Proposal Concerning Modifications to LIPA's Tariff for Electric Service

Requested Action:

The Trustees are being requested to approve a resolution adopting modifications to the Long Island Power Authority's (the "Authority" or "LIPA") Tariff for Electric Service ("Tariff") to: 1) modify and further discount LIPA's Delivery Charge for Recharge New York Power Program participants retroactively; and 2) authorize LIPA's Recharge New York Program participants to purchase their supplemental power needs from either LIPA or Energy Services Companies ("ESCOs") under the Long Island Choice program ("LI Choice").

Background:

In July 2011, the Recharge New York Power Program Act was established by amending the New York State Public Authorities Law and the Economic Development Law to create a new economic development program called the "Recharge NY Power Program" ("Recharge NY" or the "Program"), which is administered by the New York Power Authority ("NYPA"). Under Recharge NY, NYPA can provide up to 910 MW of lower-cost power to eligible industrial and commercial customers which started on July 1, 2012. The purpose of Recharge NY is to encourage load and job retention within New York State by offering lower-cost power and lower delivery costs for that power. All of the State's electric utilities, including LIPA, were required to modify their respective tariffs to provide for delivery of Recharge NY power at discounted rates to participating customers in their respective territories.

By resolution dated June 28 2012, the Trustees approved a Tariff modification for LIPA's implementation of Recharge NY, which commenced on July 1, 2012. To date, over 90 qualifying customers have been enrolled in the Recharge NY Program in LIPA's service territory, and further enrollments are anticipated. While LIPA's implementation of Recharge NY is comparable to the discounted delivery charges that the New York State Public Service Commission ("PSC") approved for the investor-owned utilities, LIPA noted that LIPA implementation of the Recharge NY program would be accomplished by:

- Providing eligible customers discounted charges for the delivery of Recharge NY power by (i) excluding the Power Supply Charge because NYPA will provide the power and bill the participating customers directly; and (ii) excluding the Efficiency & Renewables Charge for that portion of the load serviced under Recharge NY; and

- Providing the supplemental power needs of program participants at LIPA's standard Tariff rates to the extent the Recharge NY power is not sufficient to meet the program participants' electrical needs.

At the time the Trustees approved the Tariff modification, and since that time, several customers have expressed concerns that LIPA's Recharge NY Tariff provides an insufficient discount on LIPA's Delivery Charge relative to their expectations under the legislation, which Staff identified and committed to reviewing further.

Pursuant to the PSC's September 19, 2011 Order implementing Recharge NY, the investor-owned utilities modified their tariffs to implement Recharge NY and provide eligible customers with discounted delivery service rates, which was accomplished by excluding the System Benefits Charge, the Renewable Portfolio Standards surcharge, the Energy Efficiency Portfolio Standards surcharge, as well as the Revenue Decoupling Mechanism from delivery charges for Recharge NY power allocations. No changes to any utility's base rates for delivery service were authorized by the Order.

Unlike the investor-owned utilities, however, LIPA's delivery charge includes a component that recovers certain generation costs, including the Power Supply Agreement and expenses related to the Nine Mile Point power station. These components are a legacy rate components from the Long Island Lighting Company's former rate structure (which was adopted by LIPA as of the May 1998 LILCO/LIPA merger), and represents approximately 30% of the total delivery charge. Since equivalent cost components are not included in the investor-owned utility rates for delivery service, and since NYPA provides all of the generating capacity requirements, which Recharge NY participants pay to NYPA, from a customer's perspective, they are being charged for capacity costs that they are not using.

Based on Staff's review, it has been determined that since LIPA's existing rate structure does not provide the same benefits to participating Recharge NY customers in LIPA's service territory as compared to other such participants in the State, a further Tariff change should be made. Specifically, it is recommended that an approximate 30% discount on LIPA's Delivery Charge be implemented, retroactive to the July 1 2012, in order to ensure that LIPA's Recharge NY customers are able to reap the full benefits of the Program and are not economically harmed by the unintended consequence of LIPA's rate structure relative to the Program. Furthermore, Staff proposes that the discount be reflected on a Statement that can be recalculated each year to maintain the appropriate level of discount, as the cost elements authorized for inclusion in the discount become more or less expensive, relative to the total revenues charged for delivery service.

