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January 30, 2015

Honorable Kathleen H. Burgess, Secretary
 Department of Public Service
 Three Empire State Plaza
 Albany, New York 12223

Dear Secretary Burgess:

Submitted herewith is the three-year Rate Plan of PSEG Long Island LLC (“PSEG LI”) and the Long Island Power Authority (“Authority”) as required by the LIPA Reform Act (the “Act”) and the Amended and Restated Operations Services Agreement dated as of December 31, 2013 (“OSA”). Our Rate Plan proposes modest increases of approximately 2% per year of aggregate electric revenues – increases that are below the expected rate of inflation for the years 2016 to 2018. The delivery rate adjustments, which would not become effective until January 1, 2016, follow a three-year freeze to delivery rates lasting from January 1, 2013 to December 31, 2015.

The modest rate adjustments are necessary to fund investments required to create a first-class electricity provider on Long Island and will support the Authority’s long-term financial integrity. The requested total increase in revenues of approximately \$221 million, from the rate freeze year 2015 through the level proposed for 2018, is composed of several elements that can generally be described as follows:

Front Line Operational Improvements to move from 4 th quartile to 1 st quartile utility performance over 5 years, including investments in customer experience, industry best practice tree trim and maintenance cycles, storm response, and reliability	\$45 million
Financing of New Infrastructure and Technology Investment to support system reliability and benefit the customer experience	\$49.5 million
Investment in Debt Reduction to maintain and improve the Authority’s low credit ratings	\$30.8 million
Cost Increases for anticipated inflation offset by productivity improvement, enhanced energy efficiency investment, and management under the OSA	\$55.6 million
Increasing Taxes for revenue and property tax payments in lieu of tax, or PILOTs	\$18.7 million
Declining Grants and Other Income	\$21.7 million

This Rate Plan will provide a transparent and comprehensive look into the operations of PSEG LI and the Authority, and explain the changes made as PSEG LI and the Authority work

to realize the vision embodied in the Act and the OSA of providing Long Island customers with service in the top quartile of the electric utility industry.

Witnesses on behalf of PSEG LI will show that the Rate Plan creates the following benefits:

- Continued improved performance in key areas such as reliability and storm recovery; deployment of additional renewable resources that further transition to a power system based on clean, distributed resources; improved call center performance; and greater responsiveness to public concerns;
- Improved customer satisfaction, continuing the significant improvement in PSEG LI's overall customer satisfaction during 2014, when PSEG LI registered the largest gain of any large electricity provider in the nation but still ranked last, indicating the need for continued investment in systems, tree trimming, maintenance, and upgrades;
- Improved power supply and fuel purchasing decisions, such as decisions saving customers millions of dollars that would have been required during the Rate Plan years by determining that certain plants did not need to be built at this time;
- Increased benefits for less fortunate customers, doubling the existing low-income discount; and
- Targeted infrastructure investment in the electric system on Long Island during the Rate Plan to improve reliability and resiliency.

Witnesses on behalf of the Authority will demonstrate the following benefits:

- Continued access to tax-free debt, exemption from Federal and State income taxes, and access to Federal grants available to municipal public power utilities for storm restoration, which together save customers approximately \$400 million per year;
- Attainment by the Authority of a Federal grant available to fund 90 percent of a \$730 million storm hardening program for the electric grid; realization of \$35 million per year in State grants for energy efficiency; and a multi-year commitment of \$60 million to support the continued growth of residential and commercial solar energy on Long Island, reducing the impact of these investments on our customers' bills;
- Savings estimated at \$155 million during the Rate Plan through refinancing Authority bonds at a lower cost through the Utility Debt Securitization Authority as proposed as part of the Governor's 2015 budget bill;
- An improved approach to financial policies consistent with industry standards that will reduce the Authority's debt relative to assets over time, maintain access to capital to fund infrastructure improvements on reasonable terms, and save an estimated \$280 million over the three-year Rate Plan compared to prior policy; and
- The Authority's efforts to achieve savings in property tax assessments on the legacy power plants, which will hold down rates.

Attached to this letter is a listing of the testimonies being provided on behalf of PSEG LI and the Authority in support of this Rate Plan.

