

Proposal Concerning Modifications to LIPA's Tariff for Electric Service

Requested Action:

The Long Island Power Authority ("the Authority") Staff proposes to modify the Tariff for Electric Service ("Tariff") effective January 1, 2017 to effectuate a settlement agreement (the "2016 Settlement") between the Authority and the Town of Southampton (the "Town") regarding collection of arrears owed to the Authority pursuant to the Visual Benefits Assessment ("VBA").

Background:

The Tariff contains a Visual Benefits Assessment charge to recover incremental costs incurred under a 2008 settlement between the Authority and the Town stipulating that the Authority would fully bury a transmission line running through a portion of the Town. The VBA Charge recovers these costs from only those customers residing in the Benefited Area that is designated by the Town as benefiting from the undergrounding.

The existing VBA mechanism contains a provision that the Town will reimburse the Authority for the VBA amounts that are not collectible from customers and sets forth a process by which this reimbursement will occur. The 2016 Settlement resolves a dispute between the Authority and the Town regarding amounts invoiced to the Town under this provision. Pursuant to the 2016 Settlement, \$320,487.97 of currently outstanding unpaid VBA charges billed to the Town through December 2015 and all future uncollectible VBA charges billed to customers will be returned to the VBA balance for future recovery from customers in the Benefited Area only. The Town will no longer be responsible for reimbursing the Authority for VBA charges that are billed to, but not collectible from, benefited customers.

Proposal:

The Authority Staff proposes to modify the Tariff to effectuate the 2016 Settlement by removing (1) the provisions of the Tariff obligating the Town to reimburse the Authority for the VBA amounts that are not collectible from customers and (2) the provisions setting forth the process by which such reimbursement will occur. Going forward, any uncollectible VBA amounts will be added back into the total VBA balance and recovered under the VBA's standard recovery provisions in future bills to customers located within the VBA Designated Area as designated by the Town.

Financial Impacts:

No significant financial impacts are anticipated as a result of the changes. Staff does not propose to increase the VBA charge currently in effect as a result of this change and anticipates that the VBA will be paid off in full by 2029, as originally planned, due to higher than anticipated energy sales in the Designated Area.

Proposed Tariff Changes:

1. **Update VBA to remove requirement that Town of Southampton assume liability for uncollectible amounts billed to customers and related provisions**

Affected Tariff Leaves: Leaves 182D, 182E, 182G.

Reason for Tariff Change

To implement the 2016 settlement between the Town of Southampton and the Authority by removing the requirement that the Town of Southampton assume liability for uncollectible amounts billed to customers and the provisions setting forth the related processes.

Summary of Proposed Changes:

In summary, the proposed changes to LIPA's Tariff for Electric Service will revise the Visual Benefits Assessment in a revenue neutral manner to effectuate the 2016 settlement between the Town and Southampton and the Authority by removing the Town's obligation to reimburse the Authority for uncollectible VBA charges.

The proposed revised Tariff Leaf Nos. 182D, 182E, 182G are attached. Leaf No. 182F with no proposed changes, is also attached for reference only.

VII. ADJUSTMENTS TO RATES AND CHARGES OF SERVICE CLASSIFICATIONS (continued):**G. Visual Benefits Assessment:**1. Purpose

The purpose of the Visual Benefits Assessment ("VBA") is to recover incremental costs incurred arising from a settlement between the Authority and the Town of Southampton stipulating that the Authority will bury the entire length of the transmission line running from Southampton to Bridgehampton. Absent this settlement, the Authority would have buried only 55% of the transmission line.

2. Establishment of the Visual Benefits Assessment

The Visual Benefits Assessment is established as a result of a stipulated settlement between the Authority and the Town of Southampton that requires the Town of Southampton to:

(a) Identify and make known to the Authority the specific areas within the boundaries of the Town that will be subject to the Visual Benefits Assessment. The Town will bear the ultimate responsibility for identifying all customers located within the areas designated by the Town who are subject to the VBA and hold the Authority harmless in the event that certain customers are misidentified as falling or not falling within the designated boundaries.

(b) Notify all Customers that would be affected by the proposed VBA.

~~(c) Reimburse the Authority on an annual basis for the VBA amounts that have not been paid by Customers. The reimbursement from the Town of Southampton will include a monthly Carrying Cost for Unpaid Balances on all VBA amounts not paid by residential and nonresidential customers in the year, calculated at the Authority's cost of money.~~

VII. ADJUSTMENTS TO RATES AND CHARGES OF SERVICE CLASSIFICATIONS (continued):**G. Visual Benefits Assessment (continued):**3. Costs to be Recovered

The VBA Rate will be calculated to recover the Authority's incremental revenue requirements resulting from burying approximately 45% of the Southampton to Bridgehampton transmission line that was originally planned as overhead facilities. The incremental costs shall be recovered from those accounts within the boundaries of the Township that are designated to the Authority by the Town of Southampton to be subject to the VBA. The components of the incremental annual revenue requirements include:

- a) The incremental cost of the underground facilities, beyond what the Authority would have spent to construct the equivalent overhead facilities. The recovery of the incremental costs will be amortized over 20 years with interest; plus
- b) Other incremental expenses associated with the implementation, or construction of the stipulated underground facilities, the notification, billing, collection or administration of the VBA, or incremental payments in lieu of taxes (PILOTs). Such other incremental costs will be amortized (with the appropriate recovery of interest charges on the unamortized balance over the remaining life of the recovery period) from the point in time where the incremental expenses can be estimated or become known.

