



Annual Report on Customer Value, Affordability, and Rate Design

Presented by: Donna Mongiardo and William Wai

September 25, 2024



Discussion Topics

 Customer Value

 Affordability

 Rate Design

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 the Board's objectives in 2024 Work Plans ([link](#)), Performance Metrics ([link](#)), and Budgets ([link](#)).
- ✓ **Communicate the benefits and cost drivers of any rate increases**
 - The 2024 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, was awarded \$2.4B in Federal grants (including \$426M mitigation awarded in early 2024).
 - Applied for \$123M of Department of Energy grants in 2023 (award announcements in late 2024).
 - 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 dividends to shareholders, and corporate income taxes).

Lower Cost of Capital for Public Power

LIPA’s cost of capital is **\$503M 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 3.64% (LIPA)	LIPA saves \$248M
Income Taxes @26.1%:	3.11% (IOU) minus 0.00 (LIPA)	LIPA saves \$149M
Cost of Debt:	5.75% (IOU) minus 3.64% (LIPA)	LIPA saves \$106M
Total Cost of Capital:	\$866M (IOU) minus \$363M (LIPA)	LIPA saves \$503M

Estimates are based on the NY PSC-approved capital structure and approved rate of return for a regional IOU.



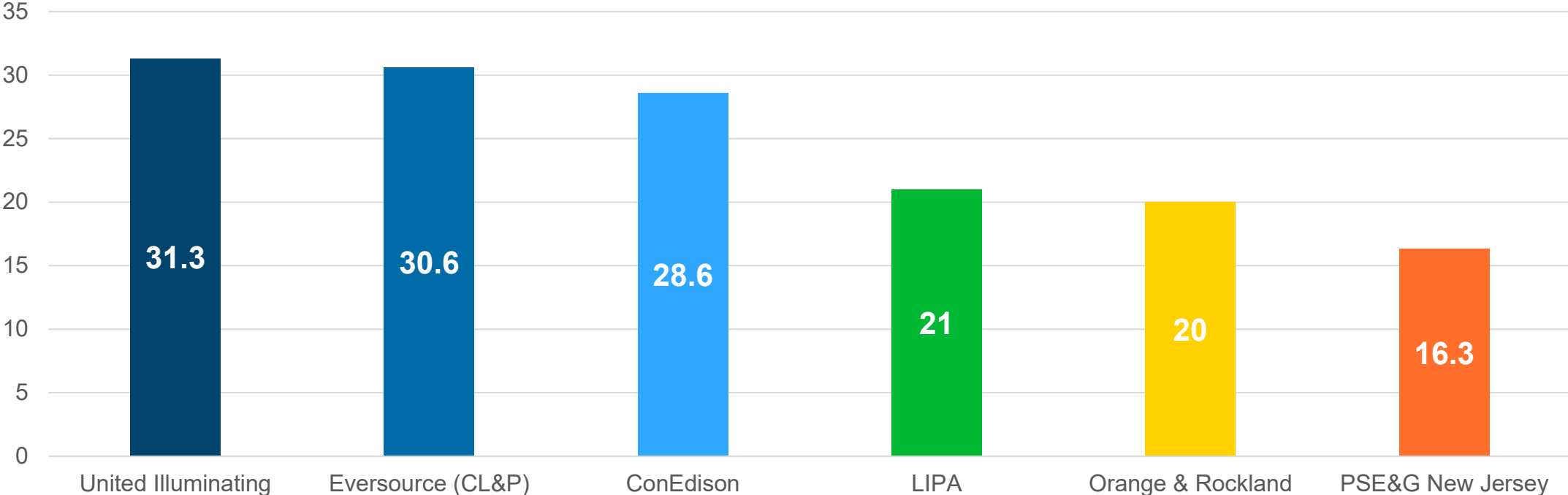
Affordability



Regionally Comparable Rates

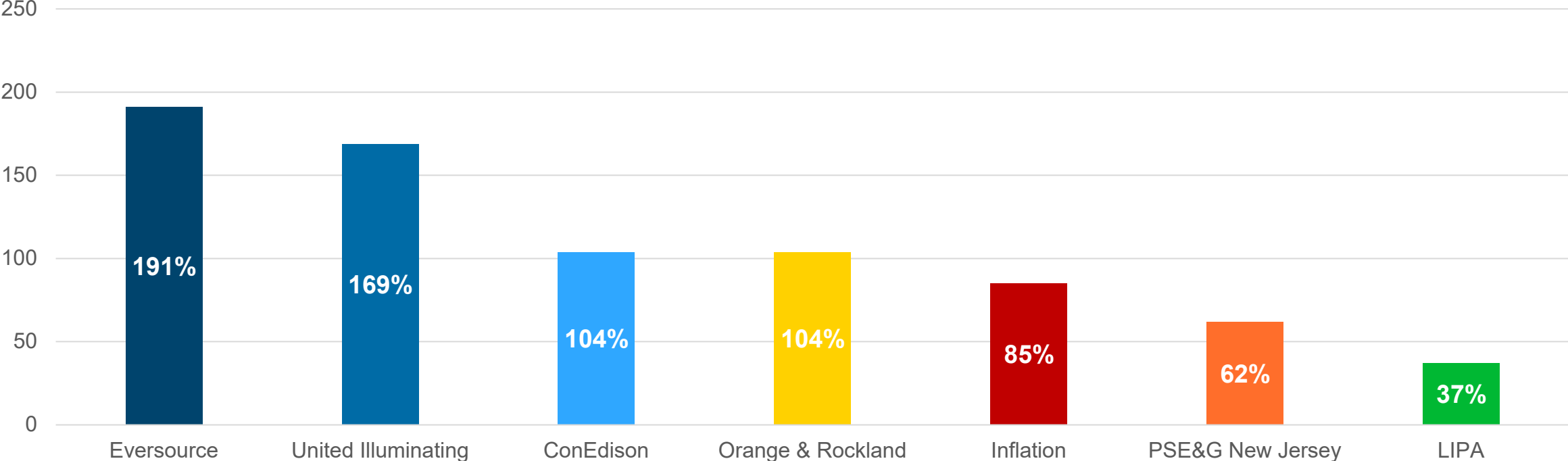
Board Policy: Maintain **competitive electric rates**, as compared to the system average rates of those regional electric utilities that most closely resemble the costs, electric supply, and policy goals of our service territory.

2023 System Average Rates (Cents/kWh)



LIPA's rates increased slower than inflation

Long-Term Increase in System Average Rates
(1997-2023)



Actions to Manage 2024 Rates

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

Operating Lean	\$ Millions
LIPA Reform Act 2% Tax Cap	\$416
Discontinued investments in combined cycle plants	\$355
Refinancing existing debt & debt service savings	\$142
LIPA Reductions to PSEG Long Island O&M Budget Request	\$75
Power plant property tax savings	\$66
Renegotiating expiring power purchase agreements	\$64
Reduction to wholesale market and off-island transmission costs	\$57
Smart Meter savings	\$23
Investing in cost-effective energy efficiency	\$23
Operating savings, cost avoidance, and productivity	\$17
Power supply pension and retirement savings	\$8
Commodity hedging (based on current prices)	\$5
Total	\$1,251 Million

