



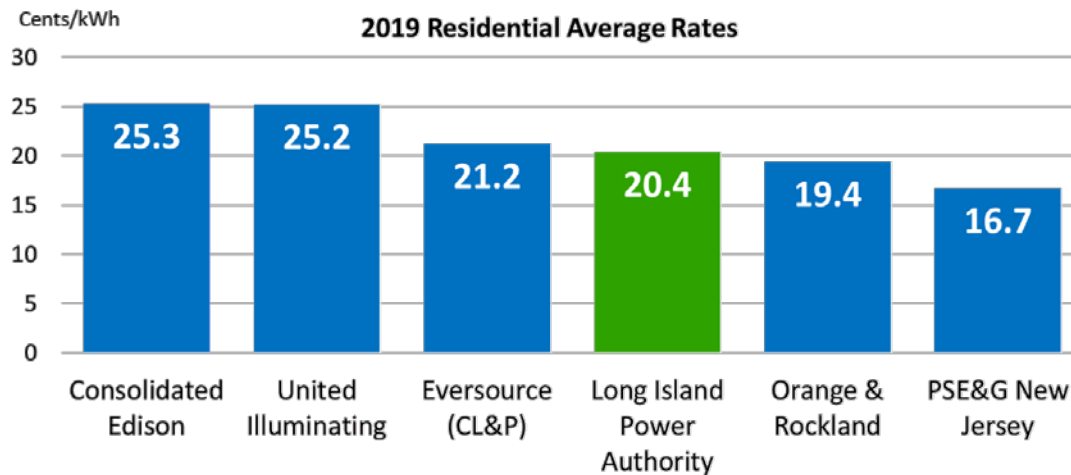
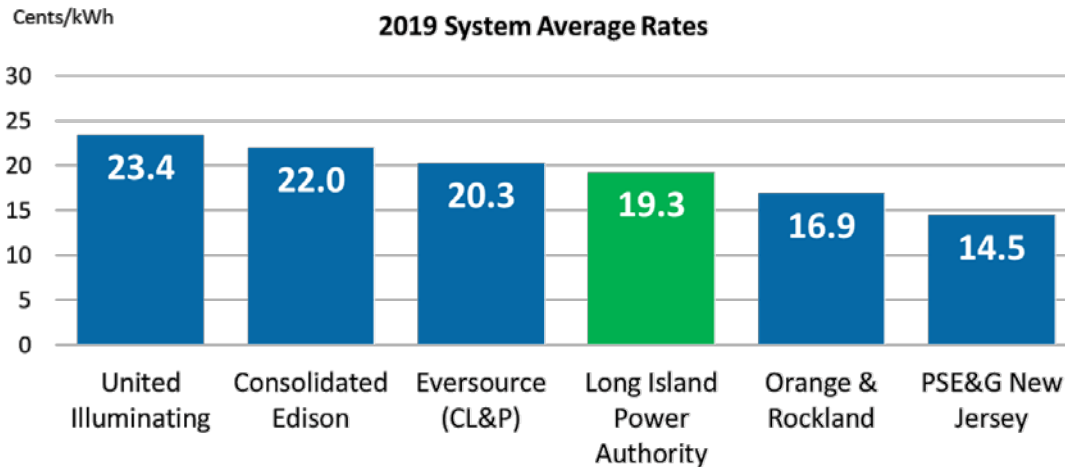
Annual Report on Customer Value and Affordability Policy

