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## State Challenges High Salaries At Agency With Key Role In Electric Rates

**Some Executives At ISO-New England Receive More Than \$1 Million A Year**

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Connecticut is challenging executive salaries — some exceeding \$1 million — at the nonprofit, government-regulated corporation that oversees the pricing and distribution of electricity in New England, arguing that consumers are forced to overcompensate administrators who have failed to control electric rates.

The challenges, in court and with federal regulators, reflect broader dissatisfaction with federal energy regulatory policy on the part of the state's government consumer advocates. Lax regulation, the advocates say, has contributed to burdening homeowners and businesses in Connecticut with the highest electric rates in the continental United States. Last week, among all the states, only ratepayers in Hawaii paid more.

The salaries at the center of the challenge are those paid to the handful of most senior officers of ISO-New England, the private, nonprofit corporation that the Federal Energy Regulatory Commission, known as FERC, has authorized to administer the auctions that set regional electric prices and to oversee the grid through which bulk electricity is transmitted to the states.

New England ratepayers are billed for ISO salaries and other administrative costs. But ISO and FERC have been unwilling over the past two years to provide ratepayers with timely salary and expense figures, according to the legal challenges by Attorney General Richard Blumenthal and state Consumer Counsel Mary J. Healey.

ISO is currently seeking FERC approval of its proposed 2011 budget, but the most recent budget figures it will disclose are those contained in its federal income tax filing for 2009. State consumer advocates complain that FERC is shirking its regulatory obligation by not compelling ISO to promptly disclose executive salaries, proposed salaries or other costs that are a factor in setting electric rates.

Figures that have become public show that executive compensation at ISO has risen sharply while New England electric rates have become the nation's highest and salaries in the broader economy have been hit by recession.

Between, 2004 and 2007, the salary paid to ISO's chairman and CEO increased 53 percent to \$1.2 million, while compensation to its secretary and general counsel grew 200 percent to \$1.7 million, Blumenthal's office said. The 2009 tax return shows that chairman and CEO compensation grew 17 percent to \$1,401,286 from 2007 to 2009. ISO's secretary and general counsel had left the organization in 2009, but was paid \$266,595 in severance that year.

Other senior executive salaries for 2009 also rose over those paid in 2007. ISO's senior vice president and COO was paid \$849,761 in total compensation in 2009, at increase of 19 percent. Its vice president, chief financial and compliance officer was paid \$640,823 in 2009, a 20 percent increase.

While Blumenthal and Healey focus on salary in their legal complaints, the two also are critical of other ISO spending financed by consumers.

Blumenthal's office has complained about ISO lobbying expenditures, asserting that the organization advocated regulatory positions that New England states argued were against ratepayer interests. ISO reported spending about \$46,000 on lobbying in 2009 and said it is limited to pending legislation that could affect wholesale electricity markets or the reliability of New England's power system.

Both Blumenthal and Healey said they had questions about the collective \$823,302 that ISO reported it paid its nine directors in 2009 in salaries ranging from \$78,500 to \$106,500. The directors estimated that they worked, collectively, 51 hours a week during the year.

"All energy consumers deserve to know whether their electric bills are funding excessive executive compensation packages," Blumenthal said. "Soaring electric bills raise significant questions about the use of ratepayer money. Our electric market is in need of broad reform – a systemic shock – beginning with transparency and accountability for ISO-New England executive compensation."

ISO said there is nothing excessive about its executive compensation. It called the compensation reasonable when evaluated on an industrywide basis. The salaries are based on standards set by the IRS and reviewed annually by Mercer Consulting, which an ISO spokeswoman, Ellen Foley, said is "one of the top management consulting firms in the country."

What's more, ISO's budget is "thoroughly vetted by every stakeholder in the six-state New England region and, ultimately, FERC," Foley said. She said wholesale electricity prices are "almost half of what they were two years ago when fossil fuels were at an all time high." She said "ISO New England's charge to consumers is roughly 79 cents a month."

"ISO New England's compensation practices are competitive to attract and retain the highly skilled personnel needed to fulfill the ISO's unique responsibilities and the critical role our organization fulfills in the region. We are responsible for the reliable operation of the region's electric power system, oversight of the regional planning process, and administration of a multibillion-dollar, competitive wholesale market."

### **Frequent Critics**

Blumenthal and Healey have become frequent critics of ISO and FERC during a prolonged period of

rising energy costs. Electric costs in Connecticut have spiked since 2005 when a legislative attempt to control costs through industry deregulation failed.

A year ago, Blumenthal argued unsuccessfully before the U.S. Supreme Court that FERC had created a regulatory structure that prohibitively limited consumer challenges to rates established by private energy producers. At the time, the three highest electricity rates in the nation were paid by consumers in Connecticut, Massachusetts and Maine.

The state's latest ISO challenge is more limited but again asserts that FERC is short-changing consumers in its exercise — or failure to exercise — regulatory authority.

Since ISO salaries and administrative costs contribute to electric rates, Blumenthal and Healey contend that FERC is obligated to analyze those costs before determining that they are "just and reasonable." The two argue, however, that ISO has not submitted detailed salary figures or a consultant report justifying those salaries to FERC since late 2008, when ISO was seeking approval of proposed 2009 salaries.

The state has repeatedly challenged the ISO budget process. It has attacked the validity of the 2008 consultant report for being based on "compensation levels at companies with revenues in the billions of dollars." In comparison, the state argues that ISO is a nonprofit corporation with a quasi-public purpose and revenues of about \$128 million during the year the report was prepared.

The state also claims FERC has not considered the broader recession when approving recent ISO salary increases.

"FERC has not granted a hearing on these protests and has otherwise failed to show any interest in performing its core function of regulating the costs of its contractor, ISO New England," Healey said. "FERC has approved ISO New England's executive compensation proposals at times with little evidence and at times with no evidence."

Blumenthal and Healey are pressing their latest challenges in the District of Columbia Circuit Court of Appeals and before FERC.

"Should our protest at FERC again be unsuccessful this year, we will likely pursue a court challenge, as we have in the past, in an effort to get a just result or even fair process as to ISO New England's request to continue their excessive salary structure at a time when ratepayers struggle mightily to even pay their electric bill," Healey said.

A FERC spokeswoman said the commission will issue an order next year after hearing from all parties in the dispute.