Actions to **Manage Future Rates** in the Strategic Plan

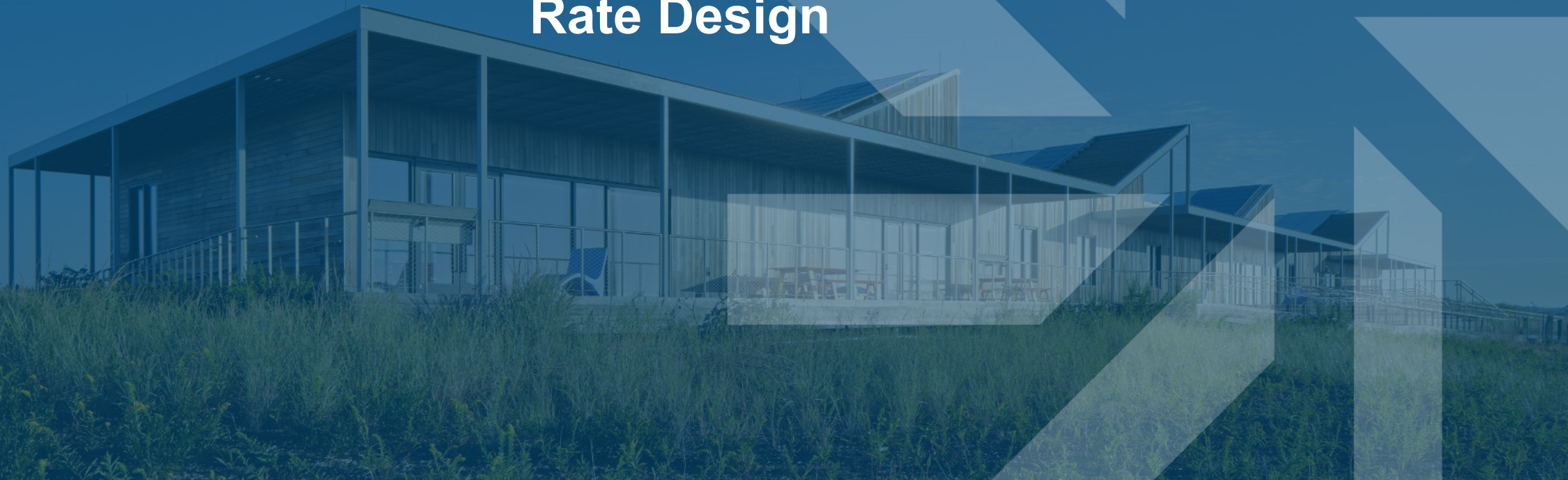
- Establish a business process optimization practice.
- Maximize grants and low-cost funding sources.
- Minimize costs through securitization of debt and tax-exempt financing.
- Provide operating managers with financial reporting that drives sound business decisions and the best use of limited resources.
- 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.

- Provided an additional 9% in monthly bill discounts for low-income customers in 2024.
- Provided arrears forgiveness relief to low-income customers consistent with the Statewide Energy Affordability Program
 - Between 2022 and 2023, LIPA's Forgiveness Program provided its low-income customers approximately \$10 million of bill credits from state funds, and an additional \$56.2 million of bill credits funded by LIPA.
- Expanded the eligibility qualifications for the low-income rate discount program and extended the validity of program enrollment from 12 to 14 months.
- Automated the enrollment of customers in the low-income rate discount program who have received a HEAP and/or SNAP award from Social Services.
- Continues its participation in DPS's Energy Affordability Policy Working Group.
- Started bill credits for low-income customers who participate in the Solar Communities program.
- Compared with 2022, LIPA tripled its heat pump rebated for low-income customers to \$15.4 million in 2023, resulting 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 and implemented modern Time-of-Day (TOD) rates for residential customers offering customers more opportunities to manage their bills and encouraging customers to reduce energy use during high-cost, high-carbon hours
 - Experimental Voluntary Time-of-Use (VTOU) rates were piloted as a precursor to the larger Time-of-Day rate program with 14,515 customers participating in 2023.
 - TOD rates became the standard rate offering for new residential services on January 1, 2024. Existing customers are being transitioned to the TOD rate through 2024 and 2025.
 - The TOD rate bill protection feature offers most residential customers a risk-free opportunity to try out the TOD rates.
- Implemented a modern 4-hour-peak voluntary time of use (VTOU) rate for medium commercial customers that offers more opportunities to save and helps reduce the peak load of the utility.
- Lowered the daily charge to the large commercial customers and shifted bill impacts to the demand charge to encourage more efficient use of the electric system.
- Brought the Community Choice Aggregation (CCA) Program up to statewide standards.
- Modified Dynamic Load Management (DLM) program to encourage participation.

