



THE SENATE
STATE OF NEW YORK

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July 27, 2015

Audrey Zibelman, Chair
NYS Department of Public Service
Three Empire State Plaza
Albany, NY 12223

David M. Daly, President/COO
PSEG, Long Island
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Uniondale, New York 11533

Julia Bovey, Director
NYS Dept. of Public Service, LI
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John McMahon, CEO
LIPA Corporate Office
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Hon. Kathleen Burgess
New York State Department of Public Service
Three Empire State Plaza
Albany, New York 12223

Dear Ms. Zibelman, Mr. Daly, Ms. Bovey, Mr. Suozzi and Ms. Burgess:

We wish to express our opposition to the most recent rate plan requests from PSEG-LI and the impact they will have on homeowners, businesses, and local governments in our region. We are further concerned with the effect that the current state of electricity markets is having on rates, reliability, the Long Island Power Authority's (LIPA) debt structures, and our overall economic climate. We ask that LIPA and PSEG-LI respond to this letter, in a timely and comprehensive manner, and to the issues we are calling into question regarding various aspects of the power system on Long Island.

As stated above, our most immediate concern is the rate increase request and its effects on Long Island ratepayers. However, no discussion of potential rate impacts is sufficient without PSEG-LI and LIPA providing greater clarity with respect to plans for progress in the areas of LIPA's debt levels and the Long Island Department of Public Services' (LI-DPS) oversight and recommendations. In addition, it is essential that we have more insight regarding LIPA's and PSEG-LI's operations and cost structures, the status of Utility 2.0 and the Integrated Resource Plan (IRP).

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In many vital ways, the transition from National Grid to PSEG-LI for system operations has been very smooth and positive. Although we have not yet had to face a major weather event since the turnover, it appears that PSEG-LI is much better prepared to handle potential disruptions in comparison to recent experience with National Grid and LIPA. However, more recent events and unfortunate legacies of the power system on Long Island have led many to wonder whether the current structures and decisions following the implementation of the LIPA Reform Act are working in the best interests of Long Islanders. In addition, appearances of LIPA and PSEG-LI collaboration with regard to rate structures, debt levels and particular interests are raising additional questions about where power decisions are leading.

Specifically, we are bringing to your attention the following matters that we believe are causing very negative impacts on current and future rate structures:

- The Reform Act directed a transition to an independent operator and established a mechanism to reduce legacy debts. It was anticipated that a reduction in debt levels, not service costs, would result in an actual decrease in LIPA's and related entity's debt. However, LIPA debt levels have in fact risen from the \$6.9 billion level we were provided in 2013, to a proposed \$8.6 billion level by 2018. The Legislature did not agree to the creation of the Utility Debt Securitization Authority merely to allow LIPA to refinance existing debt. The goal was to rein in LIPA's overall debt to reduce pressure on rates.
- The Reform Act was enacted with the understanding that LIPA's rates would be frozen for three years. All well and good, but the proposed rate increases could not come at a more problematic time, as the Island still struggles to overcome the effects of the recession.
- The anticipated four percent rate increase on the distribution and transmission portion of ratepayer charges is worrisome enough given LIPA's already too high charges, but since the January 30th submission, there have been several reported unprecedented requests, and faulty estimations:
 - LI-DPS admitted that it made a \$124 million "miscalculation" in its review of the rate LIPA / PSEG-LI rate request.
 - LI-DPS also recommended that PSEG-LI be granted a \$12 million increase from the proposed rate structure in 2018. PSEG-LI has strongly objected to this recommendation, and instead has asked for an automatic yearly rate review in 2017 and 2018. We can find no precedent for this type of automatic rate review anywhere else in the State.

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- LIPA has, for many years now, been granted automatic pass-through for energy supply charges. The Reform Act also granted another unprecedented pass through: Utility Tariff Bond charges. But recently, PSEG-LI and LIPA, subsequent to the original rate proposal, are now requesting automatic “cost recoveries” for expenses not granted to any other utility in the nation. These costs include unrealized debt refinancing savings, costs of labor negotiations, interest on variable-rate debt, taxes on LIPA owned properties, or other property for which LIPA agrees to provide assessments (currently in tax grievance proceedings), and any other costs imposed by new laws, regulations or court decisions. Of course, the determinate of what these costs would be seems to be none other than LIPA / PSEG-LI. We find it hard to see how any of these requested automatic rate adjustments serve the public interest, and encourage LIPA and PSEG-LI to hold down costs and operate as efficiently as possible.
- We are following with great interest the revenue “decoupling” proposal that LIPA has recently adopted. We understand that some of the impetus for revenue decoupling has been the interface of Utility 2.0 with the REV proceedings emanating from Albany. However, we believe there has been a general lack of information and clarity about potential impacts on certain ratepayers, especially senior citizens and the disabled. How the mechanism for delivery service adjustments would actually be implemented is just not well explained.
- Unfortunately, since the implementation of the Reform Act, there has been an increasing lack of transparency regarding PSEG-LI, National Grid, and LIPA operations including:
 - Hidden salaries and other compensation for eighteen executives at PSEG-LI; if PSEG-LI was a standalone corporation, these compensation levels would be reported as part of required SEC filings. To claim that this disclosure is not required because PSEG-LI is a wholly owned subsidiary of the PSEG parent, is to make a mockery of the claim that PSEG-LI acts independently, and is not beholden to the parent for power procurement, labor contract, customer service provision, or other cases where the interests of the Island and the rest of PSEG service territories may not completely align.
 - It has not been satisfactorily reported to us and to the public, how the improper rate classifications for various large and small businesses, schools, government offices, and municipal utilities will be resolved without prejudice upon other ratepayers.

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As representatives of this region, we believe that protecting ratepayers must be the priority in any plan moving forward. The current rate plan request from PSEG-LI is neither in the short nor long term best interests of our constituents. We request an immediate response to our concerns, an extension of the comment period and further hearings by the LI-DPS to allow the above stated issues to be considered and resolved. This is the first time that rates are being addressed under the LIPA Reform Act and how this procedure is conducted will set the precedent for future rate proceedings. This process must be done with utmost transparency and deference to the ratepayers of Long Island.

Sincerely yours,

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