Staff is also recommending that the Tariff be amended to specifically provide Recharge NY customers the option to purchase their supplemental power needs from either LIPA or LI Choice ESCOs, which has not been available to date.[1] With this modification, participants in Recharge NY who had contracts with ESCOs under LI Choice will not have to lose the benefits derived from ESCO service in order to receive the Recharge NY benefits on a part of their load.

[1] The PSC's September 19, 2011 Order implementing Recharge NY for the investor-owned utilities provides that the Recharge NY customers can elect to purchase their supplemental power needs from ESCOs.

As a result of this discount, delivery revenue is expected to be reduced by $2.2 million for the months between July and December 2012, and is expected to be reduced by $3.7 million for 2013.

<u>Financial Impacts</u>:

As a result of this discount, delivery revenue is expected to be reduced by $2.2 million for the months between July and December 2012, and is expected to be reduced by $3.7 million for 2013.

<u>Proposed Tariff Changes:</u>

1. **<u>Incorporate a discount on Delivery Service for the Recharge New York Power Program:</u>**

   <u>Affected Tariff Leaf:</u> Leaf 173

   <u>Reason for Tariff Change</u>
   To remove the recovery certain generating capacity costs from LIPA's Delivery Charge.

2. **<u>Create an annual Statement of Discount Applicable to Recharge NY Delivery Service</u>**

   <u>Affected Statement:</u> Statement of Discount Applicable to Recharge NY Delivery Service.

   <u>Reason for Tariff Change</u>
   To authorize annual updates to the level of discount consistent with the annual operating budgets approved by the Trustees.

3. **<u>Remove the exclusion of Recharge NY participants from the Long Island Choice Program:</u>**

   <u>Affected Tariff Leaf:</u> Leaf 281

   <u>Reason for Tariff Change</u>
   To match the Recharge NY options available under the legislation.

4. **<u>Update LIPA's Tariff for Electric Service to list the Statement of Discount Applicable to Recharge NY Delivery Service</u>**

   <u>Affected Tariff Leaf:</u> Leaf 6B

Reason for Tariff Change
To reflect the addition of a new statement, the Statement of Discount Applicable to Recharge NY Delivery Service, to LIPA's Tariff for Electric Service.

Summary of Proposed Changes:
In summary, the proposed changes to LIPA's Tariff for Electric Service provide a discount on the Delivery Charge for load delivered under the Recharge NY program. The proposed revised Tariff Leaf Nos. 6B, 173 and 281, and proposed "Statement of Discount Applicable to Recharge NY Delivery Service" are attached.

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ADDENDA

Additional Documents

VII. ADJUSTMENTS TO RATES AND CHARGES OF SERVICE CLASSIFICATIONS (continued):

E. Adjustments to Rates to Encourage Business Development (continued):

Recharge New York Power Program (continued):

d) Rates and Charges

(1) The billing period for customers served under Recharge NY Power program shall be the calendar month. When a customer's eligibility for Recharge NY service expires, that customer shall revert back to the billing period of the applicable service classification as specified by LIPA.

(2) In the event that NYPA is unable to deliver in any billing period any portion or all of the Recharge NY power to LIPA as contracted for, each customer shall have his contract lowered by the amount of reduced deliveries, allocated on a pro rata basis across all current Recharge NY contract demands. All such load not delivered and subsequently replaced with load supplied by LIPA shall be billed according to the rates and provisions of the Service Classification applicable to the customer's load served by LIPA during the periods of the reduced deliveries.

(3) Customers served under Recharge NY Power program are subject to the following:

(a) Customers served under Recharge NY Power program will be subject to the rates, charges, terms and conditions specified in their applicable service classification: and

(b) Recharge NY allocations under this program will not be charged for the Authority's Fuel and Purchase Power Cost Adjustment or Energy Efficiency Cost Recovery Rate; and

(c) The increase in Rates and Charges to Recover PILOT Payments, the New York State Assessment and all other Adjustments to Rates and Charges not specifically excluded above will be applied to the total billing amount.

