

FOR CONSIDERATION

December 16, 2020

TO: The Board of Trustees

FROM: Thomas Falcone

SUBJECT: Consideration of the Adoption of Budget Development Process Improvement Recommendations

Requested Action

The Board of Trustees (the “Board”) of the Long Island Power Authority (“LIPA”) is requested to adopt a resolution approving certain recommendations developed by LIPA to improve the budget development process by and between LIPA and PSEG Long Island (the “Budget Improvement Process Recommendations”), which resolution attached hereto as **Exhibit “A”**.

Background

Pursuant to Section 4.4(16), Rights and Responsibilities of LIPA, of the Amended and Restated Operations Services Agreement (“OSA”), LIPA, in part, has the right to “make recommendations to the Service Provider, in each case as may be reasonably necessary or appropriate to perform LIPA’s oversight responsibilities and obligations with respect to the provision of Operations Services under this Agreement and as may otherwise be necessary or appropriate to comply with LIPA’s legal, contractual and fiduciary obligations. . .”

Annually, LIPA and PSEG Long Island work to develop the following year’s budget. Based on LIPA’s findings after completion of the 2021 budget process, LIPA Staff has developed the Budget Improvement Process Recommendations for the Board’s consideration in an effort to improve the annual budget development process with PSEG Long Island. Each of the Budget Improvement Process Recommendations, as described below, requires the development and preparation of an Implementation Plan to ensure that the recommendations are acted on in a timely manner.

LIPA has already taken steps to improve its oversight of the PSEG Long Island departmental budgets. In doing so, LIPA is engaging more existing LIPA Staff in the review of those departmental budgets. In order for additional oversight, LIPA Staff has begun integrating operations oversight and budget oversight, which will lead to a more comprehensive review of work plans and budgeted resources. In addition, LIPA will begin assigning certain individuals to oversee PSEG Long Island departments in order to facilitate a more comprehensive oversight process.

This re-alignment within LIPA will assist the joint effort to improve the budget development process. It is critical, however, to further improve the budget development process, that the Budget Improvement Process Recommendations, as more specifically discussed below, are implemented.

Recommendations

A. Recommendation – Leverage New Technology

Based on LIPA’s evaluation of the benefits derived from an automated budget system, LIPA Staff recommends a new system to enhance the budget development process to provide a seamless data sharing platform as well as improved documentation with data analytics capabilities. As such, LIPA will begin procurement actions in early 2021 for the acquisition and implementation of a new budget system. The initial steps will include obtaining a project manager and system integrator. This system would be used by both LIPA and PSEG Long Island to develop their respective budgets as well as jointly used for the development of the Consolidated LIPA budget. As such, LIPA will partner with PSEG Long Island Staff to develop the system scope document and implementation plan.

B. Recommendation – More Detailed Budget Information

To improve the documentation and planning in support of the development of budgets, LIPA staff is recommending that PSEG Long Island’s departments develop Budget Briefing Books that document and explain the work plans and proposed resource allocations at the department level.

The Budget Briefing Book should be informative and present the underlying assumptions regarding funding levels, headcount, workload and work plans. Where resources are budgeted based on a calculation or model, PSEG Long Island should provide details regarding the calculations and assumptions.

In order to assist with the transition to this new requirement, LIPA requests PSEG Long Island develop these Department Budget Briefing Books by March 2021. This will allow LIPA and PSEG Long Island, collectively, to confirm the format of the Briefing Books and clear issues surrounding the process before the 2022 budget development process begins.

C. Recommendation – Reallocation Explanations

An improved budget process should minimize the need to reallocate funds within the Operations & Maintenance (“O&M”) budget during the year. Better budget planning will provide department managers a more stable financial environment for planning.

Of course, unexpected events do arise that may require the reallocation of O&M budget funds between departments. PSEG Long Island’s flexibility to reallocate funds within the O&M budget under the OSA requires PSEG Long Island to consult with LIPA. To clarify LIPA’s expectations with respect to the consultation in the current OSA, LIPA Staff is recommending that PSEG Long Island provide explanations on the reallocation of funds within the O&M budget.

D. Implementation Plans

This effort is critical to ensuring resources are used effectively and efficiently for the benefit of our customers and in accordance with LIPA’s Board Policies. As such, PSEG Long Island should prepare Implementation Plans for the Recommendations B and C, above, no later than January 22, 2021. LIPA will prepare an Implementation Plan for Recommendation A and consult with PSEG Long Island staff

in doing so. The Implementation Plans for all three recommendations will be presented to the Board at its February 2021 meeting.

Recommendation

Based upon the foregoing, I recommend approval of the above requested action by adoption of a resolution in the form attached hereto.

Attachments

Exhibit "A" Resolution

RESOLUTION ADOPTING BUDGET IMPROVEMENT PROCESS RECOMMENDATIONS

WHEREAS, pursuant to Section 4.4(16), Rights and Responsibilities of LIPA, of the Amended and Restated Operations Services Agreement (“OSA”), LIPA, in part, has the right to “make recommendations to the Service Provider, in each case as may be reasonably necessary or appropriate to perform LIPA’s oversight responsibilities and obligations with respect to the provision of Operations Services under this Agreement and as may otherwise be necessary or appropriate to comply with LIPA’s legal, contractual and fiduciary obligations. . .”; and

WHEREAS, annually, LIPA and PSEG Long Island work to develop the following year’s budget; and

WHEREAS, based on LIPA’s findings after completion of the 2021 budget process, LIPA Staff has developed the Budget Improvement Process Recommendations, as described in the accompanying memorandum; and

WHEREAS, each of the Budget Improvement Process Recommendations require the development and preparation of an Implementation Plan to ensure that the recommendations are acted on in a timely manner; and

NOW, THEREFORE, BE IT RESOLVED, the Board hereby adopts the Budget Improvement Process Recommendations; and

BE IT FURTHER RESOLVED, that the Board hereby directs LIPA Staff, together with PSEG Long Island, to implement the Budget Improvement Process Recommendations, including the creation of Implementation Plans in advance of the Board’s February 2021 meeting.

Dated: December 16, 2020