

Tariff Design and Restructuring

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Background

- Most NYS electric generation divested
- Wholesale competition in the generation market
- Retail competition available to all
 - 25% of electric load is supplied by ESCOs
 - 5% of customers
- Delivery service is provided by regulated utilities

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PSC Activities

- Delivery rates
- NYISO - wholesale markets
- ESCO rules

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Jurisdiction Over Delivery Service Continues

- Revenue requirements
- Rate designs
- Reliability of the delivery system
- Retail access
 - *Shopping credits*
 - *What services are competitive*
- Provider of Last Resort
- Customer Protections (HEFPA)
- System benefit charge

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What are our Goals?

- Efficient Price Signals
- Equity
- Gradualism
- Revenue Assurance

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Revenue Allocation

- Step One of Rate Design is revenue allocation to classes
- What is a Service Class?
 - *Homogeneous group of customers*
- Load Data by Class
 - *Energy use*
 - *Load pattern*
 - *Coincidence factors*

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Fully Allocated Embedded Cost of Service Studies (ECOS)

- Looks at the Relative Rates of Return by Class
- Assigns cost to each class
 - *Functionalization*
 - *Classification*
 - Customer, demand, energy and revenue related
- Used to support revenue shifts between classes

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Transmission vs. Distribution

From FERC Order 888

- (1) Local distribution facilities are normally in close proximity to retail customers.
- (2) Local distribution facilities are primarily radial in character.
- (3) Power flows into local distribution systems; it rarely, if ever, flows out.
- (4) When power enters a local distribution system, it is not reconsigned or transported on to some other market.
- (5) Power entering a local distribution system is consumed in a comparatively restricted geographical area.
- (6) Meters are based at the transmission/local distribution interface to measure flows into the local distribution system.
- (7) Local distribution systems will be of reduced voltage.

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Rate Design – Cost Basis

- Cost causation, what customer action causes the cost.
- Embedded cost and marginal costs
 - *Embedded costs are the historic accounting cost on an averaged basis*
 - *Marginal cost are the costs incurred for changes in consumption.*

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Rate Design – Old Tools

- Traditional Rate Designs
 - *Customer and energy charges for smaller customers*
 - *Demand charges for larger customers, 5- 10 kw threshold*
 - *Ratchets*
 - *Mandatory Time of Day rates, 1-2 MW thresholds*
 - *Voluntary TOD Rates for others*

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Rate Design – New Tools

- Minimum Demand Charges
- Real Time Pricing
- Daily Demand Charge

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Restructuring – What's Competitive

- Commodity
 - 25% of load, 5% of customers for electric
 - 20% of load, 8% of customers for gas
- Billing
 - Generally larger customers get two bills, smaller customers get a consolidated bill from the utility
- Metering
 - 21 electric customers statewide

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What Do Our Shopping Credits Look Like

- Metering based on incremental costs
- Billing incorporated in shopping credits range from 1 mill to 5 mills per kwh, larger customer generally on lower end
- Commodity – a short term market price, or, for some utilities, a choice of this or a fixed price set in advance.

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How the Deregulated Generation Market Works

- NYISO runs centralized markets
 - *Energy, ancillary services and capacity*
- Load and supply bids set prices
 - *Day ahead, hour ahead and real time*
- Bilaterals allowed for energy and capacity
- Virtual bidding of load and supply
- NYISO balances supply and demand

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Who pays for the ISO

- Annual budget is about \$170 million
- 400 Employees
- Assessed to all loads
 - *Schedule 1 charge is about 8 mills per kwh*

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NYISO Governance

- Independent board selected by stakeholders
- Stakeholders are grouped by segment and are assigned voting rights
- 58% vote required
- FERC has jurisdiction
- Committee structure for developing rules

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NYISO Operations

- System dispatch, reliability & economics
- Market monitoring staff
- Independent market advisor reports to board
- NYISO has market power mitigation
- WWW.NYISO.Com