

Proposal Concerning Modifications to LIPA's Tariff for Electric Service

Requested Action:

LIPA Staff proposes revisions to the Tariff for Electric Service under Service Classification No. 11 ("SC-11"), Buy-Back Service for the purchases of energy, capacity and ancillary services from Qualifying Facilities pursuant to the federal Public Utilities Regulatory Policy Act ("PURPA") and Net Metering Customer-Generators (as applicable) to better reflect market prices for those products and services.

Background and Proposal:

LIPA has an obligation under PURPA to purchase the excess energy output from "Qualifying Facilities". A Qualifying Facility (or "QF") is defined by PURPA as an electric generating plant that is fueled by a renewable resource (such as wind, solar or municipal solid waste), or produces both electricity and heat (cogeneration) with greater efficiency than if both were produced separately.

Under PURPA, such Qualifying Facilities are entitled to a payment equal to the utility's "avoided cost" for all the power they export to the electric system. Avoided costs consist of costs for energy, capacity, and ancillary services that the utility would incur if it didn't purchase such products and services from the QF. QFs have the option to sell their output to utilities on an "as-available" basis at prices determined at the time of delivery (i.e., using "short-run"¹ avoided costs or market prices) or under a contract negotiated between the utility and the QF. PURPA allows QF contracts to set pricing at short-run avoided costs or at forecasted (typically "long-run"²) avoided costs. In addition, under New York State Public Service Law, net metering customers with on-site generation have the right to sell their excess electric generation to LIPA at rates established under SC-11. New York State Electric utilities have since revised their buy-back tariffs to reflect market prices under the NYISO. LIPA's current SC-11 tariff payments, therefore, are outdated and out-of-synch with the rest of the State, and should be changed to reflect the NYISO market and pricing rules.

Eleven QFs that currently sell electricity to LIPA on an "as-available" basis under SC-11 will be affected by this proposal:

- One is a large combined heat and power ("CHP") cogeneration facility³.
- Two are landfill gas facilities.

¹ The "short-run" is the time frame (usually hours to months) in which the utility's resources cannot be changed.

² "Long-run" avoided costs reflect the cost of adding new resources to the utility's system.

³ Another large CHP QF sells capacity at a fixed price and energy at a gas-indexed price, under a contract that expires in 2016.

- Seven are small cogeneration facilities at hospitals, nursing homes and other commercial establishments.⁴
- One is a school district with large solar electric generation that exceeds the authorized eligibility limits for net metering.

It should be noted that the four municipal resource recovery plants on Long Island are eligible for negotiated contract rates because they have predictable, high capacity factor generation that can be committed to LIPA for a long period of time. Staff is currently engaged in negotiating contracts with these facilities at prices and terms that recognize their unique characteristics.

To assure consistency with industry practice, provide the correct price signals to QFs that sell on an as-available basis and to ensure that LIPA payments to QFs are consistent with market pricing, Staff recommends that LIPA revise its SC-11 buy-back tariff as follows:

- Qualifying Facilities that are separately metered by the NYISO will receive 100% of the payments that LIPA receives from the NYISO for that QF's output (energy, capacity, and ancillary services). There is currently only one Qualifying Facility that is directly bid into the NYISO system, and all new Qualifying Facilities that are large enough to participate in the NYISO marketplace will be individually metered.
- Qualifying Facilities that are bid into the NYISO as a group will be paid the NYISO hourly market price ("Location Based Marginal Price" or "LBMP") for Long Island for their energy output and a pro-rata share of the capacity payment based on their documented generating capacity ("UCAP").
- Qualifying Facilities that are too small to participate directly with the NYISO will receive time-of-use (TOU) energy payments based on their energy output in each Time of Use rating period and the corresponding NYISO market price (Day-Ahead LBMP) in each TOU rating period. Because these small QFs cannot participate directly in the NYISO markets, they will not receive capacity or ancillary services payments.

Staff proposes to create a new Statement applicable to Qualifying Facilities that are too small to participate in the NYISO market that presents the average NYISO market prices for each TOU period for each month. The values on the Statement will correspond to the hourly market prices that large QFs receive, but will be rolled up into the different TOU periods that LIPA offers to its residential and commercial customers. The market prices on the Statement will also compensate these smaller QFs for the electrical losses that LIPA avoids because they deliver energy at lower voltages. For those customers delivering energy at the primary distribution level, the NYISO LBMPs will be increased by a loss factor of 1.032 to reflect avoided primary losses. Similarly, for customers delivering energy at the secondary distribution level, the NYISO LBMPs will be increased by a factor of 1.062 to recognize avoided secondary losses.

⁴ Only two of the seven sold power to LIPA in 2011.