June 24, 2020

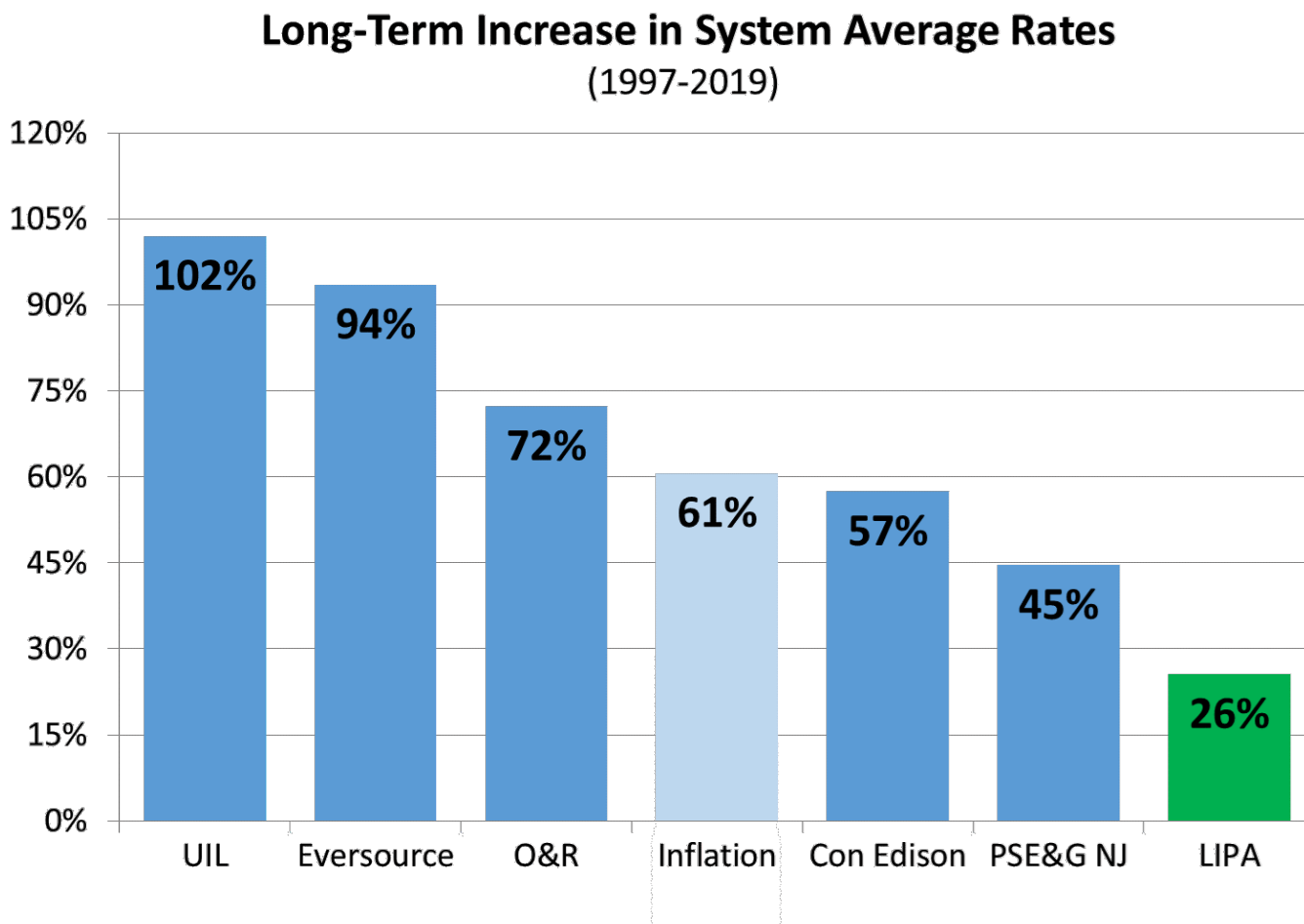
MEETING THE POLICY PRIORITIES OF THE LIPA BOARD

- Lowest fiscally sound electric rates
- Regionally comparable electric rates
- Balance between cost & service
- Prudent rate design
- Consistent with New York State Policy

