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DPS Recommends Significant Reduction in PSEG Rate Proposal

— Agency Recommends 26% Reduction in PSEG Long Island's Proposed Rates; Recommended Rate Plan Will Reduce Ratepayer Debt Burden, Strengthen Storm Hardening Investment, Ensure Safe & Resilient Service —

PLAINVIEW — After an eight month review process, Audrey Zibelman, Chief Executive Officer of the New York State Department of Public Service (DPS), today submitted a 26 percent reduction recommendation to the Long Island Power Authority (LIPA) Board of Trustees regarding the three-year proposal for electric rate charges requested by PSEG Long Island.

"Our recommendations recognize the significant savings provided by the LIPA Reform Act, considerable investments in storm hardening and resiliency, and the successful transfer of operations to PSEG Long Island from National Grid that will allow the Board to set rates that are designed to ensure that PSEG Long Island is on the path to provide top tier safe, cost effective and reliable electric service that the Reform Act envisioned for Long Island customers," said CEO Zibelman.

Today's final rate recommendation represents another successful step in improving utility operations and cost containment contemplated by the LIPA Reform Act, passed by the Legislature and enacted by Governor Andrew M. Cuomo in 2013. It is estimated that as a direct result of the Reform Act's tax reforms and authorization to securitize LIPA debt, ratepayers will save approximately $720 million over the course of the next three years.

The Reform Act froze electric rates for the past three years, shifted more operational control to PSEG Long Island, and subjected utility operations to DPS oversight. DPS now reviews proposed rate increases, annual storm response plans and storm responses, capital plans, metrics and metric performance, and "utility 2.0 plans" which seek to improve the overall efficiency of the electric system. DPS also addresses consumer complaints. PSEG Long Island successfully took over utility operations in January 2014.

The Reform Act included the requirement for PSEG Long Island to submit a three-year rate plan to DPS for the first time in LIPA's history. After eight months of rigorous regulatory review, including six public statement hearings, comments from hundreds of customers, an evidentiary hearing, testimony and two rounds of briefing from the parties in the case, Department staff issued a draft recommendation to reduce PSEG Long Island's initial revenue requirement proposal by 26 percent — reducing it from $441 million over the three years to $325 million.

The final recommendation issued today largely adopted the draft recommendation's 26 percent reduction in the cumulative revenue requirement. If the recommendation is adopted by the LIPA

Board, electricity rates for average residential customers on Long Island will increase utility bills by 0.8 percent in 2016, 2.1 percent in 2017 and 2.1 percent in 2018.

The recommendation includes a forecasted savings of $172 million in lower debt payments to be achieved in the next securitization of LIPA debt authorized by the Legislature. Additionally, the recommendation recognizes and complements the unprecedented investment in system hardening and resiliency initiatives. A $73 million capital investment included in the final recommendation leverages a $730 million FEMA grant for storm hardening. These activities will include elevating critical infrastructure above forecasted flood plains.

CEO Zibelman commended the company's commitment to high-quality electric service for Long Island consumers, while noting that the best utility ratemaking requires conservatism in favor of the customer. "We are all keenly interested in providing the necessary resources to provide the best possible electric service, while also protecting the customer's pocketbook," she said.

PSEG Long Island filed its three-year rate plan on January 30, 2015. The Department immediately commenced an unprecedented and historic public rate review modeled on the successful procedures used for investor-owned utilities across the State. The Department marshalled a staff team of regulatory experts to review the plan, made up of engineers, accountants, economists, customer service professionals, and attorneys specializing in utility regulation. Moreover, several parties to the proceeding contributed to the record through the hearing process.