

BOARD AGENDA SUMMARY SHEET

Committee or Board: Board	Date: July 12, 2019	Board Meeting Date: July 24, 2019
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For All Board Voting Items:

Title of Agenda Item: Approval of the Annual Report and Amendments on the Board's Policy on Regionally Comparable Rates

Consent Agenda: ☐ Yes ☒ No

Accompanying Presentation: ☒ Yes ☐ No

Recommendation from Committee: ☒ N/A ☐ F&A; ☐ GP&P; ☐ Oversight & REV

LIPA Presenter: Justin Bell

PSEG Long Island Presenter: N/A

For Policy Reports Only:

Type of Policy / Report: ☐ Operating; ☐ Governance; ☐ Compliance; ☒ Mission

Date of Last Report: July 25, 2018

Compliance Since Last Report: ☒ Yes ☐ No

Proposed Changes to Policy: ☒ Yes ☐ No

Requested Action:	The Board is requested to adopt a resolution: (i) approving the annual report for the Board Policy on Regionally Comparable Rates; (ii) finding that the Long Island Power Authority and its subsidiary, LIPA, have complied with the Policy; and (iii) approving certain amendments to the Policy.
Summary: (include proposed amendments to Board Policies, if applicable)	<p>By Resolution No. 1318, dated September 21, 2016, the Board adopted the 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.</p> <p>As further detailed in the accompanying memorandum, the proposed revisions to the Policy include: (i) renaming the policy the "Customer Value and Affordability Policy" and adding language to reflect the priorities outlined in the 2019 Budget around customer value; (ii) adding language to reflect that, over time, an emphasis on customer value that strikes a balance between cost and service can be expected to result in increases to electric rates similar to the rate of inflation; and (iii) further elaborating on rate design and tariff changes arising out of statewide proceedings, which are intended to be consistent with New York State policy.</p>

FOR CONSIDERATION

July 24, 2019

TO: The Board of Trustees

FROM: Thomas Falcone

SUBJECT: Approval of the Annual Report and Amendments to the Board Policy on Regionally Comparable Rates

Requested Action

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

Background

By Resolution No. 1318, dated September 21, 2016, the Board adopted the Policy.¹ 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 considers as part of its review whether LIPA has remained in compliance with the Policy and whether any updates or revisions should be made to the Policy. The Policy was last reviewed and updated by the Board on July 25, 2018.

Compliance with the Regionally Comparable 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.

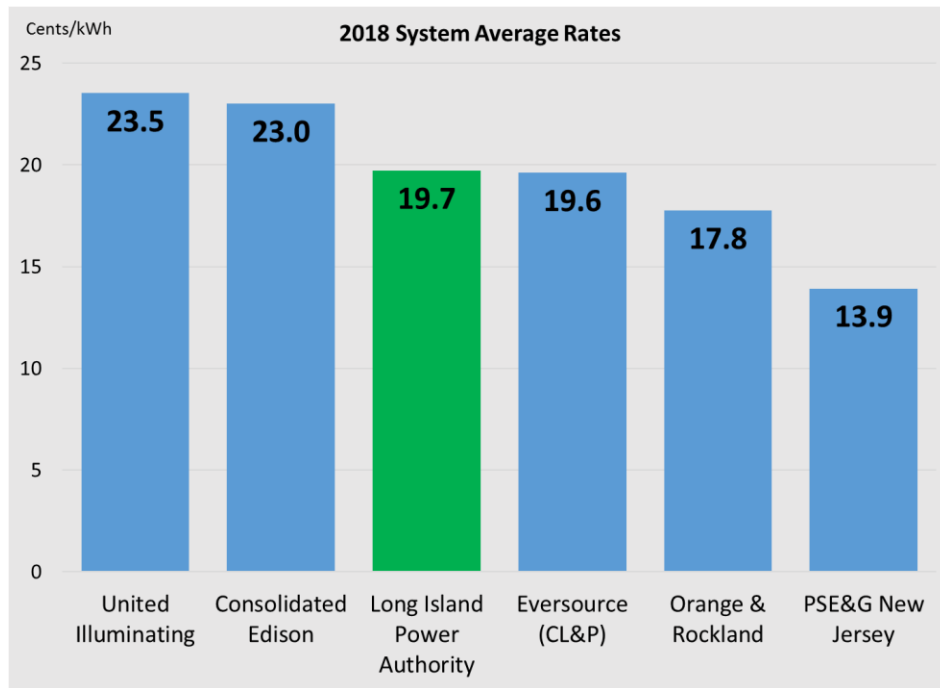
Lowest Fiscally Sound Electric Rates. The Policy states “Electric rates should be set at the lowest level consistent with sound fiscal and operating practices, ensuring that quality service is efficiently rendered.”