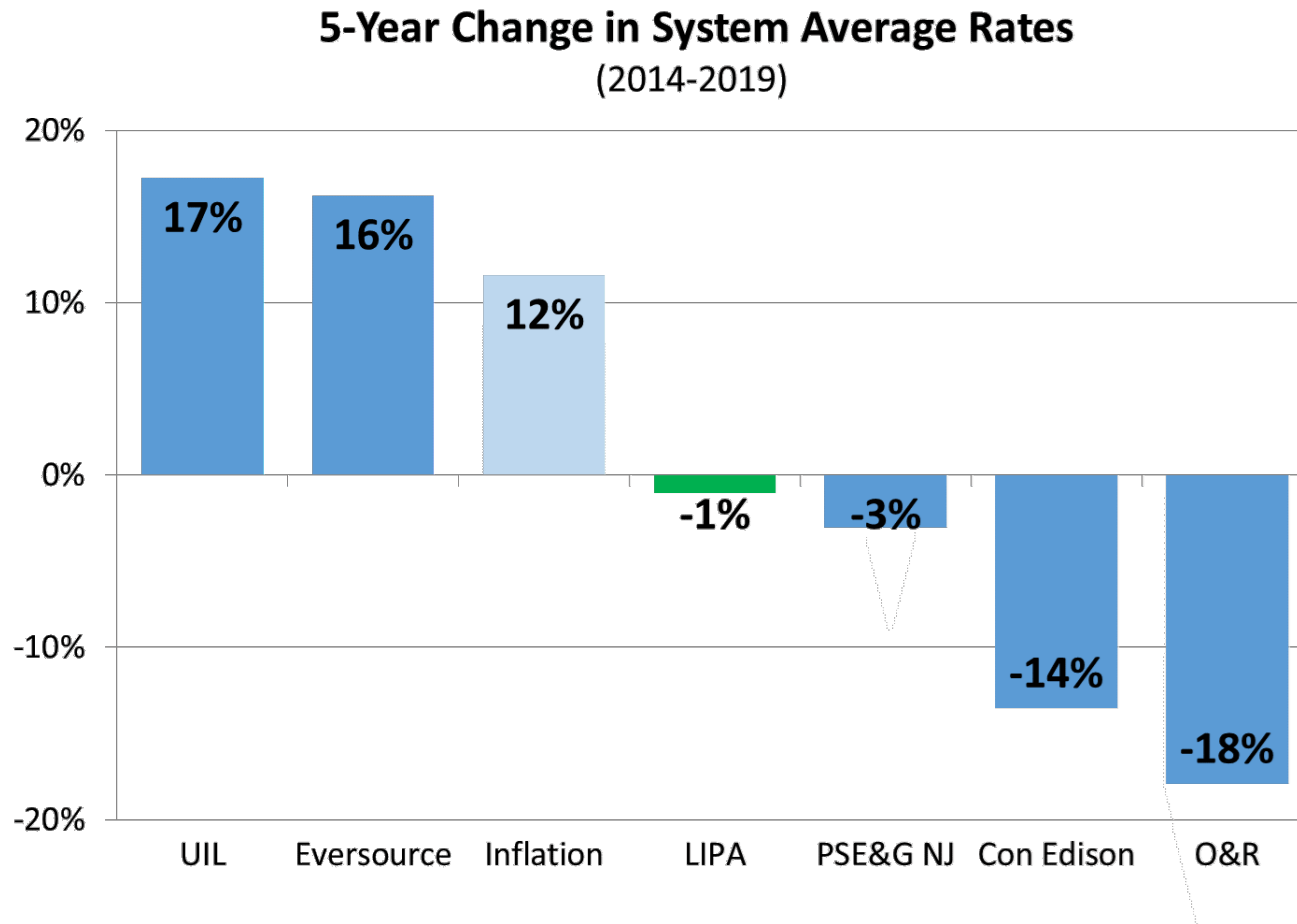
REGIONALLY COMPARABLE RATES



LONG TERM: LIPA'S RATES SLOW TO INCREASE



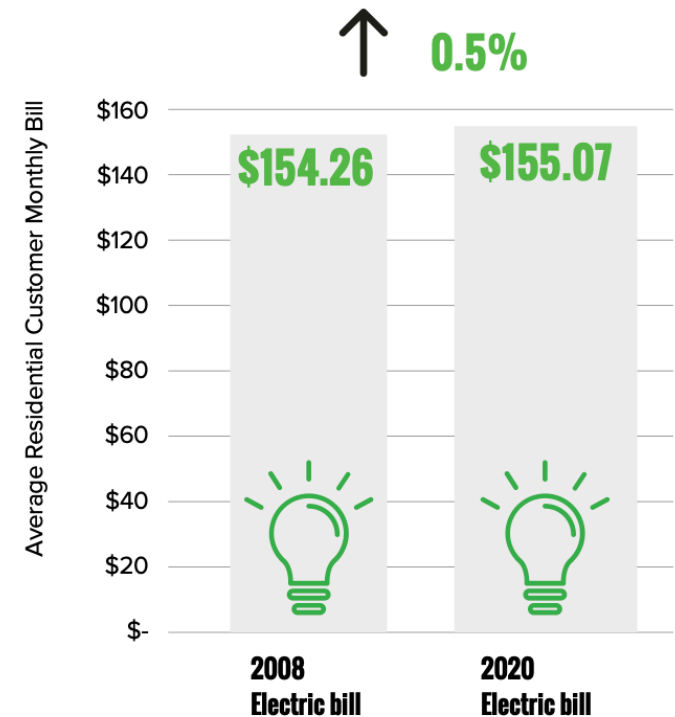
SHORT TERM: LIPA'S RATES FLAT



ACTIONS TO MANAGE 2020 RATES

\$631 Million Customer Savings in 2020 from Being Lean

	Millions
Discontinuing investment in combined cycle plants	\$348
LIPA Reform Act 2% Tax Cap	\$141
Refinancing existing debt	\$60
Renegotiating expiring power purchase agreements	\$36
Investing in cost-effective energy efficiency	\$19
PSA pension and retirement savings	\$8
Smart Meter savings	\$7
Reduction to gas transportation costs	\$6
Power plant property tax savings	\$6
Total	\$631



HIGHLIGHTS FROM PENDING RATE ACTIONS

	NYSEG	RG&E
Date Filed	May 2019 (amended filing)	May 2019 (amended filing)
Requested Increase	\$174 million 22.6%	\$37.2 million 8%
Drivers	<ul style="list-style-type: none"> • Vegetation management • Advanced metering (AMI) • Electric vehicle programs • Energy storage investments • Other increases in operating expenses, depreciation, and infrastructure investments 	<ul style="list-style-type: none"> • Advanced metering (AMI) • Electric vehicles programs • Energy storage investments • Other increases in operating expenses, depreciation and infrastructure investments
<u>Latest Status:</u> <i>Proceeding suspended until September 13th due to COVID-19</i>		

Questions?

BOARD AGENDA SUMMARY SHEET

Committee or Board: Board	Date: June 12, 2020	Board Meeting Date: June 24, 2020
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For All Board Voting Items:

Title of Agenda Item: Approval of the Annual Report on the Board Policy on Customer Value and Affordability

Consent Agenda: ☐ Yes ☒ No

Accompanying Presentation: ☐ Yes ☒ No

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

LIPA Presenter: Justin Bell

PSEG Long Island Presenter: N/A

Enterprise Risk Management Discussion: ☒ Yes ☐ No

For Policy Reports Only:

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

Date of Last Report: July 24, 2019

Compliance Since Last Report: ☒ Yes ☐ No

Proposed Changes to Policy: ☐ Yes ☒ No

Requested Action:	The Board is requested to adopt a resolution: (i) finding that LIPA has complied with the Policy for the period since the last annual review of the Policy; and (ii) approving the annual report for 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 LIPA'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 24, 2019.</p> <p>Staff has determined, for the reasons set forth in the accompanying memorandum, that LIPA has remained in compliance with the objectives of the Policy for the period since the last annual review.</p>

FOR CONSIDERATION

June 24, 2020

TO: The Board of Trustees

FROM: Thomas Falcone

SUBJECT: Approval of the Annual Report on the Board Policy on Customer Value and Affordability

Requested Action

The Board of Trustees (the “Board”) of the Long Island Power Authority (“LIPA”) is requested to adopt a resolution: (i) approving the annual report on the Board Policy on Customer Value and Affordability (the “Policy”) for the period since the last annual review; and (ii) finding that LIPA has complied with the Policy, which resolution is attached hereto as **Exhibit “A”**.

