



Management & Operations Audit

2018 Audit Executive Summary

- **PSEG Long Island has made significant investments in customer service, which are showing results.**
- **LIPA’s “exceptional financial leadership” has resulted in many noteworthy accomplishments, including \$491 million of savings for customers.**
- **Effective oversight is critical when contracting virtually all operations and maintenance.**
- **LIPA has to drive performance improvement while staying within the scope and provisions of the Amended and Restated Operating Services Agreement (A&R OSA).**
- **The LIPA Board has improved the LIPA Reform Act of 2013 (LRA), but faces challenges common to most boards of public power agencies.**

** Findings from the NorthStar Consulting Group Management and Operations Audit of LIPA and PSEG Long Island*



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Audit Summary

2018

Audit Summary: Board of Trustees

Select Finding Highlights:

- ✓ Total of 49 recommendations to LIPA and/or PSEG Long Island in 14 areas of management and operations.
- ✓ LIPA Board has improved since the LIPA Reform Act, but faces the dilemma most boards of public power agencies face; how to expand the level of utility or energy industry experience consistent with an organization of LIPA's size, complexity and revenues.
- ✓ The dynamics and working relationship between the Board and executive management has improved since the 2013 LIPA Management and Operations Audit
- ✓ Trustees do not receive compensation for their time, but are entitled to reimbursement for reasonable expenses in performance of their duties
- ✓ The Board's role in the hiring and evaluation of the CEO and other executives is appropriate and consistent with industry practice
- ✓ LIPA should formally request appointments or confirm extensions to Board member term periods at least six month prior to term expirations

Audit Summary: Project Planning & Management

Overview:

- Project planning and management includes the decisions and processes that shape a project and determine its success
- PSEG Long Island's capital project review and selection methodology identifies the most critical projects for system reliability

Select Finding Highlights:

- ✓ PSEG Long Island has improved procedures related to program and project planning, and management
- ✓ PSEG Long Island should implement and develop procedures related to quality assurance and quality controls for capital programs and projects
- ✓ PSEG Long Island uses a six-phase project schedule: Planning, Design and Engineering, Licensing, Procurement, Construction and Closeout. PSEG Long Island should use an industry accepted deliverable-orientated work breakdown structure

Audit Summary: External Outreach and Communications

Overview:

- PSEG Long Island serves as the face of the utility with the customer, the public, and the media
- LIPA may appear in front of the public or other stakeholders on matters of policy

Select Finding Highlights:

- ✓ Measure the effectiveness of capital-project outreach, media relations and external affairs programs to determine whether outreach efforts are cost-efficient, on target, and achieving results
- ✓ On a pilot basis, evaluate the potential use of text messages and phone calls to customers on scheduled tree trim routes
- ✓ Develop a more formalized process for determining the outreach budgets for capital projects, particularly Tier 3 projects
- ✓ Increase the specificity of capital project-related outreach

Audit Summary: Transmission & Distribution

Overview:

- PSEG Long Island has maintained high levels of reliability compared to NY electric utilities
- LIPA customers enjoy the second best reliability performance in the State
- Continue efforts to continuously improve

Select Finding Highlights:

- ✓ 2015-16 SAIFI increases partially due to increased construction activities and new operational procedures. 2017 saw improvement
- ✓ PSEG Long Island uses and reports meaningful measures of reliability which are industry standards as required in the A&R OSA
- ✓ NorthStar observed that reliability goals set by the OSA were aimed at first quartile performance, but did not seek to improve upon those used in the MSA
- ✓ Vegetation management practices reflect industry best practices and are appropriate for LIPA's service territory



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2013 Audit

RECAP

Progress on 2013 Audit Recommendations

Overview:

- LIPA and/or PSEG Long Island completed 67 of 83 recommendations.
- 17 continue to be ongoing or need further progress (some overlap with current 49 recommendations)
- 4 are no longer applicable

Select Finding Highlights:

- ✓ LIPA and PSEG Long Island should work with DPS to determine which 2013 recommendations remain relevant.
- ✓ Develop an implementation plan for the Board to review within 90 days, in a format used by IOUs when filing such reports to Public Service Commission.
- ✓ LIPA Internal Audit should audit status of implementation annually.



