



Annual Report on Customer Value and Affordability Policy

June 23, 2021

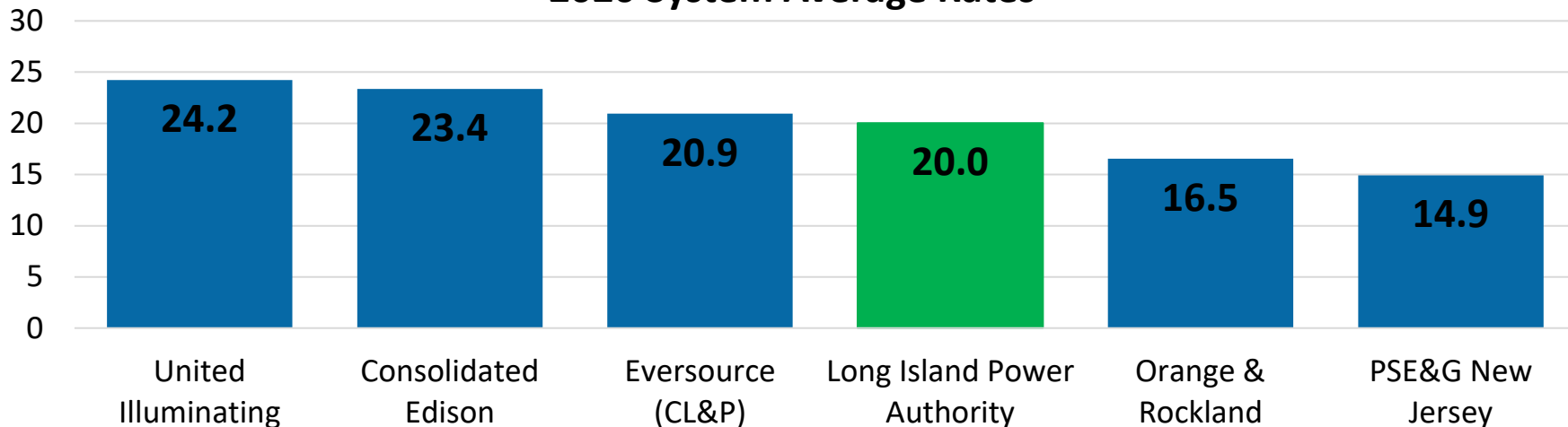
MEETING THE POLICY PRIORITIES OF THE LIPA BOARD

