



ANNUAL REPORT ON CUSTOMER VALUE & AFFORDABILITY POLICY

May 18, 2022

MEETING THE POLICY PRIORITIES OF THE LIPA BOARD

The Board Policy on Customer Value and Affordability seeks to maximize the value provided for customers' dollars and maintain electric rates that are affordable as compared to other utilities in our region.

Policy objectives include:

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

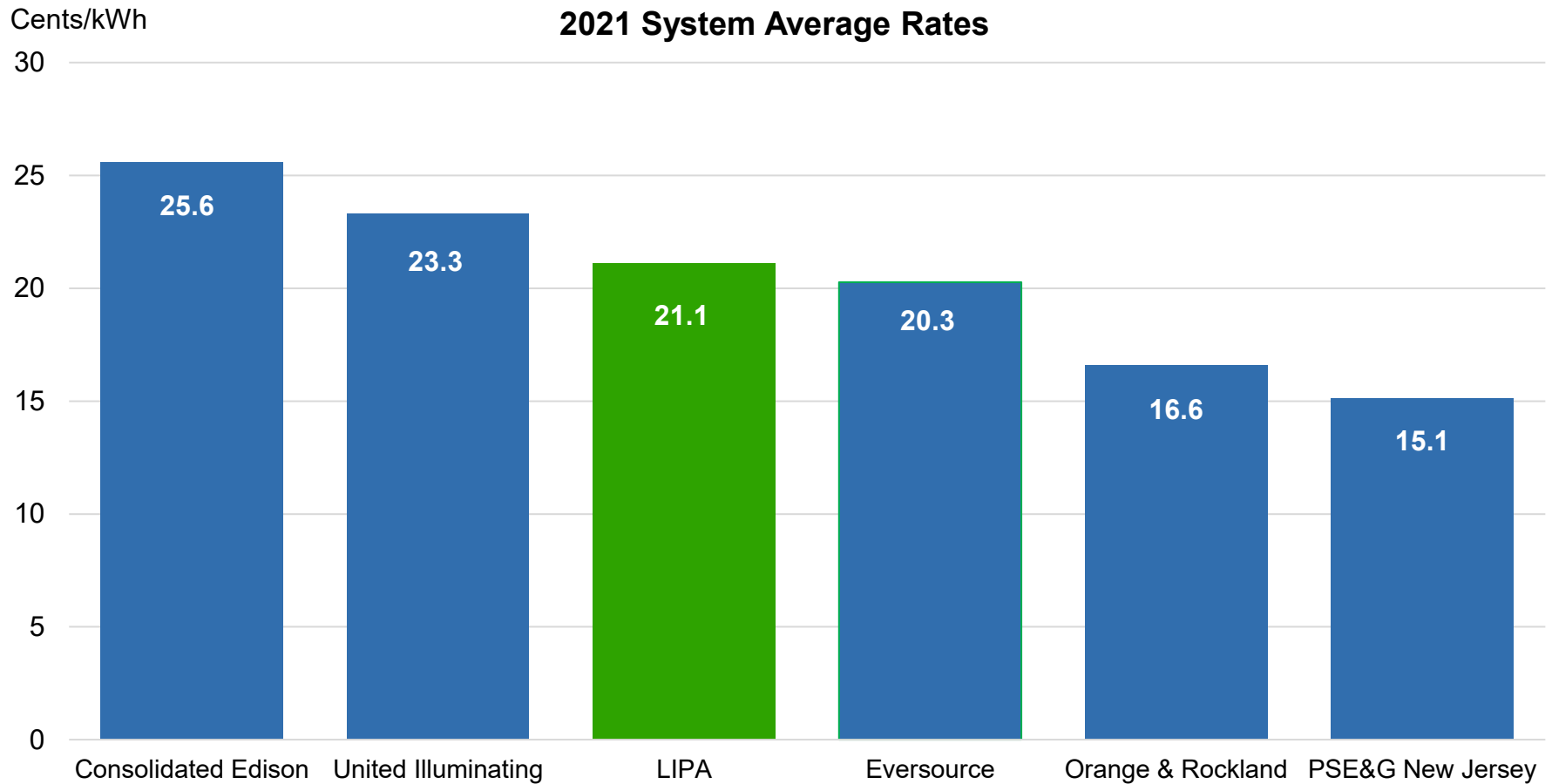
ACTIONS TO MANAGE 2022 RATES

\$999 Million Customer Savings in 2022 from Operating Lean

