OFFICE OF THE STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

Public Authorities by the Numbers: Long Island Power Authority

October 2012

Introduction

Growth in the number, cost and influence of public authorities has necessitated increased disclosure and oversight of their activities, which historically have been less transparent than those of State agencies. Both the Public Authorities Accountability Act of 2005 and the Public Authorities Reform Act of 2009 established additional accountability mechanisms for public authorities as State policy. This profile – focusing on the Long Island Power Authority – is part of Comptroller DiNapoli's continuing effort to increase public knowledge, and enhance the accountability, of New York's public authorities.

Long Island Power Authority - History

The Long Island Power Authority (LIPA) was established in 1986 by the Long Island Power Authority Act, which was enacted to control electricity costs within the service area of the Long Island Lighting Company (LILCO). LIPA's enabling statute requires that the Authority provide safe and adequate service at lower rates, restore confidence, and protect the interests of ratepayers and the economy in the service area. LIPA supplies electricity to approximately 1.1 million customers on Long Island, including most of the residents of Nassau and Suffolk counties, and the Far Rockaways in Queens County. In addition, the Authority was mandated to close and decommission the Shoreham Nuclear Power Plant (Shoreham) that had been constructed by LILCO and to explore options for converting the facility to a non-nuclear use which would benefit local residents.

LILCO first proposed to build a nuclear generation facility in 1965 and the construction of Shoreham began in 1973. Plagued by delays, ballooning costs, and rising public opposition, major construction at Shoreham was completed in 1983. Nonetheless, due to public opposition and safety concerns, Shoreham was shut down before it was ever utilized to generate power for the residents of Long Island. In 1989, LILCO entered into an agreement to abandon Shoreham and sold the plant to LIPA for $1. As part of the agreement, Long Island ratepayers would

bear the cost of Shoreham – estimated at more than $6 billion – over time. In 1994, final decommissioning tasks were completed and the Nuclear Regulatory Commission (NRC) terminated Shoreham's license and deemed the site suitable for unrestricted use.

In 1998, LIPA acquired LILCO's electrical transmission and distribution system, as well as certain other assets, and became the primary supplier of electricity on Long Island. That same year, LILCO's remaining assets, including its electrical generating facilities, were merged with Brooklyn Union Gas, creating a new publicly-traded utility corporation called KeySpan Corporation (also known as KeySpan Energy or KeySpan). In October 2007, National Grid LLC (National Grid) purchased KeySpan and legally assumed KeySpan's contracts with LIPA.

Most of LIPA's current day-to-day operations are performed by National Grid, a private utility, under three major contractual agreements.[1] In 2007, LIPA extended one of these contracts, the Management Services Agreement (MSA), which was valued at an estimated $2.4 billion, without a competitive bidding process. When the Office of the State Comptroller approved the contract, the Comptroller noted that in public procurement, competition typically provides the optimal means of securing the best goods or services at the most reasonable prices, and provides greater openness and transparency to the public. Comptroller DiNapoli called on LIPA to conduct an open and transparent competitive procurement process for the successor contract.