Background

By Resolution No. 1318, dated September 21, 2016, the Board adopted the Policy. The purpose of the Policy is to set reasonable objectives for LIPA’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 24, 2019.

Compliance with the Policy

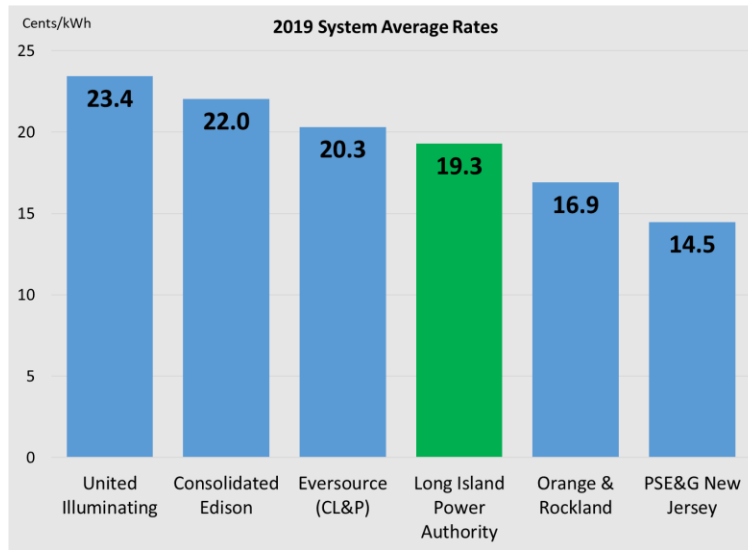
Staff has determined, for the reasons set forth below, that LIPA has remained in compliance with the objectives of the Policy for the period since the last annual review.

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

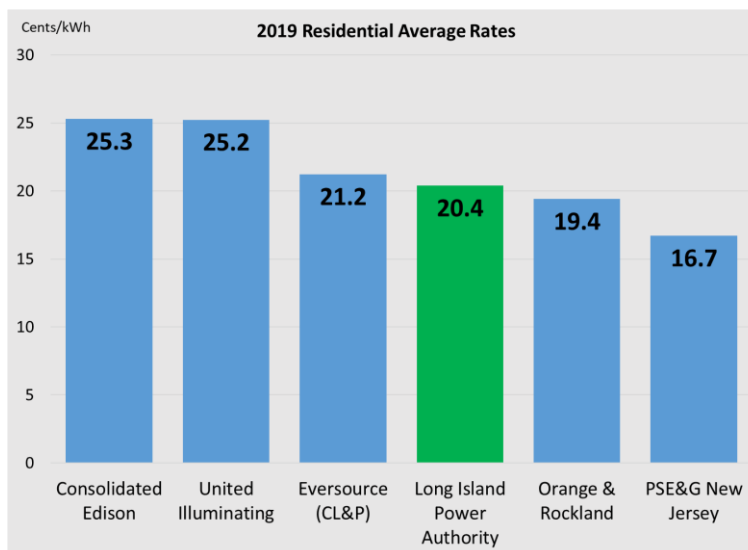
- In December 2019, the Board of Trustees adopted the 2020 Budget and Rate Update, which implemented an annual budget and rate update at the lowest level consistent with sound fiscal and operating practices, as those practices are defined by Board Policy, and within the statutory threshold provided in 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 electric/gas supply options of the Authority, including: Consolidated Edison, Orange & Rockland, United Illuminating, Eversource (formerly Connecticut Light and Power), and PSE&G.”

