Proposal Concerning Modifications to LIPA's Tariff for Electric Service

Requested Action:

The Long Island Power Authority (the "Authority" or "LIPA") Staff proposes to modify the Tariff for Electric Service ("Tariff") effective January 1, 2017 to make revisions to the Revenue Decoupling Mechanism ("RDM").

Background:

The Authority implemented an RDM on April 1, 2015. The use of an RDM is consistent with New York Public Service Commission ("PSC") policy enacted in 2007 and the rate mechanisms of all of New York State's investor-owned electric and gas utilities. An RDM is designed to ensure that a distribution utility collects only its approved revenues for Delivery Service from customers: excess collections are refunded to customers and insufficient collections are recovered from customers in the following year.[1] If the difference between actual and approved Delivery Service revenues is greater than a specified dollar amount, the investor-owned electric utilities are authorized to make an interim RDM adjustment. RDMs are justified by the PSC as good regulatory policy[2] because:

- They eliminate or substantially reduce the linkage between sales and utility revenues and/or profits;
- By reducing the linkage between sales and revenues, they remove the disincentive a utility has to promote energy conservation or renewable energy; and
- Existing utilities' delivery rate designs are, in most cases, not "optimal" in that they do not always collect fixed costs through fixed charges and variable costs through variable charges, which often results in under-collection or over-collection of revenues.

As the Authority continues the process of establishing rates and charges that are more consistent with existing PSC policies, the RDM helps it to achieve financial stability without the conflicting pressures that are created by the pursuit of energy efficiency and renewable goals which reduce electric sales and the associated revenues until base rates are reset in the future.

[1] Except for Central Hudson and Consolidated Edison, which reset their Revenue Decoupling Mechanisms semi-annually.
[2] See PSC Order dated April 20, 2007 in Case 03-E-0640, pages 6 and 7.

Proposal:

The Authority Staff proposes to change the current semi-annual recovery periods to annual recovery periods. This change will align the start of the annual RDM recovery period with annual rate changes in January and smooth the amount of refunds or charges over twelve months, with the goal of increasing customer rate stability and reducing the frequency of rate changes. The existing RDM semi-annual rate changes in March and September will be eliminated. The change is revenue and financially neutral to LIPA and its customers.

The proposed schedule for transitioning from a semi-annual to an annual RDM mechanism is as follows:

- On September 1, 2016, an RDM adjustment rate was set based on the difference between approved and actual booked delivery service revenues for the period beginning January 1, 2016 through June 30, 2016, in accordance with the existing tariff. This rate will remain in effect through December 31, 2016.
- Effective each January 1, beginning January 1, 2017, a new RDM rate will be implemented to recover the cumulative revenue variance as of September 30 of each preceding year.
- The calculated surcharge or refund will be applied as a percentage rate to the Delivery Service charges associated with each customer in the four participating Service Classification groups[3] for the annual periods running from January 1st through December 31st.

In addition to the above, and consistent with the transition from a semi-annual to an annual RDM recovery period, the Authority Staff proposes to increase the existing $20 million Threshold for Imposition of an Interim RDM Adjustment ("Interim RDM Adjustment") to $40 million. The Interim RDM Adjustment threshold allows the Authority to adjust the collection or refund of RDM amounts prior to the onset of the next RDM recovery period at the Authority's discretion if the amount of the cumulative revenue variance exceeds the threshold.

Staff is also clarifying the tariff to remove unnecessary language with respect to economic development program revenues. This clarification does not change the calculation of the RDM adjustment.

[3] All 1) residential customers, 2) Small Commercial customers (not demand metered), 3) Large Commercial customers (demand metered, up to 145 kW), and 4) Mandatory TOU customers (demand metered, in excess of 145 kW.

Financial Impacts:

There are no material financial impacts from the proposal. Changing the RDM resets from semi-annual to annual does not impact the ultimate charges to customers or LIPA's revenues but rather modifies when RDM adjustments become effective. The amount of revenue LIPA's rates are intended to collect from customers for delivery service is fixed within LIPA's three-year rate plan and the approved budgets. The RDM ensures that LIPA collects only the authorized amount of revenue for Delivery Service. Individual customers are still charged based on their usage, so any individual customer who uses less electricity continues to save money, and all customers in the aggregate enjoy savings from avoided energy costs in addition to any savings on delivery service. The annual variability of LIPA's revenue for Delivery Service as compared to budget is shown in Table 1.