In the short time that it has operated the transmission and distribution system for the Authority, PSEG LI has met or exceeded nearly all of the numerous performance standards established in the OSA, and has achieved:

- Better than 99.9 percent overall system reliability, through enhanced maintenance and tree-trimming, and a variety of other activities;
- Implementation of a new Outage Management System providing
 - Improved accuracy in identifying where outages have occurred;
 - Quick and accurate estimates of when service will be restored; and
 - Better ability to communicate restoration progress.
- Flawless implementation of other new systems and applications, including a system to enhance emergency liaison with municipalities, a new interactive voice response unit supporting our call center operations, an industry-leading SAP enterprise resource planning system, and the migration of over 500 other business applications to PSEG LI's platforms;
- The launch of state-of-the-art telephone technology to reduce customer wait times;
- Opening of two new Customer Service Centers;
- The launch of an Integrated Resource Plan (“IRP”) process, with the objective of determining how future power supply needs can be met in a manner that maintains system reliability at the lowest reasonable cost;
- Implementation of award-winning energy efficiency programs – in its first year, PSEG LI customers saved enough energy to remove the equivalent of 70,000 cars from the road; and
- Installation of Long Island’s 10,000th rooftop solar PV system in December 2014, with an expectation to hit 15,000 in 2015.

While there is more to be done, this Rate Plan provides the funding required to continue this demonstrated record of success.

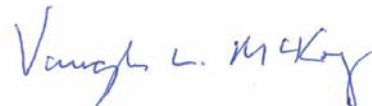
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In accordance with Public Service Law Section 3-b.3.(a), we request the Department of Public Service (“DPS”) review and make recommendations with respect to this Rate Plan to the Authority’s Board of Trustees (“Authority Board”). The filing has been prepared using the best available information. Because PSEG LI is a new entity, operating under an entirely new business model and operational plan that began on January 1, 2014, the components of the Rate Plan have been prepared using budget information for the prospective rate period, as required by the OSA. Similarly, the financial information of the Authority is presented in the manner most appropriate for a public power authority that is financed using debt instruments and has no stockholders.

This Rate Plan does not include PSEG LI's plans for Utility 2.0, which are being reviewed by the DPS through a separate process. Consistent with the policies being pursued in the DPS' Reforming the Energy Vision ("REV") Proceeding, the Utility 2.0 projects are designed to enhance the customer experience, contribute to clean energy policy and deployment goals, and cost-effectively defer the need for power resources and transmission and distribution infrastructure. PSEG LI continues to strongly support Utility 2.0 and encourages the DPS to recommend Utility 2.0 solutions in the pending Utility 2.0 proceeding.

The programs reflected in the proposed Rate Plan are designed to continue progress toward the vision of the OSA, the Act, and the REV Proceeding, which along with the IRP establishes an overall framework to achieve a cleaner, more resilient, more efficient, and more customer-focused electric utility on Long Island. We have proposed the minimum rate adjustments necessary to achieve these goals consistent with sound fiscal practice. We respectfully request that the DPS review and make its recommendations to the Authority Board within the time frames established by the Act.

Very truly yours,

A handwritten signature in blue ink that reads "Vaughn L. McKoy".

Vaughn L. McKoy
Vice President, Legal
PSEG Long Island LLC

A handwritten signature in blue ink that reads "Matthew M. Weissman".

