

# Hurricane Sandy and the criminal failure of the utility companies

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In the wake of Hurricane Sandy, popular outrage has grown over the failure of the government and the utility corporations to adequately prepare for and respond to the storm's devastating impact. The most glaring example of this failure has been the widespread and criminally protracted loss of electric power for millions of residents in New York, New Jersey and Connecticut.

A total of 8.5 million customers (i.e. individual locations receiving service), representing many millions more individuals, lost power due to Sandy. Many who had their power restored after the hurricane lost it again when the subsequent nor'easter hit the same area. Tens of thousands of customers were still without power over three weeks after the hurricane. Many also have had no heat, with night-time temperatures descending to near or even below freezing. Thousands are in flooded areas and have to wait for repairs to their homes before service can be re-established which in some cases may take months.

Anger boiled over in demonstrations on Long Island against the local utility, with crowds of hundreds carrying home-made signs gathering outside the office of the Long Island Power Authority after going two weeks without electricity as well as heat and hot water. A total of 1.1 million LIPA customers were affected, both in Long Island and in New York City's Rockaways area in Queens.

While LIPA claims that 99 percent of those who can "safely get power" have had their service restored, another 35,000, mainly in the coastal Rockaways area, may be without power until Christmas.

In an attempt to diffuse anger and divert attention for their own culpability, politicians, including New York State's Democratic governor, Andrew Cuomo, have made public statements denouncing the area's electric utility companies for their failure to adequately respond to Sandy.

The governor and the state's attorney general have each launched investigations supposedly aimed at identifying those responsible. Cuomo has cited the utilities' multiple failures over several years, encompassing hurricanes Sandy and Irene, Tropical Storm Lee, and an ice storm in 2008, all of which left hundreds of thousands to millions of customers without power for one to two weeks, and in some cases even longer, and threatened to revoke their operating licenses.

These statements are hypocritical in the extreme. Electric utilities are publicly regulated monopolies, which are theoretically charged with delivering power to the public safely and efficiently.

The reality is far different. The portions of New York State hardest hit by Sandy—New York City, Westchester County, and Long Island—are serviced by Consolidated Edison (Con Ed), a private corporation, and the Long Island Power Authority (LIPA), a nominally public entity. In both cases, a review of recent history reveals that private profit is the paramount concern of these organizations. In repeated

instances, over the course of decades, Con Ed and LIPA have placed millions of people in jeopardy, but suffered no significant consequences despite numerous criticisms and recommendations for improvement made by regulatory agencies and government commissions.

The Long Island Power Authority was created in 1985 by the current governor's father, then-Governor Mario Cuomo, to assume a portion of the assets, primarily the transmission and distribution system (T6:11 PMD System), and liabilities of the Long Island Lighting Company (LILCO), a private utility company. This was effectively a state bailout of LILCO after the collapse of its project to build the Shoreham nuclear power plant on Long Island left it billions of dollars in debt.

The Shoreham plant was built by the LILCO in Suffolk County on the north shore of Long Island between 1973 and 1984, but never put into operation. The 1979 Three Mile Island accident in Pennsylvania and the 1986 Chernobyl disaster created strong opposition to the plant among local residents. Among other problems, it became obvious that in case of an accident an effective evacuation of the surrounding population would be impossible due to the geography of Long Island.

The \$6 billion cost of construction and an additional \$186 million for decommissioning were assumed as a liability by LIPA when it bought the plant from LILCO in 1992 for one dollar. LIPA had been specifically created by the State of New York in 1986 in order to buy the Shoreham plant. Thus, the burden of repaying the cost of this ill-conceived project by a private company was transferred to the utility customers of Long Island rather than being borne by the company and its investors.

Long Islanders have been paying for this deal ever since, burdened with what are among the highest electricity rates in the country. LILCO's electricity generating facilities and its natural gas supply system were transferred to Keyspan, a separate, private corporation. Keyspan was later acquired by National Grid, a British-based conglomerate whose CEO, Steve Holliday, received over \$2 million in compensation last year.

LIPA acts as a retail provider of electricity for 1.1 million customers. It administers, but does not actually undertake day to day utility operations (i.e. maintenance and repair of the distribution grid and distribution of power), which are carried out by its current subcontractor, National Grid.

Effectively, LIPA was the product of a state bailout that transferred LILCO's private debt onto a public entity, thus ensuring the profits of the latter's investors (as well as multi-million-dollar severance packages for its executives), while privatizing its generating facilities and turning its T&D system over to a private, profit-making subcontractor.

LIPA's total debt is currently placed at about \$7 billion in bonds and another \$3 billion in "capital leases", according to Moody's Investors Services. Routine maintenance and upgrades of facilities, let alone major investments to protect the system from major storm impacts, have been sacrificed to the burden of debt repayment combined with the need of its subcontractor, National Grid, to maintain profitability.