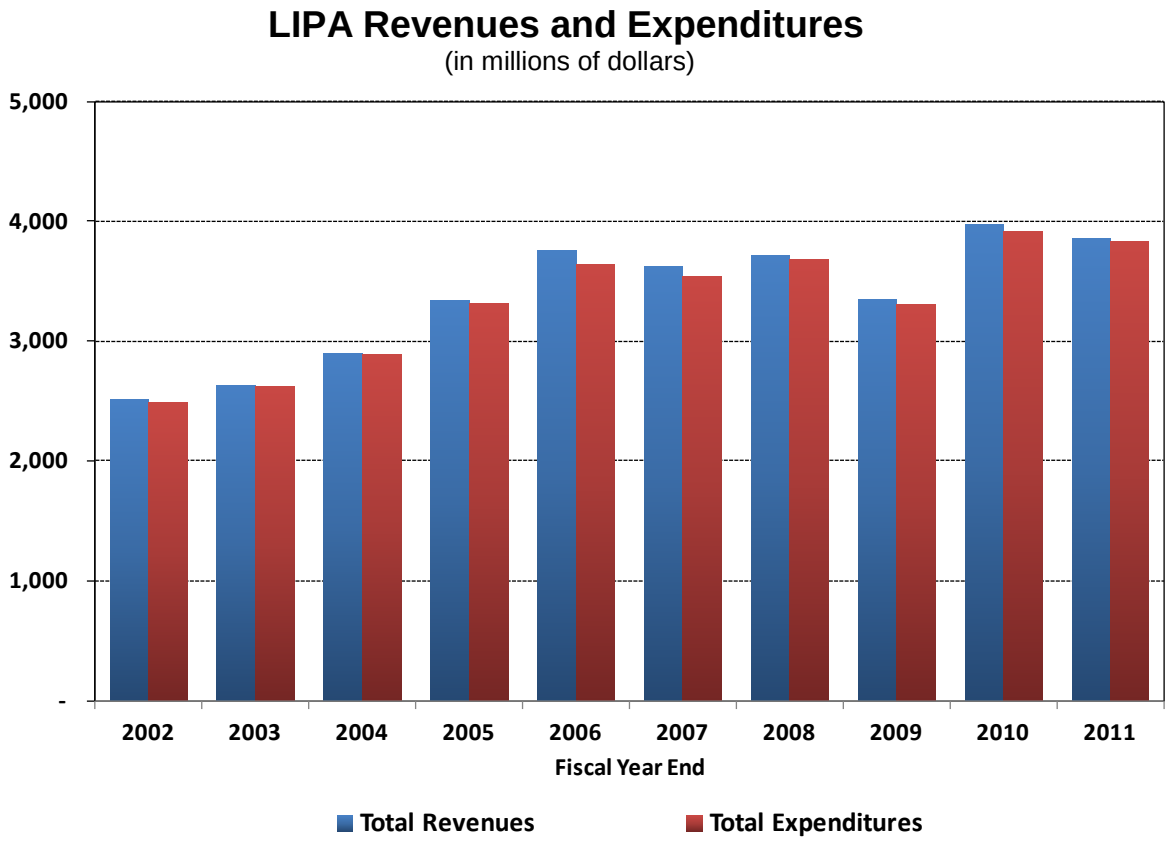
The current MSA between LIPA and National Grid will expire on December 31, 2013. In response to the Comptroller's request, LIPA launched a competitive procurement process for a new MSA with the issuance of a request for proposals (RFP) in June 2010. After an extensive selection process, LIPA has recently signed a new 10-year, $3.9 billion Utility Services Management Agreement with PSEG Long Island, LLC, a subsidiary of Public Service Enterprise Group Incorporated, to replace the National Grid agreement. In June 2012, Comptroller DiNapoli approved the contract, and called on LIPA to manage the contract rigorously in order to ensure PSEG Long Island's compliance with all its requirements, while monitoring customer satisfaction carefully. After a transition period during 2013, PSEG Long Island will assume responsibility for the day-to-day operations of LIPA's transmission and distribution system in 2014.

LIPA procures most of its fuel and electricity through long-term contracts that are also slated to expire in 2013, including a Power Supply Agreement (PSA) with National Grid. On October 2, 2012, the LIPA Board of Trustees approved an amended and restated PSA with National Grid. The Agreement is subject to approval by the New York State Attorney General and the Office of the State Comptroller, and must be filed with, and accepted by, the Federal Energy Regulatory Commission. LIPA has also issued RFPs for generation and transmission, risk management and other services.

Long Island Power Authority by the Numbers

The data in this report have been submitted by LIPA through the Public Authorities Reporting Information System (PARIS) maintained by the Office of the State Comptroller. Unless otherwise stated, the data are for the fiscal year (FY) ended December 31, 2011. The information and numbers are self-reported and have not been verified by the Office of the State Comptroller. Competitive and noncompetitive bid contract data includes all active contracts, regardless of contract award date or contract end date, and reflects the total value of the life of the contract.

Expenditures and Revenue: Self-reported expenditures for the fiscal year ended December 31, 2011 totaled $3.8 billion. Total revenues reported for the same period were $3.9 billion. LIPA's major categories of expenditures include fuel, purchased power, and operations and maintenance. The primary source of LIPA's revenues is electricity sales, with small amounts of non-operating revenue from other sources such as investments and grants.



Debt: LIPA's debt outstanding totaled more than $6.8 billion for the Authority's fiscal year that ended on December 31, 2011. In 1998, LIPA issued $6.7 billion in bonds to finance the acquisition of LILCO's transmission and distribution system and to refinance portions of LILCO's outstanding debt, including Shoreham debt. Since the acquisition, LIPA has issued debt for various purposes, including capital expenditures, debt refundings, and rebates and credits.[2]

According to LIPA's budget for 2012, annual debt service costs are expected to consume 16 percent of the Authority's estimated revenues for the fiscal year ending December 31, 2012.

Contracts: In FY 2011, LIPA reported 279 active procurement contracts with a total value of nearly $15 billion. Of those, 205 procurement contracts were entered into through a competitive bidding process, with a total value of $9.4 billion. However, contracts awarded through a noncompetitive process represented nearly 35 percent of the total value of LIPA's procurements (more than $5.2 billion), nearly half of which is attributable to the 2007 MSA with National Grid.

LIPA Procurement Data

For Fiscal Year Ended December 31, 2011

Award Process	Number of Contracts	Value of Contracts (in millions of dollars)
Competitive Bid	205	9,434.3
Noncompetitive Bid	45	5,213.6
Non-Contract Procurements	14	183.0
Purchased Under State Contract	15	1.2
Total	**279**	**14,832.1**

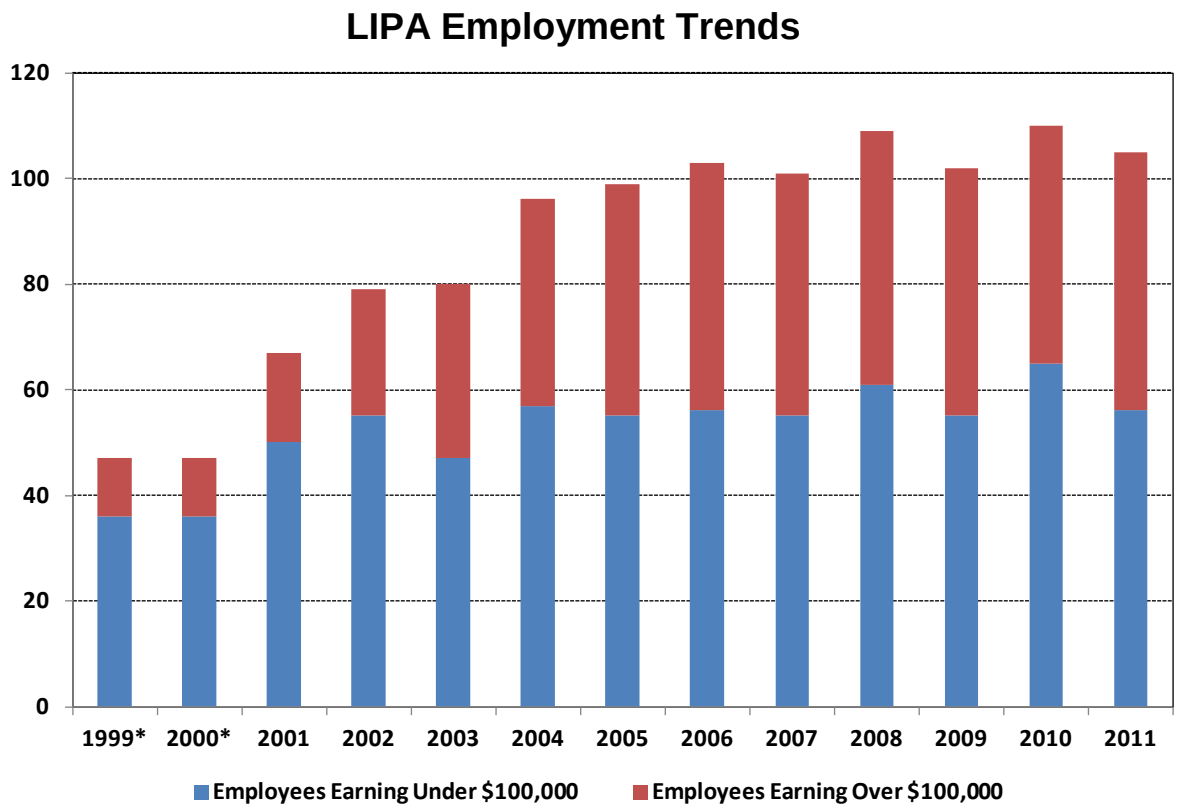
Note: Columns may not add due to rounding.

Employment: During the fiscal year ended December 31, 2011, LIPA employed 105 full-time general and administrative employees. Total compensation for employees during fiscal year ended December 31, 2011 was $10.3 million.

Since 2001, LIPA has added 38 employees, an increase of nearly 57 percent. Of the new hires, 32 employees, or 84 percent, receive compensation of $100,000 or more.

LIPA reported 49 employees with total compensation of $100,000 or more – nearly half of total staff, including ten vice presidents and 32 directors of varying levels – accounting for 70 percent of LIPA's total compensation. In comparison, State public authorities as a whole reported that 13 percent of employees earned total compensation over $100,000 during the most recently reported fiscal year, while 8.3 percent of State employees and 13 percent of New York residents earned as

much.[3] It is important to note that LIPA does not have a large operational staff like certain other public authorities and agencies do.

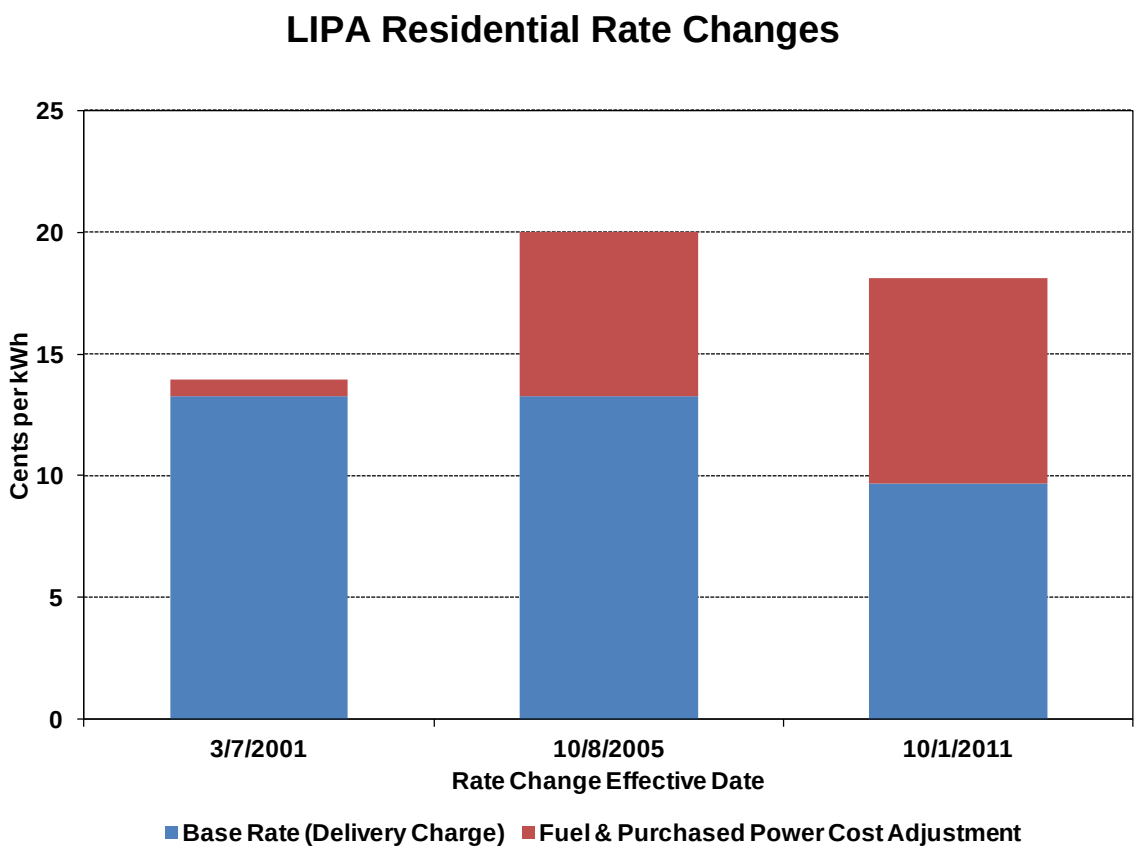


*Data for 1999 and 2000 are based on the salary-only component of total compensation as reported by the Authority. Data for 2001-2011 is based on total compensation.

Rates and Billing: LIPA customers pay electric service rates that are among the highest in the country. While LIPA was created in an attempt to control electricity costs on Long Island, ratepayers' bills have increased over time nonetheless. The two major components of LIPA's monthly rates are: 1) the base rate or delivery charge; and 2) the fuel and purchased power cost adjustment or "power supply charge."[4]

LIPA's definition of the power supply charge includes a broader scope of costs, including fuel costs, than those prescribed by Public Service Commission (PSC) regulations. The term "cost of fuel," as defined in PSC regulations, contains six components, while LIPA's definition includes eleven.[5] Though LIPA is not bound by these PSC regulations, they are considered an accepted industry standard and serve as a good example of the types of costs other utilities are able to recover from ratepayers without PSC approval. LIPA has billed its customers for this power supply charge using a 12-month rolling average of fuel costs to moderate or

smooth costs, but has recently proposed modifications to move to the method used by most other utilities in the State, where actual full fuel costs are simply passed on to customers each month.[6]



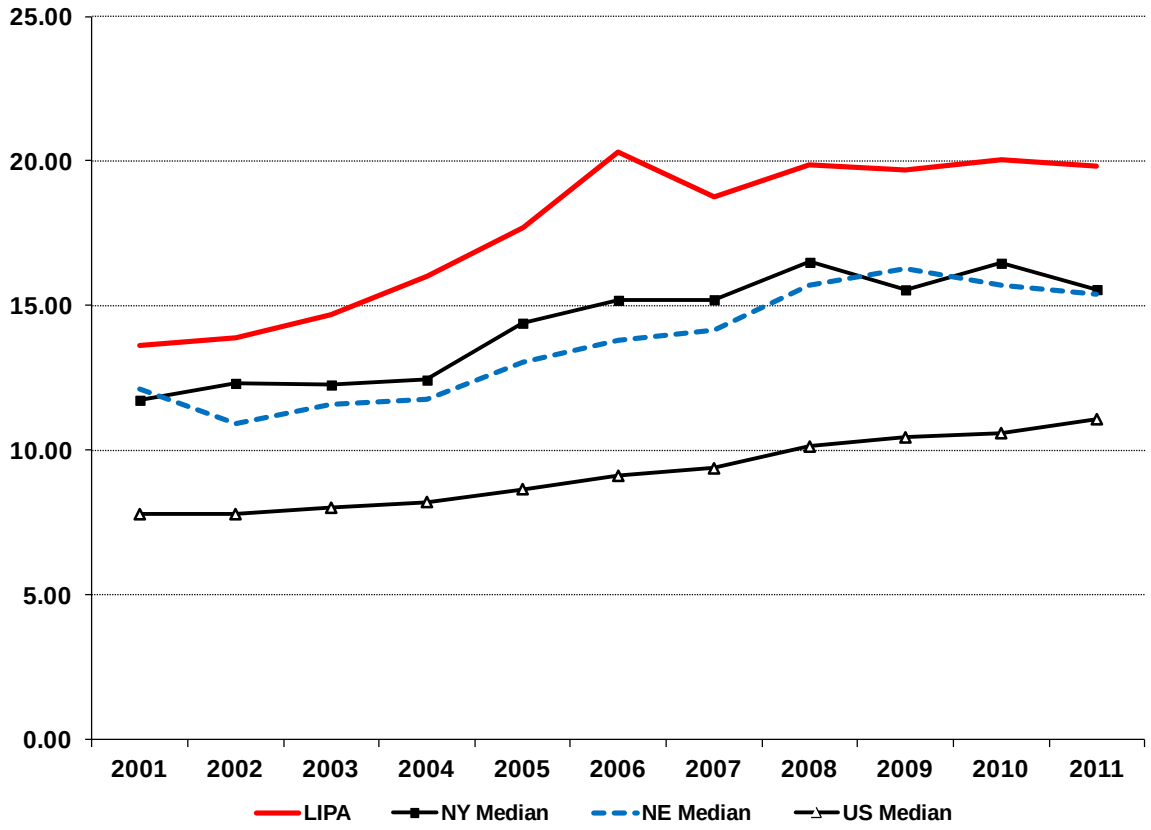
Pursuant to a Public Authorities Control Board (PACB) resolution passed in 1997 as part of the State's approval of the LIPA-LILCO merger, LIPA cannot implement an increase in average customer rates exceeding 2.5 percent over a 12-month period or extend or re-establish any portion of a temporary rate increase over 2.5 percent, without approval of the PSC following a full evidentiary hearing.[7]

LIPA's base rate, which is limited by the PACB resolution, has remained the same or decreased since 2001, while the power supply charge has fluctuated, increasing average customer bills by as much as $52 per month in some cases. As of 2011, LIPA ratepayers were paying approximately $463 more per year, on average, than they did in 2001.

A comparison of the average retail price of electricity for residential customers shows that LIPA's rates have consistently outpaced those of other utilities in New York State, the Northeast and the United States. While the average retail price in

the residential sector has risen in all markets over the past decade, ratepayers on Long Island have experienced consistently higher prices and, at times, faster growth. For residential customers, LIPA's average retail price for electricity has risen 6.2 cents per kWh since 2001, representing growth of 45 percent, while the New York State median average retail price has risen just 3.83 cents per kWh or 33 percent. The national median average retail price for residential customers over the same time period has increased 3.28 cents per kWh or 27 percent.[8]

Average Retail Price Comparison – Residential Sector
(in cents/kWh)



Source: U.S. Energy Information Administration, Monthly Electric Utility Sales and Revenue Data, July 30, 2012

In April 2011, Governor Cuomo directed the State Inspector General to undertake an investigation of LIPA's billing and rate setting practices. In August, *Newsday* reported that the investigation was coming to an end, but no additional information has yet been made public.[9]

LIPA has struggled with customer satisfaction. Studies released in 2012 by J.D. Power and Associates and the American Customer Satisfaction Index (ACSI) document this. In the J.D. Power study, LIPA scored 552 out of a possible 1,000

point scale, falling two positions from last year and ranking last among the 16 other utilities in its class.[10] The ACSI results ranked LIPA the lowest of the municipal utilities surveyed, with a score of 58 out of a possible 100.[11] Numerous government officials and community and watchdog groups have cited a lack of consumer confidence and trust in LIPA when advocating for enhanced oversight and restructuring.

In response to these and other longstanding concerns, Chapter 8 of the Laws of 2012 enacted the LIPA Oversight and Accountability Act, which requires the PSC to conduct comprehensive and regular management and operations audits. The first completed audit is due in the summer of 2013, with subsequent audits to follow every five years commencing in 2015. The PSC audit is required to include, but is not limited to, an examination of LIPA's:

- overall efficiency of operations;
- construction and capital program planning;
- manner of meeting its debt service obligations;
- fuel and purchased power cost adjustment clause and recovery of costs associated with such clause;
- annual budgeting procedures and processes; and
- compliance with debt covenants.

In addition, under the new law, LIPA customers may make complaints to the utility intervention unit in the New York State Department of State. The Department is empowered to investigate and mediate such complaints, and make referrals to appropriate State or local agencies for further action.

