

FOR CONSIDERATION

July 25, 2018

TO: The Board of Trustees

FROM: Thomas Falcone

REQUEST: Approval of the Annual Report to the Board on the Regionally Competitive Rates Policy

Requested Action

The Board of Trustees of the Long Island Power Authority (the “Board”) is requested to adopt a resolution finding that the Long Island Power Authority and its subsidiary, LIPA (collectively the “Authority”) have complied with the Board Policy on Regionally Competitive Rates (the “Competitive Rates Policy” or the “Policy”) for the period since the last annual review; approving certain non-material wording changes to the Policy; and approving the annual report for the Policy, which resolution is attached hereto as **Exhibit “A”**.

Background

By Resolution No.1318, dated September 21, 2016, the Board adopted the Regionally Competitive Electric Rates Policy. The purpose of the Policy is to set reasonable objectives for the Authority’s electric rates and rate design and to review LIPA’s electric rates relative to other similar regional utilities each year. The Board conducts an annual review of the Policy and, with the advice of Authority Staff, where appropriate, considers as part of its annual review whether LIPA has remained in compliance with the Policy and whether any updates or revisions should be made to the Policy.

Compliance with the Competitive Rates Policy

Staff has determined, for the reasons set forth below, that LIPA has remained in compliance with the objectives of the Policy for the period since the last annual review.

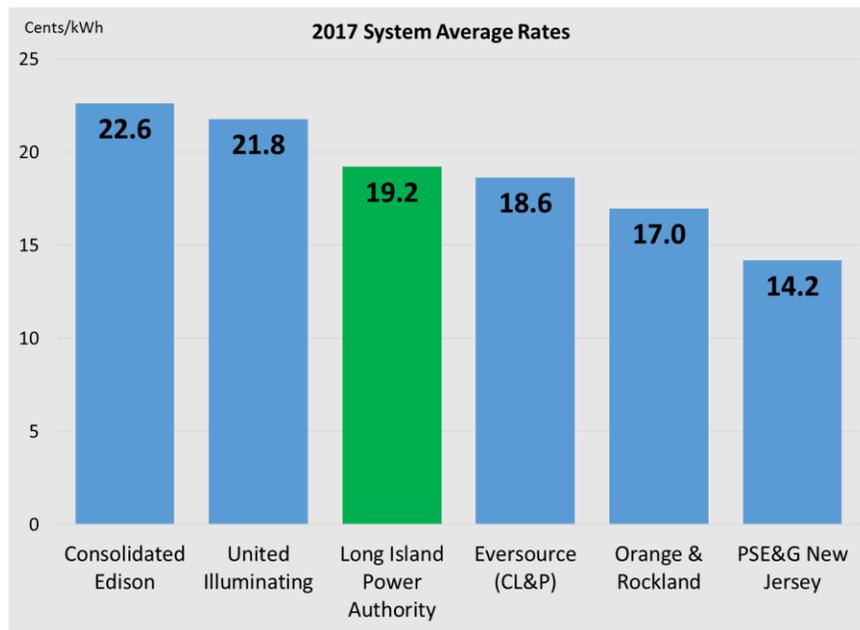
Lowest Fiscally Sound Electric Rates. The Policy states “Electric rates should be set at the lowest level consistent with sound fiscal and operating practices, ensuring quality service efficiently rendered.”

- The Board adopted a Three-Year Rate Plan for 2016, 2017 and 2018 pursuant to the Rate Plan Recommendation of the CEO of the Department of Public Service. That Rate Plan Recommendation was to ensure electric rates set at the lowest level consistent with sound fiscal and operating practices, as required by the LIPA Reform Act.
- The 2018 Budget adopted by the Board of Trustees in December 2017 was consistent with the Three-Year Rate Plan for 2018.

Regionally Competitive Electric Rates: The Policy states “The Authority’s electric rates should be competitive with the published rates on a system average basis of other regional utilities that surround the Authority’s service territory and most closely resemble the costs and power/gas supply

options of the Authority, including: Consolidated Edison, Orange & Rockland, United Illuminating, Eversource (formerly Connecticut Light and Power), and PSE&G, taking into account the significant differences in the taxing and regulatory regimes in which these utilities operate.”

