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**Testimony Before Future of LIPA Commission**  
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Good morning. I very much appreciate the opportunity to testify here on this critical issue.

My name is Peter Gollon, and I have been a resident of Huntington for forty-three years.

As a LIPA Trustee for the five years from 2016 to 2021, I have seen much of the internal operations of LIPA, observed its interface with its Service Provider PSEG Long Island, and participated in much of the oversight of that relationship.

In my testimony before this Commission on November 29 last year I related how *inefficient* that structure is, despite the outstanding efforts of LIPA's CEO and staff to supervise and direct PSEG.

At that November hearing the major proponent for retaining the present structure was Mr. Christopher Hahn, Vice President of External Affairs for PSEG Long Island. I reviewed his testimony last night. To the best of my knowledge, everything he said was **correct**. It was correct, but it **certainly was not complete**.

This *inefficiency is inherent* in LIPA's current business model of *owning* but *not operating* its transmission and distribution (T&D) system; that operation is required by law to be outsourced to a "Service Provider." PSEG Long Island is the current Service Provider, operating under a 317-page Operation Services Agreement (OSA).<sup>1</sup>

Mr. Hahn refers to this as a "proven and tested model." I would prefer to quote the Book of Daniel: "Counted, weighed, and found wanting."

In fact, this business model for a large municipally owned utility does not exist *anywhere else* in the other forty-nine states. Nor anywhere else in New York State, either.

In what follows I will refer to, and add more details to some of his remarks. Mr. Hahn used the word "efficiency" more than once, and said that PSEG was "committed to excellence" and to "continuous improvement." I, others on the LIPA Board of Trustees, and top LIPA management found that not to be the case at all.

There are considerable inefficiencies that result from significant time delays – sometimes several months – in getting various problems first even addressed by PSEG, and then ultimately resolved. Many of the problems that PSEG is now solving it is only doing so

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<sup>1</sup> Second Amended And Restated Operations Services Agreement...dated Dec 15, 2021, available at: <https://www.lipower.org/wp-content/uploads/2021/12/2nd-AR-OSA-Dec-15-2021-execution-version.pdf>

because the problems were first recognized by LIPA staff, which could only get PSEG to address and solve the problem by having the LIPA Board of Trustees pass a Recommendation Resolution directing PSEG to remedy the situation.

This entire convoluted process can easily add at least one, and *often several months* of delay before these issues are first addressed by the Service Provider. In my earlier testimony I enumerated a number of failures by the current Service Provider *to recognize and solve problems on its own*. Here are just two examples of LIPA having to direct PSEG to operate more efficiently:

- In response to weaknesses in PSEG’s management of many hundreds of millions of dollars of LIPA’s material assets, PSEG was directed to adopt specific recommendations, including developing an asset management plan, implementing a computerized Enterprise Asset Management System, and conducting a system-wide physical inventory.<sup>2 3</sup> This is hardly efficiency and self-directed “continuous improvement.”
- At the November hearing Assembly Member Griffin asked Mr. Hahn whether PSEG had a list of customers who, for medical or other reasons, needed priority restoration of their electrical service after an outage. Mr. Hahn correctly answered that they did have such a list.

What he did not mention was that the list that they had was obsolete, had *twice the percentage of such customers on it than neighboring utilities have*, that it was not maintained to determine whether those customers’ needs still existed, or *even if that customer was still alive and at that location*. LIPA had to direct PSEG to proactively update the list.

Mr. Hahn gave PSEG credit for preparing an Integrated Resource Plan that showed that the construction of another large generating station was not necessary, and by

preventing its construction, PSEG “saved LIPA two and a half billion dollars.” I will take him at his word that PSEG played an important role there.

But the idea of moving away from fossil fuel, and not building more plants was explored well before PSEG’s initial OSA came into effect in January 2012. For instance, the LIPA 2004-2013 Energy Plan<sup>4</sup> already showed the ability of then available efficiency technology to defer the need for additional generating capacity.

