



Overview of the Department of Public Service Rate Recommendation Regarding the Three Year Rate Plan

October 19, 2015

Thorough PSEG-LI/LIPA Rate Review Process



Activity or Action	Date
LIPA and PSEG-LI filed Three-Year Rate Plan proposal	January 30, 2015
Discovery requests by all parties; public comment; hearings	February through May
Testimony filed by DPS and other parties	May 14 th (June 8 th)
LIPA and PSEG file rebuttal testimony	June 4 th and 10 th
Evidentiary hearings; cross examination of all witnesses	June 23 rd and 24 th
Briefs and reply briefs filed by all parties	July
Draft recommendation by DPS	August 21 st
Briefs on exceptions to the draft recommendation	September 3 rd
Briefs opposing exceptions	September 11 th
DPS Rate Recommendation issued to Board	September 28 th
Board assessment of consistency with the standards set forth in the LIPA Reform Act	October 19th
Costs updated for known and measurable changes to 2016 rates	November 1 st
If a majority of the Board votes to find inconsistencies on October 19 th , then a public hearing is held within 30 days at which the DPS, LIPA staff and PSEG-LI (at its option) present their position on the issue(s)	By November 18 th
Board Briefings on 2016 Operating and Capital Budgets	Mid-November
LIPA Board meets to approve 2016 budgets and rates	December 16 th

Rigorous Open Process Led to DPS Recommendation



- PSEG-LI, LIPA, DPS and 15 other parties to the case. 2,000 comments from members of the public

Thomas Bjorlof, pro se

Retail Energy Supply Association

Caithness Energy LLC

NRG Energy

NYS Utility Intervention Unit

City of New York

Suffolk County Comptroller

Town of Brookhaven

Clara Kudder, pro se

Natural Resources Defense Council

Independent Power Producers of NY

IBEW Local 1049

Honorable Michele Schimel, NYS Assembly

Nassau County

Suffolk County Legislature

- All parties had opportunity to contribute to process either by supplying information and analysis or challenging that provided by others

LIPA Reform Act – Standard of Review

- DPS' Rate Recommendation ensures that rates are set at the lowest level consistent with:
 - ▶ the provision of safe and adequate service,
 - ▶ the Authority's financial and contractual obligations, and
 - ▶ the Authority's sound fiscal operating practices.

- Board may modify all or part of the DPS Rate Recommendation if, in its discretion, it finds a recommendation is inconsistent with:
 - ▶ the provision of safe and adequate service,
 - ▶ the Authority's existing contractual or operating obligations, or
 - ▶ the Authority's sound fiscal operating practices.

Board Initial Determination

- If the Board does not make a preliminary finding of inconsistency today, then in December the Board adopts budgets and rates consistent with the DPS Rate Recommendation
- If a majority of the Board makes a preliminary finding of inconsistency today, then an additional public hearing is held within 30 days and the Board makes a final determination before setting rates

Rate Setting Process Created a Factual Record for Rates



Documents available for review* (listed chronologically):

- 51 pieces of Testimony, 141 exhibits and 1,524 pages of cross-examination transcripts of witnesses from all parties
- Initial Briefs and Reply Briefs by all parties – explain their positions and what they oppose about other parties' positions
- DPS Draft Recommendation – draft position of the Administrative Law Judges (ALJs) and certain DPS senior advisors
- Briefs on Exceptions and Reply Briefs on Exceptions by all parties – comments on the Draft Recommendation and other parties' comments
- Final DPS Rate Recommendation – issued September 28th

* Available on DPS website

Three-Year Rate Plan Summary

■ **DPS Rate Recommendation*** (26% lower than requested)

<u>(\$ in millions)</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Cum.</u>
Final Recommendation	\$30.4	\$108.0	\$187.0	\$325.4
Year by year increase	\$30.4	\$77.6	\$79.0	
Percent increase	0.8%	2.1%	2.1%	5.0%

■ **LIPA/PSEG-LI Request***

January 30th Filing	\$72.7	\$147.0	\$221.3	\$441.0
Year by year increase	\$72.7	\$74.4	\$74.3	
Percent increase	2.0%	2.0%	2.0%	6.0%