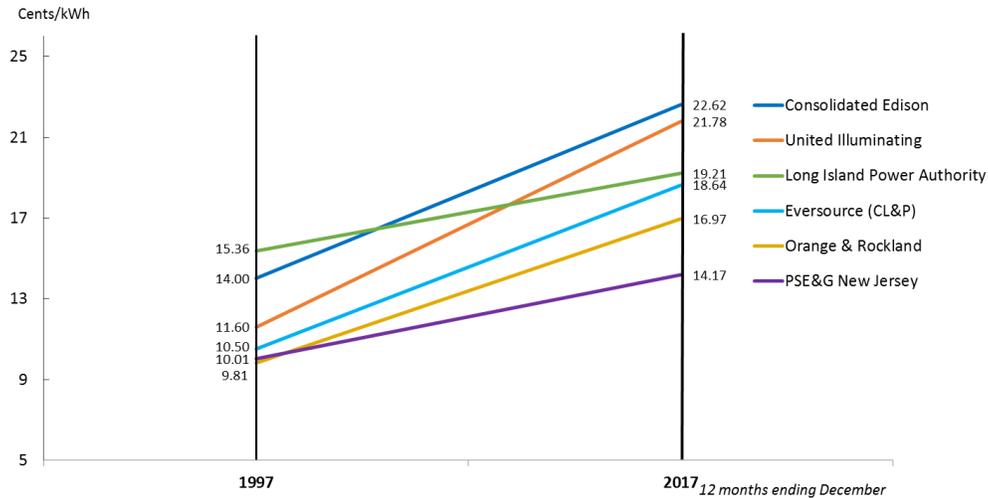
- LIPA’s system average electric rate was 19.2 cents in 2017. This is competitive with the other five major regional utilities that surround LIPA’s service territory, listed in the Policy.
- The system average electric rates of the regional utilities ranged from 14.2 cents (PSE&G) to 22.6 cents (ConEd).
- LIPA’s system average rate is 15% below the highest priced regional utility, making LIPA’s average rate the third out of six and roughly average for the region.



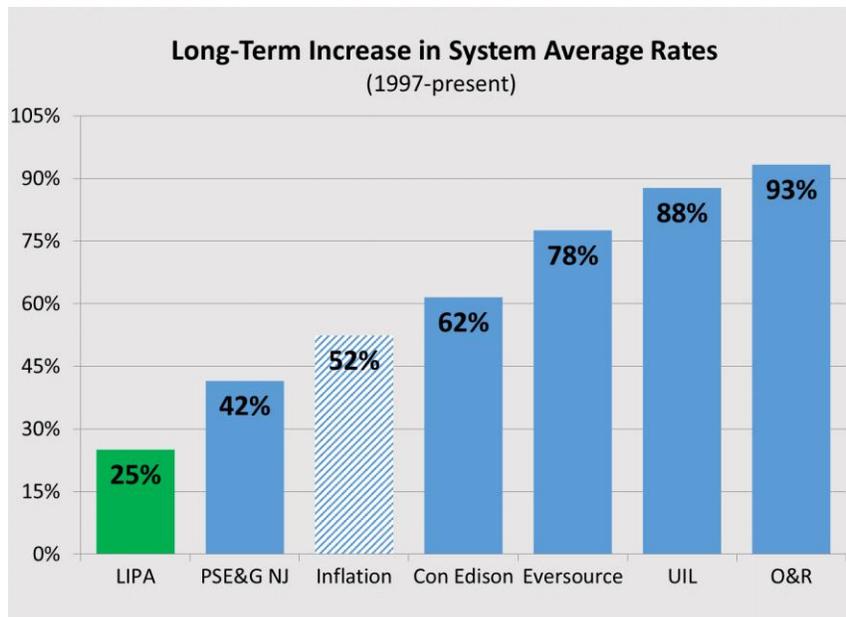
- If LIPA’s property taxes, which comprise 15% of the bill, were equivalent to the national average of 5% of the bill, LIPA’s 2017 system average rate would have been 17.3 cents.

Changes in Electric Rates: The Policy states “Changes in the Authority’s rates and bills should be competitive with other local utilities on a system average basis over the long term. In any short-term period, there may be variations due to the timing of fuel and purchased power costs, resource additions, changes to delivery rates, or other needs that cause fluctuations in the Authority’s system average cost relative to other utilities.”

- LIPA’s system average rates have been competitive on a long-term basis, having risen more slowly than any of the other regional utilities over the past 20 years (see chart below).



- LIPA’s rates increased only 25% over the last 20 years compared to a range of 42% to 93% for the other utilities (see chart below). The consumer price index, a standard measure of inflation, increased 52%.



- Over the past 5 years, LIPA’s have decreased 9%, which is more than any other utility in our peer group.

Prudent Rate Design: The Policy states “Rates should, consistent with prudent utility practice: be simple and easy to understand; equitably allocate costs across and within customer classes, taking into consideration the cost to provide service; be affordable by people with low incomes and severe medical conditions; and where possible, be consistent with statewide policies. In addition, in order to promote the goals of Reforming the Energy Vision, which seeks among other things to encourage the most efficient use of utility plant, rates should reflect the marginal cost of service, to the extent consistent with the foregoing objectives. This goal may be achieved by, among other things,

reflecting the cost of energy at the time it is used, reducing on- peak use, and encouraging energy efficiency and conservation.”

- In October 2017, LIPA increased its low-income customer discounts by \$10 per month (to \$20 for customers with electric heating and \$15 for customers without electric heating).
- In December 2017, LIPA implemented the first phase of the statewide Value of Distributed Energy Resources (VDER) tariff for large commercial rooftop solar and community solar projects, differentiating among projects by the value provided to the electric grid.
- In June 2017, LIPA also updated its dynamic load management tariff to increase participation, ease enrollment, and to implement updates made by New York’s investor-owned utilities.

