

Long Island Power Authority

GOVERNANCE COMMITTEE – 2017 REPORT

The Governance Committee (the “Committee”) of the Long Island Power Authority’s Board of Trustees (the “Board”) has prepared this report related to its obligations under the Public Authorities Reform Act of 2009 (“PARA”) and the Committee’s charter.

Among its responsibilities, the Committee must report to the Board at least annually on the effectiveness of the Board, the Board’s governance structure and the Board’s policies, and make such recommendations to the Board as will improve the effectiveness of the Board, the utilization of the Authority’s assets and the Board’s oversight of the Authority’s operations. The Committee will similarly assess its own activities and effectiveness as a Committee and report that to the Board annually. The Committee is also charged with responsibilities including: developing and recommending to the Board policies for the sound governance of the Authority; developing and recommending to the Board the number and structure of committees to be created by the Board, including this Committee; developing and providing recommendations to the Board regarding the evaluation of the performance of the Board and its committees in the Authority’s governance process, including coordination and oversight of such performance evaluations; examining potential ethical and conflict of interest issues and situations.

Additionally, the Committee must develop, review on a regular basis, and update as necessary the Authority’s Mission Statement, Policies, and Work Plan (collectively, the strategic plan) to ensure that the Authority is establishing and following the appropriate and necessary direction for itself, the Chief Executive Officer and all of the Long Island Power Authority’s (“LIPA”) service providers for the immediate and long-term benefit of the customer-owners and residents of Long Island; develop, review, and update as necessary the Authority’s Code of Ethics and Conduct (the “Code”), which shall be at least as stringent as the laws, rules, regulations, and policies applicable to state officers and employees; develop and recommend to the Board any required revisions to the Authority’s written policies regarding the protection of whistleblowers from retaliation, as included in the Code; develop and recommend to the Board any required updates on the Authority’s written policies regarding procurement of goods and services, including policies relating to the disclosure of persons who attempt to influence the Authority’s procurement process; develop and recommend to the Board any required updates to the Authority’s written policies regarding the disposition of real and personal property; develop and recommend to the Board all updates on the Authority’s other written policies that are required by statute or by resolution of the Board which have not been delegated to other Board committees or retained to itself by the Board.

The Committee shall also develop and recommend to the Board any other policies or documents relating to the governance of the Authority, including rules and procedures for conducting the business of the Board, such as the Authority’s by-laws; oversee the implementation and effectiveness of the by-laws and other governance documents and recommend modifications as needed; develop a description of the competencies and personal attributes required of Trustees to assist those authorized to appoint members to the Board in identifying qualified individuals; develop and provide recommendations to the Board regarding Trustee education, including new

Trustee orientation and regularly scheduled Trustee training. The responsibility to (i) review and report to the Board on the requirement under the LIPA Reform Act to keep the Authority's staffing at only those levels necessary to ensure that the Authority is able to meet its obligations with respect to its bonds and notes and all applicable statutes and contracts, and oversee the activities of its service provider and (ii) evaluate Board-appointed executives have been delegated to the Personnel and Compensation Committee. Accordingly, the Committee reports as follows:

Board Participation and Attendance

Article II of the by-laws of the Long Island Power Authority requires that a Trustee "who shall have failed to attend six consecutive meetings of the Trustees or at least fifty percent of the meetings of the Trustees during a consecutive 12-month period shall thereupon and without further action be deemed to have resigned as a Trustee of the Authority."

There were six meetings of the full Board and two Workshop meetings during 2017.

All attendance requirements were satisfied during 2017. Overall, Board attendance was 88 percent. The authorized complement of the Board is nine Trustees and there was one vacancy, which came with the resignation of Suzette Smookler in October 2017.

Public Authorities Accountability Act Training

Section 2824(2) of the Public Authorities Law, requires directors to "participate in State-approved training regarding their legal, fiduciary, financial and ethical responsibilities as board members of an authority within one year of appointment to a board. Board members shall participate in such continuing training as may be required to remain informed of best practices, regulatory and statutory changes relating to the effective oversight of the management and financial activities of public authorities and to adhere to the highest standards of responsible governance."

The stated purpose of this training is to prepare individuals to understand and properly execute their roles as board members and to be well-versed in the principles of corporate governance and the requirements of the law. Training provides the foundation for directors to exercise appropriate oversight and to recognize the responsibility they have to the mission of their organization, its management and staff, and to the public.

All the Trustees that served on the Board during 2017, satisfied their training obligation.

Board Attention to Governance Documents

During 2017, the full Board approved the following governance documents and policies:

- Annual Investment Report
- Prompt Payment Policy
- Trustee Code of Ethics and Conduct
- Property Disposition Policy
- Real Property Acquisition Policy

- Procurement Lobbying Policy
- Procurement Contracts Policy
- Committee Charters

In addition to the governance documents and policies approved by the full Board, the Board also discussed or received the following during the year:

- Board meeting schedule and proposed agenda plan;
- Periodic updates from the Finance and Audit committee, the Reforming Energy Vision (“REV”) committee, the Contract Oversight committee, the Personnel and Compensation committee, and the Committee regarding the matters discussed at each committee meeting;
- Chief Executive Officer, Operating, and Financial Reports;
- Cost and Volume Trends Renewable Energy;
- Industry Trends in Electric Rate Pricing;
- Approval of Power Purchase Agreements for offshore wind and battery storage;
- Adoption of Board Policies related to enterprise risk management, power supply hedging, audit relationships interest rate exchange agreements, economic development, investment, undergrounding, customer service, reliability, safety, resource planning, energy efficiency, and renewable energy; and
- Routine matters related to approvals of tariff changes, budgets, financial statements, annual plan of finance, and contracts for various necessary consulting services.

