

## **FOR CONSIDERATION**

May 19, 2021

**TO:** The Board of Trustees

**FROM:** Thomas Falcone

**SUBJECT:** Consideration of the Adoption of Certain Implementation Plans Relating to Inventory Management

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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, attached hereto as **Exhibit “A,”** approving certain Implementation Plans to improve PSEG Long Island’s inventory management practices (the “Inventory Management Recommendations”), which recommendations that were adopted by the Board on February 24, 2021.

### **Background**

PSEG Long Island is responsible for “Inventory Control” including (a) maintaining an inventory of equipment, spare parts, materials, and supplies and maintaining and documenting an inventory control program; (b) complying with the inventory policy provided in the Operations Manual; (c) purchasing, maintaining and storing inventory in a manner consistent with the System Policies and Procedures; and (d) completing, on an agreed-upon cycle count basis, a physical inventory of the equipment, spare parts, materials and supplies and reconciling the same with the inventory assets carried on the balance sheet and providing the information to LIPA.

In December 2017, LIPA engaged Ernst & Young, LLP (“EY”) to perform a review of inventory controls during storm events. The review included:

- Evaluation of existing policies, procedures, and guidelines in place for the request and issuance of materials/equipment from storerooms under conditions of high activity (e.g., storms).
- Understanding the systems or tools utilized in the process, including tracking, approving and/or reporting mechanisms used for materials/equipment distribution.
- Assessing the return of materials/equipment to storerooms after the storm event including, but not look limited to: monitoring processes over the expected return of materials and KPI’s in place, effectiveness of policies and procedures, and cost recording/record-keeping implications if unused materials/equipment are not returned, but then used in a non-storm event.

EY presented 11 findings with 14 recommendations. PSEG Long Island addressed each of the recommendations through policy and procedure changes.

In 2020, LIPA engaged PA Consulting to confirm that the EY recommendations had been implemented and to conduct a broader assessment of PSEG Long Island’s inventory management practices. The PA Consulting assessment included a review of the efficiency and effectiveness of warehouse and inventory management practices, how the practices benchmark against industry standards, and where there are opportunities to improve performance. The assessment was conducted

from November 2020 through January 2021, and included evaluating current inventory operations and processes, identifying current state gaps, assessing readiness of storm response, and developing recommendations for the next steps. During the course of the assessment, PA Consulting interviewed 27 PSEG Long Island personnel and observed activities and reviewed documents at two locations.

PA Consulting confirmed that the EY recommendations had all been implemented but reported 25 additional findings (collectively, the Inventory Management Recommendations) among the areas of general management, information technology, warehouse management, inventory management, and procurement practices. Based on these findings, PA Consulting promulgated over 50 remediations.

On February 24, 2021, the Board adopted the Inventory Management Recommendations and requested that PSEG Long Island prepare Implementation Plans for each of the 25 Inventory Management Recommendations no later than April 9, 2021.

On April 9, 2021, PSEG Long Island submitted to LIPA Staff 23 proposed Implementation Plans addressing the Inventory Management Recommendations. In addition, LIPA was informed that PSEG Long Island will not be submitting PIP for one recommendation. Thereafter, on April 28, 2021, the Board adopted 15 of the 23 Implementation Plans.

On May 6, 2021, PSEG Long Island submitted 3 additional Implementation Plans: (1) SP1 and IM8 - Storm Contract Clauses (combined), (2) SP2 – VMI / EDI Implementation, and (3) GMIT 6 – Business Continuity Improvement. PSEG Long Island has also indicated that they will not be resubmitting any PIPs related to SAP at this time but rather will continue to meet with LIPA to discuss these plans as they relate to the Board’s adoption of recommendations relating to the replacement of the Enterprise Resource Planning (“ERP”) system. The relevant recommendations relating to SAP are:

1. GMIT 1 - SAP system is not innovating with the business
2. GMIT3 - Lack of standard reporting functionality
3. GMIT5 - Perform performance testing to validate the ability of the SAP system to support high volume transactions during a storm (PIP not submitted)
4. IM3 - Fundamental Inventory Metrics
5. WM1 – Bar Coding (PIP Not submitted)
6. WM2 - Exception Reporting

LIPA Staff has expressed its reservations to this approach as nearly all recommendations can be accommodated using simpler reporting and analysis tools or third-party applications plugged into existing systems rather than waiting for a multi-year plan to replace the ERP system, which will delay the needed remediations of these findings. LIPA Staff continues to urge PSEG Long Island to revise its technical approach and resubmit the relevant implementation plans for consideration at the Board’s June meeting.

