

## **Proposal Concerning Modifications to LIPA's Tariff for Electric Service**

### **Requested Action:**

The Long Island Power Authority (“Authority”) Staff (“Staff”) proposes to modify the Tariff for Electric Service (“Tariff”) effective January 1, 2018 to provide for incremental undergrounding of transmission and distribution line construction at the request of a municipality.

### **Background:**

On September 26, 2017, the Authority’s Board of Trustees approved a policy (the “Policy”) on “Evaluation of Underground Facilities and Public Outreach Prior to Construction of Major Projects”. That Policy outlines the criteria to be considered by the Authority to determine whether and the extent to which underground construction of all or a portion of a project is appropriate, consistent with state-wide standards. If a municipality seeks to have a *greater* portion of the project undergrounded, such municipality will now have the option to request additional underground construction be performed by the Authority at the municipality’s expense. The Policy further states that the Authority will maintain a special tariff provision for undergrounding to provide a financing mechanism to allow local communities to pay for the additional cost of undergrounding all or a portion of a project. The proposed modification to the Tariff described below implements the special tariff provision for undergrounding called for in the Policy.

### **Proposal:**

LIPA Staff proposes an addition to the Tariff to address the charges to participating municipalities when incremental underground construction is requested. When incremental underground construction is requested, the Requesting Party (an affected city, county, town, or incorporated village) will have the option of paying the full incremental cost in advance of construction or the incremental revenue requirement associated with the request in the form of an incremental daily service charge for a period of 20 years. The proposed tariff language states how the incremental revenue requirement will be calculated, who will be responsible to pay, and where affected customers may obtain information on the incremental charge.

The requesting municipality will need to file a written request for incremental underground construction and appropriate municipal resolution, authorizing the Authority to impose and collect a charge on customer bills in the area designated by the municipality and within its municipal jurisdiction. The municipal resolution must include a finding that the proposed additional undergrounding is in the public interest.

The incremental revenue requirement will include incremental costs expressed on a levelized annual basis. The incremental revenue requirement will be divided by the number of applicable accounts that are within the designated boundary, and that annual amount will be divided by 365 to identify a daily service charge adder that will be

charged to the applicable customers until the total incremental cost of the project, including LIPA's weighted average cost of capital, has been recovered. The incremental charge will take effect as soon as the project is placed into service and with a target amortization period of 20 years unless a shorter period is agreed upon.

The municipality is responsible for ensuring that all non-electrical overhead facilities co-located with the project will also be permanently relocated or placed underground. The Authority will not finance the cost of undergrounding or relocating the co-located non-electric overhead facilities.

A "Statement of Undergrounding Charge" will be developed separately for each project. It is envisioned that different projects will be approved and implemented in different areas and at different times. Each project will be priced and tracked separately, so that obligations related to any one project will not be comingled with obligations from separate projects in different areas. Each Statement of Undergrounding Charge will be available at the Authority's Business Offices.

The Charge will be included on each applicable customer's bill. The charge will not be subject to Late Payment Charges<sup>1</sup>, but unpaid charges from customers will remain due from all other customers that participate in the project.

**Financial Impacts:**

There will be no measurable impact on the non-participating customer, as the charge is designed to recover all the incremental costs from the participants, plus interest calculated at LIPA's weighted average cost of capital. The individual rate payer's financial impact will vary based on the size of each undergrounding project and the number of applicable customers subject to the incremental charge.

**Affected Tariff Leaves:** 85, 86, and 87.

**Summary of Proposed Changes:**

In summary, the proposed changes to LIPA's Tariff for Electric Service will add a section on Charges for Undergrounding Requests. The tariff leaves outline how a Request will be established, how the charge will be calculated and billed, and how a Statement of Undergrounding Charge can be obtained.

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<sup>1</sup> In lieu of late payment charges, unpaid charges will continue to accrue financing charges at LIPA's weighted average cost of capital until the amounts are paid by the customer, or written off for recovery from all other participants. The WACC is more appropriate index for the time value of money since LIPA's general customer base will not bear the risk of write-offs for bad debt and no incremental collection efforts or costs will be incurred by the general customer.

**III. Overhead and Underground Distribution of Electricity (continued):****~~D.—Reserved for Future Use~~**

[CANCELLED]

**D. Charges for Undergrounding Requests:****1. Purpose**

The purpose of this section is to establish the recovery of incremental costs resulting from burying a length of the transmission and/or distribution system at the request of a municipality (the "Request") that the Authority would have otherwise installed as an overhead facility or that already exists as an overhead facility. The Authority will recover the costs of complying with such Request through an incremental charge per day on the bills of customers in the affected area as determined by the requesting municipality, as explained below. Incremental costs will be recovered over twenty (20) years unless a shorter recovery period is agreed upon by the Authority and municipality making the Request.