4. Cost Recovery Period and Method

- a) The Authority's incremental costs for the underground facilities are planned to be recovered over a period of twenty (20) years or less.
- b) Any incremental costs or associated interest expenses that are unrecovered by the end of 20 years will be charged directly to the Town of Southampton for reimbursement ~~as part of the annual reconciliation process for uncollected revenues from customers.~~
- c) To the extent that the Authority recovers all of its incremental costs (including interest) over a shorter time period, the VBA Rate may be set to zero.

VII. ADJUSTMENTS TO RATES AND CHARGES OF SERVICE CLASSIFICATIONS (continued):**G. Visual Benefits Assessment (continued):**5. Calculation of the VBA Rate

The VBA Rate will be calculated as the sum of the incremental costs, expressed on an annualized basis, as identified in G.3 above, divided by the forecasted annual energy sales to the applicable accounts that are within the designated areas.

- a) The Authority will prepare and retain on file a "Statement of Visual Benefits Assessment Rate". The Statement will be available at the Authority's Business Offices.
- b) The Statement will show the authorized amounts to be recovered, the equivalent level of annualized costs reflecting the Authority's cost of money, and the VBA Rate that will be used to calculate each affected Customer's charge on the bill.
- c) The Statement will identify the criteria for applicability of the VBA to metered accounts that are within the boundaries of the Town of Southampton.
- d) The VBA Rate will be set initially, based on the best available information at the time this original tariff leaf becomes effective. The VBA may be reset by the Authority staff, from time to time, based on updated values that have been provided to the Authority or otherwise recorded on its records.
- e) The VBA Rate will be rounded to the nearest 0.0001¢/kWh

6. Definitions

- a) Incremental Capital Costs: Incremental capital costs shall consist of the sum of all fully loaded incremental capital costs associated with the designated underground facilities minus the Authority's estimate of what it would have cost to construct an equivalent set of overhead facilities. The fully loaded incremental costs include the actual or estimated costs to:
 - (1) design and construct the designated new facilities
 - (2) construct, modify or restore any related facilities and associated work
 - (3) secure rights-of-way and
 - (4) obtain governmental and regulatory approvals.

VII. ADJUSTMENTS TO RATES AND CHARGES OF SERVICE CLASSIFICATIONS (continued):**G. Visual Benefits Assessment (continued):**

- b) Other Incremental Costs: Other incremental costs include, but are not limited to, the costs incurred to notify affected customers of the VBA, the incremental costs to administer and render the VBA in the Authority's billing and accounting systems, the legal and administrative costs to collect the VBA from customers, and any incremental payments in lieu of taxes (PILOTs).
- c) Annualized Cost with Interest: the Authority will calculate the annualized payments over the recovery period to satisfy the Incremental Capital Costs and Other Incremental Costs. The Authority may choose to assume that the incremental costs were financed at a fixed interest rate over the recovery period, or at the prevailing interest rates that may be determined from time to time. The annualized payments may be adjusted from time to time, to ensure that the Authority recovers its incremental capital costs and related interest expense by the end of the recovery period.

7. ~~Billing of the VBA~~Carrying Cost for Unpaid Balances

- a) Charges for the VBA will be included on each applicable customer's bill.
- b) Payments received from customers will be allocated first to all other charges on the bill. Any remaining payments will be credited against the VBA.
- ~~c) Following the end of each calendar year, all unpaid VBA balances will be reported to the Town of Southampton for payment to the Authority by the Town, and removed from the customer's account.~~
- ~~d) The Authority will charge the Town for the Carrying Cost for Unpaid Balances as follows:
 - ~~(1) the Authority will track the unpaid VBA balances on each customer's account.~~
 - ~~(2) Unpaid balances for the VBA that remain on the Customer's account after the due date on the bill will be multiplied by the monthly Carrying Cost for Unpaid Balances Rate. The Carrying Cost for Unpaid Balances will be recorded separately from the unpaid VBA, and will not be collectible from the Customer.~~
 - ~~(3) The accumulated Carrying Cost for Unpaid Balances will continue to incur monthly carrying charges through the end of the year, after which time, the Carrying Cost for Unpaid Balances will be reported to the Town for payment along with the balance for unpaid VBA amounts.~~
 - ~~(4) The unpaid balances and the accumulated Carrying Cost for Unpaid Balances reported to the Town of Southampton for payment by the Town will continue to accrue the Carrying Cost for Unpaid Balances at the monthly compounded rate for the period between the date that the data is reported to the Town of Southampton and the date that payment from the Town is received.~~~~
- ~~e)c) The VBA is not subject to Late Payment Charges, if any, as that term is defined within this Tariff for Electric Service.~~