- LIPA's system average electric rate was 19.3 cents in 2019.
- Compared to the other five major regional utilities that surround LIPA's service territory, listed in the Policy, LIPA's system average rate is roughly average for the region.
- LIPA's system average rate is 18% below the highest priced regional utility.
- The system average electric rates of the regional utilities ranged from 14.5 cents (PSE&G) to 23.4 cents (United Illuminating), as shown in the following figure:



- Although the policy is focused on system average rates, it is worth noting that LIPA's residential average rate in 2019 of 20.4 cents was also competitive with the rates of our regional peer utilities, as shown in the following figure:

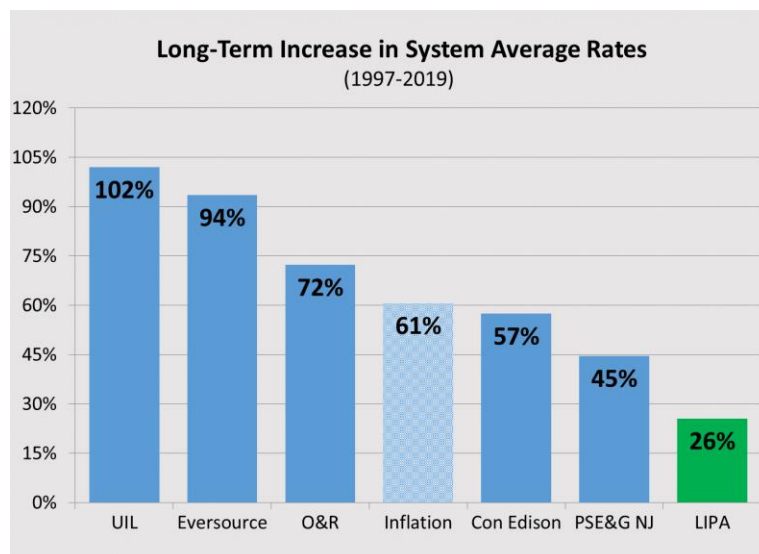


- If LIPA's taxes, which comprise 18% of the bill, were equivalent to the national average of 6% of the bill, LIPA's 2019 system average rate would have been 17 cents rather than 19.3 cents.

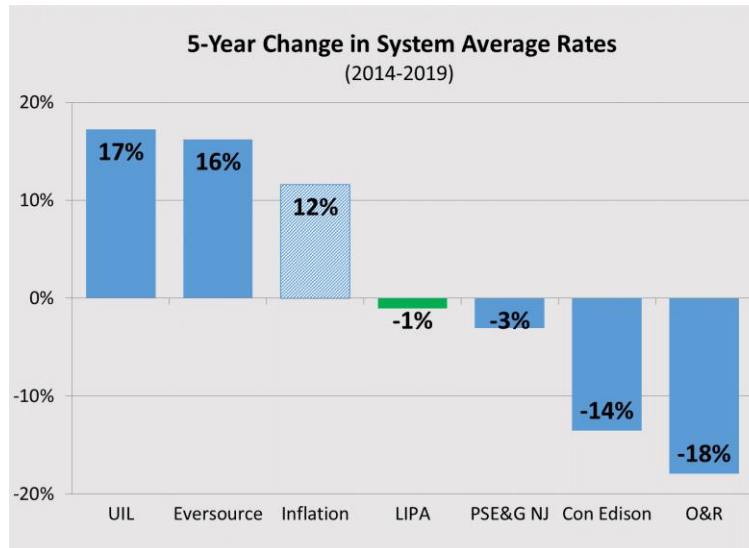
- The New York City metro area has above average labor, land, tax, and commodity costs and highly seasonal weather patterns (i.e. electricity is used for cooling in the summer while other fuels are used for heating in the winter). This causes the New York metro area to have per kilowatt hour electric rates that are above the national average. For example, the national system average retail electric rate in 2018, according to the U.S. Energy Information Agency, was 10.5 cents per kilowatt-hour. State-by-state averages include 18.4 cents for Connecticut, 18.5 cents for Massachusetts, 14.8 cents for New York, 15.1 cents for Vermont, 13.2 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 to Support Investments in Customer Value: The Policy states “Changes in the Authority’s electric rates and bills should be similar to other regional utilities on a system average basis. 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.”

- 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 26% since LIPA took over the Long Island grid in 1998, compared to a range of 45% to 102% for the other utilities, as shown in the following figure. The consumer price index, a standard measure of inflation, increased 61%.



