

San Francisco  
Local Agency  
Formation Commission

City Hall  
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TO: SF LAFCo Commissioners  
Legal Counsel

FROM: Gloria Young, Executive Officer



DATE: October 28, 2002

SUBJECT: Long Island Power Authority (LIPA)

Chairperson Gonzalez requested that staff report on the experience with public power through the LIPA in New York.

A news release dated May 24, 2000, states that the Honorable Governor George E. Pataki announced that the LIPA had delivered on its promises to significantly lower electric rates on Long Island and to keep those rates down. Further, it indicated that LIPA had fulfilled its mission of delivering highly reliable electric service, introducing retail competition to the Long Island market, and fostering conservation and the development of environmentally-friendly renewable energy technologies.

The press release includes the following:

- Electric rates have been cut 20 percent resulting in across-the-board savings to ratepayers of \$2.1 billion.
- LI Choice, LIPA's retail competition program has been fully implemented some six years ahead of schedule;
- LIPA's multi-year, \$170 million Clean Energy Initiative has saved some 238.8MW of capacity in three years and is projected to save 202.4MW during 2002;
- Energy conservation and efficiency programs have been established that offer customers financial incentives and rebates to purchase energy efficient appliances, and light bulbs and fixtures;

- Programs to develop alternative energy resources have resulted in fuel cell tests in grid-connected fashions by LIPA; installation of photovoltaic systems by residential consumers by residential consumers; and commercial installation resulting in the largest commercial PV system in the world;
- A wind generation demonstration project has been constructed at Southampton College, and additional land-based projects are being researched in cooperation with the LI Farm Bureau;
- LIPA and NYSERDA sponsored an offshore wind study which concluded that significant amounts of electricity can be generated by large offshore turbines off the South Shore of Long Island;
- LIPA is one of the most reliable overhead electric systems in New York State.

In addition, according to the press, residential and commercial customers in Nassau and Suffolk counties and the Rockaway Peninsula of Queens have saved approximately \$500 million each year during the last four years. The average homeowner has saved nearly \$1,000 during that time.

LIPA's rates have not only fallen but have remained low in the face of the jump in home heating oil and natural gas prices that occurred during the winter of 1999-2000.

According to Dr. Irwin Kellner, Hofstra University's Weller Professor of Economics, LIPA helped Long Island by cutting rates an average of 20 percent. It was estimated that rate reduction added almost \$150 million per year to the disposable incomes of 868,000 households and resulted in over \$700 million per year in additional spending in the region's economy. Since each dollar spent turns over an estimated five times per year, the rebate alone boosted Long Island's retail sales by close to 3 percent per year.

Attached are the articles regarding LIPA.

If you have any questions, please contact me at 554-7747.

Attachment

**San Francisco  
Local Agency  
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**M E M O R A N D U M**

**TO:** SFLAFCo Commissioners  
Legal Counsel

**FROM:** Monica Fish, Commission Clerk to SF LAFCo

**DATE:** October 28, 2002

**SUBJECT:** Item #5; Information Regarding Long Island Power Authority's Data Assumptions

In addition to the information enclosed, the Long Island Power Authority has referred the Local Agency Formation Commission to their Web site address <http://www.lipower.org/newscenter/pr/archives/archives98.html> to access their press releases for more information.

Cc: Gloria L. Young, Executive Officer

STATE OF NEW YORK  
EXECUTIVE CHAMBER  
GEORGE E. PATAKI, GOVERNOR

Press Office  
518-474-8418  
212-681-4640  
<http://www.state.ny.us>

FOR RELEASE:  
IMMEDIATE, Friday  
May 24, 2002

**GOVERNOR MARKS 4th ANNIVERSARY OF LIPA 20% ELECTRIC RATE CUT  
Rate Cut Expanded LI Economy by \$10 Billion, According To Noted Economist**

Governor George E. Pataki today marked the 4th Anniversary of his historic plan to cut electric rates on Long Island by an average of 20 percent, citing a report from a noted economist that found Long Island's economy has expanded by \$10 billion because of this bold initiative.

In an address to the Advancement for Commerce Industry and Technology Economic Conference, Governor Pataki cited economist Dr. Irwin Kellner, who found that LIPA's four-year-old electric rate cut has helped Long Island's economy weather the national economic downturn and the negative economic impacts of September 11.

