

July 29, 2014

MEMORANDUM TO THE TRUSTEES

FROM THE PRESIDENT and CHIEF EXECUTIVE OFFICER

**SUBJECT: Amendment to Standby Rate Provisions of
NYPA's Governmental Customers Service Tariffs –
Notice of Proposed Rulemaking**

SUMMARY

The Trustees are requested to authorize the Corporate Secretary to publish a Notice of Proposed Rulemaking (“NOPR”) in the *New York State Register*, in accordance with the requirements of the State Administrative Procedure Act (“SAPA”), for the purpose of amending the currently effective standby rate provisions of the Authority’s Service Tariff No. 100 applicable to New York City (“NYC”) Governmental Customers and Service Tariff No. 200 applicable to Westchester Governmental Customers (collectively, “Service Tariffs”). The proposed revised tariff sheets are attached as Exhibit “A.”

This update to the standby provision of the Service Tariffs would represent an improvement over the existing standby services currently offered, provide clarity to a billing structure for customers with on-site generation supplying multiple accounts, and further encourage the adoption of on-site generation by Customers.

Authority staff will address any comments received during the 45-day public comment period and return to the Trustees at a later date with recommendation for final adoption on the proposed changes to the Service Tariffs.

BACKGROUND

The Authority has served the NYC and Westchester Governmental Customers (collectively, “Customers”) since their transfer from Consolidated Edison Company of New York, Inc. (“Con Edison”) beginning in 1976 as part of the NYPA’s purchase of the Indian Point 3 Nuclear Power Plant and the Charles Poletti Power (then the Astoria 6) Plant. A total of 115 governmental Customers located in New York City¹ and Westchester County² purchase NYPA’s electricity in order to serve a myriad of government facilities, including office buildings, public schools, public housing, hospitals, water and wastewater treatment plants, parks and police and fire stations.

¹ The NYC Governmental Customers consist of the City of New York (“NYC” or “City”), the Metropolitan Transportation Authority (“MTA”), the New York City Housing Authority, the Port Authority of New York and New Jersey, the State of New York Office of General Services and six smaller governmental entities located in the New York City area.

² The Westchester Governmental Customers consist of the County of Westchester plus 103 cities, towns, villages, school districts, fire districts and other local government agencies located in the County of Westchester.

With respect to the Authority's Service Tariffs, the standby service provisions were originally adopted by the Trustees on June 28, 2011 in conjunction with NYPA's Governmental Customer Production Rate and Delivery Rate Structure Redesign. Along with its "Rider C - Net Metering," the Authority's adoption of "Rider A - Standby Rate" sets forth provisions to integrate Customers' use of on-site generation into NYPA's rate structures. On-site generation, also referred to as Distributed Generation ("DG"), allows Customers to provide some or all of their electricity needs with their own resources. DG can benefit both the Customer and the energy grid by reducing costs incurred by the Customer, reducing the demand on the electric grid during peak periods, and providing clean and efficient power to meet Customer needs. Customers can also serve multiple accounts on their premises with a single DG system.

The standby rate provisions were designed to provide Customers who self-generate with electricity in the event of an outage, planned or otherwise, to their DG facility. Providing needed access to the reliability of the electric power grid makes the benefits of Customer self-generation possible. NYPA's standby service consists of certain charges, including a standby contract demand charge, to ensure that production service is always available to these Customers in the event of a DG failure. (Con Edison, the local utility serving New York City and Westchester County, provides standby delivery service for the Customers in accordance with its state-regulated tariffs.)

Currently, there are no NYPA accounts served under Rider A, but DG facilities are being built by the Customers and are planned to start as early as the end of 2014.³

In 2012, one year after Rider A's adoption and in anticipation of specific DG facilities scheduled to commence service in 2014, the City reached out to Authority staff to review the current standby rate methodology. The City expressed specific concerns that the Authority's standby rate design should be altered to allow Customers to more fully realize the financial benefits of DG, and, as a result, reduce perceived barriers to Customers adopting DG facilities. Additionally, the City needed the tariff's billing provisions to recognize multiple accounts tied to a single on-site generator.

