Senator Fuschillo Announces New Law to Restructure Utility Operations on Long Island

CHARLES J. FUSCHILLO JR. July 28, 2013

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Privatized Utility System Will Focus on High Performance under Strengthened State Oversight

Senator Charles J. Fuschillo, Jr. (R-Merrick) recently announced that legislation he supported that dramatically revamps the electric utility on Long Island has been signed into law by Governor Cuomo. The legislation privatizes utility operations on Long Island, improves customer service, including stabilizing rates and enhancing emergency response and preparation; reduces the cost of Long Island Power Authority (LIPA) debt; and implements tough state oversight for the new utility company. It also achieves savings to allow the new utility to seek a rate freeze for 2013, 2014 and 2015.

“Superstorm Sandy proved to us once and for all that LIPA was in need of a major overhaul and increased oversight to protect ratepayers and ensure those in charge are better prepared to deal with dangerous storms,” said Senator Fuschillo. “Moving forward, we must continue to focus on stabilizing rates and improving the service that is provided to Long Islanders and we must ensure that this new entity is as responsive and accountable as it can be. I commend Governor Cuomo for signing this measure into law.”

The legislation signed today sets in motion an end to the failed management structure of LIPA, gradually giving PSEG full authority over the utility's day-to-day operations including budgeting, maintenance, storm preparedness and response, infrastructure improvements, and energy efficiency and renewable activities.

LIPA will be reduced to a holding company with a significantly smaller staff, set at levels only necessary to ensure that the authority is able to meet its core obligations, and with a new board reduced to nine members. This maintains the utility's eligibility for FEMA and tax benefits, but offers the benefits of PSEG Long Island's more efficient management structure as a private company.

The reduced LIPA board will be responsible for rate decisions based on the record that is established by the Department of Public Service (DPS). If this board amends or modifies the DPS recommendation, it must hold a public hearing to explain its actions.

Since the late 1990's, LIPA's debt has not decreased and represents almost 10% of ratepayer bills. Escalating property taxes have also contributed to high rates. To provide relief for ratepayers, the law reduces the cost of LIPA's debt by refinancing up to half of the $6.7 billion debt at a lower interest rate. A 2% annual property tax cap is also established for the transmission and distribution system. As a result of these and other expected savings, LIPA and PSEG Long Island are seeking a rate freeze for 2013, 2014 and 2015.

Under the new system, utility performance and rates will be subject to tougher state oversight under a new Long Island office of the DPS, which has the authority to review PSEG Long Island's operations and issue recommendations to the LIPA Board for implementation. Proposed rates will undergo an independent review by DPS that includes public hearings. DPS also performs independent reviews of PSEG Long Island's storm preparedness and performance. Capital planning is also subject to DPS review on an annual basis, and the State Comptroller retains the auditing powers that were held prior to today's signing.

PSEG Long Island will also remain committed to renewable energy and becoming more energy efficient. The new utility will not only design and administer efficiency and renewable programs, and continue recently approved renewable power procurement programs; it is also required to produce a new capital and operating plan. This includes recommendations for energy efficiency, smart grid solutions and distributed generation to give customers more value and reliability from their service.

The new system will remain under public ownership with tax exempt financing for new capital investments and eligibility for FEMA reimbursement for major storm costs. To ensure stronger and more effective state oversight, the DPS staff will be responsible for reviewing proposed rates, including a 9 month process with public hearings and reviewed by independent DPS staff.