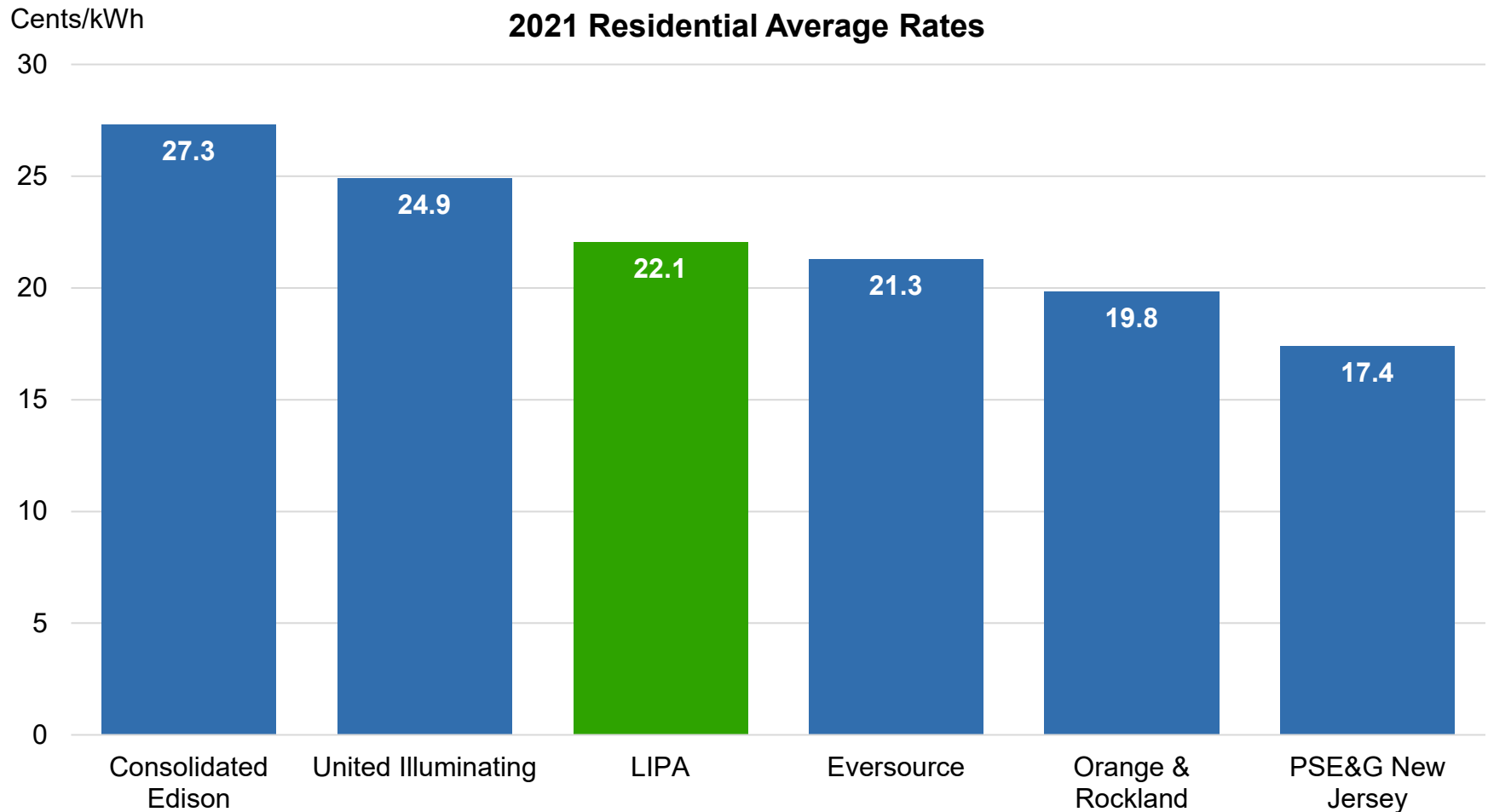
Millions

Discontinued investments in combined cycle plants	\$348
LIPA Reform Act 2% Tax Cap	\$272
Commodity hedging (based on current prices)	\$150
Renegotiating expiring power purchase agreements	\$56
Refinancing existing debt	\$49
Reduction to wholesale market and off-island transmission costs	\$39
Investing in cost-effective energy efficiency	\$29
Power plant property tax savings	\$20
Smart Meter savings	\$17
Operating savings and improved productivity	\$11
Power plant pension and retirement savings	\$8
Total	\$999

