

# FIX LIPA COALITION

## *Reforming LIPA, Reducing Rates and Promoting Renewables & Energy Efficiency*

The Long Island Power Authority (LIPA) was created ten years ago to replace the Long Island Lighting Company (LILCO), a privately owned utility. The objective was to create a public power authority that would lower and stabilize rates, and provide transparency for ratepayers. Operating as a non-profit entity, LIPA's role is to serve the Island's growing population with a consistent commitment to cost-containment, efficiency and service reliability. The Fix LIPA Coalition believes a review of LIPA is necessary and offers constructive reforms.

With almost a trillion dollars in stimulus funds being allocated, there is an enormous opportunity to make new and retrofitted infrastructure beneficial to the environment. Green projects mean healthier, more sustainable communities, and new energy sources are key to building this future. President Obama and Governor Paterson are both enthusiastic about investing stimulus dollars in energy efficiency programs.



Green projects can include several things, from regional or municipal investments to private investments in an individual building, technology or company. It includes building wind and solar farms, expanding residential and commercial solar utilities, retrofitting and weatherizing buildings, achieving LEED green building certification, and more. New jobs will include short-term construction and engineering jobs, as well as permanent jobs maintaining the new energy programs and retrofitted power plants.

This public investment is needed to revitalize "Main Streets" on Long Island and across the state, where 225,000 New Yorkers have recently lost jobs. These policies will strengthen Long Island's nearly 100 existing downtown commercial business districts and assist in the redevelopment of 15 commercial corridors and at least 8 new economic

centers. The long term cost savings for Long Island's small businesses associated with these renewable and energy efficiency technologies will promote long term sustainable job growth while enhancing our environment.

New York's Governor has significant power over the LIPA Board of Trustees' compilation and, therefore, the policies of LIPA. The Fix LIPA Coalition is calling on Governor Paterson and the NYS Legislature to implement and require financial and board membership reforms that will improve the management and focus of LIPA.

**This position paper details proposals for the three areas of critical reform identified by the Fix LIPA Coalition.**

- 1. Ratepayer Rescue Plan**
- 2. Long Island's Energy Future**
- 3. Governance and Oversight**



## 1. Ratepayer Rescue Plan

### Rationale:

Ten years after New York State took over the Long Island Lighting Company (LILCO) to create the Long Island Power Authority (LIPA), Long Islanders remain burdened by one of the nation's highest electricity costs. While the justification for state takeover of LILCO a decade ago was lowering costs, this objective has failed to be met.

A December 2005 New York State Comptroller's report states that the "Long Island Power Authority is the most heavily indebted municipal electric utility in the country." The report goes on to say, "LIPA's exposure to variable rate debt as a percentage of total debt, before consideration of interest rate swaps, is among the highest of other publicly-owned electric utilities." Furthermore, Moody's Investors Service, in a May 2005 analysis, reported LIPA's Debt Ratio was 211 percent when compared to other electric utilities in New York State, with debt ratios approximating 100 percent or less. The Long Island economy cannot be competitive with other regions if it is saddled with the \$6 billion plus Shoreham debt imbedded in its rates<sup>1</sup>.

The **Fix LIPA Coalition** is proposing a "Ratepayer Rescue Plan" as part of the new wave of federal bailouts. Our goals are:

- to achieve the reasonable electricity rates for Long Island's 3 million residents and thousands of businesses that were promised a decade ago; and
- to transform a debt-loaded power company into a 21<sup>st</sup> century leader of clean energy and responsible citizenship.

### Key Elements:

Eliminate, through direct federal payment, LIPA's crushing, \$6.6 billion debt, associated in part with the failed/abandoned Shoreham nuclear power plant, which arose from federal policies promoting this facility. The federal Nuclear Regulatory Commission (NRC) promoted and supported the construction of Shoreham. The NRC granted LILCO a low power license and allowed the plant to be irradiated, although town, county and state governments were opposed to its operation and would not approve a federally required local evacuation plan. LIPA inherited the Shoreham debt from LILCO.



- Today, approximately 16% of every electric customer's bill goes to servicing LIPA's debt. Lowering electric rates by paying off this debt is crucial to helping Long Island ratepayers weather the current economic downturn, and plan for a vibrant future marked by green jobs, new industry, and full employment. Reducing LIPA's debt will benefit every ratepayer, business, school district and municipality on Long Island. Boosting Long Island's economy will, in turn, increase financial activity and investment throughout the region, improving the state and federal economies as well.



- In exchange for this bailout, LIPA should be required to meet stringent conservation, energy efficiency and renewable energy benchmarks in order to break the utility's dependence on fossil fuels. This element of the plan will attract investment, create green jobs, and lower the carbon footprint of a densely populated region.
- As further detailed in the page on governance, bailout funds should also be tied to changes in LIPA's bylaws that result in transparency, accountability, and expert oversight.

## **2. Long Island's Energy Future**



In the decade since LIPA took over LILCO in 1998, the need to retool our energy infrastructure from a fossil fuel to a renewable energy based system has grown from desirable to urgent. Our wasteful energy consumption practices and reliance on fossil fuels for electricity generation have severe negative environmental, health, economic and security effects.

