LILCO, LIPA and public power

Since the dawn of commercial electric power generation during the early years of the 20th century prior to World War I, economic prosperity and industrial development has depended upon the availability of relatively inexpensive reliable electric power.

During World War II, Long Island, particularly Nassau and Suffolk counties were an industrial powerhouse for the defense industry. The aircraft industry along Route 110 — centered around Grumman and Fairchild/Republic —built the fighter planes which drove the Luftwaffe from the skies over Europe and took back the Pacific from the Japanese at the Battle of Midway.

During that period of frenzied industrial manufacturing activity, a number of small commercial electric power companies supplied the energy which powered the factories which built the planes and the number of smaller specialty firms which developed and built the avionics which guided the planes to their targets and back to their bases.

Through the Korean War, Nassau and Suffolk counties employed thousands of engineers, scientists, and technicians in dozens of rapidly growing companies which were developing ever more complex and effective electronics and eventually computers.

Unfortunately, by 1960, it was over and Long Island was becoming an industrial backwater. There were many causes for the decline: political corruption, concentration on home building rather than industrial development, a rapidly burgeoning bureaucracy at all levels of government, a costly and inefficient education system, and any number of other causes too numerous to mention at this time. However, at the heart of our industrial decline was the newly emerged Long Island Lighting Company, a publicly traded private corporation allegedly regulated in the public interest by a New York State bureaucracy, the Public Service Commission.

Rather than serving as the economic engine driving Long Island business and industry toward growth and prosperity after World War II, the Long Island Lighting Company, LILCO, became synonymous with ineptitude, poor service, and noncompetitive pricing which drove business from Long Island to other areas of the United States where upon the electric power was priced more reasonably and delivered more efficiently.

Without any regard for rational economics, the decision by LILCO in 1973 to build a nuclear electric power plant at Shoreham established the Triple Crown of economic catastrophe for Long Island: the Southwest District, the Low-Down Expressway, and the Shoreham Nuclear Plant.

What has largely been forgotten over the years is why it was so important for LILCO to undertake building a nuclear power point. Since the earliest days of commercial utility company regulation by public authorities, regulated public utilities such as LILCO were allowed to earn a fixed return on investment which was considered reasonable by the regulators and supposed to be acceptable to the ratepayers and the stockholders who board utility stocks primarily for steady dividend payments.

The return on investment, however, was based on the capital assets of the utility company and the more expensive those capital assets were to build and maintain, the greater return on investment for the stockholders, and the greater the remuneration for the corporate executives. In 1973, the most expensive single capital investment loco could make was to commit to building a nuclear power plant. As soon as the commitment was made the “rate base” upon which return on investment was calculated increased dramatically as did the cost of electricity to the ratepayers.

This was the dirty little secret which the elected officials in all the towns of Nassau and Suffolk counties, as well as the members of the assembly and the state Senate from Long Island all scrupulously ignored and looked the other way while the Public Service Commission continued the economic rate of the ratepayers all the while ignoring the continued degradation of the electric power distribution system on Long Island.

With LILCO near bankruptcy in 1985 as the Shoreham Nuclear Plant was closed, the Long Island Power Authority — LIPA — was created as a municipal subdivision of the state of New York for the sole purpose of acquiring the assets and securities of the Long Island Lighting Company. A second Long Island Power Authority, a wholly owned subsidiary of the original LIPA was formed in 1998 to acquire LILCO's transmission and distribution system which are maintained by National Grid.

LIPA does not own any electric power generation facilities on Long Island. Is unclear, who really does own the electric power generating facilities we see at Northport, Port Jefferson, Glenwood Landing and elsewhere throughout Nassau and Suffolk counties. We do know that our New York State public authority LIPA owns the transmission and distribution system but apparently is not responsible for either maintaining it or assuring the ratepayers of reliable rolling when inexpensive electric power with which to grow the economy of Long Island.

On January 9, 2013, New York governor Andrew Cuomo called for the privatization of LIPA in his State of the State speech. In May, he announced a plan to drastically increase PSEG's [Public Service Electric & Gas, a New Jersey public utility company] responsibility in the operation of LIPA, giving it near complete control of the operation, including all day-to-day operations, essentially privatizing LIPA. The Long Island Power Authority would simply exist as the owner of the system and holder of its debt. In other words the ratepayers on Long Island and as backup the taxpayers of the state of New York hold all of the debt while the income goes to a New Jersey private corporation PSEG.

The ratepayers on Long Island unknown responsible for a decaying and obsolete distribution system and approximately $7 billion in debt as our elected representatives again sellout the people of Long Island in order to bail out the principal bondholders — the bankers and their financial services companies.

Rather than privatization, establishing the Long Island Power Authority as the municipal power authority it was originally intended to be and giving it the mandate to make reliable and reasonably priced electric power the economic engine for business and industrial growth on Long Island makes sound economic sense. Unfortunately, it might not make political sense to our elected officials on Long Island and in Albany.

Municipal power has been successful in many areas of the United States since before World War I. It can certainly be successful on Long Island if it is managed properly. The problem with the Long Island Power Authority was its political control, it's lack of accountability, and the general ineptitude of its management facilitated by inadequate oversight by its rubberstamp Board of Directors.

There are certain inherent advantages in public power. As a not-for-profit public benefit authority it is accountable to the people it serves rather than stockholders far removed from the service area. Its operating mandate is public service to its ratepayers and their regional economy. There is no conflict of interest or divided loyalties between the Board of Directors and the community they serve. The dollars earned by the municipal utility stay in the communities where they are earned and improve the quality of life for those communities and their economic value to the region.

Before giving away the Long Island Power Authority to a New Jersey public corporation operated for profit rather than in public interest, the governor should revisit the original plan for the Long Island Power Authority to become a local municipal power company serving the people of Long Island.