REGIONALLY COMPARABLE RATES

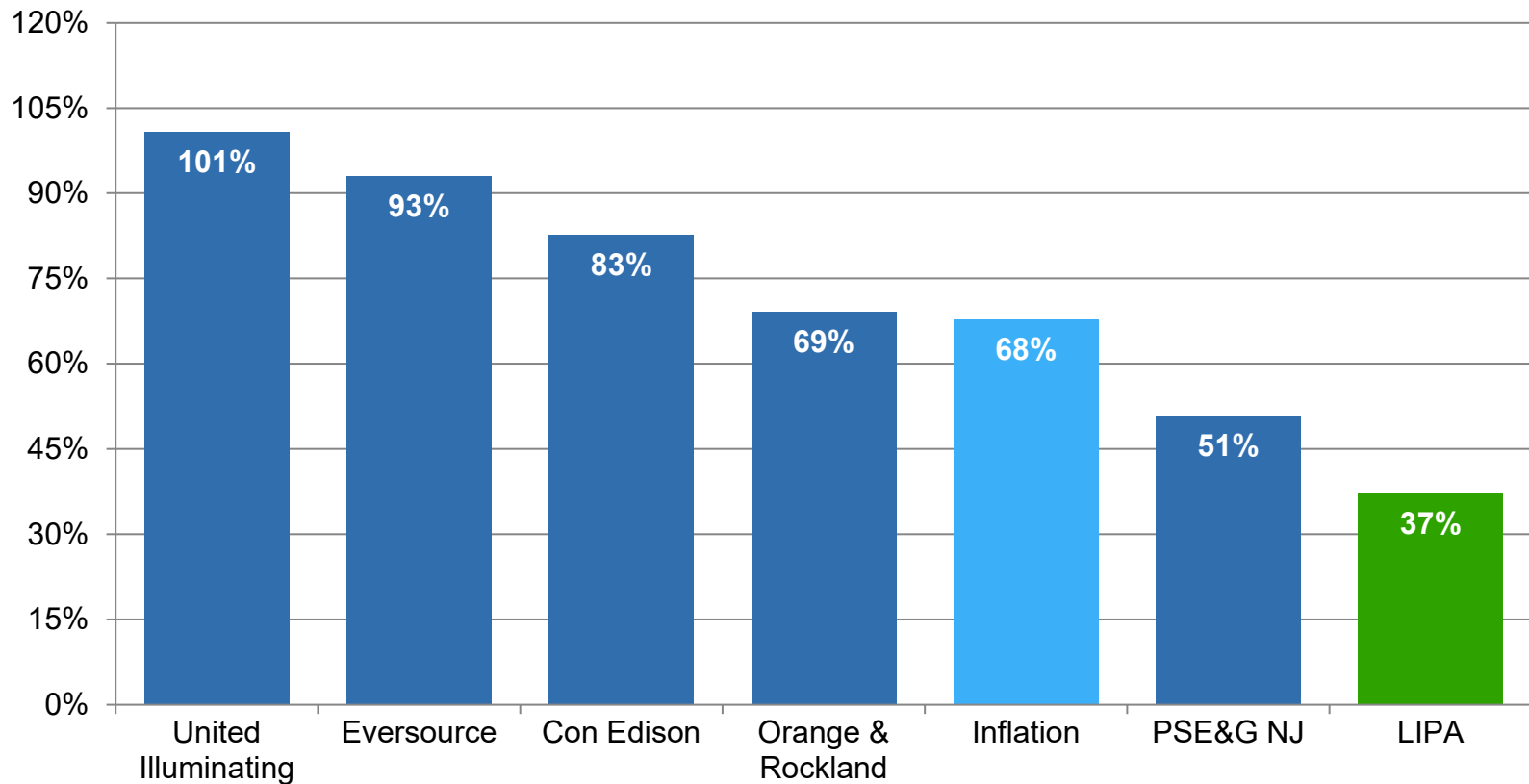


REGIONALLY COMPARABLE RATES



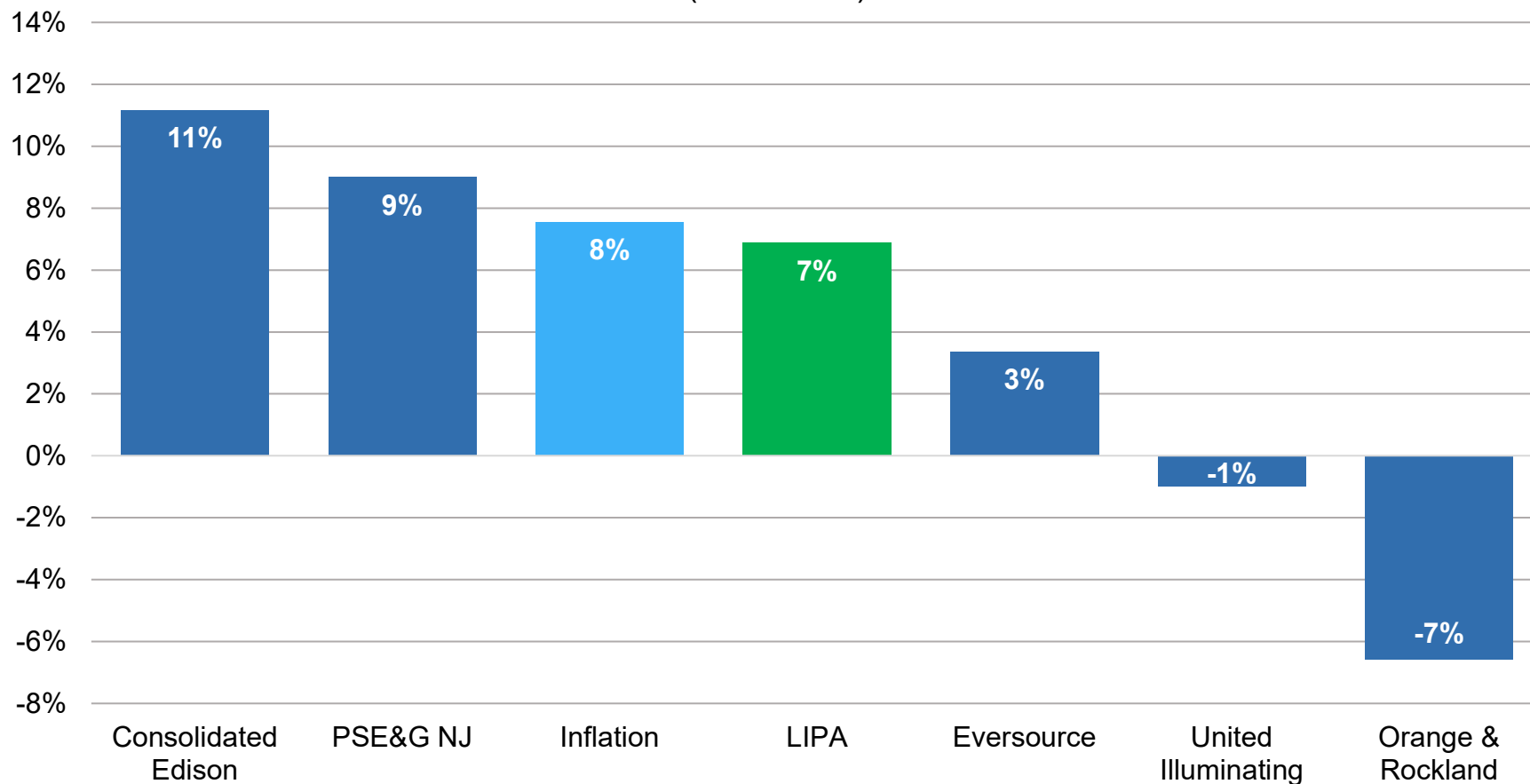
LONG-TERM : LIPA'S RATES SLOW TO INCREASE

**Long-Term Increase in System Average Rates
(1997-2021)**



SHORT-TERM : LIPA'S RATES LESS THAN INFLATION

**3-Year Change in System Average Rates
(2018-2021)**



A hand holding a lightbulb against a blue background with bokeh lights.

