Long Island Power Authority faces privatization debate amid post-Sandy fallout – New Coverage
January 15, 2013

A proposal to privatize the **Long Island Power Authority** (LIPA) after outages during Hurricane Sandy has drawn questions about how practical such a step would be, and whether it's politically motivated.

The proposal was developed by the Moreland Commission, which was formed by New York Governor Cuomo in November and tasked with "investigating New York's power utilities' preparation and response to the major storms that have devastated communities in the State of New York over the past two years, including Hurricane Sandy", according to the Commission's website.

The commission found that LIPA would be run much more efficiently by a private operator, especially one able to integrate all the functions of the utility. LIPA is "bifurcated" in its current structure, which encourages mismanagement, discourages investment in infrastructure, and decreases accountability to customers, the commission wrote.

LIPA had USD 6.66bn of debt outstanding as of December 2011, according to the FY11 Comprehensive Annual Financial Report. According to a biennial report from 2009, it had 1.1m customers as of that December, the most recent data available.

Even if privatization were the best model for operations, it could be financially impractical, said a municipal credit analyst. "I don't see how you privatize something that has debt that's billions of dollars in excess of its value," he said.

LIPA's outstanding debt would be very difficult to defease, said Larry Levy, executive dean of the National Center for Suburban Studies at Long Island's Hofstra University. LIPA is a state authority with bond obligations and covenants, so bondholders are going to have a say about any privatization, said Levy.

"The criticisms of LIPA are pretty much correct, both [in terms of] performance and the flaws in its structure but it seems that the number one reason for eliminating it is that the public is down on it and has lost faith. So [New York is] doing this for a public relations problem," said Levy. "Anybody who says that privatizing is going to result in lower rates and much better service had better be heard with a healthy dose of skepticism."

Approximately 951,000 customers lost electrical power during Hurricane Sandy, according to the Moreland Commission's 7 January Interim Report. The report cautions that many more people may have been impacted, since utilities consider single businesses and residences to be "customers" even if multiple people live or work in them.

LIPA has a history of mismanagement, said a municipal credit analyst. "LIPA has never had a manager that hasn't been a political appointee." While other public power utilities have had utility professionals in charge, he added, "they never appointed somebody who knew about utilities."

"If they had the right person in there 20 years ago LIPA would probably be one of the best utility credits," he added.

A private company has been contracted to manage the operations of LIPA for many years, Levy pointed out. Current operator National Grid acquired the system's first private operator, KeySpan, in 1998.

"A private utility was part of planning the preparedness and recovery operation and controlled the workers," Levy said. "Why is that going to change because there's no LIPA?" The push to privatize is "being driven by political perceptions … and a need for Andrew Cuomo to stay out ahead of any public backlash."

"I believe it's serious. I believe they've really come to a conclusion that there needs to be a fundamental change in the way LIPA is operated," said Gary Krellenstein, managing director of the public finance group at Kroll Bond Rating Agency. "The devil's in the details as to what they mean by privatizing it."

The authors of the Moreland Commission report wrote that they will provide a final report by Spring 2013, but "hope this Interim Report will prove useful to the Governor and the Legislature in the near-term".

Levy said he's skeptical the state legislature will take action, but that the issue of reforming LIPA in some way is not likely to die away.

"Andrew Cuomo now owns this," Levy said. "He didn't break it but he didn't fix it."

LIPA did not respond to a request for comment.

A USD 25,000 tranche of Series 2009A revenue bonds maturing in 2039 last traded 11 January at 115.921, yielding 2.926%, according to Electronic Municipal Market Access. Bondholders include **PIMCO**'s **New York Municipal Bond Fund**, according to 30 September 2012 fund disclosures. The bonds were rated A by Fitch in November 2012 and A- by Standard and Poor's in January 2009. Moody's rated the bonds A3 in May 2012.

by Maryellen Tighe