

## **Dan Aschenbach Testimony to Commission on The Future of the Long Island Power Authority- May 12, 2023**

For 30 plus years I was lead public power credit analyst for Moody's Investors Service including covering the rating of Long Island Power Authority. I have evaluated US municipal electric utilities throughout North America assessing credit position; risks; strengths and cost recovery process.

My opinion from my experience is that what is gained in the full municipalization of electric service on Long Island is the significant \$83 million cost savings to Long Island ratepayers due to the end of the contract with PSE&G. This would provide a new locally appointed LIPA board, full control and focus on keeping rates as low as possible as LIPA takes on initiatives to decarbonize the fuel mix; to ensure transmission reliability and preparation for the next major storm; and to continue to be responsive to customers. PSE&G appears to have established a distraction for utility governance and better quality service for ratepayers. Local control has been shown throughout the US to have significant value to customers.

Municipalization is not a new concept. There are over 2,000 municipal electric utilities in the US today. Municipally run and governed electricity service exists in cities like **Los Angeles, Orlando, Seattle** and regional service areas such as the **Salt River Project** that covers Phoenix ; **San Antonio** CPS Energy which serves the city and numerous surrounding communities; and **Sacramento Municipal Utility District**, which serves the city and several counties. The public power business model effectiveness can be seen in local control of decisions in developing competitive retail rates; management of challenging issues such as storm resiliency and maintaining system reliability and focusing on the transition to lowering greenhouse gas emissions. I cannot state this enough that complicated decisions such as moving the island's power supply to cleaner energy while maintaining cost controls need local accountability and governance.

The negative comments recently published about fully municipalizing electric service on Long Island follows a pattern in recent past municipalization efforts in the US. First, the investor-owned utility starts major opposition marketing and then there is a non-ending disagreement on what is the valuation of the investor-owned utility assets being municipalized by the city. For example, Boulder, Colorado's attempt to municipalize stalled as the city and the incumbent investor-

owned utility couldn't arrive at a fair value for the assets that were to be municipalized. Consultant studies paid for by the incumbent utility would suggest higher rates would be the result if there were municipalization.

But the difference with the current proposed full municipalization of Long Island electric service is that LIPA already owns the assets, has done good faith negotiations with the work force and is governed by a state-appointed board and managed professionally. So, the issue of private versus public ownership of assets is not an issue. Staying municipal but with electric service delivery in local hands would maintain LIPA's tax-exempt low cost bond status; eligibility for federal Inflation Reduction Act (IRA) funds for renewable energy expansion; maintain local control over strategic initiatives and service delivery; and maintains federal assistance for storm resiliency and recovery.

An important question to be addressed further is how will the new LIPA be governed and can a fully municipalized electric utility address the challenges of today's energy future.

Municipal electric utility governing boards that are elected or appointed locally are typically the structure used but there are differing requirements. For example, some require that to be on board, one has to have electric industry experience. This may have led to less diverse boards so eligibility to be on a board may now include only business experience. But in each case the focus is on the customer not a stock price or shareholder benefit. Clearly municipal electric utility boards establish financial parameters to ensure sound finances and credit but this is to keep borrowing costs low and to operate like a business to strengthen efficiencies.

Some examples of public power electric utility governing boards:

**Omaha Public Power District (OPPD)**-8 member elected board from geographic districts.

**Sacramento Municipal Utility District**-Elected board from geographic districts  
**JEA**-4 members appointed by City Council; 3 appointed by Mayor.

**CPS Energy**-Appointed board; rates review by City Council

A positive factor in a fully municipalized LIPA would be that the rate process would be governed locally, and accountability would be local without external-driven review of rates over a 2% increase. This action could result in positive pressure on LIPA's credit rating given the current constraint is recognized as a weakness in the LIPA cost recovery process.

Credit rating agencies weigh heavily not only the utility's ability to set rates and charges without external regulation, but also the willingness to do so. Stronger boards recognize the importance of citizen input in rate setting to give voice to low-income residents, for example.

Some examples:

San Antonio CPS established a Rate Advisory Board that meets regularly not only on rate policy but also providing input on generation plans and rate structure. Televised input sessions offer stakeholders time to offer suggestions with the understanding it is input to the Board of Trustees.

Orlando Utilities Commission, while recognizing the complications of electricity generation, offered residents opportunities to weigh in on what new generation source was acceptable from an environmental, reliability and affordability standard.

I was a tough grader on LIPA when it was formed but over time the utility has become stronger including under the current management receiving five credit rating upgrades.

The issues facing the electric industry today are not simple. Keeping rates affordable while maintaining reliability and resiliency in face of changing and challenging issues such as climate change and extreme storms. But the evidence across the US from **Los Angeles to Seattle and New York Power Authority to Colorado Springs**, local control has proven to be beneficial.

No reasons have been given that this couldn't be the case for Long Island.

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