Matthew M. Weissman
General Regulatory Counsel, Rates
PSEG Services Corporation

Attachment

Attachment

Testimonies Submitted in Support of the Rate Plan

On Behalf of PSEG LI

PSEG LI Operations and Budgeting Process

- T&D Budget and Operations Panel – Describes the operations and goals of PSEG LI’s transmission and distribution (“T&D”) function, and explains and supports the inputs composing the T&D 2015 base year O&M budget and 2016-2018 annual O&M budgets.
- Customer Services Budget and Operations Panel – Explains the steps PSEG LI has taken to recast and reorganize the Customer Services function to meet the goals established under the OSA and provide “best in class” customer service, and supports the budgets necessary to meet those goals.
- Shared and Business Services Panel – Supports the costs of business services necessary to operate PSEG LI’s business, and explains the shared services framework used to leverage the benefits of other PSEG companies to effectively provide business services and other services to LIPA and the projected costs to be incurred.
- Capital Budget Panel – Describes the selection process for capital projects, the levels of spending and projects that make up the individual capital budgets for the T&D system, for Customer Services, and for Business Services, and how the inputs from those three disciplines were incorporated and aggregated into the overall capital budgets for the Rate Plan years.
- Wages, Salary and Benefits Panel – Explains the employment arrangements that PSEG LI assumed on January 1, 2014, describes the compensation and benefits plans for PSEG LI’s employees, both union and management, and explains the structure of those wages, salaries and benefits in the 2015 base year and the escalation factors employed to project wages, salaries and benefits through the end of the 2016-2018 Rate Plan period.
- Budget Panel – Explains the processes that were followed in developing the base year 2015 budget, presents the PSEG LI budgets for the three years of the Rate Plan, and explains the consolidation of those with LIPA’s 2016, 2017 and 2018 budgets to produce the Three-Year Consolidated Budgets that form the basis of the Rate Plan.

Development of Revenue Requirement, Rates, and Tariff Changes

- Sales and Revenue Forecasting Panel – Presents the electric sales and customer forecasts used to support the revenue requirement presented in the Rate Plan.
- Power Supply Panel – Provides an overview of the power supply-related proposals and costs reflected in the three-year Rate Plan and describes the power supply-

related assumptions that have been made in preparing that plan, including a description of the process that is being followed to plan for LIPA's power supply requirements during the 2016-2018 period and beyond;

- Rate-making and Revenue Requirements Panel. Discusses the development of the revenue requirement using the public power model and based on the consolidated budgets of PSEG LI and LIPA for the three years, 2016, 2017 and 2018, as well as recommended automatic adjustment clauses.
- Cost of Service, Rate Design, and Tariff Issues. Forecasts the total operating revenues, including all proposed revenue requirement changes, for the Rate Plan period, provides the results of embedded class and marginal cost of service studies, sets forth the proposed rate design for each service classification under LIPA's tariff, describes proposed changes in LIPA's tariff, and sets forth a proposal for a collaborative process to address retail choice issues.

Additional Issues

- Utility 2.0 and Energy Efficiency Panel. -- Describes the Utility 2.0 Long-Range Plan proposed for the period 2015 through 2018 and LIPA's energy efficiency programs, explains how the energy efficiency programs impact the sales and revenue forecast used to develop the proposed rates, and discusses generally how we propose to recover the costs associated with the energy efficiency and renewable energy programs during the term of the Rate Plan.
- Storm Response Panel -- Explains the plans and protocols that have been put in place by PSEG LI to prepare for and respond to the storms that affect Long Island, including information on the enhancements that have been adopted as a means of improving the overall customer experience during storm response events, and PSEG LI's on-going efforts to refine and improve our Emergency Response Plan.
- Metrics and Safety Panel -- Describes the reliability and customer satisfaction performance metrics that PSEG LI is subject to under the OSA, and explains how PSEG LI has performed under those metrics since January 1, 2014, when PSEG LI became the LIPA service provider. The testimony also describes PSEG LI's vision for an enhanced safety program and safety culture, and the actions taken to improve the Company's safety results and culture.

On Behalf of the Authority

- Overview Panel. Explains the organizational structure of the Authority, the Authority's contractual and financial relationship with PSEG LI, and the process for setting the Authority's rates.
- Direct Testimony of Thomas Falcone. Presents the Authority's approach to establishing its financial revenue requirements using the "public power model", including a discussion of the Authority's financial policies, and how those policies are designed to provide benefits to customers.

- Direct Testimony of Kenneth Kane. Presents the Authority's projection of its general and administrative ("G&A") expense and the costs of financing the Authority's electric system, amounts that have been deferred and their subsequent amortizations, grants and other income and deductions, and the debt service amounts used to determine revenue requirements under the Public Power Model.
- Direct Testimony of Rick Shansky. Describes the Authority's oversight of PSEG LI's operations.