

It's all about service

■ **Whatever the future holds for LIPA, keeping customers happy and rates reasonable is key, chairman says**

BY TOM MCGINTY
STAFF WRITER

Long Island Power Authority chairman Richard Kessel said he was walking to pick up his dry cleaning yesterday morning when a passing motorist rolled down his window and yelled, "Hey, Kessel! I don't care what you are — just keep the rates down."

The shouted comment — no doubt a reaction to news that LIPA is considering selling itself to private industry — could be a sign that electricity is once again becoming a

hot-button issue on Long Island.

Kessel shared the story of his chance encounter with a ratepayer while giving a luncheon speech to the utility's biggest corporate customers at a restaurant in Carle Place. In the speech, he defended LIPA's unexpected and controversial announcement that it will explore the idea of privatizing Long Island's electric utility.

"The easiest thing that we could do as an authority is sit back and rest on our accomplishments," said Kessel, who said the most pressing question confronting LIPA today is: "How can we best serve our customers?"

The authority is exploring a number of options, all of which have taken on a degree of urgency due to a looming deadline of May 2005. LIPA has

until then to decide whether to purchase the former Long Island Lighting Co. power plants now owned by KeySpan Corp., a move that would further expand LIPA's control over the utility.

Early discussions about whether to exercise the option to buy the plants prompted

LIPA to take a broader look at the utility's current state and consider all conceivable options for its future, officials said.

The idea of privatization was one of those options, and that has come as a shock to many. Former LILCO executive Matthew Cordaro has his own theory on why this proposal is being floated now.

LIPA financed its \$7-billion purchase of the troubled LILCO system with low-interest, tax-exempt debt that allowed the authority to instantly provide customers with double-digit cuts in what had been the highest electric rate in the continental United States.

It was a political home run for LIPA and Gov. George Pataki, who engineered the take-

over, but Cordaro said all that goodwill is eroding due to the typical difficulties of running a utility — including rising fuel costs, surcharges and increasing demand.

"Now they're facing the realities of the utility business," said Cordaro, director of Long Island University's Center for Management Analysis. "The utility business is not a great place to be for a political entity because there are always negatives: storms, increasing costs, providing for increased demand. The rates have to be raised to accommodate those things."

Cordaro said he didn't see how a private entity that didn't have the ability to issue tax-exempt debt could run the utility without raising rates.

Kessel said "no venture should go forward that doesn't include rate stability and the possibility of a bill reduction over time."

Kessel said he has discussed LIPA's options with Frank Zarb, the former chief executive of the National Association of Securities Dealers who often counsels Pataki on difficult issues.

In an interview yesterday, Zarb said Kessel and company are doing the right thing by examining all of their options.

"I don't think that step itself is going to be politicized or controversial, so long as the fact-getting exercise is done with a lot of transparency," Zarb said. "If some conclusions were reached and it started to look like privatization, I think you could see a real political debate. But there's no point in getting into that now, because no one knows how this thing turns out."

Asked what considerations LIPA needs to weigh, Zarb said that part was simple.

"The best possible service at the lowest possible price, because the people you have to convince are your ratepayers, who also turn out to be your taxpayers, who also in fact vote for local politicians," Zarb said. "That's the only community that needs to be serviced. That's the only measuring stick that works here."

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