To allow for participation by all Customers, NYPA staff deferred consideration of revisions to the standby rate provision until the biannual review process of governmental customer rates in 2013 for the 2014 rate year. During the review of the 2014 Customer production rate setting process, NYPA staff conducted multiple teleconferences with the NYC Governmental Customers discussing the City's original request to change the standby rate methodology. Various scenarios and analyses were created that resulted in a conceptual agreement for certain standby provision changes. On an informal basis, staff shared draft changes to Rider A with the Customers to solicit feedback. That process formed the basis for today's proposed tariff revisions.

³ The 15 MW Department of Corrections' (NYC) Rikers Island DG system is expected to be fully operational in October 2014. In addition, NYC's Department of Environmental Protection has announced a proposed DG facility for its North River Treatment Plant, but no completion date has been set.

DISCUSSION

The main issues addressed in the proposed revisions to NYPA's standby rate provisions include: (1) reducing overall program costs due to a three-part demand charge contained in the original rate design accompanied by other related changes; and (2) billing provisions to accommodate Customers with multiple accounts connected to one DG facility.

Standby Demand Charges and Rate Design: The current standby billing structure contains three separate demand charges: 1) Contract Standby Demand Charge; 2) As-Used Daily Standby Demand Charge and 3) Supplemental Demand. The Supplemental Demand Service was envisioned to provide service beyond the capabilities of the Customer's on-site generation, and thus Customers would be subject to a regular demand charge for NYPA production service and charged at the applicable production service class rates. The City, however, expressed the view that this billing structure would discourage DG adoption by making it prohibitively expensive and requested that NYPA treat the demand supplied above the DG's maximum capabilities as regular standby demand, valued at the discounted As-Used Daily Standby demand rate. NYPA staff proposes to incorporate this change.

With the proposed elimination of the Supplemental Demand charge and the need to follow cost causation principals, NYPA staff revised the Contract Standby Demand definition to reflect the Customer's maximum demand per account, as opposed to the Customer's maximum on-site generation capability.

Further, staff's research demonstrated that it was appropriate to lower the forced outage rate used in developing the Contract Standby Demand and As-Used Daily Standby Demand rates. The forced outage rate is the probability that a DG system will break down unexpectedly. Based on staff's review that DG systems eligible for standby service have forced outage rates below 3% on average,⁴ staff has good cause to include a downward adjustment to the Contract Standby Demand rate as part of this proposal.

Accommodating Multiple Customer Accounts: Based on Customers' intentions (particularly the City) to connect multiple accounts to a single on-site generator, it was appropriate to make changes to accommodate this arrangement in NYPA's billing process under the Tariffs. Accordingly, the tariff amendments include provisions to apportion the on-site generator's output to each Customer account being served by the on-site generation facility. This should facilitate broader adoption of DG systems by the Customers, particularly for "campus" configurations where a single DG system is envisioned to serve multiple accounts of the same Customer.

In total, staff believes that the proposed amendments to Rider A – Standby Rate address Customer concerns to encourage the development of on-site generation and make appropriate adjustments to the rate structure based on cost causation principles.

⁴ See Tables ES.2 and ES.3 in Energy and Environmental Analysis, Inc.'s report, "Distributed Generation Operational Reliability and Availability Database" (January 2004), https://www1.eere.energy.gov/manufacturing/distributedenergy/pdfs/dg_operational_final_report.pdf (accessed July 1, 2014).

Consistent with SAPA, a 45-day public comment period will apply to the proposed tariff amendments. Authority staff will address any comments received during the public comment period and return to the Trustees at a later date with recommendation for final action on the proposed tariffs.

FISCAL INFORMATION

The adoption of the proposed standby tariff rider amendments is revenue neutral to the Authority. Any reduction in standby service revenues occasioned by these revisions will be recovered through standard production rates and established rate adjustment mechanisms applicable to all of NYPA's Governmental Customers in New York City and Westchester County.