- In December 2018, the Board of Trustees adopted the 2019 Budget and Rate Update, which implemented an annual budget and rate update at the lowest level consistent with sound fiscal and operating practices, as those practices are defined by Board Policy, and within the statutory threshold provided in the Public Authorities Law.

Regionally Comparable Electric Rates: The Policy states “Electric rates should be comparable to 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.”

¹ The Policy was originally known as the Board Policy on Competitive Rates.

- LIPA's system average electric rate was 19.7 cents in 2018. 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 13.9 cents (PSE&G) to 23.5 cents (United Illuminating).
- LIPA's system average rate is 16% below the highest priced regional utility, making LIPA's system average rate the third out of six and roughly average for the region.

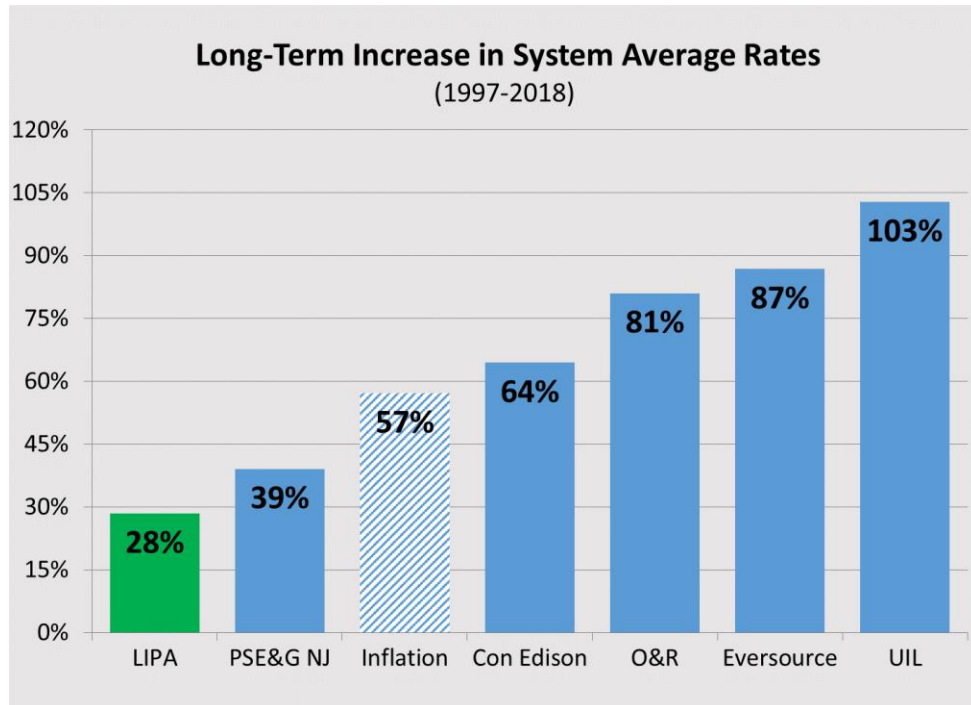


- If LIPA's property taxes, which comprise 15% of the bill, were equivalent to the national average of 5% of the bill, LIPA's 2018 system average rate would have been 17.6 cents rather than 19.7 cents.
- The New York City metro area has above average labor, land, tax, and commodity costs and highly seasonal weather patterns (i.e. electricity is used for cooling in the summer while other fuels are used for heating in the winter). This causes the New York metro area to have per kilowatt hour electric rates that are above the national average. For example, the national system average retail electric rate in 2017, according to the U.S. Energy Information Agency, was 10.5 cents per kilowatt-hour. State-by-state averages include 17.6 cents for Connecticut, 17.1 cents for Massachusetts, 14.7 cents for New York, 14.6 cents for Vermont, 13.3 cents for New Jersey, and 10.1 cents for Pennsylvania. Even within New York, there is a significant difference in prevailing power prices between upstate and downstate. The upstate grid is primarily fueled by lower-cost hydro and nuclear power while downstate is primarily fossil-fuel fired generation. The Board's policy recognizes these significant regional differences by benchmarking to five utilities that surround the LIPA service territory rather than utilities in other regions of the country or state.

Changes in Electric Rates: The Policy states "Changes in the Authority's electric rates and bills should be similar to other regional utilities on a system average basis."

- LIPA's system average rates have been competitive on a long-term basis, having risen more slowly than any of the other regional utilities during LIPA's stewardship of the Long Island grid (see chart below).

- LIPA's rates increased 28% since LIPA took over the Long Island grid in 1997, compared to a range of 39% to 103% for the other utilities. The consumer price index, a standard measure of inflation, increased 57%.



- Over the past 5 years, LIPA's system average electric rates have increased 0.3% as compared to a range of -3.5% to 26.7% for the other regional utilities.

Prudent Rate Design: The Policy states “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 Vision, 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.”

During 2018, the Authority took the following actions in furtherance of this policy:

- Approved a new rate modernization roadmap and billing engine as part of PSEG Long Island's 2018 Update to its Utility 2.0 Plan
- Approved a new “Power to Save” modern time-of-use rate in connection with PSEG Long Island's Super Saver Utility 2.0 initiative
- Approved updates to make more efficient lighting options available under the Outdoor Area Lighting tariff
- Approved updates to the Authority's Smart Grid Small Generator Interconnection Procedures to accommodate interconnection of energy storage systems and to make other changes consistent with recent action by the New York Public Service Commission (“PSC”)
- Approved new Business Practices for Distributed Energy Resource Suppliers consistent with business practices ordered by the PSC governing the relationship between distributed energy resource companies and their customers

- Approved expanded eligibility for compensation under the Authority's Value of Distributed Resources tariff to projects with a capacity between (2,000) kilowatts and five thousand (5,000) kilowatts, consistent with recent PSC action
- Approved increases in the Authority's discounts for low-income customers and related improvements to the low-income discount program
- Approved an extension of the Authority's Feed-in-Tariff for commercial rooftop solar
- Approved clarifications to customers' rights and responsibilities when opting out or requesting removal of an Advanced Metering Infrastructure-equipped smart meter
- Approved clarifications to customers' rights to consent to be contacted on a wireless telephone number consistent with recent guidance by the Federal Communications Commission

2019 Work Plan and Utility 2.0 Plan

LIPA's 2019 Work Plan and PSEG Long Island's Utility 2.0 Plan include numerous proposals to advance the Board's Policy:

- Development of 2020 rate pilots for time-of-use pricing and electric vehicles
- An update to the 2018 Rate Modernization Roadmap
- Development of expanded programs to improve energy efficiency and beneficial electrification of heating and cooling, including on-bill financing of heat pumps
- Implementation of demand response for behind-the-meter energy storage
- Implementation of electric vehicle off-peak charging discounts
- Development of a FlexPay program to provide additional payment options for customers

Annual Review of the Policy

The Policy was last amended by the Board pursuant to Resolution No. 1422, dated July 25, 2018. Staff recommends amendments to the Policy, as shown in Exhibit B, including:

- Renaming the policy the "Customer Value and Affordability Policy" and adding language to reflect the priorities outlined in the 2019 Budget around customer value. Specifically, that the Authority will strive to maximize the value provided for customers' dollars by investing in areas that customers value and minimizing costs in areas that customers do not value.
- Adding language to reflect that, over time, an emphasis on customer value that strikes a balance between cost and service can be expected to result in increases to electric rates similar to the rate of inflation.
- Further elaborating on rate design and tariff changes arising out of statewide proceedings, which are intended to be consistent with New York State policy.