- 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

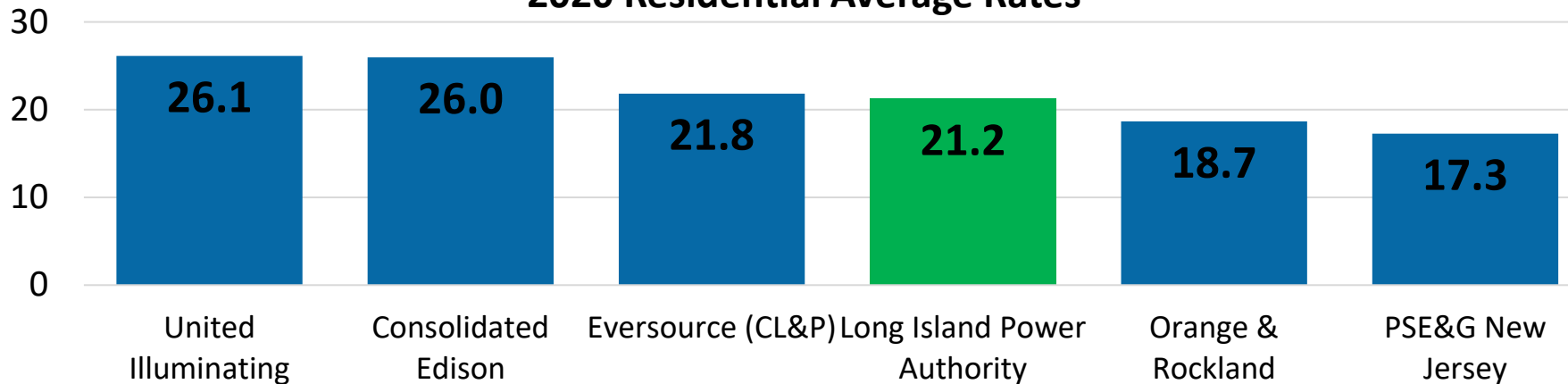
Cents/kWh

2020 System Average Rates



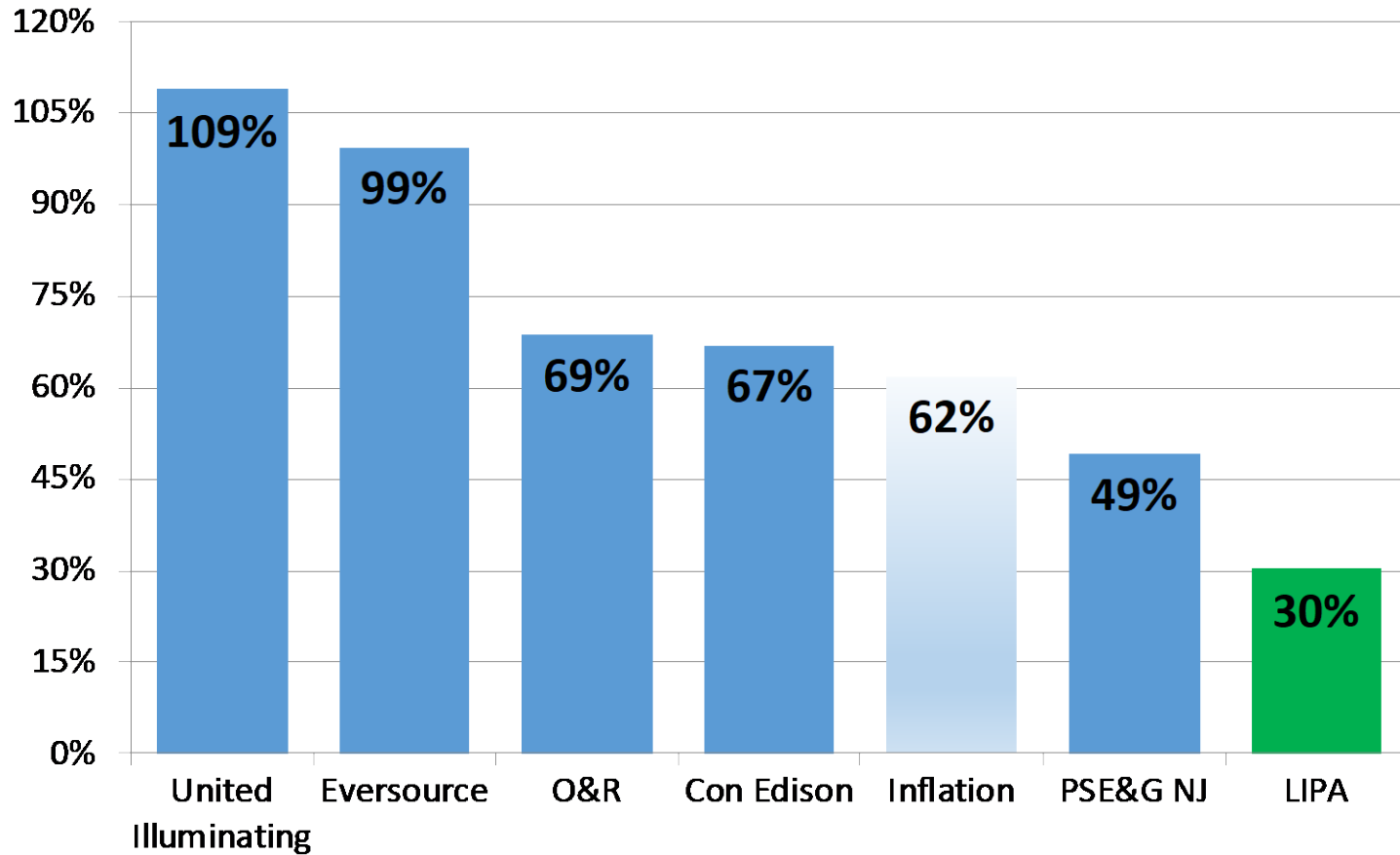
Cents/kWh