The Governance Committee also received, reviewed, or discussed the following during the year:

- Discussion of Authority’s 2016 Goals and Accomplishments;
- Trustee Competencies and Attributes Profiles;
- 2016 Annual Report to the Board of Trustees;
- Whistleblower Policy;
- Proposed schedule for 2018 board meetings; and
- Recommendations for adoption of certain governance-related Board Policies.

2017 Number and Structure of Board Committees

During 2017, there were five committees of the Board: 1) Finance and Audit; 2) Governance; 3) Personnel and Compensation; 4) REV; and 5) Oversight.

Finance and Audit Committee

Members:

Sheldon L. Cohen, Chairman

Elkan Abramowitz

Mark Fischl

Number of Meetings in 2017:

6, plus the Budget Workshops

Governance Committee

Members:

Mark Fischl, Chairman

Tom McAteer

Suzette Smookler (Resigned, October 2017)

Number of Meetings in 2017:

4

Personnel and Compensation Committee

Members:

Thomas McAteer, Chairman

Matthew Cordaro

Jeffrey Greenfield

Number of Meetings in 2017:

3

Oversight Committee

Members:

Elkan Abramowitz, Chairman

Sheldon L. Cohen

Matthew Cordaro

Number of Meetings in 2017:

5

REV Committee

Members:

Mark Fischl, Chairman

Matthew Cordaro

Peter Gollon

Tom McAteer

Sheldon L. Cohen

Number of Meetings in 2017:

6

The Governance Committee also notes that each Committee of the Board satisfied the obligations of the New York State Open Meetings law and their Committee charters.

The Governance Committee has discussed the number and structure of the Board committees and believes they are appropriate.

Board of Trustees Self Evaluation

The 2009 Public Authorities Reform Act requires that the board of every state and local public authority conduct an annual evaluation of its performance. To the extent that the results of this evaluation demonstrate the need for the Board to improve its performance, amend its practices or procedures, or clarify its expectations of Board members, the Board is expected to implement suitable corrective actions immediately.

The Confidential Board Self Evaluation Survey document was revised in 2016 to more closely align the structure and responsibilities of the LIPA board to the evaluation survey document. The 2017 Board Self Evaluation Survey established evaluation criteria in the following performance areas: governance processes; board policy areas including accountability, roles of board and management, policy direction, performance monitoring, customer communication and advocacy; and governance duties including legal, financial and operating, planning, and assuring an effective chief executive.

This self-evaluation survey is a tool to identify where board members perceive there are opportunities for improvement and to stimulate discussions on what changes are needed and how the board may go about making them.

The results of the 2017 Confidential Board Self Evaluation Survey were compiled and discussed with the Chairman of the Board and the Governance Committee. The average score for each evaluation criteria is listed below and specific observations from the Governance Committee are included:

Scoring Guide:

5= All of the Time

3= Some of the Time

1= Seldom or Not at All

I. Governance Processes – 4.57

The Trustees' self-evaluation of Governance Processes averaged 4.4 or higher with the exception of measuring the efficiency and length of Board and Committee meetings which received an average of 3.9. The Board has already implemented a recommendation to improve performance in this area by adopting an annual board agenda that sets the schedule for Board meetings and topics for the following year. The Governance Committee will provide additional recommendations as necessary and appropriate.

The Trustees' self-evaluation in this area provided higher than average scores regarding whether the Board receives sufficient information from the CEO, staff, and other sources to make good decisions (4.6) and whether Board training is sufficient on and does the Board take such actions as may be required by or contemplated under the LIPA Act, the LIPA Reform Act, the Public Authorities Law, the Public Officers Law, the Executive Law, the By-Laws of the Authority, and Board-adopted policies (4.8). The Governance Committee and LIPA staff will continue to monitor and support efforts in these areas.

II. Board Policy Areas

- a. Accountability – 4.4
- b. Roles: Board and Management – 4.6
- c. Policy Direction – 4.4
- d. Performance Monitoring – 4.5
- e. Customer Communication and Advocacy – 4.7

The Trustees' self-evaluation of Board Policy Areas averaged 4.4 or higher in all of these categories.

The Trustees' self-evaluation in these areas provided higher than average scores regarding whether the Board represents the interests of the utility customers and the community it serves (4.9). Representing the interests of LIPA's customer-owners is a key responsibility of the Board and the Governance Committee will continue to monitor efforts in this area to maintain this confidence.

III. Governance Duties

- a. Legal – 4.9
- b. Financial and Operating – 4.9
- c. Planning – 4.6
- d. Assuring and Effective Chief Executive – 4.5

The Trustees' self-evaluation of Board Governance Duties averaged 4.4 or higher in all of these categories. One question under (d) regarding whether there is a sufficient emergency succession plan for the Chief Executive, which received an average score of 3.3. The process for emergency succession planning is provided for in the By-Laws of the Authority which were revised and adopted in December 2016.

The Trustees' self-evaluation in this area provided higher than average scores regarding whether the Board engages an independent auditor and, through the F&A Committee, reviews the results of audits and internal control reviews performed by such auditor and by the Authority's internal audit department (5.0); whether the Board provides, and periodically reviews and updates a written job description for the CEO (5.0); whether the Personnel and Compensation Committee and the Chairman of the Board conduct a formal, annual performance review of the CEO (5.0).

Governance Committee Recommendations

After reviewing the 2017 Confidential Board Self Evaluation Survey results and consulting with Board members, the Governance Committee concluded that the Board is functioning effectively and has appropriate policies and procedures in place for proper governance. LIPA staff will continue to dialogue with Trustees to address any concerns raised by Trustees in the ordinary course, and will bring suggestions to the Governance Committee, as appropriate.