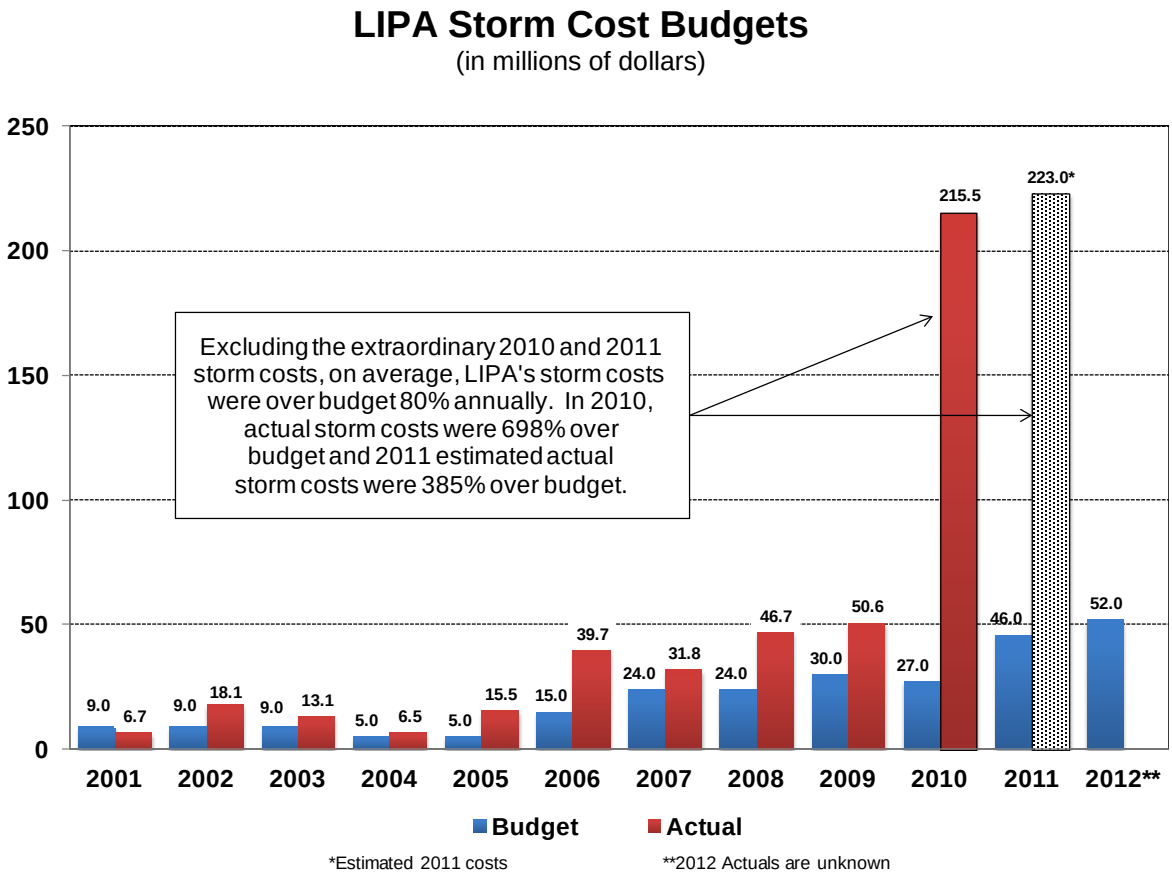
Storm Costs and Planning: A review of historical LIPA storm cost budgets indicates that in each of the previous ten years, actual storm costs exceeded the budgeted amount. While many of these costs are driven by unpredictable weather-related events, this trend suggests a need to improve the methodology used in constructing storm-related budgets – particularly in light of the massive budget overruns of 698 percent in 2010 and a projected 385 percent in 2011.

According to LIPA, storm restoration costs included in the Authority's budgets are based on historical budget-to-actual costs. However, in developing budget projections, the Authority also considers nonfinancial factors such as outage policies, storm response strategies, risk tolerance and maintenance programs. Since LIPA cannot predict the likelihood of weather events, these factors, in addition to the potential impact to ratepayers, are considered when LIPA calculates its storm cost budget.

In preparing the storm budget for 2011, LIPA nearly doubled the 2010 budget to $46 million, closely reflecting actual storm costs for 2008 and 2009. An additional 13 percent was added to the 2012 storm budget. Despite the upward trend in

storm budgets, actual costs continued to exceed budgeted costs through 2011, the latest year for which estimated actual figures are available. The growth in actual storm costs after 2005 has been significant and has motivated heightened scrutiny of LIPA's planning for and response to major storm events.

In December 2010, Comptroller DiNapoli released a report that analyzed LIPA's response to Hurricane Earl. The report requested that LIPA disclose a full detailed accounting and justification of storm-related costs. In reviewing these detailed storm-related billings, LIPA identified questionable expenses billed by National Grid for Hurricane Earl.



In May 2011, *Newsday* reported that Senator Schumer requested that the Federal Emergency Management Agency (FEMA) review reimbursements made to LIPA for the 2010 storm season.[12] The 2011 storm season reimbursements to LIPA for Tropical Storm Irene have also come under close scrutiny from FEMA, with the federal agency making site visits all across Long Island to verify specific costs. The PSC also launched a review of the 2011 storm responses and released a report that indicated significant shortcomings in LIPA's response.[13]

Conclusion

The services LIPA provides to ratepayers are an integral part of life on Long Island. LIPA was created as a mechanism to stabilize and lower the electric service rates Long Islanders were paying under LILCO. More than a quarter-century after the enactment of the Authority's enabling statute, Long Island's electric rates have risen still further, and remain among the highest in the nation. At the same time, customer satisfaction is the lowest in the nation among LIPA's peers. Ratepayers often question not only the Authority's rate setting, but also its operations, billing practices, contractual commitments, debt obligations, and other management practices and processes.

