

1 JOINT HEARING BEFORE THE NEW YORK STATE  
2 SENATE STANDING COMMITTEE ON INVESTIGATIONS AND  
3 GOVERNMENTAL OPERATIONS  
4 AND  
5 SENATE STANDING COMMITTEE ON CORPORATIONS, AUTHORITIES,  
6 AND COMMISSIONS

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7 PUBLIC HEARING

8 TO EXAMINE THE BEST COURSE OF ACTION TO ENSURE THE  
9 RESIDENTS OF LONG ISLAND RECEIVE THE ELECTRICAL AND  
10 CUSTOMER SERVICE THAT THEY DESERVE AT AFFORDABLE PRICES

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11 Van Buren Hearing Room A, 2nd Floor  
12 Legislative Office Building  
13 Albany, New York

14 February 27, 2013  
15 11:00 a.m. to 3:30 p.m.

16 PRESIDING:

17 Senator Carl L. Marcellino  
18 Chairman  
19 NYS Senate Standing Committee on  
20 Investigations and Governmental Operations

21 Senator Michael H. Ranzenhofer  
22 Chairman  
23 NYS Senate Standing Committee on  
24 Corporations, Authorities, and Commissions

25 SENATE MEMBERS PRESENT:

Senator Brad Hoylman (RM)

Senator Ruben Diaz

Senator John J. Flanagan

Senator Kenneth P. LaValle

Senator Bill Perkins

Senator Lee M. Zeldin

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ASSEMBLY MEMBERS PRESENT:

Assemblyman Alfred C. Graf

Assemblyman Chad Lupinacci

Assemblyman David G. McDonough

Assemblyman Michael A. Montesano

Assemblyman Andrew P. Raia

ALSO IN ATTENDANCE (in the audience):

Senator Philip M. Boyle

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19	Former Counsel, Inspector General for NYC Dept. of Environmental Protection; Former Special Assistant, U.S. Attorney General, Southern District of NY		
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1 SENATOR MARCELLINO: Good morning.

2 If we could take our seats, please.

3 Good morning, ladies and gentlemen.

4 My name is Senator Carl Marcellino, and I am  
5 the Chairman of the New York State Senate -- Senate  
6 Committee on Investigations and Government  
7 Operations.

8 Sitting to my right is  
9 Senator Mike Ranzenhofer, who is the Chairman of the  
10 Corporations, Authorities, and Commissions Committee  
11 in the New York State Senate.

12 We are joined by our colleagues:

13 To my left, Senator Ken LaValle,  
14 Senator Lee Zeldin;

15 And to our right, Assemblyman Dave McDonough,  
16 Assemblyman Graf, and Assemblyman Montesano.

17 We are here for a hearing, a joint public  
18 hearing, on, basically, the future of LIPA; the  
19 Long Island Power Authority.

20 Governor Cuomo has made the decision -- his  
21 desire clear that he would like to see a change in  
22 the structure of LIPA.

23 Excuse me. There may come a time when I have  
24 to pull a "Rubio," so --

25 [Laughter.]

1           SENATOR MARCELLINO: Hopefully, I can get the  
2 water a little closer than lurching for it.

3           But, he's made his desire clear to see a  
4 change in the structure of LIPA.

5           He's not happy with the way it performed in  
6 the aftermath, and during "Superstorm Sandy," and he  
7 would like to see some kind of a change.

8           To that end, he is seated a  
9 Moreland Commission to do a study for the Executive.

10          Our two committees are going to do a joint  
11 study, and issue a report at the end of this  
12 hearing, and after we get in some other written  
13 testimony that we expect, to issue a report of our  
14 own and make some recommendations to the  
15 Legislature.

16          Hopefully, between the Executive and the  
17 Legislature, we can come up with a position that is  
18 in the best interests of the ratepayers, within the  
19 LIPA perspective, which is, basically, Long Island  
20 and Queens.

21          I don't believe areas -- I don't think it  
22 goes into Brooklyn.

23          No, I don't believe so.

24          So, we are -- we are looking to take  
25 testimony today from the people, we have panels,

1 that are seated.

2 And paperwork is at the top of the floor  
3 there. If you didn't get a list of the people who  
4 are seated, who are going to be testifying today,  
5 you can pick it up. That's for your avail.

6 This will be taped. A video replay of this,  
7 if you want to have good sleeping at night, a good  
8 retape and a replay will be on the Senate  
9 Investigations Committee website, the Senate website  
10 as well, so that you can watch this.

11 This is being broadcast live on the Senate  
12 channel and the Senate Investigations Committee  
13 website.

14 You can also go to my own personal Senate  
15 website and you can see it as well.

16 So, we'll replay this for the public so  
17 anybody can hear it.

18 We have received written testimony from many  
19 individuals and groups who wanted to do so, and,  
20 testimony has been by invitation only.

21 We are concerned as to the complexity of the  
22 issue, and it is an extremely complicated issue.

23 Lots of interrelated issues come into play,  
24 not the least of which is, what to do, and how to  
25 deal with the Shoreham debt, and what's going to

1       happen with that, that problem. That's the  
2       800-pound gorilla that sits out there and affects  
3       the ratepayers most.

4               So we are particularly interested in seeing  
5       how we -- how this group is going to recommend, and  
6       what we're going to do to handle that, and what are  
7       the recommendations, and how that's going to be  
8       dealt with.

9               I see that we've been joined with  
10       Assemblyman Raia from Long Island.

11               We have, as I said, written testimony.

12               I would appreciate it if the people  
13       testifying wouldn't read their statements.

14               They don't have to, we have the written  
15       testimony.

16               Last I looked, everybody up here could read,  
17       and we will be happy to go through this and read it  
18       as well, but we'd like as much time as possible for  
19       questions of the panels, as they go forward.

20               So that issue being done,  
21       Senator Ranzenhofer, do you have any comments?

22               SENATOR RANZENHOFER: Yes, thank you.

23               Thank you, Senator Marcellino.

24               My name is Mike Ranzenhofer. I am the  
25       Chairman of the Standing Committee on Corporations,



1 Authorities, and Commissions, and co-hosting this  
2 public hearing with Senator Marcellino.

3 And, Senator Marcellino, I want to thank you,  
4 and your staff, for your leadership in convening  
5 this very important meeting today.

6 I also want to thank those who are going to  
7 be appearing before us today at this public hearing,  
8 for their time and thoughts and effort putting  
9 together the written statements, and for being here  
10 today and testifying.

11 And for also those who are here in the  
12 audience, and then watching this on television.

13 This is a very important issue for the  
14 ratepayers in this geographical area.

15 As Senator Marcellino said, this is a very  
16 complex and complicated area; basically, proposing  
17 changes in a structure that's been existing for some  
18 time.

19 So, I also look forward to hearing from the  
20 participants today.

21 And, Senator Marcellino, again, thank you for  
22 your leadership on this issue.

23 SENATOR MARCELLINO: Any of my colleagues?

24 Senator LaValle?

25 SENATOR LAVALLE: No.

1           SENATOR MARCELLINO: Anybody else want to  
2           make -- any statement you'd like to make?

3           Okay, with that, just a quick background.

4           LIPA was created to deal with, as I said, the  
5           Shoreham debt, replacing the Long Island Lighting  
6           Company (LILCO) that preceded it.

7           It is a holding company, in effect. It is a  
8           State authority; hence my colleague's involvement in  
9           this hearing.

10          It has a total of about 100 employees.

11          When you see trucks on Long Island, riding  
12          around, and it says "LIPA" on it, and you see a crew  
13          in those trucks, more than likely that crew are  
14          employees of National Grid, because National Grid is  
15          the company that provides the services and provides  
16          the -- the repairs, and does all the repair work and  
17          maintains the system. They also own the power  
18          plants.

19          LIPA owns the lines that bring the power from  
20          the power plants to your home, and from the top of  
21          the mast, which is that thing that reaches up above  
22          your house and connects to your meter, that's the  
23          personal property of the ratepayer, the homeowner.

24          So, you own, from your house, from your meter  
25          to the top of the mast.

1           LIPA controls, from the mast to the  
2           transformers, to the power plant, and Grid owns the  
3           power plants.

4           Now, to add to the complexity of this, in  
5           2013, we're changing.

6           National Grid will be replaced. The contract  
7           with National Grid will be changed and altered, and  
8           we'll be taking on PSE&G, which is a company from  
9           New Jersey.

10          They're gonna be replacing Grid, and  
11          providing the service for our customers and the  
12          maintenance of the system.

13          However, Grid, to my knowledge, will still  
14          own the power plants, unless some deal was made  
15          between PSE&G and National Grid so that PSE&G could  
16          buy the power plants.

17          So, as you can see, this is not exactly  
18          simple. This becomes even more calculated and more  
19          complicated as we move on.

20          But, we will move on.

21          So with that background in mind, I would like  
22          to introduce our first panel.

23          We have Ms. Regina Calcaterra, executive  
24          director of the Moreland Commission on Utility Storm  
25          Preparation and Response, chaired by -- set up by

1 Governor Cuomo;

2 We have Gil Quiniones, president and  
3 chief executive of the New York Power Authority;

4 And Robert Lurie, senior vice president of  
5 strategic planning for the New York Power Authority.

6 Ms. Calcaterra, I understand you're going  
7 first.

8 REGINA CALCATERRA: Thank you.

9 Good morning, Chairman Marcellino, and  
10 Ranzenhofer, and members of the Committee.

11 I am Regina Calcaterra, executive director of  
12 the New York State Moreland Commission on Utility  
13 Storm Preparation and Response.

14 I appreciate this opportunity to discuss the  
15 commission's investigation and findings concerning  
16 LIPA's response to "Superstorm Sandy," and the  
17 options of how best to structure LIPA, going  
18 forward.

19 The commission has conducted an investigation  
20 that solicited a broad spectrum of views and  
21 experiences associated with LIPA, from the public,  
22 industry experts, business owners, and  
23 representatives who represent critical  
24 infrastructure entities, as well as from LIPA  
25 personnel, National Grid personnel, and local

1 government officials.

2 The commission focused first on, among many  
3 things, the serious shortcomings in LIPA's recovery  
4 from "Sandy," and whether its current structure  
5 contributed to those shortcomings.

6 The commission's findings and recommendation  
7 in this respect were presented in the interim report  
8 which was submitted on January 7th, and the two  
9 findings just related to LIPA determined that the  
10 ineffective manner in which LIPA addresses  
11 emergency-planning preparedness and storm response  
12 in its service area, and it also addressed the  
13 inherent defects in the current LIPA-National Grid  
14 structure that must be avoided in any future  
15 alternative organizational structure that are being  
16 considered.

17 The interim report provides sufficient  
18 evidence that LIPA's outsourcing of most of the  
19 day-to-day management and operations of its system  
20 to National Grid just does not work.

21 In short, the bifurcated LIPA-National Grid  
22 structure lends itself to mismanagement, a lack of  
23 appropriate investment in infrastructure, a lack of  
24 accountability to customers, and excessive rates.

25 The commission recommended consideration of a

1 unified structure that both owns the T&D assets and  
2 is entirely responsible for serving LIPA's current  
3 service area.

4 In this respect, the commission identified  
5 three options for consideration:

6 The first, is the sale of LIPA's assets to a  
7 qualified investor-owned utility that would serve as  
8 the sole utility manager and operating -- an  
9 operator to the existing LIPA service area;

10 The second option, is full public ownership  
11 in operations by LIPA of the transmission and  
12 distribution systems;

13 The third option, was full public ownership  
14 and operation by the New York Power Authority of the  
15 LIPA electric system.

16 For the purposes of this testimony, I'm going  
17 to highlight a significant flaw associated with the  
18 management-service agreements between LIPA and  
19 National Grid, which is set to expire on  
20 December 31, 2013.

21 This agreement has been set in place --  
22 there's been an MSA continuing between LIPA and  
23 whoever it was that has been operating their system  
24 for years, and it's changed hands over time.

25 And the present agreement is between LIPA and

1 National Grid -- LIPA as the owner, National Grid as  
2 the operator of the system -- so their roles are  
3 delineated in this agreement.

4 And National Grid has three primary roles:

5 The first, is to operate and maintain the  
6 T&D system;

7 The third, is to repair the T&D system -- the  
8 second, is to repair T&D system;

9 And the third, is to provide customer  
10 service.

11 And they do these three major functions with  
12 over 2,000 employees on Long Island.

13 And LIPA's role is also defined in this  
14 agreement as well, but they're non-core functions as  
15 opposed to what National Grid does.

16 And what their role is, to set the rates, to  
17 determine and implement energy-efficiency programs,  
18 to create a budget, to issue debt, and provide legal  
19 compliance.

20 So it's very distinct what LIPA does with its  
21 100 employees, and what National Grid does with its  
22 2,000 employees.

23 So while National Grid assumed responsibility  
24 for day-to-day operations in what we call "blue sky"  
25 conditions -- when things are normal -- LIPA

1 specifically retained the ultimate authority in  
2 control over the operations of the T&D system,  
3 including the right to direct the manager in  
4 connection with the manager's obligation under the  
5 MSA.

6 And what this resulted in, was a problem  
7 during an emergency, because in the event of an  
8 emergency, LIPA even retains the right to take  
9 possession of and use any or all of National Grid's  
10 staff and resources, and directly manage them, even  
11 though they don't do that on a day-to-day basis.

12 The commission has determined that the unique  
13 relationship between LIPA and National Grid leads to  
14 public confusion about the provision of customer and  
15 operational service related to the fact that  
16 operations are delegated to National Grid, while  
17 operational oversight and approval powers are vested  
18 in LIPA.

19 The relationship has been particularly  
20 ineffective in the context of storm response.

21 As an example of the problem, the MSA between  
22 LIPA and National Grid specifies, that:

23 "During a storm event, National Grid shall be  
24 relieved of any of its obligations to comply with  
25 the performance metric, and such compliance shall



1 not constitute an event of a default to the extent  
2 and for any period during which the operation of the  
3 T&D system is affected."

4 In other words, during a storm, National Grid  
5 has no performance metrics to follow. And if they  
6 fail to do what they need to do, they're not in  
7 breach of contract.

8 Thus, LIPA, with its strong brand identity  
9 and exclusive financial responsibility, has only two  
10 choices in the context of a storm:

11 They could accept zero control over  
12 National Grid's performance, due to a lack of a  
13 penalizing metric, or, take 100 percent control  
14 through its contract emergency powers, which is what  
15 they did in "Superstorm Sandy."

16 Obviously, neither of these are optimum  
17 choices.

18 Indeed, based on the testimony taken during  
19 the investigation, as well as the relevant review of  
20 documentation, the commission concluded that the  
21 lack of appropriate contract controls and the  
22 bifurcated structure between LIPA and National Grid  
23 were largely responsible for the ineffective storm  
24 response.

25 And the interim report, as you know, is over

1 50 pages, the majority of which does cover the LIPA  
2 investigation. And there are several examples there  
3 of the challenges that the bifurcated structure  
4 between LIPA and National Grid creates.

5 I just highlighted one of them in  
6 relationship to a storm because this is what brought  
7 us here today.

8 Without getting into much detail, the  
9 commission also found that these same problems  
10 caused much of the ineffective day-to-day operations  
11 of the LIPA-National Grid structure.

12 Restructuring the Long Island electric  
13 utility service:

14 What the Moreland Commission did within the  
15 short amount of time, while we were preparing the  
16 interim report, was also take a look at a variety of  
17 options, because you could sit there and you could  
18 determine what the problem was, but it's also  
19 constructive if you take a look at options, and  
20 possibly make a recommendation, which is what the  
21 Moreland Commission did.

22 The commission considered three options as  
23 possible longer-term remedies for the current  
24 inadequacy of the LIPA structure, as I mentioned  
25 earlier: LIPA privatization, full public ownership

1 under LIPA, or public ownership under NYPA.

2 A majority of commission members recommended  
3 privatization.

4 The commission identified potentially  
5 millions of dollars in synergy benefits that could  
6 be achieved in privatization to offset privatization  
7 costs, including efficiencies in the areas of  
8 operating and maintenance costs, power supply, fuels  
9 management, and contractor fees.

10 Importantly, under this option, the new  
11 utility would be subject to independent oversight of  
12 the PSC, which is being strengthened by way of the  
13 Governor's budget --

14 The Moreland Commission put forth a proposal  
15 to strengthen the PSC.

16 -- ensuring that any future rate requests are  
17 fully justified, and adequate plans are in place for  
18 storm response and any other contingencies.

19 The challenge with privatization, would be to  
20 ensure that the debt plus the rates charged by the  
21 new private utility would, together, be affordable  
22 for ratepayers.

23 Second, public power, which is LIPA ownership  
24 and operation of the T&D system, which they don't  
25 have now.

1 Another alternative that the commission  
2 considered is full ownership and operation of LIPA  
3 by the T&D system.

4 This would entail ending the contract for  
5 management and operation of the system, and moving  
6 those responsibilities wholly into LIPA.

7 LIPA will become the direct employer of all  
8 the employees currently providing electric service,  
9 and would be directly responsible and accountable  
10 for the quality of service.

11 While cognizant of the many possible benefits  
12 of public power, the commission is also aware that  
13 it may cause potential problems, particularly given  
14 the complete loss of confidence in LIPA, the limited  
15 ability to recruit qualified executives, and the  
16 potential addition of over 2,000 employees to an  
17 already overburdened State employee pension system.

18 The third option was NYPA ownership and  
19 operation of the T&D system.

20 This structure would be similar to the LIPA  
21 ownership and operation, except that NYPA would  
22 assume ownership and operating responsibilities.

23 Electrical-system revenues and expenses from  
24 Long Island and the Rockaway Peninsula will be kept  
25 completely separate from the existing NYPA funds.

1           A potential advantage of the NYPA model  
2           versus the LIPA public-power-model discussed above,  
3           is that oversight of the entity would be done by  
4           NYPA's successful professional energy industry and  
5           financial-management team.

6           Some potential problems with this model  
7           include that NYPA has no expertise in retail utility  
8           operations or retail customer service, and NYPA's  
9           management is a full LIPA public power effort could  
10          divert considerable management attention away from  
11          NYPA's historical mission.

12          To some of the commission's findings,  
13          fundamental changes are essential to the provision  
14          of safe and reliable electric service on  
15          Long Island.

16          The interim report goes into the pros and  
17          cons of each of -- option that was provided, and the  
18          Moreland Commission's investigation is ongoing, and  
19          we plan on issuing the final report by spring.

20          And I do know that -- I'm going to hand the  
21          microphone on over to my colleagues over here, and I  
22          understand, thereafter, we'll be taking questions  
23          and answers.

24                 SENATOR MARCELLINO: Yeah, that is our  
25          policy.

1           We'll move on to Mr. Quiniones, and allow  
2 them, and then we'll have questions from the panel  
3 after the fact.

4           Go ahead, Mr. Quiniones.

5           GIL C. QUINIONES: Thank you.

6           Good morning, Mr. Co-Chairman, and members of  
7 the Committees.

8           I am Gil Quiniones, the president and  
9 chief executive officer --

10          SENATOR MARCELLINO: Mr. Quiniones, one  
11 second. I apologize.

12          We have been joined by my colleague in the  
13 New York State Senate, Bill Perkins.

14          Senator Perkins is here.

15          And -- oh, I'm sorry.

16          And, also, Senator John Flanagan.

17          He sneaks in; right? He's a stealth senator.

18          I'm sorry. Mr. Quiniones, please.

19          GIL C. QUINIONES: Okay.

20          I am Gil Quiniones, the president and  
21 chief executive officer of the New York Power  
22 Authority.

23          And I appreciate this opportunity to discuss  
24 options for ensuring that customers of the  
25 Long Island Power Authority receive high-quality

1 electric service at affordable rates.

2 With me here today is Robert Lurie, NYPA  
3 senior vice president of strategic planning, and,  
4 the project executive for NYPA's ongoing analysis.

5 As the New York's only statewide public power  
6 authority, the Governor sought NYPA's assistance in  
7 reviewing LIPA's current legal and organizational  
8 structure, and in providing him with options for  
9 restructuring LIPA.

10 It has become abundantly clear that LIPA's  
11 current structure has failed ratepayers and must be  
12 overhauled.

13 The Governor indicated that the suggested  
14 option should address five key objectives, to better  
15 serve the customers on Long Island and in  
16 The Rockaways.

17 First, he stated that there must be rate  
18 stability, both in the short and the long term;

19 Second, any solution must improve the quality  
20 of service ratepayers on Long Island have  
21 experienced to date, and the new option provide  
22 ratepayers with a level of service equivalent to  
23 that which the best utilities provide to their  
24 customers;

25 Third, any plan must provide for property-tax

1 stability;

2 Fourth, any resulting utility must have the  
3 full confidence of Long Island residents that it is  
4 highly prepared for storms and other extreme events;

5 And, fifth, the utility must have a  
6 well-formulated and resourced plan for responding to  
7 extreme weather events in a manner that restores  
8 service quickly, and provides customers with the  
9 critical information they need.

10 In short, the Governor wants a utility that  
11 will provide safe, reliable, affordable, and  
12 environmentally responsible electric supply on  
13 Long Island.

14 In order to evaluate the restructuring  
15 alternatives with the goal of achieving the  
16 Governor's objectives, NYPA assembled a group of  
17 highly qualified financial and legal advisors, led  
18 by the investment banking firm Lazard.

19 In addition, I assigned an internal NYPA team  
20 of senior executives in strategic planning, finance,  
21 law, and power-resource planning to work with the  
22 LIPA staff, and the -- our consulting team.

23 Lazard, along with our internal team, is  
24 performing an extensive analysis of the costs and  
25 benefits of various options for LIPA's transmission



1 and distribution assets, including, continuing to  
2 have LIPA own the assets and have a third party  
3 manage them, taking on the operation itself as a  
4 municipally owned and operated utility, and selling  
5 the assets to a private utility company.

6 In addition, Lazard is analyzing the  
7 alternatives for dealing with the, roughly,  
8 \$7 billion of debt on LIPA's books, over 3 billion  
9 of which is a legacy of LIPA's acquisition of LILCO  
10 and the debt that utility incurred in the  
11 construction of the now-dismantled, or  
12 decommissioned, Shoreham nuclear power plant.

13 Their work, and our work, continues, and  
14 includes an analysis of the power-supply contracts  
15 in LIPA's portfolio.

16 With Lazard's assistance, we are assessing  
17 different options and models that would best meet or  
18 achieve the five stated goals of Governor Cuomo.

19 Part of this initial study has included an  
20 analysis of the privatization which appears to have  
21 the potential to meet the Governor's goals.

22 Additional review is ongoing, and needed, to  
23 fully determine if privatization, or any other  
24 model, will meet these goals.

25 I would like to conclude by emphasizing, that

1 this review and work is not yet done, and the State  
2 has not made a final determination of which  
3 restructuring option will best serve LIPA customers.

4 We are open to any plan that others may have  
5 that can be clearly demonstrated to meet those  
6 objectives.

7 In the end, what Governor Cuomo wants is  
8 what's best for Long Island ratepayers.

9 We look forward to working with you, and your  
10 colleagues, in the vital process of bringing  
11 transparent, reliable, and affordable utility  
12 service to the residents and businesses of  
13 Long Island and The Rockaways.

14 This concludes my prepared testimony, and we  
15 are now, as a panel, ready to take your questions.

16 SENATOR MARCELLINO: Mr. Lurie, are you going  
17 to --

18 ROBERT F. LURIE: I have no prepared  
19 testimony. I will just take Q and A.

20 SENATOR MARCELLINO: Okay.

21 Just for record, I wanted to make sure that  
22 we understood it: Lazard Group was invited here,  
23 and initially accepted to testify before the  
24 hearing.

25 And then for reasons, personal and otherwise,

1 pulled out of the testimony.

2 And, the Governor's Office was kind enough to  
3 send Mr. Quiniones, Mr. Lurie, and Ms. Calcaterra  
4 in their place.

5 I have talked to the Governor's people, and  
6 told them that Lazard's testimony for this Committee  
7 would be most important to us, since they are the  
8 numbers people.

9 And we're most interested in the impact on  
10 the ratepayers, as to how that debt is handled, in  
11 moving forward, what -- as you stated in your  
12 testimony, and -- both of you stated in your  
13 testimony, would be the impact on customers. The  
14 key element -- in fact, on property taxes, the key  
15 the element.

16 Just a quick question, and then I'll turn it  
17 over to some of my colleagues who may have questions  
18 as well.

19 Anybody see this article in "Newsday" today?

20 My favorite newspaper.

21 [Laughter.]

22 SENATOR MARCELLINO: It is: A LIPA 2010  
23 study, rate hike, likely -- likely will -- likely --  
24 likely with privatization.

25 A rate hike likely with privatization.

1           That's a key element here that we're talking  
2           about.

3           Would you agree with this?

4           They cite reports done. The information for  
5           this article was apparently obtained from the  
6           Suffolk County Legislature's LIPA Oversight  
7           Committee, through a Freedom of Information Request  
8           by that committee.

9           It cites three different studies done  
10          under -- by various groups and organizations.

11          I'm talking about a 15 to 20 percent increase  
12          in the rates.

13          Any comments on that?

14          GIL C. QUINIONES: I did see the article.

15          I have not read the report fully, but I  
16          just -- I browsed through it.

17          And I just want to point out, on page 4, it  
18          says that, in this particular study that you have  
19          cited, that:

20          "These results are based on very high-level  
21          assumptions, and the purpose of this analysis is to  
22          provide ballpark numbers for the strategic options  
23          to consider."

24          My take on it, it was really done for a  
25          different purpose.

1           What we are doing, which is still ongoing and  
2           not yet completed, is a very detailed analysis,  
3           based on the facts, and based on input from various  
4           stakeholders.

5           And, so, I -- you know, it's -- to me, it's a  
6           different study than what we're -- what we're  
7           interested in, is get to -- to do an analysis that's  
8           fact-based, and that will -- that will produce the  
9           results based on what's best, in the long term, for  
10          Long Island ratepayers.

11           SENATOR MARCELLINO: You mentioned the  
12          preliminary report in your testimony.

13           Is that possible to receive a copy of that?

14          REGINA CALCATERRA: Absolutely.

15           It's also on our website, which is  
16          moreland.ny.gov.

17           But, I certainly will make sure that your  
18          office gets a copy of that.

19           SENATOR MARCELLINO: Thank you, we would  
20          appreciate that.

21           And you anticipate a final report by the  
22          commission sometime in the spring? Is that what you  
23          said?

24          REGINA CALCATERRA: Correct.

25          SENATOR MARCELLINO: Okay.

1           In your testimony, you talked about  
2 synergies, and the benefits, with privatization.

3           What synergies, and what benefits?

4           REGINA CALCATERRA: If another utility was to  
5 take over the entire T&D system -- basically, if it  
6 was, an IOU came in -- the strong likelihood, is  
7 that they're operating somewhere else in New York or  
8 somewhere else in the region.

9           So as a result of that, they've got fuel;  
10 they have staff; they've got mutual aid; they have  
11 other resources, polls and wires, that they're going  
12 to stockpile.

13           So it's not as if it's just one entity that's  
14 buying all this fresh, so they'll be able to get,  
15 potentially, lower prices, because they'll be buying  
16 more things in bulk.

17           So those were some of the examples with the  
18 synergies that we got by way of the meeting that we  
19 had with Lazard, which briefed us.

20           ROBERT F. LURIE: And I might also add to  
21 that, if I could, Senator, that they're -- you know,  
22 LIPA currently pays tens of millions of dollars in  
23 fees to outside parties, not National Grid being  
24 one, but, also, other consultants.

25           And we believe that, in combination, as

1 Ms. Calcaterra said, with another utility, those  
2 fees would no longer be required. They've -- those  
3 services could be performed by the existing staff of  
4 that larger utility, so that there could be tens of  
5 millions in savings just from that alone.

6 So, there are some examples there that, you  
7 know, are going to be factored into the analysis.

8 And, really, the question that we have is:  
9 Will that add up to enough to offset some of the  
10 other costs, and add on to the other benefits that  
11 will be factored into that analysis.

12 SENATOR MARCELLINO: Under the proposed  
13 privatization plans, how would the monthly debt  
14 service be handled?

15 ROBERT F. LURIE: It's useful, I think, to  
16 think of LIPA's 7 billion in outstanding debt in,  
17 essentially, two categories:

18 One being, the debt that -- the bonds that  
19 were issued to finance or acquire the T&D system;  
20 that is, the wire assets, all the equipment, and so  
21 forth, that are used in the everyday operation of  
22 the electric system, that's about half of LIPA's  
23 debt, about \$3 1/2 billion, attributable to that.