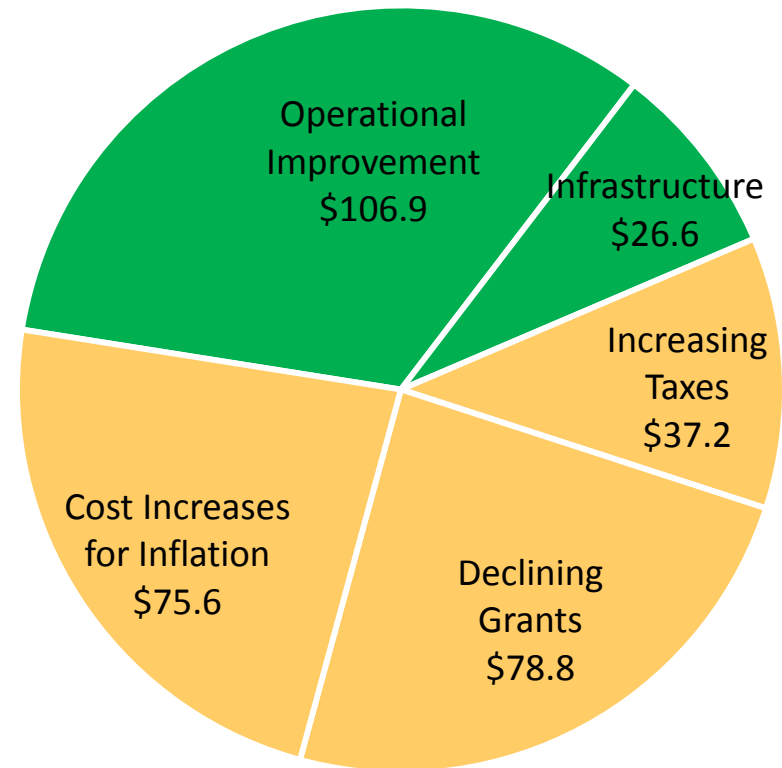
* Rate adjustments subject to staged updates and cost reconciliation for certain specified categories

Three-Year Rate Plan Aims to Improve Utility Service for Long Island



- **Service improvements** and industry best practices for customer experience, storm response, and reliability
- **Infrastructure investments** of \$1.8 billion to support T&D reliability and IT investments that benefit customers
- **\$730 Million Storm Hardening** program (90% funded by FEMA)
- **Investment in debt reduction** to lower long-term cost for customers
- **Minimum level of rate increases** reflecting productivity savings; and
- **UDSA savings** of \$172 million in debt payments (\$352 million including coverage over three years)

Components of the Delivery Rate Adjustment
2016 - 2018



Total increase in rates over 3 years is \$325 million

Efforts that Minimized the Rate Increase



3 Year Savings

■ LIPA Reform Act:	
▶ UDSA debt service savings	\$172 million
▶ UDSA coverage savings	180 million
▶ Property Taxes capped at 2%*	102 million
▶ Gross Receipts Tax elimination	<u>78 million</u>
	\$532 million
■ Three Year Rate Plan:	
▶ DPS Recommendations	\$116 million

* Estimated based on rate of property tax increase from years prior to tax cap

LIPA's Rates Have Grown Below Rate of Inflation or Regional Utilities Since 1998



Average Residential Electric Rates for Regional Utilities

<u>Utility</u>	1997 cents / <u>kWh</u>	Compared to LILCO	2014 cents / <u>kWh</u>	Compared to LIPA	Change in Total Rate 1997 to 2014	Real Change 1997 to 2014
Consolidated Edison	16.61	-1%	29.02	41%	75%	22%
Orange & Rockland	12.98	-23%	23.24	13%	79%	27%
United Illuminating Co	13.65	-19%	21.77	6%	59%	7%
LILCO / LIPA	16.83	-	20.52	-	22%	-30%
Connecticut Light & Power	11.95	-29%	18.32	-11%	53%	1%

**Versus 52%
Change in CPI**

Source: EIA Form 826, except O&R rate for 1997 based on data from FERC; Bureau of Labor Statistics (NY/NJ CPI-U)