RECOMMENDATION

The Vice President – Marketing Analysis and Administration and the Manager – Pricing recommends that the Trustees authorize the Corporate Secretary to file a Notice of Proposed Rulemaking for publication in the *New York State Register* for the purpose of amending the Authority's Service Tariffs No. 100 and No. 200, as provided for herein and in Exhibit "A."

It is also recommended that the Senior Vice President – Economic Development and Energy Efficiency, or his designee, be authorized to issue written notice of the Authority's proposed action to affected customers.

For the reasons stated above, I recommend the approval of the above-requested action by adoption of the resolution below.

Gil C. Quiniones
President and Chief Executive Officer

RESOLUTION

RESOLVED, That the Corporate Secretary of the Authority be, and hereby is, directed to file a Notice of Proposed Rulemaking for publication in the *New York State Register* in accordance with the State Administrative Procedure Act to amend the Authority's Standby Rate Provisions of its Governmental Customers Service Tariffs, as set forth in the foregoing memorandum of the President and Chief Executive Officer; and be it further

RESOLVED, That the Corporate Secretary of the Authority be, and hereby is, directed to file such other notice(s) as may be required by statute or regulation concerning the proposed tariff amendments; and be it further

RESOLVED, That the Senior Vice President – Economic Development and Energy Efficiency or his designee be, and hereby is, authorized to take such other and further actions as may be necessary to effectuate the foregoing; and be it further

RESOLVED, That the Chairman, the Vice Chair, the President and Chief Executive Officer, the Chief Operating Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things and take any and all actions and execute and deliver any and all certificates, agreements and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.

**Amendment to Standby Rate Provisions of NYPA's Governmental
Customer Service Tariffs - Notice of Proposed Rulemaking**

Exhibit "A"

Trustee Meeting

July 29, 2014

Rider A – Standby Rate

A. Applicability

Applicable to Customers who would otherwise receive service under Service Classifications No. 65, 68, 69, 80, 82, 85, 91, 93 and 98 rates having generating facilities on their premises that are not in excess of eighty (80) megawatts, and which are interconnected with Authority through the Utility electric system. The nameplate rating of a Customer's on-site generation facilities must meet or exceed 15 percent of the Customer's maximum potential demand, consistent with the Utility tariff requirements.

Service under this Rider is limited to Customers who meet the requirements set forth in Rule 20 of Con Edison's Electric Tariff, P.S.C No. 10. Customers must also meet the requirements set forth in Service Class 11 of Con Edison's Electric Tariff, P.S.C No. 10 if they wish to receive compensation for Excess Energy from the Utility.

Customers receiving service under this Rider A may be required to pay for the installation and/or upgrade of equipment necessary to protect the safety or adequacy of electric service provided to other Customers, as set forth in Rule 20 and Service Class 11, if applicable, of the Utility tariff.

Customer shall provide upon request of the Authority all documentation necessary to bill the Customer under this Rider A, including but not limited to data necessary to determine Production Contract Standby Demand for each applicable Account, including load, generator, and interconnection data.

The Customer must also submit NYPA's Production Standby Service application to be considered. The application is available upon request. The Company reserves the right to limit service under this Rider.

B. Type of Service

NYPA will furnish power for standby service hereunder. The type of service supplied will depend upon the voltage available from Utility.

C. Definitions:

Total Load: The total amount of metered demand in kilowatts consumed by a Customer and recorded on each account's meter during each 30 minute interval in a billing period (as defined in section G of General Provisions), inclusive of kilowatts of power provided by the Authority and kilowatts of power generated by Customer's qualifying generating facility. For Customers with multiple Standby Accounts, Customer generation will be apportioned to each Account in accordance with the Utility tariff.

Production Contract Standby Demand: The Account's maximum Total Load in kilowatts from the preceding 12 months, or the months for which data is available if the Account has not been in service for 12 months. If insufficient history is available, or Account's Total Load is expected to change due to installation or removal of equipment, or Customer implementation of energy efficiency measures, the Authority will determine the Contract Demand after consulting with customer regarding project specifications and/or Account's past capacity needs. Customer may request in writing an adjustment to Contract Demand once per calendar year.