2020 Residential Average Rates



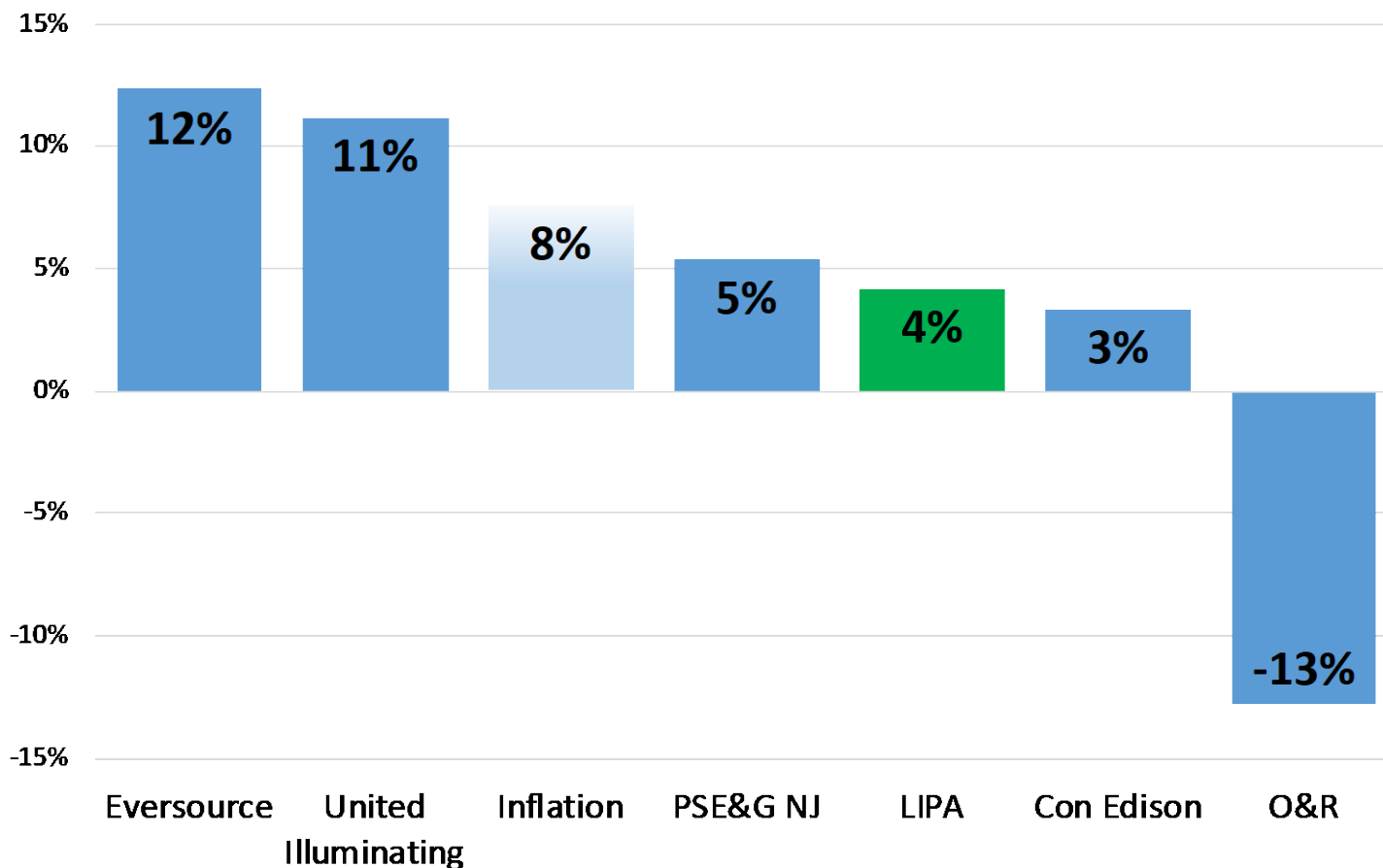
LONG TERM: LIPA'S RATES SLOW TO INCREASE

Long-Term Increase in System Average Rates (1997-2020)