2018 Work Plan and Other Goals

LIPA’s 2018 Work Plan includes the following goals to advance the Board’s Policy:

- Goal 26: Obtain Board approval of need-based tiered discounts for low-to moderate-income customers and oversee PSEG Long Island’s implementation.¹
- Goal 27: Introduce a state-of-the-art time-of-use rate pilot to test customer engagement, customer savings, and the effect of the rate on peak load reduction and other grid benefits.²

PSEG Long Island’s Utility 2.0 Plan³ proposes additional goals that support the Policy:

- Obtain approval of residential electric vehicle smart charging program, which will promote objectives of New York’s Reforming the Energy Vision initiative including encouraging efficient use of utility plant through rates that reflect the cost of energy at the time it is used, reducing on- peak use, and encouraging energy efficiency and conservation.
- Propose plan for accelerating development of public fast charging stations for electric vehicles, which will which will promote New York’s Clean Energy Standard and the objectives of Reforming the Energy Vision initiative including animating competitive markets for grid-edge products and services.

Annual Review of the Policy

The Policy was last amended by the Board pursuant to Resolution No.1357, dated March 29, 2017. Staff recommends no material changes to the Policy. Non-material wording changes include: (1) consistent references to “regionally competitive electric rates”; (2) moving certain clarifying points into footnotes; and (3) separating the references to affordability for low income customers and severe medical conditions from other Statewide initiatives such as *Reforming the Energy Vision* (“REV”).

¹ <https://www.lipower.org/wp-content/uploads/2018/06/LMI-Proposal-Memo-FINAL.pdf>
<https://www.lipower.org/wp-content/uploads/2018/06/Low-Income-Tiering-Tariff-Proposal-4-10-18-Final-clean.pdf>

² <https://www.lipower.org/wp-content/uploads/2018/06/TOU-Rate-Pilot-Tariff-Proposal-April-9-LIPA-Changes-clean.pdf>

³ <https://www.lipower.org/wp-content/uploads/2018/06/2018-06-29-PSEG-LI-Utility-2.0-2018-Annual-Update.pdf>

Recommendation

Based upon the foregoing, I recommend approval of the above requested action by adoption of a resolution in the form attached hereto.

Attachments

Exhibit "A" Resolution

Exhibit "B" Regionally Competitive Electric Rates Policy (redline)

Exhibit "C" Regionally Competitive Electric Rates Policy (clean)

Exhibit "D" Report to the Board on the Competitive Rates Policy

Exhibit A

RESOLUTION APPROVING THE REPORT TO THE BOARD OF TRUSTEES ON THE REGIONALLY COMPETITIVE RATES POLICY

WHEREAS, the Regionally Competitive Rates Policy (the “Policy”) was originally approved by the Board of Trustees by Resolution No.1318, dated September 21, 2016; and

WHEREAS, the Policy was last amended by the Board pursuant to Resolution No.1357, dated March 29, 2017; and

WHEREAS, the Board has received the annual Staff report on compliance with the Policy; and

WHEREAS, the Board has conducted an annual review of the Policy and affirms that no material changes to the Policy are required.

NOW, THEREFORE, BE IT RESOLVED, that consistent with the accompanying memorandum, the Board hereby finds that the Authority has complied with the Regionally Competitive Rates Policy for the period since the last annual review and approves the annual report to the Board;

AND BE IT FURTHER RESOLVED, that consistent with the accompanying memorandum, the non-material wording changes reflected in attached Exhibit B be approved.

Dated: July 25, 2018

Exhibit B

Board Policy: **Regionally Competitive Electric Rates**
Policy Type: **Mission**
Monitored by: **Finance and Audit Committee**
Board Resolution: **#1318, approved September 21, 2016**
#1357, amended March 29, 2017
#xxxx, amended July 25, 2018



Regionally Competitive Electric Rates Policy:

~~It is the policy of the Long Island Power Authority to maintain~~ ~~ing~~ regionally competitive electric rates and an appropriate rate design by setting the following objectives:
~~is a core objective of the Authority~~

- **Lowest Fiscally Sound Electric Rates.** ~~The Authority's~~ ~~E~~electric rates should be ~~should be~~ set at the lowest level consistent with sound fiscal and operating practices, ensuring quality service efficiently rendered. ~~As reasonable objectives:~~
- **Regionally Competitive Electric Rates.** ~~The Authority's~~ ~~E~~electric rates should be competitive with the published rates on a system average basis of other regional utilities that surround the Authority's service territory, which ~~and~~ most closely resemble the costs and power/gas supply options of the Authority, including: Consolidated Edison, Orange & Rockland, United Illuminating, Eversource (formerly Connecticut Light and Power), and PSE&G.⁴
- **Changes in Electric Rates.** Changes in the Authority's electric rates and bills should be similar to other local utilities on a system average basis.⁵
~~, taking into account the significant differences in the taxing and regulatory regimes in which these utilities operate.~~

~~Changes in the Authority's rates and bills should be competitive with other local utilities on a system average basis over the long term. In any short term period, there may be variations due to the timing of fuel and purchased power costs, resource additions, changes to delivery rates, or other needs that cause fluctuations in the Authority's system average cost relative to other utilities.~~

- **Prudent Rate Design.** Electric rRates should, ~~consistent with prudent utility practice,~~ be designed to:
 - be ~~be~~ simple and easy to understand;

⁴ ~~The evaluation of this objective should take into account~~ consider the significant differences in the taxing and regulatory regimes in which these utilities operate.