24 The other 3 1/2 billion is attributable to  
25 the cost originally, it's a legacy, of having

1       acquired the Shoreham assets, which are no longer in  
2       use.

3               So, that debt is not, in a sense,  
4       attributable to a productive asset.

5               So, in privatization, what -- the way the  
6       structure would have to work, is that the sale of  
7       those assets would be done for a price somewhere  
8       roughly equivalent to the \$3 1/2 billion of bonds  
9       that were issue for those assets.

10              The remaining debt, the \$3 1/2 billion, would  
11       likely need to be accounted for, or paid, completely  
12       separate from the buying utility, and paid for out  
13       of a separate charge that would be on ratepayers'  
14       bills.

15              And by doing so, we believe that the cost of  
16       servicing that debt could be brought much lower than  
17       its current cost.

18              So, that is something that is not in all of  
19       these studies, but is something that -- a technique  
20       that we've brought into this analysis, and will be  
21       included in the pros and cons that we put forth.

22              GIL C. QUINIONES: Now, if I may just add --

23              SENATOR MARCELLINO: Go ahead.

24              GIL C. QUINIONES: -- that this analysis is  
25       ongoing. We're stress-testing it. It's not yet



1 complete, but, in structure, and in form, it is how  
2 Mr. Lurie described how that's going to work.

3 SENATOR MARCELLINO: All right, it's -- I  
4 just have a couple more questions, and then I'll  
5 turn it over to my colleagues.

6 We've also been joined by Senator Ruben Diaz,  
7 and Assemblyman Chad Lupinacci.

8 Private organization, private utility, makes  
9 a profit.

10 How do we transform from a publicly owned  
11 non-profit organization to a privately owned  
12 profit-making entity, and still not have an increase  
13 in rates to the ratepayers? -- which is my prime  
14 concern. You know, I think the prime concern of my  
15 colleagues as well.

16 ROBERT F. LURIE: Sure.

17 The first thing that I would like to say, in  
18 answer to that question, is that we're not here to  
19 advocate for privatization, or any other option.

20 SENATOR MARCELLINO: Yeah, but the commission  
21 did.

22 ROBERT F. LURIE: That question that you've  
23 asked is one of the central questions, maybe the  
24 central question, in evaluating privatization in our  
25 analysis as well.

1           So if the only -- if the only factor were the  
2 transition from a tax-exempt entity to a tax-paying  
3 entity, then, certainly, the cost of privatization,  
4 you know, would be a non-starter, and it would not  
5 even be on the table.

6           But there are other factors, including the  
7 synergies which reduce costs substantially,  
8 potentially, and other factors that will be  
9 included, that may or may not offset the costs that  
10 you've rightly point out.

11           But, that's exactly what we've got to  
12 determine, and we will be doing so in our final  
13 report, when that's delivered.

14           SENATOR MARCELLINO: My last question for now  
15 would be:

16           It's my understanding that the debt was  
17 structured for Shoreham in such a way, that,  
18 basically, the bondholders are guaranteed their  
19 interest.

20           There are penalties, fees, and the like, for  
21 the prepayment of the debt.

22           Much like a mortgage; if you have a mortgage  
23 on your house, and you go to prepay it, there may be  
24 a penalty that the bank charges you for prepaying  
25 that balance; that they get a percentage of their

1 interest on the debt.

2 It's my understanding that this arrangement  
3 with the Shoreham bondholders is significant, to the  
4 tune of several billion dollars more.

5 So it's not 7 billion-plus. It could be as  
6 much as 12 billion in debt that has to be dealt  
7 with.

8 Is that true?

9 ROBERT F. LURIE: No.

10 No, I think --

11 SENATOR MARCELLINO: Where am I wrong?

12 ROBERT F. LURIE: -- I believe those numbers  
13 are correct.

14 SENATOR MARCELLINO: Where am I wrong?

15 ROBERT F. LURIE: There are -- I don't know  
16 where the "\$12 billion" number comes from, but let  
17 me speak to your --

18 SENATOR MARCELLINO: It was a number that was  
19 given to us in a meeting that we held with the  
20 Governor's Office, and then -- with Lazard present.

21 ROBERT F. LURIE: I'm sorry, I can't speak to  
22 that number, but let me speak to the description  
23 that you gave.

24 It is true that some of the outstanding bonds  
25 of LIPA can only be retired prior to maturity if

1           there is a penalty paid.

2                     It is not a large penalty, in some cases.  
3           It's a small penalty.

4                     In other cases, they can't be called at all  
5           before maturity by virtue of the contractual terms  
6           with bondholders.

7                     In -- there are about 4 billion of the  
8           7 billion dollars in bonds that can be retired  
9           early. That's not to say they can be retired today.

10                    As you correctly point out, if by their  
11           terms, in some cases, it takes several years before  
12           LIPA has the right to retire those bonds prior to  
13           maturity. And they would, in some cases, in many  
14           cases, have to pay at least some penalty, which  
15           is -- I don't believe it's going to come close to  
16           the "\$12 billion" number.

17                    SENATOR MARCELLINO:   Would that set of  
18           numbers be included in the preliminary report that  
19           Moreland has?

20                    Or could we get a set of figures on that, so  
21           that we would know what the exact --

22                    GIL C. QUINIONES:   That would --

23                    SENATOR MARCELLINO:   -- debt would be?

24                    GIL C. QUINIONES:   -- that is part of the  
25           ongoing analysis that we have, not only in

1 privatization, but the other model, where we are  
2 looking at various scenarios, stress-testing the  
3 various models, to make sure that we all are working  
4 from a shared set of facts as we finalize the  
5 analysis.

6 SENATOR MARCELLINO: Now, what I would like  
7 to see is, is in some place that we can get a set of  
8 numbers that are consistent, so that we're all  
9 working with same set of numbers, going forward. We  
10 don't have to go up and down.

11 I believe we --

12 ROBERT F. LURIE: We agree.

13 GIL C. QUINIONES: We agree.

14 SENATOR MARCELLINO: Any -- any new members?  
15 All right.

16 I think Senator Boyle is sitting out there.  
17 If you want to, come on up. We'll get you a  
18 chair.

19 SENATOR BOYLE: I'm okay.

20 SENATOR MARCELLINO: Okay.

21 Senator Ranzenhofer.

22 SENATOR RANZENHOFER: Thank you.

23 Thank you, Chairman Marcellino.

24 I would like to address my question to  
25 Ms. Calcaterra, as the executive director of the

1 Moreland Commission.

2 It is my understanding that the  
3 Moreland Commission was created in November, really,  
4 to do an investigation into what --

5 SENATOR MARCELLINO: You have to talk into  
6 that.

7 SENATOR RANZENHOFER: Start from scratch.  
8 Did you hear what I just said?  
9 Should I start from the beginning?

10 REGINA CALCATERRA: I did.

11 I got, "November", and "executive order," and  
12 "investigation."

13 [Laughter.]

14 REGINA CALCATERRA: I got their proper  
15 pronunciation of my last name, which I'm very  
16 impressed with.

17 So, please continue.

18 SENATOR RANZENHOFER: Okay. Well, then, you  
19 missed that I also thanked Senator Marcellino for  
20 his questioning.

21 But to continue:

22 Obviously, you completed, or you started,  
23 your investigation. You've issued a preliminary  
24 report. You indicated the final report is going to  
25 be forthcoming.

1           The Governor has now introduced a bill which  
2 encompasses a lot of your recommendations, and  
3 especially, what it does is, it gives a lot of  
4 increased authority to the PSC.

5           REGINA CALCATERRA: Yes.

6           SENATOR RANZENHOFER: Some view it as  
7 punitive, some view it as overregulatory.

8           But in any event, you made some  
9 recommendations which have now been codified in the  
10 bill.

11           And the question that I have for you is:

12           In your testimony, and a lot of what has  
13 happened, dealt with the power to the electrical  
14 system, but yet your recommendations in the bill  
15 talk about expanding it for all utilities, which, to  
16 my knowledge, you know, other the utilities did not  
17 have the problems that were experienced on  
18 Long Island with LIPA.

19           And I wanted to know whether or not it was  
20 thought among the membership, that there needed to  
21 be regulatory increases in other utilities which did  
22 not experience problems, which did not have customer  
23 complaints.

24           It seemed to me that it was overkill, in  
25 terms of some of the recommendations, and the bill

1 that was ultimately introduced.

2 And I wanted to ask you for an explanation of  
3 that.

4 REGINA CALCATERRA: The executive order  
5 provides the Moreland Commission with a narrow goal,  
6 and a very broad goal.

7 The narrow goal, is that we need to take a  
8 look at all of the utilities around the state.

9 So, there's six IOUs, and there's LIPA.

10 If you take a look at all of them and  
11 investigate their emergency plan and their storm  
12 response for what is defined as "recent storms," and  
13 those recent storms include, not only "Sandy," but  
14 "Irene," "Lee," and the December 2008 snowstorm.

15 So even though, in the short term, in the  
16 interim report, we looked at LIPA, because you're  
17 dealing with an entity that's dysfunctional and you  
18 need to immediately address it, our investigation  
19 with the other utilities are now ongoing as well.

20 So we're using the same model we use with  
21 LIPA, and investigating all of the other utilities.

22 But as we were preparing for that, we were  
23 trying to figure out how best would they, for their  
24 prior performance --

25 And I can't disclose what it is that we're



1 finding, and that will be disclosed in the final  
2 report.

3 -- is that, there isn't a way to penalize  
4 them.

5 And the reason why is, because the PSC -- the  
6 only way that the PSC has the ability to penalize,  
7 is if they actually go to court, and they have a  
8 very high bar to prove knowingly.

9 So as a result, they never went to court,  
10 because it's an incredibly high bar to prove, so  
11 they haven't -- they have very limited ability to  
12 penalize internally.

13 And to penalize a utility, or to penalize  
14 anyone in the market, is a way to incentivize them  
15 to perform.

16 So then we started taking a look at other  
17 states around this area in the northeast, and  
18 elsewhere, to see what it is that they actually do.

19 So we benchmarked, to see what they do with  
20 utilities.

21 And what we found is that, you know, we  
22 focused on, with the recommendation, two things:

23 To take a look at the certificates, and  
24 whether or not there's actually reviews that are  
25 being done for -- to determine whether or not there

1 are actually -- if there are standards that are set  
2 by other states that utilities have to provide on  
3 "gray sky" days and "blue sky" days;

4 And we also took a look at states, to  
5 determine whether or not, actually, if their  
6 equivalent of a PSC has the ability to give a  
7 penalty.

8 Because, otherwise, to go to court, could be  
9 problematic, and it could take a long time, and it  
10 could be years down the road by the time you  
11 actually get a penalty. And, then, how is it that  
12 you're actually going to apply it so it goes back to  
13 the ratepayers?

14 So we found that, with the issue of  
15 certificate and certificate revocation, that  
16 10 other states have it, but they've never used it  
17 before, but at least they have it as a threat; and,  
18 22 other states actually have the ability to give  
19 administrative penalties.

20 So it's not something that's burdensome;  
21 other states have that as well.

22 And that information we can easily give you.

23 And as far as the penalties, the other  
24 penalty that is presently existing, is that, if a  
25 utility is not -- it doesn't comply, they're only

1 penalized \$100,000 a day per event.

2 That's not a lot of money, based upon these  
3 privately owned companies that are making hundreds  
4 of millions of dollars.

5 So if you're going to penalize a company and  
6 force them to act, you want to hold something over  
7 their head, where they're threatened by it. And  
8 they're not threatened by \$100,000-a-day penalty.

9 So we also took a look at what other -- how  
10 other states penalize utilities, and it's based upon  
11 a percentage of their income, so it would vary,  
12 based upon the size of the utility.

13 So these are some of the examples that we  
14 looked at, as far as, benchmarking, and making the  
15 recommendations, so there's stronger oversight.

16 And then also thinking that, if LIPA does go  
17 private, the PSC is going to be overseeing them, and  
18 what type of regulation would we want the PSC to  
19 have over LIPA, to make sure that they perform --  
20 or, whoever it is that's operating that, that they  
21 perform during storms, because you have no ability  
22 to threaten anything, to take anything away from  
23 them.

24 So that's what those recommendations are.

25 SENATOR RANZENHOFER: Okay, did you see a

1 distinction, though?

2 Because it seemed to me that some of the  
3 recommendations made the PSC more of a utility  
4 manager than the utility regulator. I mean, it  
5 actually got into managing the business.

6 And did you see a distinction between LIPA,  
7 which, obviously, had the very well-reported and  
8 terrible, you know, situation that it had during  
9 those storms, versus what has happened across the  
10 state?

11 It seemed like you were taking a broad brush  
12 and not really making a distinction, where there may  
13 be a need to make a distinction between the  
14 performance of LIPA and some of the other companies  
15 across the state.

16 REGINA CALCATERRA: The -- that distinction  
17 will be, and the comparison will be, made in the  
18 final report, because, as you investigate -- as we  
19 investigate seven utilities, there's document  
20 production and there's depositions.

21 So, that's ongoing.

22 So, we can't -- it was too short of a window  
23 to report on anything related to the other  
24 utilities.

25 And based upon the legislative calendar, if

1 we're going to make recommendations for  
2 consideration of what was tremendously important,  
3 that's why we put forth the LIPA information.

4 So the other utilities, in comparison, will  
5 be forthcoming.

6 But, actually, if you look at the -- now, we  
7 learned this all during this short interim process,  
8 is also learning the history of the PSC; is that,  
9 the PSC was set up as a regulatory structure, and it  
10 actually moved away, and drifted away, from that  
11 core mission over the past few decades.

12 So some of the things that are in that --  
13 that are in the bill, and that are in the report,  
14 were actually provided in the past, but were removed  
15 as well.

16 And one of them, is the ability to audit; is,  
17 they were doing certain types of audit, but then  
18 they stopped doing those audits, and completely  
19 removed the audit function, and left it up to two or  
20 three people in the entire PSC doing audits of  
21 utilities.

22 And audits are where we're actually finding  
23 out, let's say, you take one example of mutual aid,  
24 and see how it is that they're all dealing with  
25 mutual aid. That wasn't being done anymore. There

1 was no comparison and contrast.

2 So some of these, we looked back at how it  
3 was done in the past as they moved away from the  
4 core mission, and we also looked at what other  
5 states were doing as well, as a benchmark.

6 And, it wasn't as if we did it with a broad  
7 brush looking at LIPA, and not the other utilities.  
8 We've looked at what the other states did.

9 And, more, importantly, we looked to see if  
10 the utilities in New York State actually operate in  
11 those other states that have these penalties, that  
12 were -- have in our recommendations.

13 And they do.

14 So they're already operating in that  
15 environment; and, so, this is normal business  
16 practice.

17 And if you take the PSC and compare it to its  
18 sister agencies elsewhere, it is a lot weaker.

19 SENATOR RANZENHOFER: Okay, final question  
20 that I have for you:

21 Obviously, on your temporary report, as I  
22 said, there was a bill that was introduced, you  
23 know, as part of the budget, adopting some of your  
24 recommendations.

25 Are you going to have your final report -- I

1        imagine your final report might be different than  
2        your preliminary report.

3                REGINA CALCATERRA:    Yes.

4                SENATOR RANZENHOFER:    And is your final  
5        report going to be done before the legislative  
6        calendar requires the budget be passed on April 1st?

7                REGINA CALCATERRA:    No, it will not be done.

8                SENATOR RANZENHOFER:    Okay, so there could be  
9        recommendations where you change or contradict or  
10       remove or add some recommendations after the budget  
11       is already passed, and the budget's incorporated  
12       some of your language from your preliminary  
13       recommendations.

14                REGINA CALCATERRA:    I'm -- I'm limited in  
15       what it is that I can discuss about our  
16       deliberations because, there's a certain point, it's  
17       protected.

18                But what I can confidently say, is that,  
19       we're finished with that part of it.

20                We're finished with the PS -- with  
21       investigating the PSC's strengths and weaknesses.

22                SENATOR RANZENHOFER:    Okay, thank you.

23                REGINA CALCATERRA:    Thank you.

24                SENATOR MARCELLINO:    So for the members'  
25       edification, we have requested questions from

1 Senator LaValle, Zeldin, Assemblyman McDonough,  
2 Senator Perkins.

3 Mr. Graf?

4 Okay.

5 Anybody else?

6 And Mr. Raia.

7 All right, Senator LaValle.

8 SENATOR LAVALLE: Mr. Quiniones, the -- you  
9 talked about Lazard models, and my question is:  
10 When will we see those models?

11 GIL C. QUINIONES: We are -- as I mentioned,  
12 we are still in the process of doing the analysis.

13 We don't want to rush the analysis that we're  
14 that doing. We want to make sure that it is  
15 complete and accurate.

16 We are --

17 SENATOR LAVALLE: Is it weeks? months?

18 GIL C. QUINIONES: It would depend.

19 Right now, we are also getting input, as you  
20 know, led by Secretary Larry Schwartz. We are going  
21 to -- we're meeting with stakeholders -- various  
22 stakeholders on Long Island. We've met with the  
23 Senate and the Assembly.

24 We want to get all of that input and be able  
25 to model part of our analysis.



1 I hate to give you a date and then it doesn't  
2 comply with that, but what I can tell you, is that  
3 we are doing this in a very deliberate way, to make  
4 sure that it's done in a fact-based and accurate  
5 way.

6 SENATOR LAVALLE: You know, we have the  
7 Brattle report, Navigant report, they're out there,  
8 so that people can look at it and pick them apart.

9 We don't have anything to really have a  
10 thorough discussion on the issue because we don't  
11 know what these models are.

12 And, so, I -- of course you can't tell me  
13 with preciseness, but are we talking about weeks, or  
14 months, as your guestimate?

15 GIL C. QUINIONES: It could be months, but  
16 not -- you know, again, I hate to put a date on it  
17 because of the uncertainty of input that we're  
18 getting, and requests of scenarios and assumptions  
19 that we're getting, from the stakeholder outreach  
20 that we're making.

21 And also, our own analysis; we're doing a lot  
22 of stress testing of what Lazard has done, and just  
23 to make sure that we're doing a fact-based and  
24 thorough and complete analysis.

25 SENATOR LAVALLE: Okay.

1           After "Hurricane Irene," Senator Marcellino,  
2           in Oyster Bay, held a hearing.

3           And one of the things at that hearing, was  
4           trying to figure out who was in charge of the  
5           day-to-day operations.

6           And I think, after pulling and tugging, I  
7           think LIPA finally threw National Grid under the  
8           bus, and said: Well, it's their job.

9           During the "Nemo" storm, it was very clear --  
10          and if I were to guess, I could see the Governor's  
11          invisible hand -- that it was clear that  
12          National Grid was in charge.

13          Clearly, LIPA had no role.

14          During "Irene," my educator personality came  
15          out and I graded LIPA with an F.

16          During "Sandy," it was probably a little  
17          better than an F, but not much.

18          But it's clear that the "Nemo" storm,  
19          National Grid, because they were clearly in charge,  
20          seemed to do a job that the general public and  
21          municipalities seemed satisfied with.

22          So am I right in my assessment of "Nemo,"  
23          National Grid gets good grades?

24          GIL C. QUINIONES: I think that it was --  
25          there was less confusion in terms of communication.

1           It was clear to local officials and to  
2           ratepayers that they were getting a consistent  
3           message, and, again, less confusion in that process.

4           From that perspective, I do agree with you.

5           SENATOR LAVALLE: Just, last question is:

6           As you know, LIPA has a contract with PSE&G  
7           that begins January 1, 2014.

8           So the clock is ticking as to, what do we do  
9           with that contract, and other contracts that they  
10          have?

11          And what is your -- I mean, what do we do  
12          with the PSE&G contract?

13          GIL C. QUINIONES: It is my understanding  
14          that that transition process, those negotiation --  
15          that process is continuing.

16          SENATOR LAVALLE: That continues?

17          GIL C. QUINIONES: Correct.

18          SENATOR LAVALLE: So, PSE&G -- because we --  
19          you know, we have constituents, and they want to  
20          know: Well, we have a transition period. Is PSE&G  
21          still going to perform their contract come  
22          January 1, 2014?

23          Your guess is, yes?

24          GIL C. QUINIONES: Yes.

25          My understanding is, those negotiations and

1 transition process is continuing.

2 SENATOR LAVALLE: Okay. So, then, what  
3 happens if the recommendation is, that we are going  
4 to do a privatization model?

5 What then happens with that contract?

6 GIL C. QUINIONES: It depends on when --  
7 on -- you know, assuming that happens, it depends on  
8 when that decision is made.

9 SENATOR LAVALLE: Okay.

10 GIL C. QUINIONES: All right?

11 SENATOR LAVALLE: So --

12 GIL C. QUINIONES: And there has to be a  
13 transition process, depending on when that decision  
14 is made.

15 SENATOR LAVALLE: So I -- I mean, I --  
16 we're -- it's a work in progress, and the -- the  
17 final decision will be made;

18 We don't know when we're going to get the  
19 Lazard model so we can have a discussion;

20 And, we really don't know what's going to  
21 happen with these contracts.

22 Okay.

23 That's it. Thank you.

24 SENATOR MARCELLINO: Thank you.

25 Senator Zeldin.

1           SENATOR ZELDIN: So I come with one, I guess,  
2 complicated request, and, a very specific question.

3           And I wanted to start off, first off, by  
4 recognizing, and thanking, Chairman Marcellino and  
5 Chairman Ranzenhofer for doing this.

6           I think it's important for all of us to be  
7 here today, to have a continuing dialogue on these  
8 issues.

9           I also want to, you know, commend the  
10 Governor as well, and thank him, because he has  
11 encouraged a very open line of communication.

12           He has, as you mentioned, Mr. Quiniones,  
13 met with the Senate delegation. I know that  
14 Mr. Schwartz met with the Assembly delegation.

15           I think that it's very --

16           SENATOR RANZENHOFER: No, half the Assembly  
17 delegation.

18           SENATOR ZELDIN: Half the Assembly  
19 delegation?

20           All right, well, I'll defer to my colleague.

21           But I think it's -- I think it's good to have  
22 an on open line of communication.

23           And, I read the article this morning in  
24 "Newsday" as well.

25           And I -- you know, you said a few things that

1 jumped out.

2 One, you -- to quote you, you mentioned the  
3 high-level assumptions in what you're reading,  
4 ballpark estimate, but what's most important is, you  
5 said that you thought it may have been done for  
6 different purposes.

7 And, I seem to agree.

8 And -- and I think we should take that study  
9 in 2010 with a grain of salt, and analyze whatever  
10 you propose with an open mind, with the several  
11 different considerations.

12 So, I think what the Governor accomplished  
13 with the Tappan Zee Bridge, for example, a lot of  
14 people thought was an impossible task to be able to  
15 get that project done as cheaply and efficiently as  
16 seems like it's going to get done.

17 So, hopefully -- hopefully, what we read in  
18 "Newsday" today about that LIPA study turns out to  
19 be inaccurate.

20 So my -- my complicated request, I guess,  
21 piggybacking off of Senator LaValle's testimony, in  
22 questioning you just now --

23 And, by the way, I want to recognize  
24 Senator LaValle, who has been a -- you know, very  
25 outspoken with regards to LIPA, since long time

1 before I was in the Senate, and I appreciate his  
2 leadership.

3 And, Assemblyman Graf, who I overlap with,  
4 has also been very focused on these issues in the  
5 3rd Senate District where I represent.

6 -- so, in the five points in your testimony,  
7 Mr. Quiniones, you discussed holding the line on  
8 rates, customer service, the storm-emergency  
9 response, to tax-certiorari issues.

10 Throughout the rest of your testimony, you  
11 discussed dealing with the outstanding debt, the  
12 value that might be obtained from any sale.

13 And these were all points that, you know, I'm  
14 looking for today, to get discussed.

15 And I'm glad to hear that you're bringing  
16 that up, and incorporating that into whatever plan.

17 The very specific request is, you know,  
18 whatever models end up being -- being offered to us,  
19 you know, we're going to be looking at all of those  
20 very closely, to be able to -- because we're going  
21 to have to go back to our constituents and let them  
22 know that we're doing everything in our power to  
23 fight for ratepayers, to be responsible with the  
24 debt, to make sure they're getting the right  
25 customer service.

1           That F grade that Senator LaValle gave last  
2 year, that he never has to give another F grade  
3 again, again, that's important.

4           I wanted to ask you to speak a little bit  
5 about -- and Senator LaValle discussed the PSE&G  
6 contract -- I want to discuss workforce, and it's a  
7 very specific question.

8           You know, we have -- I have a lot of  
9 constituents who currently are employed. They don't  
10 know what their future is, and, obviously, they're  
11 going to be impacted with whatever model is pursued.

12           And, also, what's very importantly, with  
13 regards to the workforce, is what that workforce  
14 looks like when that next storm hits, because, you  
15 know, we're pulling in resources from off of  
16 Long Island, to be able to have a pretty rapid -- to  
17 have the fastest response possible.

18           So, if you can just speak to workforce, you  
19 know, keeping in mind those people whose jobs are on  
20 the line, but, also, to all those other ratepayers  
21 who are worried about that next storm hitting.

22           Because that's just one topic we haven't  
23 discussed yet.

24           GIL C. QUINIONES: Well, we certainly agree  
25 that the workforce is extremely important.



1           As somebody who runs a utility like myself,  
2           in the New York Power Authority, it's number one.

3           You have to have adequate and properly  
4           resource workforce in whatever structure you have,  
5           going forward.

6           That it is not a -- that it is not a question  
7           that -- in our analysis.

8           In our analysis, whatever structure we're  
9           considering, the line workers, the support to those  
10          line workers, are critical equally in all of  
11          structures that we're considering.

12          SENATOR ZELDIN: So I -- I guess, just my  
13          last question on that point -- or I guess it's not  
14          so much a question, as a request, just with the --  
15          all those other factors that have been discussed  
16          prior to just now:

17          I would just ask that, when -- when that  
18          model is released, that, you know, we have an idea  
19          of what that workforce is going to look like, what  
20          their numbers are, what their -- the leadership  
21          structure is going to look like.

22          And, you know, I guess I would just -- I  
23          would be remiss, every once in a while you find an  
24          opportunity to recognize good work on the part of  
25          specific individuals.

1           We see it a lot. We have a great staff here  
2           in the Senate.

3           But I just want to mention, there is one LIPA  
4           mid-management person who did so much to help out my  
5           district, his name is Steve Trajarico [ph.].

6           And if you could write his name down, he  
7           represents the Brookhaven area, and, just a  
8           remarkable job that he did.

9           So, you know, as a lot of bad publicity was  
10          coming out on LIPA, there are some folks there who  
11          are doing an exceptional job.

12          GIL C. QUINIONES: We agree.

13          SENATOR MARCELLINO: Thank you.

14          We've also been joined by the ranking member  
15          of the Senate Investigations Committee,  
16          Senator Hoylman.

17          Congratulations on your recent marriage.

18          SENATOR HOYLMAN: Thank you.

19          SENATOR MARCELLINO: Next question is from  
20          Senator McDonough -- or, Assemblyman McDonough.

21          ASSEMBLYMAN MCDONOUGH: Thank you, Chairman.

22          For Ms. Calcaterra --

23          Am I saying that correctly, Calcaterra?

24          SENATOR MARCELLINO: Calcaterra. Hard C.

25          REGINA CALCATERRA: Calcaterra. Two hard Cs.

1 ASSEMBLYMAN MCDONOUGH: Close.

2 REGINA CALCATERRA: Thanks for asking.

3 ASSEMBLYMAN MCDONOUGH: Pardon me?

4 REGINA CALCATERRA: I said, "Thank you for  
5 asking."

6 ASSEMBLYMAN MCDONOUGH: Okay, well,  
7 "McDonough" sometimes is mispronounced too.

8 In your mention -- you mentioned, obviously,  
9 the three or four options that are available.

10 Cost is going to be a big consideration.

11 And I'm wondering, in the agreement that was  
12 made with LIPA and PSE&G, which was some time ago,  
13 to come in another 10 months, what is the cost, or,  
14 do you know, is there a cost, if that contract or  
15 that agreement is broken?

16 Is there a lot of expenditures that PSE&G  
17 will now be able to come back and say: Well, we  
18 still have to get this money?