Table 1

Delivery Charge Revenue
($ in millions)

Year	*Budget*	*Actual*	*Over/Under Recovery*	*Pct. of Delivery*
2004	*$2,313*	*$2,317*	*-$4*	*-0.2%*
2005	*$2,312*	*$2,398*	*-$86*	*-3.7%*
2006	*$2,320*	*$2,288*	*$32*	*1.4%*
2007	*$1,632*	*$1,629*	*$3*	*0.2%*
2008	*$1,665*	*$1,622*	*$44*	*2.6%*
2009	*$1,632*	*$1,572*	*$60*	*3.7%*
2010	*$1,600*	*$1,660*	*-$60*	*-3.7%*
2011	*$1,672*	*$1,704*	*-$32*	*-1.9%*
2012	*$1,785*	*$1,741*	*$44*	*2.5%*
2013	*$1,784*	*$1,684*	*$100*	*5.6%*
2014	*$1,829*	*$1,776*	*$53*	*2.9%*
2015	*$1,852*	*$1,844*	*$8*	*0.4%*
overall average			***$14***	*0.7%*
average recovery		*8 times*	*$43*	*2.4%*
average refund		*4 times*	*-$45*	*-2.3%*

Over the past twelve years, the revenues from delivery service have, on average, matched the budgeted amounts within $14 million (0.7%). However, the swings for individual years have ranged from an over-collection of $86 million (3.7%) in 2005 to an under-collection of $100 million (5.6%) in 2013.

Proposed Tariff Changes:

1. **Make modifications to the Revenue Decoupling Mechanism**

Affected Tariff Leaves: 182L, 182M and 182N.

Reason for Tariff Change: To change the semi-annual revenue variance and recovery periods to annual, to increase the Interim RDM Adjustment threshold from $20 million to $40 million, and to remove unnecessary language pertaining to economic development programs.

Summary of Proposed Changes:

In summary, the proposed changes to LIPA's Tariff for Electric Service will make modifications to the current RDM to reduce the number of RDM adjustments each year and provide for greater customer rate stability.

The proposed revised Tariff Leaf Nos. 182L, 182M and 182N are attached. Leaf 182K with no proposed changes is also attached for reference only.

VII. ADJUSTMENTS TO RATES AND CHARGES OF SERVICE CLASSIFICATIONS:

J. Revenue Decoupling Mechanism

1. Purpose

The purpose of the Revenue Decoupling Mechanism is to recover approved Delivery Service Revenues from customers. Actual Delivery Service Revenues are reconciled to the approved Delivery Service Revenues through the Revenue Decoupling Mechanism for certain Service Classifications groups, as described below,

2. Definitions

For the purposes of the Revenue Decoupling Mechanism, the following Service Classification groups will apply.

a) Residential

(1) Service Classification No. 1 (Rate Codes: 180, 380, 480, 481, 580, 880)

(2) Service Classification No. 1-VMRP (Rate Codes: 181,182,184,188)

(3) Service Classification No. 16-AMI (Rate Code M188)

b) Small Commercial

(1) Service Classification No. 2 (Rate Code 280)

(2) Service Classification No. 2-VMRP (Rate Code 288)

(3) Service Classification No. 16-AMI (Rate Code M288)

c) Large Commercial excluding mandatory demand metered service with multiple rate periods:

(1) Service Classification No. 2-L (Rate Codes 281, 283, 291)

(2) Service Classification No. 2L-VMRP (Rate Codes 282, M282)

(3) Service Classification No. 16 (Rate Code M282)

d) Mandatory Large Demand Metered Service with Multiple Rate Periods

(1) Service Classification No. 2-MRP (Rate Codes 284, 285, M284, M285)

(2) Service Classification No. 16-AMI (Rate Code M284, M285)

VII. ADJUSTMENTS TO RATES AND CHARGES OF SERVICE CLASSIFICATIONS:

J. Revenue Decoupling Mechanism
Definitions (continue):

e) Retail Customers participating in the Long Island Choice or Green Choice program are subject to the Revenue Decoupling Mechanism according to their base rate Service Classification.

f) The Revenue Decoupling Mechanism does not apply to:

(1) Energy Service Companies (ESCOs) receiving service under Service Classification No. 14.

(2) Service Classification Nos. 5, 7, 7A and 10 (Rate Codes 980, 780, 781, 782, 1580, 1581).

(3) Service Classification Nos. 11, 12, and 13 (Rate Codes 289, 680, 681, 278).

(4) All load delivered under the Empire Zone Program, Excelsior Jobs Program, Manufacturer's Competitiveness, Business Attraction/Expansion Program, Business Incubation, and Recharge New York Programs.

g) Annual Approved Delivery Service Revenues subject to the Revenue Decoupling Mechanism are:

The Delivery Service Revenues approved by the Authority for each Service Classification for each month ~~in the calendar year~~, starting on April 1st 2015. Delivery Service Revenues exclude adjustments to rates and charges which include: the Fuel and Purchased Power Cost Adjustment Rate, Distributed Energy Resources Cost Recovery Rate, New York State Assessment Factor, Shoreham Property Tax Settlement Factor, Visual Benefits Assessment Rate, Charges to Recover PILOT Payments, the Revenue Decoupling Mechanism, and the Delivery Service Adjustment.

h) Revenues for the calendar year are set forth in the approved LIPA budget, and are revised each December for the upcoming calendar year.

i) Actual booked Delivery Service Revenues are, for the purposes of Revenue Decoupling Mechanism, booked revenues for all Service Classifications for each month in the calendar year as it relates to the Service Charge, Meter Charge, Demand Charge (per kW), Reactive Demand Charge (per kvar), and the Energy Charge for delivery (per kWh).