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<sup>2</sup> Asset Management Recommendations Adopted February 24, 2021, as Amended on March 29, 2021

<sup>3</sup> Resolution Adopting Certain Implementation Plans Relating To Inventory Management; LIPA Board meeting May 19, 2021

<sup>4</sup> Long Island Power Authority Energy Plan 2004-2013, approved by LIPA Trustees June 23, 2004

The LIPA Electric Resource Plan 2010-2020, dated February 2010 showed<sup>5</sup> that the then current LIPA plan would require greater efficiency and more renewable energy – *not* fossil fuel generation - to meet the state’s CO<sub>2</sub> targets. Many people, including myself, spoke out at LIPA Board meetings demanding greater funding for customer-side efficiency rather than for an additional fossil fuel plant.

Some of you may remember the very vocal opposition to the Caithness II plant by leaders of a neighboring school district, by many environmentally concerned citizens, and by Assembly Member Englebright and other elected officials. Ultimately this opposition prevailed.

Mr. Hahn correctly points out that under the current OSA, up to \$40 million of their management fee is at stake if they do not meet certain metrics. What he did not point out is **why** PSEG now operates under this second revised OSA whose performance metrics take a **full two hundred and seven pages** to outline in detail.<sup>6</sup>

The simple answer is their performance in storm restoration after Isaias was so bad, and their reports on the causes of the failure of the Outage Management System so dishonest that LIPA deemed their conduct to constitute a Default Condition, and took steps to cancel their contract. In return, PSEG threatened to sue.

The renegotiated, shorter term and much more stringent OSA now in force was thought to be the best way out of this situation for both parties. PSEG is not entitled to take credit for the additional oversight and penalties forced upon on them as a result of their gross screw-up.

For PSEG to claim that the present contract forces them behave properly reminds me of a teenager who is grounded by his parents for gross misbehavior, and who then claims to be a well behaved fellow because his parents are carefully watching his every move at home.

Finally, Mr. Hahn speaks of performance improvements, use of industry and engineering best practices, efficient installation of AMI meters, etc. That is all in the past. You need to look toward the future.

In the decade since PSEG took over from National Grid as Service Provider, the knowledge, experience, expertise, and capabilities of the LIPA staff have increased enormously. Those intellectual resources were needed to increase simply to properly supervise PSEG’s operations. And they have increased. The results of that increased supervision were enumerated in greater detail in my earlier testimony.

I believe that with the addition of about a half dozen new staff members, LIPA staff is perfectly capable of directly running the utility. PSEG positions that are already duplicated by LIPA staff – such as Communications and Auditing – would be simply eliminated. The

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<sup>5</sup> Long Island Power Authority Electric Resource Plan, 2010-2020, Exhibit 24, page 46

<sup>6</sup> LIPA Proposed 2023 Performance Metrics, available at <https://www.lipower.org/wp-content/uploads/2022/11/PSEGLI-2023-Performance-Metrics.pdf>

net dollar savings would be about \$70 million per year, a cost that now comes out of the pocket of each and every LIPA customer every year.

The hybrid structure that LIPA and PSEG are currently in reminds me of a child with a new, first bicycle. The best way for the child to learn to ride the bike is with training wheels added. The training wheels provide safety and stability while the child figures out how to control the bike. But once the child has mastered those skills, the training wheels are an impediment to serious riding, and must come off.

Think of PSEG as the training wheels: necessary in the beginning, but after ten years they have become an impediment to the grid's efficient and economical operation. It's now time to take the training wheels off, and let LIPA ride on its own.

I believe, and I strongly urge you to conclude, that LIPA should be set free of this unique, and *uniquely expensive and inefficient structure*, and be allowed to directly manage its own T&D electrical system for the benefit of us, its ratepayers

## **IMPLICATIONS FOR LIPA BOARD of TRUSTEES**

Consistent with State law, the current "role of the Board of Trustees is to:

- Identify and define the mission, values, and strategic direction of the Authority, ...
- Monitor the authority's performance against the policies established by the Board ...
- Hire, evaluate, and when necessary, discharge the Board-elected Officers [which are the Chief Executive Officer, the Chief Financial Officer, and General Counsel of the Authority]"<sup>7</sup>

Determining the overall balance between LIPA's stated purposes of "providing clean, reliable, and affordable energy" is best done through an open dialogue between LIPA and its customers. Experience has shown that significant hostility has resulted from inadequate understanding by both PSEG Long Island and LIPA of the impact on customers of changes in tariffs, and the location and details of new facilities.