As-Used Daily Standby Demand: The demand in kilowatts that is metered or calculated for each day as the maximum positive difference between the Account's Total Load less the

Date of Issue:

Date Effective:

Issued in compliance with final rule adopted in I.D. No. PAS-15-11-00020-P

Issued by James F. Pasquale, Senior Vice President
Power Authority of the State of New York
30 South Pearl Street, Albany, NY 12207

generation kilowatts allocated to the Account in any 30-minute interval of each day during the Billing Period. In no instance will the As-Used Daily Standby Demand be less than zero.

Excess Energy- Energy generated by the Customer that exceeds Customer’s total energy usage in an interval and is exported to the Utility’s system.

D. Rules of Service

All Accounts at the Customer’s premises taking standby service shall have interval metering and shall be billed under applicable Service Class rates.

The Production minimum demand charge as discussed in Section VI. B of the Service Tariff will not apply under this Rider A.

Authority power delivered under this schedule shall not be used for resale or as a substitute for power contracted for or which may be contracted for under any other schedule of Authority tariff.

Adjustments for NYC Governmental Customers will occur in accordance with the Annual Planning and Pricing Process (described in their 2005 Long Term Agreements with Authority) to establish new rates effective January 1 of the following year.

Customer shall provide Authority with 30 days advance written notice of planned maintenance outages, specifying the starting date and duration of the planned outage

E. Determination of Production Demand Charges

The Production Standby Demand Charges in any Billing Period shall be the sum of the “Billed Contract Standby Demand Charge” and the “Billed Daily As-Used Standby Demand Charge” for the billing period.

Billed Production Contract Standby Demand Charge: shall be equal to the Production Contract Standby Demand determined for each Account multiplied by the applicable Production Contract Standby Demand Charge (see below). Where there are multiple Accounts, these values will then be summed.

Billed As-Used Daily Standby Demand Charge: Shall be the sum of the Account-level daily charges, calculated as the maximum As-Used Daily Standby Demand in each day during the Billing Period multiplied by the applicable As-Used Daily Standby Demand Charge.

Service Classification 65 Conventional

	Low Tension	High Tension
Production Contract Standby Demand Charge (\$/kW)	0.260	0.250
As-Used Daily Standby Demand Charge (\$/kW-day)	0.276	0.265

Service Classification 68 Conventional

	Low Tension	High Tension
Production Contract Standby Demand Charge (\$/kW)	0.470	0.443

Date of Issue:

Date Effective:

As-Used Daily Standby Demand Charge (\$/kW-day)	0.500	0.471
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Service Classification 68 Time of Day

	Low Tension	High Tension
Production Contract Standby Demand Charge (\$/kW)	0.427	0.402
As-Used Daily Standby Demand Charge (\$/kW-day)	0.453	0.427

Service Classification 69 Conventional

	Low Tension	High Tension
Production Contract Standby Demand Charge (\$/kW)	0.356	0.336
As-Used Daily Standby Demand Charge (\$/kW-day)	0.378	0.357

Service Classification 69 Time of Day

	Low Tension	High Tension
Production Contract Standby Demand Charge (\$/kW)	0.388	0.372
As-Used Daily Standby Demand Charge (\$/kW-day)	0.412	0.395

Service Classification 80 Conventional

	Low Tension	High Tension
Production Contract Standby Demand Charge (\$/kW)	0.053	0.050
As-Used Daily Standby Demand Charge (\$/kW-day)	0.056	0.053

Service Classification 82 Conventional

	Low Tension	High Tension
Production Contract Standby Demand Charge (\$/kW)	0.317	0.298
As-Used Daily Standby Demand Charge (\$/kW-day)	0.337	0.317

Service Classification 85 Conventional

	Low Tension	High Tension

Date of Issue:

Date Effective:

Production Contract Standby Demand Charge (\$/kW)	0.401	0.389
As-Used Daily Standby Demand Charge (\$/kW-day)	0.426	0.413