**2. Undergrounding Transmission and Distribution Lines at Municipality Request**

A political subdivision of the State of New York that is a city, county, town, or incorporated village (a "Requesting Party") may request that a planned or existing overhead facility or facilities in an Existing Overhead Area be installed underground. A Requesting Party may make multiple Requests; however, each Request will be addressed separately. The Requesting Party shall demonstrate its intent to allow the Authority to collect from the Customers within the Requesting Party's taxing jurisdiction the full incremental revenue requirement associated with the Request and the Requesting Party shall identify the boundary and the service addresses within that boundary that will be subject to the charge. Such intent shall be demonstrated by execution of a Memorandum of Understanding in which the Requesting Party shall warrant that it has obtained appropriate authorization to make the Request on behalf of its constituents including by adoption of any such municipal resolution, ordinance, legislation, or other process as may be required by applicable law or regulation. The Memorandum of Understanding by the Requesting Party shall include a statement that the Request is in the public interest.

The Requesting Party is responsible for ensuring that all non-electric overhead facilities co-located with the project will also be relocated or placed underground. The Authority will not finance the cost of undergrounding or relocating such co-located facilities.

The Authority reserves the right to refuse the Request for any reason including that the Request is determined by the Authority to be not technically feasible.

**3. Calculation of Incremental Revenue Requirement**

The Authority will calculate the incremental levelized annual revenue requirement resulting from the Request to bury any overhead facilities that are planned and/or currently exist as an overhead facility as follows.

**a) Incremental Costs**

Incremental costs shall consist of the sum of the incremental costs associated with the underground facilities, including the following components:

**III. Overhead and Underground Distribution of Electricity (continued):****~~D.—Reserved for Future Use~~**

[CANCELLED]

**D. Charges for Undergrounding Requests (continued):**

- (1) The cost to design and construct the designated new facilities;
  - (2) The cost to construct, modify or restore any existing or related facilities;
  - (3) The cost to remove any existing overhead facilities net of salvage value;
  - (4) The cost to relocate facilities;
  - (5) Incremental informational technology and other direct costs associated with setup of the customer billing for the Request;
  - (6) The cost of securing the rights-of-way and obtaining governmental and regulatory approvals.
- b) The annual revenue requirements will be calculated to produce equal annual payments over the assumed cost recovery period, using the Authority's weighted average cost of capital at the time the project is constructed. LIPA's procedure for calculating its weighted average cost of capital, and the then-current value can be obtained from the Authority on request.
4. Cost Recovery Period and Method
- a) The incremental costs for the underground facilities will be targeted for recovery over a period of twenty (20) years unless the Requesting Party and the Authority agree to a shorter recovery period. The charge will be calculated as the sum of the incremental costs, plus the Authority's weighted average cost of capital for the incremental capital costs, expressed on a level annualized basis, as identified in D.3 above, divided by the number of applicable accounts that are within the designated boundary, which annual amount will be divided by 365 to identify the incremental daily service charge. Notwithstanding the assumed twenty (20) years targeted recovery, the surcharge will continue to be applied until the incremental costs have been fully recovered.
  - b) The charge will take effect as soon as the underground facilities are placed into service.
  - c) Billed charges that are not collected from individual participating customers and ultimately written off will be added back to the amount due from all participating customers, with interest at the assumed weighted cost of capital used to establish the charge.
  - d) To the extent that the unamortized balance is fully recovered before the end of the recovery period, the charge will be set to zero.

**III. Overhead and Underground Distribution of Electricity (continued):****~~D.—Reserved for Future Use~~**

[CANCELLED]

**D. Charges for Undergrounding Requests (continued):**

- e) The unamortized balance will be adjusted at any time to reflect any contributions made by the Requesting Party to cover the cost of undergrounding, or any incremental costs that are incurred subsequent to placing the underground facilities in service.
  - f) The charge will be set initially, based on the best available information at the time the original “Statement of Undergrounding Charge” becomes effective. The charge may be reset annually based on updates to cost data and/or billing determinants of the Requesting Party.
  - g) The charge will be rounded to the nearest \$0.01/day (one cent per day).
5. Statement of Undergrounding Charge
- a) The Authority will prepare and retain on file a “Statement of Undergrounding Charge”. The Statement will be available at the Authority’s Business Offices.
  - b) The Statement will show, for each requested undergrounding project, the authorized amounts to be recovered, the applicable weighted average cost of capital rate, a description of the area that identifies the applicable customers’ accounts, the number of expected participating customers, and the incremental charge that will be applied to the applicable customers’ bills.
6. Billing of the Charge
- a) The charge will be included on each applicable Customer’s bill.
  - b) If a Requesting Party makes multiple Requests, the charges may be combined for billing.
  - c) Payments received from customers will be allocated first to all other charges on the bill. Any remaining payments will be credited against the incremental undergrounding charge.
  - d) The incremental charge is not subject to Late Payment Charges, if any, as that term is defined within this Tariff for Electric Service.
7. Customer Owned Facilities
- a) All service lines connected to the overhead facilities shall be relocated by the customer at the Customer’s expense. Any costs associated with modifications to Customer-owned facilities and/or Company-owned facilities interconnecting with Customer-owned facilities shall be the responsibility of the affected Customer.
  - b) The Company shall notify Customers whose facilities interconnect with the overhead facilities that are to be removed of the actions they need to take to interconnect with the underground facilities. The Authority may suspend service to any Customer that has not arranged for connection to the underground facilities at the time the overhead facilities are removed.