New York State Legislative Commission on the Future of LIPA

Testimony of Thomas Falcone, Chief Executive Officer of the Long Island Power Authority

December 15, 2022

I. *Introduction*

Thank you, Chairs Thiele and Thomas, Executive Director Lancman, and distinguished members for inviting me to your Rockaways hearing.

My name is Thomas Falcone, and I serve as LIPA's Chief Executive Officer.

Today, I would like to build on my testimony at your November 29 hearing by further addressing topics raised in that discussion.

II. *Evolution of LIPA's Business Model*

First, several of your questions concerned how LIPA's business model has evolved over the last 24 years.

Since the beginning, LIPA has relied on third-party contracts to provide day-to-day utility management – a model that was the first of its kind in the utility industry. LIPA's purchase of the electric grid from LILCO in 1998 did not include key components and systems to run day-to-day operations. Further, because LILCO's operations and employees were highly integrated with the natural gas and power plant assets sold to KeySpan, full outsourcing of management to KeySpan was the only viable option upon closing the merger. KeySpan later merged with the large UK-based utility National Grid.

The original KeySpan/National Grid contract had a fixed operating fee that encouraged cost containment but few incentives for performance. With highly co-mingled operations, limited transparency, and National Grid's substantial operational autonomy, it was challenging for LIPA and National Grid to agree on investments to improve service, and the utility consistently had among the lowest customer satisfaction in the industry.

LIPA realized these flaws and competitively bid the contract under a new "ServCo" model in 2011. This ServCo model required a separate subsidiary for the assets and staff involved in LIPA operations and was intended to provide LIPA with transparency and meaningful oversight. It also intentionally provided flexibility: LIPA could move the ServCo subsidiary to LIPA management or re-bid the contract to a new provider with minimal switching costs. In 2011, PSEG Long Island was selected to begin providing management services under this new ServCo model at the end of 2013.

The 2011 PSEG contract was never implemented. Ongoing concerns with National Grid's performance, amplified by the poor response to Superstorm Sandy, led to a shift in approach. The LIPA Reform Act of 2013 rebranded the utility from "LIPA" to "PSEG Long Island" and renegotiated the 2011 ServCo contract, granting PSEG Long Island greater autonomy. The assumption of the revised contract was that PSEG Long Island's "name on the truck" and reputation on the line would align their interests with LIPA's customers and that fewer oversight rights than the National Grid contract were necessary. This became "version 2.0" of the contract business model.

Seven years later, in August 2020, Tropical Storm Isaias hit Long Island and the Rockaways causing over 640,000 customer outages. Key IT systems failed, causing communication and emergency response challenges. Investigations by LIPA and separately by the DPS revealed significant management problems within PSEG Long Island and a lack of candor about what it knew before, during, and after the storm. The IT system failures were similar to those that occurred under National Grid during Superstorm Sandy. LIPA again revisited the business structure and considered options to either terminate or reform the PSEG contract.

A reformed contract with PSEG Long Island – version 3.0 of LIPA's business model – went into effect in April 2022. LIPA is hopeful that the current combination of greater performance incentives and stronger oversight rights can better align PSEG Long Island's interests with those of LIPA's customers. After eight months, the contract has improved transparency and the engagement of PSEG Long Island management, but it is too soon to determine its ultimate impact on performance. Our customers are entitled to industry-leading performance especially because they pay a significant premium to our management contractor for just that.

III. <u>Other Key Priorities</u>

I'd also like to talk briefly about our focus and progress on key aspects of LIPA's mandate, including customer satisfaction, fiscal sustainability, equitable taxation, reliability, and clean energy.

Customer Satisfaction. PSEG Long Island was charged eight years ago with delivering industry-leading customer satisfaction. PSEG Long Island's performance during Isaias and gaps in customer service have led to substantial declines in satisfaction since 2020. Despite significant LIPA investments to upgrade grid reliability and resiliency and improve customer operations, PSEG Long Island ranks in the bottom quartile of peer utilities for satisfaction as measured by J.D. Power.

Fiscal Sustainability. LIPA remains responsible for the utility's fiscal sustainability. In 2013, LIPA had the lowest credit ratings and highest leverage of any large public power utility, largely stemming from the legacy of the Shoreham plant. In 2015, LIPA adopted a plan to reduce leverage over time and has since obtained four credit rating upgrades and saved customers over $600 million. Our plan will result in a 70% debt-to-assets ratio by 2030, down from 230% at the time of the LIPA/LILCO merger in 1998. LIPA is looking forward to a potential fifth credit rating upgrade in the next 12-18 months.

Equitable Taxation. LIPA has also focused on equitable taxation. Taxes account for $610 million per year or 15%+ of customers' bills. Property taxes on older power plants with declining usage have been disproportionately high and benefit only a few customers. LIPA has reached compromise tax settlements that will save customers $550 million over the next five years while maintaining significant benefits for the host communities. These tax issues date back to LILCO, and we finally resolved them this year.

Reliability and Resiliency. Long Island and the Rockaways remain vulnerable to major storms, and LIPA has invested over $5.4 billion since 2016 to improve grid reliability and resiliency. As a public power utility, we have secured over $1.8 billion in federal grants for storm restoration and hardening, reducing cost for customers.

Clean Energy. LIPA has also been a leader in addressing climate change. LIPA plans and implements this policy through a series of Integrated Resource Plans. In prior years, we had developed a plan that foresaw the need to modernize aging fossil-fuel power plants. But by 2014, we deferred these investments because it was clear that forecasted increases in peak load were coming in well below expectation and customer desires were rapidly evolving towards fossil-free sources of power. By 2017, forecasted peak load had declined by 1,700 megawatts, and we had begun to embrace offshore wind as a large-scale source of clean energy.[1] And so, LIPA discontinued the previously deferred investments in new natural gas plants and instead signed the country's first power purchase agreement for offshore wind in federal waters. LIPA made history by making these investment decisions and defended the decisions publicly against pockets of substantial opposition. Today, we expect to reduce the carbon emission of Long Island's electric grid over 70% by 2030.

IV. Service to the Rockaways

Finally, LIPA's objective is to provide the same high level of service to all our 1.2 million customers; however, I would like to close by talking about our efforts to serve our 35,000 Rockaways customers.

Customers in the Rockaways pay about 20% less than the rates charged by Con Edison, the investor-owned utility that serves the rest of Queens County. LIPA also provides bill discounts and targeted energy efficiency and electrification programs to over 1,600 low and moderate-income Rockaways customers. Additionally, we maintain an arrangement with Western Union that allows customers to pay in person at no cost at over ten convenient locations in the Rockaways.

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[1] See *Energy Guide: 2017 LIPA Integrated Resources Plan Summary* for more information.

The Rockaways were significantly affected by Superstorm Sandy. Since that time, LIPA has invested over $60 million to rebuild and raise three substations above the 500-year flood plain and to harden 8 distribution circuits serving the area.

Finally, LIPA has recently undertaken three initiatives that specifically benefit the Rockaways:

- LIPA funded a Clean Transportation Prize to provide clean, electric micro transit at discounted fares seven days a week in the Rockaways. The program is expected to begin service in the third quarter of 2023 and to serve approximately 200,000 riders over the next two years;
- LIPA also began a Community College Scholarship program that will provide ten full scholarships per year for students from historically disadvantaged communities, including the Rockaways, that seek careers in the electric utility industry; and
- LIPA is evaluating the potential for siting utility-scale solar and energy storage at Jacob Riis Park.

V. <u>Conclusion</u>

I would like to thank the Commission for this opportunity, and I look forward to continued discussion on this important topic. I would be happy to answer your questions.