⁵ ~~The evaluation of this objective should consider that in any period there may be variations due to the timing of fuel and purchased power costs, resource additions, changes to delivery rates, or other needs that cause fluctuations in the Authority's system average cost relative to other regional utilities but that are not indicative of the Authority's long-term rate competitiveness.~~

Exhibit B

Board Policy: **Regionally Competitive Electric Rates**

Policy Type: **Mission**

Monitored by: **Finance and Audit Committee**

Board Resolution: **#1318, approved September 21, 2016
#1357, amended March 29, 2017**



#xxxx, amended July 25, 2018

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- equitably allocate costs across and within customer classes ~~by,~~ taking into consideration the cost to provide service;
 - be affordable by people with low incomes and severe medical conditions; and
 - be consistent with statewide policies, where possible, including the goals of the Reforming the Energy Vision⁶, which seeks to encourage the most efficient use of utility plant by reflecting the cost of energy at the time it is used, reducing on-peak use, and encouraging energy efficiency and conservation.
 - ~~be affordable by people with low incomes and severe medical conditions; and where possible, be consistent with statewide policies. In addition, in order to promote the goals of Reforming the Energy Vision⁷, which seeks among other things to encourage the most efficient use of utility plant, rates should reflect the marginal cost of service, to the extent consistent with the foregoing objectives. This goal may be achieved by, among other things, reflecting the cost of energy at the time it is used, reducing on-peak use, and encouraging energy efficiency and conservation.~~

⁶ Further information related to the Reforming the Energy Vision proceeding at the State Public Service Commission can be found on the Department of Public Service website (www.dps.ny.gov).

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Exhibit C

Board Policy: **Regionally Competitive Electric Rates**
Policy Type: **Mission**
Monitored by: **Finance and Audit Committee**
Board Resolution: **#1318, approved September 21, 2016**
#1357, amended March 29, 2017
#xxxx, amended July 25, 2018



Regionally Competitive Electric Rates Policy

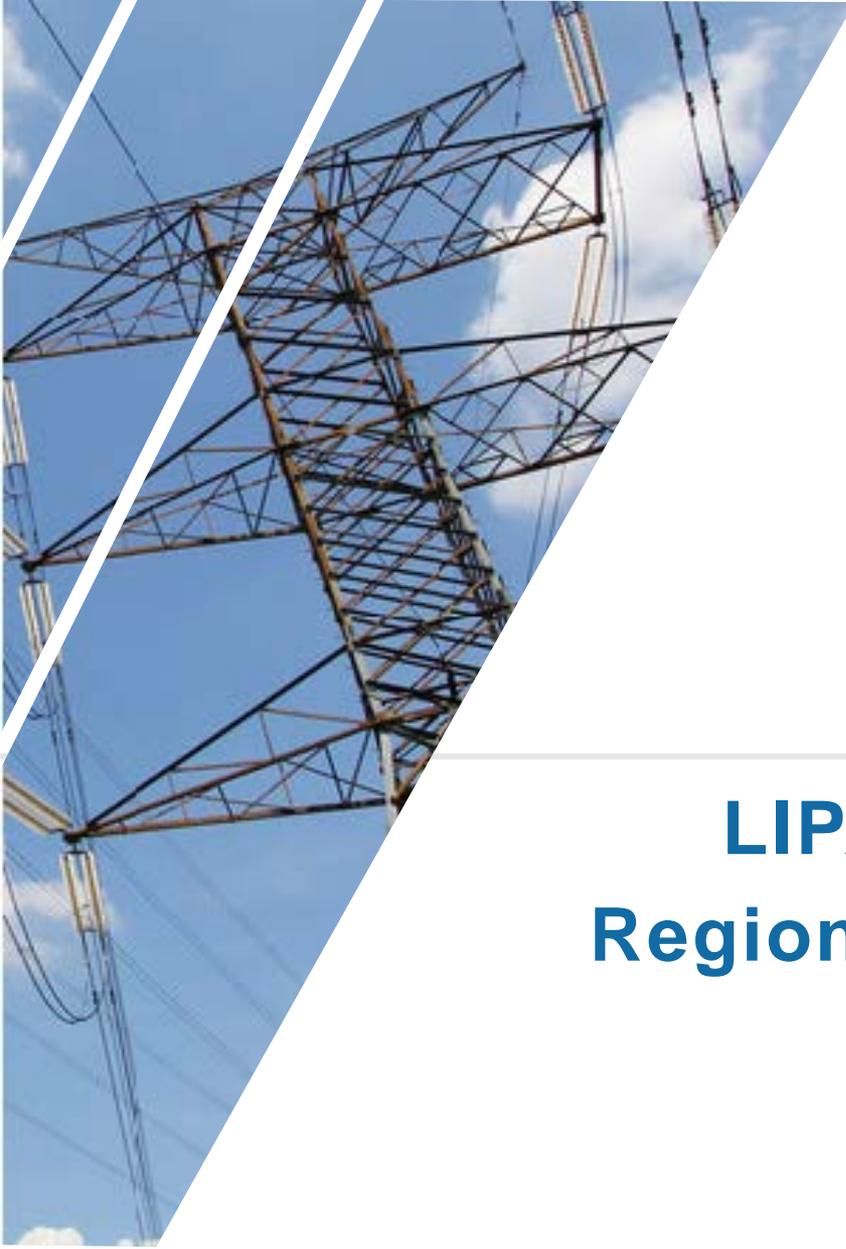
It is the policy of the Long Island Power Authority to maintain regionally competitive electric rates and an appropriate rate design by setting the following objectives:

- **Lowest Fiscally Sound Electric Rates.** Electric rates should be set at the lowest level consistent with sound fiscal and operating practices, ensuring quality service efficiently rendered.
- **Regionally Competitive Electric Rates.** Electric rates should be competitive with the published rates on a system average basis of other regional utilities that surround the Authority’s service territory, which most closely resemble the costs and power/gas supply options of the Authority, including: Consolidated Edison, Orange & Rockland, United Illuminating, Eversource (formerly Connecticut Light and Power), and PSE&G.⁴
- **Changes in Electric Rates.** Changes in the Authority’s electric rates and bills should be similar to other local utilities on a system average basis.⁵
- **Prudent Rate Design.** Electric rates should:
 - be simple and easy to understand;
 - equitably allocate costs across and within customer classes by taking into consideration the cost to provide service;
 - be affordable by people with low incomes and severe medical conditions; and
 - be consistent with statewide policies, where possible, including the goals of the Reforming the Energy Vision⁶, which seeks to encourage the most efficient use of utility plant by reflecting the cost of energy at the time it is used, reducing on-peak use, and encouraging energy efficiency and conservation.

⁴ The evaluation of this objective should consider the significant differences in the taxing and regulatory regimes in which these utilities operate.

⁵ The evaluation of this objective should consider that in any period there may be variations due to the timing of fuel and purchased power costs, resource additions, changes to delivery rates, or other needs that cause fluctuations in the Authority’s system average cost relative to other regional utilities but that are not indicative of the Authority’s long-term rate competitiveness.

⁶ Further information related to the Reforming the Energy Vision proceeding at the State Public Service Commission can be found on the Department of Public Service website (www.dps.ny.gov).



Board Update:

**LIPA's Board Policy on
Regionally Competitive Rates**

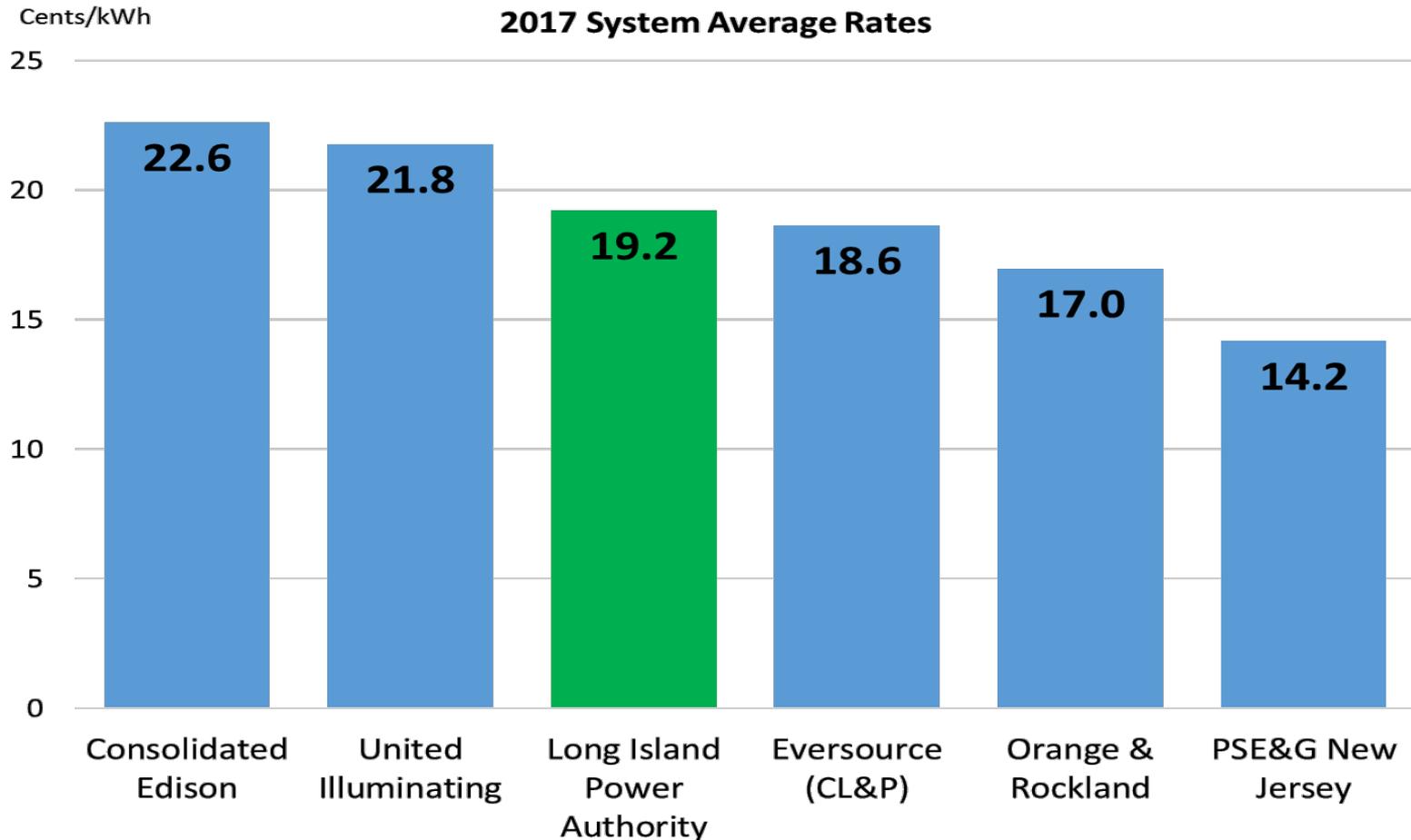
July 25, 2018

Board Policy on Regionally Competitive Rates

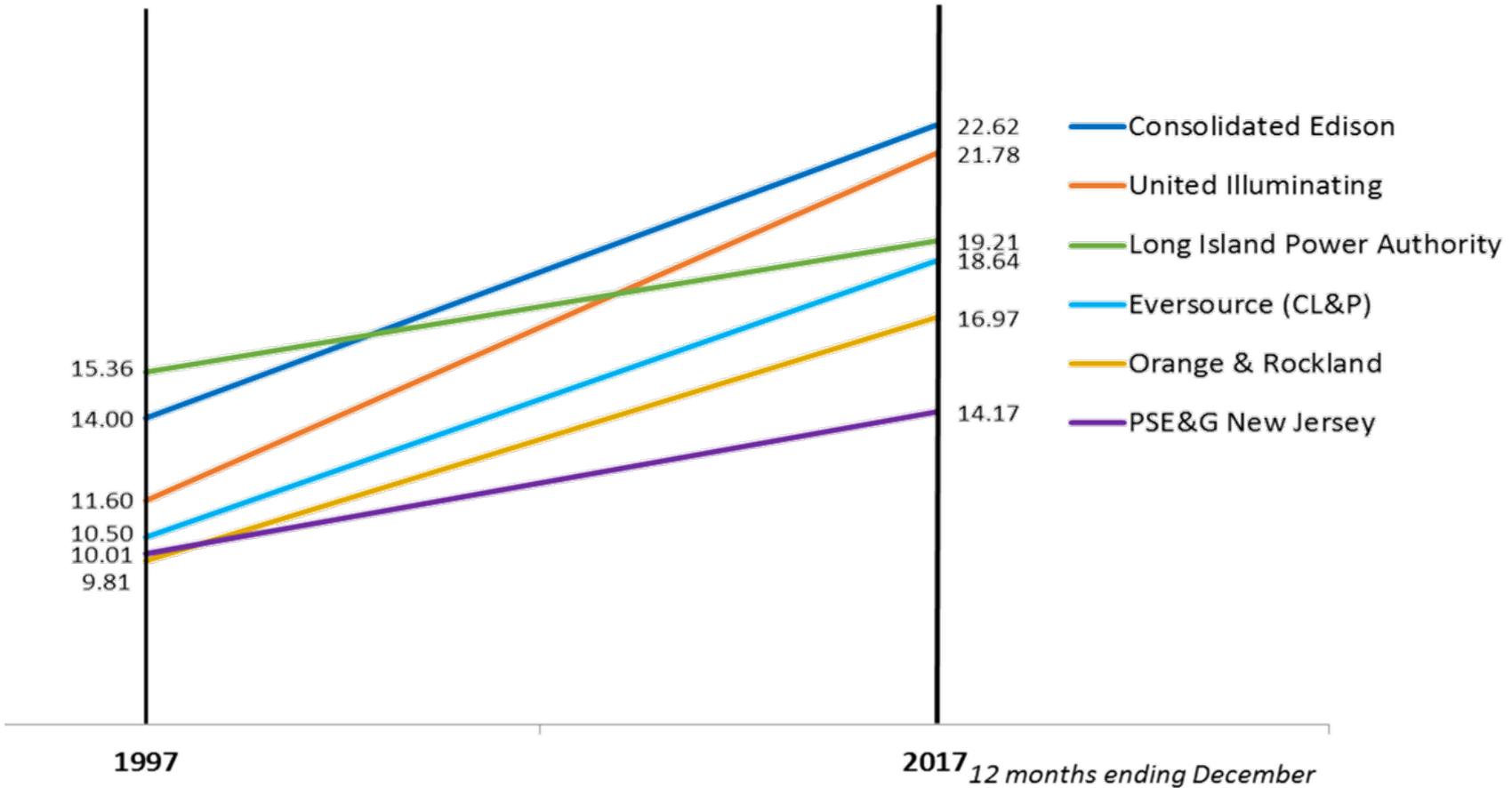
LIPA's rates should:

- Be competitive with the rates of our neighboring utilities
- Be consistent with prudent utility practice
- Be simple and easy to understand
- Equitably allocate costs across and within customer classes, taking into consideration the cost to provide service
- Be consistent with statewide policies, including REV
- Be affordable to our customers, including customers with low incomes and customers with severe medical conditions

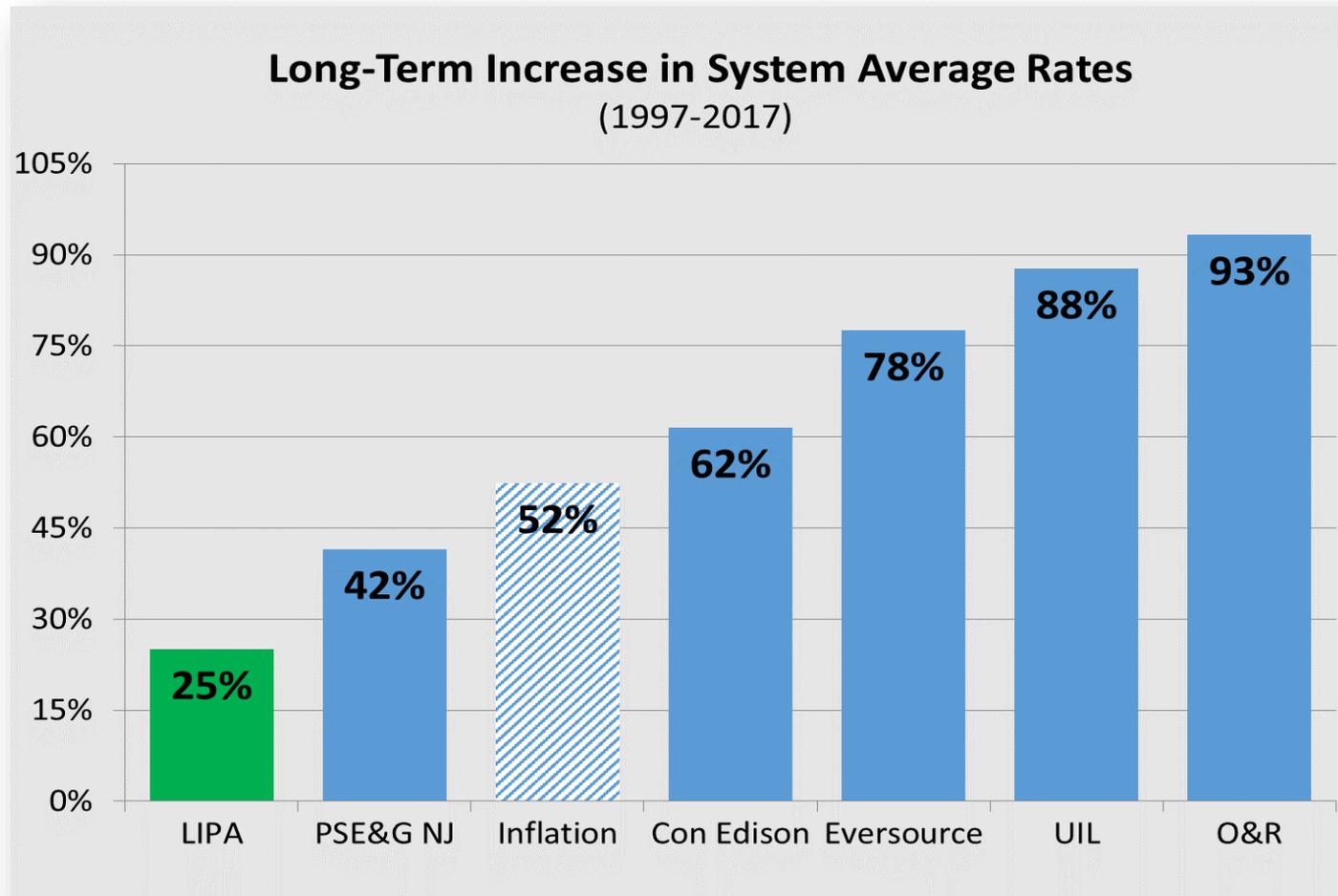
LIPA's 2017 Average Rates are Comparable to Other Regional Utilities



