

More light on LIPA

Alessi's report raises important
money-management questions

Long Islanders pay some of the highest electric bills in the nation, and that's why any possible mass-rate penny by the Long Island Power Authority is a cause for concern. The charges that LIPA successfully spent \$60 million in capitalizing its power plant over the last few years for safety and reliability makes sense, once again, that the public's money must be subject to increased regulatory oversight. Marc Alessi (D-Norfolk), the newest member of the State Assembly, is the author of Long Island's original Statewide Energy Plan (S.E.P.) which calls for the creation of a public utility commission to oversee the state's energy resources.

Name/Nombre

Marc Alessi's

School/Colegio

LIPA

Grade/Curso

Homework

- 9 3/4" x 7 1/2"
- 247 x 190mm
- 100 sheets/hojas

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Notes

May 26, 2005

LIPA announces a 1.9 percent addition to the existing 19.3 percent fuel surcharge. LIPA cites sustained increases in oil, natural gas and purchased power costs in the first quarter of 2005, and forecasts that prices will remain high well into the future to justify the increase.

(LIPA press release, May 26, 2005)

Sept. 30, 2005

LIPA increases fuel surcharge by 5.5 percent. In addition, because the hike is retroactive, ratepayers will be paying a surcharge of over 50 percent until the end of the year.

Oct. 7, 2005

LIPA announces it will seek a base rate hike.

("LIPA Raising the Rates," Newsday, Oct. 7, 2005)

October 25, 2003

NYS Comptroller Alan G. Hevesi criticizes LIPA for paying consultant Anastasia Song, a former colleague of Gov. Pataki, a \$582,000 salary in 14 months as LIPA's acting Chief Financial Officer. That's four times what the job should have reasonably paid. The preceding CFO, Diana Taylor, earned an annual salary and bonus of \$243,000. ("*Hevesi Says LIPA Paid Far Too Much to a Top Aide*," *The New York Times*, October 25, 2003.)

(Comptroller's Press Release, Oct. 27, 2003)

December 3, 2003

LIPA Audit finds KeySpan overcharge of \$110 million over 5 years. LIPA declares that the monies will be recovered, but fails to state any plans for the funds.

January 4, 2004

In this year's budget proposal, LIPA projects "fuel surcharge" increases of 4.5 percent in 2004, 1.4 percent in 2005, 1.0 percent in 2007, and 1.6 percent in 2008 for a total of 17.3 percent in fuel surcharges by 2008 which would translate into nearly \$192 more annually as compared to 2001. (*LIPA Budget Proposal*.)

Classifying it as a "fuel surcharge" instead of a "rate increase" exempts LIPA from review and approval by the PSC. ("*LIPA Plans 3-5% Hike in Surcharge*," *Newsday*.

December 5, 2003.)

January 27, 2004

State Comptroller audit on LIPA's spending practices finds:

- LIPA does not clearly identify spending for its own internal operations. Instead, those internal costs are mixed in with the cost of delivering power, which is handled under contract by KeySpan.

- Actual spending on internal operations grew 66 percent to \$184.5 million in 2002 from \$110.9 million in 2000, even though there was virtually no increase in the number of customers served.

June-August 1998

LILCO shareholders approve a "golden parachute" or severance pay totaling \$67 million to 25 top managers just before the May 28th partial takeover of LILCO. William Catacosinos, Chairman of LILCO, received \$42 million in severance pay, although he still retained his job. ("*Gulotta Sez Ex-LILCO Big Must Go*," *Daily News*, June 10, 1998.)

June 19, 1998

LIPA Chairman Richard Kessel attempts to block a fact-finding public hearing to see what LIPA, PSC, or the Pataki Administration knew about \$67 million dollars in executive bonuses as part of the LILCO takeover. ("*Suffolk Assembly Members Charge: Kessel Stonewalling Public Scrutiny of LILCO Bonuses*," *Newsday*, June 19, 1998.)

August 12, 1998

LIPA announces that it will send \$142.5 million in rebate checks to ratepayers as promised by Pataki and LIPA during the LILCO takeover. The borrowed money, which was generated through the sale of tax-free bonds, will ultimately cost Long Island ratepayers about \$300 million to repay. ("*LIPA to Use Bond Money for Rebates*," *Newsday*, August 13, 1998.)

October 1998

Long Islanders conveniently receive rebate checks before the 1998 election. Chairman of LIPA Richard Kessel says, "The rebate checks have nothing to do with the election." ("*Waiting to Hear Check's in the Mail*," *Newsday*, September 4, 1998.)

March 1, 2001

LIPA institutes a 5.8 percent "fuel surcharge." Under the settlement that created LIPA in 1998, ratepayers were promised a 20 percent decrease in rates for five years - but LIPA has said they are permitted to pass through fuel costs without PSC approval for changing its rates. ("*LIPA OKs 5.8% Electric Surcharge*," *Newsday*, March 2, 2001.)

August 22, 2001

Comptroller audit finds LIPA failed to have written procedures for its operations and failed to fully comply with the Internal Control Act. Also found improper transfer of \$25 million to Nassau County.

March 1, 2002

LIPA plans to extend for one year its 5.8 percent fuel surcharge. ("Power Authority's New Accounting Under Fire," Long Island Business News, March 15, 2002.)

March 2, 2002

According to LIPA documents, the broad budget category used to justify the surcharge includes tens of millions of dollars in expenses not directly related to LIPA's purchases of oil, gas or electricity. For 2002, the percentage of non-fuel related items jumped to 27 percent. Ironically, LIPA has budgeted a \$78 million rise in the overall fuel costs category for 2002, even as it budgeted a \$101 million fall in its actual costs for buying oil, gas and electricity.

("Power Authority's New Accounting Under Fire," Long Island Business News, March 15, 2002.)

March 2, 2002

Kessel acknowledged that LIPA was using its "fuel costs" category as a catch-all, but he said it inherited the practice from its predecessor, the Long Island Lighting Co. Matthew Cordaro, a former LILCO executive, said the fuel cost category had grown into a "slush pot" at LILCO. "If you couldn't find a place to put something and you wanted to bury it, people buried it in the fuel adjustment cost."

("Power Authority's New Accounting Under Fire," Long Island Business News, March 15, 2002.)

July 1, 2002

LIPA was given the third worst rating among 74 utilities nationwide according to customer survey by J.D. Power and Associates. ("Long Island Power Authority Near Bottom in Customer Satisfaction Survey," Long Island Business News, August 16, 2002.) LIPA ranks in last place in national J.D. Power survey regarding electric utility price and value.

January 3, 2003

Last remaining energy services company seeking retail customers on Long Island, KeySpan Energy Services, announces it is pulling out of the market. Retail competition for electricity services effectively ends.

March 3, 2003

LIPA raises the fuel surcharge by 3 percent to 8.8 percent, up from 5.8 percent in 2001. Including the new surcharge, customers are now paying an average of \$89.88 more annually as compared to 2001.

July 1, 2003

It is revealed that the Long Island Power Authority paid Strategic Planning Systems to survey ratepayers about how they planned to vote in the 2000 election. The polling firm was paid without a contract and selected without the competitive bidding process, which LIPA's own guidelines require for all contracts valued at more than \$5,000. LIPA could not provide complete information about its spending on polling, which totaled at least \$1.2 million in 2001 and 2002. Other utilities do not do political polling.

("A Year of Looking Under Rocks," The New York Times, November 28, 2003.) (Comptroller's Press Release, July 7, 2003)

July 1, 2003

LIPA plans to spend \$1 million on the first year of a multi-year branding campaign.

(Comptroller's Press Release, July 7, 2003)

July 1, 2003

LIPA reduces the rebate offered to families since 1998 for trading in their old air conditioning units for energy-saving new ones, from \$75 to \$35.

("Heat's on LIPA over Cold Cash Rebates," The New York Post, July 10, 2003.)

October 12, 1994

Although never operating commercially, LILCO's Shoreham Nuclear Power Plant is fully decommissioned at a cost of approximately \$186 million. Its total price tag of \$6 billion is about 85 times higher than the original estimate. ("Long Island: Our Story," *Newsday*, June 21, 1998) ("Shoreham Decommissioned by NRC," *Newsday*, June 12, 1992.)

July 16, 1997

PACB Resolution is passed, authorizing LIPA to issue bonds for the acquisition of the LILCO and to enter management and other agreements with KeySpan corporation with the following provision: LIPA will not implement an increase in average customer rates exceeding 2.5 percent over a 12-month period, nor will LIPA extend or reestablish any portion of a temporary rate increase over 2.5 percent, without approval of the Public Service Commission following a full evidentiary hearing. (*Public Authorities Control Board Resolution*, no. 97-LI-1.)

September 29, 1997

After heavy criticism for using ratepayer funds to fund a \$1 million advertising campaign that pushed for support of the partial takeover plan, LILCO reversed itself and announced it would bill shareholders for the ad campaign. ("Shareholders Pay," *Newsday*, September 30, 1997.)

May 28, 1998

LIPA assumes \$7.3 billion in LILCO debt, including \$4.5 billion in Shoreham debt as part of a "deal" where the public authority (LIPA) and the profit-oriented corporation (KeySpan) work together in a situation unique to Long Island that still affects both tax and electric rates. Ratepayers are left with an enormous pile of debt as LILCO's investors escaped largely unscathed. ("1998: Zap! LI Lighting Co. Transforms into LIPA, KeySpan," *Long Island Business News*, Aug. 22, 2003)

- Actual spending grew more than twice as fast as budgeted spending. Over the same period, the budget grew only 32 percent.

- LIPA staff grew nearly 70 percent to 79 in 2002 from 47 in 1999.

- The number of staff members making more than \$100,000 more than doubled to 24 from 11. Seven staff members make more than \$200,000.

- Fifteen of LIPA's highest paid employees received vacation buyback payments in 2002, one more than \$37,000.

- LIPA spends \$2 million on advertising and more than \$400,000 on sponsorship of special events, ticket purchases and donations in 2002. (*Comptroller's Press Release / Report*, January 27, 2004)

February 10, 2004

LIPA increases fuel surcharge by 4.5 percent.

June 4, 2004

LIPA announces a 5 percent addition to the existing 13.3 percent fuel surcharge. LIPA cites rising fuel oil, natural gas and purchased power costs, and the expectation that fuel and purchased power costs will remain high for the remainder of the year, to justify the increase.

(LIPA press release, June 4, 2004)

Sept. 29, 2004

LIPA announces a 1 percent addition to the existing 18.3 percent fuel surcharge. LIPA again cites rising fuel oil, natural gas and purchased power costs, and the expectation that fuel and purchased power costs will remain high for the remainder of the year once again to justify the increase.

(LIPA press release, Sept. 29, 2004)