementation 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 will be scheduled to LIPA's service territory by the ESCO as agent for its LI Choice customers. These scheduled deliveries will be based on the ESCO's forecasted energy use by its customers. These deliveries will occur at the wholesale level. If the ESCO's customers consume what the ESCO scheduled then the transaction between the NYISO and the ESCO will be in balance. Any energy differences ("imbalances") will be reconciled between the ESCO and the NYISO.

The procurement and delivery of power to LI Choice customers will be arranged as a wholesale transaction and consist of two components. These are:

Energy Scheduling - The ESCO will schedule energy deliveries to meet the projected consumption of its customers and arrange for transmission service with the NYISO and/or transmission providers ("TPs").

Delivery and Balancing -The NYISO/TPs will deliver energy to Long Island according to the ESCO's schedule. Actual consumption that differs from the ESCO's scheduled deliveries will be settled between the NYISO and the ESCO.

#### **1. ESCO Scheduling and Balancing**

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

An ESCO will be required to provide its estimated hourly amount of locational-based marginal pricing ("LBMP") energy purchases (scheduled hourly energy and/or ancillary services deliveries) to the NYISO 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 supplier. ESCOs, acting as agents for their customers, will arrange for the transmission needed to support such transactions. These scheduling requirements are necessary 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 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 settlement process.

## 2. Load Profiling

The 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, requires hourly customer usage data. In the absence of metered hourly interval data, a typical hourly load profile is developed for each customer. The load profiles can be used by ESCOs to schedule power deliveries and LIPA will use the profiles for the settlement process. Load profiles for Phase II 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. While such metering may be warranted for some customers, the cost does not justify universal application. There is no current requirement for any LI Choice 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. ESCOs will be able to procure installed capacity from the NYISO Installed Capacity 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.

## **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 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 those options is provided for in the Tariff. The customer or ESCO 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 includes:

- Special Readings - Special meter reading requests by ESCOs or LI Choice customers will be performed for a fee with at least 72 hours notice. 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**

Under Phase II of the LI Choice 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.

- In the Two Bill 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 any related services it provides.
- 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 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 shall be based on not more than two months of an ESCO's highest projected electric generation service billings to all 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), LIPA will charge such customers its standard bundled service rates.

## VI. TARIFF DESCRIPTION

### A. OVERVIEW OF THE LI CHOICE PHASE II TARIFF PROPOSAL

Phase II extends LI Choice by increasing the number of customers that can participate, significantly revising the bill credit and tariff statements applicable to the Program, and expanding participation to include Direct Retail Customers (DRCs).

For Phase I of LI Choice, the Authority established rates: (1) for the delivery of electricity through a bill credit applied to the existing tariff structure; (2) for the services to be provided by LIPA to ESCOs, Aggregators, and DRCs; and (3) for other special charges necessary to ensure the economic feasibility of the program. This section discusses the changes to LIPA's Tariff necessary to implement Phase II of LI Choice. The Tariff changes include modifications to the section of the Tariff that covers the LI Choice service classification (S.C. 14) and amendments to certain sections of the Tariff to reflect the impacts of the LI Choice Program.

As in Phase I, the rate structure for Phase II of 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 delivery service that reflects bill credits equal to Locational Based Marginal Pricing (LBMP) related to energy costs and to a certain amount of LIPA's capacity and ancillary services costs. The LI Choice Program provides for unbundled delivery rates by separating the generation and transmission components of

the fixed bill credit<sup>2</sup>. Phase II provides for a Bill Credit Adjustment (BCA) which will reconcile the projected bill credit with actual costs. The BCA replaces the Energy Cost Adjustment that was used in Phase I of the program .

## **B. CHANGES FROM PHASE I**

Phase II of the program is a modification of Phase I, and the modifications are based, in part, on comments received from the ESCOs. A summary of the modifications is set forth below:

- The Energy Cost Adjustment (ECA) is replaced by the Bill Credit Adjustment (BCA), the Fuel and Purchased Power Cost Adjustment (FPPCA) is applied to ESCOs, and the Energy Cost Reconciliation (ECR) is eliminated.

Phase I of the Long Island Choice program offers fixed credits to LI Choice customers based on forecasted avoided costs, including the cost of producing energy (variable energy costs) and avoided generation capacity costs. These avoided cost estimates were credited against full service energy rates to determine the appropriate LI Choice rates.

Phase I includes monthly adjustments to ESCO bills through Energy Cost Adjustments (ECA), which capture the difference between LIPA's actual marginal energy cost and its average production cost. The ESCOs are concerned that the ECA results in an uneven playing field since the average cost of fuel flows to ESCOs on a current basis, while bundled customers receive a deferred average fuel cost through the FPPCA. This may create a perverse incentive for customers to switch back and forth between bundled and unbundled service. For example, the incentive works to the disadvantage of ESCOs in situations where fuel prices are rising at the same time that bundled customers receive FPPCA credits that reflect lower fuel costs from the previous year.