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)

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

WHEREAS, the Regionally Comparable 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. 1422, dated July 25, 2018; and

WHEREAS, the Board has conducted an annual review of the Policy and affirms that the Policy has been complied with and the changes to the Policy recommended herein are due and proper.

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 changes to the Policy that are reflected in attachment **Exhibit “B”** are hereby approved.

Dated: July 24, 2019



Board Policy: **Regionally Comparable Electric Rates**
Customer Value and Affordability

Policy Type: **Mission**

Monitored by: **Finance and Audit Committee**

Board Resolution: **#1318, approved September 21, 2016**
#1357, amended March 29, 2017
#1422, amended July 25, 2018
[#xxxx], amended July 24, 2019

Customer Value and Affordability Policy

It is the policy of the Long Island Power Authority to maximize the value provided for our customers' dollars and maintain electric rates that are comparable to other regional utilities and an appropriate in terms of both affordability and rate design. We will carry out this Policy by setting balancing cost and service, investing in areas that customers value, and minimizing cost in areas with more limited customer benefit. This Policy is comprised of the following objectives:

- **Lowest Fiscally Sound Electric Rates.** Electric rates should be set at the lowest level consistent with sound fiscal and operating practices and applicable law and regulation, ensuring that quality service is efficiently rendered.
- **Regionally Comparable Electric Rates.** Electric rates should be comparable to 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 electric/gas supply options of the Authority, including: Consolidated Edison, Orange & Rockland, United Illuminating, Eversource (formerly Connecticut Light and Power), and PSE&G.¹
- **Changes in Electric Rates to Support Investments in Customer Value.** Changes in the Authority's electric rates and bills should be similar to other regional utilities on a system average basis.² Over time, we expect an appropriate balance between cost and service to result in increases to electric rates similar to the rate of inflation. In any given year, changes in electric rates may not reflect broader economic price indices due to external factors such as changes in commodity prices, law or regulation.
- **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;

¹ The evaluation of this This objective should consider the significant differences in the taxing and regulatory regimes in which the utilities operate. The Board of Trustees will also be provided with rate comparisons from other regions upon request.

² In any period, The evaluation of this objective should consider 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 comparability.

- be affordable ~~by~~to people with low incomes and severe medical conditions; and
- ~~be consistent with statewide policies, where possible, including the goals of the Reforming the Energy Vision³, 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 ~~encouragingsupporting~~ energy efficiency and conservation.

- **Consistent with New York Policy.** The Authority's electric rate design and tariffs should be as consistent as possible with statewide principles. When statewide proceedings produce policies of general applicability, the Authority will adopt conforming changes to its Electric Tariff, unless there are compelling considerations that are unique to the Authority and its public power business model. Prior to adopting such changes, the Authority will hold public comment sessions and evaluate such unique considerations.³

The Chief Executive Officer will report annually to the Board on the key provisions of this Policy.

³ ~~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)~~

³ The Department of Public Service holds proceedings and working groups that are open to all interested stakeholders to craft and implement policies that enable New York's transition to a modern, clean, distributed, and transactional electric grid. The Authority and its Service Provider participate in these statewide proceedings and encourage the participation of Long Island stakeholders.