"LIPA's historic rate reduction has benefitted all Long Islanders," Governor Pataki said "It's clear that the rate cut has helped Long Island's economy stave off the effects of the national recession and the severe damage caused to New York City's economy by the terrible events of September 11. At the same time, the positive impacts of the rate cut have built a strong base for the future by making Long Island competitive once again.

"We have delivered on our promise made five years ago to significantly lower electric rates on Long Island and to keep those rates down," the Governor said. "LIPA is also fulfilling its mission of delivering highly reliable electric service, introducing retail competition to the Long Island market, and fostering conservation and the development of environmentally-friendly renewable energy technologies."

According to Dr. Irwin Kellner, Weller Chair of Economics at Hofstra University, LIPA's 20 percent rate cut, rebates and capital programs have "expanded the size of the Long Island economy by \$10 billion, since each dollar of LIPA's \$2 billion rate cut turns over in the economy about five times."

Dr. Kellner said, "Since we are a consumer-driven economy, more spending has led to the creation of additional jobs, offsetting the negative effects of the national recession and 9/11. Lower utility rates, along with greater reliability, have also helped strengthen property values, adding further wealth, confidence, and, of course, spending. Needless to say, the demand for support services such as banking, legal and accounting firms has boomed as a result. The rest of Long Island's businesses have also benefitted from LIPA's rate reductions, boosting our local economy even more."

-more-

LIPA Chairman Richard M. Kessel said, "LIPA's historic rate cut has provided consumers and businesses of all sizes with a tremendous shot in the arm. Billions of dollars have been saved, which has added significantly to the bottom lines of businesses and has allowed consumers to spend money on other household items which has helped our local economy to expand and grow "

Over the last four years, the following has occurred:

- Electric rates have been cut 20% across the board saving ratepayers \$2.1 billion;
- LI Choice, LIPA's retail competition program has been fully implemented some six years ahead of schedule;
- LIPA's multi-year, \$170 million Clean Energy Initiative (CEI) has saved some 238.8MW of capacity in three years and is projected to save 202.4MW during 2002;
- Energy conservation and efficiency programs have been established that offer customers financial incentives and rebates to purchase energy efficient appliances, and light bulbs and fixtures;
- Programs to develop alternative energy resources have resulted in fuel cells being tested in grid-connected fashion by LIPA; and photovoltaic systems are being installed by residential consumers, and in the largest commercial PV system in the world;
- A wind generation demonstration project has been constructed at Southampton College, and additional land-based projects are being researched in cooperation with the LI Farm Bureau;
- LIPA and NYSERDA sponsored an offshore wind study that has shown that significant amounts of electricity can be generated by large offshore turbines off the South Shore of Long Island;
- The Shoreham \$1.4 billion property tax issue was resolved in January 2000, which prevented huge property tax increases in Suffolk County; and
- LIPA is one of the most reliable overhead electric systems in New York State.

Residential and commercial customers in Nassau and Suffolk counties and the Rockaway Peninsula of Queens have saved approximately \$500 million each year during the last four years. The average homeowner has saved nearly \$1,000 during that time.

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# HOFSTRA UNIVERSITY



SCOTT SKUDNEK BUSINESS DEVELOPMENT CENTER

## LIPA ADDS ENERGY TO LONG ISLAND'S ECONOMY

By **Dr. Irwin Kellner**  
Weller Professor of Economics, Hofstra University

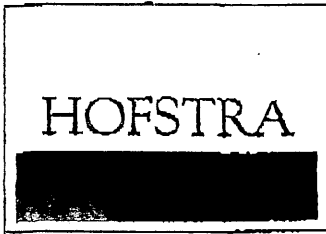
May 24, 2002

As the Long Island Power Authority (LIPA) marks the fourth anniversary of its purchase of the Long Island Lighting Company's retail electric business and the average rate reduction of 20% LIPA implemented in May 1998, it can take pride in knowing that it has helped Long Island's economy stave off the effects of the national recession – not to mention the severe damage caused to New York City's economy by the terrible events of September 11. While local statistics show that Long Island's economy did slow late last year and early in 2002, it managed to avoid an actual downturn, and now appears to be strengthening once again.