Discussion

Questions?

FOR CONSIDERATION

May 18, 2022

TO: The Board of Trustees

FROM: Thomas Falcone

SUBJECT: Consideration of Approval of the Annual Report and Amendments to 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; (ii) finding that LIPA has complied with the Policy; and (iii) approving 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. 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 in June 2021, and last amended in July 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.”

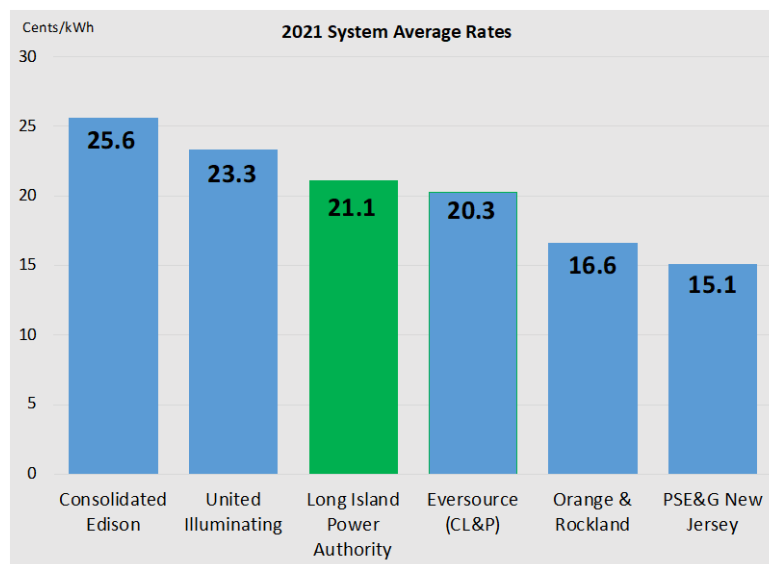
- In December 2021, the Board of Trustees adopted the 2022 Budget and Rate Update, which implemented an annual budget and rate update at the lowest level consistent with sound fiscal and operating practices, as those practices are defined by Board Policy, and within the statutory threshold provided in the Public Authorities Law.
- The 2022 Budget identified \$999 million in projected savings from actions taken to operate lean, balancing cost and service to achieve the most out of every dollar.

\$999 Million Customer Savings in 2022 from Operating Lean

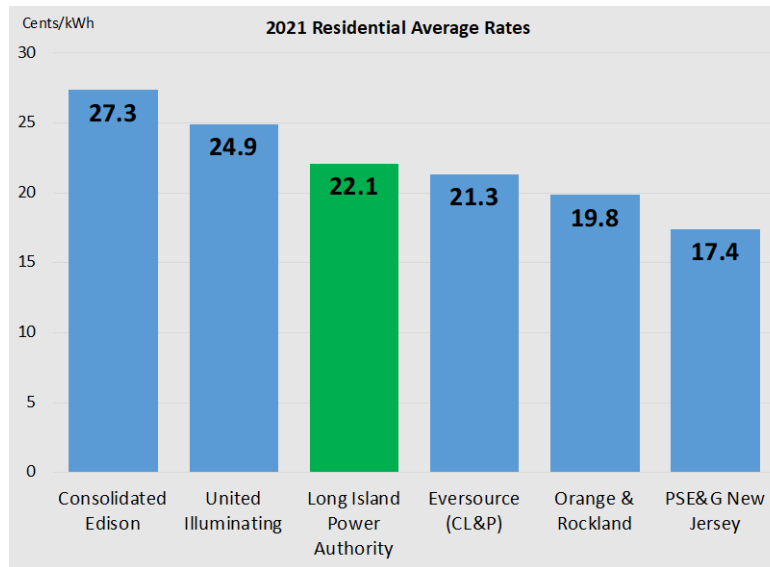
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Regionally Comparable Electric Rates: The Policy states “Electric rates should be comparable to the published rates on a system average basis of other regional utilities that surround the Authority’s service territory, which most closely resemble the 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 21.1 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 less than one cent above the regional average (20.3 cents).
- LIPA’s system average rate is 18% below the highest priced regional utility.
- The system average electric rates of the regional utilities ranged from 15.1 cents (PSE&G) to 25.6 cents (United Illuminating), as shown in the following figure:



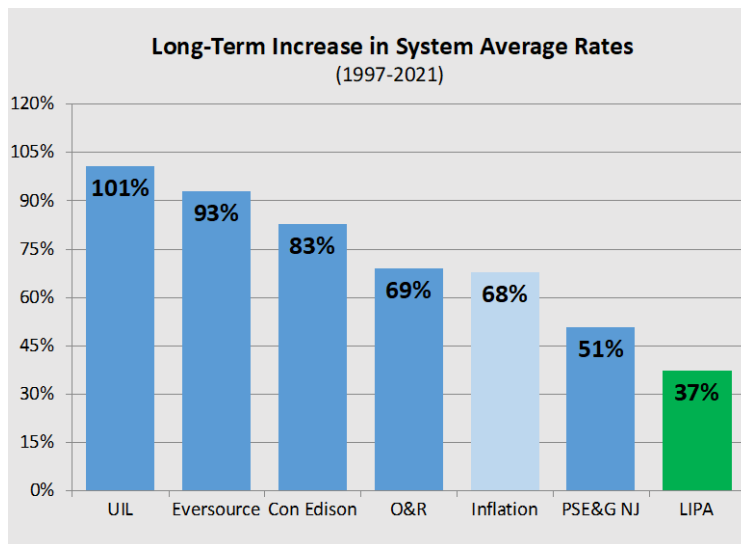
- If LIPA’s taxes, which comprise 19% of the bill, were equivalent to the national average of 6% of the bill, LIPA’s 2021 system average rate would have been 17.5 cents rather than 21.1 cents.
- Although the Policy is focused on *system average* rates, it is worth noting that LIPA’s *residential* average rate in 2021 of 22.1 cents was also competitive with the rates of our regional peer utilities, as shown in the following figure:



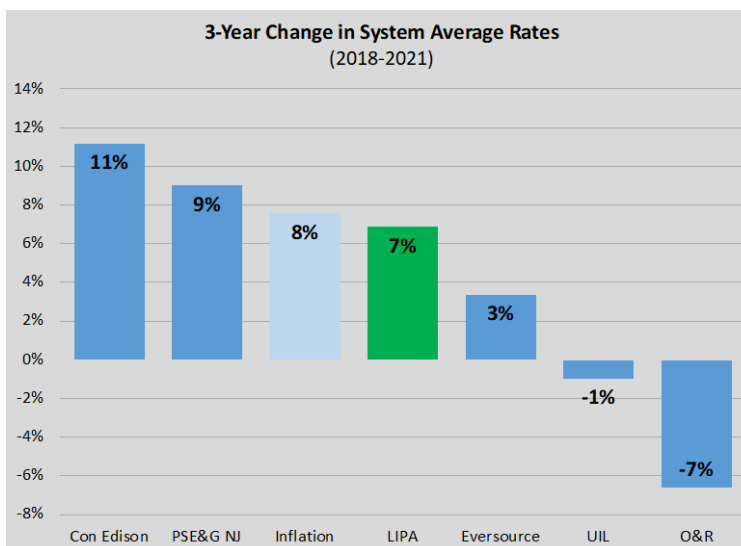
- The New York City metro area has above average labor, land, tax, and commodity costs and highly seasonal weather patterns (i.e. electricity is used for cooling in the summer while other fuels are used for heating in the winter). This causes the New York metro area to have per kilowatt-hour electric rates that are above the national average. For example, the national system average retail electric rate in 2020, according to the U.S. Energy Information Agency, was 10.6 cents per kilowatt-hour. State-by-state averages include 19.1 cents for Connecticut, 18.2 cents for Massachusetts, 14.9 cents for New York, 16.3 cents for Vermont, 13.7 cents for New Jersey, and 9.7 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 37% since LIPA took over the Long Island grid, compared to a range of 51% to 101% for the other utilities, as shown in the following figure. The consumer price index, a standard measure of inflation, increased 68%.



