ECONOMIC DEVELOPMENT

HIGHER EDUCATION

and

ENERGY COMMITTEE

of the

SUFFOLK COUNTY LEGISLATURE

Minutes

A regular meeting of the Economic Development, Higher Education & Energy Committee of the Suffolk County Legislature was held in the Rose Y. Caracappa Legislative Auditorium of the William H. Rogers Legislature Building, Veterans Memorial Highway, Smithtown, New York, on Wednesday, May 9, 2007.

MEMBERS PRESENT:
Legislator Wayne Horsley - Chairman
Legislator Steve Stern - Vice-Chair
Legislator Tom Barraga
Legislator Ed Romaine
Legislator Vivian Viloria-Fisher

ALSO IN ATTENDANCE:
George Nolan - Counsel to the Legislature
Joe Schroeder - Budget Review Office
Joe Muncey - Budget Review Office
Alicia Howard - Legislative Aide
Ben Zwirn - County Executive's Office
Carolyn Fahey - Economic Development
Charles Stein - Suffolk Community College
George Gatta - Suffolk Community College
James Morgo - Commissioner - Economic Development
Richie Kessel - President and CEO of LIPA
All other interested parties

MINUTES TAKEN BY:
Donna Catalano - Court Stenographer

(*THE MEETING WAS CALLED TO ORDER AT 2:02 P.M.*)

CHAIRMAN HORSLEY:
Okay. Ed, would you please lead us in the Pledge of Allegiance.

SALUTATION

CHAIRMAN HORSLEY:
And may we all stand for a moment of silence for those freedom fighters in Iraq and Afghanistan and around the world and the -- all that they have done for us in protecting our rights.

MOMENT OF SILENCE

CHAIRMAN HORSLEY:
Thank you very much. Please be seated. All righty. Good afternoon, again, everybody. Welcome to the May 9th, 2007 meeting of the Economic Development, Higher Education and Energy Committee Meeting. What we're going to do is we're going to handle the agenda first before we invite our honored guest, Mr. Kessel up to address us concerning the -- the agreements involving KeySpan, National Grid and, of course, LIPA.

So what we'll do first is, if I may, I have several cards. And the first would be Mr. Peter Quinn.

MR. QUINN:
Good afternoon, members of the committee. My name is Peter Quinn. I'm speaking for myself. Although I'm a member of Steve Levy's Energy Advisory Committee, but I'm speaking on my own behalf this afternoon. And I'm -- let me begin by saying the synergy savings alleged by National Grid, KeySpan and LIPA in their merger agreement is pure subterfuge.

We had the Public Service Commission staff and Senator Schumer both reject the initial $129 million spread out over a ten period as not being in public the interest. Similarly, they should stand up as you should as well, because focusing solely on synergy saving of 236 million, the revised amount, as I said, is subterfuge without disclosing the bigger picture. The bigger picture is $100, million for repowering when KeySpan has refused to do it for nine years, because they know the cost, which they presented to you. Two months ago, it was between 800 million and 1.2 billion from one plant at Northport.

When they don't -- when they pretend that the cost of the merger -- of the manufacturing gas plants are minimally low. They low ball the number. They said that Bay Shore was 70 million, and Irving Like has the numbers of 200 from KeySpan's own document. When they don't disclose the interest cost on an $11.8 billion merger, the principle is 11.8 billion, but according to Pat {Foy}, investment banker and former LIPA WD Trustee, he said to me, in an unguarded moment, that their interest alone is two and a half to three times the principle amount for takeovers, acquisition, and mergers.

What does that mean in dollars? It means that taking the two and a half to three times of 11.8 billion, it's over $30 billion in interest, that -- maybe 35 billion. But that means the total cost is over 45 billion, and none of the ratepayers know that. So I'm demanding that the Legislators all get together and publically oppose this merger as so grandiose that it is absurd. The impact on ratepayers over a period of 30 years, if you just took the average amount each year, 1.4 billion. That's like paying for energy with a credit card.

Currently, we're paying 21% from the takeover of LILCO by LIPA. Those numbers need to be addressed in public, the media has to speak up. They can't simply come by and say, "It's a good deal," as both Newsday and Cablevision have done. I appeal to you to get the message out. This is not something that should be passed. And I feel confident that the Public Service Commission will agree with that assessment if the numbers are exposed. Thank you very much.

CHAIRMAN HORSLEY:
Thank you very much, Mr. Quinn. As always, your points are well listened to. Dr. Carmine Vasile.

MR. VASILE:
Good afternoon. My name is Carmine Vasile. I'd like to raise a point that I raised at the last LIPA Board meeting, and it fell on deaf years. The LIPA tariff as it exists now is illegal. They were supposed to freeze tariff for ten years, and if they wanted to change it, they were supposed to have public hearings. I raised this last month. Kevin Law sat there, he didn't bat an eye. Kessel said they had public hearings. Now I've talked to a number of people, nobody knew about public hearings in Nassau and Suffolk County.

So basically, the entire takeover, National Grid-LIPA takeover, is based upon an illegal tariff. The question I have to you is going to you enforce the LIPA Act? You have jurisdiction. Are you going to demand public hearings to approve this tariff? And I have some documents that I can leave you. For example, I have Rate 882. The effective tariff last July, one of the rates, is five cents -- 5.86 cents per kilowatt hour. The other one, the previous one, was 9.78. So what they did was they dropped the final rates without permission, without hearings, and then they raised the power supply charges. On my bill, the power supply charges are like 1.6 times three.

Now, on Rate Number 285, which probably is like the Federal Courthouse, that has Rate 285, I think some of your buildings do too. On that one, they dropped the tariff on one of them, the primary, to two cents a kilowatt hour down from six cents. Now, if the tariff is illegal, according to the LIPA Act, then these are all false claims. Somebody should look into the legality of the tariff. I talked to Joe in January, he didn't even know -- he's the LIPA watchdog -- he didn't even know the tariff had been changed. Do any of you know it changed?

Now, there was an article in the North Shore Sun. Bert Cunningham said, quote, the Authority's base rates have remained the same since May of 1998. He lied to the North Shore Sun editor. They were changed last July. So is anybody going to do anything about this?

CHAIRMAN HORSLEY:
I know you are looking for an answer. I'm not sure this is a response time for myself of whatever. As you can see, this Legislature has been very aggressive.

MR. VASILE:
But you have jurisdiction other them.

CHAIRMAN HORSLEY:
No, we do not, but that's -- we have oversight concerning electrical issues.

MR. VASILE:
I said what I have -- I'd like to give these handouts. Two of them were given to Kevin Law at the hearing, and then these are -- these are about my presentation today.

CHAIRMAN HORSLEY:
Okay. Thank you very much, Doctor. We appreciate your comments. Mark Serotoff.

MR. SEROTOFF:
Good afternoon. My name is Mark Serotoff. I'm the coordinator of the Sustainable Energy Alliance of Nassau and Suffolk County. Several concerns became apparent with the with National Grid-LIPA -- with the National Grid-KeySpan acquisition. Number one -- just a few of them -- hundreds of millions of dollars of ratepayer money will be leaving Long Island and the US for a foreign company.

What are the long term affects on the Long Island economy? Are there any studies looking at this situation?

Number two, natural gas rates are frozen until 2013 for power plants stated in the agreement. What about residential and commercial rates? What happens to them? What is the rate structure like after 2013? Connecticut had a similar five year reprieve which expired this year. Now the public in Connecticut is enraged over 30 to 50% utility rates hikes after the freeze gotten unfrozen.

Number three, 100 million will be spent over four years on claimed pollution reduction on Northport, but most of that is in cost for reblading the turbines, which is a maintenance procedure, has to be done anyway. Does this really address the emissions of the second dirtiest plant in the Northeast register?

Number four, Grid may flip the power plants after LIPA first-refusal. Is there any studies on the affects on services, labor, reliability and rates if this flipping happens? Five, National Grid controls Upstate and New England generation and natural gas distribution. When the deal is closed with KeySpan, they'll control the region's gas distribution and generation. How does that fit into the New York State and LIPA Energy Plan calling for deregulation and competition? Is this in the public benefit? These are very serious issues. As usual, the devil is in the details in issues -- in the issues mentioned. Let's hope that there's a parachute before we jump off the cliff. Thank you.

CHAIRMAN HORSLEY:
Thank you very much, Mr. Serotoff. All right. That concludes those cards that we have for the public portion. I'd like to call up -- at this time I'd like to call up Commissioner Morgo concerning the agenda.

COMMISSIONER MORGO:
Good afternoon, folks. I only have two resolutions to discuss with you. The first one, 1171, a local law to establish the Gabreski Airport Conservation and Assessment Committee. As I've reported previously, this legislation is redundant. The Airport Conservation Assessment Panel is meeting. Some of you are familiar with its recommendation concerning the LI Jet to the CEQ. I also want to tell you that it met last week, and it recommended the approval of five leases. That's significant because some folks were saying that a group of residents of the airport would never recommend the approval of any leases. But they have been reasonable and responsible, and those recommended leases to be approved will be coming to you. As far as 1171, it's already going on. It's in existence, and it's functioning.

CHAIRMAN HORSLEY:
That's interesting. Commissioner, would -- are these homeland security-type leases?

COMMISSIONER MORGO:
No. This is not in the industrial park, Legislator. This is the aviation part of the airport. The other resolution that I want to talk to you about is IR 1188. And I'm going to ask David Cutlier who is with Sabra Foods to come to you. This is a resolution -- and I took a lot of your time last -- last meeting going over the difference between regionally significant projects under the Empire Zone Program and IDA. Blue and White Foods, which is a subsidiary of Sabra Foods, we had to amend the resolution because we did not have the boundary lines right. And you tabled for us. David -- let me just quickly tell you about Blue and White Foods. They're food manufacturers, they're a subsidiary of Sabra, which you've probably heard of.

They took over the building where Carousel Foods was. They saved 55 jobs in food production. They plan to add another 65 jobs. They were vigorously recruited by Vineland, New Jersey, that, as you know, Mr. Chairman, has come after quite a few of our companies. And I'd like to David to introduce himself and tell you a little bit more.

CHAIRMAN HORSLEY:
Thank you very much, Commissioner. And welcome, David. Appreciate you being here.

MR. CUTLIER:
Thank you. Thank you very much. Good afternoon, everyone. As Jim has said, Blue and White Foods, LLC, acquired the assets of Carousel Foods back in December of '06. We anticipate dramatically growing the dairy business -- it was an ongoing dairy business at the time -- by adding -- by adding a kosher brand, which is called Halvha Israel. It's a very high, very classified. And in addition, we'll be adding dairy dips and salsa spreads. At the moment we do smoothies and also puddings.

Some of our customers are WalMart, Cosco, Public, all the major food chains I'm sure that you've heard and are aware of. Without us taking over the assets of Carousel back in December, all of those jobs would have been lost. And as Jim had said, we saved the 55 jobs. In addition, we anticipate creating over 65 jobs in the next five years.

One of the major things that we're going to be doing there is that we're going to be adding salad manufacturing for eggplant salads and different types of Mediterranean salads, and I had mentioned before salsa. We intend to make a substantial investment in the buildings at 523 and 535 Smith Street. We believe that we'll be able to see substantial growth from these product lines as they are added over the next five years. The Empire Zone and being designated as a regionally significant project was very important in our decision making process. As Jim said, Vineland, New Jersey, and specifically the State of New Jersey was very, very aggressive in courting us to move there as well as Pennsylvania. Any questions?

LEG. STERN:
Quick question.

CHAIRMAN HORSLEY:
Sure. Legislator Stern.

LEG. STERN:
Thank you, Mr. Chair. Hello and welcome. Very briefly, the company was originally established when?

MR. CUTLIER:
The company was originally established I believe back in 1987, {Yohuda} Pearl, who is at this time 49% percent owner, acquired 50% of the company in 1993, I believe, and then acquired the other half in 1997. And then in August of 2005, 51% was sold to a company called Strauss, Elite, which is the second largest publically traded food company in Israel.

LEG. STERN:
And approximately what kind of a time period do you say -- you mentioned the investment that's going to be made. What kind of a time period do you see there?

MR. CUTLIER:
Well, we anticipate -- we've spent millions of dollars on the acquisition. We anticipate, I would say, being here a substantial amount of time. There is a long-term lease. And we're really gearing up -- as a matter of fact, we have our partners in today, and they've been in the last few months talking to contractors. We have our plans already in place. And we're waiting to see how we're going to proceed.

LEG. STERN:
But contractors have already been in, plans are already in place, and then it's just a matter of -- what would you say?

MR. CUTLIER:
Well, obviously the benefits of this RFP is very important to us. We already have a grant in place from the State. And we're also dealing with the town for some of the local benefits through the IDA. But the tax benefits from New York State were very important to us.

LEG. STERN:
Thank you.

CHAIRMAN HORSLEY:
Okay. Thank you. Thank you very much, Legislator Stern. I just may ad that, David, you're from my hometown, so I'm very grateful for that. But you do know you did sign a pilot arrangement where if you've gotten benefits from the Town of Babylon to be there for ten years?

MR. CUTLIER:
Yes, but we haven't finalized. We're still in the process of finalizing, that's what it is.

CHAIRMAN HORSLEY:
Okay. Just checking on that.

MR. CUTLIER:
You know what happens? Sometimes dealing over the Big Pond, there's always a time lag in information.

CHAIRMAN HORSLEY:
Well, we're very pleased that you're coming to the Town of Babylon. And Smith Street is going to be gorgeous. I mean, that -- it used to be at one time that was a little tired, but we have seen a number of companies come in, {Marcus} Group and stuff like that that are -- {ICON} is there. Great -- great location. Legislator Fisher.

LEG. VILORIA-FISHER:
Thank you, Mr. Chair. Hi, David. Thank you for being here. This looks like it's going to be very exciting and very good for Long Island and Suffolk County. This morning I was speaking with Joe Gergela who is the President of the Farm Bureau -- director, executive, whatever his title is with the Farm Bureau. And although one might not think so at first blush, this is a great farming county here. And we're working very hard on a "grown on Long Island" initiative. And because you are going to be working on salad manufacturing, eggplant, salsa, many crops that are grown here on Long Island, I was hoping that I could encourage you to reach out to the Farm Bureau and see if you could even make this terrific initiative a home run and incorporate as many of our homegrown products as possible in what you're doing.

MR. CUTLIER:
Sure. We would love to speak with them, absolutely. Are eggplants grown on Long Island?

LEG. VILORIA-FISHER:
Yes.

MR. CUTLIER:
They are?

LEG. VILORIA-FISHER:
Yes. Did you have something you wanted to say?

COMMISSIONER MORGO:
I said maybe you could arrange the meeting.

LEG. VILORIA-FISHER:

Yes.

MR. CUTLIER:
Sure. I'll bring the right people. Absolutely.

LEG. VILORIA-FISHER:
Terrific. We'll do that. There are some supermarkets that are on board with that now, and the list is growing.

MR. CUTLIER:
Is that organic product?

LEG. VILORIA-FISHER:
We have organic farms here on Long Island and otherwise.

MR. CUTLIER:
Okay. Because we're going to be coming out with a natural brand line, obviously, organic is a little more -- but that's something we would certainly want to look at it. Sure.

LEG. VILORIA-FISHER:
Yes, we do have organic farming here on Long Island as well.

CHAIRMAN HORSLEY:
Great. Thank you very much. Thank you for bringing that up, Legislator. That's a wonderful idea.

LEG. VILORIA-FISHER:
Win-win, you know?

CHAIRMAN HORSLEY:
And certainly we love our eggplants here on Long Island and we certainly want to promote them. Okay. Are there any further questions? Are there any further questions? All right. Thank you very much, Mr. Cutlier, for your being here today. Mr. Morgo, anything else you'd like to bring up at this time?

COMMISSIONER MORGO:
{Shook head no}.

CHAIRMAN HORSLEY:
All right. If I may, then I'm just going to move to -- we only have several things on the agenda before Mr. Kessel, and we'll just run through them quickly. Tabled Prime Resolutions.

1171. Adopting a Local Law to establish the Gabreski Airport Conservation and Assessment Committee.

CHAIRMAN HORSLEY:
I'll move to table the motion.

LEG. STERN:
Second.

CHAIRMAN HORSLEY:
Seconded by Legislator Stern. All in favor? Opposed? So moved. **TABLED (VOTE:6-0-0-0 - Presiding Officer Lindsay was present and voted).**

1188. Adopting a Local Law amending the Suffolk County Empire Zone Boundaries to include Blue and White Foods, LLC.

CHAIRMAN HORSLEY:
Legislator Stern, would you like to make that motion?

LEG. STERN:
I make the motion.

CHAIRMAN HORSLEY:
You make the motion, I'll second the motion. All those in favor? Opposed? It's been **APPROVED (VOTE:6-0-0-0 - Presiding Officer Lindsay was present and voted).**

MR. 20. Memorializing Resolution in support of establishing a County commercial assessment ratio.

Do I have a motion?

P.O. LINDSAY:
Motion.

CHAIRMAN HORSLEY:
Motion to approve by Presiding Officer Lindsay. Seconded by --

LEG. STERN:
Second.

CHAIRMAN HORSLEY:
-- by Legislator Stern. All those in favor? Opposed? So moved. That has been **APPROVED (VOTE:6-0-0-0 - Presiding Officer Lindsay was present and voted).**

All right. That concludes the business portion of the agenda. I'd like to invite up at this time Mr. Kessel, CEO of the Long Island Power Authority.

MR. KESSEL:
Good afternoon.

CHAIRMAN HORSLEY:
Good afternoon. And let me just first state that it's a pleasure to see you here again, Mr. Kessel. And Every time that we've requested that you come down for a little speak or a big speak, you've always been gracious and you've always been there. I just wanted to quickly before we get started mention something that I had stated at a recent retirement dinner to one of the KeySpan employees, that Rich Kessel's tenure as head of LIPA has -- has improved the system. And I wanted to -- because oftentimes we get -- we're butting heads on small issues, big issues, whatever it may be, but the system is a lot better since you have taken over LIPA. And I wanted to personally thank you for -- for making our electrical system better and making Long Island better. And you deserve a lot of credit for that. So I wanted to -- before we start questions, I wanted to say that up front.

MR. KESSEL:
Thank you.

CHAIRMAN HORSLEY:
Mr. Kessel, I give you the floor.

MR. KESSEL:
Thank you. First let me just introduce, Wayne, my CFO of Long Island Power Authority, Elizabeth Libby McCarthy and our acting General Counsel, Lynda Nicolino. And they're here to join me to answer any questions that you may have. I'll give a brief presentation. We did give you books, but,

you know, I don't like -- I don't to go by scripts. I do want to thank you, though, for A, holding this hearing. I know Dave {Denneberg} can't come, and I've talked to him a couple of times. I think this is a very important issue to both counties and certainly to Far Rockaway as well, which is our service territory.

Before I testify, I do want to thank you for kind words about the system, because I think it's important to note just a couple of things at the outset and then maybe spend ten minutes on what the deal is, and then open it up to questions. You know, people -- I understand. You know, I've been out there. You know, I started on the other side of the fence with you and a lot of other people out there, you know, in the anti-Shoreham movement, headed a lot of consumer groups, headed the State's Consumer Affairs Department for 11 years. And I remember what it was like under LILCO.

As I look around the State and the nation and the region, I think LIPA is very well positioned right now. And that's why this deal is so important, because we want to continue that. And, you know, the two most important issues to people everywhere no matter what is reliability and rates. I mean, that's a big issue to people. I'm not denigrating, you know, repowering, environmental, they're all important, they're big priorities for us, but there's really -- that's what the bottom line is: Keep the lights on and try to keep my bills down.

And despite, you know, a lot of the pressure that we faced over the last few years with skyrocketing oil and natural gas prices, on the rate end, we're in pretty good shape compared to everyone else. You know, this winter heating prices for really both oil and gas probably increased somewhere between 15 and 25%. And I don't have to tell anyone here what's happening at the gasoline pump right now with prices going out of sight. And many of the electric utilities are raising rates to astronomical levels. Just last week Con Edison, our neighbor to the west, came in for a rate increase. And it's important, not a fuel increase, but just on the delivery portion of the bill for 17%. And many of utilities in the region, for instance, in Connecticut, most of the ratepayers there faced a 49% increase in their bills this past January.

As rate caps expire around the country and utilities have to begin to collect what they weren't collecting, rates are going up everywhere except on Long Island. We did raise our bills. We had to, we had no choice. Oil prices went through the roof, as you know, after Hurricane Katrina. But right now, we're one of the few energy entities anywhere in the country where our bills have come down. And the good news is, and I think I've said this to you before, absent a worldwide catastrophe, our bills aren't going up this year. And they've come down three times in the last year, not huge drops, but our power supply charge, which is the cost of electricity, oil, gas, purchase power has dropped by approximately 12%. Our bills have dropped by 6%. And when you contrast that with what's happening on the energy market, on the financial end, we're doing okay. And I think it's important to connect that with your comments about reliability, because at the same time that our bills are stabilizing, actually coming down a little bit, in the market that we're living in today, reliability has never been better.

We are the number one utility in the State for overhead utilities. The numbers for last year were extraordinary. They were record breaking. I think 16 and a half months between outages for the average customer. Average response time to an outage is, I think, a little bit over 80 minutes. The numbers are extraordinary. And that's because we've invested a lot of money into the system. We've put about two and a half billion dollars in the system where other utilities haven't. You know, some of the problems you saw just to the west of us last summer in Queens and in Westchester, we're not having those problems because we have invested in the infrastructure, which is the backbone of the system.

So, you know, I think we've come a long way on Long Island. And I think -- I think you should keep that in mind as I talk about the deal, because I like to talk about this deal as the three Rs; ratepayer savings, reliability and repowering. It has a lot of other things in it, but those are the three big chunks of this deal. Now let me just point out a couple of things. LIPA has no authority over whether or not the KeySpan-Grid deal will be approved. We're not the regulator. We have contracts with KeySpan, we would have contracts with Grid, but we didn't approve that acquisition. And people call it a merger, it's not a merger. And people call it a merger. It's not a merger, it's an acquisition. National Grid is buying KeySpan.

And I think that's important, because if that were to take place, the gas company on Long Island ultimately would be National Grid. It's not a not a merger per se. But that is before the Public service Commission. And I know you guys have intervened in that case. And, you know, I've met a number of times with County Executive Steve Levy, I've talked to you and some of the other Legislators about that. That's a completely separate proceeding.

Ultimately, the question of whether or not National Grid is going to be the new utility, gas utility, on Long Island is really up to the Public Service Commission. And our role is -- you know, we have contracts with KeySpan, which we have the right to terminate upon a change of control, which is what would happen if National Grid takes over KeySpan or purchases KeySpan. And our role is now to determine what are our contractual rights, what can we get as a result of this deal to benefit our ratepayers and our customers.

If, in fact, the Public Service Commission ultimately doesn't approve the National Grid-KeySpan deal, then our deal with Grid and KeySpan is no longer valid. We could go back to the deal that we originally negotiated with KeySpan, which we testified before this body I guess a little bit over a year ago. But I think it's important to point out to everyone that, you know, there are a lot of people -- and I'm being frank with you about a lot of people who -- no one understands this, people are very confused. They want the wants lights on and their bills low. And you know, it's never low enough, and I understand that.

But in terms of the, you know, whole issue of National Grid purchasing KeySpan, that's not in our purview. We have spent the better part of the year putting together a deal that we think benefits our customers significantly. And it's is a deal that we think you couldn't get if you just went along and competitively bid it out. And we can certainly talk about that later.

But let me just highlight the three Rs, and then you tell you where we are on the deal and then open it up to questions. On the ratepayer economic benefit side, the total economic benefits to customers is $236 million. Now, this is both the National Grid deal that we just negotiated and the KeySpan deal, which has never been approved. So you have to add those both together, and you get the combination of the two deals. We will get $120 million in the settlement of disputes that we've had over time with KeySpan. I think we've had a good relationship with KeySpan, a very good relationship. I think it's worked very well. And I very much appreciate the partnership with Bob Catell. I think he's done an outstanding job. But we have disputes, and we've settled them for $120 million that we would get as a result of that.

Furthermore, we would receive $91 million in synergy savings from the merger or the acquisition of KeySpan and National Grid. And it's important to point out that those are guaranteed savings, because a lot of times, you know, when you have acquisitions, people talk about savings and they never occur. Under this deal, the $91 million would be given to us over the seven years of the MSA, or I think we can receive it in one lump payment of $69 million whether or not those synergy savings are obtained by National Grid once the acquisition takes place.

And I think it's important to note that we are also lowering our annual costs by $34 million, which is a little bit over 10% of the annual Management Services Agreement with KeySpan. And why that's important is if we can lower our operating costs, that allows us to keep our base rates where they are as long as possible. And that's important, lowering our operating costs, which is something people want to do all the time. The money that's available for customers here is significant. When you add up 121 -- $120 million, the synergy savings, you get a significant pot of money that can be used in a number of ways. It can be used to lower bills further, it can be used to set up a rate stabilization or bill stabilization fund, because we know oil prices are going to go back up again, they're already going up, they're at the mid 60s now. You know, they're up and down in the last couple of months, but, you know, it's coming.

You know, we are all -- when it was $75 after Katrina, you know, the world went crazy. Now it went down to 55, 65 no one really cares. Again, an event is going to happen, whether it's in the Mid East or it's here, and all of a sudden oil is going to be 80, $85 a barrel, and that -- we're vulnerable to that. So, you know, setting aside more money for not raising bills is important, repaying or accelerating the repayment of the Shoreham debt is important, some kind of a bill credit is possible or a combination of any of those things.

But it's important to note that the money that's gotten from this deal, how it's spent is up to LIPA and our board and not up to National Grid or KeySpan and that's important as well. And one final point for ratepayers that I think is important to you is under this agreement, National Grid will not be able to challenge on the tax certiorari end without our approval. And, you know, since we did the LIPA deal, we made -- we made a commitment to Suffolk County and Nassau County that, you know, we would not allow any tax cert challenges on your plant -- I don't mean plants -- but on our plant unless it was so outrageous that it was something that LIPA was singled out. And we've never -- we've never challenged any of the tax cert as far as I know. And that would be continued under this deal.

So from a financial perspective it's also important that we would get $7 million in additional cash and $12 million to fund a LIPA-National Grid joint program for energy efficiency that would be controlled by LIPA, but jointly marketed by both companies. So, you know, the economic benefits here are very significant. From a reliability perspective, and I think this is really the issue that has come out to be the most important issue to the public, people are afraid. You know, they -- on one hand they see that we've gotten -- people know that electric service on Long Island has gotten a lot better. Again, the money we've invested, the terrific job that the employees do. I see my good friend Ralph Ranghelli here. And, you know, I have to tell you, the employees do an extraordinary job. Ralph should know I was driving down Merrick Avenue yesterday and I saw crews putting in some new poles, replacing older poles on Merrick Avenue. And I stopped off and said hello to everyone, and they're all, you know, whistling at me, not because I look good, but just a hello.

But the combination of the investment and the employees, you know, reliability is important. And people look at National Grid's record, which frankly has been less than stellar in Upstate, New York and in New England. They've been fined. We know about this. And they say, "We don't want to see that on Long Island." And so one of the things that we looked at and we worked very hard at is guaranteeing to the greatest extent we can that the reliable service that we're currently getting would continue under this agreement.

And we've done that in a number of ways. We've set up -- number one, we've set up a number of service matrixes that they would have to meet targeted service performance levels, otherwise they could be penalized up to $7 million a year, which is a significant number. Beyond that, if they do worse then expected, at some point we can have the right to terminate this contract instantly. So it's important to note they've got to meet certain targeted levels, otherwise they face fines. And beyond that, the possibility of terminating the contract instantly. I don't mean to say that that's an easy thing to do, but it's a leverage that we've got over the company.

Very important that they can't move major services, customer services, off Long Island without our approval. For instance, if they wanted to take the call center and merge it with one of their other call centers in New England, they can't do that without LIPA approving it, something we would never approve. We don't want people -- we love people in Massachusetts unless they're Red Sox fans. We love people in Massachusetts, but we don't want them answering calls about what's happening in Montauk or Manorhaven or Merrick. We want people here doing that. We want to make sure that out customer service offices are all kept open. We have the right to do that under this agreement.

There can be no union layoffs under an agreement that is ancillary to this that was -- that was struck between KeySpan and the unions that National Grid that will have to honor. We helped negotiate and mediate that agreement. That's important to us. We don't -- you know, we think these employees are extremely valuable. Frankly, we consider them our own employees. They may get a check from KeySpan, but we back that check up, we pay that money. And we think that not only are they good hard workers, but if you start laying off people or losing employees, service is eventually going to degrade. So no union employees can be laid off.

And just as importantly, we have to approve all top level management employees coming into the electric side of the business. For instance, if they bring someone new in that's going to deal with T&D, Transmission and Distribution, or someone that's going to deal with, you know, engineering at a top level, we have to approve that person. And that's important to us too, because we would then have control over who we're working for. LIPA would be in charge of all emergency storm and other emergency responses. That's pretty much how it's been now. KeySpan and LIPA work very well together during storms. But in the end, we try to make those decisions, our people do that, I get personally involved in that too. I think many of you know that during a storm, something happens, you call me directly. And Bill Davidson who does a great job for us. We get things done. That will continue to be the case under this agreement as well.

And I think also it's important to point out that we will get first call, you know, on National Grid crews from other parts of their service territory as long as they haven't been struck by the same storm. You know, a storm usually -- and hopefully, you know, we're not going to get a hurricane this year, but you know, it's going to be a very active season. Most hurricanes do no go to Upstate, New York, some do. But if a hurricane traversed Long Island and went into New England, we could -- we would have first call on the Upstate crews as long as they weren't needed in Upstate, New York. And that's very important to us as well.

And additionally, Grid has agreed to provide us with an additional $6 million for storm hardening, which is basically a new program that we're doing. It's a half a billion dollar program to harden the system to be more resilient to storms. What do I mean? Areas of flooding where you have substations that could be flooded out like you saw down in New Orleans. You can raise parts of that substation so that they wouldn't be flooded out. Some areas where we would put in better wire, harder wire, stronger poles. This is a long term project that LIPA has undertaken. And National Grid will not only support the project, but will contribute $6 million to the project as well.

So we're very confident, Wayne and Tom and some other members up here, that the protections that we've built into this are at least as good if not better than what we have now. Right now, we don't have some of these rights. For instance, right now they can advise us or confer with us on employee hirings at the management level on the electric business side, but they can just do it anyway, and they have much to my chagrin. It hasn't been as bad lately, but under this agreement, they can't do that.

By the way, we also have several LIPA employees embedded at KeySpan. The work at KeySpan, and they're involved in every decision that's made day-to-day on the electric system. If something goes wrong, and we've had a number of things happen just in last -- it hasn't been written about, because there haven't been many power outages -- but we've had several major transmission lines in Nassau County cut into over the last month or so. And I've got someone there, Mike {Kirby}, who finds out about it right away, sits in on how are we going to deal with the problem, how we're going to do the repair, reports to us immediately so we know what's going on. And that's critical. And that's something we've never had before.

So from a reliability perspective, I think you have to remember one thing. National Grid is not taking over LIPA. They're taking over KeySpan. And as long as LIPA is strong and has the protections in this agreement that were built in, I think the service levels will be at least where they are now. By the way, one final point on service. In the end, it's all about investment. If you don't put money in the system, the system is going to collapse. We saw that last summer in many parts of the region. The decisions about how much money to spend on infrastructure and where to spend it are LIPA's only under this agreement, and that's important, because -- and I just said this, and I'll say it again, in the end, Grid is buying KeySpan, not LIPA. LIPA makes the decisions, LIPA has the controls. You know, we think that we can maintain reliability at lease where we are now, if not do it better. So I am a very comfortable on the reliability perspective that we've put ourselves in a very good position here.

And finally on repowering and some of the environmental issues. You know, a lot has been said about repowering and why haven't we done it or KeySpan done it. I want to point out -- I think you all know this -- we don't own any power plants. Ultimately the decision about whether to repower is not ours, it's KeySpan's. However, under this agreement we have, for the first time, real options to acquire power plants for the purpose of repowering from Grid-KeySpan. Obviously, if the deal goes through they will be National Grid's power plants. And that includes buying Barrett in Island Park and Far Rockaway in Far Rockaway, plus several combustion turbines at Barrett at book value for the purpose of repowering. And it also would allow us to buy a number of gas and combustion turbines out in Shoreham-Wading River for the purposes of repowering. They're small units, but they're units that we could also repower.

Furthermore, National Grid will contribute and pay for -- and this was something that Kevin Law requested, and I think it was a terrific idea -- they will pay for a formal repowering engineering analysis for Northport and Port Jefferson. And people have talked a lot about, especially Northport, you know, can you repower it. We've looked at it. There are real challenges with both of those facilities. We're not going to do a study that says yes or no. We're going to do a study that shows us how we could do it, what the cost would be, what expansions we would need in the transmission system to repower plants, and that would be done as well.

And finally, in this particular area, National Grid would put $100 million towards the cleanup and efficiencies at the Port Jefferson and Northport power plants. And this is the key point. LIPA would only pay for the savings achieved from those cleanups and efficiencies at those two plants. That's an extraordinary investment, because what it means is if they clean up Northport and Port Jefferson and there are no savings or there are minimal savings, we don't pay. We pay equal to the savings that are obtained. And, you know, obviously we believe that by making both Port Jefferson and Northport more efficient and also by cleaning up some of the emissions, there will be some significant savings and credits that we can obtain from that.

And that's going to benefit Long Island. First of all, it's going to make -- ultimately make the power from those plants cheaper. Second of all, it's going to mean cleaner air in -- you know, in the Town of Huntington, Steve, I know you represent that area. There's a lot said about the Northport Power Plant. We don't own it. But, you know, to begin to reduce emissions there, clean it up, make it more efficient -- same out in Port Jefferson -- Ken LaValle -- Senator Lavalle and Assemblyman Steve Englebright, you know, came to me and said, "We've got to take another look at Port Jefferson." It's a difficult challenge to repower it, but we are going to take another look at that.

But in the interim, we can begin instantly with National Grid's investment to cleanup those two power plants. And again, we have the option to purchase Barrett and Far Rockaway and the Shoreham-Wading River units at book value. Shoreham-Wading River, I think, is 1.25 times book value. And that's great, because remember the original option we got when we took over LILCO, we would have to buy everything at fair market value, but we didn't know what the price was, and we'd have to commit to it before we knew the price. And, you know, we said it was a half a billion, they said it was two billion. Who knows where it would have wound up? That would have been a disaster for Long Island.

So from the repowering end, I think that this has important protections as well. Let me also indicate that LIPA does have the first -- right-of-first-refusal if Grid proposed to sell its generation to a foreign-controlled entity. So, you know, people have expressed the concern that once Grid took over, they're foreign, you know, what if they sold it to a foreign country that we weren't happy with or a company controlled in a foreign country or by a foreign country or the stake is a certain percentage in that country. There would be a discomfort with it. We would have the right first to buy that generation if we so desired.

So I think, again, you know, if you look at the -- all of these items from a ratepayer perspective, this is a very, very good and positive deal. Let me conclude with three points. Number one, I do know that a number of you, Wayne, you in particular, have great concern over the MGP sites. And I did want to indicate to you that while LIPA is on the electric side only, we have no regulatory authority on MGP, nor do we have any financial liability, which we certainly don't want to have.

Having said that, Kevin Law, you know, made it very clear that we feel we have a responsibility to our customers, to the public interest on Long Island. And we have asked KeySpan-Grid to submit to us a plan and schedule as to exactly the extent of the sites, when they are going to be cleaned up, what the process is, etcetera. Additionally, we are going to ask that National Grid appear before the LIPA Board publically quarterly to report on the progress of all the work that they are doing.

Just to give you an update, we just received a draft document, I think two days ago, maybe even yesterday -- yesterday. It is in the process of being analyzed by some of our environmental experts, and we'll have more to say on it as we go forward, certainly before we do the deal. Second of all, where are -- where is this deal right now? This deal has not yet been approved by the LIPA Board. I think it's important to note that we decided not to go forward and approve it at our last meeting, first of all, because we wanted to brief you. And I think -- you know, we went up to Albany, we briefed the State Senate and Assembly Delegation. And they had a number of questions. We've now sent a response to all of their questions. But some of the Legislators from Albany -- and Tom used to be up there -- they're inquisitive. You know, our briefings up there, we do them every year. They had some very good questions and we wanted to answer them.

Second of all, I think we felt very strongly that we didn't want to go ahead and approve the deal and then come here today, because what would this mean other than information. And finally, I think, you know, we want to get more information on the MGP sites. That was something that, again, was a big priority for Kevin. So for those reasons, we have not yet approved the deal. What will happen is that the deal will eventually go to the LIPA Board for our vote. If the LIPA Board approves it, it then is formally submitted to Comptroller and the State Attorney General for their approval, and then it would go into affect.

Obviously, the deal would not go into affect if the National Grid purchase of KeySpan is disapproved by the Public Service Commission. Finally, the Public Service Commission has no authority over our deal. You know, I know some people would like to see the Public Service Commission have some regulatory authority of LIPA, which I find a little ironic sitting in here, since they were the ones who had regulatory over LILCO with Shoreham. I'm not sure that's such a good idea. Having said that, they have no regulatory authority over our deal.

Now, our deal is certainly going to be looked at in their process as part of the public interest. But ultimately, the decision about whether or not to do this deal is really up to the Long Island Power Authority subject to approval by the Comptroller and the State Attorney General. This new deal -- the KeySpan deal that we entered into last year is pending before those two offices. We asked, at the time, Attorney General Spitzer and Comptroller Hevesi, to suspend their review pending our negotiations with KeySpan and National Grid. We've now asked them to resume looking at the original KeySpan deal. And once this deal is approved by our board, it would then go before them for a separate, but obviously, concurrent review and have to be approved by them as well. So anything else -- okay. I mean, we would be glad to any questions you have.

CHAIRMAN HORSLEY:
Thank you, Mr. Kessel, for your report to us. As always, it's enlightening. I wanted to, first of all, start by saying in my opinion, since LIPA has become part of the picture as far as this acquisition between National Grid and KeySpan, this is a better deal. There's no doubt in my mind that this is a better deal. I'm not sure it's the deal we're going to get at the end of the day, but it's a better deal. And I'm particularly pleased at the right-of-first-refusal on the plants. I think that's -- that was --

was that yours?

MR. KESSEL:
Yes. But actually, I have to tell you though that it came from --

CHAIRMAN HORSLEY:
Because we're worried about that, as many Long Islanders are.

MR. KESSEL:
It came from you. I mean, you and Steve Levy, to be frank with you, and several other Legislators; Kenny LaValle, I'm just remembering people who came to me. I think Tom even brought this up. He was concerned about -- about a foreign country, you know, buying these plants. You should understand that a lot of what you tell us we've incorporated in this deal.

CHAIRMAN HORSLEY:
Okay. That's appreciated. Let me just go off on -- and you've already addressed the MGP site issue. As you know, it's of particular concern to me. And I see in Suffolk Life today, I see Mr. Cunningham has said those sites don't have anything -- basically reiterated what you said -- don't have anything to do with LIPA, but I believe they do. But since we do interest -- we do interact with KeySpan on a number of levels, people come to us to see what kind of pressure we could exert. And I think that's a good stand.

So basically LIPA has made this MGP timeline that you talked about. Could you give us just a little bit more on -- you're saying quarterly it's supposed to appear -- they're supposed to appear before you. Have they talked to you? Give us -- enlightened us on what some of the conversation you have had with KeySpan at this point and what they're anticipating moving and how they're moving.

MR. KESSEL:
I think we've had very productive discussions. I think they understand that this is something that we want. And it's important that while we don't -- I think it's important to note, we don't want to put ourselves in a financial liable situation here. It's the last thing you want LIPA ratepayers to be is on the hook for MGP sites. That's KeySpan's problem, not ours. And that will be Grid's problem. Having said that, we're the closest entity to the public here on Long Island. You know, like us or not, just like you, we have meetings, people come, Peter Quinn -- I saw Peter before, I don't know if he's still here -- Peter comes. We don't always agree, but he comes and says his peace, so do other people. And so I think we thought that we could extract some more, you know, public process about the MGP process. You know, do we now know all the sites? If we don't, what else is out there?

CHAIRMAN HORSLEY:
Dribs and drabs.

MR. KESSEL:
Right. Well, we need -- that's not acceptable to us. Do we know the timelines? How close can we get to a timeline? I know some of these projects are years in length. And I think most importantly, over time, are they sticking to the timelines that they committed to? And I think that both getting a written document now that gives us some comfort that they're committed to that, but then saying that over time, you've got to come once a quarter, that's four times a year, before the LIPA Board at a public meeting in front of the public and report about the progress you're making and what you are doing is important. It doesn't usurp what you do, because they ought to be appearing before you too.

But this is an -- this is an issue that seems to have become the hottest -- no pun intended -- issue in the whole Grid-KeySpan transaction publically. And it's important, it's public health. What could be more important than our health? So while we don't want to put ourselves on the line financially, and we certainly do not want to take over the regulatory authority of the Department of Health, of the DEC, at the same time, we think we have the capability here of holding their collective feet to the fire. And if we're not satisfied, we're not going to go forward with the deal.

CHAIRMAN HORSLEY:
Okay. Good. Thank you. And I appreciate that comment. Let me just carry that one step further. The MSA, okay, your agreement with KeySpan and later to become your agreement with National Grid, is -- as that -- as the MSA is written, as we move into the stages of cleanup for the MSA -- the cleanup of the MGPs, the dollars that are expended on the cleanup, are they passed through the MSA to the ratepayers?

MR. KESSEL:
Not to our ratepayers, no.

CHAIRMAN HORSLEY:
Then how is it done then?

MR. KESSEL:
What?

CHAIRMAN HORSLEY:
Then how is that done then?

MR. KESSEL:
Here's what I think. They can't charge the electric ratepayers anything for this. Our original agreement with them bars them. The only way they could get ratepayer recovery would be to get it on the gas side through the Public Service Commission.

CHAIRMAN HORSLEY:
So then it would be strictly on the gas side. So the hundreds of millions of dollars that we may be talking about for the remediation would be layered into the gas and side not on to LIPA?

MR. KESSEL:
Well, I'm not supporting that.

CHAIRMAN HORSLEY:
I'm not saying you are.

MR. KESSEL:
But LIPA would not -- LIPA ratepayers would not bear any of that financial burden. And I think -- Libby, you can correct me if I'm wrong or Linda -- that was in the original deal when we took over in 1998, when we took over LILCO.

CHAIRMAN HORSLEY:
Should we go to oil heat then?

MR. KESSEL:
Well, Kevin is here, so I know likes that. Both of them went up a lot more than LIPA did this past winter, but I'm not going to say which is better.

CHAIRMAN HORSLEY:
Okay. So is there any contractual issues relating the MGP issue with LIPA at this point in time, excepting to say, "We're not going to agree with your -- with this -- with this acquisition unless you -- unless you report to us quarterly and give us updates and all those things that you've asked for?" So there's nothing in writing as far as -- as far as the company is concerned -- as far as LIPA is concerned between us.

MS. MCCARTHY:
Well, there actually is something in writing.

CHAIRMAN HORSLEY:
Okay.

MS. MCCARTHY:
And in 1998, what's in writing is a very clear -- clear delineation of who's liability is that. And that liabilities have allocated to the gas side. So this is clearly not and electric business liability.

CHAIRMAN HORSLEY:
Now let me ask you then just further on the questions. You own two sites that these MGP sites are on; Halesite and Glen Cove; is that correct?

MS. MCCARTHY:
That's correct. We have -- we've purchased that land and put substations on it, yes.

CHAIRMAN HORSLEY:
Okay. Are you monitoring them particularly as to their progress? I mean, did you guys -- I knew you knew about Halesite, because I knew about it, that was one of the original ones. Glen Cove, did you know about Glen Cove?

MS. MCCARTHY:
Yes, we did.

CHAIRMAN HORSLEY:
Okay. And you've been following -- have they reported to you on what they're going to be doing with those two sites as yet?

MS. MCCARTHY:
We've been following their progress with respect to that, leaving, as Richie said, the DEC and Department of Health as the lead regulators in that.

CHAIRMAN HORSLEY:
Right. And have you -- over the last couple of years, have you heard much action concerning the DEC and that oversight process?

MS. MCCARTHY:
We've just been following the public process.

MR. KESSEL:
I mean, just from what I know, we have not heard a lot, but it's something I think we -- you know, I know Burt -- you mentioned Burt Cunningham before, he's famous now. But I think Burt -- we talked a little bit about that, and that's something we're taking a look at. Those are the only two sites that impact us.

CHAIRMAN HORSLEY:
That you own that I -- at least that I'm aware of. See what tomorrow brings. I know some of my fellow Legislators want to ask questions here. Would LIPA consider supporting the position that this Legislature has taken or at least this committee has talked about as interveners; one, that KeySpan disclose all MGP contaminated sites? I mean, that seems like an obvious --

MR. KESSEL:
Yes.

CHAIRMAN HORSLEY:
Okay. Two, that KeySpan begin remediation all contaminated sites immediately, at least as far as -- as immediately as possibly?

MR. KESSEL:
Yes.

CHAIRMAN HORSLEY:
And if they don't, be penalized accordingly?

MR. KESSEL:
Yeah. I mean, we wouldn't be the penalizer, but yes.

CHAIRMAN HORSLEY:
Okay. Three, that KeySpan not charge LIPA and gas ratepayers cleanup -- for cleanup cost, would you support that position?

MR. KESSEL:
Well, they couldn't support LIPA. And I --

CHAIRMAN HORSLEY:
I know you can't on the gas side --

MR. KESSEL:
On the gas there's a --

CHAIRMAN HORSLEY:
Would you support it as LIPA as someone who has -- how did Burt put it -- interacts with KeySpan on a number of levels, would that be one of those levels?

MR. KESSEL:
LIPA hasn't taken a position on what should happen on the gas side. I don't think that's our issue. Personally, I don't think the ratepayers on the gas side should pay for it, but that's -- you know, I'm a consumer person, believe it or not, so that would be my position. It's important to assure you --

CHAIRMAN HORSLEY:
Which is our position.

MR. KESSEL:
Right. It's important to insure you, though, that on the electric side that can't happen.

CHAIRMAN HORSLEY:
Okay.

MR. KESSEL:
Contractually it can't happen. That was built into the original -- I actually remember when we were negotiating back in nine -- this was a very big issue as part of those negotiations to take over LILCO. And this was a significant issue about, you know, electric ratepayer reliability because we were splitting up the electric and the gas portion of the business. You remember under LILCO, they were together. So this was really important, and we're very glad that was written into the contract.

CHAIRMAN HORSLEY:
The MGP issue itself?

MR. KESSEL:
Yes.

CHAIRMAN HORSLEY:
So then -- that is when it became a voluntary cleanup on the part of KeySpan?

MR. KESSEL:
No. It's just a liability issue.

CHAIRMAN HORSLEY:
Just on the liability issue.

MR. KESSEL:
Correct.

CHAIRMAN HORSLEY:
Not on the fact that they had a voluntary relationship with DEC to clean these up.

MR. KESSEL:
Let me make this very clear, because I remember the discussion. I remember where we were when we were discussing it, with Frank {Zarb}. The got the liability. Had they not, we never would have taken over LILCO. This is a big issue to us at the time. And I'll tell you, it's just ironic, one of the people that talked to me about it before I even it was such a big issue was Irving Like, who now, I think, does some work for you on this. Irving used to be on the LIPA Board. He wasn't at the time, I don't think. But Irving used to be on the LIPA Board. Irving and I talk quite frequently. I have a lot of love and respect for Irving, he's a terrific guy. And he brought this issue to my attention, I then brought the issue to Frank -- I mean, not -- people knew that this was an issue. But this was important issue back in 1998. And we wanted to make sure that our ratepayers, you know, wouldn't pay for this cleanup. That's exactly what we did.

CHAIRMAN HORSLEY:
Well, I appreciate that stand, because it was far -- it was far thinking as far as -- as far as we're concerned, because so many of us have caught up with this later on.

MR. KESSEL:
Well, you know, it was a big number too. I remember again --

CHAIRMAN HORSLEY:
And getting larger.

MR. KESSEL:
And getting larger. But there was some big numbers being thrown around at the time when we were looking at it, and it was a big issue. You know, it's an issue that didn't catch a lot of attentions at the time, because there were so many other issues with the Shoreham debt and all this other stuff. But it was an important issue to us, and I think, you know, the protection was built in so that our customers won't have to pay for it.

CHAIRMAN HORSLEY:
So, Rich, now that you have taken these public positions that you do not agree that this should be passed -- this expense should be passed on to the gas ratepayers, will you be out there in front cheering us on when we're agreeing with this statement?

MR. KESSEL:
Well, personally I always cheer you on, so I will, yes. Look, I -- you know, I'm the kind of person that -- I mean, there's a cost of doing business. I'm not -- you know, I'm not sure you could blame KeySpan for this.

CHAIRMAN SCHNEIDERMAN:

Oh, no. No.

MR. KESSEL:
This came from LILCO years ago. This is a problem nationwide. Having said that, my personal position --

CHAIRMAN HORSLEY:
By the way, we do not blame KeySpan for the problem. We've only criticized it as being -- having a little bit of the slows.

MR. KESSEL:
Yes. I believe personally that the gas ratepayers should not pay for it. But that's my personal opinion.

CHAIRMAN HORSLEY:
Thank you very much. I appreciate your comment. Legislator Barraga.

LEG. BARRAGA:
Hi, rich. It's good to see you. I was listening to your presentation. I just want to make sure it's very clear in my own mind. This new package, this deal, really isn't a deal yet. Nothing really happens unless National Grid acquires KeySpan.

MR. KESSEL:
Well, some things would happen if National Grid didn't, but this -- the deal that I outlined would not happen in its entirety if National Grid didn't purchase KeySpan.

LEG. BARRAGA:
So your board really doesn't take a position on the deal until after the acquisition takes place.

MR. KESSEL:
No. We probably would take a position soon, because the approval process is extensive. And if, in fact, this deal is approved by the PSC, we want to take advantage of it as quickly as possible.

LEG. BARRAGA:
Well, in other words you're telling me that your board would take a position on this deal before the acquisition takes place of KeySpan by National Grid.

MR. KESSEL:
We could, I didn't say we would. We certainly could.

LEG. BARRAGA:
Are you being pressured to approve this deal before this acquisition takes place so that National Grid can be assured that a contract exists between their newly acquires company at National grid and LIPA?

MR. KESSEL:
No.

LEG. BARRAGA:
So why do it before the acquisition takes place?

MR. KESSEL:
I think it's important -- there are a number of reasons. First of all, a lot of these protections are the things that we would want to go into affect immediately upon approval of that deal. I also happen to
think -- I also happen to think --

LEG. BARRAGA:
Your main thrust was a economic benefit of $236 million. You spent quite a bit of time on that.

MR. KESSEL:
I think it goes way beyond that.

LEG. BARRAGA:
You need these protections before the deal takes place between National Grid and KeySpan?

MR. KESSEL:
Yeah. We want -- not only that, but -- not only that, but I think when the Public Service Commission looks at this deal, they only have authority over the gas portion of the deal. We are the electric portion, which frankly is the most important thing on Long Island. I'm not denigrating gas, natural gas. I mean, I think it's -- you know, big it's not a big issue to people. People want to know about their electric bills and their service. And so I think -- I think it's important --

LEG. BARRAGA:
I agree with you reliability and rates. My question is it would seem to me that if I was with National Grid I'd want to make sure that this deal was approved by the LIPA Board and the Attorney General before I acquired KeySpan.

MR. KESSEL:
Right. Well, it won't be though, because once it's approved by the LIPA Board, if it's approved, because we haven't voted on it yet, it would then go to the Attorney General and the Comptroller.

LEG. BARRAGA:
But isn't that a very strong indication to National grid if LIPA -- if the LIPA Board approves this deal before the acquisition that's it's going to be signed off by the Attorney General?

MR. KESSEL:
No.

LEG. BARRAGA:
So we can proceed with our acquisition of KeySpan?

MR. KESSEL:
Let me assure you that the Attorney General, Andrew Cuomo, and the Comptroller, Tom DiNapoli, are very independent, they're very tough on us, especially the Comptroller. And they're going to go through an extensive review process that's going to take a long time. And so to get this -- we can't submit the deal until -- we can't submit it until it's approved by our board. So I think it's appropriate to move it forward. If, in fact, the deal --

LEG. BARRAGA:
My impression is that this deal, whether or not your board takes action on your proposal, this deal between National Grid and KeySpan is going to probably come about in the next couple of months anyway. So why don't you just wait until the deal is done before you LIPA Board votes?

MR. KESSEL:
Well, I can only say this a number of times, one, because many of the parts of the deal would have to be reviewed extensively -- -

LEG. BARRAGA:
In the next 60 days there's going to be a big difference that your board has to take action before the acquisition takes place.

MR. KESSEL:
We think it's appropriate. We've had contracts before the Comptroller's Office for six, eight months. And we want to get those benefits quickly. Second of all, I do think --

LEG. BARRAGA:
Is KeySpan pushing you to do the deal before the acquisition takes place?

MR. KESSEL:
I think it's appropriate. If the board wants to do it, we haven't done it yet, I do think it's appropriate. I also think the Public Service Commission ought be able to weight what we're bringing to the table here in terms of the public interest, because you see they -- they ultimately have to decide whether or not to approve the
National Grid-KeySpan deal, because to judge whether or not it's in the public interest. Let me just finish, it's important. Public interest. And as part of the that process, I think they should know that.

LEG. BARRAGA:
I don't want to talk about the public interest and rates and reliability. I'm talking about this deal.

MR. KESSEL:
Right.

LEG. BARRAGA:
I mean, is KeySpan pushing you to do this deal before the acquisition takes place?

MR. KESSEL:
No.

LEG. BARRAGA:
No?

MR. KESSEL:
No. I'm sure they'd like us to do it. They wanted to do the deal. I don't think they wanted to do this deal.

LEG. BARRAGA:
I just can't see for the life of me why you can't wait until the acquisition actually takes place before your board then approves this deal.

MR. KESSEL:
Right. Well, we think it's appropriate to move this along as quickly as possible. Ultimately, it ought to be weighed as part of the Public Service Commissioner process. And if the Public Service Commission in its own wisdom decides not to approve the National grid acquisition, we would likely then revert back to the deal that we negotiated with KeySpan that's already been approved.

LEG. BARRAGA:
The $120 million settlement of disputes, is that $120 million figure, is that something that's been agreed upon right now as we speak between you and KeySpan?

MR. KESSEL:
Yes. It's actually been approved --

LEG. BARRAGA:
Is it a $120 million lump sum becomes after this deal is approved -- is it a lump sum, is it a savings?

MR. KESSEL:
It's a lump sum, however, it's important to point out that that comes from the original KeySpan

deal. So if the National Grid deal craters --

LEG. BARRAGA:
You still get that.

MR. KESSEL:
We still got it if we decide to go with the new deal with KeySpan. You follow? In other words --

LEG. BARRAGA:
I follow.

MR. KESSEL:
Yeah.

LEG. BARRAGA:
Yeah. All right. The 91 million, you have an option there of either a lump sum payment of 60 some odd million versus 91 over six years?

MR. KESSEL:
Correct.

LEG. BARRAGA:
And the $34 million in savings that you were talking about in terms of operating efficiencies, what is that -- what does that mean?

MR. KESSEL:
Well, what it means is we're already getting those saves now. We're operating under a Management Services Agreement that if costs are reduced -- and it's actually being phased in over three years. What it means is that the annual cost for our management contract will be reduced by $34 million a year, which is, I think, about 12%, is that the number we use? It's about 12% of our fee. We pay a fee.

LEG. BARRAGA:
Is that layoffs?

MR. KESSEL:
No.

LEG. BARRAGA:
Does that involve personnel?

MR. KESSEL:
No, it's not. No. It's new efficiencies.

LEG. BARRAGA:
You mean computerization, administrative efficiencies, that type of thing?

MR. KESSEL:
Back room efficiencies. I didn't get into all this, Tom, but we're doing -- the new MSA is completely different than the old MSA, which -- one of the reasons we have all these disputes is because the old MSA was the first of its kind anywhere in the country. And frankly, it wasn't run as efficiently as you would do after you have eight years, seven years of experience. So the new management agreement is very -- it's structured completely different. And by restructuring it, making it simpler and combining some services, we were able to reduce the annual fee. And just so you understand, we pay about $35 million a month to KeySpan. What's our average monthly payment to KeySpan,

Lib? It used to be, I meant.

MS. MCCARTHY:
Well, it used to be. It's going to be about 290 million a year now.

MR. KESSEL:
Two hundred and ninety million a year now. So if you really want to look at it like that, we've actually -- we're getting one month without having to pay the fee from these savings, and that goes to the bottom line for us.

LEG. BARRAGA:
I take it no decision has been made as to how you want to pass through the 236. I mean, you're thinking about a possible rate reduction, you're thinking about a possible reserve fund to protect against increases in oil prices, maybe paying down some of the Shoreham debt. Are those the options pretty much on the table?

MR. KESSEL:
Yeah. Maybe a bill credit. And, you know, frankly, once this deal is approved, we'd like to hear what your thoughts are, you know, because that's important. Your input -- what do your constituents want? You know, and we'd like to hear -- and I will tell you that if, in fact, this deal goes forward, we will have public hearings. And we welcome any of you or your colleagues to come before us and tell us how you think the money should be spent. Ultimately, that's your decision.

LEG. BARRAGA:
I just have two or three other questions.

MR. KESSEL:
Sure.

LEG. BARRAGA:
You talked about an agreement with -- or at least the commitment from National Grid, no union layoffs. They have a history of this attrition concept; when people leave, they don't replace. Has there been any discussions with reference to that? For example, in a given year, "X" amount of people from National Grid, who are working for National Grid will leave. What have they said about that? Are they going to replace those people? Have they said nothing, it hasn't been discussed?

MR. KESSEL:
Well, it has been. It's a very significant part of the deal. First of all, conceptually, we built into this deal 18, you know, set of -- 18 different sets of standards that they will have to meet. And they're just not going to be able to go down to the levels that they might have gone down to in other parts of the country without paying a fine, which is very significant. And, in fact, if it's way below that in a number of areas, we could terminate the contract. So we did take that into consideration.

Second of all, and this is an important point, when we looked and we did our due diligence, a lot of the attrits were from moving services out of the service territory to other parts of the service territory, which they can't do under our agreement. You know, as an example, we would -- and I've said this before, we'd never want to see the call center moved off Long Island. And that's happening everywhere. You know, call centers are in foreign countries.

LEG. BARRAGA:
Specifically, if they have 100 people through attrition who leave, is there anything that says they have to hire another 100 people, or can they leave it -- hire 50 or anything specific to that issue?

MR. KESSEL:
No. There's nothing specific.

LEG. BARRAGA:
Okay.

MR. KESSEL:
But there are -- Libby, you may want to expand on it -- but there are service standards that they'd have to meet that would not allow them to do that. It would be very difficult for them to do that. Lib, you want to answer that?

LEG. BARRAGA:
I think you mentioned that they had to meet these targeted levels of customer service, and if they didn't, you'd have the right -- unless I didn't hear you correctly -- to break the agreement.

MR. KESSEL:
Correct.

LEG. BARRAGA:
Well, if you broke the agreement, where would you go?

MR. KESSEL:
Well, it's a good question. We'd have to go to bid. It's not an easy process. But, you know, we've got -- we've got have methods. I'll give you an example. Several times we had disputes with KeySpan that were very significant. You know what we did? We didn't pay them. And they said, "You know what? We're going to take you to court." And I said, "Go ahead." So we've got a lot of instruments. Libby can expand on it.

MS. MCCARTHY:
I think more to the point that you raised, obviously, we were concerned about not just -- we were concerned because I think it's an industry-wide issue, with the aging skilled electric work force, the retirements are going to start to reduce that -- that group. And so there were certain very critical departments that provide service toward -- toward the reliability. It's really the keeping-the-lights-on group that we identified specifically in the new contract and said, "With respect to those departments, you can't make a significant reduction in that group if it is going to have -- if it has the potential of having an impact on the service out of that department? So we were very cognizant of the issue of attrition even -- even regardless of a no-layoff policy, because it's a problem, quite frankly, across the country.

LEG. BARRAGA:
No. I understand your point of view. It's just that, you know, I can see National Grid or somebody turning around and saying, "You know, we agree with you, in that critical department, you know, we have to be very careful. But we had 100 employees, but 50 can do the job, I assure you."

MS. MCCARTHY:
Well, they have to be able to prove it -- the proof is in the pudding. Did they actually meet their targets?

LEG. BARRAGA:
The last question I have has to do with the MSG (sic). Richie, you had indicated that you want National Grid to do a quarterly report to you?

MR. KESSEL:
To LIPA, yes.

LEG. BARRAGA:
On what, on the MSG (sic)?

MR. KESSEL:

MGP.

LEG. BARRAGA:
I'm sorry, MGP.

MR. KESSEL:
We would want them to report publically at our board meetings at least once a quarter, that's four times a year, about meeting the timelines and schedules and disclosing information so that the LIPA Board, you know, in the public interest is aware and the public is aware as much as you can be of their progress in ameliorating those -- those sites.

LEG. BARRAGA:
But they're under no obligation, unless it's written somewhere, to give you a quarterly report on the manufactured gas plants.

MR. KESSEL:
Unless they agree to this, we're not going to go forward and approve the deal. So they're going to have to agree to this. It may not be in the agreement, it may be some kind of a letter agreement. We do have several letter agreements with KeySpan and with the former LILCO. So I can assure you that we're not going to go forward this unless we have a commitment to do that.

CHAIRMAN HORSLEY:
In writing.

LEG. BARRAGA:
Do you find it interesting or have you ever questioned why with all of these manufactured gas facilities throughout Long Island, and each one having a deep well as far as the cost factor, why National Grid would even consider acquiring KeySpan knowing that the cleanup all of all of these facilities could run hundreds if not several billions of dollars? I mean, the only -- the only rational -- do you think somewhere along the line somebody gave them, you know, this spiel that says, "Don't worry about it, the Public Service Commission will pass these -- these costs on to the ratepayers who use gas facilities?"

MR. KESSEL:
Well --

LEG. BARRAGA:
I mean, realistically, why would you want to possibly get involved? I've been involved with a number of these cleanups. We've used, you know, environmental funds. These things are bottomless. I mean, you take the Bay Shore operation, that could run 200 million, 300 million, $4 million (sic), and that's just one facility.

MR. KESSEL:
National Grid obviously evaluated the liability there and took a look at that risk and other risks, balanced it with the advantages they saw in this transaction and decided to go forward. They may think based upon the Public Service Commission's history that they could recover a significant portion of that from the gas side of the business, but ultimately, that's a risk that they're -- obviously that they're willing to take.

You know, frankly -- and again, I'm not trying to criticize any one person -- the Public Service Commission over time -- there's probably very few people that appear before the PSC more than I have over 30 years -- they have been very generous to the utility side of the business. So I'm sure they've looked at the past record, they've looked at some of the prudency issues, you know, whether or not, you know, how much money might be withheld from ratepayers because of imprudency that occurred maybe years ago, and they made a judgment. You'd have to ask them. They are here. You can ask them why they made that. But I assume they went like this, in the end, you know, it was more this than this.

LEG. BARRAGA:
Other members want to speak. But, you know, when you take a look at this from financial respect, I just find it implausible that they would consider taking over a company where this liability of one or $2 billion at least could be out there, several billions by the time it's finished, without someone saying to them, "Don't worry about this. This will be taken care of. The ratepayers will pick it up, the gas ratepayers will pick it up through the Public Service Commission."

MR. KESSEL:
I just have to say, I hear where you are coming from. I doubt anyone said that to them, but they make -- again, I don't want to speak for them. They may be making a judgement that they can recover a significant portion. I mean, that's what you're fighting, I think. I've followed a lot of what was said, Wayne, and some of the other people in Suffolk who've joined with you. And, you know, they've, I'm sure, done a risk assessment of this and determined that they want to go forward with it.

LEG. BARRAGA:
Finally, I would ask that you consider not approving that contract before this acquisition takes place.

MR. KESSEL:
Thank you.

CHAIRMAN HORSLEY:
Thank you very much, Legislator Barraga, for your comments and your insight. May I call on Legislator Vivian Viloria-Fisher please.

LEG. VILORIA-FISHER:
Hi, rich. Tom asked some of the questions that I had listed here, but there is one thing concerning me. Given the cost of fuel, its impact on the environment, our desire not to have the continued reliance on foreign fuel we've been looking at the demand side of the energy equation a great deal. And the genesis of LIPA included conservation as one of its mandates, and there is a portion of your budget that has to be expended on conservation efforts. You referred to a joint efficiency plan on co-branding and that realizing of cost -- cost savings of $12 million a year or additional monies. Now, is that additional monies to what you are currently expending on conservation efforts?

MR. KESSEL:
Yes.

LEG. VILORIA-FISHER:
Or is that replacing?

MR. KESSEL:
No, that's additional. And it is important to point out to you -- and you and I have had a number of meetings on energy efficiency -- that we are working very hard on a dramatic energy efficiency plan for Long Island. I have to tell you, I applaud Governor Spitzer's announcement of 15 by 15, to try to reduce demand from what it would have been 15% down. That's a big -- that's a big step to climb, huge step. But it's the right direction. It's the right policy. We have to do -- we've done a lot.

We're one of the leading utilities in the nation energy on energy efficiency. Our lighting program is -- you know, giving rebates for compact fluorescents. We just had a huge program on that. I think we've rebated over 4 million bulbs. I happen to support -- I know I'm going to get in trouble when I say this -- but I happen to support phasing out incandescents over time and replacing then with compact fluorescents. Compact fluorescents, you know, when you see these squiggly bulbs, that's -- I mean, they still sell them, but they now have bulbs, you wouldn't know the difference. They have high hats, you wouldn't know the difference. They work well, they save money. Energy efficiency is critical.

So the $12 million is in addition to what we're already spending, but we're going -- we're going to be doing a lot more. And stay tuned for details over the next 30 to 60 days of what I would consider to be one of the largest energy efficiency programs anywhere in the United States right here on Long Island. You got to do it. You got to do it. None of us are as energy efficient as we should be. And so that is a commitment. And the $12 million is in addition to what we're now spending, but we're probably going to be doing this a whole different way by the time this deal takes place.

LEG. VILORIA-FISHER:
How involved will you be with the -- in the cap and trade regarding carbon credits?

MR. KESSEL:
I think it will continue. We're doing it now as part of your responsibility for fuel purchases, so that will continue under this agreement.

LEG. VILORIA-FISHER:
Thank you.

CHAIRMAN HORSLEY:
Thank you very much, Legislator Viloria-Fisher. May I call on Legislator Romaine.

LEG. ROMAINE:
Yes. Hi. Mr. Kessel, thank you for coming today. I appreciate that you and your staff are here. My colleagues asked a number of probing questions, all of which were salient and worth while. I won't take your time up with a few more. Obviously, I just want to express my concern that in any deal that you strike that there be measurable levels of service.

I think mister -- Legislator Barraga made an excellent point about attrition in the union working force. I just want to be concerned that there's a level of service and a level of staffing, because all I know is that National Grid was hit pretty hard Upstate, New York, for their failure to adequately staff and provide service levels, and that people in ice storms were out of power for over a week, and they were hit pretty hard by a finding of the Public Service Commission.

As far as the options you have of paying down the Shoreham debt or rebate on the rate or a reserve funds, I would appreciate if LIPA would do a financial analysis that they could present to both this Legislature and that of Nassau's. You know, at first blush, and I haven't done any economic analysis, paying down the Shoreham debt appeals to me greatly, but I don't know what the other -- I couldn't quantify the other options. Obviously, a rate rebate is attractive, and it may be at first blush something that's politically correct, but paying down the Shoreham debt seems like a long term bet for us.

MR. KESSEL:
And we will commit to you, Legislator, that we will do that analysis and make it public before the hearings that we would hold so that you can take a look at the differences. I, by the way, have changed my mind. I like rebates, I've always liked it, but that Shoreham debt has got to go away. I think you're --

LEG. ROMAINE:
Clearly the debt has to be reduced.

MR. KESSEL:
Exactly.

LEG. ROMAINE:
It's like a monkey on our backs.

MR. KESSEL:
We will be doing it -- we've already done some work, right, didn't we on the original KeySpan deal?

MS. MCCARTHY:
Yeah.

MR. KESSEL:
But we will do that. It's an excellent idea.

LEG. ROMAINE:
The other point that Legislator Barraga made that I want to echo is my concern that the LIPA Board would take a position on this deal before the Public Service Commission ruled. Not only do I think it's premature, but I don't know how that aligns with your Chairman's position, Mr. Law -- Kevin Law is Chairman of LIPA and Chief Deputy County Executive of Suffolk County -- how that position aligns with his statement on manufactured gas plants, that he didn't want LIPA to take a position until the manufactured gas plant issue was dealt with.

MR. KESSEL:
Yes. And that's our position.

LEG. ROMAINE:
So how could you make --

MR. KESSEL:
We've asked KeySpan-Grid to submit a document to us outlining that, and they've done it. Now, we have not fully reviewed it yet.

LEG. ROMAINE:
Okay.

MR. KESSEL:
Once we do it, we will make it public. But if we're not satisfied with it, we will not go forward with the deal. That's our position, that's LIPA's position.

LEG. ROMAINE:
I'm glad to hear that. And I trust after you've reviewed it and you feel that it's confident to release the offer, whether you accept it or not, that you would share that at least with our Chairman and he can share it with whoever -- or our Presiding Officer, and they could share it with their fellow Legislators if they deem necessary, because that would be very helpful to us. I have two manufactured gas plants, they're old ones that have existed for many years, no longer there; one in Riverhead and one in Southold.

And there's a lot of unanswered questions about that and it's impact, which leads me, and, again, Legislator Barraga made an excellent point, how these manufactured gas plants are not the poison pill of this deal will mystify me, because it's an unknown that unless someone has quantified, and I doubt they have, because they didn't even know most of these existed. They identified five in Suffolk, and all of a sudden, there's many others now that existed that were not revealed at the time. You've got to think that the cleanup is an unquantified amount. How someone could commit to a deal where there may be so huge expenses as to make that deal in the long term unprofitable, to make that deal a poison pill is unknown to me.

I am gravely concerned that somewhere, somehow someone is winking and nodding about how much really has to be expended on the cleanup. And I'm just concerned about that. It's out there.

I'm going to say it, it's certainly not LIPA's role, it's not your responsibility, but I want to air that so that -- you know, I'd like to see a commitment that these plants and any damage that they've caused environmentally are going to be remediated completely. And I just want to put that out there.

MR. KESSEL:
I appreciate that. Again, just to make it clear, that on the electric side, it's contractual. There's no liability for our ratepayers. What went into their decisions, you really have to ask them. But our -- your constituents who are also LIPA customers are not -- cannot be held liable for any of that on the electric side.

LEG. ROMAINE:
On the electric side.

MR. KESSEL:
Correct.

LEG. ROMAINE:
That's correct. On the gas side, I'm sure that's a dispute that this Legislature and others will take up. I'm sure it will be litigated, I'm sure there will be a lot of discussion about that. Let me be parochial for a second. As you know I represent Shoreham-Wading River. And you talked about taking over two of KeySpan's facilities there. Is that something that you are considering?

MR. KESSEL:
Yes. I mean, it's an option that we got in the Grid deal that we didn't have in the original KeySpan deal. And, you know, I think that is an attractive opportunity to repower those. And I assume what we would do is make them combined cycle.

MS. MCCARTHY:
They have to get gas on the site first.

MR. KESSEL:
We have to get gas on the site first. So we want to --

MR. ROMAINE:
Islander East Pipeline.

MR. KESSEL:
Islander East.

LEG. ROMAINE:
Right.

MR. KESSEL:
We need Islander East.

LEG. ROMAINE:
Which I strongly support.

MR. KESSEL:
Right.

MR. ROMAINE:
Let me just say this. The one concern I do want to express is that is in the Shoreham-Wading River School District who has financial difficulties, obviously, after the plant was considered. You know,

they have some financial difficulties, and if LIPA takes that over, would there be pilot program, because it's a public authority and, therefore, not subject to --

MR. KESSEL:
That's likely. I mean, you know, we don't put anything up or do anything without working with the community.

LEG. ROMAINE:
Okay.

MR. KESSEL:
Sometimes we get criticized for community benefit packages, but it's part of the -- it's part of the transactional cost of, you know, getting resources available to keep the lights on. So we -- and you know that we have a history of working very closely with that school district.

LEG. ROMAINE:
I know.

MR. KESSEL:
I have been out there personally. We work with Sid {Bale} and some of the other civic groups and yourself --

MR. ROMAINE:
Right.

MR. KESSEL:
-- and others before you to work with the community, and that will continue.

MR. ROMAINE:
I just would ask one courtesy. If at the time -- if the time comes that LIPA, yourself or whoever your successor may be, decides at some point that they want to exercise that option, that they take the time and courtesy to meet with myself, the Superintendent and the School Board just to discuss that, even behind closed doors. If we can have a private discussion of that before any public discussion was made, that would be appreciated.

MR. KESSEL:
We will do that. You have that commitment.

MR. ROMAINE:
And last, let me be farcical for a moment and ask about your reaction to the Governor's proposal that the LIPA Board should be elected as originally was intended.

MR. KESSEL:
I'm not running.

MR. ROMAINE:
You don't have a reaction.

MR. KESSEL:
I'm not running. I'm going to let Pete Quinn run. No. I don't know that that's the Governor's proposal, I think --

LEG. ROMAINE:
Maybe I misinterpreted the press.

MR. KESSEL:

Yeah. The original LIPA statute -- of course, you know, I'm probably the historian on this. The original LIPA statute, passed in 1986 -- 1986, right, and went into affect in 1987, actually had nine members, but there were supposed to be elections.

MR. ROMAINE:
Right. We're still waiting for the elections.

MR. KESSEL:
And they were actually postponed twice by statute by the Legislature. Governor Cuomo and the State Legislature didn't want the elections, they kept postponing it. Then when Governor Pataki came in, he reconstituted the LIPA Board. That's the polite way of saying he basically got rid of us. And when they create a new board, they did it without elections. So there are no election now, and I'm not sure that there's a proposal to do it.

I will tell you, personal opinion, because the LIPA Board has never taken a position, I favor elected LIPA Boards personally. I have always said that, so I want to be consistent. I'm not sure how the rating agencies or others would feel about it, but I think it's a good idea. But there is no -- I don't know of any effort by the Governor to elect a LIPA Board. But if it's so, I'm not running.

MR. ROMAINE:
Well, I was there, as you know, Richie, when they did this --

MR. KESSEL:
Yes, you were.

MR. ROMAINE:
Twenty, 22 years ago at the Legislature. We strongly wanted an elected board. I left -- there were a couple terms, five times as County Clerk, and I watched from the sidelines. I said to myself, "I almost feel like I'm in a South American Republic that went dictatorship," because what happened to the elections of our LIPA Board?

MR. KESSEL:
The original statute had it.

LEG. ROMAINE:
Oh, I know.

MR. KESSEL:
We all fought for it.

MR. ROMAINE:
I'm going to say once again I'm going to work closely with my colleagues, because I think many of them share the opinion that the board should be elected and not appointed by the three men that run Albany, because having an elected board, we would have some more input, even if there was a combination-type board. But there needs to be more public input. And I'm not saying you or the people at LIPA haven't done a great job, it's the just the way LIPA was set up and the structure that it was intended. And I'm glad you agree with me. And thank you so much for answering my questions.

MR. KESSEL:
Thank you.

CHAIRMAN HORSLEY:
Thank you very much, Legislator Romaine. We now have you on record for wanting elections -- public -- publicly elected --

MR. KESSEL:
Personally, yeah, but I'm not running though.

CHAIRMAN HORSLEY:
-- but as well as that KeySpan should not pass on any remediation costs to the ratepayers. May I -- thank you very much, Legislator Romaine. Legislator Stern.

LEG. STERN:
Thank you, Mr. Chairman. Rich, hello to you and thank you for being here and to your staff and your team.

MR. KESSEL:
Good to see you.

LEG. STERN:
Like all of my colleagues and all of my constituents, I'm concerned about customer service and continuability to provide that customer service. And I guess, unfortunately, for all of the checks and all of the analysis and all of the proofs, the -- we won't really know, unfortunately, until the power goes out as to whether or not the customer service as promised is going to be there.

And as Legislator Romaine points out, unfortunately, in other parts the track record is not very good. So I think it is a legitimate concern. But I know that you had voiced concerns when you were here last year about tax challenges and pilots. I know that you had talked a little bit earlier about tax challenges and how that was going to play out. Did you mention pilots as well?

MR. KESSEL:
Yeah. Pilots will continue the way they currently are being paid.

LEG. STERN:
So there won't be a change there?

MR. KESSEL:
No. And it's important to note that that's part of the LIPA statute. It has nothing to do with this transaction. When the statute was passed -- and, Ed, we remember this -- we knew in order to get the LIPA statute passed, if we didn't make pilot payments equal to what LILCO was paying in taxes, the statute wouldn't have passed. So that was written in. So that's statutory and obligatory on the past of LIPA. I'm not thrilled with the number. I mean, I think we're spending about 325, $330 million a year on property taxes, which is the ratepayers' money. I mean, it's -- you know, having said that, it's part of the statute, it's not going anywhere.

LEG. STERN:
Off the subject just for a moment, I just wanted to ask you about Spagnoli and LIPA's position. And I understand where it's at right now, but what, if anything, do you see for Spagnoli in the future?

MR. KESSEL:
Well, you know, Spagnoli Road, we originally had negotiated what we thought was a good deal with KeySpan. The terms of deal were changed that made it not such a good deal. And then a decision was made by LIPA in coordination with the State Comptroller and the Governor, at the time George Pataki, that we would go out to RFP for all of our projects. We went out to RFP. Spagnoli Road came close to, if not dead last. We can't -- we couldn't choose it. It does have a permit, but again, you know, as long as we're going to go through this RFP process, we can't, just because some people like it, say, okay, let's do Spagnoli Road.

It didn't, you know, compare to the two projects we chose out of that, which is Neptune, which by the way, is the most important energy project ever on the positive side for Long Island and is on schedule hopefully, I knock on wood. It will be available this summer. We're watching it very closely. All the testing is now being done. And that's important. And the Caithness Power Plant. Those two projects clearly beat out Spagnoli Road. And that's why we didn't do it. And if there is another RFP and Spagnoli Road comes in first, they'd be chosen. But they didn't.

I also just want to say -- and I appreciate your words -- we agree with you 100% on reliability. It's the most important thing out there. I mean, I know just a few weeks ago we had a Nor'easter. Now, thankfully, we didn't get hit as bad as we did, although, on the East End, we did. I think we wound up with 19, 20,000 outages. We had everyone back right away. You know, we had the remnants of Tropical Storm Ernesto last Labor Day weekend. We had everyone back in a day, and Westchester was out another week after, and we had triple the number of outages. That is the most important thing in the world.

You know what? You could complain all you want about bills. I know you did when you ran. We had a little disagreement, and I understand where you're coming from. But you know what? Bills mean nothing when the lights go out and you can't get them back. And I will tell you that from my perspective, that is going to be LIPA's most important legacy and -- to Long Island. And I would never stand behind something that would deteriorate that legacy in any way, because it's important.

And I hear from people, you know, everywhere how important reliability is. And it's not -- let me just finish. It's not just getting people back, but reducing the number of outages. You know, you took a storm like we had a few weeks ago, that Nor'easter on that weekend -- I guess it was the weekend after Easter I think, you know, even five, six years ago and certainly under LILCO, you would have had three, four times the number of outages that we have. Why? Because we're doing more tree trimming, and we cycle everyone three to five years in tree trimming. You know, we've replaced lot of poles.

Now, if we had a hurricane, and, you know, hopefully we don't, you'd have a huge number that doesn't matter what you do. Having said that, reducing the number of outages and then getting people back quickly is the number one priority. We would not do the deal if we weren't confident in what we were doing. And, you know, we didn't know when we took over LILCO back in '98 how it worked out -- how it would work out, and it's worked out well. As long as LIPA has its hands on the throttle and decides where to spend the money and how to deal with emergency response, I think we're going to be in good shape.

CHAIRMAN HORSLEY:
Thank you very much, Legislator Stern. And last but not least, Presiding Officer Lindsay.

P.O. LINDSAY:
I'll try to make it brief, because a lot of what was said, I'll echo. My father used to say, "If a deal sounds too good to be true, it's not true." And that's -- you know, it's more on the KeySpan-National Grid side than on your side.

MR. KESSEL:
I understand.

P.O. LINDSAY:
You have to keep repeating the question that I think Legislator Barraga was getting at. Where's the money coming from? I mean, $91 million in synergy savings, but, you know, service reliabilities are all in the contract; $120 disputed items, $34 million less than services fees. It just seems too good to be true. Clean up the MGP plants, but the ratepayers aren't going to pay for it here. Who is going to pay for it? Where is the revenue coming? Is it coming from overseas? Is it coming from Upstate? Will the ratepayers let them get away with it from moving money from another area to pay for a problem here?

MR. KESSEL:
First of all, it's important to point out that the management agreement is a significant revenue

producer for KeySpan and would be for National Grid. We're not getting -- we're not getting this for free. We have to pay a monthly fee.

P.O. LINDSAY:
I agree with that. Truthfully, without the management agreement, I think the whole deal unravels.

MR. KESSEL:
That's possible. I think Grid might disagree, but I don't. I think we're an important component of that. Look, you know what? Maybe -- this deal is not -- there's no perfect deal and no perfect world. And you want me to say this? And I will. I'm just trying to be honest with you. You know, if I had my druthers, I wish this whole thing hadn't happened. I liked it the way it was with KeySpan. But that's not the way of the world today.

The utility business -- and Libby was pointing it out -- is changing every day. Utilities are eating up each other, merging. Now you've got private equity firms purchasing utilities. That would be the biggest disaster you would ever see. And this is the way of the world. And, you know, we can -- you know, if we could have kept the original deal with KeySpan and had KeySpan, probably it would have been better, but that's not -- we have no control over that. So I think what we said is, "Okay, you know, this deal is probably going to happen. How do we make it as good as possible for the ratepayers"? That's what we did. And I think our staff -- and, you know, I thank Libby and Linda and some of the people who aren't here today. This took a huge amount of work. And I think we negotiated a great deal.

P.O. LINDSAY:
And I think the deal is worth more now then after the PSC approves it.

MR. KESSEL:
I think you're probably right. There are strategic reasons that we may want to do it now, and I think you're probably right. We have -- Bill, we have a lot of leverage here. I think we did. And I'm not -- I'm not being critical. You know, I know -- saw Larry Reilly here, who is one of the top managers at Grid, I have a lot of respect for him. But I think we did -- I think we did a good job for our customers. And, you know, again -- and I'm not proposing you do this -- I don't know if Larry is still here -- but maybe you want to have them come at a future meeting and explain their reasoning for why they wanted to do this deal. I don't want to answer for them. I am satisfied with our component of this deal.

P.O. LINDSAY:
We have had discussions both publically and privately with National Grid. They say the numbers bear out. It just baffles my humble mind on where all the money is coming from, you know.

MR. KESSEL:
Well, it's not coming from us.

CHAIRMAN HORSLEY:
And we're hoping it's not coming from the ratepayers.

MR. KESSEL:
Not the electric ratepayers.

CHAIRMAN HORSLEY:
Very well put. Okay. All right. Are there any further questions? Thank you very much, Mr. Kessel, Libby and the entire team here.

MR. KESSEL:
Thank you. Let me just invite you to -- if you have any follow-up questions, if you want to submit them to me, we will have them answered in writing. We did -- one thing I think we should do,

Libby, is we just got a series of questions from some of the members of the State Legislative Delegation. I think we ought to send copies of those -- that letter. It will be addressed to the State Delegation, but
you're --

CHAIRMAN HORSLEY:
We'll pass it out.

MR. KESSEL:
I think it may give you some additional information that could be helpful. So, Bill and Libby, if we can get those letters to the members of both County Legislatures. It just may give you some more information.

CHAIRMAN HORSLEY:
Mr. Kessel, just one second. Joe, do you have any questions that you may have? Joe is our representative for utilities and energy issues. Joe, is there anything you would like quickly mention?

MR. SCHROEDER:
I'd just like to clarify a few of the points that the Legislators made here. On the question of MGP costs passing to electric ratepayers, we only just became aware of a provision within the LIPA-KeySpan agreements that are currently in place that allows KeySpan to pass on certain environmental costs to LIPA through the capacity charges from payments to the power plants. It's not clear to me. It bears further investigation.

CHAIRMAN HORSLEY:
That was my direct question. I got a no on that.

MR. SCHROEDER:
Well, I need to evaluate it further, but it does appear to me -- it's not clear to me that those costs do not include MGP costs. Also, Legislator Barraga asked a question about $120 million payment. And the way I understand it, based on LIPA's explanation of the
LIPA-KeySpan proposed extension of the contracts, the $120 million is a relief from payments that LIPA would have to make to KeySpan based on disputed charges.

MS. MCCARTHY:
No. It's payment of 69 million and retention of 51 million that we currently hold.

MR. SCHROEDER:
So it's a partial cash payment.

MS. MCCARTHY:
We already hold the 51 million.

MR. KESSEL:
It's a total cash payment, but we hold part of it.

MS. MCCARTHY:
And then we get 69 -- they forgive us having to pay the 51 because we're already holding it.

MR. KESSEL:
We don't have it with us today, but we --

CHAIRMAN HORSLEY:
I understand that. And certainly, just, you know, if you could get back to us on that. Can I go back to that question of the MSA? Was there dispute on that issue? Do you still hold that cost for -- MGP remediation costs would not be passed through the MSA or any other pass-through to the electric

side?

MS. MCCARTHY:
I think -- I would suggest you go back to the 1998 agreements. The liabilities undertaking clearly delineates the manufactured gas to the gas business. The generation business to the extent it has liabilities, say asbestos cleanup, would be something that then would go through the FERC regulated rate process that we have with respect to those units. But that's different.

CHAIRMAN HORSLEY:
But the MGPs -- just to reiterate -- there is no pass-through through the MSA or through any other pass-through mechanism involving the electric side?

MR. KESSEL:
That's correct. Actually, just to clarify for the record, if that ever had been allowed, it probably would have been more through the power supply agreement than the MSA. It was part of the original agreement, but it probably would have not come through the management service. I don't know why --

CHAIRMAN HORSLEY:
So I would have asked the wrong question, is that what you're saying? I should have asked if it's through the power side.

MR. KESSEL:
No. There's liability period. All I'm saying is had there been, it probably would have passed through --

CHAIRMAN HORSLEY:
Interesting.

MR. SCHROEDER:
We'll be looking at that further and advise in those places as well. On the full-time employee issues and the service center locations on Long Island here, National Grid did, in their presentation to us, suggested they were not going to be closing any of the service centers here. But they also retain the right or plan to implement a virtual service center scenario, so that in terms of the performance basis by which answered calls from ratepayers perhaps might be measured, so long as a call is measured within a certain time frame and an answer is given to a ratepayer, then in my estimation based on the performance matrix, then they can meet their performance standard without actually having the jobs here on Long Island.

CHAIRMAN HORSLEY:
So there could be alternative center in Bangalore or something?

MR. SCHROEDER:
In a virtual call center scenario they describe that the existing call centers that they have Upstate and elsewhere may be linked with the Long Island call centers so that if there's a backlog of calls in any particular center, they might roll to those other call centers.

MR. KESSEL:
Actually, that's not accurate. We also have a system -- we have really updated the call center and our complaint process and our ability to respond to outages, so that we have a system in place called 21st Century, which we can turn on and take, I think, 108,000 calls an hour. So, you know, any -- you know, there's a lot of talk about all this stuff, but the bottom line is that the call center and the employees in the call center are going to stay here on Long Island.

CHAIRMAN HORSLEY:
Okay.

MR. KESSEL:
Period.

CHAIRMAN HORSLEY:
And we think out call center does a great job.

MR. KESSEL:
They do.

CHAIRMAN HORSLEY:
So we're -- we won't argue that issue at all.

MR. SCHROEDER:
These are issues that I have that I'd like to get clarification on. The last issue was the reliability and the first-right-of-call of National Grid personnel to respond to storms. In terms of the most recent and ongoing evaluations of National grid's performance in the Upstate region, they don't really have those resources to offer the Long Island region in the event of a storm. They don't have the resources to handle the storm without outside help at the current time in the Upstate region.

MR. KESSEL:
I would respectfully disagree with that.

MR. SCHROEDER:
That's a Public Service Commission observation.

MR. KESSEL:
If they're hit with the same storm that we are, they'd be limited. But we have already accessed National Grid crews to help us on several storms. And we've certainly in the past used Niagara Mohawk crews to come down to Long Island. And we thank them for that. We've provided them with crews.

CHAIRMAN HORSLEY:
Vice a versa.

MR. KESSEL:
It works both ways. Look, if you get a huge storm and it hits their service territory, they're going to use it for themselves first. We would understand that. You know what? If we -- if we in the future have to depend on the right-of-first-call from National Grid to get the lights back on, we're in big trouble. Ultimately, LIPA is responsible for that. Having the right-to-first-call is helpful. And if we can get -- you know, believe me, I've been in the middle of this, and, you know, you're in the middle of this thing. If you can get 12 crews from Niagara Mohawk, I'll take them.

Don't tell Libby this, but I'll take them. I don't care what the cost is, bring them down. We'll tell her about it at the end of the year. When she told me last years were, what, $35 million allowed over budget, I don't really care. We have to get the lights back on. Our economy depends upon it, our people depend upon it. That's what they want to see. Has it raised our bills at all? We need to do it.

And having the first call capability is good, but it's -- the bottom line is LIPA. LIPA, you know, has got to respond well to the emergency, we've got to communicate to our customers, we have to have the crews available. And I'll tell you something, and I've said this before, again, the Nor'easter a few weeks ago, the employees responded so well that we had over 500 people -- maybe we didn't need that many people -- they responded on a weekend on a Sunday. They all came in. And ultimately, the first call thing is a good thing to have, but getting the lights back on is going to mean a lot -- is a lot broader than that.

CHAIRMAN HORSLEY:
Okay. All right. Joe, is that it?

MR. SCHROEDER:
That's it.

CHAIRMAN HORSLEY:
Okay. Thank you very much, everybody. We think this is very helpful.

MR. KESSEL:
Thank you. If we could be more helpful, let me know, let us know.

CHAIRMAN HORSLEY:
We'll call on you. And visa a versa, by the way.

MR. KESSEL:
Yes. Thank you.

CHAIRMAN HORSLEY:
Because sometimes we say things that you may disagree with.

MR. KESSEL:
No. Can't believe it.

CHAIRMAN HORSLEY:
Hard to believe, huh?

MR. KESSEL:
I can't recollect. Thank you very much.

CHAIRMAN HORSLEY:
Thank you. We appreciate it. Meeting adjourned.

(*THE MEETING WAS ADJOURNED AT 4:01 P.M.*)

{ } DENOTES BEING SPELLED PHONETICALLY