Service Classification 91 Conventional

	Low Tension	High Tension
Production Contract Standby Demand Charge (\$/kW)	0.303	0.286
As-Used Daily Standby Demand Charge (\$/kW-day)	0.322	0.304

Service Classification 91 Time of Day

	Low Tension	High Tension
Production Contract Standby Demand Charge (\$/kW)	0.409	0.386
As-Used Daily Standby Demand Charge (\$/kW-day)	0.435	0.410

Service Classification 93 Conventional

	Low Tension	High Tension
Production Contract Standby Demand Charge (\$/kW)	0.241	0.229
As-Used Daily Standby Demand Charge (\$/kW-day)	0.256	0.244

Service Classification 98 Conventional

	Low Tension	High Tension
Production Contract Standby Demand Charge (\$/kW)	0.145	0.136
As-Used Daily Standby Demand Charge (\$/kW-day)	0.154	0.145

Service Classification 98 Time of Day

	Low Tension	High Tension
Production Contract Standby Demand Charge (\$/kW)	0.304	0.291
As-Used Daily Standby Demand Charge (\$/kW-day)	0.323	0.310

Date of Issue:

Date Effective:

F. Production Energy Service

Authority will provide energy service to the Customer under the production service class energy rates applicable to the Customer's Account(s).

G. Excess Energy Compensation

The Authority will assist the Customer in applying to the Utility to receive compensation for Excess Energy exported into the Utility system.

H. Delivery Service Charges

The rates for Delivery Service will be a direct pass through the currently effective Utility tariff rates, including all Special Provisions, applicable to the Customer, as amended from time to time by Utility.

I. Metering

The Customer's metering, for each account, will conform to the Utility's metering provisions, In the event the Customer requests an additional meter for standby service, the Customer shall pay the cost of the meter and installation.

J. Power Factor Correction

The Power Factor will be handled by the Utility in accordance with the Utility tariff or any applicable agreements between the Customer and Utility.

Date of Issue:

Date Effective:

Modified to be consistent with Con Edison P.S.C No. 12, Case 08-E-0539

Issued by James F. Pasquale, Senior Vice President
Power Authority of the State of New York
30 South Pearl Street, Albany, NY 12207

Rider A – Standby Rate

A. Applicability

Applicable to Customers who would otherwise receive service under Service Classifications No. 68, 69, 82 rates having generating facilities on their premises that are not in excess of eighty (80) megawatts, and which are interconnected with Authority through the Utility electric system. The nameplate rating of a Customer's on-site generation facilities must meet or exceed 15 percent of the Customer's maximum potential demand, consistent with the Utility tariff requirements.

Service under this Rider is limited to Customers who meet the requirements set forth in Rule 20 of Con Edison's Electric Tariff, P.S.C No. 10. Customers must also meet the requirements set forth in Service Class 11 of Con Edison's Electric Tariff, P.S.C No. 10 if they wish to receive compensation for Excess Energy from the Utility.

Customers receiving service under this Rider A may be required to pay for the installation and/or upgrade of equipment necessary to protect the safety or adequacy of electric service provided to other Customers, as set forth in Rule 20 and Service Class 11, if applicable, of the Utility tariff.

Customer shall provide upon request of the Authority all documentation Necessary to bill the Customer under this Rider A, including but not limited to data necessary to determine Production Contract Standby Demand for each applicable Account, including load, generator, and interconnection data.

The Customer must also submit NYPA's Production Standby Service application to be considered. The application is available upon request. The Company reserves the right to limit service under this Rider.

B. Type of Service

NYPA will furnish power for standby service hereunder. The type of service supplied will depend upon the voltage available from Utility.

C. Definitions:

Total Load: The total amount of metered demand in kilowatts consumed by a Customer and recorded on each Account's meter during each 30 minute interval in a billing period (as defined in section G of General Provisions), inclusive of kilowatts of power provided by the Authority and kilowatts of power generated by the Customer's qualifying generating facility. For Customer's with multiple Standby Accounts, Customer generation will be apportioned to each Account in accordance with the Utility tariff.