Staff also proposes to use the same SC-11 energy rate paid to small QFs (indicated on the proposed LIPA Statement) for calculating the annual payment to net metering customers for excess generation.

Financial Impacts:

The financial impacts of this proposal were estimated from examining purchases from Qualifying Facilities not covered by negotiated contracts for the 12 months ending December 2011. Over that period, LIPA purchased 88,460 MWhs from Qualifying Facilities that would be affected by this proposal. Based on the January 2012 rates, that power would have cost LIPA a total of \$6.4 million, or an average rate of 7.3 cents/kWh. Staff estimates that paying market rates to these Qualifying Customers would have cost \$5.7 million, for a savings of \$0.73 million in that 12 month period. Staff notes that this proposal may not produce savings at all times, since market prices could move higher than the current SC-11 rates. However, it is unlikely that market prices would be higher over a sustained period of time, because the FPPCA adjustment in the current SC-11 rate formula does capture sustained price changes. In any event, by using an average of NYISO market prices for each TOU period for each month, this proposal assures that LIPA would never pay more than the market value of the power that these Qualifying Facilities provide from their excess generation, which properly captures LIPA's avoided costs.

The annual reconciliation of net metering customers would also be subject to the proposal, but the impact is minimal. The amount of energy purchased from net metering customers is minimal because renewable systems are sized to meet the customer's energy load (which produces bill savings that are valuable) and excess generation does not produce benefits sufficient to justify the incremental cost of installing larger systems. To put this issue in perspective, excess generation from net metering customers was only 35 MWh in 2009, and LIPA paid approximately \$3,700 for the entire output.

Proposed Tariff Changes:

- 1. For Qualifying Facilities under Service Classification No. 11, remove references to payments for capacity and energy for firm bulk power, interruptible and seasonal customers. Replace with tariff language that ties the payments to market prices established by the NYISO**

Affected Tariff Leaves: 253, 254, 255 and draft LIPA Statement No. 1-MEP

Reason for Tariff Change

This change will allow LIPA to make payments to Qualifying Facilities that reflect current market conditions for energy, capacity and ancillary services

- 2. For net metering customers, remove references to payments for capacity and energy for firm bulk power, interruptible and seasonal customers. Replace**

with tariff language that ties the payments to market prices established by the NYISO

Affected Tariff Leaves: 34H

Reason for Tariff Change

This change will allow LIPA to make payments to Net Metering customer-generators that reflect current market conditions for energy, capacity and ancillary services

Summary of Proposed Changes:

In summary, the proposed changes to LIPA's Tariffs for Electric Service will update the avoided cost payments LIPA will pay to Qualifying Facilities, consistent with PSC approved tariffs for New York Investor Owned Electric Utilities.

The proposed revised Tariff Leaf Nos. 34H, 253, 254, 255, and draft LIPA Statement No.1-MEP are attached.

I. General Information (continued):

C. General Terms and Conditions (continued):

Net Metering (continued):

- (6) At the end of the first year that service was supplied to a Solar, Wind and Farm Waste Customer-generator by means of net metering, and every anniversary date thereafter, the Authority shall promptly thereafter issue payment to the Customer-generator for any value of the remaining credit for the net (excess) electricity provided to the Authority by the Customer-generator during the previous twelve (12) month period. The payment issued to the Customer-generator shall be equal to the sumproduct of the products of the remaining excess (net) energy generated by the Customer-generator during each of the seasons (Summer/Winter) times the corresponding seasonal-avoided energy prices/cost rates.
- (7) For Customer-generators that terminate service or become ineligible for net metering, the Authority shall promptly thereafter issue payment to the Customer-generator for any value of the remaining credit for the net (excess) electricity provided to the Authority by the Customer-generator. The payment issued to the Customer-generator shall be equal to the sumproduct of the product of the remaining excess (net) energy generated by the Customer-generator times the seasonal-avoided energy prices/cost rates, on that date.
- (8) The avoided cost rates to be used to issue payment to Customer-generator for energy sold to the Authority by the Customer-generator ~~are:~~ will be determined based on the simple average of the Zone K Day-Ahead Locational Based Marginal Prices (LBMP). Monthly and Time-of-Use energy payments will be shown each month on a separate Statement of Locational Based Marginal Prices attached to the tariff.

	*June to September Inclusive	*All Remaining Months
	(\$/kWh)	(\$/kWh)
Energy Rate	0.0362	0.0375
Capacity Rate	<u>0.0191</u>	<u>0.0000</u>
Total Rate	0.0553	0.0375

*The Fuel and Purchased Power Cost Adjustment (FPPCA) Rate applicable at the time that the energy is sold to the Authority minus \$0.0392 per kWh will be added to the avoided cost rates to be paid by the Authority to the Customer-generator, if the sale took place after July 5, 2006. If the sale took place before July 5, 2006, the value of the FPPCA rate that shall be used shall be that which was in existence when the sale took place without subtracting \$0.0392 per kWh.