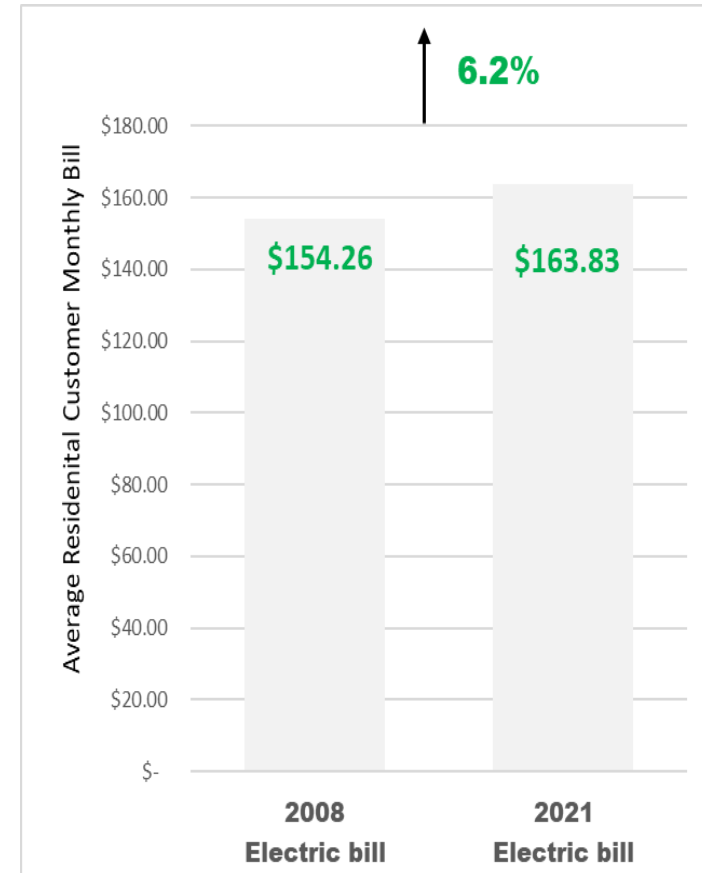
SHORT TERM: LIPA'S RATES LESS THAN INFLATION

3-Year Change in System Average Rates (2017-2020)



ACTIONS TO MANAGE 2021 RATES

Customer Savings in 2021 from Operating Lean	
	<u>\$ Millions</u>
Discontinued investments in combined cycle plants	\$353
LIPA Reform Act 2% Tax Cap	\$213
Refinancing existing debt	\$30
Renegotiating expiring power purchase agreements	\$48
Investing in cost-effective energy efficiency	\$19
Reduction to gas transportation costs	\$12
Smart Meter savings	\$11
PSA pension and retirement savings	\$8
Power plant property tax savings	\$13
Operating Savings and Improved Productivity	\$10
Generating Unit Retirements	\$1
Total	\$718



HIGHLIGHTS FROM PENDING RATE ACTIONS

	Central Hudson	Niagara Mohawk	Orange & Rockland
Date Filed	August 2020	July 2020	January 2021
Requested Increase (\$M)	<ul style="list-style-type: none"> • \$32.8 (Request) • -\$12M (Staff Recommended Reduction) 	<ul style="list-style-type: none"> • \$103.3 (Request) • -\$30.5M (Staff Recommended Reduction) 	<ul style="list-style-type: none"> • \$27.8 (Request)
Drivers	<ul style="list-style-type: none"> • Capital investments related to the replacement of aging infrastructure, vegetation management and targeted storm hardening. • Increased labor expense. • Enhanced heat pump program. • Infrastructure Modernization - replace aging infrastructure while at the same time facilitating the integration of DERs. • Carbon emissions reductions - programs aimed at reducing carbon emissions and meeting the State's mandates under the CLCPA. 	<ul style="list-style-type: none"> • Impact of COVID-19 - decline in forecasted revenues as result of reduced usage by commercial and industrial customers. • CLCPA climate goals - delivering on New York's climate goals outlined in the CLCPA. • Upgrading infrastructure and enhancing security - includes the replacement of aging infrastructure with modern equipment. • Improving customer service, including, providing further support for energy efficiency. 	<ul style="list-style-type: none"> • Continue to provide safe and reliable service - by increasing electric storm hardening investments. • Invest in community by supporting job creation and economic growth; • Advance in clean energy future through innovative investments that will support distributed energy and the accommodation of increased renewable energy.

Questions?

FOR CONSIDERATION

June 23, 2021

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 by the Board on June 24, 2020, and last amended on July 24, 2019.

