



STATE OF NEW YORK | EXECUTIVE CHAMBER

ANDREW M. CUOMO | GOVERNOR

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GOVERNOR CUOMO SIGNS LEGISLATION RESTRUCTURING UTILITY OPERATIONS ON LONG ISLAND

Privatized Utility System Will Focus on High Performance under Strengthened State Oversight

Governor Andrew M. Cuomo today signed legislation that dramatically revamps the electric utility on Long Island. The legislation privatizes utility operations on Long Island, improves customer service, including stabilizing rates and enhancing emergency response and preparation; reduces the cost of Long Island Power Authority (LIPA) debt; and implements tough state oversight for the new utility company. It also achieves savings to allow the new utility to seek a rate freeze for 2013, 2014 and 2015.

“The legislation that was signed into law today ends the LIPA as we know it, and creates a new utility system that puts Long Island ratepayers first,” Governor Cuomo said. “LIPA has offered lackluster service for too long and after its failure to perform during Superstorm Sandy it was clear we needed a change. With today’s bill signing, ratepayers on Long Island are getting a utility whose operations will be run by PSEG with its award winning record of performance during disasters. This legislation also seeks to establish a rate freeze for this year and the next two years while adding, for the first time, real state oversight of Long Island’s utility operations to ensure continued service and accountability. Today marks a bright new day for residents and businesses on Long Island.”

In response to LIPA’s failures during and after Superstorm Sandy, Governor Cuomo convened a Moreland Commission to investigate the utility company’s response, preparation, and management, among other utility companies. As a result of this investigation, the Moreland Commission concluded that LIPA’s failures were the result of a dysfunctional bi-furcated management structure that allowed poor customer service, high rates, lackluster storm preparations, and inadequate infrastructure to persist without being addressed.

The legislation signed today sets in motion an end to the failed management structure of LIPA, gradually giving PSEG full authority over the utility’s day-to-day operations including budgeting, maintenance, storm preparedness and response, infrastructure improvements, and energy efficiency and renewable activities.

LIPA will be reduced to a holding company with a significantly smaller staff, set at levels only necessary to ensure that the authority is able to meet its core obligations, and with a new board reduced to nine members. This maintains the utility's eligibility for FEMA and tax benefits, but offers the benefits of PSEG Long Island's more efficient management structure as a private company.

The reduced LIPA board will be responsible for rate decisions based on the record that is established by the Department of Public Service (DPS). If this board amends or modifies the DPS recommendation, it must hold a public hearing to explain its actions.

Since the late 1990s, LIPA's debt has not decreased and represents almost 10% of ratepayer bills. Escalating property taxes have also contributed to high rates. To provide relief for ratepayers, the bill signed by the Governor today reduces the cost of LIPA's debt by refinancing up to half of the \$6.7 billion debt at a lower interest rate. A 2% annual property tax cap is also established for the transmission and distribution system. As a result of these and other expected savings, LIPA and PSEG Long Island are seeking a rate freeze for 2013, 2014 and 2015.

Under the new system, utility performance and rates will be subject to tougher state oversight under a new Long Island office of the DPS, which has the authority to review PSEG Long Island's operations and issue recommendations to the LIPA Board for implementation. Proposed rates will undergo an independent review by DPS that includes public hearings. DPS also performs independent reviews of PSEG Long Island's storm preparedness and performance. Capital planning is also subject to DPS review on an annual basis, and the State Comptroller retains the auditing powers that were held prior to today's signing.

PSEG Long Island will also remain committed to renewable energy and becoming more energy efficient. The new utility will not only design and administer efficiency and renewable programs, and continue recently approved renewable power procurement programs; it is also required to produce a new capital and operating plan. This includes recommendations for energy efficiency, smart grid solutions and distributed generation to give customers more value and reliability from their service.

The new system will remain under public ownership with tax exempt financing for new capital investments and eligibility for FEMA reimbursement for major storm costs. To ensure stronger and more effective state oversight, the DPS staff will be responsible for reviewing proposed rates, including a 9 month process with public hearings and reviewed by independent DPS staff.

Senate Co-Leader Dean G. Skelos said, "This new law will bring much-needed oversight, protect ratepayers and ensure those in charge are better prepared to deal with dangerous storms. Moving forward, we must continue to focus on stabilizing rates and improving the service that is provided to Long Islanders and we must ensure that this new entity is as responsive and accountable as it can be."

Assemblyman Robert K. Sweeney said, "This new law brings immediate reforms to LIPA, stabilizes rates and creates the framework for better electric service in the years to come. Rate stability, accountability, and better storm preparedness are the key parts of the new law. Working

with the Governor, my colleagues and I in the legislature were able to pass legislation that fundamentally restructured LIPA with a new penchant for customer service and emergency preparedness. This would not have been possible without the leadership of Governor Cuomo.”

Nassau County Executive Ed Mangano said, “LIPA was failing communities in Nassau County long before Superstorm Sandy hit, but the events of last fall made the need for sweeping changes undeniable. Governor Cuomo has delivered a fresh start for ratepayers on Long Island by fundamentally overhauling our utility system. The legislation that he is signing today will implement a new model focused on what we need most – customer service, emergency preparedness, and all-around performance.”

Suffolk County Executive Steve Bellone said, “As any longtime resident of Long Island knows, LIPA has been plagued by problems for years, and Superstorm Sandy brought those inefficiencies out into the spotlight. Our Governor understood the shortcomings of the status quo, and he has fought to change it by proposing and now signing into law a new model built on accountability and customer service. This new utility structure will ensure that, finally, ratepayers come first on Long Island.”

Dave Daley, Vice President, PSEG – LIPA Transition, said, “The residents of Long Island and the Rockaways rightly expect their electric provider to deliver energy safely, reliably, and with an unrelenting focus on customer service. PSEG has been named “America's most reliable utility in the nation” five times in the last eight years and the “most reliable in the Mid-Atlantic region” for the past 11 consecutive years. We look forward to the opportunity to bring this kind of service to the people of Long Island and the Rockaways beginning on January 1, 2014.”

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