(4) Load served under Recharge NY Power program will receive a discount on the charges under their applicable service classification to remove the impact of generating capacity costs that are recovered through those rates.

(a) The discount will apply to demand charges, minimum demand charges, and energy charges for each applicable service classification, but not the service charge, meter charge, or reactive demand charge.

(b) The level of discount will be calculated for each calendar year to remove the following cost elements from the base rate charges for Delivery Service, and reflect the values shown in the Authority's budget for each cost component listed below:

(i) The Power Supply Agreement expenses associated with certain National Grid generating facilities.

(ii) Operation, maintenance, depreciation, property tax and interest expenses associated with the Authority's partial ownership of the Nine Mile Point generating station.

(iii) Property tax expense associated with merchant generating facilities.

(c) The Authority will prepare and retain on file a Statement of Discount Applicable to Recharge NY Delivery Service. The Statement will be available at the Authority's business offices.

IX. Long Island Choice Program (continued):

A. General Provisions (continued):

2. Who is Eligible

a) In order to participate in the Long Island Choice Program, an~~d~~ Eligible Customer is a Customer who is eligible for service under Service Classification Nos. 1, 1-VMRP (L), 1- VMRP(S), 2, 2-VMRP, 2L, 2L-VMRP, 2-H, or 2-MRP, 5, 7, 7A, 10 and:

(1) Receives metered or authorized unmetered electric service from the Authority, and

(2) Receives all of their electric requirements from a single supplier except for the output from Solar or Wind Electric Generating Equipment that qualifies for net metering, and

(3) Is not explicitly excluded in 2.b), below, and

(4) Is licensed by the Authority as a Direct Retail Customer (DRC) or contracts with a licensed Energy Service Company (ESCO) to act as its agent for the scheduling and delivery of Electric Generation Service, and

(5) During those phases of the Program where total participation is limited, has been accepted into the Program by the Authority.

b) Customers who are not eligible to participate in the LI Choice Program are:

(1) Customers who receive service under Service Classification Nos. 2-VRTP, 11, 12, 13 or 15

~~(2) Customers who receive part of their electric requirements from the New York Power Authority (NYPA) including, but not limited to NYPA's Economic Development Power program, High Load Factor program, or Recharge NY Power program.~~

(~~3) Customers who receive part of their electric requirements from an Economic Development Power program through a municipal distribution agency.~~

(2~~4~~)Customers who sell power to the Authority as Qualifying Facilities or Solar, Farm Waste, Micro-Combined-Heat-and-Power, Fuel Cells and Wind Customer-Generators that do not qualify for net metering.

(3~~5~~)Customers who receive a portion of their electric requirements from self-generation or on-site generation that does not quality for net metering, and require supplemental, backup or maintenance service from the Authority.

(4~~6~~)Customers who receive service under provisions related to Residential Off-P~~p~~eak Energy Storage served under Service classification No. 1

Long Island Power Authority

Statement of Discount Applicable to Recharge NY Delivery Service

Applicable to Recharge NY Load billed under all Service Classifications
As set forth in the Tariff for Electric Service

		$000
1.	Power Supply Agreement Expense	448,525
2.	Operating and Maintenance Expense on Nine Mile Point	33,423
3.	Accretion of Asset Retirement Obligation on Nine Mile Point (net of trust income)	2,724
4.	Depreciation Expense on Nine Mile Point	22,168
5.	Property Taxes on Nine Mile Point	5,585
6.	Interest Expense on Investment in Nine Mile Point	22,324
7.	Property Taxes on Merchant Generation	10,700
8.	Generation Expense Recovered through Delivery Charges (sum of Lines 1 through 7)	545,449
9.	Total Delivery Charges	1,784,797
10.	Discount Applicable to Delivery Charges for Recharge NY Load	30.6%

This discount factor is set pursuant to the Board of Trustees' annual budget for the calendar year 2012, approved on December 15, 2011.

Interest Expense is calculated as the average Net Plant Investment for 2012 of $430,294,000 times 5.188% average embedded cost of debt.

Effective: July 1, 2012