STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Case 15-M-0127 – In the Matter of Eligibility Criteria for Energy Service Companies.

Case 12-M-0476 – Proceeding on Motion of the Commission to Assess Certain Aspects of the Residential and Small Non-residential Retail Energy Markets in New York State.

Case 98-M-1343 – In the Matter of Retail Access Business Rules.

STAFF WHITEPAPER ON BENCHMARK REFERENCE PRICES

Dated: May 4, 2016

INTRODUCTION AND BACKGROUND

The Commission has taken a number of actions to improve retail access markets for residential and small non-residential (mass market) customers. In its Order Resetting Retail Energy Markets and Establishing Further Process (Reset Order), the Commission limited energy service company (ESCO) enrollment or renewal of mass market customers to contracts that guarantee savings in comparison to what the customer would have paid as a full service utility customer, or that provide at least 30% renewable electricity.[1] The Order also sets forth for consideration certain new requirements applicable to ESCOs, including under what conditions ESCOs may enroll mass market customers on a going forward basis, including whether the requirements above should be retained and what other specific energy-related services, where bundled with commodity service, demonstrate sufficient value to customers.

In light of the Commission's interest in "an immediate transition away from a retail market focused on commodity only without price protection, to a market in which competitive ESCOs provide services of demonstrated value to consumers ..."[2] Staff is proposing a formula for determining an appropriate not to exceed benchmark "reference price" for a 12-month fixed price offering. A fixed price product could provide value to customers who are looking to lock in a budget and/or insulate themselves from price spikes. The fixed price offering could be

---

[1] Cases 15-M-0127, et al., In the Matter of Eligibility Criteria for Energy Service Companies, Order Resetting Retail Energy Markets and Establishing Further Process (issued February 23, 2016). Portions of this order are stayed pending judicial review.

[2] Reset Order at 2.

a standalone product or could be coupled with an energy related value added product, the price of which would be bundled with the per unit commodity costs but separately disclosed in the customer disclosure statement, including the price of that product. In either case the reference price must consider the additional risks ESCOs incur when offering a fixed price product.

With respect to month-to-month, variable rate products, Staff is not proposing a reference price. For such products, the ESCOs are required to offer the price guarantee with respect to the utility commodity price as articulated in the Reset Order. For ESCOs wishing to bundle energy related value added products or services with a commodity product, the ESCO must guarantee savings with respect to the commodity portion of the product and disclose in the customer disclosure statement the additional cost attributed to the energy related value added product or service.

Staff Proposal – Electric Reference Price

The purpose of this reference price formula is to establish a just and reasonable per kilowatt-hour price for a 12-month fixed price supply product. A 12-month fixed price product offered by an ESCO at a price at or below the reference price will be deemed to be just and reasonable. Prices above the reference price would be subject to staff review and possible compliance action.

The reference prices should be: transparent, sufficient, visible, timely provided and easy to administer. Each month a reference price would be established for a 12-month fixed price product for residential and small non-demand metered commercial & industrial customers. A reference price would be established for each utility operating in each load zone for each customer type (i.e. residential, small non-demand metered C&I). The reference prices would be established by Staff or its consultant approximately 6-weeks prior to the beginning of each 12-month period and will be posted on the Departments Website. For example, the reference price for a 12-month fixed price offer that begins in May would be established in mid-March. The reference prices would be calculated each month by DPS staff or consultant.

Methodology

Reference Price for twelve month fixed price product

- REFERENCE PRICE : $R_{L,U,M} = E_{L,U,M} * F + C_{L,U,M} + P$
  - $R_{L,U,M}$ = reference price for NYISO load zone L for utility U for the 12-month period beginning in month M
  - $E_{L,U,M}$ = ICE LMP reference price as computed below
  - F = Multiplier to cover costs of load shaping, ancillary services etc., as shown below
  - $C_{L,U,M}$ = ICE ICAP capacity value as computed below
  - P = Risk premium to cover ESCO customer acquisition, financing, labor, POR costs, taxes

- Factors F and P will be decided periodically by the PSC, based on need. The other factors will be updated as shown. Update periods may change based on circumstances.

- Reference prices to be based on forward energy and capacity market prices from the Intercontinental Exchange (ICE).

- Base Energy prices
  - Use 3 days' average of 12 monthly Zone A (ICE: NAY), G (ICE: NGY) & J (ICE: NJY) on peak ATC energy futures (12 future prices per zone) – straight average to develop annual on peak strip price. Updated monthly.
  - 3 days' average of 12 monthly zone A (ICE: AOP), G (ICE: NGO) & J (ICE: NJO) off peak ATC energy futures (12 future prices per zone) – straight average to develop annual off peak strip price. Updated monthly.

  - Use historical NYISO data to adjust the forward prices for zones A, G & J to calculate prices for all non-liquid NYISO Zones. Basis differentials updated annually.
  - Load weight on & off peak annual averages to establish base energy price by zone, utility & service class (residential and small non demand metered C&I). Weighting factors updated annually

- Energy multiplier to cover load following, losses, unaccounted for energy and ancillary services
  - Add:
    - Energy load following adjustment (load varies based on load shape, weather, etc) – 10% of base energy price. Updated based on need.
    - Tariffed energy losses, unaccounted for energy, and ancillary services (including uplift) - 20% of base energy price. Updated based on need.

- Capacity:
  - Use 3 days' average of sum of 12 monthly capacity futures for Zone J (ICE: NYC) to develop the annual Zone J-specific price ($/kw-yr). Updated monthly.
  - Use 3 days' average of sum of 12 monthly capacity futures for rest of state (ICE: NYR) to develop annual ROS-specific capacity price ($/kw-yr). Updated monthly.
  - Apply a basis differential calculated from the NYISO data to calculate Lower Hudson Valley (LHV: Zones G-J) specific capacity price ($/kw-yr). LHV capacity price = Zone J capacity price * 57% based on May 2015 – April 2016 NYISO data. Basis differentials updated annually.
  - Apply Locational Capacity Requirements (LCR) + 12-month average historic capacity zone excesses to calculate final nested capacity prices for NYC, LHV and ROS ($/kW-yr). LCR + excess shown are from May 2015 – April 2016. LCRs & excesses updated every six months.

	ICAP LCR	**UCAP Eff LCR**	**LCR + Excess**
NYC %	80.5	72.83	81.49

G-J %	90.0	82.86	90.89
ROS %	117.5	106.21	115.31

Zonal Prices	Locational Capacity Obligations		
	NYC	G-J	ROS
NYC	81.49%	0	0
G-J	9.40%	90.89%	0
ROS	24.42%	24.42%	115.31%
	115.31%	115.31%	115.31%

  - o Convert to $/kWh using service class load factor based on NYISO class coincident peak. Load factors updated annually.

- Retail Cost Adder
  - o 2 cents/kWh

Staff Proposal – Gas Reference Price

The purpose of this reference price formula is to establish a just and reasonable price cap per dekatherm price for a 12-month fixed price supply product. A 12-month fixed price product offered by an ESCO at a price at or below the reference price will be deemed to be just and reasonable. Prices above the reference price would be subject to staff review and possible compliance action.

The reference prices should be: transparent, timely provided and easy to administer. Each month, a reference price would be established for a 12-month fixed price product for residential and small commercial & industrial customers. A reference price would be established for each utility for each customer type (i.e. residential, small commercial). The reference prices would be established by Staff or its consultant approximately 6-weeks prior to the beginning of each 12-month period and will be posted on the Department's Website. For example, the reference price for a 12-month fixed price offer that begins in May would be established in mid-March. The reference prices would be calculated each month by DPS staff or consultant.

Methodology

Reference Price for twelve month fixed price product

- REFERENCE PRICE: $R_{U,M} = D_U + (C + B_U)*F_U*W_U + P + M + Y$.
    - $R_{U,M}$ = reference price at Local Distribution Company (LDC) U's franchise area for the 12-month period beginning in month M.
    - D_U = Weighted average Cost of pipeline capacity for LDC U, including fuel/line loss factor.
    - C = NYMEX or ICE Futures commodity price.
    - B_U = Basis forecast from CME Group.
    - F_U = LDC U.
    - W_U = Weather Risk at LDC U's franchise area.
    - Y = charges to ESCOs for balancing services and applicable managed storage services.
    - P = Premium includes supplier margin and MFC related costs, including purchase of receivables and billing.
    - M = Cushion to limit price gouging.
- The cost of capacity that is released to the ESCOs can be obtained from each LDC's tariffs/statements or pipeline tariffs.
- The commodity price and the basis forecast are load weighted to reflect higher consumption and higher costs in the winter.

- F_U Factor reflects losses in the LDC's distribution system. Fuel and Line Loss factors can be found in the LDCs' tariffs.
- Factor P will be decided periodically by the PSC, based on need. The other factors will be updated as shown. Update periods may change based on circumstances.

Weather Risk Premium Factor varies by area. Weather Risk factor ranges from 1.05 to 1.10 (or 5-10% of the commodity cost).