



ANNUAL REPORT ON CUSTOMER VALUE, AFFORDABILITY & RATE DESIGN

May 10, 2023

POLICY PRIORITIES OF THE LIPA BOARD

The Board Policy on Customer Value, Affordability, and Rate Design 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. The Policy 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.

- **Customer Value**

- Prioritize investments
- 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

- **Affordability**

- Maintain competitive electric rates
- Aggressively manage costs
- Offer programs to low-income and disadvantaged customers

- **Rate Design**

- Simple and easy to understand
- Opportunities to save money
- Equitably allocate costs across and within customer classes
- Encourage conservation, the efficient use of energy resources, and the transition to a carbon-free economy
- Employ innovative electric rate design



Customer Value

MEETING THE BOARD'S EXPECTATIONS FOR CUSTOMER VALUE

- Prioritize investments to balance cost and service quality, as demonstrated in Strategic Roadmaps and Budgets
 - Identified key initiatives in the Strategic Plan ([link](#)) approved by the Board in March 2023 to advance the Board's policy objectives for clean, reliable, affordable, customer-first energy over the next five years
 - Identified key initiatives to achieve Board's objectives in 2022 and 2023 Work Plans ([link](#)), Performance Metrics ([link](#)), and Budgets ([link](#))
- Communicate the benefits and cost drivers of any rate increases
 - 2023 Budget ([link](#)) includes a plain English description of initiatives and cost drivers
 - Published Fact Sheets in plain English about key initiatives (for example, [link](#))
- Maximize the value to customers of our not-for-profit public power business model...to reduce costs for customers
 - Since 2011, obtained \$1.8 billion in Federal grants, including \$285 million in 2022 and 2023
 - Applied for \$650+ million of new FEMA storm hardening and Department of Energy grants in 2022 and 2023
 - Saved customers \$500+ million in lower financing cost (see next page) compared to New York's investor-owned utilities due to public ownership (access to tax-exempt bonds, exemption from paying dividends to shareholders and corporate income taxes)

LOWER COST OF CAPITAL FOR PUBLIC POWER

- LIPA's cost of capital is **\$504M less** than what an investor-owned utility (IOU) would be allowed to charge for the same level of investment.
 - Return on Equity: 11.91% (IOU) minus 3.54% (LIPA) saves \$248M
 - Income Taxes @ 26.1%: 3.31% (IOU) minus 0.00% (LIPA) saves \$147M
 - Cost of Debt: 5.75% (IOU) minus 3.54% (LIPA) saves \$109M
 - Total Cost of Capital: \$851M (IOU) minus \$347M (LIPA) **saves \$504M**
- Estimates are based on the NY PSC-approved capital structure and approved rate of return for Con Edison