Comparison of Regional Rate Increases Since 2006



<u>Con Edison Rate Increases</u>			<u>O&R Rate Increases</u>			<u>LIPA Rate Increases</u>	
<u>2006 -Present</u>			<u>2006 -2015</u>			<u>2006-Present</u>	
Case Number	Effective Date	Residential Increase % Total Bill	Case Number	Effective Date	Residential Increase % Total Bill	Effective Date	Residential Increase % Total Bill
04-E-0572	4/1/2007	3.16%					
07-E-0523	4/1/2008	5.80%	07-E-0949	7/1/2008	3.07%		
08-E-0539 (a)	5/1/2009	5.46%	07-E-0949	7/1/2009	2.99%		
09-E-0428	4/1/2010	4.17%	07-E-0949	7/1/2010	3.00%		
09-E-0428	4/1/2011	4.31%	10-E-0362	7/1/2011	2.70%	3/1/2011	1.90%
09-E-0428 (b)	4/1/2012	2.74%	11-E-0408	7/1/2012	2.60%	4/1/2012	1.60%
			11-E-0408	7/1/2013	3.40%		
			11-E-0408	7/1/2014	3.00%		
			14-E-0493 (c)	11/1/2015	1.90%	1/1/2016 (d)	0.80%
			14-E-0493 (c)	11/1/2016	1.70%	1/1/2017 (d)	2.10%
						1/1/2018 (d)	2.10%
Cumulative Increase		28.50%	Cumulative Increase		27.16%	Cumulative	8.79%
Annualized Increase		2.11%	Annualized Increase		2.02%	Annualized	0.70%

(a) Does not include the New York State Assessment. Including the NYS Assessment increases Residential Bill impact to 7.33%.

(b) see also Case 12-E-0008

(c) Based upon Joint Proposal

(d) DPS Recommended increase

LIPA's Relative Tax Burden Is High Compared to State and National Utilities



Utility	2014 Non-Income Taxes as % of Total Revenue	2014 Non-Income Taxes \$ Million
Long Island Power Authority (2015 Budget)	15.1%	\$549
Consolidated Edison	12.2%	\$1,457
Rochester Gas and Electric	8.0%	\$67
New York State Electric and Gas	5.9%	\$104
Orange and Rockland	4.9%	\$41
Central Hudson Gas & Electric	4.8%	\$43
National Grid	4.7%	\$204
New York State Weighted Average (excluding Authority)	9.2%	\$1,916
National Average for Public Power and Investor Owned Utilities	4.2% - 5.5%	-

- Taxes are 15% of LIPA customers' bills compared to national averages of 4-5% and a statewide weighted average of 9%
- State and local **Payments in Lieu of Taxes** (PILOTs) are 29% of Long Island's delivery rates

Source: NYS DPS, 2014 Average Cost Electric Service by Cost Component; Authority 2015 Operating Budget; Payments and Contributions by Public Power Distribution Systems to State and Local Governments, American Public Power Association, March 2014

New Financial Policy Ensures Reasonable Levels of Borrowing During Rate Plan



- Rate Plan included two debt-related components – securitization to bring down the cost of existing debt and financial policy to bring down borrowing and cost of new debt
- \$1.8 billion of infrastructure investments to maintain reliability and enhance resilience to severe weather of electric infrastructure
- FEMA Grants and increased cash funding of capital expenditures (in lieu of borrowing) reduce new debt borrowings as a percentage of capital expenditures to a typical level for peer utilities (typically around 55-65%)
- Recommended LIPA Funding (\$ in millions)

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>3 Years</u>
Capital Expenditures	\$706	\$697	\$428	\$1,831
Funded by FEMA	259	256	5	519
<u>Funded from cash</u>	<u>68</u>	<u>108</u>	<u>141</u>	<u>317</u>
Funded from debt	\$379	\$333	\$282	\$994
Percent funded from debt	54%	48%	66%	54%
w/o FEMA	84%	74%	67%	75%

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 - ▶ the Authority's sound fiscal operating practices.