A key reason for this is LIPA's 20% average rate reduction, which, in four years, has saved ratepayers nearly \$2 billion. LIPA has added almost \$150 million per year to the disposable incomes of Long Island's 960,000 households. This amounts to about 2% of people's monthly take-home pay, resulting in over \$700 million per year in additional spending in the region's economy. Since each dollar spent turns over at least five times a year, this rate cut alone has raised the level of Long Island's retail sales by close to 3% per year. It has helped local governments as well, since sales tax revenues flowing to Nassau and Suffolk County are now 4-1/2% above last April's levels – the largest year-to-year rise since June 2001.

But this is only the first-stage effect. Since we are a consumer-driven economy, more spending has led to the creation of additional jobs, offsetting the negative effects of the national recession and 9/11. As a result, our unemployment rate today is only 4.2%, compared with 6% nationwide and 7.7% in New York City. Job creation on Long Island has now returned to levels seen just prior to the terrorist attacks on the World Trade Center.

Not only have LIPA's rates fallen, they have remained low in the face of the jump in home heating oil and natural gas prices that occurred during the winter of 1999-2000. As prices of gasoline surged and nearby utilities passed along these higher fuel costs in the form of increased electricity rates of as much as 40%, LIPA initially



## News Release

HOFSTRA UNIVERSITY • HEMPSTEAD • NEW YORK 11549 • NEWS BUREAU (516) 463-6818

FOR IMMEDIATE RELEASE

Contact:  
Michael DeLuise

### **“LIPA ADDS ENERGY TO LONG ISLAND ECONOMY”**

-Hofstra University's Weller Professor of Economics, Dr. Irwin Kellner

Hempstead, NY, May 30, 2000 ...The Long Island Power Authority (LIPA) has boosted Long Island's economy significantly in a number of ways over the past two years. As a result, LIPA turned what would have been a healthy economy, but one whose fortunes might have fallen with the next stock market decline, into a booming economy that will very likely transcend any downdraft Wall Street might encounter.

These are the principal conclusions that emerge from an intensive study of the impact of LIPA on the Long Island economy conducted by Hofstra University's Weller Professor of Economics, Dr. Irwin Kellner. Formerly chief economist for Chase Manhattan's Regional Bank, Chemical and Manufacturers Hanover, Dr. Kellner calculates that the combination of rate reductions, refund checks and improved service has not only injected substantial buying power into the Long Island economy, it has made the region more competitive as well. And it is this increased competitiveness that will keep the Island humming even if business conditions should eventually soften as a result of the Federal Reserve's efforts to slow overall economic growth.

“Like it or not, communities compete against one another for new business and to retain existing firms,” observes Dr. Kellner, “and no other community in the region has anything like LIPA to give Long Island that extra edge.”

“Governor Pataki's electric rate reduction plan contains many benefits for Long Island,” said LIPA Chairman Richard Kessel. “Electric rates across Long Island are lower, the threat of massive property tax increases as a result of the Shoreham tax certiorari judgement has been eliminated, and double-digit rate reductions are guaranteed for the next five years. It all adds up to a huge economic boost for the region.”

According to Dr. Kellner, LIPA has helped Long Island in several ways. By cutting electric rates an average of 20%, LIPA has added almost \$150 million per year to the disposable incomes of the Island's 868,000 households. This amounts to about 2% of people's monthly take-home pay, and has resulted in over \$700 million per year in additional spending in the region's economy. Since each dollar spent turns over five times a year, this rebate alone has boosted Long Island's retail sales by close to 3% per year.

This is only the first-stage effect, says Dr. Kellner. “Since we are a consumer-driven economy, more spending has led to the creation of additional jobs, giving Long Island one of the lowest unemployment rates in the nation.” In addition, he adds, lots of new malls and shopping centers have been constructed during the past two years. “This has generated countless more jobs in construction—not to say revenues for the Island's important real estate sector,” observes Dr. Kellner. “Needless to say,” adds Dr. Kellner, “the demand for support services such as banking, legal and accounting firms has boomed right along with this increase in retail sales.”

The rest of Long Island's 85,000 businesses have also benefited from LIPA's rate reductions, according to Dr. Kellner's findings, boosting the region's economy even more. Some firms have passed along these cost savings to their customers by cutting their prices, thus ensuring that people don't go off the Island to make purchases. Others, like the Empress Diner, have used these additional funds to expand or upgrade their existing facilities, adding numerous jobs in the process.