VIII. SERVICE CLASSIFICATIONS (continued):

O. SERVICE CLASSIFICATION NO. 11 - Buy-Back Service (continued):
(Rate Code: 289)

4. Rates and Charges Payments for Energy, Capacity and Ancillary Services (per month)

a) Rate I.A. - Paid by the Authority to the Customer for Firm Buy-Back Power

Time-of-use Rate for energy and capacity purchased by the Authority. The energy payment per kWh shall be adjusted by the Fuel and Purchased Power Cost Adjustment Rate applicable at the time that the energy is purchased, minus \$0.0392 per kWh:

	<u>Rate Periods*</u>		
	1	2	3
	Off-Peak	On-Peak	Intermediate
	midnight	June - Sept.,	All remaining
	to 7 a.m.	except Sunday,	hours
		10 a.m. to 10 p.m.	
<u>Energy Payment per KWH</u>			
Secondary:	\$.0232	\$.0342	\$.0337
Primary:	\$.0228	\$.0330	\$.0329
Sub-Transmission	\$.0225	\$.0321	\$.0321
Transmission	\$.0225	\$.0321	\$.0321

<u>Capacity Payment per KWH</u>			
Secondary:	\$.0000	\$.0147	\$.0001
Primary:	\$.0000	\$.0142	\$.0001
Sub-Transmission	\$.0000	\$.0033	\$.0000
Transmission	\$.0000	\$.0009	\$.0000

* See Paragraph IV.A.10, "Daylight Savings Time", on Leaf No. 99.

Seasonal Rate, offered as an option to Customers with facilities of 500 kW or less, for energy and capacity purchased. The energy payment per kWh shall be adjusted by the Fuel and Purchased Power Cost Adjustment Rate applicable at the time that the energy is purchased, minus \$0.0392 per kWh:

	<u>Rate Periods</u>	
	June to September	All Remaining
	Inclusive	Months
<u>Energy Payment per KWH</u>		
Secondary:	\$.0287	\$.0318
Primary:	\$.0278	\$.0310

<u>Capacity Payment per KWH</u>		
Secondary	\$.0064	\$.0000
Primary:	\$.0062	\$.0000

a) Payments to Qualifying Facilities (QFs) with separate, individual Point Identifiers (PTIDs) will equal 100% of the revenue received from the New York Independent System Operator (NYISO) for energy, capacity, and ancillary services produced by the QF, less any charges imposed by the NYISO on account of variances from quantities scheduled

with or required by the NYISO. In the event that capacity purchased from the QF is used by LIPA to meet its capacity obligations to the NYISO without any corresponding revenue from the NYISO, the payment to the QF for capacity will be computed based on the capacity price established in the NYISO's monthly auction for Zone K.

- b) Qualifying Facilities that share a PTID with other generators will be paid the hourly Zone K Day-Ahead Locational Based Marginal Prices (LBMP) times their hourly output for energy, less a pro rata share of any charges imposed by the NYISO on account of variances from quantities scheduled with or required by the NYISO; plus a pro rata share of the capacity value provided recognized by the NYISO for that shared PTID based on the relative amount of documented UCAP attributable to each generator sharing the PTID. No additional payments will be made for ancillary services.
- c) Qualifying Facilities not associated with a PTID are considered to be load modifiers and will receive only time-of-use (TOU) energy payments based on their TOU output times the TOU day-ahead LBMP rates. The rates will be shown on the monthly "Statement of Market Energy Prices" for residential and commercial customers, by TOU rating periods.
- d) LIPA will install and maintain metering equipment suitable for the submission of hourly or sub-hourly meter data to the NYISO. Such metering costs will be paid for by the Customer as part of the Interconnection Agreement. LIPA reserves the right to require hourly interval metering or time-of-use metering, at LIPA's sole discretion.
- e) LIPA will make payments to the Qualifying Facility only if:
 - (1) The Qualifying Facility's actual generation meets all of the NYISO qualifications to provide capacity, energy, and/or ancillary services, as applicable..
 - (2) The Qualifying Facility does not participate in any other capacity, energy or ancillary services program with the NYISO, including demand response programs.
- f) Payments to Qualifying Facilities that are conditioned on revenues from the NYISO will be rendered 30 days after LIPA receives the payment from the NYISO.
- g) Adjustment Factor: For Qualifying Facilities delivering energy at less than transmission voltage level, the LBMP price will be increased by the "Annual Average Energy Loss Factor" shown on the "LIPA Statement of Energy and Peak Demand Losses", but only to the extent that such adjustments are not already reflected in the payments that LIPA receives from the NYISO.