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Board Action

Implementation

LIPA Reform Act

- Requires audits of LIPA and PSEG Long Island every 5 years
- Review the overall management in the context of LIPA's duty to set rates at the lowest level consistent with sound fiscal and operating practices and which will provide for safe and adequate service
- The LIPA Board must:
 - Determine if any audit finding or recommendation "is inconsistent with the authority's sound fiscal and operating practices, any existing contractual or operating obligation, or the provision for safe and adequate service,"
 - or
 - Direct LIPA staff and PSEG Long Island to implement the audit report's "recommendations in accordance with the timeframe specified under such audit."
- The audit recommends development of an implementation plan within 90 days i.e., by the October Board meeting

Implementation: Next Steps

- Executive sponsors & Team Leaders assigned for all 49 recommendations.
- LIPA and PSEG Long Island staff will develop action plans consisting of:
 - Discussion of Scope, Purpose, Assumptions
 - Specific Work Plans
 - Timetable for completion (Deliverables/Milestones)
 - Cost-Benefit Analysis
 - Risk Analysis
- The Implementation Plan will be filed in October 2018
- Progress reports will be filed thereafter in accordance with the Board's audit relationships Policy

FOR CONSIDERATION

July 25, 2018

TO: The Board of Trustees

FROM: Thomas Falcone

SUBJECT: Recommendation Related to DPS Management and Operations Audit of LIPA and PSEG Long Island Final Report, Matter No. 16-01248

Requested Action

The Board of Trustees (the “Board”) is requested to direct LIPA and PSEG Long Island to commence development of an implementation plan for the 49 recommendations in the DPS Management and Operations Audit of LIPA and PSEG Long Island Final Report, dated June 29, 2018 and to file such plan with the Board and Department of Public Service in 90 days, consistent with the LIPA Reform Act of 2013 (the “Reform Act”) and the Board’s Policy on Audit Relationships, as amended.

Background

The Reform Act directed DPS to conduct or cause to be conducted every five years comprehensive management and operations audits to review the overall management of the Authority and PSEG Long Island in the context of LIPA’s duty to set rates at the lowest level consistent with sound fiscal and operating practices and safe and adequate service. DPS procured NorthStar Consulting Group to conduct the audit, which commenced on December 15, 2016 and concluded on June 29, 2018 with the filing of a final report containing 49 individual recommendations in 14 areas of management, oversight and operations. NorthStar had been commissioned to conduct a similar audit in 2012-13.

The Reform Act provides that unless the Board “makes a preliminary determination that any particular finding or recommendation contained in such audit is inconsistent with the authority’s sound fiscal and operating practices, any existing contractual or operating obligation, or the provision for safe and adequate service,” the Board shall cause LIPA staff and PSEG Long Island to implement the audit report’s “recommendations in accordance with the timeframe specified under such audit.” As to the matter of timing, the audit report recommends LIPA and PSEG Long Island develop an implementation plan within 90 days of the report’s acceptance and submit such a plan to the Board and DPS in a form consistent with similar implementation plans submitted by investor-owned utilities to the Public Service Commission.

Discussion

Authority staff and PSEG Long Island have reviewed the audit final report and recommendations. Staff does not believe any of the audit recommendations meet the statutory standard for a preliminary determination (i.e. a finding or recommendation that is inconsistent with the

Authority's sound fiscal and operating practices, contractual or operating obligations, or with the provision for safe and adequate service).

The audit report recognizes the great strides made by the Authority and PSEG Long Island in the four years since passage of the Reform Act, specifically citing LIPA's "exceptional financial leadership" for accomplishing numerous improvements having real benefits to ratepayers, such as refinancing debt through the Utility Debt Securitization Authority to save customers \$491 million and "PSEG Long Island's significant investments in customer service improvements which are showing objective results."

Many audit recommendations "continue" or "build" on management and process improvements already underway. In other areas, the audit report identified opportunities for new or continued improvement.

Unless the Board makes a preliminary finding of inconsistency, Authority staff and PSEG Long Island will now work together to produce plans to implement each of the 49 individual audit recommendations. Each project plan will articulate specific project objectives, identify personnel responsible for implementation, set forth milestones for completion, and include cost-benefit and risk analyses, where applicable. As per the timeframe set forth in the audit final report, staff will file the initial implementation plan with the Board and DPS in 90 days with supplemental progress reports filed pursuant to the reporting requirements in the Board's Policy on Audit Relationships.

Recommendation

Based upon the foregoing, I recommend approval of the above-requested action by adoption of the resolution in the form attached as **Exhibit "A"**.

Attachment

Exhibit A Resolution

Exhibit A

**RESOLUTION DIRECTING LIPA AND PSEG LONG ISLAND STAFF TO PREPARE
AND FILE IMPLEMENTATION PLANS FOR 49 MANAGEMENT AUDIT
RECOMMENDATIONS**

NOW, THEREFORE, BE IT RESOLVED, that consistent with the accompanying memorandum, the Board of Trustees hereby directs LIPA staff and PSEG Long Island to prepare and file, within 90 days, an implementation plan for each recommendation in the Management and Operations Audit of LIPA and PSEG Long Island Final Report, dated June 29, 2018.

Dated: July 25, 2018