Adding everything up, Dr. Kellner concludes that, by injecting more than \$1 billion into the Long Island economy through rebates and rate reductions during its two-year existence, LIPA alone has been responsible for expanding the region's economy by close to \$5 billion. This has led to a number of milestones.

"For the first time in history, Long Island is a \$100 billion economy," observes Dr. Kellner. As a result, there are now one million people employed in the private sector—another milestone, according to Dr. Kellner. State government figures show nearly 40,000 new jobs were added to the Island's payrolls in 1999. "That's the largest annual increase since 1985, when we were very much dependent on one sector—defense," Dr. Kellner points out.

"Governor Pataki should be congratulated on his foresight in helping to create LIPA, for it will benefit Long Island for many years to come," Dr. Kellner adds. "And as a resident of Long Island for nearly 30 years, I would be remiss if I did not point out that service has clearly improved as well," Dr. Kellner opines, "and this is another part of being competitive."

Adds Mr. Kessel, "We at LIPA are extremely pleased to play a role in boosting Long Island's economy, not just for today, but for tomorrow as well. The response to LIPA's rate reductions and rebate checks has been terrific, and we are gratified that we were able to accomplish this while improving service as well."

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## DR. IRWIN KELLNER

Dr. Irwin Kellner holds the Augustus B. Weller Distinguished Chair of Economics at Hofstra University, and is the author of Hofstra University's *Economic Report*. Dr. Kellner is also chief economist for CBS MarketWatch, the leading interactive financial news Web site, and serves as chief economist for North Fork Bancorporation. Previously, he was chief economist for Chase Manhattan's Regional Bank, and before that, chief economist for both Chemical and Manufacturers Hanover, its predecessor organizations. Widely quoted in the print media as well as the author of many articles dealing with economics, business and banking, Dr. Kellner frequently addresses groups of business people and community leaders, and appears regularly on Cablevision's News 12 Long Island, CBS radio and television, as well as other programs both here and abroad.

Dr. Kellner is a member of the board of directors of Claire's Stores, Inc., FreeTrek.Com Inc., International Bioimmune Systems and Universal Insurance Holdings, Inc. He also belongs to several pro bono boards, including the North Shore Health System, the Don Monti Memorial Research Foundation, the Long Island Venture Group and the Variety Child Learning Center. In academia, he is a member of the board of advisers of Touro College's School of Health Sciences and the Greenwich Institute for American Education.

In the public sector, Dr. Kellner serves as Chairman of Nassau County Executive Thomas Suozzi's Council of Economic Advisers. Previously, he was a member of New York State Comptroller H. Carl McCall's Economic Advisory Committee, New York City's Economists Roundtable, the New York District Advisory Council of the Small Business Administration Region II, and the Long Island Regional Transportation Advisory Committee of the New York State Senate.

Dr. Kellner is also a member of several professional organizations. A past president of the Forecasters Club of New York and governor of the Money Marketeers, he also served as president of the New York Association of Business Economists -- the largest economic organization in New York. Among his other professional memberships are the American Economic Association, American Statistical Association, and the National Association for Business Economics.

A native New Yorker, Dr. Kellner received his B.A. and M.A. in economics from Brooklyn College and his Ph.D. in economics from The New School for Social Research. Among his awards are a *Doctor of Humane Letters* bestowed by Hofstra University and a *Doctor of Laws* conferred by St. Joseph's College. He has also received the *Distinguished Leadership Award* on behalf of Health Education from Touro College, the *Human Relations Award* from the American Jewish Committee, the *Humanitarian Award* from the Juvenile Diabetes Foundation, and the *Gary Sherman Humanitarian Award* from the North Shore Health System. Dr. Kellner resides in Port Washington, NY, where he serves on the Village Planning Board.

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0202



"Rachel Brahinsky"  
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10/22/2002 06:06 PM

To: "Monica Fish" <Monica.Fish@sfgov.org>  
cc:  
Subject: here it is

There's a whole section on lipa about 2/3 of the way down, and some mention in the first section.