LIPA's Rates Increase Slower than Other Regional Utilities

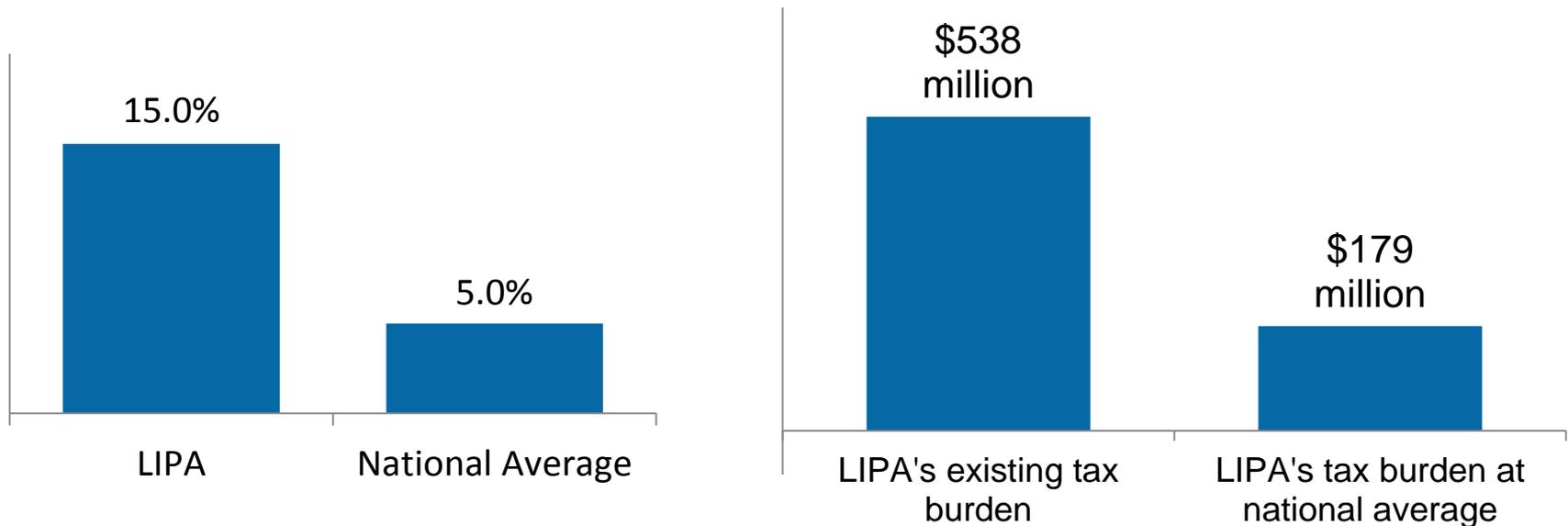


LIPA's Rates Rose More Slowly Than Neighbors' Rates and Inflation



Cost Containment Helps Minimize Rate Increases

- Debt re-financings have generated \$485 million of NPV savings
- Enforcement of 2% tax cap will save \$513 million by 2021
- Challenging unfair assessments could save millions more
 - LIPA's taxes, PILOTs, and fees are 15% of customer bills
 - National average is 5%



2017 Rate Design Improvements

Affordability

- **October 2017:** Increased low-income customer discounts to \$15 for customers with gas/oil heating and \$20 for customers with electric heating

REV and Grid Efficiency

- **June 2017:** Updated dynamic load management (i.e. demand response) tariff to increase participation and ease enrollment
- **December 2017:** Implemented first phase of the statewide Value of Distributed Energy Resources (VDER) tariff for large commercial rooftop solar and community solar projects, differentiating among projects by the value provided to the grid

2018 Goals

Affordability

- Adopt and implement need-based tiered discounts for low- and moderate-income customers

REV and Grid Efficiency

- Adopt and implement “Power to Save” time-of-use rate pilot for Utility 2.0 SuperSaver initiative
- Obtain approval of residential electric vehicle smart charging program proposed in Utility 2.0
- Propose plan for accelerating development of public fast charging stations for electric vehicles



Highlights of Recent Rate Actions

	National Grid	Central Hudson
Date approved	March 2018	June 2018
Increase	\$222MM (17%) over 3 years	\$64MM (21%) over 3 years
Drivers	<ul style="list-style-type: none"> • T&D grid modernization and reinforcement • IT and call center • Energy efficiency • Low-income discounts • E-commerce platform • Street light upgrades to LEDs 	<ul style="list-style-type: none"> • Energy efficiency • Capex for network strategy and distribution automation • Grid modernization • IT improvements • Low-income discounts

Questions?