Board Policy: **Customer Value and Affordability**

Policy Type: **Mission**

Monitored by: **Finance and Audit Committee**

Board Resolution: **#1318, approved September 21, 2016**
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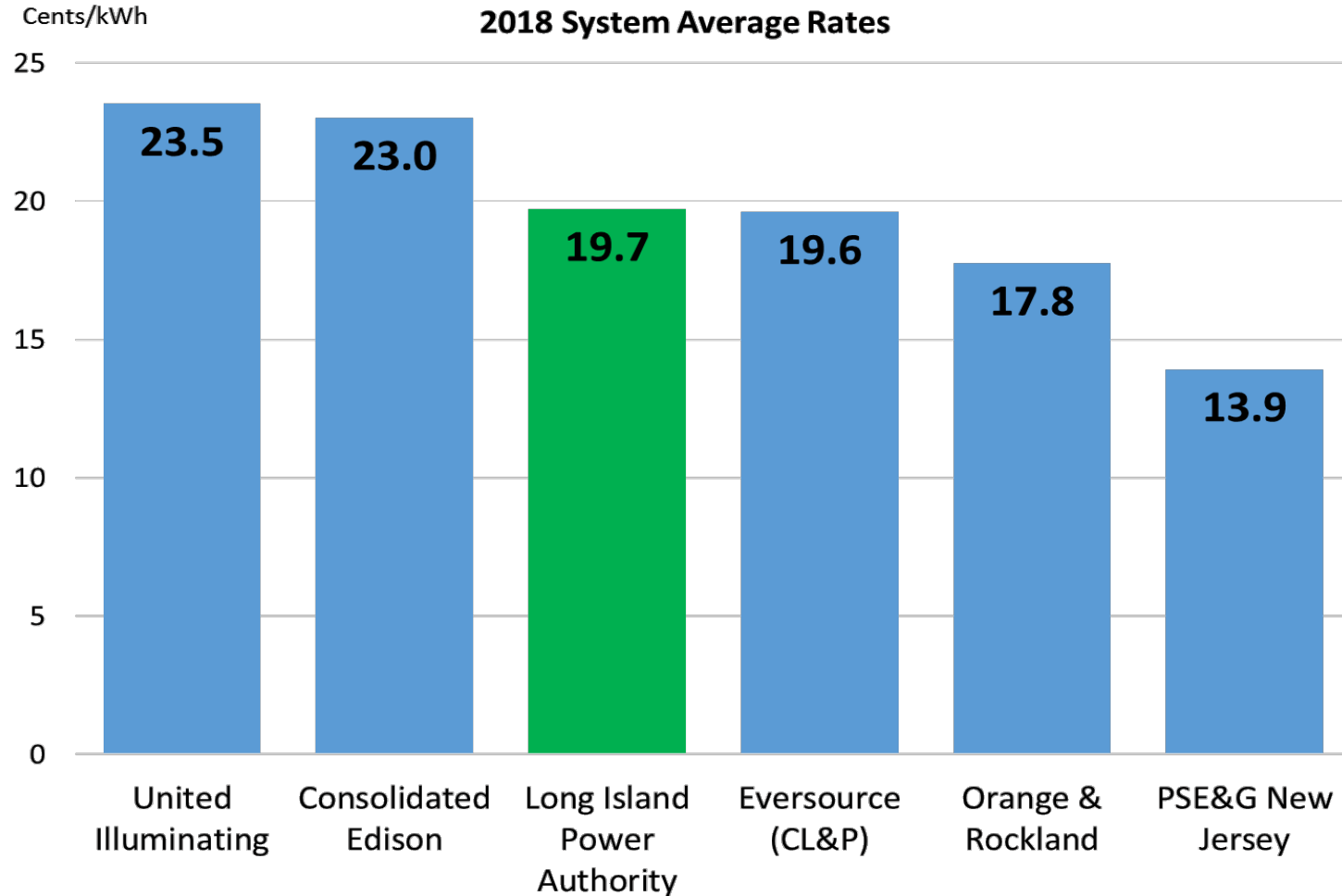
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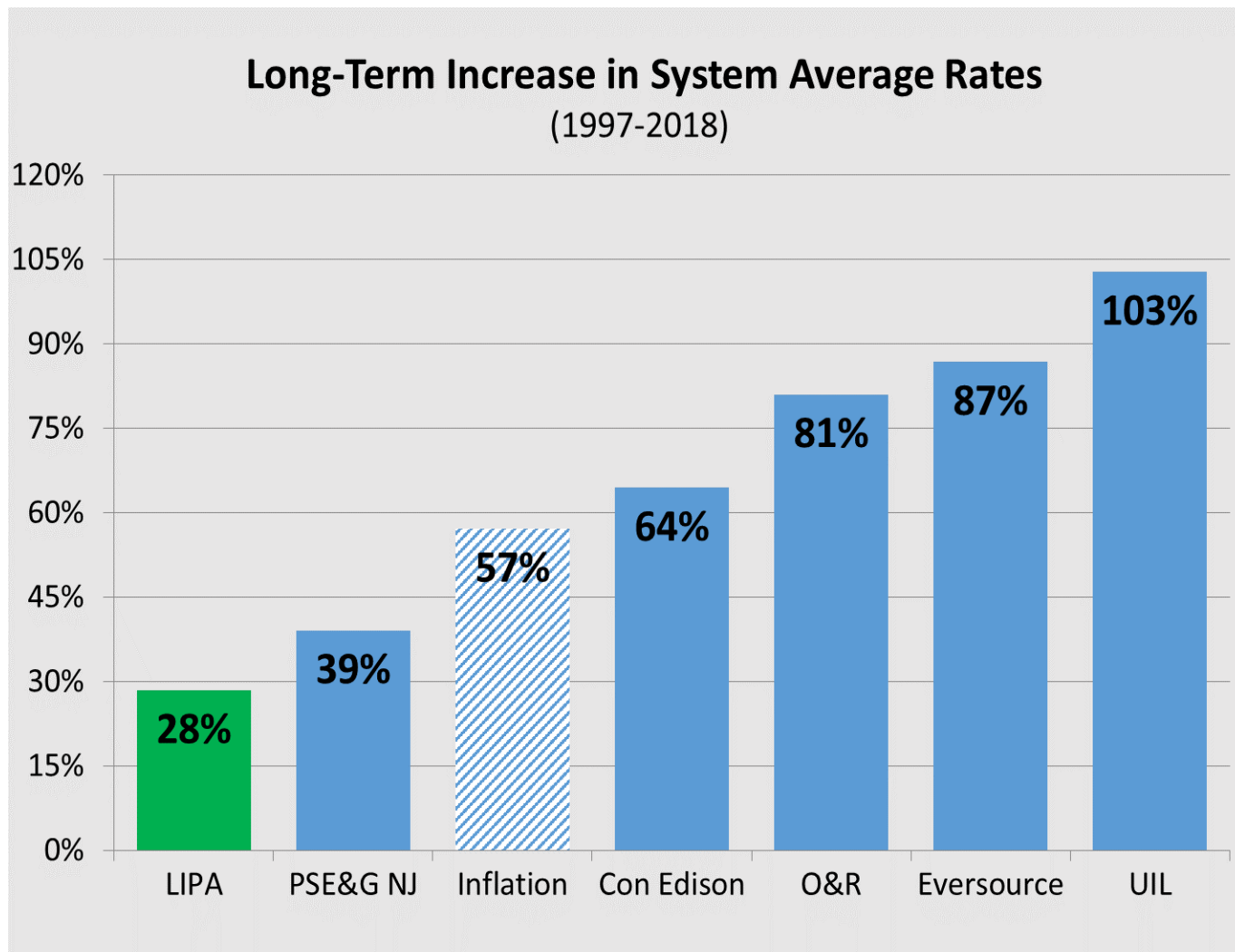
Annual Report on the Board Policy on Regionally Comparable Rates