For both customers and policy makers, access to data – LIPA's numbers – is essential to form an accurate assessment of the Authority's performance and to make informed decisions about its future. Figures in this report raise significant questions about the Authority's performance in meeting its statutory goals of limiting costs for ratepayers and taxpayers.[14]

The effort to improve LIPA's performance continues. Specific reform initiatives include recommendations that may result from the investigation by the State Inspector General and new audits by the Public Service Commission, as well as rigorous contract management by LIPA in order to ensure PSEG Long Island's compliance with all its requirements, as called for by the Comptroller. These measures should serve to increase the accountability, transparency, and efficiency of LIPA for ratepayers in the future.

Both the Public Authorities Accountability Act of 2005 and the Public Authorities Reform Act of 2009 have attempted to extend to public authorities the kind of oversight to which other government agencies are subject. However, despite these reforms, there are still aspects of public authority operations that remain in the shadows. This overview and additional profiles of public authorities are part of Comptroller DiNapoli's continuing effort to strengthen government accountability, improve public access to information, and provide public authority ratepayers and decision makers with data that can serve as the basis for sound planning and policies.

Endnotes

[1] The three agreements are the Management Services Agreement (MSA), the Power Supply Agreement (PSA), and the Energy Management Agreement (EMA). See LIPA's 2011 Audited Financial Statements, pp 10-11, at www.lipower.org/pdfs/company/investor/lipa-financials2011.pdf for more information.

[2] For information about rebates and credits, see Long Island Power Authority Residential Customer Service FAQs, Understanding Your Bill, "How Does the Shoreham Property Tax Settlement affect my bill?" at www.lipower.org/residential/custserv/faq/faq-shoreham.html.

[3] U.S. Census Bureau, *2008-2010 American Community Survey 3-Year Estimates*, Table S2001. Earnings in the Past 12 Months (in 2010 Inflation-Adjusted Dollars).

[4] LIPA defines the base rate as "the charges for owning, operating and maintaining the electric transmission and distribution system and for certain on-island generation." For additional information on rates, see LIPA's 2012 Approved Operating Budget, pp 12-13, at www.lipower.org/pdfs/company/investor/2012budget.pdf.

[5] For the components as defined by the PSC, see 16 NYCRR, Section 720-6.2. For the components as defined by LIPA, see Long Island Power Authority Tariff for Electric Service, Fifth Revised Leaf No. 166, which can be found at www.lipower.org/pdfs/lipatariff.pdf.

[6] For more information on the proposal to modify LIPA's Electric Tariff, visit LIPA's website at www.lipower.org/company/papers/rulemaking.html.

[7] PACB Resolution 97-LI-1, "Approving Certain Specified Projects of the Long Island Power Authority, Project Identification, Project Condition #5," July 16, 1997.

[8] U.S. Energy Information Administration, Monthly Electric Utility Sales and Revenue Data, July 30, 2012. The rate data presented by the EIA differs slightly from the rate data reported by LIPA to the Office of the State Comptroller.

[9] Harrington, Mark, "Slimming 'Bloated' LIPA Reported to be Cuomo Aim," *Newsday*, August 9, 2012.

[10] J.D. Power and Associates, 2012 Electric Utility Residential Customer Satisfaction Study, July 2012.

[11] American Customer Satisfaction Index, April 2012 and Historical ACSI Scores: Energy Utilities, April 17, 2012.

[12] Harrington, Mark, "Schumer Seeks FEMA Review of LIPA Payouts," *Newsday*, May 9, 2011.

[13] PSC's reports concerning the 2011 storms may be obtained from the Commission's website www.dps.ny.gov by using the Search section of the homepage and referencing Case 12-E-0283.

[14] In LIPA's enabling statute, the declaration of legislative finding states, in part, "such an authority will provide safe and adequate service at rates which will be lower than the rates which would otherwise result and will facilitate the shifting of investment into more beneficial energy demand/energy supply management alternatives, realizing savings for the ratepayers and taxpayers in the service area and otherwise restoring the confidence and protecting the interests of ratepayers and the economy in the service area." See Section 1020-a of Public Authorities Law, Declaration of Legislative Findings.