Compliance with the Policy

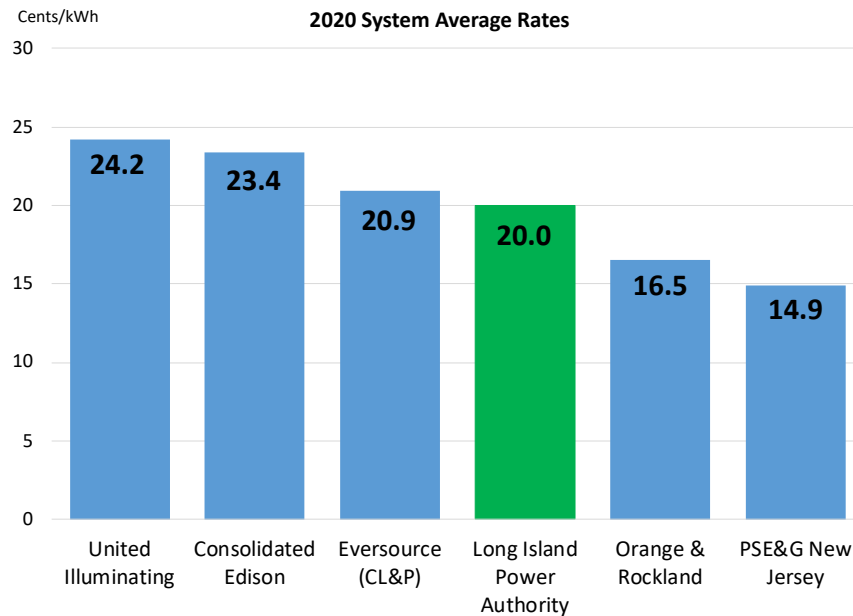
Staff has determined, for the reasons set forth below, that LIPA has remained in compliance with the objectives of the Policy for the period since the last annual review.

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 2020, the Board of Trustees adopted the 2021 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 20.0 cents in 2020.
- Compared to the other five major regional utilities that surround LIPA’s service territory, listed in the Policy, LIPA’s system average rate is equivalent to the regional average (also 20.0 cents).
- LIPA’s system average rate is 17% below the highest priced regional utility.
- The system average electric rates of the regional utilities ranged from 14.9 cents (PSE&G) to 24.2 cents (United Illuminating), as shown in the following figure:



- If LIPA’s taxes, which comprise 19% of the bill, were equivalent to the national average of 6% of the bill, LIPA’s 2020 system average rate would have been 17.4 cents rather than 20 cents.
- Although the Policy is focused on system average rates, it is worth noting that LIPA’s residential average rate in 2020 of 21.2 cents was also competitive with the rates of our regional peer utilities, as shown in the following figure:

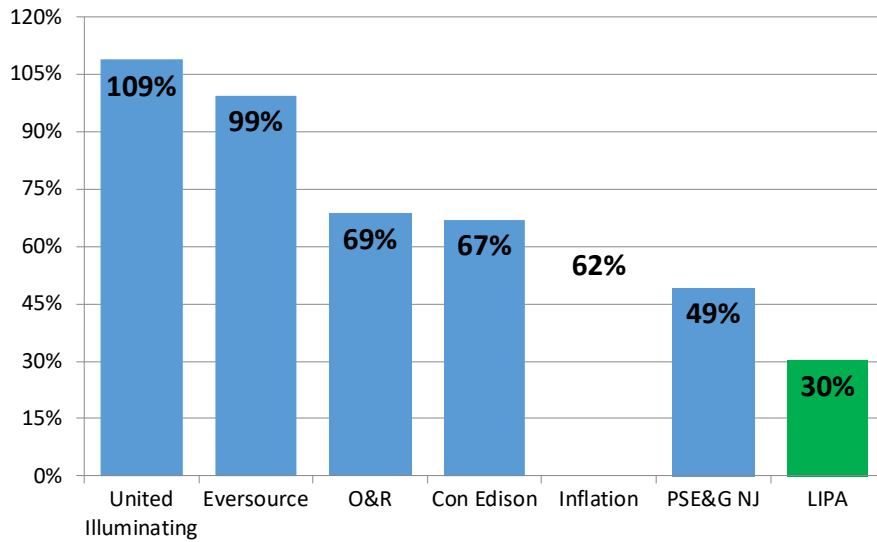


- The New York City metro area has above average labor, land, tax, and commodity costs and highly seasonal weather patterns (i.e. electricity is used for cooling in the summer while other fuels are used for heating in the winter). This causes the New York metro area to have per kilowatt hour electric rates that are above the national average. For example, the national system average retail electric rate in 2019, according to the U.S. Energy Information Agency, was 10.5 cents per kilowatt-hour. State-by-state averages include 18.7 cents for Connecticut, 18.4 cents for Massachusetts, 14.3 cents for New York, 15.4 cents for Vermont, 13.4 cents for New Jersey, and 9.8 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.”

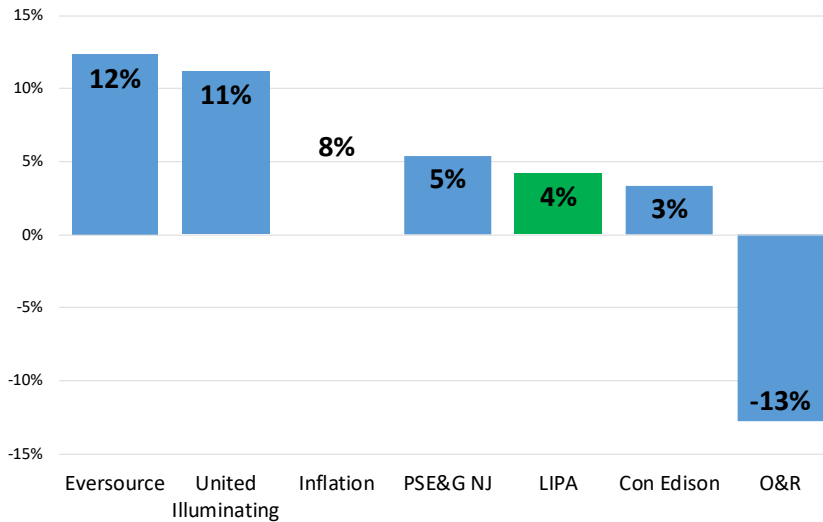
- LIPA’s system average rates have been competitive on a long-term basis, having risen more slowly than any of the other regional utilities during LIPA’s stewardship of the Long Island grid (see chart below).
- LIPA’s rates increased 30% since LIPA took over the Long Island grid, compared to a range of 49% to 109% for the other utilities, as shown in the following figure. The consumer price index, a standard measure of inflation, increased 62%.

Long-Term Increase in System Average Rates
(1997-2020)



- Over the past 3 years, LIPA’s system average electric rates have increased 4% while other regional utilities have ranged from an 13% decrease to a 12% increase, as shown in the following figure.

3-Year Change in System Average Rates
(2017-2020)



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 2020, LIPA made the following changes to its rates and tariffs in furtherance of this Policy:

- To assist with affordability during the COVID-19 pandemic, LIPA waived customer late payment charges, suspended disconnections for non-payment, waived reconnection fees (including backbilled demand and service charges), suspended the expiration of low-income customer discounts, and eased the terms of deferred payment agreements and security deposits.
- LIPA added five new time-of-use rates reflecting industry best practices, to better align rates with cost of service, which varies based on the time of day, and to encourage peak conservation and more efficient use of the grid.
- LIPA approved a new solar feed-in-tariff called Solar Communities, with bill savings to be streamed to participating low and moderate-income customers.
- To mitigate customer bill volatility and promote responsible financial stewardship, LIPA approved modifications to the revenue decoupling mechanism and delivery service adjustment tariffs.
- LIPA approved a negotiated rate for sewer districts participating in the Suffolk County Coastal Resiliency Initiative as part of an effort to protect ground water sources and sustain the regional environment on Long Island for the benefit of LIPA's customers and to protect the surrounding waterways of the Great South Bay.

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 2020, LIPA made changes to the following sections of its rates and tariffs in support of greater consistency with New York policy:

- LIPA made Community Choice Aggregation (CCA) available in the service territory.
- LIPA modified the Community Distributed Generation (CDG), Value of Distributed Energy Resources (VDER), and Net Energy Metering provisions of its Tariff: (1) to implement a resource capacity factor adjustment to the Community Credit component of VDER compensation; (2) to exclude new non-renewable resources from eligibility for the VDER Environmental Value, consistent with the Climate Leadership and Community Protection Act (CLCPA); (3) to make new non-renewable resources ineligible for Net Energy Metering, consistent with the CLCPA; and (4) to clarify that a CDG project will receive the Community Credit rate in effect at the time the project qualifies for 25 years from the project's in-service date.
- LIPA updated its CDG tariff to allow for net crediting of CDG host subscription fees and CDG subscriber credits on customer bills.
- LIPA updated its standard interconnection procedures to reflect recent changes to the statewide standard interconnection procedures and to establish standard interconnection procedures for energy storage systems.
- LIPA implemented new provisions of the Public Service Law that allow landlords and

prospective tenants to access the historical electric charges billed to a rental property.

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 and economic 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

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 23, 2021