Questions?

Donna Mongiardo
Chief Financial Officer
William Wai
Director of Rates

lipower.org



FOR CONSIDERATION

September 25, 2024

TO: The Board of Trustees

FROM: John Rhodes

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 2023.

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 key initiatives that will advance the Board’s policy objectives for clean, reliable, affordable, customer-first energy over the next five years.
 - The 2024 Work Plan ([link](#)) and Performance Metrics ([link](#)) identified actions and

level of performance needed to achieve the Board’s objectives.

- The 2024 Budget ([link](#)) identified \$1,251 million in projected savings from actions taken to operate lean, balance cost, and service to achieve the most out of every dollar.

Operating Lean	\$ Millions
LIPA Reform Act 2% Tax Cap	\$416
Discontinued investments in combined cycle plants	\$355
Refinancing existing debt & debt service savings	\$142
LIPA Reductions to PSEG Long Island 2024 O&M Budget Request	\$75
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TOTAL	\$1,251 MILLION

- “Communicate the benefits and cost drivers of any rate increases to customers.”
 - The 2024 Budget ([link](#)) includes description of initiatives and cost drivers that provide maximum readability and understanding by the public. The budget proposal was summarized at LIPA’s public Board Meeting in November 2023, covered by the local media and was available for discussion at public comment hearings in both Nassau and Suffolk 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.
 - Fact Sheets were also provided on topics of general interest including efforts to achieve LIPA’s goals for clean energy and manage costs.
 - All LIPA Fact Sheets can be found on the LIPA website at this [link](#).

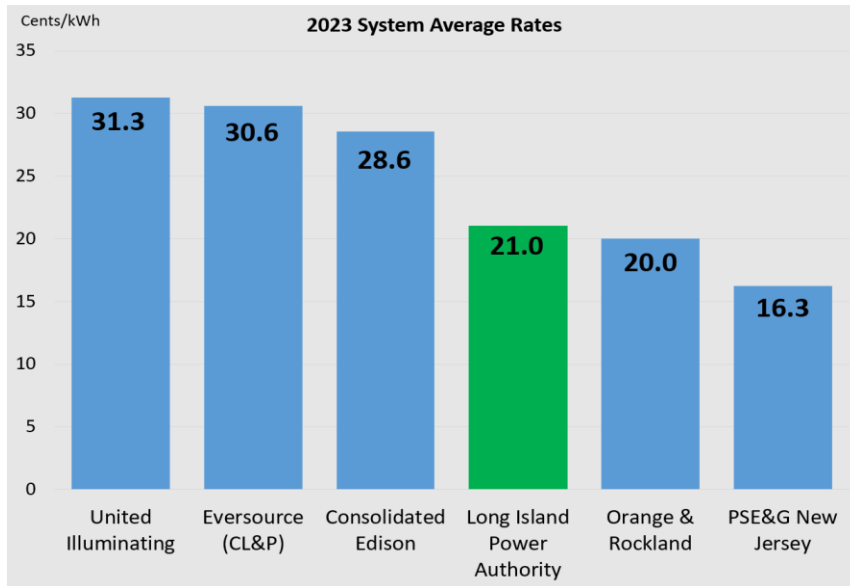
- “Maximize the value to customers of our not-for-profit public power business model by using our tax-exempt cost of capital and eligibility for federal and state grants to reduce costs for customers.”
 - Since 2011, LIPA has been awarded approximately \$2.4 billion in Federal grants that reduced the financial impact of storms on customers and funded extensive capital improvements that increased the resiliency of LIPA’s electric grid. In addition, LIPA is waiting for the selection of its recent Department of Energy grants of approximately \$123 million and approval of its \$58 million

- FEMA grant.
- Customers 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. LIPA estimates that ongoing annual benefits are over \$500 million a year compared to investor-owned utilities regulated by the New York Public Service Commission (as shown in table below).