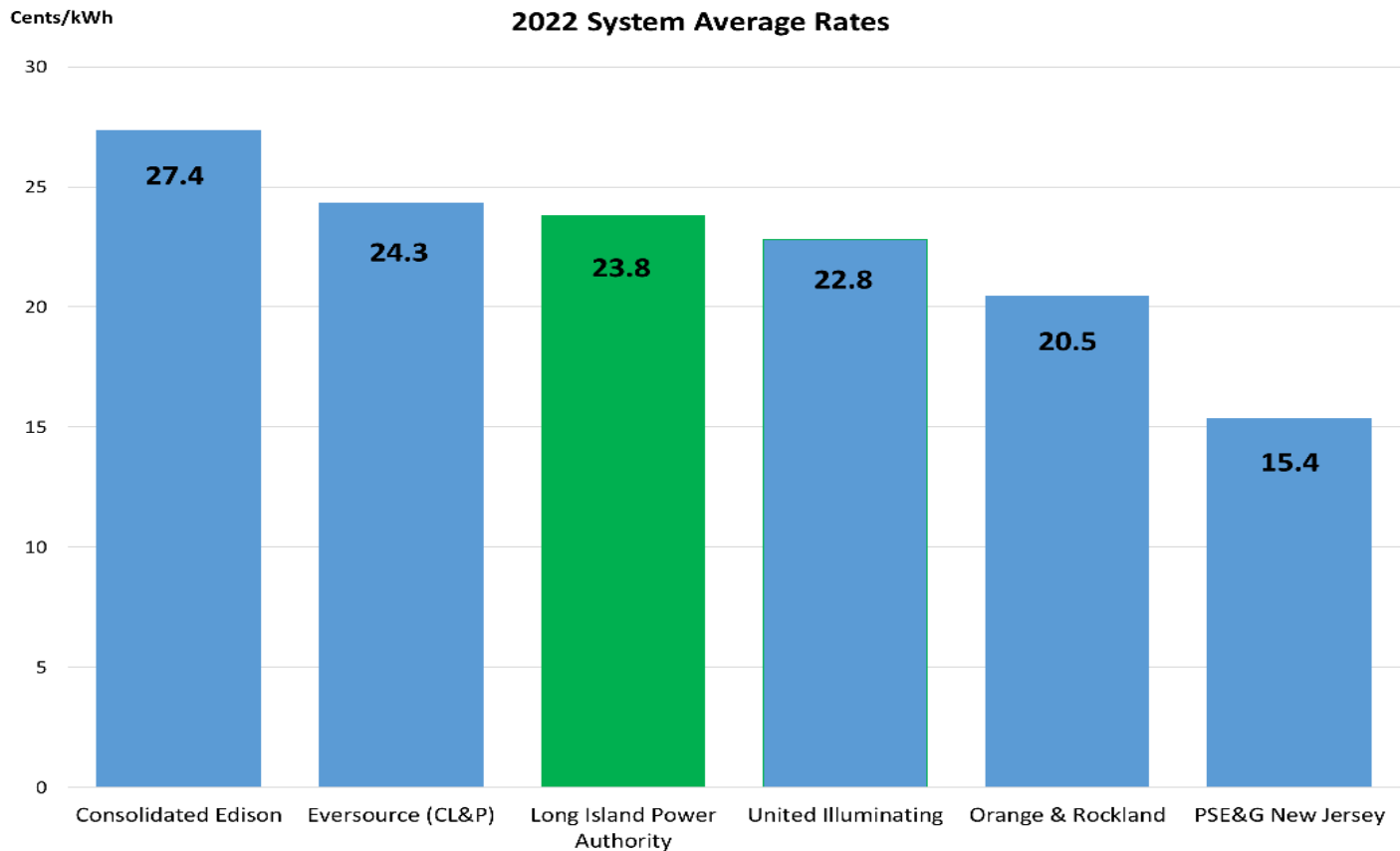
Rate Base Summary 2023 Approved Budget	IOU Capital Structure	Rate Base	PSC Allowed Rate	IOU Cost	LIPA Interest Expense	LIPA Annual Savings
Shareholder Equity	48.0%	\$4,711 M	8.80%	\$415 M	\$167 M	\$248 M
<u>Income Taxes at 26.1%</u>			<u>3.11%</u>	<u>\$147 M</u>	<u>\$0 M</u>	<u>\$147 M</u>
Shareholder Profit (pre-tax)	48.0%	\$4,711 M	11.91%	\$561 M	\$167 M	\$395 M
Long Term Debt	50.9%	\$4,996 M	5.75%	\$287 M	\$178 M	\$109 M
<u>Customer Deposits</u>	<u>1.1%</u>	<u>\$107 M</u>	<u>2.45%</u>	<u>\$3 M</u>	<u>\$3 M</u>	<u>\$0 M</u>
Total Interest Expense	52.0%	\$5,103 M	5.68%	\$290 M	\$181 M	\$109 M
Total Cost of Capital	100.0%	\$9,814 M	8.67%	\$851 M	\$347 M	\$504 M

A hand holding a lightbulb against a blue background with bokeh. The word "Affordability" is centered over the image, flanked by two horizontal white lines.

Affordability

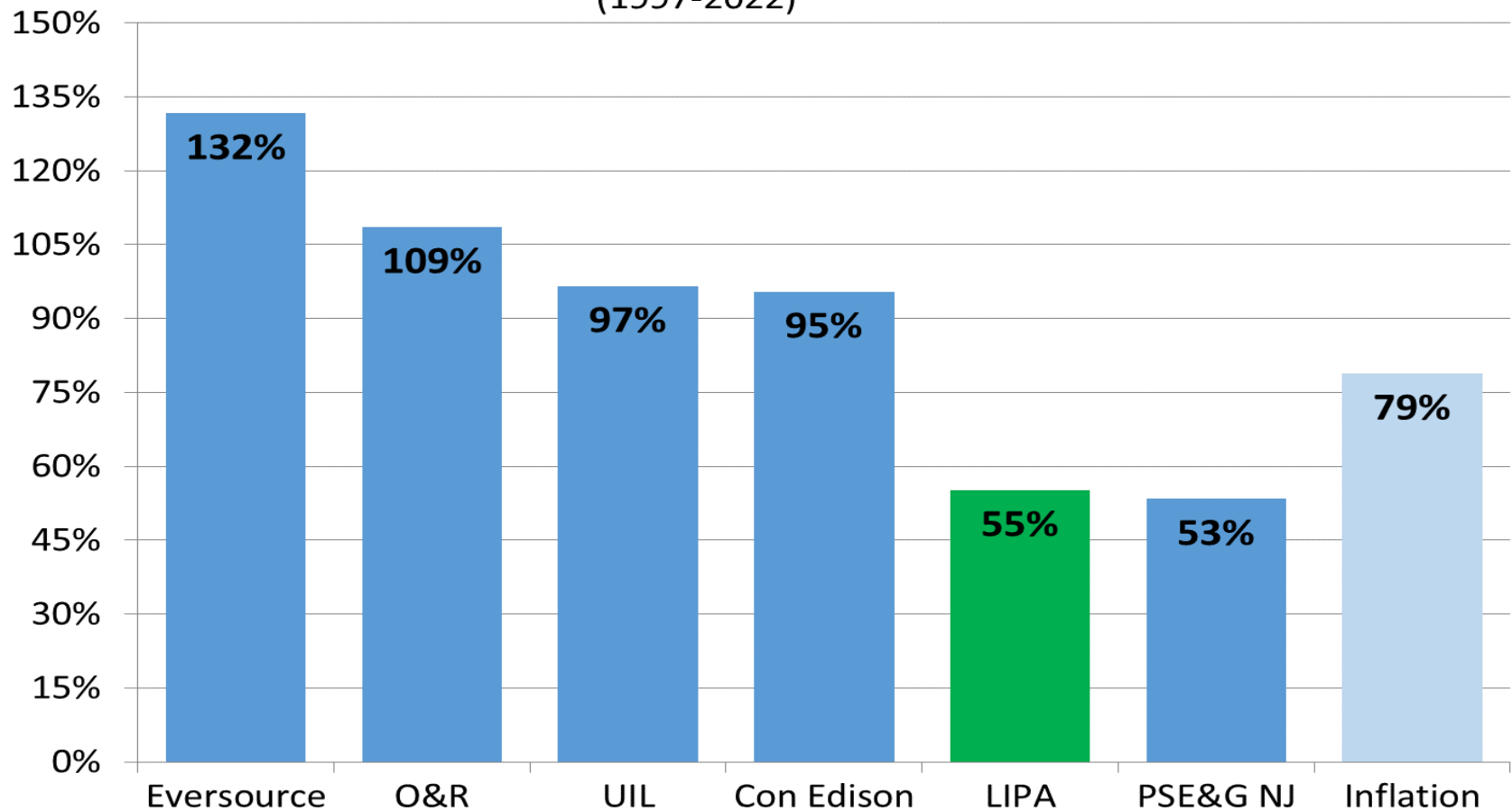
REGIONALLY COMPARABLE RATES

Board Policy: 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.



LIPA'S RATES INCREASED SLOWER THAN INFLATION

Long-Term Increase in System Average Rates
(1997-2022)



ACTIONS TO MANAGE 2023 RATES

Board Policy: **Aggressively manage costs**, avoiding expenditures that do not advance our purpose.

Operating Lean	\$ Millions
Discontinued investments in combined cycle plants	\$353
LIPA Reform Act 2% Tax Cap	\$340
Commodity Hedging (based on current prices)	\$147
Renegotiating expiring power purchase agreements	\$49
Smart Meter savings	\$45
Power plant property tax savings	\$40
Refinancing existing debt	\$40
Investing in cost-effective energy efficiency	\$22
Reduction to wholesale market and off-island transmission	\$16
Operating savings and improved productivity	\$13
Power supply pension and retirement savings	\$8
TOTAL	\$1,073 MILLION

ACTIONS TO MANAGE FUTURE RATES IN THE STRATEGIC PLAN

- Establish a business process optimization practice
- Maximize grants and low-cost funding sources
- Minimize costs through securitization of debt and tax-exempt financing
- Provide operating managers with financial reporting that drives sound business decisions and the best use of limited resources
- Reduce LIPA's reliance on debt funding (financial deleveraging) to achieve upgrades in LIPA's credit ratings that will lower the cost of future borrowing

ASSISTANCE TO LOW-INCOME & DISADVANTAGED CUSTOMERS

Board Policy: Offer programs to low-income and disadvantaged customers to maintain electric bills that are a reasonable percentage of household income.

- Increased monthly utility bill discounts for low-income customers by 33% in 2022 and 7.6% in 2023
- Provided arrears forgiveness relief to low-income customers consistent with the Statewide Energy Affordability Policy (EAP)
 - In 2022, LIPA forgave \$25 million of past-due bills for nearly 11,000 low-income customers as part of Phase I of New York's COVID-19 electric bill credit program
 - In February 2023, LIPA provided \$38 million to help an additional 38,800 residential customers and 750 small commercial customers with past-due electric bills associated with the pandemic
- Automated the enrollment of customers in the low-income rate discount program who have received a HEAP and/or SNAP award from Social Services
- Established bill credits for low- and moderate-income customers who participate in the Solar Communities program
- Expanded rebates paid out to heat pumps for low-income customers to \$4.5 million in 2022 resulting in a fivefold increase in the number of installations



Rate Design

CREATING OPTIONS THAT REDUCE BILLS AND MANAGE COSTS

Board Policy: 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; Encourage conservation, the efficient use of energy resources, and the transition to a carbon-free economy; and Employ innovative electric rate design based on industry trends and research, stakeholder feedback in statewide proceedings and LIPA-run collaboratives, and comments from the public.

- Developed modern Time of Day (TOD) rates for residential customers that offer customers more opportunities to manage their bills and encourage customers to reduce their use of energy during high cost, high carbon hours
 - Significant stakeholder engagement was received during that process from customer groups, solar industry participants, and the DPS
 - Experimental Voluntary Time of Use (VTOU) rates were piloted as a precursor to the larger Time of Day rate program with 13,434 customers added in 2022
 - Introduced a modern voluntary time of use (VTOU) rate with a 4-hour peak period for medium-sized commercial customers that offers more opportunities to save and helps reduce the peak load of the utility
- Lowered the daily charge to the largest commercial customers and shifted bill impacts to the demand charge to encourage more efficient use of the electric system
- Improved the Community Choice Aggregation (CCA) and Long Island Choice (LIC) Programs, bringing them up to Statewide standards and defining the “shoppable” portion of the bill



Discussion

Questions?

FOR CONSIDERATION

May 10, 2023

TO: The Board of Trustees

FROM: Thomas Falcone

SUBJECT: Consideration of Approval of the Annual Report on the Board Policy on Customer Value, Affordability, and Rate Design

Requested Action

The Board of Trustees (the Board) of the Long Island Power Authority (LIPA) is requested to adopt a resolution approving the annual report on the Board Policy on Customer Value, Affordability, and Rate Design (the Policy) for the period since the last annual review and 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 amended by the Board in May 2022.

Compliance with the Policy

LIPA 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. The Policy provides that: *“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.”*
 - The Strategic Plan ([link](#)) approved by the Board in March 2023 identified the key initiatives that will advance the Board’s policy objectives for clean, reliable, affordable, customer-first energy over the next five years.
 - The 2022 and 2023 Work Plan ([link](#)) and Performance Metrics ([link](#)) identified the actions and the resulting level of performance needed to achieve the Board’s

objectives.

- The 2023 Budget ([link](#)) identified \$1,073 million in projected savings from actions taken to operate lean, balancing cost, and service to achieve the most out of every dollar.

Operating Lean	\$ Millions
Discontinued investments in combined cycle plants	\$353
LIPA Reform Act 2% Tax Cap	\$340
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TOTAL	\$1,073 MILLION

- *“Communicate the benefits and cost drivers of any rate increases to customers.”*
 - The 2023 Budget ([link](#)) includes a plain English description of initiatives and cost drivers that provided maximum readability and understanding by the public. The budget proposal was covered by the local print media and several broadcast news organizations leading up to public comment hearings in both counties as required by the LIPA Act. Fact sheets were also provided on the LIPA website that communicated rate opportunities related to:
 - Residential Time of Day Rates.
 - COVID-19 Bill Credit (arrears forgiveness) Program.
 - Customer Benefit Contribution Charge.
 - Long Island Choice and Community Choice Aggregation.
 - Distributed Solar Generation.
 - Fact Sheets were also provided on topics of general interest including efforts to reduce the property tax burdens on LIPA’s rates, and efforts to achieve LIPA’s goals for clean energy and manage costs.
 - All LIPA Fact Sheets are located on the LIPA website at this [link](#).
- *“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.”

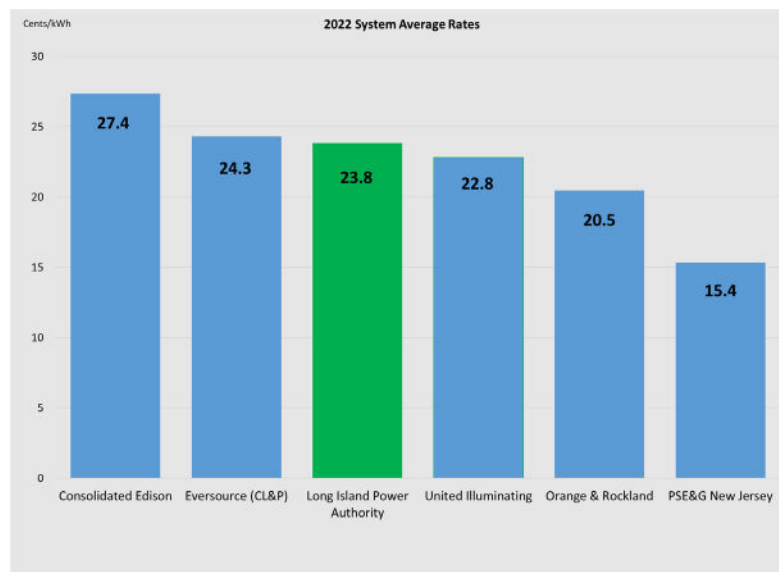
- Since 2011, LIPA has obtained approximately \$1.8 billion in Federal grants that reduced the financial impact of storms on customers and funded extensive capital improvements that increased the resiliency of LIPA’s electric grid.
- LIPA applied for \$650+ million of new FEMA storm hardening and Department of Energy grants in 2022 and 2023.
- Customers also continue to benefit from LIPA’s status as a public power authority with access to tax exempt debt, exemption from Federal and State income taxes, and no requirement to earn profits or pay dividends to any shareholders. The ongoing annual benefits of LIPA’s public power status is estimated to be over \$500 million a year compared to Consolidated Edison of New York, the adjacent investor-owned utility that is regulated by the New York Public Service Commission. As an investor-owned utility under NY PSC regulation, LIPA would have charged its customers \$415 million for shareholder profits and \$147 million in income taxes on those profits. LIPA’s lower cost of tax-exempt debt saved customers \$395 million compared to the regulated utilities in New York. LIPA’s lower cost of debt saved an additional \$109 million compared to the taxable debt available to the regulated utilities.

	IOU		PSC		LIPA	LIPA
Rate Base Summary	Capital	Rate	Allowed	IOU	Interest	Annual
<u>2023 Approved Budget</u>	<u>Structure</u>	<u>Base</u>	<u>Rate</u>	<u>Cost</u>	<u>Expense</u>	<u>Savings</u>
Shareholder Equity	48.0%	\$4,711 M	8.80%	\$415 M	\$167 M	\$248 M
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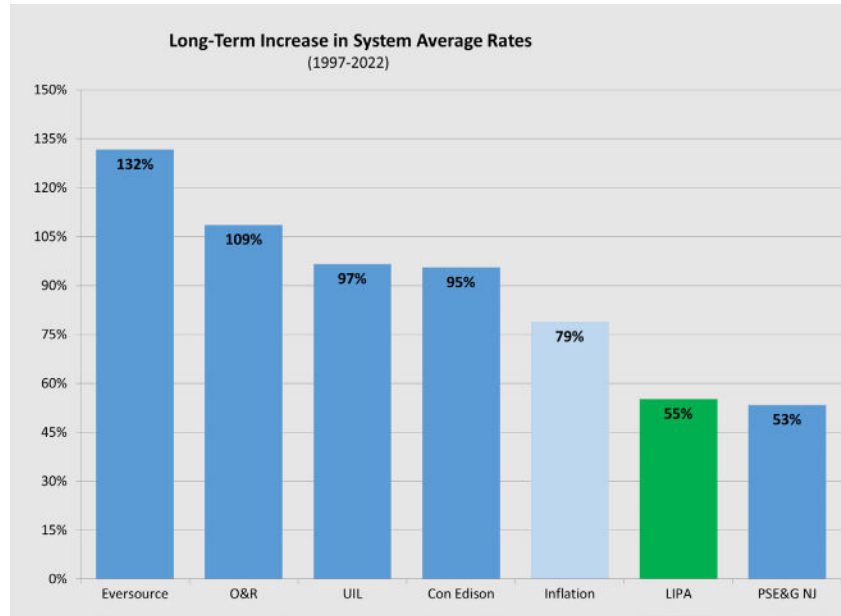
“To achieve our vision for affordability, LIPA will:”

- *“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.”*
 - In December 2022, the Board of Trustees adopted the 2023 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.
 - LIPA’s system’s average electric rate was 23.8 cents in 2022. Compared to the other five major regional utilities listed in the Policy that surround LIPA’s service territory, LIPA’s system’s average rate is 13% below the highest priced regional

utility. The system's average electric rates of the regional utilities ranged from 15.4 cents (PSE&G New Jersey) to 27.4 cents (Con Edison), 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 2022 system average rate would have been 20.5 cents rather than 23.8 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 2022, according to the U.S. Energy Information Agency, was 12.5 cents per kilowatt-hour. State-by-state averages include 21.1 cents for Connecticut, 21.5 cents for Massachusetts, 18.4 cents for New York, 17.2 cents for Vermont, 15.0 cents for New Jersey, and 12.0 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 five utilities that surround the LIPA service territory rather than utilities in other regions of the country or state.
- LIPA's system average rates have been competitive on a long-term basis, having risen more slowly than most other regional utilities during LIPA's stewardship of the Long Island grid (see chart below). LIPA's rates increased 55% since LIPA took over the Long Island grid, compared to a range of 95% to 132% for the other utilities, as shown in the following figure. The consumer price index, a standard measure of inflation, increased 79% during this period.



- *“Offer programs to low-income and disadvantaged customers to maintain electric bills that are a reasonable percentage of household income.”*
 - LIPA implemented a 33% increase in the monthly bill discounts for low-income customers in 2022 and an additional 7.6% in 2023.
 - LIPA provided arrears forgiveness relief to low-income customers consistent with the Statewide Energy Affordability Program (“EAP”).
 - In 2022, LIPA forgave \$25 million of past-due bills for nearly 11,000 low-income customers as part of Phase I of New York’s COVID-19 electric bill credit program.
 - In February 2023, LIPA implemented Phase II of the COVID-19 electric bill credit program, providing approximately \$38 million to help an additional 38,800 residential customers and 750 small commercial customers with past-due electric bills that were associated with the COVID-19 pandemic.
 - LIPA automated the enrollment of customers in the low-income rate discount program who have received a HEAP and/or SNAP award from Social Services.
 - LIPA continued to participate in the DPS’s Energy Affordability Policy Working Group.
 - LIPA established bill credits to low- and moderate-income customers who participate in the Solar Communities program.
 - LIPA expanded rebates paid out to heat pumps for low-income customers to \$4.5 million in 2022 resulting in a fivefold increase in the number of installations.

“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.”*

- To assist with affordability during the COVID-19 pandemic, LIPA suspended residential disconnections for non-payment until mid-July 2022 and eased the terms of deferred payment agreements.
- LIPA provided for \$25 daily bill credits and food and medicine spoilage reimbursements for customers experiencing prolonged outages during widespread outage events.
- *“Employ innovative electric rate design based on industry trends and research, stakeholder feedback in statewide proceedings, LIPA-run collaboratives, and comments from the public.”*
 - LIPA developed modern Time of Day (“TOD”) rates for residential customers that offer customers more opportunities to manage their bills and encourage customers to reduce their use of energy during high cost, high carbon hours.
 - Modern TOD rates are scheduled to become the standard rate for residential service starting in 2024.
 - Significant stakeholder engagement was received during that process from customer groups, solar industry participants and the DPS.
 - Experimental Voluntary Time of Use (“VTOU”) Rates were piloted as a precursor to the larger Time of Day rate program with 13,434 customers added in 2022.
 - LIPA introduced modern VTOU rates for medium sized commercial customers (with peak demand between 7 kW and 145 kW) that offers a 4-hour peak period (3pm – 7pm) on weekdays excluding holidays that gives larger customers more opportunities to manage their electric bills, saving them money and helping to reduce LIPA’s peak load.
 - LIPA lowered the daily charge to the largest commercial customers and increased demand charges, which shifted bill impacts to send a stronger price signal regarding the cost of peak load.
 - LIPA improved the Community Choice Aggregation (“CCA”) and Long Island Choice (“LIC”) Programs, bringing them up to Statewide standards consistent with the investor-owned utilities (“IOUs”) and defining the “shoppable” portion of the bill.
 - LIPA modified its interconnection procedures to align with New York State’s cost sharing framework.
 - LIPA implemented the statewide program enabling annual bill credits for customers located in a Renewable Host Community.

Annual Review of the Policy

LIPA Staff has reviewed the Policy and proposes no changes 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/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 day 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 through the identification of new specific performance metrics in the 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 portions of fuel and purchased power price volatility.

Regarding the risk related to rate design, the LIPA Board recently approved the implementation of a TOD rate for all customers with an opt out option and a one-year guarantee bills will not raise compared to the flat rate or the difference will be refunded. Implementation of the TOD rate structure carries its own risk such as project execution and implementation, and the potential for negative customer reaction. To help mitigate these issues, extensive system testing is being conducted to timely resolve any vulnerabilities, the program will be phased in over an extended period, and extensive customer outreach will be facilitated to educate and respond to concerns.

Based on the mitigation actions in place, staff believe both 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, AFFORDABILITY, AND RATE DESIGN

WHEREAS, the Customer Value, Affordability, and Rate Design Policy (the Policy) was originally approved by the Board in September 2016; and

WHEREAS, the Policy was last reviewed and amended by the Board in May 2022; 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 LIPA has complied with the Policy for the period since the last annual review and approves the annual report to the Board; and

Dated: May 10, 2023