

**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, October 6, 2010.

**MEMBERS PRESENT:**

Legislator Wayne Horsley - Chairman  
Legislator Steve Stern - Vice-Chair  
Legislator Thomas Cilmi  
Legislator Ricardo Montano  
Legislator Lynne Nowick  
Presiding Officer Bill Lindsay - Ex Officio Member

**ALSO IN ATTENDANCE:**

George Nolan - Counsel to the Legislature  
Joe Schroeder - Budget Review Office  
Joe Muncey - Budget Review Office  
Renee Ortiz - Chief Deputy Clerk of the Legislature  
Ben Zwirn - County Executive's Office  
Yves Michel - Commissioner - Economic Development  
Carolyn Fahey - Economic Development  
Linda Bay - Aide to Minority Caucus  
Paul Perillie - Aide to Majority Caucus  
Bob Martinez - Aide to Legislator Montano  
Michael Hervey - COO - LIPA  
Michael Deering - VP of Environmental Affairs - LIPA  
Bob Shand - IBEW Local 1049  
Mitch Pally  
Dr. Matthew Cordaro  
Dot Kerrigan - AME  
All other interested parties

**MINUTES TAKEN BY:**

Donna Catalano - Court Stenographer

(\*THE MEETING WAS CALLED TO ORDER AT 2:13 P.M.\*)

**CHAIRMAN HORSLEY:**

Good afternoon, everybody. Welcome to the economic development, Higher Education and Energy Committee of October 6th. And I'd like to welcome you. May we all please stand for the Pledge of Allegiance.

**SALUTATION**

And may we all please stand for a moment of silence for the men and women who day in and day out protect our freedoms both home and abroad.

**MOMENT OF SILENCE**

Please be seated. Good afternoon, everybody, again, And welcome. I have several cards before we start in on our mission today and our presentation. I'd like to first call up for the public portion Dr. Matthew Cordaro who is going to be talking about the LIPA response to Earl.

**MR. CORDARO:**

Thank you very much for this opportunity to speak with you. As you said, I'm here to address very briefly LIPA's situation and management in anticipation of Hurricane Early. I'm not here to bash LIPA or severely criticize them. I think their intentions and motivation are above question. They genuinely want to do best job they can. However, from a professional point of view, I wanted to say and make a point that the decisions --

**CHAIRMAN HORSLEY:**

Excuse me, Matt. Just raise the mike just a little bit.

**MR. CORDARO:**

The decisions made to bring large numbers of outside help on to Long Island in advance of the storm was contrary to what at least I understand to be standard utility practice in this kind of situation. And I said this as someone with 40 years of utility experience up to the CEO level -- CEO level at several major utilities on Long Island and also in other states and as a person who has been responsible for making the kind of decisions LIPA has made in dealing with Hurricane Earl and taking the heat for doing that. This included multiple hurricanes, tornadoes, ice storms and much more than that.

From my experience, the first two days after a storm hits, what's needed and what's principally involved is assessing the damage, doing what the utilities call "survey work" and also clearly debris for the most part as well as developing a plan of action, a plan of attack. And in addition to this, you generally attack your transmission outages and major facilities and equipment that you need to have operating so that you could go about doing restoration on a wholesale level.

For instance, during Gloria, during Hurricane Gloria, much of the first couple of days or so was taken up with clearing debris. In fact, the National Guard was brought in to allow us to clear away the debris so that the repairmen could get at the work. So for this reason, I think the decision to bring in many before the storm, when the forecast called for a brushing of Long Island, a brushing of the East End of Long Island by the storm was counterproductive and -- as well as very expensive.

I think a better approach would have been to call for outside help the day the storm hit and you had a better extent of the damage in hand, then outside crews could be brought in arriving a day or two after the storm hit ready to go. In this manner, I think the restoration process would have been more productive -- could have been more productive then having the crews on Long Island before

and waiting around until they had access to the damaged area for restoration, even tripping over each other. I've seen that in the past in handling storms bringing in too many people in advance before they could actually attack the storm. And believe me, it is counterproductive as well as costly and inefficient.

I am sure you will hear from LIPA today that they brought in these crews early because they were concerned about availability and being able to get their hands on outside help after the storm hits. But there are other ways to do this that would minimize costs and a little bit more practical and take advantage of the fact that the first days of the storm are involved, more involved with survey work and the clearing of the debris.

One thing that could have been done is contracts could have been entered into with independent private contractors who are out there in advance of the storm so that LIPA would have priority on their call in the event they made the decision to bring them in after the storm hit. I know this is possible, I have done this in another state in dealing with storms. I think also they could have contacted the other utilities who they would call upon to come in to assist if the storm hit and see whether they could mobilize and how fast they could mobilize once they had the call and could be brought in very, very quickly. There's a big region out there in the country that's not affected by hurricanes, so there are tremendous numbers of people available.

It's interesting to note -- at least I note -- I have not seen any reports of the utilities in the Atlantic Coast area who were forecasted to get probably the most direct hit in the Carolinas, the Outer Banks, of the storm that they resorted to this wholesale importation of outside crews to the extent LIPA did. It sort of confirms what my observations are in this regard. I think you will also hear today or may hear today that the storm that was forecasted, Earl, was very similar to another storm that hit Long Island, at least from a forecasted sense, Hurricane Bob. And so preparations should have been carried out in anticipation of the same kind of result.

One thing that I've learned from fighting a number of storms, maybe 20 or more major storms, is that no two storms are alike. You can't assume what's going to happen with -- what had happened with one storm is going to happen with another. So you have to exercise judgment and flexibility in dealing with it. With so much at stake, you have to be careful not to overreact to the storm.

The bottom line here is if LIPA had waited until the storm hit before bringing in many outsiders, they would have been, first of all, much more aware of the extent of the damage, exactly how many additional crews they would have needed. And they would also have been in a position to use these crews in a much more productive manner, and in the process, save significant ratepayer funds.

**CHAIRMAN HORSLEY:**

Matt, wrap up, please.

**MR. CORDARO:**

The final word, LIPA has a tough job. I know, I did it. And it must be realized in the wake of a major hurricane you're going to have hundreds of thousands of outages, it's going to take days and maybe weeks to repair these outages. But bringing in just under 2000 people from outside of Long Island in advance of the storm would not measurably change the consequence that much. But one thing for sure is that while doing this may not change the consequences, it definitely cost a lot.

**CHAIRMAN HORSLEY:**

The question -- Mr. Montano just wanted to ask a question, but let me just ask you a question on your testimony. You are saying that we could have a proportioned response, that we could stagger -- we could stagger our response by bringing in people at different times and levels, is that something that --

**MR. CORDARO:**

Yes. That pretty much summarized -- I think that's judicious and a more cost effective way to do this.

**CHAIRMAN HORSLEY:**

That could be done by what, contract or how does that --

**MR. CORDARO:**

Well, there are several ways. One is actually enter into a contract in advance with private independent electrical contractors who are out there. You can't do that with the utilities per se. There's a mutual assistance understanding between utilities.

**CHAIRMAN HORSLEY:**

So there is play, it's not all or nothing?

**MR. CORDARO:**

Right.

**CHAIRMAN HORSLEY:**

Got it. Mr. Montano, do you have a quick question?

**LEG. MONTANO:**

Yeah. Very quick. I'm surprised by the frankness of your presentation. And I don't want to put words in your mouth, but what I'm get from you, and please correct me if I'm assuming too much, but from what I gather your testimony is, I think I'm getting the impression that this planning stage that LIPA went through was at the very least ill conceived? Would that be an appropriate summary of what you're saying.

**MR. CORDARO:**

I think you have to be careful of what language you use. I don't want to throw stones. I think it was an overreaction. I think it was contrary to what I view is standard utility practice in this kind of situation. Thank you.

**CHAIRMAN HORSLEY:**

Legislator Stern.

**LEG. STERN:**

Thank you. When you take a look at other regions throughout the country -- and I was particularly interested in your comments regarding North Carolina, South Carolina, you know, that perhaps the last storm was -- was slated to get hit and perhaps even stronger than here, that they did not follow a similar procedure, they did not have a similar plan in place, and then that was evident after the fact. I was wondering if you are familiar with the type of procedures that they do follow and why we saw something different from another region.

**MR. CORDARO:**

They have a lot of experience along the Atlantic Coast in dealing with hurricanes. In fact, they've been more hit in the last 20 years than we have with major weather events, and they have a lot of experience in dealing with those. But from what I understand, first of all, it wasn't going to be a direct hit that affected much of the State. If the storm hit, it was going to affect the Outer Banks, a section. But it was forecasted to do that. And from what I understand, they hesitated in putting out a blanket call to thousands of outsiders to bring them in in advance of the storm. They waited until the storm hit and then reacted to the storm. We could argue that maybe the level of damage

wasn't as great as it might be in a major storm, but at least they approached this on the basis that they were going to take this measured approach and do it as productively and as efficiently and as cost effectively as possible.

And they have a lot of experience in doing this. If indeed the storm had taken a turn, which a hurricane always could. I mean, there's no way of predicting exactly what a hurricane is going to do. You can be surprised even though there's a forecasted track. And it can have devastation. But they are poised to react to that and they do in a staged wide methodical way. And with the number of storms that hit there, I think we -- they've learned to be a little more cautious on how they spend money.

**LEG. STERN:**

Well, I just want to be clear. It wasn't necessarily because of a delay in the part of the other region in calling in the manpowers, because they do have a system in place which calls for this phased-in approach as you've laid out.

**MR. CORDARO:**

They are subject to the same delays in reaching out to outside contractors. I don't know to what extent they have existing contracts with private electrical contractors. I suspect they do to some extent. I know when I was in Tennessee I did. And we worked quite closely with some of the Atlantic States in storm related work. In fact, we shared some of the contractors. So I suspect that they did. They would have reached out just as LIPA would have reached out to other utilities in the event the storm was much more severe. But there is a staged manner in which they do -- they did something -- they didn't in anticipation of the storm make a decision to blanketly bring in almost 2000 people in advance of the storm.

**CHAIRMAN HORSLEY:**

Very good. Thank you very much. Matt, thank you for coming down here today and giving your thoughts on the issue. Ms. Nowick. Matt, you are back.

**LEG. NOWICK:**

No, I understand what you are saying and I do get it. And I'm sure there are a lot of citizens of Suffolk County and Nassau County that understand what you are saying. But my colleague and I were just talking, had that storm hit and LIPA did not put the extra manpower on, we would be here saying, "Our lights were out." We would be here arguing. So it's a would have-should have-could have kind of thing. I don't like to see \$30 million wasted if that, in fact, was the right amount, but I do get why they did what they did, because we -- I went through Hurricane Gloria, that was not a pretty sight. And I think that if that storm had taken the turn -- and as you said, it could have -- I think we would be sitting here saying, "Why didn't you do something?" So my point is I get why they did it. And I would like to hear rest of the story of the LIPA. And I'm sure we will.

**CHAIRMAN HORSLEY:**

We will, sure.

**MR. CORDARO:**

No question, their motives and intentions were to be in the best position. But from what I'm saying and from what are my experiences, you can't use that many people on those first two days, enough to justify bringing them on board days in advance when the meter starts ticking the minute they leave where they are coming from. I mean, dollars start collecting.

**LEG. NOWICK:**

I understand that. I'm just thinking in terms of being first on line since the whole East Coast was maybe being -- and I don't know enough about this, and that's why I'm going to listen today.

**MR. CORDARO:**

I don't think it would have a measurable affect in the end. You may restore outages in a day or so quicker, but as I said in my remarks, we are talking about being out -- if a storm really hit, being out days and weeks. So the benefit of having that number of people in place when they can't be effectively used in the first two days is not very cost effective.

**CHAIRMAN HORSLEY:**

Okay.

**LEG. NOWICK:**

Thank you.

**CHAIRMAN HORSLEY:**

Thank you very much, Mr. Cordaro. All right. The second card I have is from Mitchel Pally, 1657. Mitch, I said before, you know, when we discussed this earlier that we would do the agenda first if you really needed it, but I think the Commissioner is going to be talking about it and whatever. So I've going to move to do the presentation first.

**MR. PALLY:**

That's fine. I just wanted to indicate 1657, which is now on your agenda for action hopefully today is a perfect example of the ability of the private sector and the public sector to work together to solve a problem which was inherent. And I want to thank the County Executive's Office for their support, I want to thank County Legislator John Kennedy in whose district both the sending area and the receiving area is located for the temporary transfer of these septic credits. I want to thank Commissioner Michel who has been a stall worth in trying to get this done; the Health Department and the Sewer Agency for allowing this to happen and the County Attorney's Office for turning a one-page agreement into an 18-page agreement, but that's their job; to make sure that everybody is protected in that regard.

What this allows to happen is for 200 jobs to be created in Suffolk County in advance of a sewer system getting to the location. As you know, the Hauppauge Industrial Area sewer system is being expanded, it's being expanded greatly. This project has conceptual approval to tie into the sewer system when it gets there in 2013. But as we all know, today is 2010 and not 2013.

So we had to figure out some mechanism to allow these jobs to be created in Suffolk County in anticipation. And the way we are doing that is we are renting a series the septic credits from the County, we are paying for them in that regard so the County will actually make money on the deal. And it allows for the building to be finished, this retail office complex on Motor Parkway in the Town of Islip. It allows it to be finished, it allows it to be opened, allows the 200 jobs to be created. And then when the sewer system gets there in 2013, the the credits will be the extinguished, the developer will connect to the sewer system, pay the appropriate connection fee, and we will all be where we hopefully would have been today if the sewer system had been there.

So we think it's a win-win for the County, because it allows the jobs to be created now. It's obviously a win for the private sector, it allows for the building to be finished and the offices and the retail establishments to be moved in. And it's a great example of everybody working together to solve a development problem, which was not created by anybody, but has now been solved by everybody. This legislation allows that transaction to happen.

We hope this and the full Legislature would take it up as soon as possible. We have been working for a number of months. As you know, the bill was introduced a couple of months ago. We found

some technical errors in the agreement, which we have been working through. The County Attorney's Office has now signed off on this agreement, and we are hoping that the Legislature will do so also so that the building could be finished and these jobs can be created right away.

**CHAIRMAN HORSLEY:**

Thank you very much, Mitch. I think this enables you to get out of here.

**MR. PALLY:**

I wanted to thank everybody for their patience on this.

**CHAIRMAN HORSLEY:**

That's 200 jobs. That's worth waiting for in anyone's book. I have another card, Bob Shaud (sic) from the IBEW, Local 1049.

**MR. SHAND:**

That's okay. It's Shand, S-h-a-n-d. And I am the business manager, IBEW Local 1049. And it's -- I represent 3500 men and women who work on the LIPA-National Grid properties, many of whom we're speaking about in responding to this storm. I personally, I started with the utility in '73. It seems quicker than that, but, yes, in '73 I started as an apprentice lineman.

With me is two of my members who have worked in the service section and line section for a very long period of time. And I'd like to comment if I may on some of the points that Matt had raised. I have never been involved in a storm, and like I said, I've been with the utility since '73 where we didn't start putting up wire immediately. The idea with the people who are capable of putting up wire is to get out there and put up as much wire as quickly as possible to restore service. So the assertion that the first two days are spent on survey, certainly we do have people out there on survey. We have -- I typically have about 300 linemen on a day to day basis, another maybe 100 underground people who work with electric who go out and primarily restore electric service.

I do have some contract linemen who don't work for the utility, but are contracted almost on a day-to-day basis to work for the utility additionally. And their primary function every time there's a storm is to put up wire. They are assisted -- there's survey going on, there's tree trim being cleared, there's all kinds of assistance work being carried out with those people. From day one, minute one when they can get out and restore are restoring, and sometimes in the storm, sometimes as the storm is still coming down as electric is going out.

We are very proud of our ability and delighted to able to serve Long Islanders. I think we do a good job. We certainly lead the State in a lot of categories; restoring service. And -- but typically through what I've experienced, we're there from day one. As far as the points go, where we've asked people from outside the State, because I think it was correctly pointed out that we didn't know where the storm was going to hit, or in this case, if it was going to hit. But I think we had to be prepared. This isn't new for us in the 37 years I've been there. If we think a storm is going to hit, we do stand down and we are ready whether hits or not, that's part of our life.

But we were getting calls from a lot of the contractors who'd responded, and they were telling us in the very least that they had other offers, other places they could go. And if they weren't secured with us -- typically what they would do is call up and say, "Can we have a copy of your contract? We've been asked to come in and work in your territory. We'd like to see what the pay rates are there, what's going to happen when we get there, what we'll be entitled to." And we have a decision to make; either to respond to A, B, C, D or whoever may be on call. This isn't uncommon. I have a group of people who do that on an everyday basis. They're storm chasers, they've been in Louisiana, Texas, Mississippi, Alabama, Florida. Wherever the storms may hit, they go on a regular basis. So that would be a regular event for us. Our members, in this case, if they were the ones

traveling, would be searching around to see who needed their services. And we were getting the same calls this case. I don't know again if they were genuinely being offered, but they certainly told us they were being offered.

The final point I'd like to make, I'll try to keep it quick, is that if we brought in an additional 100 linemen -- 1000, 1300 linemen, and we had three or 400 on the property, four or 500 on the property, that's still two or three times the amount of linemen. And the linemen, the servicemen, they're the people who get the people back in lights. There's a lot of other work going on and there's a lot of work to assist them. But if we can get back people's lights in two or three days where they may be out for six or seven days, I think that's something Long Islanders have come to understand, take for granted, that's what they want. We respond to the homes, we're there when they're out of lights. And that certainly isn't a pleasant situation. And the quicker we can get the lights restored, the better off they are. And just as a consumer, from my own perspective, if I had to pay a little extra to get -- certainly if you're sitting there for a couple of days with your lights out and it costs you a little extra to ensure you can get that back quicker, I think we'd all take that alternative.

**CHAIRMAN HORSLEY:**

Bob, just quickly then, what you are saying is you would refute what Matt had told us -- Mr. Cordaro had told us, that the first couple of days are spent most of the time cleaning up debris, cleaning up trees and things like that before the linemen get in there?

**MR. SHAND:**

That's not my experience at all. There is plenty of that that goes on the first couple of days. I certainly couldn't say that's not happening. But certainly, the people who are there whose job it is to hang wire and get people up, that's what they are doing.

**CHAIRMAN HORSLEY:**

Very good. Mr. Cilmi.

**LEG. CILMI:**

Thanks, Mr. Chairman. Bob, how are you? Thanks for coming down. My question is not so much a question of if we were prepared or not, but it's more a question of process and tactics in that preparation. You know, we have lots of folks, as you well know, who are unemployed here in Suffolk County today, many of ver which are your colleagues, you know, fellow electrician and other workers from the various trades.

Is it possibly that we could or that LIPA could establish relationships with some of those folks so that in the event we're looking to prepare for this type of event in the future, we could reach out to local workers instead of calling folks from out-of-state. And those folks could then be prepared and sort of be on standby so that if we do need to respond and we do need to call in extra labor, can be providing those jobs to local residents as opposed to folks from out-of-state. What is your opinion on that?

**MR. SHAND:**

Well, I'm all for putting local people to work. We went through a period in the near future -- in the near past where we had people out of work. But we are talking linemen here, we're talking about a 7000-hour training program, we're talking about extremely dangerous work. And if there's work we could put local people to as guides or doing things that didn't involve this type of dangerous work, that would be fine. But the people that were brought in for the most part were either line clearance tree trimmers or used to clearing lines around the energized primary, 69,000, 138,000 volts, and the rest were linemen who spent a career doing this type of work. And not that I'm not for putting Long Islanders to work, these aren't the type of conditions you want to put novice people into these

type of positions.

**LEG. CILMI:**

From your experiences, are there differences in the training regimen for our workers here compared to those in different states?

**MR. SHAND:**

No. Actually the IBEW, who has the largest amount of linemen in the United States, has a training program throughout the United States where it's identical, and you can go from any one district to another district and travel. They're actually called "travelers," they tramp around the country, and you can be put to work just by showing your card that shows you're safe, you've been trained, you would welcome them into your home if you had a problem. So that's the benefit of these IBEW linemen.

**LEG. CILMI:**

I would suggest to the folks at LIPA and to you if you want to work together and somehow talk about this, is that we take some resources, LIPA take some resources and devotes them towards some of that training that you say is so important with our own Laborers and Electricians here on Long Island so that they are prepared. I think the investment is well worth it. I think it's, you know, money into our own economy here. And I think that would be a worthy investment on the part of LIPA and the part of all of us to see if that could happen.

**MR. SHAND:**

Just for everybody's edification, we have an apprentice training class starting next week. I know there's some starting in the utility probably early in the Spring. So this emergency preparedness and this training goes on all the time. There's an additional maybe 2000 people in the utility who get additional training for storm restoration assignments too. So it's not just the linemen we speak of.

**CHAIRMAN HORSLEY:**

Legislator Montano.

**LEG. MONTANO:**

Hi there. Just very quickly, I just want to be clear on this, the linemen that you're referring to in this specialized training, they are not your average electrician, they are people that have additional course training, is that what you are saying?

**MR. SHAND:**

It's a totally different occupation. The electrician who comes to your home and wires your home and the linemen, it's two different careers, two entirely different careers.

**LEG. MONTANO:**

Right. Is there -- are you saying that there's an insufficient number of people here that meet that qualification that we have to go outside; am I correct? I just want to be clear on that, because I'm piggybacking on what Legislator Cilmi was driving at. And I don't really, you know, know your industry that well. So with respect to local talent, we don't have sufficient numbers for this kind of storm is what you are saying.

**MR. SHAND:**

I don't think anybody has -- no one has sufficient numbers to deal with a hurricane. To deal with the day-to-day business, as I said earlier, we -- at one point last year, I had 40, 50 linemen laid off, my outside contract linemen. So there's wasn't enough work to keep them working all year, and they were -- they may move to another territory; Upstate, New York, and when the work picks up

back home, they come back home. Utility linemen are there everyday. But I don't think any utility would ever be in a position to man and gear up for a storm. It certainly would be difficult to handle those types of numbers.

**LEG. MONTANO:**

And just very quickly, what is the certification -- or what qualifies you as a linemen, is it the 700 hours of --

**MR. SHAND:**

Seven thousand.

**LEG. MONTANO:**

Seven thousand hours that's referred to -- -

**MR. SHAND:**

There's a certified New York State -- in our case, a New York State Apprentice Program, 7000 hours of training. When you're completed with that, you get a journeyman linemen ticket issued by union hall to certify that you've been through all these classes and you can do all phases of the work.

**LEG. MONTANO:**

Thank you.

**CHAIRMAN HORSLEY:**

Legislator Lindsay.

**P.O. LINDSAY:**

I really wasn't going to add to the conversation, but I was Bob's counterpart. I represented the electricians that Legislator Cilmi was referring to. First of all, there is no way that you could -- the utility could have enough people on the payroll to restore power in a major storm. They need all hands on deck. And it wasn't usual, I think in Gloria, I had some my people working for the utility, but not the linemen that -- my folks weren't qualified to work on 69,000 volts. They just weren't qualified. It would have been a very dangerous situation. We were qualified to do some storm restoration, and they used local people wherever they could, but not to the journeyman-lineman's capability.

**CHAIRMAN HORSLEY:**

Thank you very much. And we just got done with the cards, and there were only three. Thank you, Bob, appreciate you being down here today.

Let us start with -- why don't we introduce Michael Hervey and he can introduce his crew. Michael is -- Michael Hervey is -- as Chief Operating Officer for the Long Island Power Authority is responsible for the oversight of the operations, customer service and industry-facing aspects of LIPA's T&D Business and oversees the organization of the corporate office's contractual out sources agreement.

The COO oversees development and maintenance of T&D business practices, policies and procedures and associated functions and such. I've got a lot more on Michael. He's very, very well qualified for the position of COO of LIPA. We're very proud to have you here today. But I don't want to go any -- any -- any further into that. I think -- I'll talk about the questions later on. But let me introduce Michael. Welcome. It's first time you've been in front of the Legislature, and we appreciate the fact that you so readily decided to come down here today.

**MR. HERVEY:**

Thank you, Legislator Horsley, for your invitation. I certainly appreciate the opportunity to talk with the group today and to introduce myself also. I have those two purposes; to answer your questions and also introduce myself. As was mentioned, I'm the newly appointed Chief Operating Officer for Long Island Power Authority. I've worked at Long Island Power Authority for ten years, just over ten years. Came in as the Director of Transmission and Distribution, have had several increasing levels of responsibility there. And in this time now where we have had Kevin Law depart us and we're awaiting the appointment of a new CEO, the board has asked me to step up and take the COO position so that we can carry on the day-to-day business at LIPA in that interim time.

I will point out -- as I said, I have worked here on Long Island for ten years, very familiar with the community and very much integrated in the community in that time. Before that, I worked for 18 years Commonwealth Edison Company in Chicago, one of largest investor-owned utilities in the nation. And through those two positions, I have actually done the work of restoration, of managing restorations, or tornadoes, ice storms, wind storm, fires, floods, you name the disaster, and I've been involved with that. So I think over that time, that gives me quite a lot of experience in seeing these events and seeing how to respond to them.

Today, with support, if you have other questions, I have Mike Deering to my right. He is our Vice-President of Environmental Affairs, to my left I have Lynda Nocolino our General Counsel who is also a very long-standing employee of LIPA. Other people that have accompanied me today are John Bruckner, he's the Senior Vice-President of Long Island Transmission and Distribution for National Grid. He is my main contact day-to-day basis at National Grid. John Adragna is with him, he is one of the Directors at National Grid, and he has taken one of the additional roles recently of having some amount of review and responsibility for these storm-type of events. Many of you know Vanessa Baird-Streeter, our Media Director and Matt Cohen who is your day-to-day contact in government relations.

I also, of course, want to acknowledge that IBEW is here. They're great partners in this business. Their men and women out in the cold and the rain and the wind doing the very hard work of working up around that 13,000, 69,000, 138,000 volt system. And they, in fact, are the people who get the work done when we need to get it done.

Just a few more words on this interim time period that we have here while we're waiting for our board to select a new CEO. I've assigned for the staff at LIPA three simple responsibilities; to worry about reliability as one, our efficiency and renewables programs as two, and customer satisfaction is three. We have a very simple, dirt simple set of requirements. We're going to focus on those three things as an organization and to do the best that we can.

The entire organization, myself included, are in this business with a feelings of service. We are in -- this is not a business that rewards people as the outside world might, but I can say without a doubt that every one of us in this room today are a part of LIPA and with the approach that we are here partially for service to our community. I am looking forward to working with you, the committee, over time. Any time that you would like to invite LIPA in, we're glad to come in and go over issues with you and answer your questions. It's an absolute pleasure to be in that position.

I would like to go over though -- now move into some of the facts around Hurricane Earl and to some extent, replace some of the supposition that you heard from Matt with facts as they are ground -- on the ground at the time. Back in the 2005-2006 and perhaps before that, 2004, time period, we were pleasantly observers of the carnage that was happening in the Gulf States with hurricanes. Florida got hit with four hurricanes in a row. There was a very busy hurricane season for two years in a row, culminated by the big one, Katrina, that hit New Orleans. We all remember the aftermath of that.

As a management team at LIPA, we came into a room and we said we wanted to put together a new way of looking at storms that is not based -- that takes the lessons -- the lessons learned from the traditional, but is not based on the traditional ways that you may recall from Hurricane Gloria. Our simple objective in putting together that storm process was to take whatever the restoration time would have been if we did it the traditional way and to cut it in half.

It was correctly pointed out these restorations, if a Hurricane 2 or 3 hit on Long Island could take weeks, weeks and weeks if we did it the traditional way. So say we had a Hurricane 2 or 3 hit and we were talking about three, four, five, six week duration, we also have information -- imagine that for a moment, but also imagine what our customer expectations are.

Nassau County OEM did a survey a few years back that appeared in an August, 2007 news clip in Newsday, and they also repeated this to me directly many times, that our customer base expects restoration within 12 hours. Now, there's way that that can happen. There's no way that we can meet our customers expectation, but that's what our customer's expectation is. So go back to our scenario of six, seven weeks, two weeks maybe if a Category 1 or 2 hurricane hits. Our simple objection in reconfiguring our policy and our practice was to try to cut that time in half.

We did look at the results from Hurricane Katrina. We looked at the best practices from the Gulf States. Some of the people in this room went to Florida and the gulf States and interviewed them. They, in fact, have the most practice at this and they have the best practices. We looked for cost effective solutions where we could do the most rapid deployment that we could. We looked at symptoms that we'd have to put in place to manage those storms so that we could manage that workforce and do the multitasking expected of us. And by multitasking, I mean -- helping the Departments of Public Works clear trees and limbs at the same time that we're restoring power to priority customers, to priority feeders, to critical infrastructure, and at the same time, being able to manage all of the logistics of the material and the crews that we have to deal with.

We believe we came out of that process with a practice and a policy that let us, in fact, do something that hadn't been done typically in utilities, and that's to get a jump start and out with these crews productive and the best way to manage them on the very moment that we could safely put buckets in the air. So that's the basis of our policy; to get a jump start to cut the restoration in half.

And if you think about it, there is a risk. Both sides of this equation have risk. If we wait until the storm occurs and then we react, we have just taken, on the customers' behalf, the risk of multiple more days of interruption. If we do not -- if we take the other risk of preparing proactively, then we are, in fact, taking the risk more not on the customers' behalf for restoration, but we do have a risk that we are overprepared. In many cases, I would rather be having the discussion on if we were overprepared or not then if we were underprepared.

LIPA does access the resources necessary to serve each and every one of its 1.1 million customers when we see weather. Typically in a year, we experience about 15 to 20 to 25 storm a year. As was mentioned earlier, we have one recognition in this State; LIPA restores power in half the time than any other utility does during a storm. Our typical restoration time might be 130 to 140 minutes on average for an average customer during a storm. The typical average for the State on sunny days, not stormy days, is more like 180 minutes. So we restore power during a storm in half the time that a typical Upstate utility restores power on a sunny day. And you do not do that by following the practice that everybody else does. You do that by having management systems in place and the resources available to be able to do that work.

So we are committed to responding quickly whenever we do have a storm. We do work very closely

with National Grid. We take our responsibility very seriously for these events. Of course, one of the major things that we have to deal with and the tools that we have are the various weather forecasts we have. And of course, in a hurricane situation, we have to depend on the National Weather Service and the National Hurricane Center. We also use other commercially available weather services. And we put all that information -- and we actually have conversations, we deliberate through what our plans and our processes would be for a storm.

We also put together our basis of experience. You have in this room, as I indicated, some of my experience, but we have experience that goes back decades in dealing with storms. The same time that we look at the resources that we might deploy, we also have cost in mind. We understand our responsibility to try to manage the customers' cost as best we can. We all know one way or the other, the only source of income, the only real source of income for LIPA is from our customers from the product that we sell from electricity. So we're very conscious about the cost of any of these types of plans we put in place.

And we do, in fact, agonize over spending on these types of levels. But I will point out that what is often missed is the very same team that might be being accused at this point of making a decision that spent money, this very same team is responsible for some things you don't hear about, and that's the hundreds of millions of dollars that we save each year by making decisions that bring down the cost and save our expenditures, save expenditures that we'd otherwise have to make. And we work on those cost savings day in and day out. And I can tell you that even the cost savings that we might develop over a year or over a month tend to overshadow the expenditure in the case of this storm.

But when a storm is forecast, it's the best of our customers that the right level of staffing and resources and manpower are committed, and -- with our primary interest being that we can mitigate the outage length and the number of outages. And in order to do that, we have to go beyond our in-house personnel. As indicated, we might have 300 or so linemen that are available, we have about 150 or so tree trimmers available. It's just not practical as was stated before to have the staffing here to be able to handle the storm. That would certainly be an expenditure that would be unnecessary, and it certainly would be outside of any sort of practice.

So we do have mutual-aid agreements with the industry. Mutual-aid agreements allow us to reach out through organizations that we have to other utilities to call on utility crews if they're available. And we also have contracts in place with many, many contractors that heard a bit about from Bob Shand.

We have to do a fair amount of logistics and planning in order to get those to here, to Long Island, at the right time and also to make sure that they are productive. Let me just give you an example. Once we bring these crews on, we are now responsible for everything from their meals to their laundry, to their material that are in the truck. And we have management systems in place to be able to hand all of those types of activities.

One of the things we have to worry about is do we bring crews on Long Island or do we stage them off of Long Island? And it's a complex decision based on where we think the hurricane might hit. In this case, observing a near-glance or a near-pass of a Category 2 hurricane, which is what was predicted, we thought it would be safe for them from a safety standpoint to come on Long Island and stage, and we also thought we could get an additional days jump rather than stage them off of Long Island.

One instance we have to -- one item we have to think about when we are thinking about a hurricane hit that is more to the west, is also the fact that the bridges will be closed for 24 to 48 hours after a hurricane. Again, so we have balance that with when we're going to bring crews on. Not in play in

this case, but something else that we have to consider.

For Earl, we did secure the personnel from outside of Long Island to ensure that the customers would be put on as quickly as possible. And our thinking at the time with what was forecast was that our restoration would be about a three to five day restoration. So if we had a close pass with a Hurricane Bob-type of pass, Bob gave us -- back in the early '90's, gave us about 500,000 outages. As we looked at this, we thought there would be -- the system, the electric system is in much better shape than it was back then, we would not experience that.

Let's say that we experience about a quarter of a million outages, certainly a reasonable number. We just experienced that in March; we have 60 and 70 mile an hour gusty winds in March, and we had over a quarter of a million customers out. So whether it was a Category 2 close hit, a Category 1 closer hit or a tropical storm with 60 or 70 mile an hour winds, they all drew us back to the same conclusion; that what we might have to look at is a restoration activity about the same size as what we just did in March. So we had very close inexperience with this same management team of exactly what we might have to do to bring it in to three to five time horizon for restoration. That particular storm took about six days to restore from.

And, of course, every storm is different, I agree completely with Matt on that. Every storm is different. You have to look at it. But in many cases when you have the opportunity to plan and the opportunity to look at it as we did for observing the storm for almost seven days ahead of its hitting, there's almost no reason not to plan for what you might think is a -- I'm not going to say worst case, but a reasonable scenario -- so the reasonable scenario that we planned for with this near-pass was about a 30 to 40% chance of that happening, and that's a pretty big percentage when you think about it. It's not 50-50, it's more conservative than 50-50, but nevertheless, it is a chance. And in fact, there was a three to 5% chance, still even as late as Thursday of a direct hurricane hit. So we thought we were planning well for that.

I think our practices are in line with what you might say is best practice. Again, we've gone down to the Gulf States, we're looked at what they do. I think it is misleading to think that the Mid Atlantic States did not prepare, as was indicated by Bob Shand. And we had the same experience; the contractors that we had reached out to on Monday to check for their availability and then on Tuesday again to check their position and their status, on Tuesday of that week, they we're indicating to us that we needed to make a decision quickly to lock them in because they had offers from other utilities in the Mid Atlantic States.

So I think that the plain fact of the matter is that they did have outages in the Carolinas, and that they did have crews available to restore those outages. Because those forecasts were predicted to impact the East Coast and the Carolinas, when we reached out our neighboring utilities and the close-in contractors, meaning the contractors closest to us, there were really no significant resources available. The utilities certainly were not releasing resources. We would not release resources in that case. Our typical practice is we'll wait for the storm to pass us, and then if we don't have restoration and we can release manpower to other utilities, we'll do that. All the other utilities work exactly the same way; they wait for the storm to pass.

But the indication that we had was that there were no crews available from utilities, and utilities that had contractors under contract at the time, also were not releasing any contractors. We were able to secure -- in the fullness of cooperation, we were able to secure ultimately less than 100 from New Jersey and three to 400 from Pennsylvania. But most of the contractors that we had, in fact, came more from the Mid West. And most of them were the type that Bob Shand spoke about, these types of companies that basically travel to the disaster wherever it is.

And without the commitment of the prestaging, then what we would have to do is after the -- after

the storm strike, now we would be in a scramble of doing all those things that Mr. Cordaro mentioned of cleaning up, of getting ready, restoring power the best we could with the resources we had, and also processing all the crews; bringing in the men, processing them, getting them ready, getting the material done. The way that we did it with prestaging is we didn't have to do all of that multitasking because we did all that preparation work in advance. And now when the storm hit, we could concentrate on one single thing, and that's restoration.

I will also say from a standpoint of phasing in, certainly a legitimate question, can you phase in crews in various sizes. We did rely on our experience back from the March storm. In the March storm, we used approximately 2200 linemen and line workers to restore a quarter of a million outages. We do think through all these processes in advance. We have a decision matrix that we go through that says -- that gives us some guidance in certain storms. When we looked at that decision matrix, it said well, if you're expecting something like a Category 1 Hurricane impact, which is approximately what we would have been expecting for a close miss of a Category 2, then we thought that out of we can do, what we could bring on, what we could manage, and that number is also about 2000 linemen.

So in this case, we had plenty of intelligence that we thought we could go ahead and go with that first piece, that 2000 linemen. And the reason I say the first piece is because our whole plan, if we were to see a Category 3 or worse coming at us, our whole plan would be a 4000 linemen plan. So, in fact, we thought it would be reasonable for us to go right in with that 2000 or so linemen because the indications were that would be what we would need.

So on Monday, August 30th, the forecast projected Hurricane Earl to be a Category 2 Hurricane. The center of that cone of uncertainty was predicted to be about 250 miles off of Long Island. And the reason I want to point that out is some of the things that have been relayed -- and I realize the newspaper is not a good way to have a conversation between people -- but one of the things that was printed in one of the papers indicated, well, that center line wasn't anywhere near us. Well, the cone of uncertainty that the National Hurricane Center puts out means that the center of that hurricane can be anywhere in that cone. And if you recall that week, throughout the week, either all or part of Long Island was in that cone, throughout the entire week, which meant that if you really look at the probabilities, the charts under that big hurricane chart, it says there is a significant probability of a hurricane being anywhere inside of that cone.

So the center on Monday was predicted to be 250 miles off of Long Island. And what we did at that time is we reached out to the adjacent utilities and the contractors and the contracting community just to check availability, to see what they were looking at, if they were seeing what we were seeing, if they thought that they would be releasing crews. So we did that poll of contractors. I think at that point we thought that these several hundred contractors that were in Pennsylvania were probably available to us, but we didn't make any commitment at that point.

On Tuesday, Earl was still projected as a Category 2 Hurricane -- and I'm saying as it passed us, because as we know, this hurricane went from a Category 3 and accelerated to a Category 4 ahead of when -- right when we were making these decisions, it had rather unpredictably gone from a Category 3 to 4. And I'm saying some forecasters said it would go to four. But it went to a four much more quickly than most of the forecasters were talking. It was projected it would pass here as a Category 2 Hurricane, this time with the center being a 100 miles closer than the day before, this time with the center of that line being 150 miles.

And at the time, the entirety of Long Island, all the way up to New York City, was in the cone of uncertainty. We did look at -- in a Monday morning -- Tuesday morning strategy meeting, we did look at that and we did use the references that we had. We certainly wouldn't have ignored the lessons learned from 1991 from Hurricane Bob. And as I mentioned before, that was -- passed

Montauk as a Category 2 with sustained winds of about 100 miles an hour. Back then, about close to a half million customers were without service for five days. Again, we never thought that this would be that magnitude. That's not what we were planning for. The electric system is in much better condition than it was back in 1991.

But based on that forecast, the decision was made to go ahead and poll the contractors again for their availability. And during the day Tuesday is when we started to see that the contractors were telling us that we had to make some quick decisions or they would not be available. We also looked at the timing, and the timing at that time for the arrival of the storm was Friday morning, Friday 8:00 a.m. passing Long Island.

So those two things together and seeing the distance from the crews, we felt we needed to make a decision on Tuesday morning of what to do, because we wanted to have these crews here on Thursday evening, Thursday afternoon and evening so that we could have them here, checked in, it's a fairly elaborate process, give them their instructions, give them their work locations, get them assigned, get them vetted down, a good night's sleep, and then we could hit the ground running full steam on Friday morning.

At that same time, all the in-house crews were put on alert and told that we were going in to a condition that they'd be expected to work. The forecast for Wednesday through Thursday is still expected to hit Friday, but the timeline did go from afternoon out until evening. And some of those forecasts actually indicated that center of the cone of uncertainty 100 miles off Long Island. The other thing to keep in mind, and Dr. Cordaro did mention this, is that these hurricanes can jump, they can move 30, 40, 50 miles either side of that line very easily. And we certainly had that in mind at that time.

As late as Friday evening, when we were still expecting the storm, Long Island remained in the cone of uncertainty for the hurricane, there were tropical storm warnings up for the East End. The tropical storm warnings were accompanied by predictions of gusts of 60 to 70 miles per hour. And that's important, because even at that late point in time, when we were all sitting in situation rooms looking at the map and expecting to see something out of it, the weather prediction had us with a warning that was the same type of situation that we had just experienced in March. Now, we all breathed a sign of relief as it passed and dissipated. It went rapidly from a Category 2 to a 1 and then down to a tropical storm as it approached Long Island and passed by and dissipated, something that was not in anybody's forecast.

That night when the warning was in effect, because we watched it, we did go ahead and see the tropical storm passed us, it passed us with relatively little damage. We did have a second weather system coming in the following day from the mainland. We released nearly all of the crews as quickly as we can -- could in the morning, again, being very aware of the cost of the crews at the time decide. And we decided to retain a few hundred of those crews just because we were expected to see gusts over 35, in fact, 40 or 50 miles an hour that afternoon from the land-based system. So we also similarly prepared with the resources for that storm.

We believe very strongly we have the responsibility to adequately prepare for the possibility of a hurricane. I think it is true to say that when -- if given a choice of risk, that we will take the risk on being prepared versus the risk of not being prepared. And until Friday night when that thing actually passed, we didn't know that we didn't have either or a hurricane or a tropical storm on our hands. I really think the majority of our customers understand this, understand our position. It's not been a secret. We've spoken about this policy many times in public meetings and storm preparedness meetings and town hall-type situations where we've been invited in. We've spoken about this policy publically at LIPA Board Meetings that are available on the web and available by way of streaming and available open to the public.

And one of things that makes us think that our customers understand this is of all the letters -- and you can imagine, we do get a lot of correspondence -- the vast majority of the letters that we've gotten from customers and businesses and from public officials on this subject have all supported our choice to be proactive in this rather than be reactive. And I'll also tell you the business community has been very supportive in our decision also, and the contacts that we have. And I think they understand the economic impact.

I was recently asked to try to assess the economic impact of the -- of a hit of a hurricane, and I have to -- I have to decline on that. I just can't do that, but there are some data point that you should be aware of; the National Weather Service has estimated that a Category 3 hurricane hit on Long Island would cost the economy \$40 billion, that's B with a billion (sic) dollars. So imagine if in a Category 1 or 2 hit that -- and say imagine that we're only a tenth of that, well, that's still a pretty big number. So we are very aware of the economic impact, especially on the East End where it's a service-based economy, weekend -- on Labor Day Weekend. We're very aware of all of those issues.

When the region was battered back in March, just as another point, you know that storm was not forecasted and we did not have the luxury of pre staging crews. We, in fact, were criticized for not having seen that storm that was not forecasted and being ready and not having crews in advance. In some cases, it was by some of the very same people -- none here in this room -- but some of the very same people who criticizes us in the fall here for being prepared.

Our preparations for Earl were also coordinated daily with the State Emergency Management Office, the Nassau County Emergency Management Office, the Suffolk County Fire and Rescue Emergency Services, the City Emergency Management offices. I can tell you that during that preparation, all of these agencies prepared with all-hands-on-deck mentality. We knew that we had something to deal and we had the responsibility to deal with it. Governor Paterson came down here to see -- to look it over himself and to meet with the Red Cross who we were also in contact with continuously. The emergency management community understood that this is something that could not be left to chance.

So with respect to the cost of these preparations, it's just not the cost of this storm. LIPA has incurred approximately 184 million in storm restoration expenditure this year. Typically we would see something more on the order of 30 or so million dollars for the entire year. It has been a very dramatic year for us; we had the March Nor'Easter, that was the worst weather event in LIPA's history; we had the July micro burst in Great Neck, nobody here fortunately, hopefully had to endure that, but just utter devastation up there; trees, mature healthy trees ripped out of the ground and ripped apart. We had many other storms. And so far we're estimating, still estimating that this is about 32 to 33 million for cost of Earl.

We do expect to receive 52 million from a reimbursement from FEMA for part of those costs, the costs from back in the March storm. I have to tell you that contrary to media reports that jumped to the conclusion that we would somehow be just instantly passing this cost on to our customers, we've never really suggested that. We have not suggested that at all, that we would somehow automatically just jump to that conclusion. We don't seek to just simply pass the cost on when we incur them, rather we seek to go back and manage that.

We have a lot of big picture items that we are managing; the cost of fuel can go up or down, that's our single largest expense. Sales have been up this summer, that is an additional revenue to the company. We have these storms, we have hotter weather, we have the cost of debt. All of these things are part of a combined picture that we look at when we're looking at what the rates will be for the following year.

I will remind the board that rather than a regulated utility, we set rates each and every year with the full scrutiny of our board and the full scrutiny of public input. So we will look at what needs to be done on the entire financial picture of LIPA, certainly not this \$30 million on its own. That is -- I don't want to scoff at it, but it is just a very small piece of the entire puzzle. And that is also why I cannot sit here and categorically deny that somehow storm costs do not get into future rates. We have seen over the past few years an increase in storm activity. It is only fiscally prudent for us to reserve more money in the future than we have in the past. So we will be proposing to our board an increase in the storm reserve. The storm reserve is the money we set aside each and every year to combat storms.

Ten years ago, we were seeing 15 to 20 million a year in storm expenses. In recent history, we're seeing 30 plus into 40 million a year, taking away this one year which all hope is an anomaly. But it's only prudent for us going forward to add more money to storm reserve so that we're ready. With that storm reserve and that money being available, in fact, is what gives us the freedom to be able to respond in a prudent situation, to be able to be proactive and get out ahead of some of these storms.

So right now, we are in the midst of the 2011 budget planning process. We are taking this year's unprecedented storm activity into account. But like all the other components of the budget, we will look at the big picture when we're at the end of that, and we'll talk all of that together to try to minimize the impact on our customers.

And just a few final words while we -- I think in the big picture we were fortunate not to be hit by a hurricane. I think that's sort of obvious when you say it, but I always think it's worth resaying. LIPA still intends to prepare for these events. We do have a board committee, a committee of our board that is going to look at the policies that we have in place and see if they're appropriate. And we certainly welcome that scrutiny. We will be working with them to demonstrate to them what our policy is and what the policies and practices are of the industry. They do have that oversight role on us. And they'll be looking at that over the next month.

But our intent is to prepare for these types of events, be proactive where we can, take our critical role in the community very, very seriously. We are underpinning. The County Executive said it in his press conferences. He said that at the end of the day of the hurricane hit, the most important thing is the restoration of the power, keeping the lights on. We understand that that's the expectations put on us, and we intend to put the proper resources and make sure they're available, make sure the preparations are made, make sure our people are trained to be able to respond to that.

Just one last comment on the use of contractors. We used an awful lot of contractors or our customers used an awful lot of contractors, electrician contractors in the March storm. And the way that we do that is that it's just not our system that gets damaged, the service entrances, the meter, the meter pans get ripped off of homes. So to a great extent, they're busy doing that work which they're trained to do during these large scale events. They're out there in businesses putting their wires back in, the damage that they have taken, the emergency -- imagine the type of emergency electrical work that is done when a tree comes through a roof. They're pretty occupied. And we try to promote that. We are very active in the electrical contractors community with a Trade Allies Program. In fact, licensed union electricians are listed on our website, and we refer customers to them to that group of electricians wherever we can when they need assistance. So, in fact, there is a lot of work even in a storm for these local electricians. That concludes my comments. I'll be glad to take any questions.

**CHAIRMAN HORSLEY:**

Thank you very much, Mr. Hervey. That was -- the comment came long, but it was also in depth, and I do appreciate taking, obviously, the time to walk us through a lot of the questions, certainly that I have. I'm checking them off as I'm going along that you have already addressed. I think what we will do if I may is I will take the questions upfront about the hurricane, and then we'll -- we have other questions that may arise concerning the maintenance service contracts, the power agreement, etcetera.

Let me just quickly mention then some of the quick questions that I had. We've talked about the numbers. And we have originally heard \$30 million for Earl, then it went to 32.7 is the second number that I heard. Is this -- is this the final number? Is that a final accounting for the hurricane itself or the hurricane that was never? Is that -- is that the number in which we're looking at? And secondly, when you talked about the matrix, the decision matrix that you have, guidelines, you talked about appropriate levels of responses, you don't you want to jump start any hurricane situation. Do you have written guidelines that you follow that can be given to the public so that -- so that maybe some of these questions aren't presented to us? Because, you know, we have had many. You know, are there written guidelines that LIPA has on how you handle storm restoration? And, two, what is the final number on the storm?

**MR. HERVEY:**

Sure. The question on written guidelines, we are a couple of very large companies; LIPA and National Grid. We survive on written guidelines. And we have volumes of detailed written procedures that we train to for the actual execution of the storm. These procedures have been used as examples by the Public Service Commission to give to other utilities to say, here, look, do something like this. But we do have a specific procedure that we put together when they reevaluated our policy back after Katrina that gives us the means that we thought out in advance the type of staffing that we might need for certain types of hurricane hits, whether it's a 1, 2 or 3, whether it's a higher or lower medium probability and gives us guidance of when to trigger up resources and some of the logistics operations. I'd be glad to make those available to you --

**CHAIRMAN HORSLEY:**

I'd appreciate it, because when you talked about the weatherman and stuff like that, we, in the County, didn't see anything closer than 150 miles offshore. So there are questions as to the proportional responses and stuff like that and how do you pick through your guides to make your decisions, because I think it's something that the public should know about.

**MR. HERVEY:**

Sure. Again, I'll point out, for a layman looking at that time chart and saying when this line goes 150 miles offshore, that's only the center line, that's the 50/50 probability line. There's a 50% probability of it being either side of that line. And the probabilities go all the way out to that big fat cone, the edge of the big fat cone they put out. So they're saying that that hurricane could be -- the center of that hurricane could be anywhere inside of that cone.

Now, imagine the center of the hurricane is only ten miles off. Well, most of the hurricane and the worst part of the hurricane, that quadrant that causes the most damage, is right over top of us in that case. So we have to be very careful with how many miles off that center line of uncertainty is. If we could -- and the weather service has changed their weather forecasting a lot and improved it over the past couple of years. But, you know, if they can give us exactly where that thing was going, then we would have perfect knowledge and we'd be able to make better decisions.

**CHAIRMAN HORSLEY:**

I don't expect you to be Al Roker or something like that.

*(\*Laughter\*)*

**MR. HERVEY:**

Sorry. Let me answer your question --

**CHAIRMAN HORSLEY:**

Yeah, the money.

**MR. HERVEY:**

-- on the 32 million. It's still an estimate. We are still taking invoices in. Do not read any precision into that 32.6 or whatever that number was.

**CHAIRMAN HORSLEY:**

Seven.

**MR. HERVEY:**

32.7. It's still an estimate. Sometimes it's still engineers, which most of us are. In the utility business, we over advertise the precision of thing. We have a process that we go through of taking these invoices in, of looking at them, examining them. We will challenge some of the charges, we will refute some of those charges, and, in fact, turn some of those around. And then we have finally, when it's all said and done on storms -- LIPA, once the invoice is handed to us from National Grid, LIPA does 100% audit on every storm. So what the actual final number is may be awhile before we know it to any degree of precision. But I'm confident that this estimate is in the right spot, that this is not going to be going up or down dramatically.

**CHAIRMAN HORSLEY:**

We won't hear at the end of the -- you know, a couple of months down the line 60 or something like that?

**MR. HERVEY:**

That's my sincere hope and my belief.

**CHAIRMAN HORSLEY:**

Okay. I just wanted to put you on the record saying that. Let me ask you, you know, we talked about -- you talked about the mutual aid agreements that you have with existing contracts that made -- you know, but I'm not fully convinced on your answer on the proportional response. You know, I listen to Matt talk about that there are -- you do have the ability to make proportional responses, meaning that, you know, you could stage them maybe a portion here on the Island, a portion of them off the Island. And I'm not sure exactly how that decision works. Maybe you can give us a little bit more on -- how do you make that decision where they are? Because it would certainly have a determinant factor on the \$32 million dollars of where they are, how long they're there and when you put them there.

**MR. HERVEY:**

And also a determinant on the outcome of the restoration timeline.

**CHAIRMAN HORSLEY:**

Agreed.

**MR. HERVEY:**

So at one point, I saw a proposal that said, well, you can have them on standby where they are. So think about that from a practical standpoint. They're in Michigan. I'm somehow, what, going to pay them a lower rate to standby in Michigan? I can't use them for three days if they're in

Michigan. I can't get them here. They have to travel. Big line trucks do not go 60 miles an hour. They travel in groups. They have eight or 12 or 16 hour regulation on how many they can drive or stay on the road. So standing by where they are isn't practical, because it's paying for a service that we don't have.

A second scenario of well, I can somehow pay them a standby fee. Well, if you were being -- offered employment by two companies, one of them says I will pay you your full fee and the other says I will pay you some lesser amount to standby, which would you take? Very simply, you would take the full fee, the engagement. And that is what from a practical standpoint there is not a capability to have them on some sort of standby rate. Our plan does include that if we do see a more direct hit of a hurricane, certainly an up-the-middle-of-the-Island type of hit, we will strongly considering having these folks standby -- they'll still be getting paid -- by standby out-of-state; New Jersey, Pennsylvania, somewhere out of the safety zone, out of the damage zone, so they could be ready to be deployed once we have. Once we have them on contract whether they're standing by in Pennsylvania or Michigan or on Long Island, we're still paying them to standby.

So in this case, it was our determination that we had time in the timeline to safely get all of them up on Long Island, that the winds that we were seeing certainly in the western part of Long Island would mean that we could house and take care of their safety safely, and that they would be here ready to respond instantly. Any other choice would have meant they would have been half a day to a day away. And we, in fact, do look -- we look at hour by hour restoration, A let alone half a day or daily. So we looked at, A, to be under contract, we would be paying them anyway; B, to have them up close and right here, gave us the advantage of having them be being ready to start the instant that they -- the storm could pass and they could safely get out on the street.

**CHAIRMAN HORSLEY:**

Okay. I think --

**MR. HERVEY:**

Just one more answer, another part of your questions. On the phasing in, we could make any number of judgments should we have brought 400, 800, 1600 in at the time. Again, looking at that time potential damage, we could have well done that, and that would have been taking a risk on longer outages. And as I said, our practice is to take a risk on shorter outages and then having preparation in place. So that is a philosophy that can be debated and we certainly should. As an electric utility, if the expectation wasn't out there for --

**CHAIRMAN HORSLEY:**

Is that in part of your guidelines to give us kind of a general hint that if it's 250 miles off versus 150 versus 50?

**MR. HERVEY:**

Our guidelines are -- they're fairly simple; Category 1 Hurricane, Category 2, Category 3 Hurricane, high, medium or low probability. The damage from this would have been a tropical storm or a Category 1-type of hurricane damage. Why do I say that? Well, because we didn't -- we looked at it and we rationalized this was not going to be a direct hit or a low probability of a direct hit, even though I previously said, you know, there was a probability. We did not plan here for the worst case scenario. We did not plan for a direct hit. We planned for a scenario that was about 30 to 40% probable. And that's a balance that we have to make. But on the other side, we deal with the requirements that our customers put on us on a daily basis. And being in and out of our customer communities and in these communities daily and also understanding the nature of what would have been the primary area of impact, the East End, and their service-based economy towards the end of summer, we were very, very aware that our customers would be looking for the fastest possible restoration we could give them.

**CHAIRMAN HORSLEY:**

Okay. Thank you. And lastly, when we have these travelers, and we're talking about do they have a flat labor fee for their activities, it's not an overtime situation that kicks in? You know, what is the normal rate for these -- for these people? And also, on logging, when you put them up for the out-of-state workers at standard rates, do you negotiate a discount rate considering the amount of people that were brought in for the local hotels, that kind of stuff? Kind of give us a hint on how you -- the billing goes in relation to these thousand people or so.

**MR. HERVEY:**

Sure. Once we bring the contractors on, they're governed by any number of agreements; there's an agreement between the IBEW and the National Electrical Contractors Association that tells us how they'll behave between each other; there's an agreement that we have -- that National Grid has with IBEW Local 1049; there are purchase order contract-type agreements we have with some of these contractors. When it comes down to it, during the storm, during emergency activities, most of the day, these highly skilled workers are on some sort of premium time. They're paid a premium time for taking the risks and the hazards and being available. And that's just the nature of these contracts.

These contracts not unique to Long Island. These are nationwide-type of arrangement. Utilities such as us really cannot influence them much. Once this -- once they come on and we house them, first of all, our first struggle is housing that is closest to the work. And I say that because whether or not a hotel room is a \$110 a night or \$90 a night is of less consequence than if I have three or four highly skilled laborers and their couple of trucks traveling a couple of hours to get to and from their work. That's the bigger bang than if they're not productive because of travel time. So our first concern is getting them close to work.

Now, when we go in for these hotels -- of course, we call up a hotel and say I would like all the rooms that you have, of course, you have an opportunity to negotiate, and we have purchasing people, these are people who do our purchasing contracts --

**CHAIRMAN HORSLEY:**

So they are negotiated then.

**MR. HERVEY:**

We attempt to negotiate where we can. I'll also point out in this case we took an extraordinary action, the facility at Suffolk Community College out in Southampton was -- excuse me, SUNY Southampton College was available -- the dormitories were available to us. So in that case, we were able to house about two to 300 linemen in that dormitory facility at a very low cost. And that was both an opportunity to get them close to where we thought the work would be and a much reduced cost. So we do look at the cost.

But I will tell you, we used up essentially every open hotel room between the East End and Kennedy Airport in trying to house these people. It's an extraordinary effort. If we go into multiple day events and much larger storms, we have the ability to create literally a tent city that would house them, but that has its own set of costs that are much more expensive than this was.

**CHAIRMAN HORSLEY:**

Okay. Thank you. I think it kind of gives us a better picture. Rick? Sure. Legislator Montano.

**LEG. MONTANO:**

Yes. Thank you. Good afternoon. I just wanted to turn a little bit from the preparations and the decision you made to the cost factor. Now, from what I'm reading here and what you said, we're

talking approximately \$33 million in storm preparation costs. And the issue I thought was that there's a possibility of passing this cost on to the ratepayers; am I correct in that? Or is this an automatic thing that happens?

**MR. HERVEY:**

It is not an automatic thing.

**LEG. MONTANO:**

What is the process then? Excuse me for interrupting. What is the process for passing the cost on to the ratepayers; must you go through a regulatory agency? Explain that to me so I understand.

**MR. HERVEY:**

Sure. Each and every year, LIPA creates a budget. We submit that budget to our Board of Trustees. The Board of Trustees reviews that. We have traditionally had public input sessions. And then they look at our budget each and every year and determine if that is appropriate or not. The Board of Trustees is our regulator, so we have to prove that case to them.

Ultimately, all LIPA's money either comes from money we have collected or will collect from customers. So the question here is there any change in the rate needed to cover this. And the answer I have to give you now is I don't know, because we're right in the middle of our budget process, and we've got a lot of these big pieces; the largest single one being fuel for the generating plants. That's the single largest one, that's over half the budget. Right now we are waiting for the latest economic data to be able to make that prediction.

We do have a review process internally inside of LIPA. We go through every single line item. We have looked at fairly extensive discussions amongst staff and among senior staff at LIPA of each and every line item of the merits of that. As I had mentioned before, we not only have costs, we have savings. And through that process, we also identify areas of savings. So it is not at all obvious right now to anybody including me that this has any impact on future bills.

**LEG. MONTANO:**

Okay. Then let me make sure I get this. If in fact all your income comes from the ratepayers, then the ratepayers ultimately will pay this because you have no other source of income to pay this. So what is the point then of going through the Board of Trustees if, in fact, the ratepayers have to pay anyway? Is there -- it seems to me that it's a circular kind of argument; am I correct on that?

**MR. HERVEY:**

No. I think it's an oversimplification, and if I might try to go back to it again. There's a difference between the rate and the bill so the question is does the rate have to be changed. And, you know, LIPA can make money by having additional sales. Now, granted that comes from the ratepayer, but it's not changing the rate, it's just having more sales. And we had a hotter than summer -- normal summer this year. Fuel costs may go up or down, so we may be able to take in money just because of where the fuel costs go.

LIPA also, as an business and any government agency has to have a certain equity position also in order just to maintain its financial health. We are a non profit, but do look at an income target each and every year so that we can have that equity position. And that equity position goes to the health of our agency from a financial standpoint. That -- the more healthy the agency is from a financial standpoint, then we enjoy the benefit of the better financing costs, better bond ratings, etcetera. So we have to balance that also.

So whether or not we absorb some of this out of our equity position, whether or not some of this is absorbed out of increased sales, whether or not the fuel rates are going up on down for next year

are all things that we're in the process, the staff, of determining right now. And then ultimately, the board does have decisions; should we take on the next type of generation project or not; should they stay -- and this is the question they're asking -- they're asking us right now this month -- they're asking us is this the appropriate policy? And the board subcommittee will make a recommendation to the full board on that. So going forward, will we have this same type of question come up again?

**LEG. MONTANO:**

I understand that.

**MR. HERVEY:**

It's the total impact that we have to look at.

**LEG. MONTANO:**

I do want to try to simplify it. Let's say right now the Board of trustees is reviewing whether or not this is a what we say a feasible expenditure to pass on to the ratepayers; is that what's going on right now, this review process with the Board of Trustees?

**MR. HERVEY:**

We have two review processes going on right now; one is that the trustees is reviewing our policy.

**LEG. MONTANO:**

Right, but that's a separate issue. I'm talking about this \$33 million right now.

**MR. HERVEY:**

The second is that the State Comptroller's Office has asked to review the expenditures. So we'll provide them with information on expenditures. Keep in mind, we're regulate by our Board of Trustees, we're regulated on certain legal issues by the Attorney General's Office, and we're regulated by the State Comptroller.

**LEG. MONTANO:**

Okay. So let's assume for argument's sake the Board of Trustees determines that this is an item that should not be passed on to the ratepayer, what do you do?

**MR. HERVEY:**

Then that will deplete our equity position.

**LEG. MONTANO:**

And the equity goes to whom? Is that money to the shareholders?

**MR. HERVEY:**

That's our financial equity. It gets down into the bowels of the accounting. I'm sure the County has financial equity on the books somewhere. But this goes to our financial equity, it goes to the -- for example, the amount of cash we have on hand, and it goes to what a rating agency will ultimately determine, look at, in one factor of determining our bonds ratings.

**LEG. MONTANO:**

But you also have shareholders; am I correct?

**MR. HERVEY:**

We have no shareholders.

**LEG. MONTANO:**

You have none. Okay.

**MR. HERVEY:**

But you are correct, as I said pretty precisely before, all of the money that we spend either has come or will come from our customers.

**LEG. MONTANO:**

From the public, from us?

**MR. HERVEY:**

Right.

**LEG. MONTANO:**

Then it really seems to me that this review process becomes academic, because at some point, in order to increase your equity -- let's say that on this particular item, the Board of Trustees said, "We don't think it's an appropriate expenditure to pass on to the ratepayers." At some point in time, we are ultimately going to pay the bill; am I correct on that, because we you're only source of income?

**MR. HERVEY:**

You may have paid it already.

**LEG. MONTANO:**

We may have paid it already, because we built up your equity or we may pay it in the future, because we depleted the equity, because you wouldn't allow a rate increase at this point in time; am I correct?

**MR. HERVEY:**

There is absolutely no question that every penny we spend comes from our customers. There's no doubt about that, one way or the other.

**LEG. MONTANO:**

Well, okay. So then I'll end that. I appreciate the explanation. You went through a lengthy explanation of your intentions in terms of preparedness, which is -- you know, which was I thought really laid out. But on the other hand, we had testimony from Dr. Cordaro who when I asked him if he thought that the preparation that you undertook and the business decision you undertook was ill-conceived, he didn't bite at that. But the point is I got the impression that maybe your business decision in terms of preparedness was -- if I may, didn't turn out the best, because you prepared for something, and didn't happen.

So now you are stuck with these additional costs. Assuming just for argument's sake that it's determined that it was a poor decision and that the ratepayer should not wind up paying the 33 million, it's really academic because we are going to pay it anyway; am I correct on that? We're kind of going in circles.

**MR. HERVEY:**

I believe I've answered that question.

**LEG. MONTANO:**

Okay. Thank you.

**CHAIRMAN HORSLEY:**

Legislator Cilmi.

**LEG. MONTANO:**

I just wanted to be clear on that.

**LEG. CILMI:**

Thanks, Mr. Chairman. Thanks, Mr. Hervey for your comprehensive presentation. I want to just make sure that I heard something correctly. Did you say that in a typical year you planned for something between 30 and \$40 million of extraordinary expenses related to storm -- to storm response? Is that what you said, 30 to 40 million, but that this year you spent something like 180 million?

**MR. HERVEY:**

What I said is this these past few years we've seen expenditures more in the 30 to 40 million. Our typical reserve has been under that, because our past history was lower than that. Yes, and this year we have seen about 180 million in expenditures.

**LEG. CILMI:**

Okay. If we can -- if I can ask you to sort of put that into some perspective in terms of the overall picture at LIPA related to something, related to your total revenue, related to rates, related to, you know, other expenses, however you want to related it, but it's a substantial increase, obviously, and one to which you had little, you know, control over. But if you could kind of put that into some perspective to us in terms of how it reflects on the or how it could potentially reflect on the rates, not just this event, not just the hurricane that you prepared for here, but that full \$180 million of cost.

And then secondly, if you could contrast the expense that you incurred and the preparations that you made for this particular storm that we're discussing today with the other events that happened throughout the year that caused this amount of money to be so substantial compared to previous years.

**MR. HERVEY:**

Sure. All very good questions. I'll sort of take them in reverse order. The March Nor'Easter was about 65, 67 million. As I said, we expect 50 plus of that to be reimbursed by FEMA, so that's 50 plus of the 180 to be reimbursed by FEMA. The Great Neck micro burst was about, as I recall, 15 to 17 million. Each and every storm that we have -- just to give you some reference, each and every storm that we have, the little thunderstorm we had the other day that came from one end of the Island to the other, those storms range from two to four million at a shot. A normal thunderstorm coming through is a two to four to six million in that range event.

In the picture of LIPA, we are a three and a half to \$4 billion a year revenue. So -- most of the expense is on the fuel side. The expenses for actually running the transmission and distribution system of which this is inside of is only about one-sixth of your bill. So running the transmission and distribution system is a very small portion of the overall bill, and the storm expense is inside of that rather small portion. The big expenditures are fuel, the cost of the energy, taxes and servicing the debt, those are the largest expenses that we have. Running the transmission distribution system is actually a relatively small portion of the overall operation from a cost standpoint.

**LEG. CILMI:**

How would you compare the preparation to this storm in terms of the thoroughness of it to the preparation to these previous events that took place, or could you even -- I mean, the March Nor'Easter I suppose you could have prepared a little bit. Some of the other events, I guess you couldn't really prepare for. Could you comment on that?

**MR. HERVEY:**

I just disagree with you on one thing there. The March Nor'Easter really between the hours -- on that particular day, between the hours four and six o'clock in the evening, the forecast went from a 35 mile an hour storm to a 60-70. So unless we could actually change our plan inside of a couple of hours, there was nothing more that could be done there. So we react after the fact.

But we've had other hurricanes -- I should say tropical storms over the years that we have prepared for, that we have geared up not to this extent, because as I said, they were tropical storms, and fortunately, we have been spared most of those tropical storms. So it is a balance that we look at. When we see that cone and that line come up to Long Island, we start tracking it very early on. We try to judge the best proportional response that we can have that will also give us the fastest restoration time. And, you know, we have had tropical storms where we've put 600, 800 linemen in place to be able to respond to those storms. And sometimes -- sometimes those have been nothing but a grass-watering storm also.

**LEG. CILMI:**

Thanks.

**CHAIRMAN HORSLEY:**

Legislator Stern.

**LEG. STERN:**

Thank you. When you talk about storm reserves, I was wondering if you could take us through what the storm reserve fund typically looks like; what kind of dollar amount is there, how do you budget for that on an annual basis? And when you talk about the potential increase for severe storms in the future, how might be you looking to budget reserves in the future and ultimately what impact that might have on our ratepayers.

**MR. HERVEY:**

Sure. As I indicated earlier, we've seen our storm expenditures go up because of the changes in weather from the 15 plus million range a year up to the 30 to 40 million range. Up through this year, we had not adjusted upward our storm reserve. As a matter of fact, we adjusted it down coming into this year by a few million. But it's typically -- say we're reserving about \$30 million a year, right now, it looks like it would be prudent because of our past few years history to move that up into the mid 40s. So add say another 15 plus million dollars to the storm reserve. That would be an element that would go into base rates. That's a basic cost. But to the extent that we don't spend it, then it would be an element that mitigates rates going into the future. So, you know, in the long run, the cost is only occurred if we actually go ahead and spend it. So 15% -- 15 million or so is in the neighborhood or more or less a half a percent on the bill.

**LEG. STERN:**

Is the number that you typically look at, is that based on a dollar amount, is there a certain percentage, is there an industry standard that you look to to determine how much is set aside on an annual basis into that reserve fund?

**MR. HERVEY:**

No. The standard is really based more on accounting practice, and it's what you reasonably feel your liability is going to be. And some utilities -- as a matter of fact, many utilities don't reserve at all, they just incur the expense. That's more a practice on the regulated side, incur the expense and then go and justify it after the fact and then recover that in rates. We try to have that plan in place where the money is available to us so that we can react when we need to react for the preparations that we need to make.

**LEG. STERN:**

And when FEMA determines that there's going to be some type of reimbursement as there was -- did you say in the March storms?

**MR. HERVEY:**

The March storm.

**LEG. STERN:**

Yeah. How is that level of reimbursement by FEMA determined?

**MR. HERVEY:**

It's 75% of the expenditure. Now, they do come and audit and verify that it's the appropriate expenditure, but -- so they'll disallow anything that they feel is not. But we have had very good -- we've made FEMA applications past, we've been very good at recovering the full 75% from the Federal Government.

**LEG. STERN:**

And what, if any, percentage does preparation count towards the reimbursement?

**MR. HERVEY:**

Unfortunately, since it was not a disaster, you have to go through the process of then actually having the disaster and having it declared a disaster in order to be eligible for FEMA funds. So unfortunately, that wasn't. And even our large -- our single large event, other large event this year, which was the Great Neck storm, we were up over 15 million for that, but we didn't make their -- you have to go over a hurdle, a dollar hurdle for the County. Each County has its own based on some sort of historical formula that is known only to the Federal Government -- I say that rather facetiously -- but it's nothing we have input on, and then there's a Statewide hurdle.

On that big storm, all the agencies together -- and all the agencies on these do pool all their costs. So, for example, if Suffolk County had had a cost, and this was a disaster, it's not unusual for the LIPA cost to go into that pool when FEMA looks at it and say, "Does that whole pool meet that minimal amount and, therefore, can we declare it a disaster?" So as agencies and governments, we all work together to pool those expenditures to try to bring the most money back to Long Island that we can.

**CHAIRMAN HORSLEY:**

Thank you very much on answering -- asking and answering any of the questions relating to Hurricane Earl. I just have another quick question. If I may get off on a little bit different topic here. I do appreciate, Michael, your answers on the hurricane. They are very thorough. And I think we have a better understanding of how your decision making process is made.

I wanted to just, if I could, just go off a second, because I read parts of the audit, which the Comptroller put out several days ago. And they lead me to a question at the end of this that I think is important relating to the MSA contract -- the Maintenance Service Agreements and the Power Service Agreements, which as you know, are up in 2013.

Some of the comments in which the Comptroller said -- you know, some of them were just fine. And I don't want to just paint the ugly. But they kind of jump out at you. The Comptroller accused our provider of service, National Grid, of short changing LIPA by hundreds of thousands of dollars in one case and paid millions in penalties for failing to meet some customer service standards. I know that this is more common in utilities around the country, these penalty payments. It sounds worse than it is sometimes.

The audit revealed numerous million dollar penalties and incentives. And in one case where LIPA sought to declare National Grid in default of its management service contract -- that one just leaped out off the page -- that you would declared National Grid in default of its management service contract, which is frankly, the management of out utilities. The audit stated LIPA declared National Grid to be in default, which would have allowed LIPA the option of canceling the contract. National Grid contested the issue. It was apparently negotiated and a settlement was made. The settlement was that National Grid paid LIPA two million and agreed to double penalties to two million in the future if certain -- if certain indiscretions occurred again.

First of all, I was -- I was surprised because I kind follow your industry, at least the best I can. But I had never heard of this. I had never heard that you had almost declared the National Grid in default. And secondly, which leads to the question I was really going to, the plan for reissuing the 0'13 contracts. I recognize that if you change contractors, there's a two year transaction period, particularly if National Grid is not the provider. Are you on track now for the end of the -- the beginning of the April 0'13 contract letting? And will you be consulting with local officials on how your progress is being made on these contracts and on your progress? Because frankly, there is really nothing bigger that's coming down the pike as far as the utility issues than who is your provider and the costs, because it's going to relate to the bills, the rates and everything else that you guys you do. I want to be assured, Michael, that you are the new guy on the block and you're in control and that you're going to keep us in the loop, particularly since I had never heard of this -- these default issues and stuff like that. I just thought you might want to respond to that.

**MR. HERVEY:**

Sure. Several items there. I do have a copy of State Comptroller's audit here in front of me. I'd just like to say a few items about that. You have all seen audit results, I'm sure. What I'm going to say is the audit result, if you're doing what you're supposed to be doing, will say "controls are adequate." You've never seen an auditor come in and say, "This is the best thing I've ever seen." That's not what they do. The auditors objective as stated by the auditor, "Our objective was to determine whether Long Island Power Authority adequately monitors National Grid's performance in implementing contracts." That was their objective. Their conclusion was that Long Island Power Authority does adequately monitor the contracts.

I can tell you that auditors were in our offices, many auditors were in our offices for nine months or more looking over all of our major contracts, the management services agreement, the power supply agreement and the energy management agreement. All those many months we answered many, many question and provided many, many documents. Out of all of that, the one finding, the one single finding is that National Grid was slow in -- not that they didn't -- but they were slow in reporting a credit to us. On its face, when this was issued back in July -- this report is not new, it was issued back in July -- we thought for a thorough exam of our operation that that was pretty telling, because it did, in fact, say on all the major contracts we were adequate, their words, adequately monitoring those contracts. In fact, it said that we had performance measures in place that were appropriate and that we were also appropriately enforcing them.

Now, most people don't realize that this is basically our third contract, meaning that we had a contract that started back in 1998. In 2005, we negotiated an extensions of that contract which changed the reflection of the contract extensively. And then when National Grid came to but KeySpan, we, again, had an opportunity to negotiate. Each and every one of those times that we've had an opportunity to negotiate, LIPA has put stronger and stronger metrics in place. So it was our thought that at the beginning of the contract, that first version, that the metrics were not challenging the performance.

In other words, they were too easy in our opinion. So we put stronger and stronger metrics in place over time. Now, if you put strong enough metrics in place, naturally from time to time, you will not

make those metrics. So it doesn't surprise us at all that sometimes some of these metrics are violated. If they are, there is a penalty behind that, and National Grid needs to pay that penalty. The one that we've been trying to work on the most over the past couple of years is the customer satisfaction metric, which is the one that National Grid was not able to achieve -- I should say National Grid and LIPA together, because we clearly have a responsibility in there for customer satisfaction also, that we were not able to achieve.

We assessed those penalties against National Grid, and there's an automatic default mechanism in the contract that the Office of State Comptroller approved and knew that that automatic default process was in there. So once that's violated three times, that default happens by contract. I should also say that this was thoroughly discussed and in Newsday. So this was not a secret that this happened. In fact, we discussed that all of our board meetings and updated our board on a regular basis on the status of that negotiation. Through that negotiation, we were able to get even tougher and I think more germane customer service metrics in place, and those are what are in place now.

Now, another item that was brought out that was seen as appropriate and I think should be taken that way is that at the same time we were penalizing National Grid one side for customer satisfaction, we were giving them an incentive payment on the generation side for being more available with the plants. It's two completely different things. They really don't tie together. Again, it's appropriate. Customer satisfaction is customer satisfaction. Generating plant availability is generating plant availability. They don't tie together.

So on one hand, National Grid excelled in many areas, that wasn't brought out in the report, but is obvious in the data. LIPA through National Grid's work is one of the most reliable electric utilities in the state. That's a metric that they've been meeting or exceeding nearly every year, very tough metric, very tough for them to continue to make.

And if you could just remind me what the other half of your question was. Oh, the procurement process, yes. In November of last year, we issued a request for information to hundreds of potential contractors that we would think would be interested in an RFP for taking the business forward. Last year when Kevin Law was here, he spoke about that with this committee and briefed you on that. And also, briefing you is another reason why we're anxious to come and talk to this group at any time.

We took that RFP -- RFI, took the input basically from potential vendors, created an RFP that we put out on the street earlier this year. We are now evaluating the -- this is coming in three phases; the first is that we're looking at the technical qualifications of the proposers; the second, after we determine that they're technically qualified, we'll look at their cost proposals; and after that, then we'll engage in competitive negotiations with them. We have had a robust response of qualified, highly qualified, companies respond to us in the RFP. We're very pleased to see the quality of these responses. We believe that there's a viable competition here, and we believe that we will come out of the process with a very viable and desirable partner going forward. It may well be National Grid. They're certainly one the bidders, or it may be another very qualified company.

Now, we are actually in a position that during a procurement, we should not be taking influence from elected officials. That's part of the rules that we have to live by. Public input is welcome, but there should not be an attempt to influence us during the procurement process. Once we go through this very defined process, which we are at every step of the way reviewing the process and the results of it with the State Comptroller's Office, then we will present to our board the staff's recommendation, and it will get a thorough hearing at that point in time of what our final recommendation is.

**CHAIRMAN HORSLEY:**

Thank you very much. I hope you didn't feel that was interference.

**MR. HERVEY:**

No. No. I'm just saying- - why don't you comment on this, Lynda? I've got the lawyer here pushing stuff at me.

**MS. NICOLINO:**

I was just pointing out that we as a public entity are subject to the public procurement laws that include the procurement lobbying laws that include the procurement lobbying act. And there are significant restrictions with respect to communications, permissible communications, between us as the deliberative entity and the rest of the community. And they are prescribed in the RFP, they're made known to the vendors, and we observe them very strictly.

**CHAIRMAN HORSLEY:**

Okay. But would you say that it would be fair to say that you would keep us informed on those matters in which you can keep us informed about?

**MS. NICOLINO:**

Absolutely.

**CHAIRMAN HORSLEY:**

So that we are assured that these contract negotiations are going in a positive way and that Long Island is protected.

**MR. HERVEY:**

Absolutely. Of course, as I've indicated, we are in the process. We have a calendar for this whole process. It's a very complicated contract to bid out.

**CHAIRMAN HORSLEY:**

I don't doubt that. That's why I'm concerned about years. And I know it's a transition issue.

**MR. HERVEY:**

It's our target to be able to be in position at the beginning of 2012, to begin any transition that's necessary. And we have proposed a business structure -- you can see this in our RFP, so I'm not revealing anything here -- we have proposed a business structure that is different than the business structure that we now have with National Grid. So in any event, even National Grid would have some transitional time in there. But there are two years allowed for transition. And we will have to manage that transition time very jealously and do it very well.

**CHAIRMAN HORSLEY:**

As I expect you would. If there are any further questions -- I just have a quick one. You know, what, at some point I want to talk to you about peak demand issues and how we're going to make the 7000 plus energy usage that we have on -- that we're anticipating in the future. Maybe I'll talk to Michael. You know, he hasn't said anything today. He's looking smart over there, never saying a word.

**MR. HERVEY:**

Well, I'll just point out and then I'll let Mike talk a little bit about that, because his programs are, in fact, the lynchpin right here. We have adequate power on Long Island now. We don't anticipate the need to build anything -- if we managed as usual, business usual, we wouldn't expect to build anything out to the 2016-2015 (sic) timeframe.

But what we've put in place is a program of efficiency and renewables that Mike can comment on that is meant to be our next generating plant. Instead of building steel in the ground, we'll actually reduce the growth in a smarter way with efficiency and renewable. And this costs less by all metrics and all measures that we can look at. To have customers pay that little bit more on their bill in the energy efficiencies charge, we turn around and put that back out in the form of energy efficiency programs, that this is actually less expensive to the customers in the long run, gives them the ability to manage their bills down, if they participate in the program, and again, is less expensive than building a generating plant. Anything else you wanted to add, Mike?

**MR. DEERING:**

I think Mike hit all the key points. The only thing I would add is the Board of Trustees in their regulatory oversight of LIPA's staff authorized and independent evaluation of our Efficiency Long Island Renewables Program which is up online that has shown and confirmed what Mike is saying, it is the most cost effective resource and will help us get to those peak demands that you were talking about. And i'll be glad to talk to you further in the future.

**MR. HERVEY:**

So we're out to save 500 megawatts of growth with that program.

**CHAIRMAN HORSLEY:**

Sounds great. Any further questions? We appreciate you being here. I think you did a great job. And, Michael, it certainly is a pleasure to meet you here. And we look forward to a relationship in the future. And for the rest of your tenure, you know, may it be successful, because when you are successful, we are. Thank you very much.

**MR. HERVEY:**

Thank you very much. Any time you want us back, we will glad to come back.

**CHAIRMAN HORSLEY:**

Thank you.

**CHAIRMAN HORSLEY:**

Let's go to the resolution. We'll run through them as quickly as as possible, which I'm sure, otherwise I'm going to be hung.

**1531, Adopting Local Law No. -2010, A Local Law improving tourism promotion in Suffolk County. (Schneiderman)**

This is Mr. Schneiderman's bill. 1531, there had been some discussion on this.

**P.O. LINDSAY:**

I make a motion to discharge without recommendation. It's a revised bill. The sponsor was supposed to be here today, but he does have a long ride. At least this will give him the opportunity to make his case before the whole body.

**CHAIRMAN HORSLEY:**

Seconded by Legislator Montano. Any discussion? All in favor? Opposed? So moved.

**DISCHARGED WITHOUT RECOMMENDATION (VOTE: 6-0-0-0).**

**1657, Authorizing the temporary transfer of development rights to Motor Parkway Plaza. (Co. Exec.)**

This is what Mr. Pally was talking about earlier, if you could remember that far back. Yves, is there

anything you want to say quickly about it? You're good?

**COMMISSIONER MICHEL:**

We are good.

**CHAIRMAN HORSLEY:**

This is all good stuff. We're going to create 200 jobs here. Are there any questions?

**LEG. NOWICK:**

Motion.

**CHAIRMAN HORSLEY:**

We have a motion to approve, seconded by Legislator Stern. Any further discussion? All in favor? Opposed? So moved. It's **APPROVED (VOTE: 6-0-0-0)**.

**COMMISSIONER MICHEL:**

Thank you.

**CHAIRMAN HORSLEY:**

**1937, Authorizing the granting of a permanent easement to the State of New York on Suffolk County Community College property in Brentwood for the purpose of active State parkland in the Town of Islip (SCTM No. 0500-071.00-01.00-012.003 p/o). (Co. Exec.)**

**LEG. MONTANO:**

Motion.

**CHAIRMAN HORSLEY:**

Motion by Legislator Montano, seconded by Legislator Stern. All in favor? Opposed? So moved. **APPROVED (VOTE: 6-0-0-0)**.

Motion to adjourn.

(\*THE MEETING WAS ADJOURNED AT 4:14 P.M.\*)

{ } DENOTES BEING SPELLED PHONETICALLY