July 24, 2019

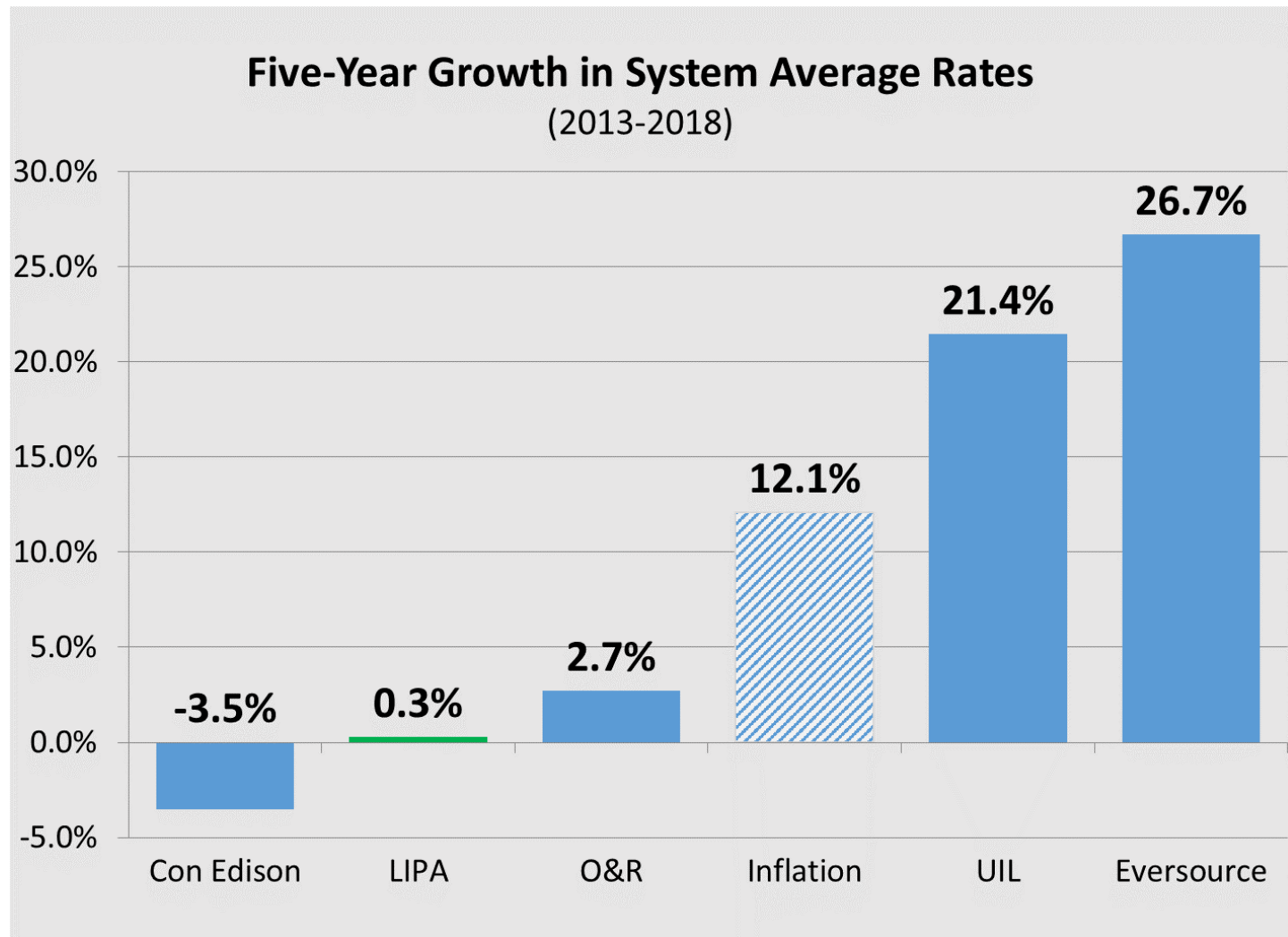
LIPA's Rates Compare to Neighbors



LIPA's Rates Grow More Slowly Than Inflation



LIPA's Rates Grow More Slowly Than Inflation





Policy Amendments

- Rename as “Customer Value and Affordability Policy”
- Maximize customer value by investing in areas customers value and minimizing costs in other areas
- Elaborate on the objective that the Authority’s rate designs be as consistent as possible with New York State policy

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THANK YOU