The \$620 million shakedown[NL]PG&E's high rates are damaging San Francisco's economy - but public power could turn things around. [PARA]By Tim Redmond and Savannah Blackwell[PARA]SOARING RATE HIKES by Pacific Gas and Electric Co. have taken as much as \$620 million a year out of the San Francisco economy, significantly worsening the impacts of the recession and slowing the recovery, a Bay Guardian analysis shows. And replacing PG&E with public power could potentially pump \$550 million into the economy. [PARA]The analysis, based on methodology developed by an economics professor at Long Island's Hofstra University, provides a powerful new argument in favor of public power and contradicts the position taken by many business groups in the city, which have lined up in support of PG&E and in opposition to the public power measure on the November ballot. [PARA]The outcome is no surprise to public power advocates. "There are literally hundreds of examples all over the country of how public power has helped local economies," Deborah Penn, vice president of information services at the American Public Power Association (APPA) in Washington, D.C., told us. "The overall sense of it is that when you have lower rates, the citizens in the community have more money to spend on other goods." Mike Bell, senior director at R.W. Beck, a Sacramento utility consulting firm, said that typically lower rates of public power companies attract new businesses to the neighboring communities. [PARA]"Many of the public power systems use these lower rates as an incentive to economic development, and they actively use it in marketing and bringing in new business," Bell said. [PARA]PG&E's rate hikes, on the other hand, have hurt San Francisco's economy, Bell said. "The higher the cost of electricity service, the higher the expense for running and operating a company. Their recent hikes have created hardships for small businesses" (see "Feeling the Crunch," page 25). [PARA]Long Island's a winner[PARA]Like every area in the New York metropolitan region, Nassau and Suffolk Counties, on Long Island, were hit hard by the recession and the Sept. 11 attacks. But the two counties, adjacent to New York City, recovered a lot faster than the city itself: unemployment in Nassau and Suffolk is only 4.2 percent today, compared with 7.7 percent in New York City and 6 percent nationwide. [PARA]Consumer spending is up in the region: sales tax revenues to the local government are up 4.5 percent over last April. [PARA]What does Long Island have that Manhattan and the Bronx don't? Public power. [PARA]Electricity rates in the two Long Island counties - which get their electricity from the public Long Island Power Authority - have dropped 20 percent in the past four years, while Con Edison, the private utility that supplies New York City, raised rates as much as 40 percent over the past year. [PARA]According to Irwin Kellner, an economics professor at Hofstra University and the chief economist for CBS's Marketwatch.com, the cut in LIPA rates has been a major cause of the relative economic prosperity in eastern Long Island. LIPA's rate cut "has helped Long Island stave off the effects of a national recession and the terrible events of Sept. 11," Kellner concluded in a study on the issue. [PARA]In fact, Kellner noted, LIPA's rate cuts have injected \$2 billion into the Long Island economy since the public power agency was formed four years ago - and that has had a huge ripple effect, expanding the region's economy by \$10 billion. [PARA]"When consumers have lower rates for a necessity like electricity, they tend to spend the extra money in a way that helps the local economy," Kellner told us. [PARA]The reverse is also true - and Kellner's analysis, applied to San Francisco and to northern California, shows that the local and regional

economies have taken a sizable hit from PG&E's 40 percent rate hikes over the past three years. [PARA]It works here, too[PARA]Although Kellner hasn't looked at the figures for PG&E and San Francisco - and hasn't reviewed or approved our analysis - he told us that it's fair to apply his reasoning to the local situation. "It's reasonable to state, in general, that when the price of a necessity goes up, it has a negative impact on consumer spending. And since we are a consumer-driven economy, that has an impact on jobs and the economy as a whole." [PARA]Kellner's methodology was relatively simple. He took the total reduction in LIPA electric rates (\$2 billion over four years), and, based on standard macroeconomic assumptions, multiplied it by five to account for what economists call the "multiplier effect." In essence, he argued that every dollar consumers saved on their utility bill was money that would be spent on other goods and services - mostly in the local community. That means that a dollar a LIPA customer spent on beer at a corner store became a dollar the shopkeeper could spend on shoes for her kids, which became a dollar the shoe-store owner could spend at a local restaurant, etc. [PARA]Economists constantly argue about the exact value to put on the multiplier effect - it's reduced, for example, if the money goes into savings or to buy imports. But Kellner, a former chief economist for Manufacturers Hanover Trust in New York City, says that his figure makes sense for a regional economy like Long Island's - or the Bay Area's. [PARA]San Francisco businesses and residents spent \$557 million on electricity in 2001, according to the latest figures available from the City Controller's Office. That was up \$124 million from 1999 - about a 28 percent increase. (PG&E's rates went up about 40 percent statewide over the same two-year period, according to the Utility Reform Network (TURN), but many businesses and residents cut back on use.) [PARA]Using Kellner's multiplier, that \$124 million amounted to a \$620 million hit on the economy - money that went to PG&E and, for the most part, got sucked out of town. [PARA]PG&E argues, of course, that it also contributes to the economy and that money paid to PG&E has a positive impact on economic activity. And, indeed, the money PG&E collects goes in part to pay its workers, some of whom spend it in town to pay local vendors. [PARA]But with PG&E in bankruptcy, little of the rate increase the company has received has gone to increased hiring, for example, or increased spending on local goods. On the contrary: The company has been cutting its workforce. And PG&E shuffled \$4.5 billion of our money off to its parent corporation right before its bankruptcy filing. [PARA]Matt Freedman, a staff attorney at TURN, said PG&E is currently setting aside much of its cash in a special slush fund that will be used to pay off big creditors - mainly out-of-town banks - at a later date. "We've found \$2.67 billion they've collected between September 2001 and June 2002, above and beyond what they need for approved costs," he said. "It's a staggering sum of money that's being stashed away for future debt payments - and that's money that could have been going into the local economy." [PARA]And the rate increase certainly hasn't helped PG&E shareholders: the stock's value has plummeted in the past year. [PARA]So, while it would be unfair to say that every penny of that \$620 million has vanished from the local economy, a substantial portion certainly has done so. [PARA]San Francisco households spent \$75 million more on electricity for residential use in 2001 than they did in 1999, the controller's data shows. Using Kellner's multiplier, that's \$375 million taken directly out of consumer spending [PARA]U.S. District Court judge Vaughn Walker's Aug. 30 decision paving the way for PG&E's bankruptcy plan to override the deal between the California Public Utilities Commission and the company's creditors likely means the 40 percent increase is here to stay. The CPUC is appealing Walker's decision. He is expected to choose one of the plans in November. [PARA]According to TURN, PG&E is seeking to stick its customers with another \$18 billion to cover its debt and to protect its shareholders and CEOs from the possibility of any future losses (see the report "Highway Robbery" at [www.turn.org](http://www.turn.org)). [PARA]On the positive side, R.W. Beck estimated in a report for San Francisco's Local Agency Formation Commission that most cities with public power offer rates 20 percent lower than those of privately owned utilities. A Bay Guardian study last year showed

that the city could buy out PG&E and cut residential rates by 20 percent, with money to spare (see "MUD Money," 10/10/01). If that occurs, the rate cut could pump more than \$550 million into the local economy, according to Kellner's methodology. [PARA]So, instead of losing \$620 million to high PG&E rates, the city would gain \$550 million. [PARA]If the experience of other public power cities holds, that would lead to significant job gains, among other benefits. APPA's Penn noted, for example, that the small Kansas town of McPherson, which has a public power system, has attracted nearly 50 new companies and is booming, despite the recession. For years McPherson officials have been able to use cheap electricity rates as a lure, according to an Aug. 23, 2001, article in the Wall Street Journal. "The public power system is focused on keeping jobs in the community," Penn said. [PARA]How it would work[PARA]Could San Francisco really see electric rates fall by 20 percent with public power? A study we did last year (published Oct. 10, 2001, and on the Web at [www.sfbg.com/News/anniversary.html](http://www.sfbg.com/News/anniversary.html)) - that nobody has successfully challenged - shows how it could happen. [PARA]If Proposition D passes in November, a newly constituted San Francisco Public Utilities Commission will have the authority to issue revenue bonds to build new power plants - and, if a study shows it's feasible, to take over PG&E's local facilities. The study would have to show that the city could buy out PG&E and still sell power for less than the private utility would be charging. [PARA]PG&E would fight bitterly to prevent a takeover of its lines, poles, meters, and general distribution system. The real issue would be the price San Francisco would have to pay for the system - and PG&E would fight for the highest possible price. [PARA]The PG&E-funded campaign against public power claims PG&E's system is worth more than \$1 billion - and uses that figure as a scare tactic, suggesting that the city's taxpayers would be on the hook for that huge sum of money. But it's just not true. [PARA]A generally PG&E-friendly study that the city commissioned in 1996 concluded that the most likely figure for the price of a buyout was about \$795 million (still a big number). We looked at what the state Board of Equalization, which assesses taxes on PG&E, thinks PG&E's property is worth, and got a much lower figure: about \$528 million. [PARA]Either way, the city's taxpayers wouldn't be responsible for any of it - the entire cost would be covered by revenue bonds, which would be paid back from the money the city would make selling electricity. And, in fact, when we added up the numbers, we found that the revenue from power sales (even at rates 20 percent lower than PG&E was charging) would be more than enough to cover the payments on the revenue bonds, as well as the costs of operating the system (labor, maintenance, purchasing power, etc.) [PARA]One key reason the city could sell power cheaper: San Francisco wouldn't be paying multimillion-dollar salaries to top executives, wouldn't be funneling big bags of cash off to bolster a parent company's bottom line, and would have all sorts of tax and financing advantages as a public agency. [PARA]PG&E's latest argument against Prop. D is expected to be that the Aug. 30 passage of state assemblymember Carole Migden's bill allowing cities to apply for and use state money to develop renewable energy sources means the measure isn't needed. [PARA]But those dollars could not cover the cost of building new fossil-fuel, small combustion turbines that the city's top public power adviser, Ed Smeloff, says must be constructed in order to shut down the polluting Hunters Point power plant and make the planned expansion of Mirant's Potrero Hill power facility unnecessary (see "Powering Ahead," 8/21/02). Migden's bill would also allow cities to gather residents together into a single customer pool for the purchasing of electricity. [PARA]"A.B. 117 is a great achievement," Prop./ D. campaign manager Ross Mirkarimi said. "It is a referendum on deregulation, and it gives the green light to cities in California to pursue public power. But the cities won't be able to do that unless they pass their own local measures - such as [Prop. D]." [PARA]How LIPA works[PARA]The story of how LIPA was able to cut its rates for business and residential customers starts with a bad decision on the part of the area's previous private utility to build a huge nuclear power plant in the region in the late 1960s. The Shoreham nuclear power plant, initially projected to cost

\$700 million, wound up setting the now defunct Long Island Lighting Company back more than \$6 billion. That huge debt was reflected in ever higher rates paid by local businesses and residents. [PARA]For years Long Island struggled with the highest electricity rates in the continental United States. Residents and business owners developed a seething hatred for their local privately owned utility. Complaints about the oppressive bills became part of the culture, according to Bert Cunningham, vice president of communications at LIPA and a Long Island native. Fixing the problem was at the top of the agenda for local politicians. [PARA]In 1986, New York governor Mario Cuomo and the state legislators representing Long Island pushed through a law creating LIPA. Under the plan, LIPA would take on the nearly \$200 million price tag for closing down the Shoreham plant. LIPA's mandate? To lower rates and keep them as low as possible. [PARA]In 1998 LIPA acquired LILCO's transmission and distribution system and took over the responsibility for providing electricity to local residents and businesses. The deal was strongly supported by Long Island's business community, which was hoping to diversify and transform the local economy from one based on post-World War II cold war manufacturing into something more contemporary. Decades of crippling electricity rates had made that nearly impossible. [PARA]Roughly one year after the deal was announced, LIPA cut rates by 20 percent. [PARA]This was only possible because, as a publicly owned entity, LIPA was able to refinance LILCO's nuclear debt through the use of low-interest bonds. LILCO was paying 13 to 15 percent interest, but LIPA was able to get 5.7 percent interest rates on what had grown to be about a \$7 billion debt. [PARA]Suddenly, a community with a dinosaur economy got a huge infusion of cash. Local businesses "got with the Internet economy," according to Cunningham. Public relations and advertising agencies started to thrive. The unemployment rate plummeted. [PARA]"It was a tremendous shot in the arm," Cunningham said. "For residents, the bills decreased about \$240 a year on average. But the biggest boost came to local businesses. If you were spending \$10,000 to \$20,000 a month on electricity, and suddenly you get a 20 percent cut, that's a significant amount of money." [PARA]"There was also the psychological boost from seeing LILCO finally go out of business," he said. "Finally, the war between the consumers and the electric utility was over." [PARA]More than one million residents and businesses in Nassau, Suffolk, and the Rockaway portion of Queens benefit from the low rates. The utility has been able to spend a substantial amount of money on conservation and environmentally sound energy programs and has so dramatically improved its basic infrastructure that it's now the most reliable utility in New York State, according to the New York Public Service Commission. [PARA]Business opportunities are so good in Long Island now that it's no longer a bedroom community for workers in New York City. [PARA]"It's done a flip-flop," Cunningham said. "Now most of our people are living and working here." [PARA]When the price of fuel skyrocketed during 2000 and 2001, LIPA kept its rates steady, unlike private utilities throughout the country, then raised them just 5.8 percent. The reason? Because LIPA had cut rates, new businesses had opened, and the company had added more customers. So LIPA was ahead of schedule in making payments on the \$7 billion Shoreham debt. [PARA]During the 2000-01 energy crisis LIPA's bill for the purchase of electricity rose by \$500 million (it doesn't own any generating facilities). But instead of passing all of it on to its customers, the agency was able to absorb half of it, thanks to its favorable debt position. [PARA]Even the Republican governor of New York, George Pataki, is thrilled with public power's performance. "It's clear that the rate cut has helped Long Island's economy stave off the effects of the national recession and the severe damage caused to New York's economy by the terrible events of September 11," Pataki announced in a May 24 press conference lauding LIPA (his press statement and the Kellner report are on the Web at [www.lipower.org/newscenter/pr/2002/may24\\_02.html](http://www.lipower.org/newscenter/pr/2002/may24_02.html)). [PARA]Unlike PG&E, LIPA is a publicly owned utility that is not designed to make fat profits. When it has a good year, it simply rolls the money forward to keep rates low the next year. There are no shareholders to pay and no CEO salaries to pad. (PG&E Corp.'s brass, on the other hand, made off with \$30 million in bonuses

last year.) And LIPA isn't about to go bankrupt. [PARA]Local businesses are ecstatic. "When the deal was done to create the Long Island Power Authority, it was estimated that the savings would produce about \$500 million in additional cash in the pockets of people of Long Island. That has proven to be true," Matthew Crosson, the president of the Long Island Association, a business group, told us. "The business community is quite pleased with the way this has worked out." [PARA]For more information on the benefits of Proposition D go to [www.powertothepeople.org](http://www.powertothepeople.org). E-mail Tim Redmond at [tredmond@sfbg.com](mailto:tredmond@sfbg.com). E-mail Savannah Blackwell at [savannah@sfbg.com](mailto:savannah@sfbg.com).

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-----Original Message-----

From: Monica Fish [<mailto:Monica.Fish@sfgov.org>]  
Sent: Tuesday, October 22, 2002 5:37 PM  
To: Rachel Brahinsky  
Subject: RE: Bay Guardian article

I can't seem to access the first link.

"Rachel  
Brahinsky"  
<[Monica.Fish@sfgov.org](mailto:Monica.Fish@sfgov.org)>  
<[rachelb@sfbg.com](mailto:rachelb@sfbg.com)>  
10/22/2002  
05:20 PM

To: "Monica Fish"  
cc:  
Subject: RE: Bay Guardian article

Well, what we did was a story that referred to Kellner's analysis on the Long Island Power Authority. Here's the link:  
[http://www.sfbg.com/36/49/cover\\_pge1.html](http://www.sfbg.com/36/49/cover_pge1.html)

A LIPA press release about Kellner's analysis is at  
[http://www.state.ny.us/governor/press/year02/may24\\_2\\_02.htm](http://www.state.ny.us/governor/press/year02/may24_2_02.htm).

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-----Original Message-----

From: Monica Fish [<mailto:Monica.Fish@sfgov.org>]  
Sent: Tuesday, October 22, 2002 4:57 PM  
To: Rachel Brahinsky  
Subject: Bay Guardian article

Rachel:

Do you have a copy of the article in the Bay Guardian discussing the Long Island Power Authority? What I am looking for is the article written

by Irwin Kellner at Hofstra University.