Rate Base Summary	IOU		PSC		LIPA	LIPA
2024 Approved Budget	Capital	Rate	Allowed	IOU	Interest	Annual
	Structure	Base	Rate	Cost	Expense	Savings
Shareholder Equity	48.0%	\$4,795 M	8.80%	\$422 M	\$174 M	\$248 M
<u>Income Taxes at 26.1%</u>			<u>3.11%</u>	<u>\$149 M</u>	<u>\$0 M</u>	<u>\$149 M</u>
Shareholder Profit (pre-tax)	48.0%	\$4,795 M	11.91%	\$571 M	\$174 M	\$397 M
Long Term Debt	50.9%	\$5,085 M	5.75%	\$292 M	\$186 M	\$106 M
<u>Customer Deposits</u>	<u>1.1%</u>	<u>\$109 M</u>	<u>2.45%</u>	<u>\$3 M</u>	<u>\$3 M</u>	<u>\$0 M</u>
Total Interest Expense	52.0%	\$5,194 M	5.68%	\$295 M	\$189 M	\$106 M
Total Cost of Capital	100.0%	\$9,989 M	8.67%	\$866 M	\$363 M	\$503 M

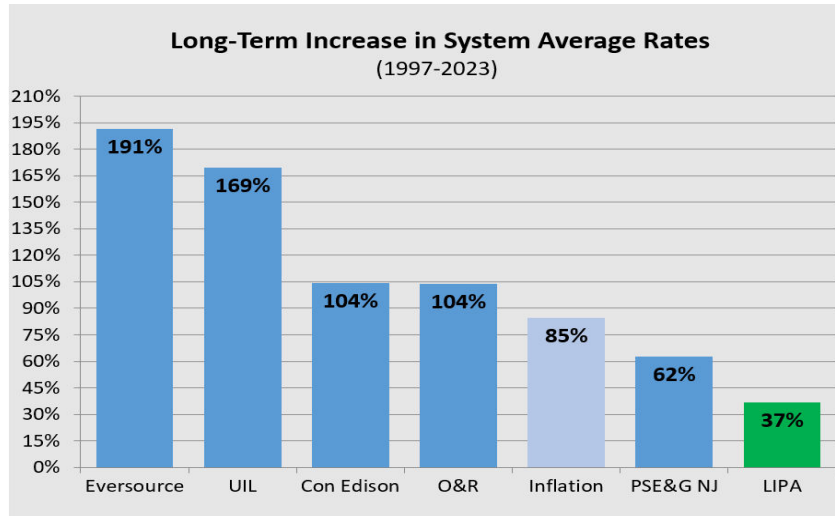
To achieve our vision for affordability, LIPA will:

- “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 2023, the Board of Trustees adopted LIPA’s 2024 Budget, implementing an annual budget and rate update at the lowest level consistent with sound fiscal and operating practices, and within the statutory threshold provided in the Public Authorities Law.
 - The Board’s policy recognizes significant regional differences by benchmarking LIPA against five utilities surrounding its service territory rather than utilities in other regions. LIPA’s system’s average electric rate was 21.0 cents in 2023 which is 32.9% below the highest-priced regional utility. The system’s average electric rates of the regional utilities range from 16.3 to 31.3 cents per kWh as shown in the following figure:



**Regional differences: The New York City metro area has above-average labor, land, tax, and commodity costs and highly seasonal weather (i.e., electricity is used for cooling in the summer while other fuels are used for heating in the winter) causing the per kilowatt-hour electric rates to be above the national average which was 12.7 cents per kilowatt-hour in 2023 according to the U.S. Energy Information Agency. State-by-state averages include (i) Connecticut; 23.9 cents (ii) Massachusetts; 22.9 cents (iii) New York; 18.4 cents; Vermont; 17.6 cents (iv) New Jersey; 15.4 cents and, (v) Pennsylvania; 12.5 cents. Within New York, there is a significant difference in prevailing power prices as the upstate grid is primarily fueled by lower-cost hydro and nuclear power while downstate is primarily more costly 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.*

- If LIPA's payments in lieu of taxes (PILOTS) comprise 16% of its bills and are considerably higher than the national average of 6% of the bill. A lower PILOTS of 6% would have reduced LIPA's 2023 system average rate to 19.2 cents rather than 21 cents.
- LIPA's system average rates have been competitive on a long-term basis, having risen slower than most 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 104% to 191% for the other utilities, as shown in the following figure. The consumer price index, a standard measure of inflation, increased 85% during this period.



- “Offer programs to low-income and disadvantaged customers to maintain electric bills that are a reasonable percentage of household income.”
 - In its 2024 budget, LIPA provided an additional 9% in monthly bill discounts for low-income customers.
 - LIPA provided arrears forgiveness relief to low-income customers consistent with the Statewide Energy Affordability Program (“EAP”).
 - Between 2022 and 2023, LIPA’s Forgiveness Program provided its low-income customers approximately \$10 million of bill credits from State funds, and an additional \$56.2 million of bill credits funded by LIPA.
 - LIPA expanded the eligibility qualifications for its low-income discount program and extended the validity of program enrollment from 12 to 14 months.
 - 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 continues its participation in DPS’s Energy Affordability Policy Working Group.
 - In early 2024, LIPA started bill credits to low- and moderate-income customers who participate in the Solar Communities program.
 - Compared with 2022, LIPA tripled its heat pump rebates for low-income customers to \$15.4 million in 2023, 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.”
- “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 and implemented 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.
 - As a precursor to the larger modern TOD, LIPA provided a voluntary pilot program beginning in 2022, called the Experimental Voluntary Time of Use (“VTOU”) Rates. Approximately 14,515 customers on average participated.
 - Since January 1, 2024, modern TOD rates have become the standard rate for residential service. Any new residential customers are automatically enrolled in TOD and must “opt-out” if want the flat rate.
 - Existing LIPA residential customers are being transitioned to the TOD rate through 2024 and 2025.
 - The TOD rate bill protection feature offers residential customers a risk-free opportunity by providing most customers with a one-year guarantee that if bills are higher than what would have been under their prior rates, the difference will be refunded.
- LIPA implemented modern VTOU rates for medium-sized commercial customers (with peak demand between 7 kW and 145 kW) that offer 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, to provide stronger pricing signal regarding the cost of peak load.
- LIPA improved the Community Choice Aggregation (“CCA”) program, bringing it up to Statewide standards consistent with the investor-owned utilities (“IOUs”).
- LIPA modified its Dynamic Load Management (“DLM”) program to encourage participation among residential customers with behind-the-meter battery storage system, enabling them to earn savings for lowering overall system costs.

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 risks are:

- *Insufficient rates/untimely rate relief may lead to inadequate system investments which compromises LIPA’s ability to achieve strategic priorities;*
- *Existing rate design may not reflect changing customer usage pattern/ expectations or provide pricing signals (i.e., TOD, location, and demand) resulting in customer cross subsidies or economic inefficiencies (i.e., less optimal use of the grid). The utility could fail*

to achieve customer acceptance of new rate design.

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, LIPA recently developed a TOD program and implemented it for a portion of its residential customers in 2024. The remaining residential customers are expected to migrate to the TOD rates in 2025. The program allows for customers to opt-out and provides most participants with a one-year guarantee that bills will not increase compared to their prior rate; with the difference refunded. Implementation of the TOD rate structure poses risks 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, and extensive customer outreach has been 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 2023; 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.

Dated: September 25, 2024