Peter J. Gollon, PhD
15 Eleanor Place
Huntington, NY 11743
631-271-5774
pgollon@aol.com

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. I have lived through the blackouts of Hurricanes Gloria, Sandy, Irene, and most recently Isaias. But I am not here today to tell you about them – others certainly will.

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.

What I will relate here is how *inefficient* that structure is, despite the outstanding efforts of LIPA's CEO and staff to supervise PSEG.

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." 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.

For the last decade the Service Provider has been PSEG Long Island, a subsidiary of PSEG of New Jersey. It currently operates under a 317 page Operation Services Agreement (OSA).[1] But the *identity* of the Service Provider is much less important than the *structure* mandated by law that requires one.

I would like to focus on a number of *failures by the current Service Provider to recognize and solve problems on its own.* Some of these problems may have been inherited from National Grid's management as the prior Service Provider, until PSEG took over a decade ago. Yet these problems were not adequately addressed by PSEG either. And more such issues have been noted under PSEG's management.

[1] 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

If you inquire you may find that some of these problems do not exist in PSEG's home territory in New Jersey, from which territory they draw their upper level of management for Long Island. This leads me to believe that the issue is *structural*, and *not just* PSEG's shortcomings here. It is simply harder to obtain top quality results from an entity such as PSEG Long Island that is operating someone else's T&D system than it is to get quality results from a similar entity such as PSEG of New Jersey that it operating its own T&D system.

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. The following is a typical scenario:

- A problem is first noticed by LIPA staff, which has the responsibility of supervising PSEG.
- This is informally mentioned to the appropriate PSEG manager, if only for LIPA to gather more information.
- If the above *informal* discussion does not result in PSEG addressing the situation, then PSEG must *be formally forced to address it,* usually by being directed to first provide a written Project Implementation Plan (PIP) to do so for LIPA's approval.
- This formal direction is made by a Recommendation through a Resolution submitted to, and then passed by the LIPA Board of Trustees. Preparation of such Resolutions can be time-consuming for LIPA staff, which then must wait until the next bi-monthly LIPA Board meeting for their consideration and enactment.

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. Here are some examples:

- In response to weaknesses in PSEG's management of 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.[2] [3]
- Weakness in managing records of LIPA's many real estate holdings resulted in a directive to make specific improvements in this area.[4]

[2] Asset Management Recommendations Adopted February 24, 2021, as Amended on March 29, 2021

[3] Resolution Adopting Certain Implementation Plans Relating To Inventory Management; LIPA Board meeting May 19, 2021

[4] Board meeting of January 27, 2021 recommending that PSEG adopt five specific recommendations for improvement in this area.

- Large differences between cost estimates and construction timelines for new construction and their actual construction costs and timelines caused budgeting
  difficulties for LIPA; PSEG was instructed to produce a Project Improvement Plan to remedy these deficiencies.[5]
- LIPA instructed PSEG to create a process to improve its collections of miscellaneous receivables *not* related to electricity sales (amounts due from insurance companies to cover damage to power poles struck by automobiles, for example) because those

There are likely other examples of PSEG's inaction in identifying and solving problems that the Commission's staff could learn by asking LIPA staff.

The creation by PSEG of the various documentation and processes required by LIPA will make running the system less of a "seat of the pants" operation and more of a written procedure-based operation that will be easier for LIPA to manage directly.

The post-Isaias Amended and Restated contract between LIPA and PSEG attempted to remedy many areas in which PSEG has shown deficiencies in the past by providing updated metrics upon which PSEG's annual bonus will be based. This structure is a vast improvement over the previous one, but multiple metrics can only go so far in aligning the interests of the two parties, even if the metrics are so numerous and detailed that the 2022 metrics take *a full ten pages to merely enumerate* in the attached public-facing document.[6]

The proposed performance metrics for 2023 take **a full two hundred seven pages** to outline in detail[7]. Is it any wonder that the annual re-negotiation with PSEG of these metrics takes considerable amount of LIPA's high-level staff time and highly paid legal and consultant time, thus consuming time and funds which could be better spent than in simply making sure that PSEG properly does what it gets paid to do.

Since "the buck stops with LIPA", it is *their* job to make sure that the job gets done by a subcontractor that has a multi-year contract. This is a far harder task than it would be to make sure that directly supervised employees did that job properly, since an employer has much more control over an employee than it has over a multi-year subcontractor where the supervision is metric-based and difficult to adjust outside of those metrics.

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[5] LIPA Board meeting August 11, 2021
[6] Reforming Long Island's Electric Service: Accountability for Performance. No date. Available at https://www.flipsnack.com/lipower/lipa-accountability-for-performance-fact-sheet/full-view.html
[7] LIPA Proposed 2023 Performance Metrics, available at https://www.lipower.org/wp-content/uploads/2022/11/PSEGLI-2023-Performance-Metrics.pdf

I thus maintain that the problem is *structural*, and even the present structure with improved metric-based accountability *simply cannot fully align the interests Long Island's ratepayers, as expressed through LIPA, with those of **any** Service Provider.*

A transition to direct management would not be difficult. The most difficult task – the moving of LIPA-specific functions from PSEG's main computer system in New Jersey to a dedicated on Long Island – is already underway and scheduled to be completed by the end of 2024.

This a year before the date that the existing Service Provider contract with PSEG expires at the end of 2025.[8] In fact, that contract contains a provision requiring PSEG to cooperate with LIPA to facilitate a transition to a self-managed system ("Municipalization") or to another Service Provider.[9]

About a half dozen or so new staff would need to be hired by LIPA to replace some of those now provided by PSEG. PSEG positions that are already duplicated by LIPA staff – such as Communications and Auditing – would be simply eliminated. The 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.

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

Thank you.

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[8] An earlier version of this testimony misstated the end date of this contract..

[9] Second Amended And Restated Operations Services Agreement…dated Dec 15, 2021, Articles 8.4(B), 8.5(H), 9.2 and other locations; available at:
https://www.lipower.org/wp-content/uploads/2021/12/2nd-AR-OSA-Dec-15-2021-execution-version.pdf