VIII. SERVICE CLASSIFICATIONS (continued):

O. SERVICE CLASSIFICATION NO. 11 - Buy-Back Service (continued):
(Rate Code: 289)

Rates and Charges (continued):

~~— b) Rate I.B. - Paid by the Authority to the Customer for Interruptible Buy-Back Power~~

~~— Time-of-use Rate to be paid for energy and avoided transmission capacity purchased by the Authority under Energy-Only (no generation capacity) Contracts. The energy payment per kWh shall be adjusted by the Fuel and Purchased Power Cost Adjustment Rate applicable at the time that the energy is purchased, minus \$0.0392 per kWh:~~

	<u>Rate Periods*</u>		
	<u>1</u>	<u>2</u>	<u>3</u>
	<u>Off-Peak</u>	<u>On-Peak</u>	<u>Intermediate</u>
	<u>midnight</u>	<u>June - Sept.,</u>	<u>All remaining</u>
	<u>midnight to 7 a.m.</u>	<u>except Sunday,</u>	<u>hours</u>
	<u>10 a.m. to 10 p.m.</u>		
<u>Energy Payment per kWh</u>			
<u>Secondary:</u>	<u>\$.0232</u>	<u>\$.0342</u>	<u>\$.0337</u>
<u>Primary:</u>	<u>\$.0228</u>	<u>\$.0330</u>	<u>\$.0329</u>
<u>Sub-Transmission</u>	<u>\$.0225</u>	<u>\$.0321</u>	<u>\$.0321</u>
<u>Transmission</u>	<u>\$.0225</u>	<u>\$.0321</u>	<u>\$.0321</u>
<u>Capacity Payment per kWh</u>			
<u>Secondary:</u>	<u>\$.0000</u>	<u>\$.0137</u>	<u>\$.0001</u>
<u>Primary:</u>	<u>\$.0000</u>	<u>\$.0132</u>	<u>\$.0001</u>
<u>Sub-Transmission</u>	<u>\$.0000</u>	<u>\$.0023</u>	<u>\$.0000</u>
<u>Transmission</u>	<u>\$.0000</u>	<u>\$.0000</u>	<u>\$.0000</u>

* See Paragraph IV.A.10, "Daylight Savings Time", on Leaf No. 99.

[Cancelled]

VIII. SERVICE CLASSIFICATIONS (continued):

**O. SERVICE CLASSIFICATION NO. 11 - Buy-Back Service (continued):
(Rate Code: 289)**

Rates and Charges (continued):

— Seasonal Rate, offered as an option to Customers with facilities of 500 kW or less, paid by the Authority for energy and capacity purchased. The energy payment per kWh shall be adjusted by the Fuel and Purchased Power Cost Adjustment Rate applicable at the time that the energy is purchased, minus \$0.0392 per kWh:

<u>Rate Periods</u>	
<u>June to September</u>	<u>All Remaining</u>
<u>Inclusive</u>	<u>Months</u>
<u>Energy Payment per kWh</u>	
<u>Secondary: \$.0287</u>	<u>\$.0318</u>
<u>Primary: \$.0278</u>	<u>\$.0310</u>
<u>Capacity Payment per kWh</u>	
<u>Secondary: \$.0060</u>	<u>\$.0000</u>
<u>Primary: \$.0058</u>	<u>\$.0000</u>

[Cancelled]

Long Island Power Authority

Statement of Market Energy Prices

Applicable to Service Classification No. 11 and Net Metering Customers
as set forth in the Tariff for Electric Service

1. Monthly LBMP

Secondary Voltage (1) \$ _____ per kWh

Primary Voltage (2) \$ _____ per kWh

2. Time-of-Use LBMP

Residential and Small Commercial Secondary Voltage (1)

Period 1 \$ _____ per kWh

Period 2 \$ _____ per kWh

Period 3 \$ _____ per kWh

Period 4 \$ _____ per kWh

Large Commercial Secondary Voltage (1) Primary Voltage (2)

Period 1 \$ _____ per kWh \$ _____ per kWh

Period 2 \$ _____ per kWh \$ _____ per kWh

Period 3 \$ _____ per kWh \$ _____ per kWh

(1) Adjusted to reflect losses of 6.2% at the secondary voltage level per Statement No. 1-EDL

(2) Adjusted to reflect losses of 3.2% at the primary voltage level per Statement No. 1-EDL

Effective: