BEFORE THE
STATE OF NEW YORK
DEPARTMENT OF PUBLIC SERVICE

MATTER NUMBER 15-00262

In the Matter of a Three-Year Rate Proposal for Electric Rates and Charges Submitted by the Long Island Power Authority and Service Provider, PSEG Long Island LLC.

Prepared testimony of
Hon. George Maragos, County Comptroller
Nassau County, New York June 4, 2015

Q. Please state your name and business address.

A. My name is George Maragos. My business address is 240 Old Country Road, Suite 210, Mineola, New York 11501.

Q. Mr. Maragos, do you represent any entity with an interest in these proceedings and, if so, whom do you represent?

A. Yes. I am the elected Nassau County Comptroller, serving in this capacity since 2010. In my capacity as the Nassau County Comptroller, pursuant to the authority granted by that Office, I hereby submit my testimony on behalf of all of the interested ratepayers of Nassau County.

Q. Do you have professional experience relevant to the subject matter of this proceeding?

A. I have over 35 years of senior management experience with leading organizations in Banking, Consulting and Information Systems. I was president of my own technology firm for 20 years. Prior to that, I served as Vice President of Citicorp and the Director of Telecommunications for Treasury Systems. Prior to Citibank, I was a Vice President at Chase Manhattan Bank, holding various senior systems management positions responsible for planning and implementing the global electronic financial systems and the telecommunications networks that supported the global banking network. Earlier in my career I was also a consultant with Booz Allen and Hamilton and with Bell-Northern Research as manager of Communications Planning. Academically, I hold a Master's in Business Administration in Finance (1983) from Pace University in New York City, and a Bachelor of Electrical Engineering Degree (1973) from McGill University in Montreal.

Q. **Have you previously testified in proceedings before the New York Department of Public Service ("DPS")?**

A. Yes. I provided statements on March 4, 2015 at the DPS Hearing in Mineola concerning the PSEG Long Island ("PSEG") and Long Island Power Authority ("LIPA") Summary of 2016-2018 Three Year Rate Plan ("Plan").

Q. **To the best of your knowledge, is there any portion of your March 4th testimony that LIPA, PSEG or any other Party to the Matter have failed to address?**

A. Yes, they have not responded to any of our issues. LIPA and PSEG has not responded to requests to provide documented evidence of initiatives taken; to improve productivity and reduce costs through technological innovations and better management practices, or to align expenditures with those of well-run comparable utilities with respect to overhead cost ratios, direct cost ratios, maintenance costs ratios, capital investment ratios and other management performance measures. PSEG appears from the Plan to continue to perpetuate the old inefficient management practices and operating philosophies of LIPA; and PSEG continues to rely on low-tech improvements such as tree-trimming and the installation of environment-destroying chemically-treated 80 foot poles.

Q. Have you contacted LIPA, PSEG or any other Party to the Matter since March 4th in attempts to address these concerns?

A. Yes.

Q. What was the nature of that contact?

A. On April 16, 2015, I met with Caisy L. Meyers, District Manager of External Affairs for PSEG and Robert G. Grassi, Esq., Associate General Regulatory Counsel for PSEG at the Comptroller's Office in Mineola to discuss my testimony on March 4th as well as to express my concerns with the proposed rate increase.

Q. What was discussed at that meeting?

A. I reiterated my concerns regarding cost-reduction and management practices outlined in my March 4th testimony. Mr. Grassi and Ms. Meyers represented that PSEG had, in fact, implemented numerous measures to reduce costs and make management more efficient. Mr. Grassi and Ms. Meyers indicated to me that they would provide my Office with documentation to support these initiatives and their budgetary impact.

Q. Was your Office provided this documentation?

A. No.

Q. Did your Office perform any further analysis since your March 4th testimony?

A. Yes.

Q. **What additional analysis did your Office perform?**

A. First, our Office reviewed a document which was filed on the NYS Department of Public Service Matter Document and Management System on May 1, 2015, entitled "Capital Budget Panel (Exhibit ____ CBP-3)". This document sets forth a budgeted line item of $38.162 million for long-term ERP, a capital budget expense of LIPA. However, we believe that this ERP capital budget expense should be the responsibility of PSEG under its operating agreement with LIPA, to provide expertise, management tools and other solutions readily available to PSEG to provide best-in-class service. PSEG NJ should have such an ERP tool-set which should have been carried over to PSEG with minimal cost under the Operating Agreement.

Second, the Plan sets forth a Management Fee line item, under LIPA Operating Expenses, in the amount of $73.4 million, which exceeds that of the prior year by $28.0 million. We believe that the nearly $74 million in Management Fees may be miscalculated and based on productivity incentives which have not been earned and may include up to $20 million in duplicative senior management expenses.

Third, our Office has also reviewed the LIPA Comprehensive Annual Financial Report ending December 31, 2014 and 2013 ("CAFR"). Pursuant to Note 5 of the CAFR, Commodity Derivatives were listed with a positive fair market value of $19.296 million, representing a gain of $62.86 million over December 31, 2013. This translates into an average gain of $53.8 million per year during the immediately preceding two years. However, it appears that no hedging benefits are being utilized in the Plan. Accordingly, rather than accumulating this off budget gain, we believe that about $50 million should be utilized to help offset the proposed rate increase.

Fourth, we believe that reasonable productivity improvements over the prior LIPA management, which align operating ratios to well-run utilities, should have translated into at least

5% savings on the $1.9 billion delivery charge Budget or $95 million in reduced budgetary benefit.

Q. In summary, what is your recommendation concerning the PSEG proposed 2016-2018 three-year plan and rate increase?

A. As a result of the analysis conducted by my Office, which I have summarized here, it is my recommendation that the potential cost reduction measures and management efficiencies will result in $215 million in expense reductions and revenue gains as follows: (1) $38.2 million in ERP capital expenses, (2) $28 million in Management Fee increase, (3) $53.8 million in hedging gains and (4) $95 million in productivity improvements.

When combined with the cost reduction opportunities as determined by the Department of Public Service of $173.2 million, PSEG should not only be prevented from raising rates on residents by $221 million or almost 4% annually over three years (as a function of delivery-only charges), but rather, should be able to maintain a zero increase in rates and potentially reduce rates if it takes full advantage of available opportunities as listed above.

Q. Does this conclude your testimony?

A. Yes it does.