This has left LIPA's infrastructure to deteriorate and become increasingly obsolete over decades. In 1985, when LILCO was still the power utility for Long Island, Hurricane Gloria caused the loss of electricity for up to two weeks to most of the area's more than 1 million customers, almost as long as it has taken LIPA to restore service after Sandy.

A former LIPA executive recently stated that the utility's infrastructure has remained largely unchanged since Gloria. This includes the maintenance of its database on a 25-year-old mainframe computer, which, a state probe after Hurricane Irene concluded, leaves the company unable "to manage large scale outages."

The failure to properly maintain and upgrade the system has meant that the total annual storm damage costs for repair of LIPA's T&D System more than doubled from 2005 to 2009. Last year, Hurricane Irene left 418,000 LIPA customers without power. It was recently revealed that LIPA has underspent its system maintenance budget by \$37.5 million during its most recent budget cycle. This includes activities as simple as tree trimming, which would have significantly diminished Sandy's effects on power lines and electricity distribution.

LIPA has only about 100 employees. It is, essentially, a shell corporation whose purpose is to funnel money to those who hold its debt and to provide profit to its private subcontractor, currently National Grid. The directors of LIPA are appointed by the governor and other officials of the State of New York. These are essentially patronage positions, with members drawn from the social and corporate elite whose allegiance lies primarily with their peers. The interests of their customers are a secondary consideration, at best.

Despite a number of vacancies on LIPA's board, Governor Cuomo has made only one appointment, a big contributor to his election campaign who has no experience in the energy industry.

The gross problems with LIPA and its predecessor LILCO are not unique, as the performance of Con Ed makes clear. Con Ed, which provides electricity to most of New York City and adjacent Westchester County, is a private corporation. It makes approximately a billion dollars in profit a year. Yet, as with LIPA, it suffered catastrophic damage to its system due to Hurricane Sandy and has been repeatedly criticized for failure to adequately prepare its system for weather-related damage.

For example, in 2007, the Public Service Commission criticized failures that resulted in several large scale service interruptions. It determined that Con Edison failed to adequately maintain, operate and oversee its equipment and that this was the "the overriding cause" of a blackout the preceding year in western Queens County, a borough of New York City, that lasted nine days. The PSC also found that Con Edison had performed poorly in the wake of two powerful windstorms which left tens of thousands of customers in Westchester County without power for up to three days.

The Commission made nearly 50 recommendations for improvements. Despite these recommendations and warnings, massive loss of power due to storms continued to be a regular event. In March 2010, 175,000 Con Ed customers lost service after a powerful nor'easter (a coastal storm named for its strong northeasterly winds).

And last year, Hurricane Irene left 121,000 Con Ed customers in New York City without power. During Sandy, 975,000 customers lost service. In each case, the actual number of people affected is much higher, since each "customer" represents a home or business.

In the face criticism of his company's response to Sandy and its failure to heed prior warnings, Con Ed's CEO, Kevin Burke, could only say that "excluding such a major storm as this ... the system is very reliable" and that Sandy "came in so much greater than we were planning for." He has stated that, criticisms notwithstanding, Con Ed will push ahead with a planned request for a rate increase. Con Ed has rejected the idea of burying more of its distribution system to protect it from severe weather as too expensive, i.e., too much of a drain on corporate profits, despite the fact that this is done routinely in much of Europe.

Compounding Con Ed's lack of effective infrastructure investment is the substantial reduction in its workforce. Since 1983, the number of workers at Con Ed has been cut by more than half, boosting its profitability and making it a darling of Wall Street. The PSC, which is supposed to regulate Con Ed and the other public utilities in the state, is composed of political appointees selected by the governor.

In fact, it functions essentially as a rubber stamp for the utilities, consistently granting rate increases and failing to carry through with any real oversight. The latest expressions of outrage by New York governor Cuomo and other politicians as well as the denials of responsibility by utility executives are highly disingenuous. They are all part of a system which is ever more bent on the maximization of profits, regardless of the consequences for the mass of the population.

The devastation and loss of life wrought by hurricanes Katrina and Sandy, as well as many other storms, are not merely natural disasters, they are social catastrophes, caused by the the capitalist system and the criminal misallocation of society's resources by a tiny elite bent on increasing its own wealth above everything else.

Protection of the lives and well-being of millions of working people from the entirely predictable impacts of the changing climate and the increasing frequency of catastrophic weather events will not be carried out by profit-driven utility companies and the corporate-controlled government. Realizing this vital task requires that the entire network of power generation and distribution be taken out of private hands and transformed into a public utility under control of the working class as part of the socialist transformation of society.



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