Production Contract Standby Demand: The Account's maximum Total Load in kilowatts from the preceding 12 months, or the months for which data is available if the account has not been in service for 12 months. If insufficient history is available, or Account's Total Load is expected to change due to installation or removal of equipment, or Customer implementation of energy efficiency measures, the Authority will determine the Contract Demand after consulting with the Customer regarding project specifications and/or Account's past capacity needs. Customer may request in writing an adjustment to Contract Demand once per calendar year.

As-Used Standby Demand: The demand in kilowatts that is metered or calculated for each day as the positive difference between the Account's Total Load less the generation kilowatts allocated to the Account in any 30-minute interval of each day during the Billing Period.

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In no instance will As-Used Daily Standby Demand be less than zero.

Excess Energy- Energy generated by the Customer that exceeds Customer’s total energy usage in an interval and is exported to the Utility’s system.

D. Rules of Service

All Accounts at the Customer’s premises taking standby service shall have interval metering and shall be billed under applicable Service Class.

The Production minimum demand charge as discussed in Section VI. B of the Service Tariff will not apply under this Rider A.

Authority power delivered under this schedule shall not be used for resale or as a substitute for power contracted for or which may be contracted for, under any other schedule of Authority tariff.

Adjustments for WES Governmental Customers will occur in accordance with the provisions of the 2007 Supplemental Agreement with Authority to establish new rates effective January 1 of the following year.

Customer shall provide Authority with 30 days advance written notice of planned maintenance outages, specifying the starting date and duration of the planned outage

E. Determination of Production Demand Charges

The Production Standby Demand Charges in any billing period shall be the sum of the “Billed Contract Standby Demand Charge” and the “Billed Daily As-Used Standby Demand Charge” for the billing period.

Billed Production Contract Standby Demand Charge: shall be equal to the Production Contract Standby Demand determined for each Account multiplied by the applicable Production Contract Standby Demand Charge (see below). Where there are multiple Accounts, these values will then be summed.

Billed As-Used Daily Standby Demand Charges: Shall be the sum of the Account-level daily charges, calculated as the maximum As-Used Daily Standby Demand in each day during the Billing Period multiplied by the applicable As-Used Daily Standby Demand Charge.

Service Classification 68 Conventional

	Low Tension	High Tension
Production Contract Standby Demand Charge (\$/kW)	0.068	0.064
As-Used Standby Demand Charge (\$/kW-day)	0.072	0.068

Service Classification 69 Conventional

	Low Tension	High Tension
Production Contract Standby Demand Charge (\$/kW)	0.054	0.051
As-Used Standby Demand Charge (\$/kW-day)	0.057	0.054

Date of Issue:

Date Effective:

Service Classification 69 TOD

	Low Tension	High Tension
Production Contract Standby Demand Charge (\$/kW)	0.077	0.074
As-Used Standby Demand Charge (\$/kW-day)	0.082	0.079

Service Classification 82 Conventional

	Low Tension	High Tension
Production Contract Standby Demand Charge (\$/kW)	0.068	0.064
As-Used Standby Demand Charge (\$/kW-day)	0.072	0.068

F. Production Energy Service

Authority will provide energy service to the Customer under the production service class energy rates applicable to the Customer’s Account(s).

G. Excess Energy Compensation

The Authority will assist the Customer in applying to the Utility to receive compensation for Excess Energy exported into the Utility System.

H. Delivery Service Charges

The rates for Delivery Service will be a direct pass through the currently effective Utility tariff rates, including all Special Provisions, applicable to the Customer, as amended from time to time by Utility.

I. Metering

The Customer’s metering, for each account, will conform to the Utility’s metering provisions, In the event the Customer requests an additional meter for standby service, the Customer shall pay the cost of the meter and installation.

J. Power Factor Correction

The Power Factor will be handled by the Utility in accordance with the Utility tariff or any applicable agreements between the Customer and Utility.

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Date Effective: