

# **Ratepayers: Take back your Long Island Power Authority!**

Since the advent of commercial electric power generation prior to World War I, economic prosperity and industrial development has depended upon relatively inexpensive reliable electric power available by pushing a button or throwing a switch.

## **LIPA is failing the ratepayers and strangling the Economy of Long Island!**

- LIPA is the millstone dragging the economy of Long Island to the depths of recession.
- The Long Island Power Authority, LIPA, does not serve the interests of its ratepayers and it never has.

- The Long Island Power Authority, LIPA, as it has been structured and as it is being restructured can never serve the interests of its ratepayers.
- LIPA exists to pay off the bondholders who foolishly invested in the Shoreham nuclear power plant.
- The Long Island Power Authority, LIPA, can only contribute positively to the economic well-being of Long Island if it is reorganized as a ratepayer owned not-for-profit public utility with the ratepayers electing the Board of Trustees, not State government officials appointing them.

## **A little history. . .**

During World War II, Nassau and Suffolk counties on Long Island were an industrial powerhouse for the defense industry. The aircraft industry along Route 110 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 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

Unfortunately, by 1960 it was over. Long Island was becoming an industrial backwater. At the heart of our industrial decline was the 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, the Long Island Lighting Company, LILCO, became synonymous with ineptitude, poor service, and noncompetitive pricing.

LILCO drove business from Long Island to other areas of the United States where 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 set the stage for economic catastrophe on Long Island.

What has largely been forgotten over the years is why it was so important for LILCO to undertake building a nuclear power plant.

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 capital investment for their stockholders.

The return on investment, however, was based on the cost of those capital assets.

The more costly those capital assets, the greater return on investment for the stockholders, and the greater the remuneration for the power company executives.

In 1973, the most expensive single capital investment LILCO could make was to build 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 scrupulously ignored.

In 1986 the Long Island Power Authority — LIPA — was created for the primary purpose of assuming the liabilities of the Long Island Lighting Company, particularly the Shoreham Nuclear Plant.

In 1989, LILCO sold the unfinished unproductive Shoreham Nuclear Power Plant to LIUPA for \$1.

As part of the Agreement, LIPA forced the Long Island ratepayers to assume the costs of the useless Shoreham Nuclear plant, a \$6 billion debt at that time.

In 1998, LIPA acquired LILCO's already antiquated and inefficient electrical transmission and distribution system.

That same year, LILCO's remaining assets, including its electrical generating facilities were merged with Brooklyn Union Gas, creating a new publicly traded Corporation, KeySpan.

An October 2007, National Grid purchased KeySpan.

### **Back to LILCO again!**

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 give Public Service Electric & Gas, [PSEG] a stockholder owned publically traded New Jersey public utility company, near complete control of LIPA operations, essentially privatizing LIPA.



The ratepayers on Long Island hold all of the debt—approximately \$7 billion— while the guaranteed operating profits—the so-called “return on investment” goes to a New Jersey stockholder-owned for-profit corporation PSEG.

The ratepayers on Long Island will now become responsible for living with and maintaining a decaying and obsolete electric power distribution system while paying down approximately \$7 billion in debt.

Again the people of Long Island are being sold out through LIPA.

- LIPA has never represented the interests of its ratepayers.
- LIPA does not provide any direct services to its ratepayers.

- LIPA is not accountable to its ratepayers.

## **A real solution to the electric power problem on Long Island**

The Long Island Power Authority, LIPA, can only contribute positively to the economic well-being of Long Island if it is reorganized as a ratepayer owned not-for-profit public utility with the ratepayers electing the Board of Trustees, not State government officials appointing them.

LIPA must belong to its ratepayers and its management must be accountable to the ratepayers.

The ratepayers must elect the Board of Trustees and the Board of Trustees must select management which recognizes the critical place of electric power in the economy of Long Island.

Rather than privatization, establish the Long Island Power Authority as a ratepayer owned not-for-profit public utility company responsible only to its ratepayers and operated for the sole and exclusive purpose of providing reliable and reasonably priced electric power as the economic engine for business and industrial growth on Long Island.

This makes sound economic sense.

Unfortunately, it might not make political sense to some of our elected officials on Long Island and in Albany.

Remember . . .

- Public utilities are supposed to provide public service.
- Public utilities should be the engines for economic growth and development for their service region.
- The primary source of income for a public utility company is its ratepayers—the individuals, business firms, and communities which utilize and pay for the electricity.
- There is absolutely no social or societal justification for the operation of an electric power public utility company as a private for-profit corporation.

- Private for-profit public utility corporations exist to create wealth for their stockholders not provide benefits for their ratepayers.
- The capital needs of public utility companies are met through the bond market and the ratepayers, not the stockholders, secure the bonds.
- The economic realities of the 21st century in America demand that electric power generation and distribution be owned and controlled by those who purchase the power — the ratepayers.
- There is nothing wrong with the corporate form of organization for an electric power public utility company so long as the rate payers are the stockholders.

As a not-for-profit public benefit authority LIPA would be accountable to its ratepayers and the people it serves rather than stockholders far removed from the service area.

Before giving away the Long Island Power Authority to a New Jersey public corporation operated for profit rather than in the public interest, the Governor should give the Long Island Power Authority back to its ratepayers and let it serve the people of Long Island.