19 Because I'm sure they've been doing studies,  
20 or, you know, going through the whole system, to get  
21 ready to come in in January.

22 Did you look at that?

23 REGINA CALCATERRA: Those are called  
24 "breakage costs," when you break a contract.

25 And the Moreland Commission actually relied

1 upon the expertise of NYPA, and the staff that they  
2 put together and the team of consultants that they  
3 did.

4 So, I'm going to need to defer that question  
5 over to Rob Lurie, if you don't mind, so you can get  
6 a better answer.

7 ASSEMBLYMAN MCDONOUGH: Thank you. Sure.

8 ROBERT F. LURIE: Sure.

9 There is a fee that is due to be paid to  
10 PSE&G if the contract is broken for that purpose,  
11 and that fee is \$7 million, plus reimbursement of  
12 any out-of-pocket costs, essentially, that PSE&G  
13 would have in unwinding their transition,  
14 essentially.

15 Now, that's a lot of money, \$7 million.

16 Now, in the context of a, essentially,  
17 \$7 billion transaction we're talking about, it's not  
18 a huge amount of money as a percentage.

19 So, it's -- you know, it's going to be  
20 important, it's going to be factored into the  
21 analysis, but I doubt that that will swing it either  
22 way.

23 ASSEMBLYMAN MCDONOUGH: And, finally, is any  
24 information that they developed, or progress or  
25 plans that they've developed, would that be

1 available to LIPA, or whoever the new -- if we have  
2 a new operation, would they be required to give all  
3 of that to, let's say, the private operator, or  
4 whoever it is?

5 ROBERT F. LURIE: I believe so.

6 I'm not familiar enough with the details of  
7 the contract, but the concept of that whole  
8 agreement, is that PSE&G is, essentially, building  
9 this out on behalf of LIPA, so LIPA generally owns  
10 whatever it is that is part of this organization.

11 ASSEMBLYMAN MCDONOUGH: Okay.

12 Thank you very much.

13 Thank you.

14 SENATOR MARCELLINO: Senator Perkins.

15 SENATOR PERKINS: Thank you very much.

16 SENATOR MARCELLINO: You're on.

17 SENATOR PERKINS: Oh, I'm on.

18 Ms. Calcaterra --

19 REGINA CALCATERRA: Thank you, Senator.

20 SENATOR PERKINS: -- I don't live on the  
21 island. I had the privilege to --

22 SENATOR MARCELLINO: Assemblyman Graf --

23 Oh, I'm sorry.

24 SENATOR PERKINS: -- I live, actually, in  
25 Harlem, and I represent the 30th Senatorial

1 District, but I have the privilege of serving on the  
2 Committee on Corporations and Authorities, as the  
3 ranking member.

4 And -- but, in that regard, you know, we're  
5 very interested in the public authorities, and how  
6 they are of value in terms of public needs and  
7 public services.

8 And, so, this privatization model that we're  
9 now discussing, raises some concerns from that point  
10 of view.

11 And so I want -- I don't -- I didn't read the  
12 Long Island newspaper, but I do read the  
13 "Daily News," and I had the opportunity to read an  
14 op-ed about this particular matter, that you may be  
15 aware of it, by Andrew Freedman and -- and  
16 Maya Gelman.

17 Mr. Freedman is the executive director of  
18 The Center for Popular Democracy, and Ms. Gelman  
19 is an energy policy consultant and advocate for  
20 Energy Democracy in New York City.

21 And I just want to read a quick quote, and  
22 get your response.

23 And they basically say:

24 "It's true, LIPA is a mess. It is saddled  
25 with debt that comes from bailing out shareholders

1 from the last failed effort to privatize the  
2 utility, then-LILCO, but the bank-like private  
3 utilities to whom LIPA would be sold are not to be  
4 trusted. They have a long record of lining their  
5 pockets at the expense of New Yorkers."

6 How do you respond to that?

7 REGINA CALCATERRA: Well, first, I'd actually  
8 like to respond to that op-ed, because what was  
9 disconcerting about it was one of the earlier  
10 sentences in it, which you didn't mention, but it  
11 basically said that the Moreland Commission came out  
12 with its interim report after holding one hearing.

13 The Moreland Commission has subpoena power.

14 We subpoenaed all of the utilities.

15 We subpoenaed LIPA, National Grid.

16 We interviewed external stakeholders, we  
17 interviewed emergency managers, we interviewed  
18 managers of critical infrastructure, and many other  
19 players in the utility industry.

20 We interviewed LIPA and National Grid low- to  
21 mid-level employees.

22 And, we had three hearings. One of them was  
23 a hearing where we actually brought National Grid  
24 and LIPA executives before us.

25 So, before that group should put an op-ed in

1 the "Daily News," commenting on our report, they can  
2 disagree with the substance, but don't go after us  
3 on the process. And don't make up the process, and  
4 change what the process was, just so it makes their  
5 argument sound stronger.

6 So, right away, I take umbrage with the op-ed  
7 from the beginning, because they didn't read the  
8 report. Because if they read the report and  
9 followed all of the -- followed our website and all  
10 the testimony that we have up there, they would have  
11 realized all the effort that actually went into the  
12 interim report.

13 So now that I've said that, the -- we have  
14 six utilities in New York State that are  
15 independently owned and privately operated.

16 And most of the utilities in the  
17 United States are private companies.

18 They provide power, and they do it twofold:

19 One is, they provide power -- I mean, they're  
20 publicly traded, and, yes, what a publicly traded  
21 company's responsibility is, to make sure that their  
22 shareholders are benefited from that.

23 But the balance that you have with a utility,  
24 is that you have a strong PSC, because the utility  
25 is taking care of the rate -- is taking care of



1 their shareholders, because they're publicly traded,  
2 but you have a strong PSC that makes sure that that  
3 utility is also doing what it needs to do for the  
4 particular ratepayer as well.

5 And you have six utilities in New York State,  
6 including Con Ed, which serves Harlem, and several  
7 others as well, that are already doing this, and  
8 they're doing it fine, and they didn't have the  
9 catastrophe that happened on Long Island, and you  
10 also have it in other states.

11 So, taking that broad-based statement that a  
12 publicly traded company takes care of its  
13 shareholders, yes, we are in New York State.  
14 New York State has Wall Street. We benefit from  
15 publicly traded companies.

16 But it is -- we will -- but if a publicly  
17 traded company is a utility that's going to be  
18 providing service to ratepayers, the State of New  
19 York, which is performing right now, has a  
20 responsibility to make sure it has a strong PSC to  
21 regulate that company, to make sure it's doing what  
22 it needs to do for the ratepayer.

23 And that's what the balance is.

24 SENATOR PERKINS: So -- thank you very much.

25 Let me just be clear. I'm not sure we're

1 reading the same article, because the one that I'm  
2 referencing points out that -- if I may quote:

3 "Governor Cuomo's historic  
4 Moreland Commission will hold only a few hearings,  
5 but big changes are in the offing."

6 So they don't say, one hearing. They  
7 mentioned that there will be a few.

8 I just want it for the record, in case we --  
9 I -- you know, we -- we have different stories.

10 REGINA CALCATERRA: Understood.

11 But there's a lot of other work -- then I  
12 misunderstood that.

13 But there's a lot of other work that we did,  
14 just -- instead of just hearings as well, that was  
15 behind the scene, that led to what our findings  
16 were.

17 It was an intense several months of an  
18 investigation that we did.

19 SENATOR PERKINS: So -- that's good. I'm  
20 glad to hear that, and I think the public is very  
21 glad to hear that as well.

22 So the other concern I have is just, some of  
23 the other private utilities that are possibly going  
24 to be in the race for the opportunity, do you -- do  
25 we have a listing of some of those that might be

1 under consideration?

2 REGINA CALCATERRA: The Moreland Commission  
3 just provided our interim report, and handed it over  
4 to the Governor, so I'm going to have to defer  
5 anything that has to do with the present progress  
6 over to my colleagues.

7 SENATOR PERKINS: Okay.

8 What are the private utilities that might be  
9 in the --

10 ROBERT F. LURIE: As you would expect --

11 SENATOR PERKINS: -- in consideration?

12 ROBERT F. LURIE: As you would expect, you  
13 know, we would -- we would think that the private  
14 utilities that are adjacent to LIPA would certainly  
15 be able to extract the most value; that is, be able  
16 to lower costs the most. They'd be able to combine  
17 systems-operations facilities the most.

18 And, then -- so that there are, you know, the  
19 ones that are immediately adjacent are:

20 Con Ed;

21 National Grid, of course, has their gas  
22 operations that are contiguous with LIPA's;

23 And then, beyond that, of course, just beyond  
24 the New York City region, there's other utilities  
25 that are just beyond that.

1           So, PSE&G of New Jersey, which is now taking  
2 over the operations contract, they're nearby. They  
3 might be interested.

4           Northeast Utilities, also up in Connecticut,  
5 might be a candidate.

6           So, none of these are going -- these  
7 companies aren't going to come out and say that  
8 they, you know, are going to do this. You know,  
9 they have to keep their strategy close to the vest,  
10 but, you know, there's every reason to believe that  
11 they would take a look at this, that they would find  
12 value in it.

13           Whether they would make a decision to put in  
14 an offer or not, I couldn't say.

15           SENATOR PERKINS: So, Mr. Chairman, just  
16 one or two more quick questions, and --

17           SENATOR MARCELLINO: Quick.

18           If we could emphasize on the "quick."

19           SENATOR PERKINS: Yeah.

20           So, forgive my naiveness, but -- so there's  
21 going to be some sort of announcement, and assuming  
22 this moves forward, and these companies will all be  
23 sort of applying in some sort of competitive  
24 process. Or -- and --

25           ROBERT F. LURIE: If they choose to, yes.

1           SENATOR PERKINS:  -- could you just describe  
2     that --

3           ROBERT F. LURIE:  If they choose.

4           SENATOR PERKINS:  -- what did you anticipate  
5     the process being, assuming this moves forward, as  
6     per the Governor's --

7           GIL C. QUINIONES:  Well, I think, first and  
8     foremost, we're still in the middle of our analysis  
9     of all the options, so it will be premature for us  
10    to say that, you know, there's one answer at this  
11    point.

12          SENATOR PERKINS:  Okay.

13          GIL C. QUINIONES:  And -- so I think that  
14    it's just premature to make that prediction.

15          SENATOR PERKINS:  Okay.

16                 So the last final question, which is always  
17    important to the consumer, I guess, is -- at least  
18    from my community's perspective, which I assume is  
19    no different than anybody else's:  Is this going to  
20    cost the consumer more, or less, ultimately, do you  
21    anticipate?

22          GIL C. QUINIONES:  Again, the Governor has  
23    set forth five criteria, as we analyze the various  
24    options.  And, we are going to stress test, and do  
25    scenario analysis, and make sure that the option

1 that satisfy the best -- the five criteria set forth  
2 by the Governor, will be the one that will be  
3 advanced and recommended.

4 ROBERT F. LURIE: If I could just add to --

5 SENATOR PERKINS: So the answer is "more"?

6 ROBERT F. LURIE: No, no.

7 Any process, whether it's, you -- you know,  
8 municipalization, something like the status quo,  
9 whether it's privatization, the process we undergo,  
10 as well as the outcome, will be subjected to those  
11 five criteria.

12 So, you know, any utility that would be  
13 interested, any municipal authority interested, will  
14 have to satisfy those five criteria.

15 SENATOR PERKINS: But can the public  
16 anticipate that this model, which might be applying  
17 here now, but might also be replicated in other  
18 instances, do you anticipate that this could cost  
19 more to the consumer?

20 Is there a -- is there a scenario that could  
21 result in the consumer paying more?

22 ROBERT F. LURIE: Let me be clear: I think  
23 this goes back to Senator Marcellino's question,  
24 because I think he put the finger on the question,  
25 which is, that we've got to be able to determine

1       whether the additional costs associated with having  
2       a private company involved, are more or less than  
3       offset by the savings that can be incurred by  
4       combining companies.

5               We don't know the answer to that yet.

6               So, clearly, the Governor said we're not  
7       going to do something that's going to cost more.

8               That's the first factor he set forth.

9               So, ultimately, the solution we recommend  
10      will not have an increased cost to ratepayers.

11              GIL C. QUINIONES:  And what we can all agree,  
12      the status quo is untenable.  It has to change.

13              And that's why we're evaluating all the  
14      options.

15              We have five criterias:  Stable rates,  
16      predictable stable property taxes, customer service  
17      and performance, storm preparation, and storm  
18      response capabilities.

19              So those are five screens.  We will apply  
20      those exactly the same way on each of the options  
21      that we are going to be looking at.

22              SENATOR PERKINS:  It sounds like we want the  
23      best for less.

24              SENATOR MARCELLINO:  That would be ideal.

25              It is my understanding, so we can clarify

1 this, that while there has been a recommendation by  
2 members of the Moreland Commission, there has been  
3 no decision made as to go to privatization or not?

4 GIL C. QUINIONES: Correct.

5 SENATOR MARCELLINO: That is still up for  
6 discussion; that is still up in the air; that is  
7 still an open issue, and an open question.

8 Is that correct?

9 GIL C. QUINIONES: Correct.

10 SENATOR MARCELLINO: Okay.

11 GIL C. QUINIONES: Remember, the  
12 Moreland Commission looks specifically on storm  
13 performance and response.

14 We're talking about a utility with  
15 1.2 million customers.

16 It is prudent that we do a fact-based  
17 analysis, that we do a thorough and complete  
18 analysis.

19 We're doing it diligently, as fast as we can,  
20 but it's -- we want to do it right, and we don't  
21 want to do it fast for fast sake.

22 SENATOR MARCELLINO: That's exactly the  
23 charge my wife gave me this morning.

24 So, you don't want to cross my wife.

25 Trust me.



1 GIL C. QUINIONES: Thank you.

2 SENATOR MARCELLINO: Assemblyman Graf.

3 ASSEMBLYMAN GRAFF: Thank you,

4 Mr. Chairman.

5 Let me start out with a statement.

6 I'm not that happy with the Governor's lines  
7 of communication because, on my side of the aisle,  
8 in the Assembly, and we represent the largest  
9 percentage of Long Islanders on my side of the  
10 aisle, we were left out of the conversation.

11 We had no such meeting.

12 And to be honest, I'm not happy.

13 With that said, I have a couple of questions.

14 One of the things we didn't talk about today  
15 in any of the testimony, was smaller municipal  
16 electrics, as far as a Suffolk County municipal  
17 electric or a Nassau County municipal electric.

18 And, I think we should be looking at that.

19 The other thing is deregulation, like we did  
20 with the telephone companies, where you spur  
21 competition, instead of selling it to one entity.

22 We saw this movie before. It was called  
23 "LILCO."

24 It didn't work out too well for us.

25 Now, with that said, NYPA sells the

1 electricity to LIPA; am I correct?

2 GIL C. QUINIONES: No, we sell -- we sell  
3 power to 51 municipal and rural cooperatives across  
4 the state, not to LIPA.

5 ASSEMBLYMAN GRAFF: Oh, well, my  
6 understanding, because I went through this. I've  
7 been living this for a year and a half. Okay?

8 And, I know that 62 percent of LIPA's budget  
9 is buying electricity.

10 That was from LIPA.

11 And, after going back and forth between NYPA,  
12 and everyone else, it took me a while, but the  
13 answers that I got from NYPA, was, yes, they were  
14 selling electricity to LIPA.

15 So I don't know if that's correct.

16 GIL C. QUINIONES: It's -- this is -- it's  
17 the delivery. You know, LIPA owns the wires on  
18 Long Island.

19 So, for example, if we have a recharge  
20 New York customer on Long Island, we have to -- LIPA  
21 will have to deliver that power to those recharge  
22 customers on Long Island.

23 If you mean in that manner, then that's  
24 correct.

25 ASSEMBLYMAN GRAFF: Okay, we have a

1 power-generating plant in Holtsville, which is owned  
2 by NYPA.

3 GIL C. QUINIONES: What was that?

4 ASSEMBLYMAN GRAFF: There's a power plant --

5 GIL C. QUINIONES: Yes.

6 ASSEMBLYMAN GRAFF: -- in Holtsville.

7 GIL C. QUINIONES: Yes.

8 ASSEMBLYMAN GRAFF: -- that's owned by LIPA.

9 GIL C. QUINIONES: We have a 150-megawatt,  
10 relatively small power plant that is under a  
11 long-term contract to LIPA. That's correct.

12 ASSEMBLYMAN GRAFF: And is LIPA buying that  
13 electricity from that power plant?

14 GIL C. QUINIONES: That's correct.

15 ASSEMBLYMAN GRAFF: Okay.

16 And right now, what happens is, when LIPA  
17 pulls power out of the grid, we're paying 9 cents  
18 per kilowatt; right?

19 GIL C. QUINIONES: I -- I don't know the  
20 blended amount.

21 It depends on which power plant, and what  
22 type of contracts.

23 ASSEMBLYMAN GRAFF: Okay, I can tell you,  
24 we're paying 9 cents per kilowatt.

25 But if you look at Rockville Center,

1 Freeport, Greenport, and Lake Placid, who get  
2 preference power, they're paying 1 cents per  
3 kilowatt; correct?

4 GIL C. QUINIONES: No, more than 1 cent at  
5 the -- at the preference rate, but more than 1 cent.

6 But, again, they are part of the 51 munie and  
7 cooperatives that NYPA sells power to.

8 ASSEMBLYMAN GRAFF: Okay.

9 GIL C. QUINIONES: Across the state.

10 ASSEMBLYMAN GRAFF: All right.

11 Now, when we're taking power from you, is  
12 there anyone throughout the state that's paying as  
13 much as we are, per kilowatt, that you know of?

14 GIL C. QUINIONES: Maybe in the -- I'm not  
15 100 percent sure, but maybe in the Con Ed service  
16 territory.

17 ASSEMBLYMAN GRAFF: So, basic -- we're paying  
18 a lot more than anyone else throughout the state.

19 Would you agree with that?

20 GIL C. QUINIONES: Again, yes.

21 ASSEMBLYMAN GRAFF: Okay.

22 And why this is important to us, is  
23 electricity affects everything for us.

24 It affects our property taxes, and it affects  
25 our job growth.

1           Let me give you some numbers.

2           Suffolk County's electric bill,  
3 Suffolk County government, their electric bill, per  
4 month, is \$1,779,000.

5           The Town of Islip, per month, \$330,000 a  
6 month they pay for electric.

7           The Town of Brookhaven, 451,000 a month.

8           My school district, I believe, is 240,000 a  
9 month.

10          So electricity is the main thing that's  
11 holding back our economy.

12          And what I'm trying to figure out, is why  
13 Long Island constantly has to subsidize the rest of  
14 the state, and why we get treated differently, where  
15 we're paying more money for energy than other people  
16 are paying.

17          That's number one.

18          Number two, if you look at states like  
19 Pennsylvania, you can buy your power from  
20 five different companies. You have a choice, all  
21 right, and there's competition there.

22          Have you looked at the contract with PSE&G,  
23 to see if -- thoroughly looked at it, to see if  
24 there's any "out" clauses that would get you out of  
25 the contract?

1           Because I know every time the government  
2 enters into a contract, there's always an "out"  
3 clause.

4           Have you thoroughly looked at the contract?

5           ROBERT F. LURIE: Well, I think that was the  
6 question earlier, having to do with what penalties  
7 there might be if we tried to cancel the contract.

8           And there is a clause in there that allows us  
9 to cancel -- allows LIPA to cancel the contract. It  
10 requires a \$7 million penalty and a reimbursement of  
11 out-of-pocket costs.

12           ASSEMBLYMAN GRAFF: Okay.

13           ROBERT F. LURIE: So it is cancelable on  
14 those terms.

15           ASSEMBLYMAN GRAFF: What if LIPA enters  
16 bankruptcy and fails to exist anymore?

17           GIL C. QUINIONES: That option is something  
18 that, you know, is part of the analysis that we're  
19 doing.

20           I have to tell, though, that there are a lot  
21 of unintended consequences to doing something like  
22 that, in terms of the State's authorities, and what  
23 promise they make to their bondholders.

24           So to declare bankruptcy, I think, would have  
25 some unintended risks that need to be factored into

1 that analysis.

2 ASSEMBLYMAN GRAFF: Okay.

3 And, now, when you were sitting there, you're  
4 looking at -- have you talked to other municipal  
5 electrics to see how they performed during the  
6 storm?

7 REGINA CALCATERRA: I can't disclose the  
8 other work that the Moreland Commission is doing --

9 ASSEMBLYMAN GRAFF: Okay.

10 REGINA CALCATERRA: -- until the report comes  
11 out.

12 ASSEMBLYMAN GRAFF: Well, let me put it this  
13 way:

14 I lived in upstate New York during the ice  
15 storm. All right?

16 And Lake Placid had a municipal electric.

17 You had Niagara Mohawk, but they had a  
18 municipal electric.

19 During this storm, "Sandy," you have,  
20 Rockville Center has a municipal electric, Freeport  
21 has a -- you know, I'd like to see how they  
22 performed, and the satisfaction that their customers  
23 had.

24 And, you know, I'm going more towards looking  
25 at a municipal -- a smaller municipal electric,

1       which will give more control to the local, you know,  
2       authorities, such as Suffolk County.

3               And then the oversight on it, is if they're  
4       not performing right, then, election time, they can  
5       vote them out of office.

6               So there's a little more oversight from the  
7       people that are buying the electricity.

8               And just -- I'm going to leave one last  
9       thing, to give people an idea of what I'm talking  
10      about, when we're paying for electricity, and the  
11      cost that we're paying.

12              When I lived upstate, Lake Placid had their  
13      own municipal electric. This is in the Adirondacks.  
14      It goes below zero.

15              And everybody up there heats their house with  
16      electric baseboard heat because the electricity is  
17      so cheap.

18              Let me tell you something:

19              They're doing something right; we're doing  
20      something wrong.

21              And Long Island cannot afford any higher  
22      electrical rates.

23              And there are ways to make it more equitable  
24      for the people down here.

25              Thank you.



1           SENATOR MARCELLINO: Thank you, Assemblyman.  
2           Assemblyman Raia.

3           And, gentlemen, can we --

4           SENATOR RAIA: Very -- absolutely.

5           SENATOR MARCELLINO: -- move it along,  
6           because this group has been up for about an hour and  
7           a half, and I think we have four more groups that  
8           we'd like to hear give their testimony.

9           SENATOR RAIA: Thank you, Senator Marcellino.

10          I will be brief, as is often the question --  
11          or, what happens when you're the last -- you know,  
12          one of the last ones to speak.

13          I do want to echo Assemblyman Graf's concerns  
14          that 60 percent of the Assembly delegation wasn't  
15          briefed on any of these proposals.

16          However, I do have some concerns.

17          Is it true that -- under the Governor's  
18          proposal, that the tax-certiorari cases are all  
19          going to be frozen in the individual jurisdictions?

20          Do you know anything about that, or --

21          No?

22          ROBERT F. LURIE: And I'm not sure what  
23          [unintelligible] --

24          SENATOR RAIA: Well, here's the problem.

25          I'm trying to figure out, in my mind, how a

1 privately-run utility, that won't be eligible for  
2 FEMA funds, that won't be eligible for low-cost  
3 bonding, and will not be able to recoupe any  
4 revenues through tax certiorari -- pending the  
5 tax-certiorari cases, could possibly survive, and  
6 make a profit.

7 So -- so -- but, however, the tax-cert case,  
8 that issue is very important in my district, and I'm  
9 just trying to figure out if you know if whether or  
10 not there is a proposal to freeze --

11 So, you don't know, or you're not sure?

12 GIL C. QUINIONES: We don't know.

13 SENATOR RAIA: Okay, thank you.

14 Number two, I guess it was mentioned, the  
15 word "synergy" was used earlier.

16 Has the commission taken a position, or  
17 studied, I guess, National Grid's announcement that  
18 they're not going to allow their non-electric  
19 workers to participate during storm emergencies?

20 And one of my concerns is, is National Grid  
21 has been very good at cross-training a lot of their  
22 employees.

23 So, you could have a gas person hooking up a  
24 power line on a house.

25 You see an awful lot of National Grid trucks

1 out there, that are not going to be out there after  
2 2013 -- or I should say, this contract expires in  
3 2013.

4 And I'm just wondering what type of impact  
5 that's going to have on the delivery of services,  
6 because now we're -- PSE&G is going to have to go  
7 out and hire a lot more subcontractors that just may  
8 not be available.

9 We still have that problem during this most  
10 recent snow storm.

11 Subcontractor's equipment breaks, they're not  
12 reliable, and it causes a problem.

13 So --

14 SENATOR MARCELLINO: Assemblyman, with all  
15 due respect, okay, that is an important issue --

16 SENATOR RAIA: Yep.

17 SENATOR MARCELLINO: -- but I don't think  
18 it's germane to what we're here for.

19 SENATOR RAIA: I appreciate it.

20 SENATOR MARCELLINO: We're here, talking  
21 about the possibility of the fact of, privatization,  
22 or the other issues, [unintelligible].

23 If we could take your questions, and an  
24 estimate, at a different --

25 SENATOR RAIA: Absolutely.

1           SENATOR MARCELLINO:  -- situation?

2           SENATOR RAIA:  I'll leave it at that.

3           I guess it was more of concerns that I would  
4           like the Governor's Office to be looking at, and the  
5           commission to be looking at, before they release  
6           their final report.

7           They're valid, and they are concerns that are  
8           being raised by many groups within the Long Island  
9           community.

10          Thank you, Senator.  I appreciate it.

11          SENATOR MARCELLINO:  Thank you.

12          We have two more members who would like to  
13          question:  Assemblyman Montesano, and then  
14          Assemblyman [sic] Hoylman.

15          Assemblyman Montesano.

16          ASSEMBLYMAN MONTESANO:  Thank you, Senator.

17          Ms. Calcaterra, I just have just -- I guess  
18          it's one question, or maybe two.

19          When did the investigation with LIPA you,  
20          indicated, you know, the difficulties, we didn't  
21          know who was running the place during the storm  
22          and -- with National Grid.

23          I guess my question would be:

24          Everything that we're hearing today is going  
25          to involve some type of expense allocation which

1 can, potentially, come back to the ratepayer.

2 And I was just wondering, in your analysis so  
3 far, is there any feasibility, that if we  
4 restructured LIPA, from top to bottom, and corrected  
5 the deficiencies in the management agreement they  
6 have with, right now, National Grid, and, hopefully,  
7 with PSE&G, can the model that's being used now  
8 continue to be viable? Can it be salvaged?

9 REGINA CALCATERRA: The Moreland Commission  
10 spent a lot of time really looking at the bifurcated  
11 structure.

12 And, at the public hearing, where we brought  
13 the executives before us, they, literally, sat  
14 there, and we asked that.

15 We had the top people at LIPA and the top  
16 executives at National Grid sitting next to each  
17 other, so they couldn't point fingers.

18 They all thought the existing structure  
19 actually works.

20 So if you're dealing with two entities that  
21 think the existing structure works, but other  
22 Long Islanders, and legislators that are here, that  
23 knows that existing structure doesn't work, because  
24 they experienced the back end of it, I would  
25 question, and the Moreland Commission would

1 question, keeping those same parties in place who  
2 don't think that there's actually a problem.

3 So, from the Moreland Commission's  
4 perspective, the status quo is untenable.

5 Anything beyond that, I'm going to leave to  
6 the Governor's Office -- we'll leave for the  
7 Governor's Office and the Legislature to work out.

8 The status quo, as it is now, is untenable.

9 ASSEMBLYMAN MONTESANO: Okay, but you're  
10 using the thought of the same parties that are  
11 involved.

12 I'm just going by, if we change the parties  
13 around but kept that operating model in effect, can  
14 it be sustainable?

15 I mean, right now, apparently, National Grid  
16 and LIPA just don't click, or don't operate.

17 But, we see that bifurcated model, and just  
18 trying to spare the expense, and get the best of  
19 our -- out our dollar, is there any way of  
20 operating, or it has to be one way or the other?

21 I mean, how would anybody see that on the  
22 panel?

23 ROBERT F. LURIE: The problem -- in --  
24 there's a problem inherent in that model, that the  
25 Moreland Commission I think eloquently pointed out,

1 and the difficulty of coordination and communication  
2 when you have a bifurcated structure.

3 So there's a problem with the structure that,  
4 I think, has nothing -- you know, it goes beyond  
5 just the parties. Okay?

6 And that's one of the -- you know, the  
7 downsides of keeping a structure like that in place,  
8 going forward, is you have the risk of that  
9 miscommunication and lack of accountability.

10 So, that's also one of the things we'll be  
11 looking at. It's one of the options that we are  
12 including in our analysis, that we could go on with  
13 the PSE&G structure, maybe improve it. There might  
14 be -- maybe there are ways to tweak the contract and  
15 make it more responsive.

16 But one of the downsides of that is what  
17 we're pointing out here, is that, inherently, it  
18 doesn't fix that core structural problem that the  
19 Moreland Commission pointed out of the bifurcated  
20 structure.

21 SENATOR RAIA: Thank you.

22 Thank you very much.

23 SENATOR MARCELLINO: Senator Hoylman.

24 SENATOR HOYLMAN: Thank you, Mr. Chair.

25 Let me just, first, turn on the microphone,

1 and add my course of thanks for your efforts over  
2 the last few months. Nothing short of heroic, and,  
3 I'm very appreciative. And I know I speak on behalf  
4 of many of my constituents.

5 I wanted to ask a question about the  
6 determination of privatization versus the other  
7 options.

8 And, specifically, will Lazard be making  
9 that -- making a recommendation in that regard,  
10 obviously, in conjunction with your team, but, are  
11 they going to be presenting a recommendation in  
12 connection with that specific plan?

13 ROBERT F. LURIE: We have asked -- we have  
14 asked them for a recommendation. So, that is part  
15 of the work that we charged them to do, and so we  
16 expect that they will do that.

17 UNKNOWN SENATOR: Now, I guess I just have  
18 some concern that they're --

19 Obviously, I mean, they're a venerable  
20 institution. One of the best investment banks in  
21 New York City.

22 -- but, some concern that they may have a  
23 privatization bias, just given who they are.

24 How will you incorporate in -- or, are they  
25 seeking, throughout their analysis, dissenting



1 voices, consumer groups, other metrics, by which to  
2 judge their ultimate recommendation?

3 GIL C. QUINIONES: Let me just answer it.

4 In my testimony, I had mentioned that I also  
5 formed an internal team of experts from NYPA. And  
6 we are, you know, scrubbing, doing stress testing,  
7 doing scenario analysis, of whatever Lazard is -- is  
8 doing, and other supporting consults that are  
9 feeding into that -- into that process.

10 And as I had also mentioned, we are reaching  
11 out to various stakeholders all across Long Island,  
12 led by Secretary Schwartz, and, we will take into  
13 account input.

14 And if there are other models out there, or  
15 people advocating a position, we want to see their  
16 models.

17 And, take that all into account, do it in a  
18 very thorough, very fact-based way, you know, before  
19 any recommendation is made.

20 UNKNOWN SENATOR: And in terms of conflicts,  
21 I'm assuming that Lazard has cleared all of those,  
22 in terms of its business, and how it proceeds in its  
23 recommendation?

24 I mean, they may be in the business of  
25 energy, I don't know, but I'm assuming that's

1 something that you do routinely?

2 GIL C. QUINIONES: Yeah.

3 Well, in our agreement -- consulting  
4 agreement with Lazard, it's very clear that this is  
5 a discreet assignment. There's no linkage to any  
6 future work or assignment.

7 This is a -- you know, we came to them.

8 "Sandy" occurred. We needed to address this  
9 issue as quickly as possible.

10 We came to them, we assembled a team of,  
11 both, outside consultants and internal people at  
12 NYPA, to make a -- to do a thorough analysis, and to  
13 be able to advise, firstly, the Moreland Commission;  
14 and, eventually, as we complete our analysis, the  
15 Governor's Office.

16 UNKNOWN SENATOR: And then, finally, sir,  
17 will the recommendations of Lazard be shared with  
18 the Legislature, or will that be part of a larger --

19 GIL C. QUINIONES: No.

20 When everything is complete, and done, you  
21 know, that's our intention.

22 UNKNOWN SENATOR: Okay. Thank you so much.

23 SENATOR MARCELLINO: Okay, that's the last  
24 question that I have.

25 I wish to thank the panel for coming, and for

1 your indulgence.

2 And, look forward to receiving a copy of that  
3 report, and, we'll be in communication.

4 Thank you very much.

5 We'll take about a minute break, and then  
6 we'll bring up the next panel.

7 GIL C. QUINIONES: Thank you very much.

8 (Pause in the proceeding.)

9 (The hearing resumed, as follows:)

10 SENATOR MARCELLINO: All right, if we can --  
11 Mr. Technician?

12 Okay.

13 I recall the Committee back to order.

14 And the next panel will be:

15 David Daly, vice president, LIPA transition,  
16 Public Service Enterprise Group;

17 And, Neal Lewis, who is the -- a board  
18 member -- a sitting board member of the Long Island  
19 Power Authority.

20 Mr. Daly.

21 DAVID DALY: Good morning.

22 My name is David Daly. I'm vice president,  
23 LIPA transition, for PSE&G Long Island, a  
24 Public Service Enterprise Group company.

25 I want to thank Chairs Marcellino and

1 Ranzenhofer, and the Committee members, for the  
2 opportunity to appear before you this morning.

3 I'm the lead executive responsible for  
4 managing the PSE&G Long Island's transition, and the  
5 operation-services agreement we have with  
6 Long Island Power Authority.

7 As you may be aware, PS Long Island is  
8 scheduled to assume responsibility for management of  
9 LIPA's T&D system on January 1, 2014.

10 In the time allotted, I'll make very brief  
11 comments about the background of my company, and our  
12 core competencies, how we plan to deliver high  
13 levels of service, and improve customer satisfaction  
14 for Long Island's 1.1 million electric customers.

15 PSE&G is one of the nation's largest energy  
16 companies, and we're also a neighbor.

17 We own Public Service Electric and Gas,  
18 New Jersey's oldest and largest electric/gas  
19 utility.

20 PSE&G serves 2.2 million electric and  
21 1.8 million gas customers in a 2,600-mile --  
22 -square-mile area similar to Long Island's  
23 territory.

24 We joined the New York business community in  
25 1999 when our electric-generation business, PSE&G

1 Power, acquired the Albany steam station, an aging  
2 450-megawatt electric-generating plant located just  
3 south of Albany in Bethlehem, New York, and  
4 transformed the facility into a state-of-the-art  
5 Bethlehem Energy Center.

6 In the process, we doubled the site's  
7 electric generating capacity while making dramatic  
8 reductions in air and water and environmental  
9 impacts.

10 We'd be happy to have you over to the site at  
11 any time.

12 In total, PSE&G has approximately 25 --  
13 29 billion in assets; 10,000 men and women. About  
14 two-thirds of our employees are represented by  
15 unions, and we have a very strong relationship with  
16 our unions, which we're very proud of.

17 What may be of particular importance to  
18 Long Island's residents and this Committee, is our  
19 work has gained considerable recognition by national  
20 independent organizations for system reliability,  
21 storm response, and customer satisfaction.

22 We've been cited as America's most reliable  
23 electric utility 5 out of last 8 years, and the most  
24 reliable utility in the mid-Atlantic region for  
25 11 straight years.

1           The Edison Electric Institute, the industry's  
2 national trade association, cited PSE&G for  
3 outstanding work after "Hurricane Irene" and  
4 "Superstorm Sandy."

5           And on the customer-service front, J.D. Power  
6 and Associates recently ranked PSE&G second in the  
7 eastern U.S. region for residential-customer  
8 satisfaction.

9           It is this track record and experience and  
10 expertise associated with it that we intend to bring  
11 to Long Island.

12           As you may know, LIPA selected PSE&G  
13 Long Island in December of 2011, after a two-year  
14 competitive procurement process, to manage its  
15 electric T&D system for a ten-year period.

16           There were over 90 competitors in that  
17 process.

18           The operation-services agreement has been  
19 approved by the New York Attorney General and the  
20 State Comptroller.

21           And very importantly, the operating agreement  
22 with LIPA's structure in a way that aligns our  
23 interests with LIPA's.

24           We receive a flat fee for providing  
25 management services, with the potential to earn

1 incentives for the achievement of significant  
2 improvements in customer satisfaction and other  
3 important reliability metrics.

4 For example, there are incentives in the  
5 contract, and our plan is to achieve significant  
6 improvements in customer satisfaction and customer  
7 operations to achieve a first-quartile ranking  
8 within five years.

9 And any cost savings or efficiencies that are  
10 achieved in the process flow right back to  
11 Long Island.

12 In short, our success is closely linked to  
13 our improving the customer experience.

14 PSE&G has created a Long Island subsidiary  
15 called "PSE&G Long Island," dedicated to managing  
16 its responsibilities here.

17 This subsidiary, its management team, and all  
18 the assets required will be located on Long Island.

19 Our management team will live on Long Island,  
20 and we will be visible and available.

21 PSE&G and its family of companies have a long  
22 history of involvement in the communities we serve,  
23 and it's one of our core values we intend to bring  
24 to Long Island.

25 As I noted, we bring to this task a very

1 established proven record of performance,  
2 reliability, and customer satisfaction.

3 We've been hard at work at the transition for  
4 over a year. We understand the challenges, we've  
5 identified specific areas for improvement.

6 With LIPA's approval, we will make  
7 recommendations in several areas:

8 First, in improvements in customer service  
9 and customer satisfaction. That will include a new  
10 call center and state-of-the-art technologies,  
11 enhanced customer communications, and best-in-class  
12 QA/QC customer processes;

13 Second, a proven storm-restoration process,  
14 that I had described earlier, has been recognized on  
15 many occasions. That includes state-of-the-art  
16 outage management technology, and enhanced storm  
17 planning and management structures, and logistics  
18 planning;

19 Thirdly, we'll introduce best practices into  
20 T&D maintenance and operations;

21 And, finally, we'll bring PSE&G's proven  
22 analytical tools, including Lean Six Sigma, and  
23 other processes, including our balanced scorecard  
24 process, to optimize team T&D management.

25 In the area of customer operations, we're



1 implementing over 80 recommendations to improve  
2 service and customer satisfaction.

3 LIPA has already approved our recommendation  
4 to replace existing call-center technologies, and we  
5 have plans to implement a new CIS system and a new  
6 enterprise resource-planning system.

7 We've also proposed a new outage management  
8 system, one of the key technologies involved in  
9 storm restoration, that will more quickly and  
10 accurately assess damage, direct work crews, and  
11 provide critical information on status.

12 Our experience in New Jersey during  
13 "Superstorm Sandy" provides some guidance on how  
14 technology processes, planning, and other things  
15 come together to benefit customers.

16 "Sandy" knocked out electric service to  
17 almost 2 million of our 2.2 million electric  
18 customers.

19 About a third of our stations -- switching  
20 stations were knocked out, 40 percent of our  
21 substations, and 33 percent of our transmission  
22 lines.

23 1,000 out-of-state workers arrived in  
24 advance, and that workforce grew to over 4,500. We  
25 were able to make sure all of these workers were

1       housed, fed, and their vehicles had fuel. They knew  
2       where they were going, had work orders in hand, and  
3       got on the road with little wasted time. They never  
4       ran out of material and supplies. We never ran out  
5       of poles, transformers, wires, or fuel.

6               We restored electric service to 1 million  
7       customers in 3 days.

8               Over the two-week period that included the  
9       nor'easter that hit on the heels of "Sandy," we  
10       restored power to 2.1 million customers.

11              That is more than any storm in the history of  
12       any electric utility in the country.

13              We accomplished all these restorations  
14       efficiently, and I think this speaks to our  
15       storm-restoration process.

16              We accomplished all of these 2.1 million  
17       restorations at a cost of \$295 million.

18              All through this process, we worked  
19       diligently and as much as accurately possible to  
20       provide information to customers, officials, the  
21       news media, and other stakeholders.

22              Prior to the storm, we did 700 preemptive  
23       calls with the municipal officials to establish  
24       points of contact, daily conference calls with  
25       municipal officials, and, municipal/bi-municipal

1 work plans were developed.

2 Ralph LaRossa, our chief operating officer,  
3 myself, and other senior executives met with over  
4 100 state legislators and mayors during the storm.

5 We had daily conference calls with  
6 Governor Christie.

7 Newspaper, radio, Internet, e-mail blasts,  
8 and social media were also part of our communication  
9 strategy.

10 In short, and to wrap up, it is this kind of  
11 effort, planning, logistics, up-to-date technology,  
12 proven processes and procedures, analytics, and  
13 communications, bound together by a relentless focus  
14 on the customer and PSE&G Long Island, that we are  
15 bringing to task to manage the electric system.

16 We know what needs to be done, and we look  
17 forward to the opportunity to serve the people of  
18 Long Island.

19 Thank you very much.

20 I'm happy to take your questions.

21 SENATOR MARCELLINO: Thank you, Mr. Daly.

22 Before we go to Mr. Lewis, I just want to  
23 point out to the audience, that members will be  
24 coming and going because of committees assignments  
25 that are going. There are various subcommittees

1 being -- are meeting now. They have appointments  
2 that have to be met.

3 We're in the budget-review process, and many  
4 of them are serving on various subcommittees. So,  
5 they'll be in and out of this room, as it goes.

6 In the meantime, you're stuck with me, and  
7 Senator LaValle, and that's a pretty good duo.

8 Mr. Lewis.

9 NEAL LEWIS: Thank you, Chairman Marcellino,  
10 and Senator LaValle.

11 I really appreciate this opportunity to speak  
12 to the Committee today on this very important topic  
13 of the future of the Long Island Power Authority.

14 Before I begin, let me state that I, of  
15 course, do not speak here today as the official  
16 representative or officer of the Long Island Power  
17 Authority; but, instead, I speak as an individual  
18 who is an appointed volunteer member of the LIPA  
19 Board of Trustees.

20 I might point out, also, that nobody at LIPA  
21 reviewed these comments. These are my words alone  
22 that I have submitted to you.

23 My suggestions for the future of LIPA starts  
24 with the ServCo business model.

25 As you know, this model was developed by the

1 LIPA executive team, LIPA Board of Trustees, and the  
2 Brattle Group.

3 And I believe that the Brattle Group was very  
4 professional, very thorough; really did a  
5 comprehensive analysis. They brought utility  
6 expertise to that analysis, and they were  
7 unconflicted in the work that they did.

8 I think that their work should be given great  
9 weight.

10 Unfortunately, the media coverage of this  
11 issue since the events involving the restoration  
12 after "Sandy" have really done a disservice to  
13 Long Islanders by not explaining the ServCo model.

14 I hope, today, we can start to change the  
15 debate, and allow this option to get fair  
16 consideration.

17 I want to be absolutely clear, that I am not  
18 here today to say that the old structure of LIPA  
19 should be maintained, going forward.

20 I fully respect and support all those who  
21 call for reform of LIPA.

22 I simply believe that the ServCo model is the  
23 best reformed model that could be implemented among  
24 the choices available.

25 And I also suggest some additional reforms

1 that I want to point out today.

2 In my opinion, ServCo presents the  
3 opportunity to get the best of both worlds, both  
4 public and private.

5 With ServCo, Long Island will retain public  
6 power, with a publicly appointed board that controls  
7 policy, adopts budgets, and sets out to achieve high  
8 standards of investment in the system to promote  
9 high reliability.

10 The board will not be driven to increase  
11 profits by selling more electricity and, instead,  
12 can focus on the most cost-effective option of  
13 promoting energy efficiency.

14 LIPA has, over the last decade, established  
15 itself as a leader in New York State, and  
16 nationally, in promoting efficiency and renewables.

17 Under ServCo, this can continue.

18 Local control over the significant  
19 investments in clean energy will be retained on  
20 Long Island by LIPA.

21 With public power, the ServCo business model,  
22 LIPA will continue to qualify for low-interest  
23 municipal bonding rates and for FEMA reimbursements  
24 for major storms.

25 Also, as a not-for-profit, LIPA does not pay

1 income taxes, and can qualify for its sales-tax  
2 exemptions.

3 And, finally, no payments will be made to  
4 shareholders.

5 Of course, it has been well reported that the  
6 Brattle Group estimated that all these different  
7 savings could result in as much as 20 percent lower  
8 rates under ServCo as compared to privatization.

9 ServCo also captures the best benefits of a  
10 private utility without the downside of selling the  
11 system off to a private company.

12 With ServCo, LIPA will benefit from the  
13 talent, expertise, and experience of the managers of  
14 a major private utility who has been providing --  
15 who will be providing service under contract for a  
16 specific time period.

17 And I believe you just heard some of the  
18 impressive qualifications that the PSE&G team brings  
19 to this equation.

20 A vital factor to consider is that LIPA is in  
21 desperate need of upgrading its computer systems.

22 If you consider all the upgrades that will be  
23 necessary, several different systems, in the coming  
24 years, the costs can be in the tens, or even  
25 hundreds, of millions of dollars.

1           There are municipalities around the country  
2 that have set out to purchase major computer systems  
3 and encountered many expensive difficulties.

4           There are no guarantees that we will not  
5 experience similar problems with our computer  
6 upgrades, but having the expertise and experience of  
7 the PSE&G and Lockheed Martin managements to oversee  
8 those complicated upgrades substantially reduce  
9 those risks.

10           And those risks was the main focus of the  
11 Brattle Group analysis.

12           In my opinion, the LIPA board has done an  
13 excellent job of adopting a much improved business  
14 model, and choosing a highly qualified company to  
15 carry out operations under the new system which  
16 would begin January of next year.

17           I would like to point out that the  
18 Moreland Commission, in their interim report, did  
19 not consider the ServCo model as one of the three  
20 possibilities when evaluating options for the future  
21 of LIPA.

22           The bifurcation problem, which was the main  
23 theme of the Moreland Commission report, I want to  
24 say on this one, that bifurcation is not a problem  
25 during "blue sky" conditions.



1 I simply don't believe that there is a reason  
2 why public-private partnerships can't work.

3 However, I do agree with the  
4 Moreland Commission, on page 17, where they said,  
5 that:

6 "The LIPA and National Grid hybrid model is  
7 simply unworkable in the context of a storm event."

8 I agree on that point.

9 During a storm, we should not have a  
10 bifurcated system.

11 So during the storm, LIPA should direct that  
12 the contractor steps up and speaks directly to the  
13 public, to elected officials, during the time of the  
14 storm.

15 The bifurcation problem, basically, will be  
16 solved under the arrangements we have made with this  
17 contract, and as we're moving forward, starting on  
18 January 1st of next year.

19 Now, I was going to skip the rest of this  
20 page 5, but I do want to point out that, in the next  
21 paragraph here, the PS -- the Moreland Commission  
22 report, on page 26, says that:

23 "The bulk of the owner-manager relationship  
24 remains the same."

25 And one of the gentlemen from NYPA that was

1 sitting here, repeated that statement just moments  
2 ago.

3 This is a mistaken assumption that the  
4 Moreland Commission is making.

5 So I have three criticisms of the  
6 Moreland Commission:

7 I believe, as I'm going to address in a  
8 moment, that they engaged in group think on their  
9 analysis of the problem;

10 I believe that they chose not to evaluate --  
11 I don't believe, but it's obvious -- they chose not  
12 to evaluate the ServCo model;

13 And on this point, they're making the  
14 mistaken assumption that bifurcation will be a  
15 problem during major storms in the future.

16 Now, why they did this, is because they only  
17 read the contract.

18 They did not read the Contract Administrative  
19 Manual, in part, because it does exist yet. It's  
20 still in the transitional development phase.

21 I raised this issue at the last meeting of  
22 the LIPA Board of Directors.

23 I asked that our general counsel address what  
24 was stated on page 26 of the Moreland Commission,  
25 and she indicated to the board that she will look

1 into this.

2 Since that meeting, I've gotten a little more  
3 information, and I have a better understanding of  
4 where the Moreland Commission made their false  
5 interpretation.

6 Because they only have the contract, they  
7 don't have these other documents that are still  
8 being developed.

9 But what they're missing out on, is the many,  
10 many conversations that took out -- took place  
11 during the Brattle analysis process.

12 And during those conversations, there was a  
13 very strongly felt feeling on the part of the  
14 trustees that, in the future, the LIPA executives  
15 should not be running press conferences and sending  
16 out press releases during the middle of a storm.

17 That should be the responsibility of the  
18 contractor.

19 And the intention is, that starting  
20 January 1st, that exactly will be the arrangement.

21 I want to speak -- and the last paragraph on  
22 this page does this, I want to speak to the point  
23 that Senator LaValle raised about the  
24 bifurcated-structure concern, and whether we saw a  
25 different structure during the blizzard.

1           And my response to that is, what we saw  
2           during the blizzard is very close to what would be  
3           the structure for future storms, under the contract  
4           with PSE&G, and under the new ServCo model.

5           LIPA would, essentially, stand down when it  
6           comes to major communication efforts, and the  
7           contractor would step up.

8           Again, this still needs to be worked out over  
9           the period of the next several months, but, what we  
10          saw during the blizzard was the scenario where  
11          National Grid stepped up.

12          And I can tell you that LIPA staff was still  
13          very much involved in that storm.

14          And I spoke with one of those people that  
15          were very much involved, and they explained to me --  
16          he explained to me that he felt very strongly that  
17          he saw improved communications of information  
18          flowing through the -- through National Grid that  
19          did not take place during "Sandy".

20          So what I'm saying here is, while I criticize  
21          the Moreland Commission's conclusions, I do agree  
22          with their point about the weakness of a bifurcated  
23          structure.

24          And then, frankly, I think the board, as a  
25          whole, although I hesitate to speak for the board,

1 but we did vote unanimously in favor of the ServCo  
2 model, and strong opinions were expressed, that  
3 going forward, during major storms, we will not have  
4 a bifurcated structure. We will have a clear  
5 understanding that the people doing the direct work  
6 are the ones that will be communicating directly  
7 with the public.

8 There was a comment, also, that it -- that  
9 you couldn't solve this problem, in terms of the  
10 bifurcated structure, because it has to do with more  
11 than the parties.

12 Yes, it has to do more with the parties; it  
13 has to do with the contract.

14 The contract is coming to an end at the end  
15 of this year, and we have a new arrangement that  
16 will be taking place afterwards.

17 Now, there is a misalignment of interests in  
18 the current MSA.

19 There are reasons to break from the current  
20 contract and go with the ServCo model, that have  
21 something to do with storm response.

22 Storm response wasn't the only issue, by any  
23 means, that was being considered.

24 One of the issues which was touched upon just  
25 a moment ago, was the performance of the call

1 center.

2 The call center under the current model  
3 creates a conflict in interests and incentives,  
4 where the for-profit company has an interest in  
5 running the call center in such a way to keep costs  
6 down; whereas, LIPA wants to see the call center  
7 provide to our customers, a good experience.

8 Those two interests are not aligned.

9 Under the new ServCo model, and it's just so  
10 frustrating --

11 And I appreciate, Chairman Marcellino, your  
12 effort to explain to people, the complexity of some  
13 of the aspects of this relationship.

14 -- people just don't get this, that ServCo is  
15 not a continuation of the current structure.

16 It's a fundamental improvement of the hybrid  
17 model, and it really will dramatically change the  
18 performance of LIPA's service to the public in the  
19 future.

20 So in the future, there will be no  
21 incentives, where his team will be saying: Well, if  
22 we cut the number of people in the call center, you  
23 know, we're going to have to speed up how quickly we  
24 handle calls, but we can boost our profits.

25 There will be no incentives like that in the

1 structure, because the budget for the ServCo  
2 subsidiary is kept separate from the payments made  
3 to PSE&G.

4 A substantial improvement under the current  
5 flawed model.

6 I believe that the case for dismantling LIPA  
7 has not been demonstrated, and this is where I  
8 believe the Moreland Commission engaged in group  
9 think.

10 The Moreland Commission interim report does  
11 not contain any analysis of the facts in comparison  
12 to other storms or other utilities or metrics,  
13 whatsoever, to demonstrate that LIPA's rate of  
14 outage restoration after "Sandy" was a failure that  
15 warrants complete privatization and dismantling of  
16 the operations.

17 I would like to suggest that one of the key  
18 metrics to consider, is the number of repairs that  
19 need to be made, not just the number of outages.

20 And we also need to take into consideration  
21 that this storm occurred with a major storm surge  
22 that was unprecedented in Long Island history;

23 That it came with a nor'easter during their  
24 restoration effort;

25 And, that there's certain unique aspects of

1 Long Island's grid design, where wires run through  
2 backyards rather than primarily along streets, that  
3 make it more time-consuming to effectuate  
4 restoration.

5 On the question of a metric of comparing  
6 repairs, if you look at "Hurricane Gloria," what we  
7 saw was, 11 days to achieve restoration and  
8 9,000 repairs that were done.

9 If you look at this storm, it was 14 days to  
10 receive -- to achieve 99.5 percent restoration and  
11 up to, approximately, 40,000 repairs.

12 I should point out that the LIPA board is  
13 meeting tomorrow, and Mr. Bruckner [ph.] is giving  
14 us a report tomorrow. So this number of 40,000, I  
15 think, we'll get a more firm number tomorrow.

16 But if you use those numbers, what this  
17 means, is that if LILCO were still running things  
18 today -- or, a few months ago, and they restored  
19 power after "Sandy" at the same rate that they did  
20 after "Gloria," then it could have taken about  
21 45 days to achieve power restoration.

22 So where is the metrics that demonstrate that  
23 LIPA's performance in restoration time was such a  
24 horrendous failure that we have to throw the baby  
25 out with the bath water, so to speak?



1 I want to speak to reliability.

2 There have been claims made that the LIPA  
3 system was maintained in such a way that it was,  
4 essentially, at the state of falling apart when the  
5 storm hit, and that's why the damage was so severe,  
6 rather than accepting that this was an historic  
7 storm of incredible magnitude; perhaps the most  
8 damaging weather event to hit Long Island in --  
9 clearly, in modern times, if not since the glaciers.

10 And please excuse me for that, Senator.

11 SENATOR MARCELLINO: I wasn't here.

12 NEAL LEWIS: Okay.

13 [Laughter.]

14 NEAL LEWIS: Let me state for the record,  
15 emphatically, the LIPA grid was, either, the single  
16 most, or among the most, reliable grids in  
17 New York State for any above-ground utility on the  
18 day that "Sandy" hit.

19 This claim by me is based upon established  
20 metrics that are regularly reported to the LIPA  
21 Board of Trustees.

22 I brought with me 20 copies of the PowerPoint  
23 handout from the LIPA Trustee meeting from May 24,  
24 2012.

25 And if, Chairman, you deem it appropriate,

1 I'd like to make this a part of the record as an  
2 exhibit, and I would encourage that people look to  
3 the second-to-last page, Slide Number 7, which shows  
4 that three major well-established metrics --

5 I'm sure these are metrics probably used in  
6 New Jersey and other parts of the country.

7 -- three major metrics of SAIFI, CAIDI, and  
8 SAIDI. I'm not sure if I got the pronunciations  
9 right. They're all acronyms.

10 LIPA was number one for the time period being  
11 recognized here, and this is a common occurrence  
12 with LIPA's performance of the grid.

13 So, reliability has been a top priority and  
14 goal of LIPA, and real accomplishments have been  
15 made.

16 The former president of National Grid,  
17 Bob Catell, has said at a number of public events  
18 that the LIPA grid is a gold-plated system.

19 And I think that those words should echo in  
20 our minds when we hear talk of selling off this  
21 system.

22 I'm going to skip the issues of the flood  
23 surveys, and go to the other reforms I'd like to  
24 suggest.

25 The other reforms I'd like to suggest is,

1       rather than all appointments to the LIPA board being  
2       in the hands of the leadership in Albany, I believe  
3       that local government should have an opportunity to  
4       appoint people to the LIPA Board of Trustees.

5               This will provide coordination with local  
6       governments on tree-clearing on -- of roads, which  
7       is a critical issue after a storm, and on other  
8       issues, and on overall emergency planning.

9               I believe the county executives of the two  
10       counties should have appointments, the 10 largest  
11       towns should have appointments, and then the smaller  
12       towns and the villages and the two cities should get  
13       a certain number of rotated appointments.

14              My second additional suggestion, is that we  
15       should have a unified emergency response under the  
16       OEM.

17              I believe that the annual hurricane drill  
18       that LIPA holds should be held at the two county  
19       offices of the Emergency Management, and LIPA should  
20       be more clearly integrated into the function and  
21       command structure of the OEMs.

22              In my opinion, both county OEMs performed  
23       well during "Superstorm Sandy," and it makes sense  
24       to build upon what worked.

25              The OEMs are well equipped with

1 communication capabilities that can be relied upon  
2 during storms and in other crises, and I therefore  
3 believe that working with them is a good way to  
4 improve communications during the next major storm.

5 I would also like to make a recommendation  
6 that builds upon some of the work that came out of  
7 the Senate after "Tropical Storm Irene," having to  
8 do with coordination with municipalities.

9 And on this one, I recommend that we develop  
10 formalized memorandums of understanding, or,  
11 "MOUs," to be adopted by LIPA and Long Island  
12 municipalities, that should anticipate specific  
13 series of different contingencies, set out  
14 responsibilities between the parties, and they  
15 should be enforceable.

16 And lastly of my reforms that I'd like to  
17 suggest in addition to the ServCo model, I believe  
18 that we should, simply by law, provide for a PSC  
19 review of LIPA, and end the debate about that issue.

20 I think it's been an overblown issue, and I  
21 think that if it can bring an air of accountability  
22 and improve public confidence in the system, then we  
23 should simply -- we should simply do it, in my  
24 opinion.

25 The -- I believe there's a strong basis to

1 believe that the ServCo business model approved by  
2 the board of trustees, and the State -- this went  
3 through several layers of review -- will deliver the  
4 best results for Long Islanders who want reliable,  
5 affordable electric service that is delivered by a  
6 corporate structure well designed to respond to  
7 major storms, and to advance public-policy goals,  
8 such as being the leader in promoting energy  
9 efficiency and renewables.

10 I also believe that the ServCo model can be  
11 further enhanced, by giving local government  
12 officials who work with LIPA the ability to appoint  
13 trustees, by unifying emergency planning and  
14 responses by LIPA with the existing offices of  
15 Emergency Management, by adopting MOUs to establish  
16 clear agreements for tree-clearing from roads with  
17 local governments, and, lastly, by subjecting LIPA  
18 to PSC review.

19 That's the end of my abbreviated version of  
20 prepared comments, and I do hope my whole comment --  
21 written comments get into the record.

22 SENATOR MARCELLINO: Your comments will be  
23 part of the record, as all of the comments,  
24 including the PowerPoint presentation that you made.

25 And I thank you both for your testimony.

1           Just a question for both of you.

2           I'm a consumer. I live in the LIPA area.

3           My house was without power for two weeks.

4           14 days.

5           I had to call in to LIPA to tell them my  
6           house was without power.

7           They didn't know it.

8           They had no idea of the fact that my house  
9           was without power.

10           The cable company, whose power lines use the  
11           same poles, traveled into my house pretty much the  
12           same way that the LIPA lines do, can tell me if I'm  
13           on their system or not; when I'm on, when I'm off,  
14           what I'm watching.

15           They can fix my cable problem, if I have a  
16           problem, over the phone.

17           They can deal with all of that from, I don't  
18           know what distance, but they're certainly not in my  
19           house at the time.

20           Yet I had to call LIPA to let them know that  
21           the power line was down.

22           It took them 14 days to get to my house.

23           I'm not surrounded by a million trees.

24           The transformer, yes, it's in the rear yard,  
25           no doubt about that.

1           The line was taken down by a fallen tree in a  
2 neighbor's yard.

3           All that's true.

4           But the system of communication between LIPA  
5 and the customer simply is nonexistent, as the  
6 process goes right now.

7           There is no communication, and I don't  
8 understand that.

9           Will this change under the new agreement with  
10 PSE&G, or under the ServCo model that you're talking  
11 about?

12          NEAL LEWIS: This is a technology question.

13          I defer.

14          DAVID DALY: Yeah, I mean, I would -- there's  
15 a couple of issues that we've made recommendations  
16 around, one of them has to do with technology.

17           And one of the most important technologies in  
18 storm-outage situations is a system called an  
19 "outage management system."

20           The system that's in place today is a very  
21 old mainframe-based system.

22           It results in work being done with  
23 footboards, and on a much more manual basis than  
24 modern systems.

25           These types of systems bring you a couple of

1 things:

2 First, at the beginning of a storm event,  
3 they give you a much more -- a much quicker and a  
4 much more accurate assessment of where the damage  
5 is; number one.

6 Number two, as the storm's progressing, you  
7 have thousands and thousands of crews out performing  
8 work.

9 Starting at 7:00 in the morning, check in at  
10 1:00 in the afternoon, you check in at 10:00 at  
11 night.

12 These modern outage management systems are a  
13 mechanism to understand what work is getting  
14 accomplished.

15 The crews are out in the field accomplishing  
16 the work and statusing it, not through a manual  
17 process, but in the system, comes back.

18 And, so, you have a much better understanding  
19 of where to send the crews, because you know the  
20 damage up front much quicker. And once they're out  
21 there at their statusing work, hour to hour, day to  
22 day, typically, you check in twice a day during a  
23 storm event around how much progress we've made.

24 And what that gives is, the management --  
25 storm-restoration management team, realtime



1 information about where the damage is, and what the  
2 status is.

3 I think that one of the issues we've seen,  
4 is that with the technologies that is in place there  
5 today.

6 Now, we've made this recommendation, we  
7 intend to have it in place in the next 12 months,  
8 is that you're at a little bit of a handicap in  
9 really understanding where to send the crews, and  
10 more importantly, as work is getting accomplished  
11 and getting updated, being able to stand up at a  
12 press conference or in a communications forum and  
13 give an accurate picture of what work we  
14 accomplished today; is this circuit back or not?

15 So, there is -- there is a piece of this  
16 related to this outage management system, and we are  
17 correcting that.

18 Secondly, somewhat driven by the availability  
19 of the system, one of the processes we use at PSE&G  
20 that we intend to replicate here --

21 And by the way, we intend to replicate our  
22 entire storm process on Long Island.

23 -- is a process where, for each municipality,  
24 we have an individual conference-call meeting each  
25 morning and we provide them with a three-day plan.

1           That meeting starts one-on-one with each  
2           municipality, with:

3           How many customers are out today?

4           What crews are going to be in your town  
5           today, tomorrow, and the next day?

6           So it's a story that starts with, for  
7           example, and I'm making these numbers up, you have  
8           14,500 customers out today. We're going to have  
9           X amount of crews in your town today. By tomorrow,  
10          you're going to be down from 14,000 to 12,000. The  
11          next day down 8,000, the next day down to 4,000.

12          So we do a rolling three-day picture of what  
13          is happening in that town, and they can watch and  
14          trend this piece coming down.

15          And the combination of those two things  
16          gives us a great deal of information about what  
17          the current status is.

18          Just one other piece, though, which is, you  
19          don't have on Long Island smart meters.

20          Smart meters, sometimes called  
21          "AMI advanced meters," are the only source, when you  
22          get down to the very last meter, to have the  
23          information coming back automatically to the utility  
24          about whether a customer is back or not.

25          I think some of the problems that you

1 experienced are not as much related to having  
2 smart meters in place. And the implementation of  
3 smart meters is really a public-policy issue about  
4 whether or not that makes sense.

5 They make sense, they have a lot of -- they  
6 bring a lot of benefits.

7 To make them work, you need to put in place  
8 pricing schemes which charge people more for  
9 electricity at this time of day versus another time  
10 of day, so there are implications for what makes  
11 them economic and make them work.

12 But, there's two pieces to your question.

13 I think the lion's share of the concern you  
14 just expressed, we will be addressing through the  
15 outage management system that we're installing and  
16 our communications processes that I've just been  
17 describing.

18 SENATOR MARCELLINO: I'm just -- you guys  
19 were sitting here when I was questioning the  
20 previous panel.

21 My concern is, the providing of the service  
22 without a rate increase; without costing the  
23 taxpayer, the ratepayer, an exorbitant amount of  
24 money.

25 As you heard from Assemblyman Graf, we pay a

1 lot of money for the power. We're paying huge  
2 amounts of money at every level of government.  
3 The government is paying the electric bills, a  
4 huge amount of money that goes into the tax base,  
5 goes into the property-tax base.

6 And he's right, it's an inhibition to  
7 business.

8 How are you going to change that system?

9 I understand in the PSE&G contract, there are  
10 performance standards which would enhance the  
11 efficiency of the system.

12 Now, how -- can you go through a little bit  
13 of that? Is that -- what that system is?

14 And, Neal, I'd look to like at -- you seem to  
15 be implicating that Moreland is more -- has pretty  
16 much bought into private. Privatization, that  
17 they're looking at nothing else but privatization.

18 NEAL LEWIS: Well, I do want to say --

19 SENATOR MARCELLINO: I'd like to get both  
20 those questions answered, though.

21 NEAL LEWIS: Right.

22 -- on the -- it's fascinating that the way in  
23 which Moreland is looking at privatization does seem  
24 to be different than Brattle, because Brattle said  
25 that the biggest savings that comes from

1 privatization, they show some savings in certain  
2 categories, and then increased costs in other  
3 categories, and when it all washes out, it's a  
4 significant increase.

5 Brattle was emphatic that it did not make  
6 sense to continue to analyze privatization after a  
7 certain point. It wasn't even a close call.

8 The -- but on the positive side for  
9 privatization, the number one -- biggest improvement  
10 is cutting taxes.

11 Basically what they're operating under is an  
12 assumption that a private utility is going to  
13 aggressively fight to reduce the property taxes, and  
14 fight to reduce the pilot payments.

15 After that, they talk about labor.

16 And I think you may be hearing a little bit  
17 later from some other speakers on this topic, but  
18 LIPA had the -- the workforce that services the  
19 electric system on Long Island -- we all know they  
20 worked primarily under National Grid's name -- is  
21 much smaller than what existed years ago.

22 And it's really a troubling thought to think  
23 that a major way that privatization can keep costs  
24 down is going to be to fight the taxes and cut  
25 labor, and, how does that enhance performance during

1 a storm?

2 And those tax cuts, by the way, are going  
3 to be made up for, likely, by tax increases.

4 You know, if LIPA pays less in a certain  
5 community, then those communities are going to have  
6 to make up for it.

7 It was the Legislature that required LIPA to  
8 pay those taxes.

9 And when we compare LIPA's rates to other  
10 utilities, it's often said it's among the highest,  
11 but let's be clear what we're talking about.

12 If you compare it to the rest of the country,  
13 50 percent of the country gets their electricity  
14 from coal, which is dirty, but it's also cheap.

15 So comparing us to those is really unfair.

16 If you compare it to other public utilities,  
17 the other public utilities don't pay for the  
18 property taxes.

19 Our property tax payments by LIPA are larger  
20 than our debt service on the debt that we have that  
21 we hear so much about.

22 If you compare it to public utilities on  
23 Long Island, Rockville Center, Freeport, they get --  
24 they don't pay the property taxes. And they also  
25 get -- NYPA was sitting here -- NYPA sends

1 electricity to Freeport, or it's done in a very, you  
2 know, complicated way, but the bottom line is, they  
3 get low-cost electricity because of NYPA.

4 So comparing these prices of rates --

5 SENATOR MARCELLINO: And LIPA can't do that?

6 NEAL LEWIS: Well, under the --

7 SENATOR MARCELLINO: I think that was  
8 Assemblyman Graf's point.

9 LIPA can't do that?

10 NEAL LEWIS: Well, just a changing of that  
11 law, you know, if you guys can get that law changed,  
12 it's in the law right now that none of the  
13 hydropower can come to Long Island.

14 So, if we could get some of that, that would  
15 go a long way.

16 DAVID DALY: And to your initial piece, on  
17 the cost and on the performance, we intend to bring  
18 excellence in operations from New Jersey and  
19 replicate it on Long Island.

20 There are three main buckets that we intend  
21 to make significant improvements in, that we think  
22 will immediately begin to move the metric for --  
23 described in one moment.

24 Technology, I just described the OMS system.

25 There's a couple other customer-facing

1 technologies.

2 Number one, technology.

3 SENATOR MARCELLINO: Can you speak up a  
4 little bit, please?

5 You have to speak up a little bit, or move  
6 the microphone closer to you.

7 DAVID DALY: Number two --

8 So, technology, number one.

9 Number two, replicating work processes from  
10 PSE&G in customer operations in T&D.

11 Particularly in the customer operation side,  
12 on our customer-satisfaction processes:

13 How we listen to the customer;

14 How we deal with customer complaints;

15 How we take that information, develop  
16 targeted initiatives, dedicate resources, use  
17 advanced models for developing targeted  
18 initiatives.

19 How we have an approach, which is, use every  
20 customer complaint as an opportunity for  
21 improvement, and where we engineer out process  
22 deficiencies based upon what we learn in surveys and  
23 from customer complaints.

24 And then, thirdly, the storm process.

25 So, technology, some key process changes in



1 customer ops in T&D, and storm.

2 When you look at the incentive structure that  
3 we have under the contract, there's 29 metrics  
4 covering cost metrics, customer satisfaction, and  
5 reliability.

6 And Mr. Lewis just talked a moment ago  
7 about reliability on the system.

8 The assets that are in place on Long Island  
9 are in good shape. They have been invested in over  
10 the years, so the physical assets -- the  
11 substation, the breakers, the wires -- are in  
12 sound condition.

13 The employees that are in place at  
14 National Grid, that we will bring over as part of  
15 our company, are a highly trained, highly skilled,  
16 dedicated workforce.

17 So, we have good resources, we have good  
18 assets. We're going to bring process.

19 In terms of the metrics, on the cost side,  
20 our intention is to keep costs flat.

21 Our challenge is to do that while taking  
22 reliability and keeping it where it is --

23 Because as Mr. Lewis just said, reliability  
24 is good, based on the assets, and based on the  
25 fact that you have a good workforce.

1           -- keeping reliability where it is, but  
2 taking customer satisfaction from what is  
3 essentially the basement today, and bringing it up  
4 to top quartile.

5           You bring the customer up to the top  
6 quartile, and reliability stays up there, costs,  
7 relatively flat.

8           In our structure, there is a gate that we  
9 have to get through to earn any incentive  
10 compensation. Regardless of what happens with  
11 reliability and customer service, if we don't make  
12 our budgets, we get no incentive compensation.

13           So that is a gating function at the beginning  
14 of the incentive structure, that they must be  
15 accomplished no matter what happens on the other  
16 two.

17           So, we're very confident that -- we're not  
18 going turn this aircraft carrier around on a dime.  
19 We have a one-year plan, a three-year plan, a  
20 five-year plan.

21           Within five years, we will have a utility  
22 on Long Island that is a best-in-class utility  
23 across all areas of cost, reliability, customer  
24 service.

25           And we're very confident we'll get there, and

1 we think the incentives are set up to get us there  
2 without raising cost significantly.

3 As I said, we're going to keep reliability  
4 where it is, move customer, keep costs flat.

5 NEAL LEWIS: If I could add one other point  
6 regarding rates, it's unlikely the rates are  
7 going to come down, although, it's just, sort of,  
8 keep them from going up further.

9 But one thing we can do, is reduce bills.

10 So, a business that's struggling to pay the  
11 high rates we have for electricity on Long Island  
12 can reduce its bills, and that's what really matters  
13 to them.

14 And the way to do that is through the  
15 efficiency programs.

16 And LIPA has an efficiency program, which if  
17 you look at the chart for funding of it, it just  
18 goes up rather dramatically.

19 This year, we're at \$120 million. It's  
20 perhaps the strongest efficiency program of any  
21 municipal utility in the country.

22 And as the years go forward, it's going to  
23 be that much stronger, and it's going to gear more  
24 and more into the commercial sector.

25 So with the strategy that you just heard,

1 about how we can keep the rates steady where they  
2 are, and then combine that with efforts to provide  
3 incentives to help commercial customers improve  
4 efficiency at their operations, they can see  
5 significant reductions in their bills, not in  
6 their rates.

7 And this is, I think, the right strategy to  
8 deal with the issue of the high rates that we pay  
9 for electricity on Long Island.

10 SENATOR MARCELLINO: I have just one last  
11 comment, and I'll turn it over to my colleagues.

12 My criticism of LIPA, it's legion, but in my  
13 mind, they've done a lousy job in maintaining their  
14 own infrastructure.

15 There are poles in my neighborhood where the  
16 bottom is -- the base of the pole is just rotted  
17 away. It's being held up by the wires, not by the  
18 pole.

19 So when they cracked, when they broke down  
20 during Sandy, no big surprise.

21 When the tree that took them down, it was  
22 their own weight and the weakness of the pole.

23 Minimal putting stuff underground. You can't  
24 put it all underground, I understand that, that's  
25 not a panacea by any means, but a lot of it can go

1 underground, and should be.

2 The tree trimming, it's almost non-existent.

3 What they do is almost cosmetic, at best,  
4 along certain avenues, but they don't get into back  
5 yards, they don't get into people's -- and I know  
6 that's not simple, but it's not being done in any  
7 effective way.

8 You can walk down any -- go down any street  
9 in any neighborhood you want, and you can see  
10 trees hanging over lines, sitting there, where a  
11 strong wind or an aging branch with some snow on it  
12 is going to take the whole system down.

13 They're not doing that now.

14 So, there's a lot of that that I would look  
15 to see, if PSE&G does take over, and then, if this  
16 whole thing moves forward, under whatever system,  
17 that that sort of thing has to go forward. That  
18 there has to be some uniformity.

19 I don't necessarily agree with Bob Catell  
20 that this was -- that this is a gold-plated system.

21 It may have been at one time, but I don't  
22 think it is anymore.

23 So I think there's -- there's a tremendous  
24 amount of work, going forward.

25 But key element of this whole thing, and I

1 know that may not be the simplest thing:

2 We have an excellent workforce, they do a  
3 job. I'm glad to hear that you would bring them  
4 over and keep these people, and I'd hate to see the  
5 fact they would go away.

6 I'd also hate to see the fact, going forward,  
7 that we be looking at the closure of more power  
8 plants, going forward.

9 We're -- there's two in my district that are  
10 going.

11 I know Senator LaValle has a problem in  
12 Port Jefferson, other areas as well, where tax  
13 certioraris being filed where they want to close  
14 power plants, that impact on school districts, on  
15 municipalities, towns, and villages, is huge.

16 So that poses problems, going forward.

17 I'd like to see, you know, in any plant, some  
18 forward-thinking as to what's there, what's going to  
19 happen to these plants.

20 The youngest of the big ones is North Port,  
21 and I think that the youngest power plant you've got  
22 of its size was built in 1978.

23 So, we have an aging infrastructure, and I  
24 think we have to look at that as well. And that has  
25 to be taken into consideration of any plan, going

1 forward.

2 DAVID DALY: Just to -- on the -- certain  
3 programmatic -- aside from capital investments in  
4 the substation-part asset, certain programmatic  
5 expense items, including pole inspections and tree  
6 trimming, are two characteristics of best-in-class  
7 utilities.

8 Poles, typically, are inspected on an  
9 eight-year cycle. You go out and do an inspection,  
10 and you assign a condition assessment. Poles that  
11 are in the worst condition get replaced immediately,  
12 but there is a rigorous adherence to an  
13 eight-year cycle.

14 Similarly with trees, on our system it's a  
15 four-year cycle. We employ one of the best-in-class  
16 practices in the industry on trees, where we  
17 don't just take our system and divide it by four,  
18 and then trim a quarter of the system every year,  
19 but we have vegetation-optimization models which  
20 understand, where the growth is, what the outage  
21 history has been in those areas, and we target the  
22 investment.

23 So one of the characteristics of excellence  
24 in operations is sticking very rigorously to  
25 preventive maintenance, programmatic-type

1 programs, pole inspections, tree trimming,  
2 et cetera.

3 And you can count on the fact that that's how  
4 we run our operation.

5 NEAL LEWIS: And if I could just add on the  
6 issue of the old power plants, Paul DeCotis, one  
7 of LIPA's vice presidents that deals with power  
8 markets, went through a very extensive process,  
9 very professionally conducted.

10 There were some people who disagreed.

11 Some of the environmental groups said, you  
12 know, they didn't want to see a strategy to do  
13 anything with old power plants.

14 But, he brought that process through, and it  
15 provides -- it's a complicated thing, but it  
16 provides a series of what they call "off ramps,"  
17 where a series of decisions will be made about  
18 repowering.

19 I think the board has at least got a major  
20 accomplishment in the sense that that contract was  
21 completed. It may not have been approved by the  
22 State yet, but it was, at least, the new PSA with  
23 National Grid was completed, and it sets in motion  
24 opportunities for repowering and evaluating these  
25 old plants, which I think is long overdue.



1 I do have real concerns, under  
2 privatization, what happens to repowering.

3 Repowering is not free.

4 So, I could see a private company choosing  
5 not to repower the old plants, and just sort of  
6 running them until they're completely too old to be  
7 worth continuing.

8 So, I do think the repowering issue is one of  
9 the issues that needs to be addressed in this  
10 privatization discussion.

11 SENATOR MARCELLINO: Senator LaValle.

12 SENATOR LAVALLE: Thank you.

13 Mr. Daly, you heard discussion that we had  
14 with the prior panel.

15 DAVID DALY: Yes.

16 SENATOR LAVALLE: And it seemed that Moreland  
17 talked about privatization.

18 You are involved with a contract, although,  
19 if it is negated, you come away 7 million to the  
20 good.

21 But, right now, you are proceeding as if you  
22 are going to be part of the ServCo model and begin  
23 operating in January of 2014?

24 DAVID DALY: Yes.

25 And just -- I actually need to correct the

1 previous speaker on the question of the termination.

2 Under the contract, there is no  
3 "termination for convenience" clause.

4 There are two reasons that LIPA could  
5 cancel this contract:

6 One of them is, if we were in breach of the  
7 contract. And there's six or seven events of  
8 default that put us in breach.

9 But LIPA did include in the contract a  
10 provision that said, if at any time over the  
11 ten-year period they went to privatization, or to  
12 municipalization, that they could terminate the  
13 agreement without any penalty.

14 And that the only issue that would come up  
15 then, is that we would be paid -- PSE&G would be  
16 paid any unpaid cost to date, which would be --  
17 because we're being paid on a monthly basis, would  
18 not amount to much, and any unwinding costs.

19 The \$7 million -- I wish there was a  
20 \$7 million fee, but I'm afraid there isn't.

21 The \$7 million fee that was being referred to  
22 is actually in another section of the contract which  
23 involves, if PSE&G had the change in control, then  
24 LIPA has the opportunity, within 30 days, to  
25 terminate the agreement.

1           If they do, we have to pay a \$7 million fee.

2           That fee occurs in 2014, and it actually  
3 ramps down all the way to zero by 2020, but that's  
4 a fee that we pay LIPA if we have a change in  
5 control.

6           So just to be clear, LIPA did have the  
7 thought that they might move to municipalization or  
8 privatization, and they can terminate the agreement  
9 with no penalty; just, paying us our out-of-pocket  
10 costs, and making us whole, which would amount to --  
11 wouldn't amount to very much.

12           With respect to your question:

13           Absolutely, we are -- we've been there for a  
14 year. We had a two-year transition.

15           The first year was focused on understanding  
16 how work is getting done today, and what we need to  
17 do to implement, to bring the PSE&G -- to replicate  
18 the PSE&G process in 2013.

19           So, that was our due-diligence phase.

20           We have a very detailed work plan, and we are  
21 implementing -- I mentioned, for example, in the  
22 customer-operations area, in my testimony, that  
23 we're implementing 80 recommendations to improve  
24 customer service in 2013.

25           But, we are marching on that plan, and we'll

1 be ready on January 1, 2014.

2 SENATOR LAVALLE: As you know, we're -- we're  
3 at a point in time where there's a lot of discussion  
4 about privatization.

5 It has come to my attention that a lot of the  
6 utilities, including your own, have been approached  
7 for, "Are you interested in privatization?"

8 Some of the utilities have -- I mean, this is  
9 all rumor, of course -- have said no.

10 Where are you in all of this?

11 I know you've been approached.

12 DAVID DALY: And if you would forgive me, you  
13 know, we are concentrating on the transition to be  
14 ready.

15 With regard to the privatization, as I think  
16 one of the previous speakers says, you know, from  
17 a strategic point of view, we evaluate all  
18 opportunities, but, I'm really not in a position to  
19 discuss, you know, our position on that.

20 But -- so I would appreciate it if you would  
21 forgive me, but --

22 SENATOR LAVALLE: Yeah, but you have been  
23 approached?

24 I mean, I'm right about that?

25 DAVID DALY: Depends on what -- what do you

1 mean by "being approached"?

2 SENATOR MARCELLINO: It's the definition of  
3 is?

4 [Laughter.]

5 SENATOR MARCELLINO: It all depends on what  
6 the definition of is, is?

7 Okay.

8 [Laughter.]

9 DAVID DALY: I mean, I would say that we've  
10 had conversations which probably went like this  
11 one, which would say, you know:

12 We're concentrating on what we're doing.

13 We do understand that there's a public-policy  
14 discussion going on that we are not involved in that  
15 is happening in parallel.

16 We're not letting it distract us.

17 To the extent it results in a change in the  
18 structure -- as I said, the contract allows for  
19 that -- we would evaluate it.

20 And -- but I'm really not at liberty to say  
21 much more.

22 So, yes, I would say we've had, you know,  
23 discussions about the fact that this is happening in  
24 parallel.

25 SENATOR LAVALLE: Okay.

1           Just skip to another issue:

2           I know -- I don't know whether you yourself  
3 were at the meeting at Stony Brook, where we had a  
4 discussion with LIPA, National Grid, and you had  
5 representatives at that meeting, dealing with  
6 communication.

7           And Senator Marcellino is absolutely right,  
8 he doesn't realize the depth of the problem.  
9 Certainly, your people do.

10           At that meeting at Stony Brook, with people  
11 from B&L, and those discussions are continuing, on  
12 how we can improve the communications system.

13           I remember making a comment, that it reminded  
14 me of days gone by when my brother and I were  
15 young, and we played around with tin cans and a  
16 string that we waxed, and we would communicate  
17 between rooms.

18           It is -- it is, really, very, very bad.

19           And it depends -- the system as it exists,  
20 depends on Senator Marcellino and other ratepayers  
21 calling up --

22           DAVID DALY: Yes.

23           SENATOR LAVALLE: -- and saying, "I've got a  
24 broken wire."

25           And, in the age of sensors, and he

1       adequately described what is done, and we've all  
2       experienced that with Cablevision, that you can --  
3       that they know what's going on and can fix it with  
4       the individual who is the complainant.

5               So this requires, on your part, a big  
6       investment, I would imagine?

7               DAVID DALY:  It's a very significant  
8       investment.  It's called "advanced metering  
9       infrastructure."

10              Two years ago, there was 13 million  
11       customers in the United States on that type of  
12       system.  Today there's about 40 million.  It's  
13       probably going to double in the next three or  
14       four years.

15              But, it's a very significant investment.  
16       It's probably between 500 million and a billion  
17       dollars.

18              So, it really becomes a public-policy  
19       issue.

20              We -- it brings benefits, as I said  
21       earlier.

22              It is very hard to make them -- to make the  
23       economics work on those systems if you do not  
24       implement it along with what's called "time-of-use  
25       pricing."  And that has a lot of concerns --

1 raised a lot of concerns in a lot of areas.

2 But, it's a technology that is very  
3 expensive, that's coming, it's growing. And, it's  
4 certainly an option on the table.

5 And we did, as part of our transition work,  
6 put together an assessment of what that might look  
7 like, what it would cost.

8 And, so, it's something that could be  
9 considered, but, it really is something that needs  
10 to be decided, from a public-policy point of view,  
11 first and foremost.

12 SENATOR LAVALLE: Right.

13 DAVID DALY: Because you're absolutely right,  
14 we -- the system that is there, these -- now, as I  
15 said before, the outage management system that you  
16 have versus the one that we're going to put in,  
17 which is probably more of 20- or 30-million-dollar  
18 investment, not 500 to a billion, will get you a  
19 very, very big improvement in your communications  
20 today.

21 But, what you're talking about is -- is, that  
22 kind of investment, and it was principally  
23 implemented in California, initially, and now it's  
24 been growing around the country.

25 SENATOR RANZENHOFER: I would hope that you



1 would monitor the meetings that are going on. I  
2 know you have people --

3 DAVID DALY: Yes.

4 SENATOR LAVALLE: -- that are in attendance  
5 at Stony Brook, with B&L.

6 I was glad to hear, because, you know, part  
7 of any system, the strength of the system depends on  
8 its employees.

9 And, there may be management problems, and  
10 wrong protocols, but I would say that, and  
11 Senator Zeldin pointed out, one of many people who  
12 really did a great job.

13 DAVID DALY: Yes.

14 SENATOR LAVALLE: And we don't give enough  
15 attention to the people who are up on the buckets,  
16 fixing lines, and at some peril.

17 Repowering is critically important --

18 DAVID DALY: Yes, it is.

19 SENATOR LAVALLE: -- to the membership of the  
20 Long Island delegation, I could say that. You know,  
21 it's very, very important.

22 And, I just want to remind everyone that, for  
23 a couple of years, and there were vetoes there,  
24 there was a LaValle-Sweeney bill, or, a  
25 Sweeney-LaValle bill, to enhance the oversight by

1 the PSC, with LIPA.

2 And you indicated you favored --

3 NEAL LEWIS: Yes, I do.

4 SENATOR LAVALLE: -- that.

5 NEAL LEWIS: Yes, I do.

6 I think the concern over the years has  
7 been, that LIPA's ability to do rate increases  
8 without that oversight has helped when it goes to  
9 the bond market, to keep its bonds lower, because  
10 those people buying the bonds see that LIPA has  
11 the ability.

12 SENATOR ZELDIN: Right.

13 NEAL LEWIS: But, I just -- I just think from  
14 all the conversations I've had with people, and  
15 the meetings I sat through, that I think that's just  
16 an overstated benefit, and it doesn't overcome the  
17 downside of the perception that the board, and LIPA  
18 as a utility, is not subject to oversight.

19 And, so, I think that the advantages  
20 outweigh that.

21 So I absolutely agree with your bill, and I  
22 think that that's the way we should go as part of a  
23 package.

24 And, frankly, on a point that  
25 Senator Marcellino made, if we could somehow, I

1 think -- you know, if we could resolve some of these  
2 other big issues so we could all start to move  
3 forward, and have a five-year plan to be a  
4 best-in-class utility, that, to me, makes a lot of  
5 sense, so the other big issues, maybe trying to  
6 resolve some of these certioraris, as a package, and  
7 let's get these issues moving forward.

8 And the day that you do a repowering of any  
9 existing plant, you immediately cut in half the  
10 greenhouse-gas emissions coming out of that plant  
11 for the same amount of electricity it generates.

12 So, I'm with you on that.

13 SENATOR LAVALLE: Well, the reason we have  
14 hearings, is to have an open discussion and a  
15 dialogue, and, we need to hear more, and there will  
16 be people who will be testifying.

17 But the ServCo model, you know, people have  
18 to go out and advocate for that, and show that we  
19 can have reliability.

20 NEAL LEWIS: Right.

21 SENATOR LAVALLE: We can have stability in  
22 our rate structure.

23 But you have to go out, and other people on  
24 the island have to go out, and -- and do that.

25 NEAL LEWIS: Yeah.

1           SENATOR LAVALLE:  And I commend  
2           Senator Marcellino for this hearing, because it  
3           gives people an opportunity, Mr. Daly, to hear  
4           from you, and what you hope to achieve as part of  
5           that ServCo model, I think puts something on the  
6           table that needs exploration, maybe some  
7           fine-tuning, so --

8                     And thank you for testifying.

9           DAVID DALY:  Just on your comment on the  
10          employees, I did mention, and I mentioned to  
11          Senator Zeldin at the break, we have assessed the  
12          employee population that we'll bring over,  
13          approximately 2,200 employees.  And they are very  
14          well trained, very well skilled, dedicated  
15          employees, so we're very happy to bring them over.

16                    And it is -- one of the parts of our  
17          culture is the importance we place on the employee,  
18          and their safety, and their well-being.

19                    So, we're looking very forward to working  
20          with them, bringing over both the IBEW 1049  
21          workforce, management.

22                    Senator Zeldin mentioned some folks at LIPA  
23          itself.

24                    There are some talent there that we intend to  
25          put to use, and put some good leadership, and some

1 good structure, some good processes, a little bit of  
2 technology, and we put it all together, and we have  
3 a best-in-class utility.

4 SENATOR LAVALLE: Thank you. I appreciate  
5 that.

6 SENATOR ZELDIN: Well, if I could actually  
7 pick up right where we're leaving off:

8 Do you have an idea of -- I mean, you  
9 mentioned 2,200 people coming over, but what do you  
10 envision, if we were to move to privatization, what  
11 does the workforce look like in total numbers?

12 DAVID DALY: I haven't looked at the  
13 privatization.

14 What -- so, the number, just to be clear,  
15 Senator, was the -- we're setting up a separate  
16 entity called "ServCo," and that's an entity that  
17 has between twenty-two and twenty-three hundred.

18 The privatization model, I have not looked at  
19 that model in detail.

20 SENATOR ZELDIN: I guess then, generically,  
21 how -- what size a workforce do we need?

22 I mean, what -- one of the problems that we  
23 are experiencing, is that, when we get hit hard,  
24 like "Sandy," where you have as many people without  
25 power as there were, is it -- there just aren't

1 enough -- there just aren't enough people.

2 And if, you know, we're trying to pull --  
3 support from, you know, the Hudson Valley or the  
4 city or New Jersey or Connecticut, and they're  
5 getting hit as well, then you have to reach even  
6 further, and that might take some time when they're  
7 driving from Alabama or, you know, California, to  
8 get across the country.

9 So, like, what's the stabilized workforce?

10 I mean, what should we be advocating for?

11 DAVID DALY: Yeah, twenty-two,  
12 twenty-three hundred is the stabilized workforce.  
13 That's in the range.

14 By the way, when we put that organization  
15 design together, we benchmarked it, and it  
16 benchmarks at top quartile in terms of staffing  
17 level. It's right at the top quartile measure.

18 It's not top decile. It's right on the  
19 border between the first and the second quartile.

20 So, we designed it to a top-quartile staffing  
21 level, and it's just under 2,300.

22 So -- but to get to your question on the  
23 storm, you need a lot more than I mentioned.

24 At PSE&G, during "Sandy," we had up to  
25 5,000 employees.

1           We're going to replicate our storm process,  
2           and that involves, in terms of people, and  
3           staffing, making use of our skilled resources within  
4           that group, the balance of that 2,200 group, and  
5           then alliances with local and regional  
6           contractors; and then, lastly, the mutual aid  
7           between utilities.

8           So it's a combination of those factors that  
9           get put together, pre-plan, particularly in the  
10          contract side, right-of-first-refusal  
11          arrangements. And, we're very confident that we  
12          don't have any issues with resources.

13          SENATOR ZELDIN: I mean, is that a -- that,  
14          2,200-, 2,300-person number, is that a -- it seems  
15          to be a reduction from where we were, say, during  
16          "Hurricane Gloria."

17          DAVID DALY: During where, Senator?

18          SENATOR ZELDIN: I mean, if you go back,  
19          looking historically, you know, looking back to the  
20          '80s, you know, when we got hit by  
21          "Hurricane Gloria," the workforce was probably a lot  
22          higher than that.

23          DAVID DALY: Yeah, I -- just to be clear, the  
24          twenty-two, twenty-three hundred is your "blue sky"  
25          steady state staffing.

1           During any storm event, the most important  
2           aspect of an effective storm response is very  
3           quickly assessing the damage up front.

4           That's what the outage management system  
5           helps you do.

6           With a very quick assessment of what the  
7           damage is, you can understand, communicate to  
8           people, a realistic expectation of response times,  
9           and you can then plan how many resources you need:  
10          Do I need 3,000 more on top of the 2,200, or do I  
11          need 6,000 more?

12          So, part of the storm process is, very  
13          quickly, getting the damage assessment, not running  
14          out and starting to put things up first.

15          Just take your time, in terms of getting it  
16          right, in terms of what the damage is within the  
17          first 12 to 24 hours, and then you plan from there.

18          So, the 2,200 is your steady state. And  
19          depending on the size of the storm, it all -- it  
20          will flex, from -- from -- anywhere from, getting it  
21          done with the twenty-two hundred, up to, you know,  
22          four or five thousand, six thousand, additional.  
23          And that would be very storm-dependent.

24          SENATOR ZELDIN: You discussed the 12 to  
25          24 hours after a storm hit.



1           And, you know, I have -- I've had a unique  
2 perspective with these storms in the last couple of  
3 years, in that, you field complaints from  
4 constituents who just want to get their power back  
5 on, but then you're also coordinating, you know,  
6 with LIPA.

7           And, you learn where the assets are at that  
8 particular time, and, you know, they might be  
9 driving from Alabama, or they might be working at a  
10 substation.

11           And I mentioned substations because, you  
12 know, it is a -- the best source of getting the most  
13 amount of people up in the quickest amount of time  
14 is to get some of these flood substations going  
15 again.

16           And I get it.

17           One of the problems with that is -- and  
18 it's -- and I'm -- you need to do that, and you need  
19 to do that right away, because you need to get as  
20 many people up running right away.

21           The only problem with that to keep in mind,  
22 and wanting additional assets, is because people  
23 on the street aren't seeing trucks. And you have  
24 to explain to all of them that -- you know, that  
25 they are working.

1           And the -- you know, the perception is, it is  
2 reality.

3           And I think that, moving forward, while it's  
4 very important to have all of the resources you need  
5 to be getting the substations up and running, you  
6 have to have additional assets on top of that.  
7 You need trucks moving around, because when you  
8 wait, you know, two or three days before people  
9 start seeing trucks in their neighborhood, they  
10 think you're ignoring them, and then they get really  
11 pissed off.

12           And, then, just one other small point is:

13           The -- LIPA chose to give assets to the  
14 towns, and let the towns give discretion as to  
15 where in the town those assets should go.

16           It causes problems for us on Long Island  
17 where we have so many villages. And some of our  
18 villages may not, you know, have the best  
19 relationship with the town.

20           I mean, they, essentially, petitioned to  
21 break away from the town.

22           So, you just have to keep that in mind, and  
23 making sure that, if for whatever reason that that  
24 is continued, that you're also considering the fact  
25 that it may not be going to hardest-hit area.

1 I represent the village of Mastic Beach, for  
2 example, hit very hard during "Sandy," and they were  
3 lobbying the Town of Brookhaven to get them assets,  
4 and they shouldn't have to, to the extent that they  
5 were.

6 And I think that, you know, that could -- you  
7 could help that part of the process.

8 And then, communication, is just -- it's so  
9 important.

10 Customer service: At the end of the day,  
11 once you work at all of the economics, as far as  
12 whatever model we go to, I think that the real  
13 success -- I mean, when I say "working out the  
14 economics," rate -- the rates being held, but,  
15 customer service and response time, people feel --  
16 people have felt like calling LIPA is a waste of  
17 their time, where they're getting someone on the  
18 other end of phone who's saying, "We don't know."

19 And, that's -- they're calling you up --  
20 they're calling LIPA up -- they were calling LIPA  
21 up, helpless. They haven't seen -- you know,  
22 they're, five, six days without power.

23 The last thing they want to be told is,  
24 "We don't know."

25 So, I think that if we can get better at that

1 too, that can almost -- almost guarantee success.

2 So if you work out the economics, and you  
3 had good customer service, we're in great shape.

4 DAVID DALY: Yeah, and as I said, the very  
5 first step in effective storm response is  
6 understanding the damage so that you can provide an  
7 accurate restoration time; number one.

8 And then, number two, the process I described  
9 where, municipality and village, town, by town, we  
10 provide, every morning, a three-day look ahead, that  
11 tells them what resources are going to be in their  
12 town that day, and what their numbers are gonna  
13 look like, coming down.

14 We don't necessarily, under our process,  
15 allocate resources all over the place. We do a  
16 prioritization.

17 We obviously have hospitals.

18 One of the things that we're very proud of  
19 is, during "Sandy," there was not one hospital that  
20 had to evacuate. We had all the hospitals back.

21 But, we operate under a hierarchy, to get  
22 everybody back in the fastest possible way.

23 But the combination of giving accurate  
24 restoration, which is a function of damage  
25 assessment, and the function of that technology,

1 and, giving ongoing updates on a three-day  
2 look-ahead, that are accurate.

3 Even if after three days, I'm only going  
4 from 14 to 12, to 8, the fact they can see the  
5 slope, and then maybe it's flat for a day, and then  
6 it -- but that information being accurate is a huge  
7 driver of customer-satisfaction improvement.

8 And we will definitely be bringing that as  
9 well.

10 NEAL LEWIS: And, Senator I, would add that,  
11 as a trustee, I would think that there needs to be a  
12 real fresh look at this whole question of tree  
13 clearing from roads after a truly major storm.

14 So I think that, when we're not talking about  
15 storms on the scale of "Superstorm Sandy," it's a  
16 different issue.

17 But when it's on that scale, I absolutely  
18 agree with the villages and towns that complained  
19 about the fact that they need to get trees out of  
20 the road. It's a hazard.

21 You know, people need to be able to get down  
22 the road, all the emergency reasons, and whatnot,  
23 and they have a wire in the road, and they need a  
24 professional to be able to say, "That wire is dead  
25 and it's safe to move the tree."

1           We have to come up with a better way to  
2 handle that kind of situation.

3           And, what Mr. Hervey [ph.] came up with  
4 after "Irene," and implemented in this storm, was an  
5 attempt.

6           I feel we haven't had a real good evaluation  
7 of what was good and bad about that.

8           It did seem to work a little bit better in  
9 some towns; but, obviously, clearly, did not work  
10 at all, really, as an improvement in other towns.

11          And I believe that, as trustees, we have to  
12 raise an issue about: Look, we can't allow trees  
13 sitting in roads just because there's a dead wire  
14 next to them, for days on end.

15          That's not acceptable.

16          And maybe you don't -- you clearly don't need  
17 a linesman, as a really highly trained person that  
18 can do the repair, to be able to come out and say,  
19 "That line is dead, so you can clear the road."

20          So I think we need a better strategy for how  
21 to handle those; and, that, I believe, needs to be  
22 developed in communication with the towns.

23          And that's why I'm suggesting the idea that  
24 there should actually be formal MOUs with the  
25 towns, with the villages, with the county, to really

1 work out, at:

2 At this level of damage, this is the  
3 strategy;

4 At this higher level of damage, this will be  
5 the strategy.

6 And, I hope that we can build on, you know,  
7 the lessons learned from these last two storms  
8 and come up with a better answer, because I don't  
9 think it's satisfactory where we are right now, with  
10 the notion that trees lay in streets for several  
11 years because -- for several days, because there's  
12 a wire alongside of them or intertangled with them.

13 SENATOR ZELDIN: Well, I thank you both for  
14 being here.

15 You just brought new -- I just had a  
16 flashback, when my wife was pregnant, and I was in  
17 Iraq, and she was making me read, "Know What To  
18 Expect When You're Expecting."

19 And, it helped prepare me, I guess, to be a  
20 parent.

21 But towns and villages need to also know what  
22 assets are available when the storms's about to  
23 hit, and they know who they need to call, and they  
24 don't need to be making deals a couple days later.

25 So, thank you.

1           SENATOR MARCELLINO: And, again, I thank you  
2 for testifying.

3           But just a reminder, that a lot of the  
4 questions we're asking, a lot of the comments  
5 about communication, I remember, because we held a  
6 hearing after "Irene," and then the very same  
7 questions, and the same type of answers, Yes, we'll  
8 improve communication. Yes, we'll have better  
9 response time. -- it didn't happen.

10           I saw a T-intersect -- a top part of a pole  
11 dangling over a road, held by the wires, for three  
12 days. And it was a major north-south intersection  
13 in the town of Oyster Bay.

14           So, three days it was hanging.

15           Can't do that.

16           Took them 2 1/2 days to clear  
17 South Oyster Bay Road, which is another major  
18 north-south road in the town of Oyster Bay, with a  
19 tree lying right across the road, with cars having  
20 to go over the tree.

21           I mean, there were tangled lines in there.  
22 Three days, they couldn't get clearance that the  
23 lines were dead.

24           It caused the traffic over it to get  
25 north-south, people had to get to work and get out



1 of the community.

2 So, clearly, there are serious problems with  
3 this.

4 I don't know if privatization clears that  
5 up or not, or your ServCo clears that up, but it's  
6 the same kind of problem we had with "Irene."

7 It doesn't seem we're learning.

8 So, whatever goes on, we'd like to see a  
9 learning curve on your parts improved.

10 You know what I'm saying?

11 It's got to happen that way; otherwise, the  
12 consumers are going to turn on you <snaps fingers>  
13 like that.

14 Again, I thank you for your testimony. We  
15 appreciate it.

16 SENATOR MARCELLINO: Can we have the next  
17 group up, Shelly Sackstein and Cynthia Kouril.

18 Our next speakers are:

19 Shelly Sackstein, chairman and CEO of  
20 Action Long Island, Chairman of the Suffolk County  
21 LIPA Oversight Committee, and a former board of  
22 trustee member of LIPA;

23 And, Ms. Cynthia Kouril, Esq., former  
24 counsel, Inspector General for New York City  
25 Department of Environmental Protection; former

1 special assistant, U.S. Attorney General,  
2 Southern District of New York.

3 Ms. Kouril.

4 Again, can we summarize as much as possible,  
5 as I see a very thick tome in front of you.

6 CYNTHIA KOURIL, ESQ.: Oh, no. This is in  
7 case you had questions.

8 I'm not going to read it all.

9 SENATOR MARCELLINO: I have questions, but  
10 you're scaring the heck out of me with the thickness  
11 size of that book.

12 [Laughter.]

13 SENATOR MARCELLINO: Go right ahead.

14 SHELLY SACKSTEIN: I began my career as  
15 capital construction council for the New York City  
16 Parks and Recreation, where I gained experience in  
17 government procurement and construction contracting.

18 Thereafter, I was recruited to be counsel to  
19 the Inspector General for the New York City  
20 Department of Environmental Protection.

21 Most people think DEP is the tree-hugger  
22 agency.

23 It is not.

24 DEP is a municipal utility. It's actually  
25 two municipal utilities: the water department and

1 the sewer department.

2 Utilities have special problems when dealing  
3 with contract partners, because those contractors  
4 believe they have a negotiation advantage because  
5 the utility fears an outage.

6 Consequently, they're not as fearful as they  
7 should be of cancellation of their contracts.

8 While at DEP IG, we made more than our fair  
9 share of administrative, civil, and criminal cases.

10 The Attorney General of the United States  
11 issued a finding that I possessed unique expertise  
12 in public construction, public-benefit contracts,  
13 and procurement not found within the Department of  
14 Justice, and cross-designated me to be a Special  
15 Assistant United States Attorney in the  
16 Southern District of New York where our criminal  
17 cases would be prosecuted.

18 When my DOJ commission expired, I was  
19 promoted to the position of examining attorney in  
20 the New York City Department of Investigations.

21 In private practice, I advised contractors on  
22 how to comply with the terms of complicated  
23 multi-million dollar public-improvement contracts,  
24 and I also do independent private-sector Inspector  
25 General audits, investigations, and reviews.

1 Over the course of a more than 25-year  
2 career, I have immersed myself in the world of  
3 contract compliance, and the detection and  
4 prevention of waste, fraud, and abuse.

5 It is this perspective, that, and living on a  
6 cul-de-sac that borders on nature preserve, and  
7 where the power seems to go out every time a  
8 butterfly flaps its wings, that informs and colors  
9 my view about LIPA and its future.

10 Some things about the infrastructure:

11 As Governor Cuomo said in his State of the  
12 State message, quote:

13 "New York's grid is aging. 59 percent of the  
14 state's generating capacity and 84 percent of its  
15 transmission facilities were put into operation  
16 before 1980, and 40 percent of the state's  
17 transmission lines will require replacement within  
18 the next 30 years. This need represents an  
19 opportunity to upgrade the transmission system to  
20 distributed smart-grid network."

21 What is a "smart grid"?

22 A "smart grid" is an electrical grid that  
23 uses information and communications technology to  
24 gather and act upon information, such as information  
25 about the behavior of the suppliers and consumers in

1 an automated fashion, to improve the efficiency;  
2 most importantly, the reliability, the economics,  
3 and the sustainability of the production and  
4 distribution of electricity.

5 It can level peak demand by turning off power  
6 to non-essential devices, like washing machines,  
7 during -- and turning it back on when demand eases.

8 A self-healing smart grid, if built with  
9 redundant overlap, can be analyzed to -- analogize,  
10 rather, to a traffic circle with several entrances.  
11 If one route is blocked or broken, electricity can  
12 still enter through the other routes.

13 A smart-grid brownout can prevent the sort of  
14 demand cascade blowouts that you sometimes see  
15 during heatwaves.

16 Importantly, there are federal matching funds  
17 that can mitigate almost half the cost of  
18 implementing smart-grid technology.

19 Governor Cuomo also endorsed microgrid  
20 technology in his State of the State message.

21 A "microgrid" is when you have small cluster  
22 of users around a small generation facility.

23 Similar infrastructure demands are sometimes  
24 made on housing developments or large industrial  
25 facilities that are not capable of being serviced by

1 existing water-treatment plants.

2 Sometimes, in order to secure a needed  
3 variance, the developer must agree to build a  
4 water-treatment plant to service new construction.

5 You could make a similar requirement in  
6 microgrid electricity transmission, and that will  
7 become more and more doable as solar and wind  
8 generation become more efficient.

9 Privatizing LIPA:

10 The call to privatize LIPA without more  
11 detail makes absolutely no sense.

12 LIPA was originally created as a mechanism to  
13 save a private company.

14 Additionally, right now, most of the things  
15 that we are complaining about, with respect to the  
16 current system, are the effects of having a private  
17 company, National Grid, that is, essentially,  
18 running roughshod over LIPA, and not really subject  
19 to sufficient oversight from LIPA.

20 In 1998, LIPA assumed ownership of the  
21 electric transmission and distribution systems that  
22 had previously been owned by privately held LILCO.

23 This occurred because of the financial crisis  
24 in LILCO caused by LILCO not operating the Shoreham  
25 nuclear plant.

1           LIPA began its life \$7 billion in debt, which  
2           was the cost of the assets plus assuming the debt  
3           from Shoreham.

4           Simultaneously, KeySpan hired the former  
5           LILCO employees, and took over national gas  
6           operations from LILCO and Brooklyn Union Gas.

7           LIPA entered into two major contracts with  
8           KeySpan:

9           One, the power-supply agreement, which paid  
10          KeySpan, both, for the electricity it generated, and  
11          for keeping over investor-owned power plants so that  
12          LIPA can meet certain peak-capacity thresholds;

13          And, two, the management-services agreement,  
14          under which KeySpan was to manage the former LILCO  
15          employees as they operated the system, including  
16          billing and customer relations.

17          The power-supply agreement causes LIPA to pay  
18          rates at a cost-plus basis, and also to pay property  
19          taxes and other costs of operating these plants, to  
20          the benefit of the private investors.

21          The whole idea behind LIPA, was for LIPA to  
22          be able to borrow money at a -- much more  
23          inexpensively because it could issue government  
24          bonds.

25          The problems with LIPA are several:

1           One, the contracts currently in existence --  
2           not the new ServCo, but the existing contracts --  
3           are drawn in such a way as to give a subsidy to the  
4           investors in the generators, and do not provide  
5           enough detail in the performance standards for  
6           KeySpan;

7           Two, LIPA began its life as a funding  
8           mechanism to raise debt, and not much thought was  
9           put into how LIPA would manage or oversee KeySpan;

10           Three, LIPA became a patronage mill largely  
11           staffed with people with no experience running a  
12           utility, no experience with contract compliance, and  
13           no experience with forensic audit.

14           In the early things -- in the early years,  
15           things drifted along by dint of routine. The same  
16           individuals who had been LILCO employees reported to  
17           the same work locations and did the same work they  
18           had always done.

19           Momentum and habit carried things for a few  
20           years.

21           Also, the people administering the contract  
22           for KeySpan lived here on Long Island and were  
23           affected as anyone else by the performance  
24           standards.

25           However, in 2007, KeySpan was acquired by



1 National Grid and, suddenly, the decisions were  
2 being made in London.

3 The decline of tree trimming and tree  
4 maintenance was observed by me, anecdotally, almost  
5 at once.

6 After "Hurricane Irene," LIPA hired  
7 Vantage Consulting to do a study of why things went  
8 so badly.

9 Vantage -- the Vantage reports stated that  
10 one of the main reasons for the failure in  
11 communications and was not having accurate outage  
12 information was the faulty outage management system.

13 And there was a lot of discussion about that  
14 in the previous panel, so I'm going to skip the rest  
15 of this.

16 On January 7, 2013, "Bloomberg Business  
17 News" reported that LIPA's debt was still  
18 \$7 billion, with assets of \$4 billion.

19 "Bloomberg" also reported that, quote:

20 "In October 2011, strategic review of LIPA by  
21 the Brattle Group concluded that privatization may  
22 raise costs by 438 million a year because an  
23 investor-owned utility can't issue tax-exempt bonds.  
24 Cost of capital for the privatized utility would be  
25 10.73 percent compared to LIPA's current cost of

1 capital of about 5 percent, it concluded."

2 The same Brattle Group report examined four  
3 possibilities:

4 One, maintain the status quo;

5 Two, privatize;

6 Three, a full municipalization;

7 And, three --

8 SENATOR MARCELLINO: Excuse me.

9 Sir, would you mind?

10 CYNTHIA KOURIL, ESQ.: -- And, four --

11 SENATOR MARCELLINO: No. Go back and sit  
12 down, please.

13 CYNTHIA KOURIL, ESQ.: -- competitive  
14 outsourcing, which it dubbed "ServCo."

15 The status quo was rejected because, pretty  
16 much, everybody is miserable with the status quo.

17 Privatization was also rejected as  
18 economically nonviable.

19 Full municipalization was considered  
20 desirable, but Brattle determined that LIPA  
21 currently lacked the in-house expertise and  
22 experience to run the system directly.

23 The ServCo model emerged as the default  
24 winner, because it would give LIPA the time to  
25 develop or hire in-house experience and expertise,

1 paving the way to a future successful transition to  
2 a full municipal utility.

3 Why would you want to municipalize?

4 According to the January 2013 issue of  
5 "Public Power Magazine," municipal power companies  
6 have consistently provided power at much lower rates  
7 than privately owned power companies since this  
8 magazine began keeping records in 1946.

9 The LIPA Board of Trustees approved the  
10 ServCo model as an interim step towards  
11 municipalization, and I agree with that decision.

12 PSE&G has won the bid, and that ServCo  
13 contract is out there, waiting to begin at the end  
14 of the year.

15 Additionally, there's a second contract,  
16 which was discussed by the last panel. It's a  
17 two-year transition contract.

18 In order to privatize, you're, essentially,  
19 going to undo all the work that's been done for a  
20 year, and have to start a new two-year transition  
21 period in order to privatize. It's going to result  
22 in chaos.

23 Some recommendations:

24 LIPA needs it's own IG.

25 In my extended written remarks, which I have

1 also submitted for the record, I recount multiple  
2 examples of fraud, waste, and abuse personally  
3 observed by me.

4 Testimony taken in the Nassau County  
5 Legislature after "Hurricane Irene" contains more  
6 examples.

7 An audit conducted by the State Comptroller's  
8 Office after "Hurricane Earl" has even more  
9 astonishing examples and the dollar amounts are  
10 staggering.

11 After Hurricane -- oh, I'm going to leave  
12 this out.

13 I had a section in here about logging in the  
14 Welwyn Preserve. It turned out those were not LIPA  
15 crews.

16 In all these events, where are the civil  
17 litigations to recoup the money from the fraud,  
18 waste, and abuse?

19 Where are the criminal cases to provide  
20 accountability and to deter future wrongdoing?

21 Unless LIPA tasks and empowers an  
22 inspector general to preserves evidence and build  
23 those cases, you're not going to have them.

24 An IG can also design procedures and  
25 strategies to deter waste, fraud, and abuse before

1 they occur.

2 Second: LIPA needs a compliance unit. It  
3 actually needs two compliance units; one unit to do  
4 the day-to-day compliance work with the new PSE&G  
5 ServCo contract, and another devoted to storm outage  
6 and other emergency contracts.

7 Obviously, these units will have to work  
8 collaboratively and symbiotically with the new IG.

9 Most importantly, LIPA needs a CEO.

10 This position has been vacant for years, and  
11 an interim, or acting, CEO does not have the clout  
12 needed to make real, change, or even to enforce an  
13 existing contract.

14 The CEO position must be filled, and filled  
15 promptly.

16 The new CEO must be a person who's committed  
17 to contract compliance, transparency, and  
18 accountability, and full communication with the  
19 rate-paying public in collaboration with local  
20 governments.

21 He or she must have a vision for the  
22 modernization and hardening of the transmission and  
23 distribution system to meet that future.

24 I have other and much more prosaic  
25 recommendations in my extended written remarks,

1       which I have omitted in the interest of time.

2               SENATOR MARCELLINO: Thank you.

3               Mr. Sackstein.

4               SHELLY SACKSTEIN: Yes?

5               SENATOR MARCELLINO: You're on.

6               SHELLY SACKSTEIN: I want to thank you for  
7 holding these hearings, Senator, and I'm delighted  
8 to be here.

9               I think we need to just focus our attention,  
10 as best we can, on the issue of the structure of  
11 LIPA.

12              There are a lot of issues that we can look  
13 back at, in terms of the storms, storm hardening,  
14 but the structure of LIPA is the issue that's on the  
15 table at the present time, and I think that's where  
16 the focus needs to really stay.

17              The folks from the Moreland Commission had  
18 come up with the recommendation of privatization for  
19 LIPA.

20              I think that, earlier today, Ms. Calcaterra  
21 had made a comment about the \$100 million worth of  
22 profits that would be going to a privatized  
23 organization, so that the \$7 million that was going  
24 to be some sort of an upset fee would be minuscule  
25 in relation to the profits that would be realized.

1           We all understand what the value is of a  
2           structured municipal-type entity for LIPA.

3           We've all learn the same things, like, no  
4           dividends; no taxes; lower-cost borrowing; a whole  
5           host of issues that are very, very important when it  
6           comes to running LIPA as a full municipal entity.

7           But for the moment, it appears as though the  
8           only thing that we're looking at is LIPA under its  
9           current structure, which is only owning the  
10          T&D system.

11          Now, the T&D system is, as Neal pointed out  
12          previously, in quoting Bob Catell, "gold-plated,"  
13          and probably the best in the state of New York, if  
14          not in the country.

15          And we must not lose that T&D system, and we  
16          well could.

17          So, a lot of money has gone into it.

18          And now we're hearing that, under a  
19          privatized model, the possibility exists that there  
20          will be a sale of that.

21          And I think what Mr. Quiniones said was,  
22          there would be no rate increase.

23          But I think it's important to note that you  
24          can accomplish that objective, and they may well be  
25          looking at that, by reissuing bonds that could

1 encumber our children and grandchildren for the next  
2 40 years.

3 So I don't think that that making a promise  
4 of keeping the rates lower, but saddling our kids  
5 for a long time, is necessarily the approach that  
6 I'd like to take.

7 I'd like to think that we would -- could  
8 consider instead, a model that would include LIPA  
9 owning, not just the T&D system, which is a very  
10 valuable asset, and I'll come back to that later,  
11 but owning, also, the generating capacity that is  
12 currently in the hands of Grid, under a municipal  
13 entity, and the gas part of the system.

14 We talk about bifurcating the system,  
15 creating a problem, which it may well.

16 So I think we ought to look at taking under  
17 the umbrella of LIPA, in a municipal approach, the  
18 entire system.

19 Now, certainly, LIPA can do that by getting  
20 into negotiations with Grid and acquiring it, but  
21 LIPA also enjoys the benefit, being a municipal  
22 entity, of having the condemnation powers of the  
23 State of New York, which they could exercise.

24 Now, under those condemnation powers, the way  
25 Steve List [ph.] wrote the LIPA statute, LIPA can



1 enter into this condemnation procedure, and then it  
2 goes into the courts to determine the value.

3 But if LIPA doesn't like the value that is  
4 determined by the court, LIPA can walk away from  
5 that finding, in terms of value.

6 So I think what we need to look at is, not  
7 this current asset that's owned, which is the T&D  
8 system, this very valuable T&D system, but we need  
9 to look at taking over the entire system under a  
10 reconstituted management team at LIPA that can  
11 run as a company.

12 Now, LIPA has, in my opinion, over the years,  
13 been a wasted asset, as far as the ratepayers of  
14 Long Island are concerned.

15 It could have done things and run things a  
16 lot better, but, as you had pointed out, it never  
17 had a CEO.

18 Now, I say it never had a CEO because, while  
19 I worked with Ritchie Kessler when I was a LIPA  
20 trustee, he was not a utility person.

21 Kevin Law was not a utility person.

22 The company has never been run as a company.

23 It doesn't have to make a profit, but it does  
24 have to run more effectively.

25 And the easiest way to bring it un -- in

1 under control, is to have it under one entity, LIPA;  
2 one system -- transmission, distribution, generating  
3 and gas and electric; all tied together under a  
4 municipal structure.

5 That is the only structure that has never  
6 been tried on Long Island.

7 We've tried privatization under LILCO, we've  
8 tried a ServCo-type model with LIPA, and we've never  
9 had a fully municipalized system.

10 I believe that that would probably be a  
11 system that would work most effectively.

12 Now, let's come back to the T&D system for a  
13 second.

14 There have been some rumored, or at least  
15 things that you can see in the newspaper, that  
16 suggested the sale of the system could bring in  
17 \$3 1/2 billion.

18 \$3 1/2 billion is probably less than the  
19 ratepayers have already invested in the system.

20 But let's not lose sight of something,  
21 because everybody is starting to talk about a  
22 smart grid.

23 Let's not lose sight of the potential revenue  
24 stream that may be coming from that T&D system later  
25 down the road when they start to transmit data

1 through that system.

2 A revenue stream that hasn't even been  
3 considered at this point because the technology is  
4 just emerging.

5 Why should we give up a system that we  
6 invested, that the ratepayers now own, and give up a  
7 future revenue stream, just try to bail out  
8 something at this particular point in time, into a  
9 model that we've tried previously, which is  
10 privatization?

11 So I'd like to think that we can broaden our  
12 scope, increase the horizon. It's a much bigger  
13 lift, but it's the one model that has never been  
14 tried; and it's a fully municipalized system here on  
15 Long Island.

16 So I think that's something to consider.

17 And, frankly, I pay for that system.

18 You pay for that system.

19 Everybody on Long Island pays for that  
20 system.

21 Why shouldn't I own what I'm paying for?

22 And perhaps, under that structure, we could  
23 no longer have a system that creates an environment,  
24 where the folks who are working there, the 1049, and  
25 all the other folks, are pawns in a process, that

1 not -- it's got to end.

2 We own it, we keep it.

3 Now, you talk to -- we heard things about  
4 repowering just as well.

5 If LIPA owned that system, the entire system,  
6 not just the T&D, but the transmission and  
7 distribution, the generating, and the gas system,  
8 under a repowering scenario that we can envision, we  
9 could repower those power plants.

10 Those power plants would be owned by the  
11 ratepayers who are paying for them.

12 Those power plants could be leased out under  
13 a bid process to independent power producers, who  
14 could come in there then, to try and bid. And the  
15 lowest bidder would get those power plants under a  
16 lease, that would be property owned by LIPA.

17 We finally have, for the first time on  
18 Long Island, competition, not privatization.

19 So there are lot of different directions that  
20 we need to look at, but the focus has got to be on  
21 structure.

22 And the old structures didn't work.

23 The only structure that hasn't been tried is  
24 a fully municipalized structure.

25 I'd like to also think that maybe, Lazard,

1 that is doing this study to determine whether or not  
2 we should privatize, should be excluded from any  
3 potential financing opportunities that would -- that  
4 might emerge from their recommendations.

5 I think that would, perhaps, be a very  
6 important consideration.

7 So, a unified structure, competition through  
8 ownership by the ratepayers.

9 We, probably --

10 And I say this a great deal of respect for  
11 the folks with PSE&G.

12 -- wouldn't need someone to come in from  
13 New Jersey to manage our system, or somebody from  
14 California to come in and manage our system.

15 We need to put people in place at LIPA in a  
16 management structure that can run that system.

17 That's never happened [unintelligible].

18 I think we need to look at it from that  
19 perspective.

20 Look, I could give you 20 pages of testimony,  
21 but I'm only going to give you 25 years of  
22 experience, having worked on this issue, and paying  
23 for it, as we all are, very dearly.

24 And it shouldn't be that way.

25 I'm going to read something to you that I

1 think is very interesting, because it also speaks to  
2 the issue of privatization.

3 It will take just a minute, because we all  
4 want to get back and finish the rest of our days.

5 "The emergency restoration manuals were  
6 fraught with inconsistencies and inaccurate  
7 information.

8 "Emergency restoration manuals failed to  
9 adequately address the special needs of segments of  
10 Suffolk County's population and neighborhoods.

11 "Plan testing is deficient, and the only  
12 thing that -- that was only an in-house exercise.  
13 It totally failed to provide area-specific  
14 information to the public and the media and  
15 government at entities."

16 Then it says:

17 "LILCO must do a much better job of  
18 communicating with its customers."

19 And on the cover it says:

20 "The Report of the Suffolk County Commission  
21 established, per legislative resolution" da da da,  
22 "to study Long Island Lighting Company's response to  
23 'Hurricane Gloria.'"

24 So how much have we learned?

25 Now here's a real concern, because here we

1 talk about what currently exists today.

2 And I'm looking now at a  
3 current --"current" -- restoration manual.

4 "The procedure specifies the means by which  
5 notifications are to be made to LIPA and KeySpan  
6 personnel who staff the restoration information  
7 center."

8 "KeySpan personnel." Current manual.

9 Who's reading the current manual?

10 And, last, but not least, it says, that:

11 "If a staging area is needed for off-island  
12 crews" --

13 Okay?

14 -- "for off-island crews, the Roslyn  
15 substation should be utilized, and you should call  
16 the following telephone number."

17 This is from the current restoration manual.

18 And it says, "Call XXX-XXXX."

19 [Laughter.]

20 SHELLY SACKSTEIN: There's no number.

21 So what I'm saying is, if this is what we're  
22 operating under today, if this is what we operated  
23 under before, what lessons have we learned, and who  
24 is reading the current restoration manual?

25 Because Carl Marcellino said at our meeting

1 on January the 27th, "There will be another storm.  
2 It will come. Mother Nature will repeat herself."

3 Who's watching the store?

4 The ratepayers care.

5 And I think this is the first chance that the  
6 ratepayers have to win, because the ratepayers have  
7 lost over and over again.

8 They talk about us being run over by the bus  
9 the first time, backed over by the bus the second  
10 time.

11 And you know it; it was an illegal  
12 management-services agreement that got extended.

13 And here we sit today with what actually  
14 Long Island had said was going to happen. We bid  
15 the contract out, and it cost us less money, years  
16 later.

17 And so I say to you: Carl, this is not an  
18 easy one, but the structure has to change to a model  
19 that has never been tried on Long Island.

20 And I would say that, "we," meaning, actual  
21 Long Island, have taken that public position to  
22 fully municipalize the system.

23 We have met with the folks from the  
24 Long Island Progressive Coalition, and they agree  
25 with us.



1           We're pretty sure that the folks from the  
2 Sierra Club, who are part of our coalition, will  
3 come on board.

4           I'd like to think that the folks from the  
5 AARP will join us just as well.

6           And we are intending to hold informational  
7 meetings, with your help, on Long Island. We'd like  
8 to cohost those meetings along with our Albany  
9 delegation. And we'd like the public to come in,  
10 and let's start a process of informing them of what  
11 really went on all these years.

12           What is LIPA?

13           What did it do?

14           What could it have done?

15           And let's get them involved in the process,  
16 because Larry Schwartz should not have to come to  
17 Long Island to find out how we feel.

18           We should be calling from Long Island to let  
19 the Governor know how we feel.

20           Larry Schwartz and the Governor work for the  
21 people of Long Island.

22           And I'm delighted that the Governor  
23 recognizes that there is a problem with the current  
24 structure.

25           We don't necessarily agree with privatizing,

1       which is what I hear the Governor wanting to do, but  
2       he's only thinking in terms of the T&D system.

3               Perhaps when he hears about the broader  
4       concept, he might look at it, and say: You know,  
5       that might be something that I can buy into and  
6       support.

7               And with the support of our delegation, and  
8       with the support of the residents and the ratepayers  
9       of Long Island, letting him know how we feel,  
10       perhaps we can get the Governor to come on board  
11       with us, and say: That's the approach I want to  
12       take for the residents and the ratepayers of  
13       Long Island.

14              It's time for the ratepayers of Long Island  
15       to win.

16              And I thank you for taking the time.

17              SENATOR MARCELLINO: Shelly, this model that  
18       you're talking about, municipalization, bringing the  
19       entire structure, from the utilities, the plants,  
20       the gas generation, all the rest that, under one  
21       entity, LIPA, isn't free, even if you do the  
22       condemnation process.

23              There is a value to these things that would  
24       be determined, either through some -- probably by  
25       the courts, because I would assume they would

1 resist. I don't know that National Grid would want  
2 to sell it or give it away, so there would have to  
3 be some kind of an evaluation.

4 How do we pay for that?

5 SHELLY SACKSTEIN: Well, you know, I agree  
6 with you, there's a cost, but at the same time,  
7 we're paying for it today.

8 We're paying for those plants, we just don't  
9 own them.

10 We're paying for those gas systems, we just  
11 don't own them.

12 We've already paid for the T&D system, we do  
13 own it.

14 SENATOR MARCELLINO: We'd still continue to  
15 pay for the municipalization because they charge us  
16 for the use of the power, so we'd still be paying a  
17 bill.

18 It wouldn't be free just because we owned it.

19 SHELLY SACKSTEIN: Correct.

20 SENATOR MARCELLINO: In addition to that,  
21 you'd have to pay the company; you'd have to pay  
22 Grid for its gas entities, you'd have to pay them  
23 for the power plants.

24 You'd have to pay somebody. These guys  
25 aren't going to give this stuff away.

1           How would we fund it?

2           SHELLY SACKSTEIN: Well, financing it, we  
3 know the answer to that question: That goes on the  
4 backs of the ratepayers via bonds.

5           But let's come back to the issue of, how do  
6 you determine --

7           SENATOR MARCELLINO: In addition to the  
8 Shoreham debt, which still has to be dealt with.

9           SHELLY SACKSTEIN: That's the first time we  
10 get run over by the bus.

11          SENATOR MARCELLINO: Yeah, but, that bus is  
12 still running.

13          SHELLY SACKSTEIN: It's still there.

14          SENATOR MARCELLINO: The wheels are still  
15 turning.

16          SHELLY SACKSTEIN: It's still there.

17                           [Laughter.]

18          SHELLY SACKSTEIN: And the Governor is  
19 proposing to refinance that debt, because he's  
20 not -- nobody is going to walk away from it. We  
21 can't go bankrupt. It's there.

22           And, again, we look at refinance; it will get  
23 stretched out over 40 years, and my children and my  
24 grandchildren are going to pay for it, and your  
25 family's going to pay for it.

1           But let's come back to the question of value,  
2           how much will we have to pay for those plants?

3           When the original deal was struck, there was  
4           an option to purchase those plants built into the  
5           original agreement, but there was no dollar amount.

6           At the time the price was put on the table,  
7           we walked away from it, meaning LIPA.

8           I was no longer a LIPA trustee, because had I  
9           been, we would have gone through the condemnation  
10          20 years ago, because that's what we put on the  
11          table with Ritchie at the time.

12          When the option was walked away from, they  
13          extended the option period, and, again, no price was  
14          agreed on.

15          And we walked away from the option again.

16          I have not had conversations with  
17          National Grid. I would be delighted to, to find out  
18          how much they would want for it, but let the  
19          negotiations begin with the condemnation, and we'll  
20          figure out the rest.

21          But let me ask you this, Senator:

22          We would be delighted to try and determine  
23          what the costs would be. Will somebody help us?

24          Because, you see, I know what's happening  
25          here today.

1           This is a whole new kettle of fish that I've  
2           just laid out on the table. And, please don't  
3           expect me to have all the answers, but I'd be  
4           delighted to go into them.

5           And let's have NYPA go looking into it,  
6           because NYPA's only looking at that little kernel:  
7           the T&D system.

8           Let them -- they're not even considering  
9           municipalization.

10          And now let's talk about municipalization in  
11          the broadest of possible senses, because all of the  
12          benefits that enure to the people, that we've all  
13          learned to tick off one at a time, in terms of the  
14          benefits of a municipal entity, minus the  
15          \$100 million that Ms. Calcaterra was talking about  
16          this morning, all of those benefits could extend,  
17          should extend, will extend, to an overall  
18          consolidated system under the umbrella of one  
19          central management not looking to make a profit.

20          And I'd be delighted to find out what it  
21          would cost us. And I'd ask them to do the same.

22          SENATOR MARCELLINO: It's a question pose to  
23          the both of us, to this Committee here, and -- and  
24          to the Moreland people, to let them consider that,  
25          because I don't think they have.

1           But, they seem to be pushing towards the  
2 privatization aspect of it. That seems to be the  
3 Governor's recommendation.

4           I don't know if it's hard-and-fast, but that  
5 seems to be his leaning.

6           At the very least, he wants a change in the  
7 basic structure of LIPA, we all know that.

8           SHELLY SACKSTEIN: Correct.

9           And, you know, I wouldn't agree necessarily  
10 that what he said was, hard-and-fast, and you said  
11 it also, on privatization.

12           Rather, he reacted to that situation that  
13 took place on Long Island, and he basically said: I  
14 got to change something. The structure has to  
15 change.

16           And for that, I would say: Thank you,  
17 Governor, because we would have said that 20 years  
18 ago, the structure had to change.

19           Now let's think of it in a broader sense,  
20 because all the benefits --

21           SENATOR MARCELLINO: Shelly, do you think  
22 under municipalization there would be a lowering of  
23 rates, or --

24           SHELLY SACKSTEIN: Lower the rates?

25           SENATOR MARCELLINO: Would they be lower, or

1 would they just be flatlined?

2 SHELLY SACKSTEIN: You know, it depends upon:  
3 How you structure the transaction;  
4 How far out you spread the deal;  
5 How inexpensively you can issue the bonds.  
6 I don't have an answer to that.

7 But what I would say is, what I've heard LIPA  
8 say for -- even LILCO: I want to decrease the  
9 increase in the increase.

10 SENATOR MARCELLINO: Yeah, I understand where  
11 you're going.

12 But my concern --

13 SHELLY SACKSTEIN: It's bizarre.

14 SENATOR MARCELLINO: Yeah, it is bizarre, but  
15 my concern is, the whole thing is bizarre.

16 But as I said, my concern is, that we have a  
17 level of bonds that have to be dealt with, the  
18 Shoreham debt. That doesn't go away under any  
19 system.

20 So we're dealing with that.

21 Your end of it is going to be funded through  
22 bonds issued. It's the only way it's going to  
23 happen.

24 So, there would be another level of bonding  
25 brought into the play.



1           So now the ratepayers are going to be paying  
2 off two levels of bonding in the rates, in addition  
3 to the cost of power, in addition to the maintenance  
4 of the system and paying the utility workers.

5           So, we seem to be building costs into the  
6 system, and I don't see the situation where we're  
7 lowering costs.

8           If you disagree with me, jump in, either one.

9           CYNTHIA KOURIL, ESQ.: If I may, there were  
10 two comments that were made in the first panel that  
11 I thought were very telling.

12           One was this notion that privatization was  
13 somehow going to bring these synergies from being  
14 able to ship things, you know, when you have two  
15 companies near each other.

16           Well, if that were true, we would be seeing  
17 that already, since National Grid already exists  
18 nearby in Massachusetts. If this synergy of  
19 shifting, buying telephone poles and cable in bulk,  
20 and shipping to the northeast in bulk, was going to  
21 happen, it would have happened already.

22           So you're not going to see any additional  
23 cost savings from these phantom synergies.

24           And the other thing I found very telling, was  
25 this notion that, if it's privatized, and the State

1 gets left holding the bag with the LIPA bonds, the  
2 notion -- because we keep conflating two different  
3 things: the bill that the customer gets versus the  
4 rates.

5 And they make this promise, Oh, well, we'll  
6 freeze the rates for X amount of years.

7 But the gentleman at the end in the first  
8 panel said something very telling: You're going to  
9 put a surcharge on the bill.

10 You can keep the rates the same, but your  
11 bill's gonna go through the roof because there's  
12 going to be surcharges to pay those orphan bonds.

13 So, the cost to the customer is going to go  
14 up dramatically, and there's nothing in the  
15 privatization plan that's going to solve that.

16 The other thing, and I alluded to this in the  
17 beginning of my remarks:

18 The Moreland Commission's analysis was of the  
19 existing disaster; that is, the National Grid  
20 contract.

21 And that contract has -- and I almost feel  
22 like the LIPA people have given up, because it's  
23 almost over.

24 You know, they're limping to the finish line  
25 of that contract, and I think they've put their

1 hopes in the new contract that begins January 1st.

2 If you only analyze the existing  
3 National Grid contract, of course you say, Oh, we  
4 can't do this anymore. Public-private doesn't work  
5 because that contract is a disaster.

6 And the renegotiation of that contract in  
7 2006, took a bad contract and made it a zillion  
8 times worse.

9 And the settlement agreement in 2006 was a  
10 travesty.

11 And the analysis of those documents, my eyes  
12 almost fell out of my head.

13 So to say, Well, we don't want to continue  
14 the status quo, I don't think there's anybody,  
15 anywhere, that wants to continue the status quo,  
16 because the current situation with the National Grid  
17 contract is an abomination.

18 The ServCo contract and, admittedly, the  
19 manuals aren't written yet, but there are -- at  
20 Exhibits 4 and 5, there are the outlines of what's  
21 going to go into those manuals.

22 And if you look at the topics in those  
23 manuals, it looks like there is a possibility of  
24 writing good oversight and good contract compliance,  
25 and good waste, fraud, and abuse prevention into

1 those manuals.

2 And those -- that's something that's  
3 happening now.

4 Additionally, if you look at Exhibit --  
5 Appendix 8, which is the metrics by which PSE&G will  
6 be compensated, the gentleman from PSE&G is correct,  
7 the their incentives are better aligned with LIPA  
8 and ratepayers in this contract.

9 There is some fairly complicated math hoops  
10 you have to jump through to figure out how the  
11 metrics work, but they're actually there, where  
12 they've never been there before.

13 So if you wanted to do meaningful contract  
14 compliance, the tools are there in this new  
15 contract, where they were never there before.

16 Before, there were just goals -- these are  
17 the things you have to do -- but no explanation of  
18 how you get there.

19 Now there's very detailed explanations of,  
20 how we will determine whether or not you're getting  
21 there, and whether you're getting there by the right  
22 path.

23 So if you had a meaningful contract oversight  
24 by LIPA, and people at LIPA who knew how to do  
25 contract oversight, you actually could force good

1 production out of this contract.

2 SHELLY SACKSTEIN: You know, the real dilemma  
3 also is, as you said before, the clock is ticking.

4 "The clock is ticking."

5 The storm -- the next storm will come. A  
6 contract will expire, the contract will begin. The  
7 computer system has to get put in.

8 We have to make some decisions, and I'd like  
9 to think that we probably could be in a position to  
10 make those decisions based upon the studies that  
11 have been done year after year after year by  
12 experts.

13 Now, taking nothing away from Moreland, but,  
14 that's not the same as the Brattle folks who got  
15 paid a lot of money, and put a lot of time in  
16 specific issue of structure.

17 Not response to the storm, but structure.

18 We really -- it's -- I don't want to be  
19 precipitous, but we have to move with all dispatch  
20 because time is of the essence.

21 This needs moving on, and -- and we're  
22 caught.

23 And, you know, once, again, the ratepayers  
24 are going to get stuck, and it's sad.

25 I would start with you tomorrow, if you could

1 help us to put the resources in place, to start to  
2 look at this issue of full municipalization, and  
3 something that's in the best interests of the  
4 ratepayers.

5 What does it cost?

6 How long would it take?

7 How do we do it?

8 I don't know.

9 But I know, but I know it's certainly worthy  
10 of exploration, because it's the only untested model  
11 that exists in the energy history, and would be  
12 writing the energy future of the island.

13 And that's important.

14 SENATOR MARCELLINO: I hear you.

15 CYNTHIA KOURIL, ESQ.: To bolster what Shelly  
16 just said, it's not just Brattle Group. It was FTI  
17 in 2005. It was Navigant in 2010.

18 It's not the opinion of one consultant. This  
19 is -- and there were more in between those.

20 This is consultant after consultant after  
21 consultant has rejected privatization.

22 So, to suddenly bring this out as some sort  
23 of panacea, defies all logic.

24 SENATOR MARCELLINO: I hear you.

25 Thank you for your testimony.

1 I do appreciate your time, do appreciate you  
2 coming.

3 We will be in touch.

4 CYNTHIA KOURIL, ESQ.: Thank you.

5 SHELLY SACKSTEIN: Thank you.

6 SENATOR MARCELLINO: Thank you very much.

7 Will the next panel come up, please:

8 Donald Daley, Tom Rumsey, and Rick Gonzales.

9 We're going to take a one-minute break.

10 And I mean, one minute.

11 (Pause in the proceeding.)

12 (The hearing resumed, as follows:)

13 SENATOR MARCELLINO: Okay. Can we call the  
14 meeting back to order, please.

15 Everybody take their seats.

16 Mr. Technical Man in the booth, are we okay?

17 THE TECHNICIAN: Yes.

18 SENATOR MARCELLINO: Thank you.

19 Okay, we are back.

20 Unfortunately, we are moving to the end, and  
21 I appreciate the fact that you guys have been very,  
22 very patient, and, we are interested in hearing,  
23 obviously, everything you have to say.

24 I have to be at a meeting at four.

25 We have two panels left to go.

1           Because, I'm sharing another committee that's  
2 meeting, and has to issue a report.

3           So, if we could can proceed afoot, and if we  
4 could get through a summary of your positions, I  
5 would appreciate that.

6           Our next testifiers are:

7           Donald J. Daley, Jr., business manager of  
8 The International Brotherhood of Electrical Workers,  
9 Local 1049.

10          These are the people who man the trucks and  
11 do the work during the worst of conditions;

12          Tom Rumsey, vice president of external  
13 affairs, I'm assuming, Local 1099? Same?

14          TOM RUMSEY: No.

15          Actually, I'm with the New York ISO;  
16 Independent System Operator.

17          SENATOR MARCELLINO: Okay.

18          DONALD J. DALEY, JR.: We don't get dues from  
19 him.

20          SENATOR MARCELLINO: You don't get dues from  
21 him?

22                         [Laughter.]

23          SENATOR MARCELLINO: You got to work on that.

24          And, Rick Gonzales, chief operating officer  
25 of the New York Independent System Operator.



1           Okay?

2           Gentlemen, who's going to be up?

3           DONALD J. DALEY, JR.: I'll start.

4           Thank you, Senator. I really appreciate you  
5 bringing this very critically important topic to  
6 light here.

7           In addition, I hope I -- this is the first of  
8 many forums that speaks about this.

9           Some of the decisions that are going to be  
10 made out of this are critically important and have  
11 great consequences.

12          So, again, I thank you for that.

13          As you said earlier, my name is Don Daley.  
14 I'm the business manager of Local 1049. I represent  
15 2,600 utility workers that work for National Grid,  
16 as well as the contractors that work on the utility  
17 system in -- on Long Island.

18          And I did submit a prepared oral statement.  
19 You have it.

20          If you have any questions, I'd be glad to  
21 answer those.

22          But in addition to that, I did supply you  
23 with some additional information that really just  
24 speaks to the same topics. It just expands a little  
25 bit more on it.

1           Most of the conversation to date has been  
2           about what the future model is going to look like on  
3           Long Island.

4           And we're discussing a private utility, a  
5           municipalized utility, and a public-private  
6           partnership.

7           And you've heard the pros and cons of all.

8           I'm sitting here, I don't have a position on  
9           which model, but I am saying that the conversation  
10          needs to go deeper than just what the model is.

11          Currently, the ratepayers, both on gas and  
12          electric side, benefit from, both, synergy savings,  
13          and also the number of people who work on the  
14          utility during storms.

15          All the people for National Grid are fully  
16          cross-trained to work during storms. Okay?

17          SENATOR MARCELLINO: Now, what do you mean by  
18          "cross-trained?"

19          DONALD J. DALEY, JR.: "Cross-trained"; our  
20          gas people will go out and do two-man restoration.  
21          They'll actually hang services.

22          I'll go -- I think your question will be  
23          answered through this, if you can just hold one  
24          second? Is that alright?

25          SENATOR MARCELLINO: Sure. Be very quick.

1 DONALD J. DALEY, JR.: But I also believe you  
2 need to start, and look at the history.

3 And I gave you a chart.

4 It was brought up earlier, 1985, it was  
5 5,900 utility employees at that time.

6 In 1998, when the changes came about with a  
7 merge between Brooklyn Union and LILCO, there was  
8 approximately 4,600 workers.

9 In 2006, when National Grid came aboard,  
10 there was 3,650 workers.

11 Today, we have about 3,400 workers. That's  
12 unionized and management employees.

13 So, when we had a storm like "Gloria," there  
14 was 750,000 outages. We had 5,900 people readily  
15 available and prepared and working on that storm  
16 before it actually hit.

17 When "Sandy" hit, we had 3,400 workers  
18 working on that storm.

19 The system on Long Island is much bigger. It  
20 was 750,000 on the electric side. It's now  
21 1.2 million.

22 The gas system has grown as well. There was  
23 250,000 gas customers back then. There are 500,000  
24 now.

25 So, we had 1 employee for every

1 170 gas/electric customers in 1985.

2 Currently, we have 1 employee for 500 gas and  
3 electric employees [sic] right now.

4 That needs to be looked at.

5 And if we're looking at some of these models  
6 where there may be thought of saving money on labor,  
7 I can tell you right now, by these charts, the facts  
8 are here, there's no fat on the bone.

9 You asked about: What do they do? What are  
10 they cross-trained to do?

11 Okay?

12 Our non-electrical storm workers work in  
13 two-man restoration. They actually string wires.  
14 They're trained and qualified to string service  
15 wires.

16 We also deliver material. A lot of the  
17 material is delivered by non-electric people using  
18 National Grid equipment: National Grid forklifts,  
19 National Grid pickups, National Grid pole trailers.

20 All this stuff will not be available in the  
21 next storm post 1/1/14 if we don't have one  
22 workforce where, at a minimum, an agreement to  
23 utilize those people, that have always been  
24 cross-trained and experienced to work storms,  
25 continue to do that 1/1/2'14.

1           In addition to that, we have foreign crew  
2 support. We had almost 14,000 people come here from  
3 off-island. Takes a lot of resources to make sure  
4 that they're -- they got the proper bedding, and all  
5 their other needs are met, their equipment, their  
6 kits, everything that they need.

7           That's all done by non-electrical personnel  
8 today.

9           Our call center:

10          We heard a lot of issues surrounding  
11 communications.

12          Typically, in our call center, we have  
13 175 call center representatives.

14          During the storm, we had over 300, because we  
15 were able to utilize the National Grid gas and  
16 generation and shared employees to answer phones of  
17 emergency phone calls.

18          Also, our fleet services worked on both gas  
19 and electric trucks.

20          So, again, if we're talking about just  
21 carving out a number of employees, that's the first  
22 I heard today that it was 2,200. That's the highest  
23 number that I've heard.

24          All the numbers that I heard prior to today  
25 were, sixteen and seventeen hundred workers.

1           But if you take almost half that workforce  
2 out, they will not be available during storms.

3           We have a survey of workers, all  
4 non-electrical workers: crew guides, physical  
5 assists.

6           We actually load the poles from our gas side  
7 of the business, bring them and deliver them to  
8 where it's needed, dig the holes, are all done by  
9 our gas personnel.

10          They will not be available during the next  
11 storm post 1/1/2014.

12          Our facilities' people work on making sure  
13 that our low-lying areas are sandbagged.

14          Stuff like that, all done by our generation  
15 folks.

16          Again, not available in the next storm.

17          Wire watching, traffic control; all these  
18 things people don't think about.

19          When you think about a storm, you're thinking  
20 about hanging wire.

21          A lot goes into it before you hang the wire.

22          The reality is, we have 3,400 utility workers  
23 now that respond before the storm's here, right here  
24 on Long Island.

25          If you carve out -- I heard 2,200. If you

1 carve out 2,200, and that's the number, there's  
2 still 1,200 people that are cross-trained to work  
3 storms, that are experienced, and been doing it for  
4 many, many years.

5 What's going to happen is, those people are  
6 going to be sitting home during the next storm.

7 That makes absolutely no sense.

8 I heard, Plan B is to get contractors.

9 We're not putting a Lego set together. We  
10 really need to know what we're doing out there.

11 We have certain work practices, safety rules.  
12 You can't just do line work, and hire Joe Contractor  
13 who's never done it before, and have an experiment  
14 the next storm, while 1,200 trained people are going  
15 to be sitting home.

16 There's a big problem with this.

17 Whatever model you go to, if you don't have  
18 the full workforce that you have right now at least  
19 available during storms, that's a big problem here.

20 We're not meeting the expectations now.

21 If we take it and carve it in half, what are  
22 we going to look like then?

23 We talked about, "Hurricane Earl," bringing  
24 in the 1,600 crews, off-island, sitting there.

25 We saw "Newsday."

1           The front page of "Newsday," all the trucks  
2 sitting at the airport. Not one outage,  
3 \$30 million, because we relied on outside help to  
4 help us.

5           Now we're going -- now the plan is, to take  
6 the inside workforce, cut it in half.

7           You're going to be more reliant on outside  
8 crews.

9           Not only that, it's not only the big storm  
10 that we deal with. These 3,400 people deal with all  
11 those little storms, so you don't need to call  
12 anybody.

13           Okay?

14           So, going forward, half the workforce is a  
15 big deal.

16           In addition to that, we have daily synergies  
17 because we're all one workforce.

18           We have synergies in warehouse, our fleet  
19 services, facilities, clerical, meter reading,  
20 collections, call center, IT, billing, service  
21 connect and disconnect.

22           Currently, the ratepayers on Long Island  
23 benefit from one man or woman coming to the house,  
24 when they want their service disconnected, to do  
25 both the gas and electric.



1           Now we're going to have two, with two  
2           appointments, to do that.

3           Project management, legal, real estate,  
4           accounts payable, human resources, purchasing,  
5           claims, communications, public affairs, payroll,  
6           environmental services, security, training, health  
7           services.

8           These are daily synergy savings that both our  
9           gas and electric ratepayers benefit from today, that  
10          we're going to lose if the workforce is broken in  
11          half.

12          So I ask that you continue these hearings,  
13          and that we have some open dialogue, other forums,  
14          informational forums.

15          Our ratepayers, your constituents, need to  
16          know how the change in the workforce is going to  
17          impact their rates, both on the gas and the electric  
18          side.

19          SENATOR MARCELLINO: Thank you.

20          TOM RUMSEY: Good afternoon,  
21          Chairman Marcellino.

22          I'd like to start by thanking you for having  
23          the New York Independent System Operator here to  
24          testify.

25          We did supply a more detailed written

1 testimony than I intend to go through today, and in  
2 that was a map that may be easier for you follow  
3 along when Rick gets on that map here in a few  
4 minutes.

5 My name is Tom Rumsey. I serve as the  
6 vice president of external affairs for the New York  
7 Independent System Operator, or, "NYISO."

8 With me today is Rick Gonzales. He is a  
9 senior vice president and chief operating officer  
10 for the NYISO.

11 And his teams are responsible for operating  
12 the bulk electric system, New York's wholesale  
13 energy markets, as well as the short- and long-term  
14 planning for New York.

15 I think it's important, there's a distinction  
16 between what we'll discuss today, in that, where we  
17 talk rates and energy prices, it's at the wholesale,  
18 not retail, which would be a shift from what we've  
19 heard earlier today, as well as the bulk system  
20 versus the distribution system.

21 I'd like to start by providing a short  
22 overview of our organization, and how the  
23 Long Island Power Authority plays within that  
24 framework.

25 I want to ask Rick to provide a high-level

1 overview of the current status of our electric grid,  
2 LIPA's unique position, and a quick discussion of  
3 the impacts of "Hurricane Sandy" on the Long --  
4 excuse me, on Long Island's bulk electric system.

5 The NYISO is an independent and  
6 non-for-profit corporation that carries out three  
7 key functions for the state:

8 Our primary mission is to reliably operate  
9 New York's bulk power system in accordance with all  
10 national, regional, and state reliability  
11 requirements.

12 With the exception of the control center, the  
13 NYISO does not own any physical assets of the  
14 system;

15 Additionally, we develop and administer  
16 New York's wholesale competitive market for  
17 electricity, to satisfy both actual and reserve  
18 electrical demand requirements.

19 In conjunction with our stakeholders, we  
20 conduct extensive system-planning processes to  
21 determine the power demands of the future, and do so  
22 within a time frame that will allow market solutions  
23 to meet identified needs;

24 Finally, we do participate as a technical  
25 non-voting member of the New York State Energy

1 Planning Board, and we've provided technical  
2 assistance to the Governor's Energy Highway Task  
3 Force.

4 We operate under federal tariff agreements  
5 approved by the federal Energy Regulatory  
6 Commission, and are regulated by the New York State  
7 Public Service Commission.

8 We conduct our grid operations and system  
9 planning functions in compliance with all national,  
10 regional, and state reliability standard  
11 organizations that oversee, and also audit, our  
12 processes.

13 The NYISO is governed by an independent board  
14 of directors, and a committee structure comprised of  
15 representatives from every market sector,  
16 transmission and generation owners, other suppliers,  
17 end-use consumers, public power, and environmental  
18 parties.

19 The Long Island Power Authority is among the  
20 market participants participating in our shared  
21 governance as part of the public power and  
22 environmental sector.

23 LIPA is an owner of high-voltage power lines  
24 which are operated through coordination between our  
25 control center and LIPA's local control center on

1 Long Island.

2 Although LIPA meets most of its power needs  
3 through contract agreements with power plants on  
4 Long Island, it also buys and sells a portion of its  
5 electrical needs through the NYISO's wholesale  
6 electricity markets.

7 LIPA participates in the NYISO short- and  
8 long-term planning processes which determine the  
9 amount of generation capacity that must be located  
10 on island to reliably serve its forecasted peak  
11 demand plus required reserves.

12 These processes also determine the future  
13 electric needs of the state, including Long Island,  
14 over a ten-year horizon.

15 That's a very brief introduction of who we  
16 are, and how Long Island fits in, in respect to your  
17 time.

18 I'd like to turn it over to Rick, and he can  
19 give you an equally high view of the grid, and how  
20 it works, and Long Island's position in that.

21 Thank you.

22 RICK GONZALEZ: Thank you, Chairman.

23 [Visual presentation begins.]

24 RICK GONZALEZ: And today's first use of the  
25 prop here will -- should -- should help us.

1           The objective of my presentation is just to  
2 show how the Long Island Power Authority and the  
3 Long Island electrical needs are part of the larger  
4 state needs.

5           And starting there, the geography of  
6 New York State complicates the operation of the  
7 grid.

8           Obviously, Long Island is an island.

9           Most of the demand of New York State, over  
10 50 percent is in the Long Island and New York City  
11 metropolitan areas, so, there's is a very high  
12 concentration of demand in those two areas.

13          As far as resources, the supply resources,  
14 statewide, are very diverse.

15          We have New York Power Authority's  
16 hydroelectric resources at Niagara Falls and on the  
17 St. Lawrence River, and their pump storage unit.

18          There's coal-fired generation on Lake Erie  
19 and on Lake Ontario.

20          And, there's a nuclear units complexes in the  
21 Rochester area, and an Oswego complex.

22          Those resources are typically more efficient  
23 to operate than gas-fired generation or oil-fired  
24 generation such as on Long Island.

25          There's also interconnections to the west of

1 New York. That power is scheduled on, to move to  
2 New York if it's more economic, the provinces of  
3 Ontario, the provinces of Quebec.

4 The larger interconnection to our south,  
5 what's commonly called the "Pennsylvania-New Jersey  
6 interconnection."

7 And then to the east, we have the New England  
8 interconnection, although, their generation fleet is  
9 much like Long Island's or eastern New York's.

10 What this all means, is that power flow is,  
11 typically, from the western part of our state, to  
12 the east; and from the north part of the state, to  
13 the south; and it all tries to meet the electrical  
14 needs of Long Island and New York City.

15 There's been -- there's been, over the past  
16 20 or 30 years, historical bottlenecks to moving  
17 that economic power to the load centers.

18 One is east of Utica. More recently, one has  
19 developed south of Albany.

20 But there's always been historical  
21 bottlenecks moving power into New York City, and on  
22 to Long Island.

23 With respect to Long Island, there is  
24 seven interconnections to get to Long Island:

25 Four are to the mainland New York system in

1 Queens and Westchester, two are to Connecticut, and  
2 one is to New Jersey.

3 During "Hurricane Sandy," all the  
4 interconnections to the other states were lost, but  
5 reliability was maintained at the bulk power level  
6 through the main interconnections back to the  
7 New York -- back to Queens and Westchester.

8 The point of these -- this discussion about  
9 the interconnections, is those historical  
10 bottlenecks have limited Long Island's access to the  
11 state's diverse resources.

12 From a planning perspective, the State  
13 requires 17 percent installed reliability margin.

14 That means we need to have 17 percent more  
15 resources than our forecast demand;

16 And, both New York City and Long Island have  
17 locational requirements.

18 New York City proper has an 86 percent  
19 locational requirement;

20 But Long Island has an even higher one, at  
21 105 percent, which indicates the more restrictive  
22 transition limitations moving to Long Island.

23 In our planning perspective, there is  
24 sufficient supply on Long Island, whether or not  
25 it's as economic as the other resources that are



1 throughout the state.

2 So, there are no reliability issues that we  
3 see in the Long Island area.

4 And, statewide, we don't have any resource  
5 supply issues until 2019.

6 If there was a reliability issue, we would  
7 manage it through either the ISO's process, or LIPA  
8 would manage it directly and report that to us.

9 And that concludes my prepared remarks.

10 SENATOR MARCELLINO: Thank you very much.

11 If the State, as it looks to the future --  
12 [unintelligible] information, doing their thing, the  
13 Governor's made his -- his thoughts known, you've  
14 heard the testimony of the prior panels, what are  
15 the major issues that you think we should be looking  
16 at?

17 TOM RUMSEY: From our perspective, the energy  
18 industry is one that is a very long-cycle industry.

19 And whether it's EPA restrictions or new  
20 regulations, or it's an energy highway, it's a very  
21 complex and interrelated system.

22 The biggest concern I think that we would  
23 have, is that we need to make sure that there's  
24 enough time and thought put in, to understand all  
25 the potential, tertiary, secondary, effects, and

1 make sure that we plan through those.

2 DONALD J. DALEY, JR.: A big concern of ours  
3 is, as you saw from the charts, is the staffing  
4 levels.

5 We've gone down, from 5,900 employees, to  
6 3,400 employees. There's a big concern in regards  
7 to service, and providing -- well, the ability to  
8 get people back on during a storm.

9 The working staff is a big problem.

10 SENATOR MARCELLINO: Have you guys had any  
11 conversations with PSE&G, as to staffing levels?

12 DONALD J. DALEY, JR.: Yes.

13 Yes, I've had numerous conversations with  
14 PSE&G. They're not to the point right now where we  
15 started identifying exactly the people that they  
16 feel they're going to need to run their T&D system.

17 SENATOR MARCELLINO: Do you think that  
18 "twenty-two, twenty-three hundred" number that they  
19 were talking about works?

20 DONALD J. DALEY, JR.: It's the highest  
21 number I've heard so far.

22 May be twenty-three tomorrow.

23 SENATOR MARCELLINO: That's not quite what I  
24 asked.

25 DONALD J. DALEY, JR.: I believe that,

1 sufficiently, on the electric side of the business,  
2 yes.

3 But, again, the ratepayers are not going to  
4 benefit from the synergies that they benefit from  
5 today.

6 SENATOR MARCELLINO: What if -- if LIPA's PSA  
7 contracts are not approved before the current ones  
8 expire, does NYISO feel they can coordinate  
9 enough -- get enough power to supply LIPA on the  
10 open market?

11 RICK GONZALEZ: There would have to be some  
12 form of PSA that would continue to supply the  
13 Long Island generation into the markets.

14 There isn't enough transmission capability to  
15 support Long Island without local generations.

16 So, that has to be a continued expectation.

17 TOM RUMSEY: I think the locational  
18 requirements need a little definition.

19 That means, that you have 105 percent of  
20 their peak demand in generation and local resources  
21 available to serve their load, and that you don't  
22 rely up to that number on long lines of  
23 transmissions.

24 So that local-generation requirement is  
25 105 percent in the New York area, in Long Island

1       itself.

2                SENATOR MARCELLINO:  What are your thoughts  
3       on privatization?

4                TOM RUMSEY:  I think it's a policy decision,  
5       and not really something that we view one way or the  
6       other.

7                SENATOR MARCELLINO:  Wouldn't impact your  
8       ability to provide the power or serve it?

9                TOM RUMSEY:  We have a number of structures  
10       in our market participants today, so, again, I don't  
11       think we view any specific direction as being an  
12       overly strong challenge or advantage.

13               SENATOR MARCELLINO:  How would your members  
14       feel?

15               DONALD J. DALEY, JR.:  Currently, under the  
16       existing model, they benefit from certain things  
17       they're not going to benefit in the private sector,  
18       many of the costs, the fixed costs.

19               The variable cost is labor.

20               And is always -- my concern is that, in  
21       privatization, there's going to be pressure to  
22       reduce labor costs.

23               SENATOR MARCELLINO:  Do you think there would  
24       be more of reliance on outside crews?

25               DONALD J. DALEY, JR.:  I would say at the

1 "2,200" number, during daily business, maybe not.

2 SENATOR MARCELLINO: What about when the  
3 storm hits?

4 DONALD J. DALEY, JR.: When a storm hits,  
5 we're down to 1,200.

6 We starting 1,200 down, so...

7 SENATOR MARCELLINO: Okay, thank you.

8 Appreciate your time, appreciate your  
9 testimony.

10 Next panel, please.

11 Charles Bell, program director for  
12 Consumer Union;

13 Elizabeth Horan, a volunteer for AARP;

14 And, Bill Ferris, the state legislative  
15 representative for AARP.

16 ELIZABETH HORAN: Good afternoon,  
17 Senator Marcellino.

18 SENATOR MARCELLINO: Good afternoon.

19 ELIZABETH HORAN: My name is Elizabeth Horan,  
20 and I'm an AARP member, and a lifetime resident of  
21 Long Island.

22 I'm one of over 600,000 members in AARP.

23 And with me today is, Bill Ferris,

24 AARP-New York State legislative representative.

25 And...

1 I've lived through many hurricanes, but last  
2 October, I saw "Superstorm Sandy" devastate and  
3 decimate much of Long Island, the Long Island I know  
4 and love.

5 I live in Sound Beach on the north shore on  
6 Long Island, and my home was spared, but we were out  
7 of electricity for 12 days.

8 Because the nor'easter quickly followed  
9 "Sandy," it got very cold very fast.

10 I had to leave my home.

11 When the temperatures reached the 50s, I knew  
12 it was time to go. I returned every day or two to  
13 check the power status, as calls to LIPA got nothing  
14 but a phone message.

15 As I said, I'm one of the lucky ones on  
16 Long Island, but I know so many people who lost so  
17 much.

18 Many didn't get their power back for weeks.

19 As a resident of Long Island, and a member of  
20 AARP, I would publicly like to thank you,  
21 Senator Marcellino, for holding this hearing, and  
22 for all your work and leadership to help the people  
23 on Long Island.

24 It is my understanding that the Senate is  
25 trying to get the issue surrounding LIPA done right,

1 and in the best interests of the Long Island  
2 ratepayers.

3 And I thank you for making that a priority.

4 There is no question that LIPA must be  
5 reformed.

6 AARP agrees with state leaders that LIPA's  
7 performance during "Superstorm Sandy," and its  
8 aftermath, was nothing short of disastrous.

9 However, it is AARP's position that a change  
10 in ownership is not necessarily the only way to  
11 improve the service for LIPA customers.

12 AARP has not yet taken a position for or  
13 against reprivatization of LIPA, because the  
14 association does not yet have all the facts  
15 regarding the impact on ratepayers' pocketbooks if a  
16 decision is made to reprivatize LIPA.

17 However, AARP has a very simple view on this  
18 issue, which I support as an AARP member:

19 How will privatization, at the end of the  
20 day, benefit the ratepayer, and how much will they  
21 pay on their future monthly energy bills?

22 If privatizing LIPA is ultimately the road we  
23 take with no uncertainty, it should include a clear  
24 benefit to Long Island's ratepayers.

25 It is my understanding from being briefed by

1 representatives from AARP, that published reports  
2 from rating organizations, like Fitch and Moody's,  
3 believe that privatization of LIPA could be  
4 expensive and may not result in ratepayer benefits.

5 In addition, AARP has identified a report  
6 from 2010, that was prepared for LIPA by an  
7 organization called "Brattle Group," which found  
8 that privatizing would result in a rate increase,  
9 from 15 to 20 percent.

10 As you know, Senator Marcellino, last thing  
11 Long Island needs is a double-digit rate increase,  
12 now, or in four years, when a proposed rate freeze  
13 would be lifted, a proposal I have read about in the  
14 news.

15 AARP believes that we should be looking at  
16 other publicly owned utilities to see how the rates  
17 and storm performance of publicly owned and operated  
18 utilities, in fact, run their own operations compare  
19 with utilities that are investor-owned.

20 AARP strongly believes that we need to keep  
21 examining the pros and cons of privatizing, as the  
22 Senate is doing here today, before any deal is  
23 struck on the future of LIPA.

24 I would also like to touch on the need for an  
25 independent consumer advocate office in New York.



1           The State continues to grapple with the  
2           aftermath of "Superstorm Sandy," and we need for  
3           residential ratepayers to have representation.

4           It is critical, as, potentially, hundreds of  
5           millions of dollars in rate hikes and accountability  
6           of utilities are being discussed.

7           More than 40 states and the District of  
8           Columbia have independent State offices charged with  
9           the mission to represent residential utility-service  
10          customers in cases before state and federal utility  
11          regulatory commissions.

12          In a recent "New York Times" article, the  
13          Governor's spokesman mentioned that they are  
14          thinking of an independent consumer advocate office  
15          for Long Island.

16          AARP strongly believes that an independent  
17          utility consumer office should be created, not only  
18          for Long Island, but for all New Yorkers.

19          Again, thank you for allowing me to speak  
20          today.

21          We need to keep examining the pros and cons  
22          of privatization, as the Senate is doing here,  
23          before any deal is struck on the future of LIPA.

24          Please make sure that the ratepayers get a  
25          fair deal in any plan that moves forward on

1 improving LIPA, and ensuring that all New York  
2 residents benefit from the establishment of an  
3 independent consumer advocate office.

4 Thank you.

5 SENATOR MARCELLINO: Thank you.

6 CHARLES BELL: Hi, I'm Chuck Bell, programs  
7 director at Consumers Union, and we're the  
8 non-profit organization that publishes  
9 "Consumer Reports," based in Yonkers.

10 I know it's been a long day, so I just want  
11 to say:

12 We strongly agree with the points that have  
13 been made by AARP.

14 In my written statements, we emphasize that  
15 we think consumer and ratepayer interests should be  
16 at the center of any decisions that are made about  
17 LIPA restructuring.

18 And, we are particularly concerned about the  
19 possibility that restructuring could drive rates  
20 even higher, because of the higher costs of  
21 borrowing in the private markets, the need to pay  
22 return to investors, and the higher salaries for  
23 executives of these companies.

24 We also feel that ratepayers are  
25 underrepresented in State policymaking.

1           If we were in any other state, we would  
2 probably have the state utility advocate here  
3 testifying about LIPA restructuring.

4           New York has allocated less, on a per capita  
5 basis, to support our state utility advocate.

6           So, for example, in New Jersey, much more,  
7 \$7 million, is advocated; whereas, in New York, only  
8 about 2 million is advocated for those activities,  
9 even with all the issues that we have.

10          I also emphasize the affordability concerns  
11 of Long Island ratepayers.

12          You have an energy affordability gap of about  
13 \$115 million there, which is what the amount that  
14 households are paying over the recommended 6 percent  
15 guideline for their income.

16          They should not be paying more than 6 percent  
17 of monthly income for electricity.

18          And that's truly a statewide problem that we  
19 have.

20          And, so, we feel if we can increase the  
21 amount of resources devoted to utility advocacy,  
22 both, in the state at the state level, and by  
23 non-profit organizations, like the Public Utility  
24 Law Project, that that would be of great benefit to  
25 ratepayers.

1           At the state level, we had, at one point,  
2           over 30 people in the Consumer Protection Board  
3           developed -- devoted to utility-rate intervention,  
4           in the 1990s.

5           And, today, we have maybe four or five people  
6           devoted to that function.

7           So, we, as a non-profit, Consumer Groups see  
8           that as a huge loss.

9           And, so, we hope that under whatever scenario  
10          is contemplated here, we can begin to rebalance the  
11          scales for consumers.

12          And, we thank you for having this oversight  
13          hearing, because the issues you brought out today  
14          really need to be heard and discussed by the people  
15          of New York before any decisions are made in this  
16          matter.

17          Thank you.

18          SENATOR MARCELLINO: Thank you.

19          BILL FERRIS: I just wanted to add one thing,  
20          from AARP's perspective.

21          We're hearing more and more from our members  
22          on Long Island about the concerns of what they're  
23          seeing in the paper, what they're hearing about,  
24          what's going on with LIPA.

25          And, we've heard already from them, that

1       they -- that paying their bill is a problem with  
2       many of our members.

3               So, the issue of LIPA is becoming more and  
4       more front and center for them.

5               And, you know, again, from AARP's  
6       perspective, we'd like to thank you for holding this  
7       hearing.

8               It's very important to AARP, very important  
9       to our members on Long Island.

10              So, thank you very much, Senator.

11              SENATOR MARCELLINO: Thank you.

12              Do you folks have any thoughts about  
13       privatization?

14              BILL FERRIS: From AARP looking at  
15       privatization, we referenced in our testimony, in a  
16       report that we issued, that there -- and I think you  
17       heard it earlier today, there's been numerous  
18       reports, I believe, that LIPA actually contracted  
19       for, that there are concerns over privatization,  
20       especially on the aspect of the potential rate  
21       increase for the residential ratepayer.

22              And that's what our concern is.

23              We're very concerned about the increase in a  
24       monthly bill.

25              As you know, many of our members are on a

1 fixed income, social security. And, that increase,  
2 whether it's \$2, \$5, \$10, it's an increase. It's  
3 just part of an overall budget that many of our  
4 members, you know, moving forward, can't afford.

5 So, we've looked at some of the studies, and  
6 we -- and I think you've mentioned it today, you  
7 know, the Senate's looking at those studies, the  
8 Brattle report, and other -- I think there was a  
9 study that came out today in "Newsday," referenced  
10 another study that raised concerns about  
11 privatization.

12 So, we're looking at that.

13 But, overall, we have not taken a position,  
14 but we do have a major concern, if the decision is  
15 to privatize LIPA, that there needs to be something  
16 done for the residential ratepayer, in that process.

17 SENATOR MARCELLINO: Okay. Thank you very  
18 much.

19 Appreciate you coming, appreciate your time.

20 Thank you.

21 BILL FERRIS: Thank you.

22 SENATOR MARCELLINO: That concludes the  
23 hearing.

24 We will refer it back. We're going to read  
25 the notes.

1           If you want to look at this thing, as I said  
2 earlier in the meeting, a video of this entire  
3 hearing process, if you -- I suggest, later at  
4 night, after dinner, you can look at this, and  
5 you'll sleep well.

6           [Laughter.]

7           SENATOR MARCELLINO: The idea -- it's  
8 available on the website: the Senate website,  
9 Committee's website.

10          And I thank you for attending.

11          I thank the -- my -- the camera crew that's  
12 videotaping this whole thing; and, my staff,  
13 Debbie Peck Kelleher and Rob Parker, for putting  
14 this whole hearing together.

15          Meeting's adjourned.

16          Thank you.

17          [Applause.]

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1                   (Whereupon, at approximately 3:14 p.m.,  
2                   the public hearing held before the New York State  
3                   Senate Standing Committee on Investigations and  
4                   Government Operations and the Senate Standing  
5                   Committee on Corporations, Authorities, and  
6                   Commissions, concluded, and adjourned.)

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