To level the playing field between program participants and non-participants and to avoid uneconomic signals that encourage customers to switch between bundled and unbundled service, the FPPCA will be charged or credited to the ESCOs' accounts based upon their customers' total metered consumption. Because the FPPCA will be applied to all consumption, regardless of whether the customer is full service or LI Choice, there is no advantage to a customer in switching between LI Choice and bundled service. In Phase I of the program, an Energy Cost Reconciliation (ECR) adjustment was necessary as a deterrent to such customer switching. In Phase II, the ECR adjustment is no longer necessary and has been eliminated.

---

<sup>2</sup> NYISO transmission charges included in LIPA's delivery rates will include only the NYISO Transmission Service Charge. ESCOs will pay the NYISO for LI Choice customers' applicable ancillary services, transmission losses and transmission congestion charges.

As in Phase I, the energy portion of the bill credit is \$30 per MWh. In Phase II, this portion of the credit will be reconciled to actual LBMP prices, with any difference debited or credited to the ESCOs' accounts through a monthly Bill Credit Adjustment (BCA). This adjustment ensures that LI Choice customers, through their ESCOs, receive current avoided energy costs.

- Explicit financial credits to ESCOs for Use of LIPA's Transmission Rights are eliminated but the Transitional Transmission Adjustment (TTA) incentive will continue.

LBMP consists of the cost of energy, transmission losses, and transmission congestion costs. Since the LBMP credit includes congestion costs, no additional TCC (Transmission Congestion Contract) credits to the ESCOs are necessary. In Phase I, the allocation by LIPA to ESCOs of physical transmission access before the NYISO began operations and the allocation by LIPA to ESCOs of a share of congestion rents collected by LIPA after the NYISO began operations were made on the basis that the ESCOs and their LI Choice customers were entitled to share in the benefits of LIPA's ownership of the transmission system and/or TCCs. In Phase II, LI Choice customers and bundled customers will continue to pay embedded transmission costs in their rates. In Phase II, notwithstanding the Transitional Transmission Adjustment (TTA) incentive, net benefits accruing to LIPA as a holder of TCCs will be applied to the FPPCA. Transitional Transmission Adjustments (TTAs), however, are still considered to be incentives and will continue to be allotted.

- The avoided Generation Capacity bill credit has been changed and an additional bill credit based on the embedded costs of ancillary services is included.

In Phase I of the program, avoided generation capacity credits are calculated assuming that 17.7% of generation capacity is avoidable. For Phase II, 7.6% of generation capacity is assumed to be avoidable. Avoided generation capacity cost was estimated to be \$42.16 per kW for Phase I, based upon the value of capacity for the Fitzpatrick generation plant, short-term purchases, and DSM (Demand Side Management). In Phase II, Fitzpatrick is no longer considered to be avoidable due to contractual requirements. In determining the value for capacity, short-term purchases are considered to be imports, while DSM is considered as local capacity. The value for avoided capacity is determined by weighting each component by the same portion of on and off-Island capacity available to bundled customers. For Phase II, this results in an annual avoidable capacity cost of \$54.93 per kW.

Ancillary services have been unbundled in Phase II. ESCOs are now required to procure these services in the market for their customers. In Phase II, LI Choice customers will receive a bill credit based on the embedded cost of these ancillary services. Provision for reconciling LIPA's avoided costs of ancillary services with the ancillary services bill credit is provided for in the BCA. These ancillary services include

ISO Scheduling, System Control and Dispatch Service, Voltage Support Service, Regulation and Frequency Response Service, Operating Reserve Service, and Black Start Service.

- Provision for crediting ESCOs with LIPA's avoided cost savings associated with the NYPA Transmission Adjustment Charge (NTAC) is included.

To the extent that LIPA avoids NTAC charges as a result of ESCOs serving unbundled load, LIPA will provide ESCOs with credits commensurate with these savings.

The foregoing modifications to the LI Choice program will level the playing field between participants and non-participants, and simplify the program by eliminating the ECA, ECR Statements, and the TCC allocations. Additional details of the changes incorporated into Phase II are discussed further below:

1. Bill Credit Adjustment (BCA) Applicable to ESCOs

The BCA will be applied to ESCOs and will consist of a monthly adjustment reconciling (1) the energy bill credit (\$30/MWh) with (2) the weighted average day-ahead Long Island zonal LBMP for each month. The weighted average day-ahead Long Island zonal LBMP for each month will be calculated as the hourly day-ahead Long Island zonal LBMP weighted by LIPA's system hourly loads.

Since the LBMP reflects the marginal cost of energy, it is an appropriate variable for reconciliation with the energy bill credit. This adjustment ultimately ensures that the ESCO and its LI Choice customers receive an energy bill credit equal to LIPA's weighted average monthly day-ahead zonal LBMP.

The BCA will also reconcile the ancillary services bill credit with the actual avoided cost savings (positive or negative) that LIPA realizes as a result of ancillary services provided by ESCOs.

In the sample monthly BCA statement (Part 3), the \$4.24/MWh credit would be applied to the energy consumption of the ESCO's LI Choice customers. The consumption will be the metered consumption prorated based on the ratio of the number of bill days in the calendar month to the number of bill days in the billing period.

2. Ancillary Services Bill Credit

LI Choice customers will be given a bill credit for ancillary services based on LIPA's embedded cost of \$0.826/kW/month for such services. This is warranted because LI Choice customers pay embedded costs for

ancillary services in their delivery rates. The credit will be on an annualized \$/kWh basis that will vary by rate class.

3. ICAP (Installed Capacity)

Although local ICAP requirements are 89.4% of total ICAP, LIPA will provide ESCOs with 92.37% of ESCOs' required total ICAP, including losses and reserve margin. The 92.37% is based on the embedded cost of capacity that will continue to be paid by LI Choice customers in their delivery rates. ESCOs will be responsible for procuring the remaining 7.63% of ICAP from on or off-Island sources and must show that they have the remaining ICAP of 7.63% in accordance with NYISO requirements.

To pass along its avoided capacity cost savings arising from this procurement of ICAP by ESCOs, LIPA will include in the LI Choice customer bill credits a capacity credit proportional to the 7.63%. The credit will be based on an annual capacity avoided cost of \$54.93/kW but will be expressed in \$/kWh for the different service classifications based on class load factors and summer consumption.

Any differences between the capacity bill credit and the actual capacity costs will be reflected in the FPPCA.

4. Transmission Allocation

As mentioned earlier, because congestion costs based on the NYISO reference bus are included in the LBMP and because the LBMP is ultimately applied as a bill credit to the ESCO/customer, a base allocation of transmission is unwarranted. The transmission allocation of Phase I, which was accomplished through an allocation of physical transmission access before the NYISO began operations and which was converted to an allocation of revenues from TCCs after the NYISO began operations, was based on the fact that LI Choice customers continued to pay embedded transmission costs (TSC) in their delivery rates and should, therefore, enjoy a proportionate amount of access to LIPA's transmission system. The transmission allocation was for the purpose of ESCOs importing power (ostensibly at a lower cost than could otherwise be obtained from LIPA or other on-Island sources). Although LI Choice customers will continue to pay the retail TSC in their delivery rates, use of the LBMP as an ultimate bill credit through the reconciliation process of the BCA removes the need to directly and immediately share congestion rent revenue LIPA receives as a holder of TCCs with LI Choice customers. Any net TCC revenues received by LIPA will be refunded to bundled service customers and ESCOs through the FPPCA.

5. TTA (Transitional Transmission Allowance)

The TTA incentive remains a valuable way to garner ESCO interest in retail access on Long Island and encourage importation of low cost power to the region. LIPA will maintain the 20 MW TTA incentive. The TTA incentive is funded by congestion rents LIPA collects as a holder of TCCs. Revenues from these rents are passed on to ESCOs according to how many MWs of TTAs they have.

Of the 20 MW maximum, 11 MW will be reserved for the Commercial & Industrial (C&I) sector and 9 MW for the residential sector. LIPA will, however, allow for the conditional reallocation of MWs from one sector to the other depending on subscription levels. The condition is that these MWs may be reallocated back to their original sector when subscription levels warrant. New allocation or reallocation back to the original sector would only become effective at the beginning of a subsequent month.

An ESCO's allocation of TTAs is proportional to the ESCO's load share ratio compared to total ESCO load and the amount of TTAs available for allocation.

Regardless of allocation, the TTAs an ESCO will receive will never exceed the MWs it actually imports. An ESCO must import power to Long Island to receive any TTAs and must provide LIPA with documentation of such imports.

Although as a TCC holder LIPA may be subject to negative congestion rents, meaning, for example, that if there were congestion in exporting power from Long Island, LIPA may have to actually pay congestion rents, ESCOs will never be charged negative rent because of any allocation of TTAs to them. That is, ESCOs will either receive positive credits or no credits as a result of the TTA incentive.

As described above, residential and C&I TTAs will be allocated among existing ESCOs prior to the start of each calendar month. However, they will not be allocated among ESCOs within the same sectors (C&I or residential) simply because new ESCOs subsequently join the program. Rather, TTAs can be reallocated within a sector if new ESCOs and/or additional load join and existing ESCOs reduce projected peak enrollment. Otherwise, ESCOs will lock into the TTA allocation at the start of the Phase II program and at the start of subsequent capability periods thereafter.

6. Bilateral Contracts

LIPA may offer bilateral 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.

7. Application of FPPCA to ESCOs

ESCOs (and not their LI Choice customers) will be subject to the same FPPCA as bundled customers. ESCOs have indicated that this measure will help level the playing field between program participants and non-participants.

In addition to fuel cost differences and other elements of the FPPCA, LIPA's TCC revenues, ancillary services revenues, and revenue shortfalls/excesses from purchases of short-term capacity will be reflected in the FPPCA.

8. NYPA Transmission Adjustment Charge (NTAC)

Under the NYISO, all LSEs (Load Serving Entities) (e.g., ESCOs) are subject to monthly NTAC charges which are designed to allow NYPA to recover costs associated with its transmission assets. These NTAC charges are on a \$/MWh basis and are expected to vary monthly. They will apply to all load within the NYCA (New York Control Area). To the extent that LIPA avoids NTAC charges as a result of ESCOs serving unbundled load, LIPA will provide ESCOs with credits commensurate with these savings.

**C. SEPARATING THE CHARGES FOR TRANSMISSION SERVICE**

Wholesale transmission service by LIPA is provided under the NYISO OATT Tariff. As in Phase I, the Phase II rate design removes the Transmission Service Charge (TSC) from the bundled service rates, and then charges it separately and explicitly to participating customers. The TSC is separately stated for LI Choice customers in order to demonstrate 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 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 instead of a single annual demand.

#### **D. MISCELLANEOUS SERVICE CHARGES TO LICENSED ESCOS**

Under Service Classification No. 14, ESCOs are subject to charges for enhanced metering options, certain historic billing information, special meter readings, and retail settlement 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, financial security and customer enrollment. The currently approved charges to ESCOs are unchanged in Phase II of the program, but the Statement of Losses and ICAP requirements (Part 3) are expected to change to reflect the fact that the NYISO will establish total ICAP requirements, and LIPA, in the interim, will establish the local ICAP requirements.

LIPA will continue to provide, at an ESCO's request, enhanced metering options at any of its customers' locations. These enhanced metering options provide ESCOs with significantly more consumption information than would be otherwise available from the standard LIPA meter. The ESCO requesting the enhanced metering option 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.

Licensed ESCOs can obtain approximately 24 months of historic billing information, if available, at no additional cost, as part of their participation in the LI Choice Program, and subject to the approval of the customer. Charges for additional years of historic billing and consumption information are based on LIPA's additional costs of extracting the information from off-line record storage media.

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.

Service Classification No. 14 establishes the values of local installed capacity reserves (local ICAP), and demand and energy losses. The values are contained in the Statement of Values for Losses and Local ICAP for the Long Island Choice Program that is provided for in the current Tariff. The values of installed capacity reserves (ICAP) will be established by the NYISO. Further, requirements for financial security from the ESCOs and ESCO enrollment of customers in the program are also defined in the Tariff. Other provisions referenced in the Tariff are further defined in the Operating Procedures.

## **E. PARTICIPATION REQUIREMENTS FOR RETAIL CUSTOMERS**

During Phase II of the LI Choice Program, retail customers electing to participate will still be required to take their full capacity and energy requirements from a single licensed ESCO per account. Eligibility has been expanded to additional rate classes, specifically the municipal and private area lighting (Service Classifications Nos. 5, 7, 7A and 10) and has also been expanded to include customers receiving authorized unmetered service. The following customers are not eligible to participate in Phase II: customers served under special contracts (Service Classification Nos. 2-VRTP and 13); customers that receive a portion of their requirements from NYPA; customers who wish to sell excess power back to LIPA (Service Classification No. 11); customers utilizing partial requirements service (Service Classification No. 12); and customers who receive service under provisions related to Residential Offpeak 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).

The LI Choice Program provides for full customer choice by January 1, 2003. By that time, every retail customer will have the option of selecting a licensed ESCO to provide electric generation service, or (if eligible under NYISO rules) the option to become a Direct Retail Customer (DRC), which allows the customer to obtain electric generation service on its own behalf without the services of an ESCO.

## **F. 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. Aside from the eligibility requirements to become a Direct Retail Customer, the participation requirements will not change in Phase II. The overall size of the program will expand in Phase II, creating the opportunity for more customers to participate, if they wish.