- Over the past 3 years, LIPA’s system average electric rates have increased 7% while other regional utilities have ranged from an 7% decrease to an 11% 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 2021, 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 continued to waive 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 increased the cap on customer participation in the NYSERDA-administered Green Jobs Green New York on-bill loan installment program, giving more customers access to low-cost financing of energy efficiency, beneficial electrification, and distributed energy resources.
- LIPA codified improvements to Long Island Choice, designed to give customers more flexibility to choose alternative suppliers and participate in Community Choice Aggregation.
- LIPA suspended daily service charges for customers affected by prolonged outages due to major storms and other emergency events.

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 2021, LIPA made changes to the following sections of its rates and tariffs in support of greater consistency with New York policy:

- LIPA updated community distributed generation and remote crediting rules to better align with statewide versions of these programs.
- LIPA implemented a Customer Benefits Contribution Charge to recover the cost of public benefit programs fairly from all customers.
- LIPA updated its pole attachment fees and Service Initiation Charges, and updated the Service Classification 7A eligibility, for consistency with statewide policy and local municipal ordinances.
- LIPA adopted further enhancements to Community Choice Aggregation to make it available to CCAs on the same terms as the rest of the State.

Annual Review of the Policy

The Board hired Leading Resources, Inc. to review the Board policies and to facilitate discussion amongst the Trustees on certain policies. A working group of Trustees participated in various meetings to develop and draft amendments to the Policy. The draft amendments to the Policy were shared with the full Board at its meeting on March 30, 2022.

The final version of the amended Policy, as drafted by the Trustees, is attached hereto as **Exhibit “B”**. The Policy has been renamed to the Board Policy on Customer Value, Affordability and Rate Design.

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/untimely rate relief may lead to inadequate system investments which compromises LIPA’s ability to achieve strategic priorities” and “Existing rate design may not reflect changing customer usage patterns/expectations or provide pricing signals (e.g. time of use rates, location and demand charges) resulting in customer cross-subsidies and economic inefficiencies (i.e. grid usage optimization).”

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 the identification of new specific performance metrics in the recently reformed Operating Service Agreement to monitor electric system performance relative to budgets on an ongoing basis. LIPA 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. LIPA also maintains a Power Supply Hedging Program designed to reduce a portion of fuel and purchased power price volatility.

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 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” Board Policy on Customer Value, Affordability and Rate Design

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 and concurs that the changes proposed to the Policy 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 Customer Value and Affordability Policy for the period since the last annual review and approves the annual report to the Board; and

BE IT FURTHER RESOLVED, that the Board hereby approved the amendments to the Policy as set forth in **Exhibit “B”**.

Dated: May 18, 2022

Board Policy: Customer Value, Affordability, and Rate Design

Policy Type: Purpose

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
[#xxxx], amended May 18, 2022

LIPA's vision for customer value and affordability is to maintain competitive electric rates compared to other regional utilities while transitioning to a zero-carbon electric grid, achieving industry-leading reliability, resiliency, and customer experience, and meeting the energy needs of low-income customers. Our vision for rate design is to provide customers with fair electric rates that are as simple as possible and that include opportunities for customers to save money.

To achieve our vision for **customer value**, LIPA will:

- **Prioritize investments** for our customers to balance cost and service quality, as demonstrated in the Strategic Roadmaps and Budgets reviewed and approved by the Board.
- **Communicate the benefits and cost drivers** of any rate increases to customers.
- Maximize the value to customers of our **not-for-profit** public power business model by using our tax-exempt cost of capital and eligibility for federal and state grants to reduce costs for customers.

To achieve our vision for **affordability**, LIPA will:

- Maintain **competitive electric rates**, as compared to the system average rates of those regional electric utilities that most closely resemble the costs, electric supply, and policy goals of our service territory.
- **Aggressively manage costs**, avoiding expenditures that do not advance our purpose.
- Offer programs to **low-income and disadvantaged customers** to maintain electric bills that are a reasonable percentage of household income.

To achieve our vision for **rate design**, LIPA will:

- Design electric rates that:
 - Are as **simple** and **easy to understand** as possible;
 - Provide customers with **opportunities to save money**;
 - **Equitably allocate costs** across and within customer classes; and
 - **Encourage conservation**, the efficient use of energy resources, and the transition to a carbon-free economy.
- Employ **innovative electric rate design** based on industry trends and research, stakeholder feedback in statewide proceedings, LIPA-run collaboratives, and comments from the public.

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