- Over the past 5 years, LIPA's system average electric rates have decreased 1% while other regional utilities have ranged from an 18% decrease to a 17% increase, as shown in the following figure.



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 to people with low incomes and severe medical conditions; and 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 supporting energy efficiency and conservation.”

During 2019, LIPA made the following changes to its rates and tariffs in furtherance of this Policy:

- LIPA introduced new incentives for behind-the-meter batteries to participate in our dynamic load management tariffs, helping the utility manage load and reduce peaks. LIPA also expanded eligibility for participation in the dynamic load management tariffs to customers with eligible generating equipment, such as rooftop solar.
- LIPA completed the phase-in of increased discounts for low-and-moderate income customers.
- LIPA made simplifying changes and other improvements to the Value of Distributed Energy Resources tariff, including by expanding eligibility to new technologies including hybrid solar and energy storage projects.
- LIPA completed an update to the Authority's rate modernization roadmap, which is a multi-year plan to modernize electric rates for customers.
- LIPA increased funding for heat pump incentives to support beneficial electrification of heating and greenhouse gas reductions.

Consistent with New York Policy: The Policy states: “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.”

During 2019, LIPA made changes to the following sections of its rates and tariffs in support of greater consistency with New York policy:

- Standard rates for wireless and wireline pole attachments.
- Conforming changes to the Value of Distributed Energy Resources tariff.
- Conforming changes to the Smart Grid Small Generator Interconnection Procedures.

Annual Review of the Policy

The Policy was last amended by the Board pursuant to Resolution No. 1488, dated July 24, 2019, at which time the Policy was significantly updated. Staff has completed its annual review of the Policy and has no suggested amendments at this time.

Enterprise Risk Management Discussion

The Board has adopted a Policy on Enterprise Risk Management (“ERM”). Enterprise risks are brought to the Board’s attention throughout the year. LIPA’s ERM program has identified two such risks related to the adequacy of rates and their related rate designs (tariffs). The two specific risks are: “Insufficient rates may lead to inadequate system investments which compromises LIPA’s ability to achieve strategic objectives” and “Existing rate design may not reflect changing customer usage patterns/expectations or provide accurate pricing signals (i.e. time of use rates, demand charges) resulting in customer cross-subsidies and economic inefficiencies.”

These risks are both rated as medium level risks. LIPA mitigates the risk of insufficient rates through an extensive analysis of its cost structure each year and by maintaining numerous specific performance metrics to monitor electric system performance relative to budgets on an ongoing basis. LIPA also utilizes a decoupling mechanism, which helps to stabilize revenues with changing weather patterns, and a delivery service adjustment to recover or refund to customers variances in unpredictable costs, such as storm costs.

Regarding the risk related to rate design, LIPA implements tariffs that reflect, to the best of our ability, customer end usage patterns. Outreach is conducted with LIPA customers to better understand their needs and concerns. Additionally, LIPA monitors industry best practices and utilizes appropriate technological advancements to ensure the reasonableness of our rate designs. Based on the mitigations actions that are currently in place, staff believe both of these risks are being adequately managed.

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” Policy

**RESOLUTION APPROVING THE REPORT TO THE BOARD OF TRUSTEES ON THE
BOARD POLICY ON CUSTOMER VALUE AND AFFORDABILITY**

WHEREAS, the Customer Value and Affordability 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. 1488, dated July 24, 2019; and

WHEREAS, the Board has conducted an annual review of the Policy and affirms that the Policy has been complied with.

NOW, THEREFORE, BE IT RESOLVED, that consistent with the accompanying memorandum, the Board hereby finds that the Authority has complied with the Customer Value and Affordability Policy for the period since the last annual review and approves the annual report to the Board.

Dated: June 24, 2020



Board Policy:	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 #1488, 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 in terms of both affordability and rate design. We will carry out this Policy by 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 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;
 - be affordable to people with low incomes and severe medical conditions; and
 - 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 supporting energy efficiency and conservation.

¹ 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, 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.

- **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 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.