

## **FOR CONSIDERATION**

April 28, 2021

**TO:** The Board of Trustees

**FROM:** Thomas Falcone

**SUBJECT:** Consideration of the Adoption of Recommendations Relating to Replacement of Enterprise Resource Planning System and the Customer Accounting System

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### **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 Staff to improve PSEG Long Island’s planning activities related to the replacement of the current Enterprise Resource Planning system (“ERP”) and Customer Accounting System (“CAS”), which resolution is attached hereto as **Exhibit “A.”**

### **Background**

ERP refers to a type of software that organizations use to manage day-to-day business activities such as accounting, reporting, human resources, procurement, and other operational functions. SAP is the integrated business software PSEG Long Island uses to coordinate these various aspects of LIPA’s business. In 2014, PSEG expanded their existing SAP system to include PSEG Long Island rather than building a stand-alone ERP system for LIPA’s operations. This action was taken for purported savings to LIPA’s customers. The legacy PSEG ERP implementation is at the end of its lifecycle and is due for an upgrade. Additionally, LIPA’s business model was designed to allow for a change in service providers without significant business interruption. PSEG Long Island’s SAP implementation is intricately intertwined with its setup for other PSEG business units. Consequently, using the PSEG corporate ERP raises the complexity, cost, and time required to change service providers, if necessary, and reduces the ability of LIPA to exercise its oversight rights.

LIPA’s CAS, which manages customer billing and other related customer information, was implemented in 1975 when the Long Island Lighting Company, as an investor-owned utility, operated the electric transmission and distribution system on Long Island. Over the years, the system has become more complex and intractable, resulting from opportunistic code-changes, patches, and other workarounds in order to meet changing bill formats, urgent customer needs, and regulatory requirements. In addition, there is a shortage of programming expertise to maintain this legacy system as many in the workforce have retired or transitioned to newer technologies. In 2013, PSEG Long Island recommended CAS replacement to LIPA as part of transition planning before taking over operations from National Grid. This recommendation was based on a lack of agility of the existing system, cost, and the shrinking availability of skills to maintain the legacy system. The report concluded that “PSEG Long Island will be able to greatly reduce ongoing operating costs and achieve very rapid paybacks even while factoring in substantial investments

of time and expense in the migration process.” In 2016, PSEG Long Island declined to proceed with the replacement, without offering detailed analysis, expressing concerns about the risk to customer satisfaction.

Both the ERP and CAS systems need upgrades to modern versions that provide all the functions needed to best serve LIPA’s customers and avoid the inherent risks of running antiquated financial systems. Replacement of such critical systems comes with significant costs and operational risks and therefore requires thorough planning and testing in order to ensure a successful implementation and minimize disruptions for customers or LIPA’s general operation of the business.

### **Recommendations**

LIPA Staff recommends that PSEG Long Island develop two project implementation plans (“PIPs”): one for the replacement of the existing ERP system, another for the replacement of CAS.

These systems do not operate in a vacuum and replacement is a multi-year project. The PIPs need to identify all related systems that will be impacted by the replacements, the proper sequencing of activities on which the replacements would be dependent, required resources (internal staff and external consultants), potential roadblocks, and operational considerations including financial impacts, required cost-control measures, and enterprise risk analysis. The PIPs should also include a schedule for meetings between LIPA and PSEG Long Island to mutually agree on the implementation scope, technical approach, consultant qualifications, and phasing of the implementation. The PIPs should also provide for (i) regular progress reports, (ii) independent verification and validation meetings and review activities, (iii) presentations to LIPA Staff at each key milestone along each PIP to ensure LIPA agrees with the direction proposed by PSEG Long Island, and (iv) routine document and data sharing with LIPA personnel. While PSEG Long Island should leverage knowledge and resources from PSEG Enterprise, the implementation approach should ensure that the PSEG Long Island implementation of these systems is separate and independently operable from PSEG's enterprise systems.

This effort is critical to ensuring that the financial systems LIPA relies on are robust and maintainable; nimble enough to effectively and efficiently respond to changes in customer needs and the regulatory environment; and provide the greatest value for the dollar to Long Island electric customers. As such, PSEG Long Island should prepare PIPs for the recommendation described above, no later than May 31, 2021. Those PIPs are expected to be presented to the Board at its June 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 RECOMMENDATIONS RELATING TO REPLACEMENT OF CERTAIN FINANCIAL SYSTEMS**

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**WHEREAS**, the Enterprise Resource Planning and Customer Accounting System currently in use by PSEG Long Island for the management of LIPA’s business are antiquated and lack certain functionalities required for the efficient operation of LIPA’s business; and

**WHEREAS**, replacement of these financial systems is complicated and has various inter-dependencies with other systems across the organization; and

**WHEREAS**, successful implementation of replacement systems requires thorough planning.

**NOW, THEREFORE, BE IT RESOLVED**, the Board hereby adopts the recommendations related to planning for the replacement of the current Enterprise Resource Planning and Customer Accounting System described in the accompanying memorandum; and

**BE IT FURTHER RESOLVED**, that the Board hereby directs LIPA Staff, together with PSEG Long Island, to implement the recommendations, including the creation of Project Implementation Plans, by May 31, 2021, to be presented to the Board in advance of the Board’s June 2021 meeting.

Dated: April 28, 2021