Oil and natural gas, the primary fuels used on Long Island for electricity generation, have become more price-volatile than ever before, exposing ratepayers to significant increases in their electric bills.

Climate scientists world-wide have called for drastic reductions in greenhouse gas emissions in order to avoid catastrophic and irreversible effects of climate change. Reductions of 80% below 1990 levels may be needed by 2050 or even earlier.

In response to this urgency, New York State has issued goals to reduce energy consumption and CO<sub>2</sub> emissions, including a requirement that 30% of the State's electricity come from renewable sources (the Renewable Portfolio Standard) and a goal to reduce electricity consumption 15% by 2015.

LIPA is neither on track to achieve such goals nor does it have clear and binding implementation plans to do so. Long Island currently generates less than 1% of its electricity from renewable sources such as solar and wind generation.

- **Energy Efficiency and Conservation**



Long Island’s potential to reduce electricity consumption through conservation and energy efficiency efforts is considerable (estimated at a minimum of 500 MW) and largely untapped. Despite an urgent need to at least double LIPA’s efficiency program budget, the Authority has failed to do so.

The Efficiency Long Island (ELI) initiative, a 10-year, \$924 million LIPA energy efficiency program should be fully funded and rolled out immediately. ELI will make a wide array of incentives, rebates and initiatives available to LIPA’s residential and commercial customers to reduce their energy usage and lower their bills.

With its focus on rates, LIPA may want to sell as much electricity as possible in order to spread its fixed costs over more kilowatt-hours, thus reducing the rate per kwh. Focusing on rates makes the utility inherently reluctant to encourage conservation and efficiency. The state legislature should therefore establish ELI as an independent entity, mandated to meet state energy efficiency goals, appropriately funded by legally required contributions from LIPA’s budget, and governed by an independent board.

- **Renewable Energy**

The LIPA Act should be amended to require LIPA to meet the State’s 30% Renewable Portfolio Standard by 2015, and to establish and meet annual implementation milestones.



As part of the update of its current Master Plan, LIPA should also develop and implement binding plans to reduce carbon emissions from electricity consumption annually in order to reach an 80% reduction by 2050 or sooner.

LIPA should adhere to these basic principles, which have been proven to develop successful renewable energy markets in other states and countries, in order to meet the above goals:

\* **Long-term Viability** - Establish deployment targets over a period of a decade or more in order to develop a self-sustaining and diverse renewable market.

\* **Accessibility & Fairness** - Renewable energy technologies must be given the same access to grid support as conventional resources. This means, but is not limited to, safe/streamlined interconnection requirements and reasonable access laws.

\* **Financeability** - Finance or purchase decisions must be supported with upfront payments or a stable, certain long-term revenue stream.

\* **Market Transition** - The program must condition customers and developers to a market in which parity with grid supply is achieved and ongoing cost-effective deployment of renewable energy can occur without the benefit of extra-market support.

### **3. GOVERNANCE & OVERSIGHT**

The original legislation creating LIPA called for an elected board from 26 rate-payer districts across Long Island, with the intention of providing accountability from LIPA.. However, subsequent legislation was passed allowing for the current system of an appointed board. Currently, the fifteen members of the LIPA Board of Trustees are appointed by state elected officials:

- The NYS Governor appoints nine members.
- The Speaker of the Assembly appoints three members.
- The Majority Leader of the Senate appoints three members.



Although it is called the “Long Island” Power Authority, there is currently no direct accountability to the ratepayers of Long Island from the board in charge of the authority. Board members are not required to meet specific criteria or qualifications. There is no formal training mandated for trustees and no process in place to hold the members of the board accountable.

***As an alternative to an elected LIPA board, the Fix LIPA Coalition recommends changing the constitution of the LIPA Board of Trustees to provide accountability to Long Island ratepayers and provide the board with specific areas of expertise to assist LIPA staff in critical financial and policy decisions.***

The LIPA Board should include:

- The Nassau County Executive or a designee.
- The Suffolk County Executive or a designee.
- The Nassau County Comptroller or a designee.
- The Suffolk County Comptroller or a designee.

Additional changes:

- The size of the board should be reduced to enhance its ability to work effectively.
- The trustees appointed by the governor and state legislative leaders should be required to fill specific competencies. There are currently no members with expertise in environmental protection, energy efficiency, climate change or

related issues. Similarly, members of the board should represent small business interests or organizations. Board members should meet specified criteria, including relevant expertise in financial management, diverse energy interests, environmental protection and business.

The LIPA Board of Trustees needs to make important decisions with far-reaching and long-term consequences, yet the current board lacks credibility or legitimacy to make these difficult decisions.

**Temporary Fiscal Review Board:**

The Fix LIPA Initiative recommends the immediate appointment of a temporary fiscal review board, similar to the Nassau Interim Finance Authority (NIFA). NIFA had the ability to oversee all major fiscal decisions made by Nassau County and was widely regarded as effective in getting Nassau’s fiscal house in order. This board should be appointed on a temporary basis with the charge of adopting a multi-year financial plan for LIPA.

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<sup>i</sup> Source: <http://www.osc.state.ny.us/reports/pubauth/lipareport121205.pdf> NYS Comptroller report, “Long Island Power Authority: Considerations for Rate Setting”