~~j) Tracking Period: In 2015 the tracking period is April 2015 to December 2015. In 2016 and beyond the tracking periods are semi-annual January through June and July through December.~~

VII. ADJUSTMENTS TO RATES AND CHARGES OF SERVICE CLASSIFICATIONS:

J. Revenue Decoupling Mechanism

3. Cost Recovery Period and Method

a) For each Service Classification group subject to the Revenue Decoupling Mechanism:

(1) ~~Starting on April 1st 2015, t~~The difference between actual booked Delivery Service Revenues and approved Delivery Service Revenues will be reviewed monthly and accrued for refund to or recovery from ~~to~~ the applicable Service Classification groups ~~at the end of calendar year 2015~~.

~~(2)), the Revenue Decoupling Mechanism will be modified semi-annually, based on the first sixth months (January to June) and the second sixth months (July to December). The difference between actual booked Delivery Service Revenues and approved Delivery Service Revenues will be reviewed monthly and accrued for refund or recovery to the applicable Service Classification groups at the end of each semi-annual period.~~

~~(3)~~(2) ~~At the end of each Tracking Period~~After September 30th of each year, ~~when the Authority can state how much revenue was over- or under-collected in~~ the cumulative revenue variance as of September 30th will be identified for each of the four participating Service Classification groups, and the refund or surcharge amount that is due to or from each of the four participating Service Classification groups will be calculated.

~~(4)~~(3) Any revenue variance associated with the actual booked Delivery Service Revenues of the non-participating customer load as noted in Section VII. J.2.f) and any revenue variance associated with actual booked revenues from low income discounts will be allocated proportionately to the four Service Classification groups participating in the Revenue Decoupling Mechanism based upon the actual booked Delivery Service Revenue for each Service Classification group during the ~~Tracking Period~~twelve months ending September 30th. ~~Any revenue variance associated with actual booked revenues from low income discounts will be allocated proportionately to the four Service Classification groups participating in the Revenue Decoupling Mechanism based upon the actual booked Delivery Service Revenue for each Service Classification group during the Tracking Period.~~

~~(5)~~(4) The refund or surcharge amount for each Service Classification group will be divided by the forecasted Delivery Service Revenues for each Service Classification group for the ~~recovery period~~ upcoming calendar year to develop the percentage of Delivery Service Revenues for each Service Classification group.

~~(6)~~(5) Beginning in 201~~6~~7, the surcharges or refunds percentages will be applied , to the Delivery Service charges associated with each customer in the four participating Service Classification groups, for the ~~6~~12-month periods beginning ~~March~~ January 1st ~~and September 1st~~ of each calendar year.

~~(7) In each month of the recovery period the Revenue Decoupling Mechanism will be placed on each customer's bill based on the customer's delivery charges times the Service Classifications group revenue decoupling mechanism percentage. Under or over recoveries from prior Revenue Decoupling Mechanism recovery periods will be reviewed monthly and accrued for refund or recovery to the four participating Service Classification groups at the end of each calendar year.~~

VII. ADJUSTMENTS TO RATES AND CHARGES OF SERVICE CLASSIFICATIONS:

J. Revenue Decoupling Mechanism
Cost Recovery Period and Method (continued)

~~b) Approved Delivery Service Revenues subject to the Revenue Decoupling Mechanism will be decreased or increased as customer's loads move in or out of the following economic development programs: the Empire Zone Program, Excelsior Jobs Program, Manufacturing Competitiveness, Business Incubation, and Recharge New York Programs~~

4. ~~Beginning in January 2016, i~~If at any time the balance due from or owed to customers exceeds $~~20~~ 40 million ~~at any time during the current semi-annual period~~, the Authority Staff may adjust collection or refund of Revenue Decoupling Mechanism amounts prior to the onset of the next ~~semi-~~annual Revenue Decoupling Mechanism collection/refund period.

5. Statement of Revenue Decoupling Mechanism

The Revenue Decoupling Mechanism percentage amount to be refunded or surcharged to Customers will be shown for each of the four participating Service Classification groups and the effective date on the Statement of Revenue Decoupling Mechanism. The Authority will file such Statement for each ~~semi-~~annual collection/refund period, and the ~~statement~~ Statement will be available at the Authority's business offices.