A "new" LIPA would clearly benefit from earlier, greater, less formal and more open communication between LIPA Staff and Trustees on the one hand, and community members on the other hand. The more that such two-way communication occurs, the greater will be the confidence that the customer community has in the new LIPA structure and its overall leadership. A new or revised process of Trustee selection could well facilitate building such confidence.

I have no specific recommendations to make on this subject, beyond noting that the Board collectively must be able to understand the fundamentals of corporate management and governance, finance, utility operations, and the elements of a renewable energy economy.

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<sup>7</sup> Excerpts from "Board Policy on Purpose and Roles", LIPA Board Resolution #1322, September 21, 2016

The Legislative Commission's purpose is to develop "a true public power model" that would eliminate the present management of grid and business function by an outsourced "Service Provider".

The direction of grid and business functions by LIPA staff would then **fundamentally change the present relationship between the LIPA Board of Trustees and LIPA Staff.**

Currently LIPA Staff guides the Board in formulating policies in general, and supervises the grid and business operations that PSEG conducts on LIPA's behalf, measuring these against both metrics currently in use, and sound business practices. Results of this monitoring – and especially inadequacies discovered by such monitoring – are reported to the Board, which may take action to cause such inadequacies to be remedied.

A Board under a fully municipalized LIPA would have the responsibility of **directly** supervising the operation of the grid and business functions by or under direction of LIPA staff. *It would be a serious governance weakness for the Board to have to rely only on self-reporting by LIPA staff.*

For a Board to adequately supervise LIPA's management, I believe that some combination of the following is necessary:

- Significant collective knowledge of the fundamentals of corporate management and governance, finance, utility operations, and the elements of a renewable energy economy.
- Board members' availability of more time than currently devoted (Board and committees in total) to nine or ten meetings per year of six hours each.
- Availability, if needed, of independent consultants or staff that reports directly to Board or Committee chairs. This would be analogous to the current practice of LIPA's Finance and Audit Committee receiving input, without the presence of other LIPA staff, from the Independent External Auditor, and from the person heading LIPA's internal audit department...<sup>8</sup>

The first two of these points will depend crucially on the individuals who are selected to serve as Trustees. The Board itself would have the power to implement the third as it felt necessary.

Members of the present Board have been immersed in LIPA and PSEG operations for some years now. The average Board tenure is 5.5 years. Three individuals have served for at least ten years, perhaps going back at least to the appointment of a new Board under the LIPA Reform Act. tenure.

**A Board consisting of entirely fresh members taking office under a new legislatively established structure would certainly not have the level of experience and LIPA-specific knowledge that the present Board has.**

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<sup>8</sup> LIPA Policy on Audit Relationship, LIPA Board Resolution #1725, most recent amendment May 18, 2022

Transitioning from the present “hybrid” model of utility operations to a fully municipal one will require great care and supervision as LIPA begins to directly manage processes which for decades were managed for it by others. The Board in place at that time (January 1, 2026 at the expiration of the present OSA, or earlier if LIPA exercises its early termination option) will have the responsibility of supervising that transition.

Changing the *membership* of that Board (as distinct from changing how members are selected) at the same time that the *operation* changes to a directly managed municipal one is simply asking for trouble as an inexperienced Board would then have the responsibility of directly supervising the operation of the grid by LIPA staff, instead of the present method of indirectly supervising its operation by PSEG with LIPA staff as intermediary reporting agents.

**Both changes – in Board membership and utility operations - should not happen at the same time!**

Thank you again for this opportunity to speak. I will be happy to answer any questions, to the best of my ability.

Thank you.

A handwritten signature in black ink, appearing to be 'R. P. ...', located below the text 'Thank you.'