A summary of the Implementation Plans is provided as **Exhibit “B.”**

LIPA Staff recommends the Board adopt two Implementation Plans attached hereto as **Exhibit “C”** and that the Board direct PSEG Long Island to resubmit the remaining Implementation Plans consistent with this Memorandum.

**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
- Exhibit "B"** Summary of Implementation Plans
- Exhibit "C"** Implementation Plans

**RESOLUTION ADOPTING CERTAIN IMPLEMENTATION PLANS RELATING TO INVENTORY MANAGEMENT**

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**WHEREAS**, pursuant to Section 4.4(16) of the Amended and Restated Operations Services Agreement (“OSA”), LIPA 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**, additionally, the OSA provides that PSEG Long Island is responsible for “Inventory Control” and shall maintain an inventory of equipment, spare parts, materials, and supplies and shall maintain and document an inventory control program; (b) comply with the inventory policy provided in the Operations Manual; (c) purchase, maintain and store inventory in a manner also consistent with the System Policies and Procedures; and (d) complete, on an agreed-upon cycle count basis, a physical inventory of the equipment, spare parts, materials and supplies and reconcile the same with the inventory assets carried on the balance sheet and provide the information to LIPA; and

**WHEREAS**, each of the Inventory Management Recommendations will address deficiencies in inventory management practices and material stocking levels that will ensure appropriate levels of inventory to respond to routine workloads and adequate material inventory during emergency response restoration efforts, while providing the highest value to our customers; and

**WHEREAS**, on February 24, 2021, the Board adopted the Inventory Management Recommendations; and

**WHEREAS**, on April 9, 2021, PSEG Long Island submitted to LIPA Staff the proposed Implementation Plans relating to the Inventory Management Recommendations; and

**WHEREAS**, on April 28, 2021, the Board adopted 15 Implementation Plans and directed PSEG Long Island to amend the remaining Implementation Plans to address the comments provided by LIPA Staff and resubmit such plans for review at the Board’s May 2021 meeting.

**NOW, THEREFORE, BE IT RESOLVED**, the Board hereby adopts two Implementation Plans relating to the Inventory Management Recommendations, which Implementation Plans are attached hereto as **Exhibit “C”**; and

**BE IT FURTHER RESOLVED, BE IT FURTHER RESOLVED**, the Board hereby directs PSEG Long Island to amend the remaining Implementation Plans to address the comments provided by LIPA Staff and resubmit such plans for review at the Board’s June 2021 meeting; and

**BE IT FURTHER RESOLVED**, that the Board directs LIPA Staff, together with PSEG Long

Island, to report to the Board on the completion of the Inventory Management Implementation Plans no less than a quarterly until they are completed.

Dated: May 19, 2021

No.	Recommendation	Date Draft	Plan Individual PIP	Accept or	Comments
		Received	Received	Reject	
GMIT1	GMIT1 – SAP system is not innovating with the business	4/9/21	GMIT1-SAP system is not innovating with the business	Resubmit in June	<p>Request resubmission of separate PIP on WM-1 demonstrating a concrete commitment to utilizing a barcoding (or equal) system to enhance inventory management. The barcoding system implementation can be initiated separately as it can be implemented in the context of the existing technology and does not require any major system upgrades.</p> <p>GMIT1 – Explain PSEGLI’s approach to SAP upgrade. Will this effort be conducted as part of a more comprehensive SAP upgrade project? Since this is likely to be a PSEG corporate-wide project, please include a summary of existing corporate roadmaps and how PSEG-LI IM requirements will be integrated into that roadmap. Please also confirm specific steps where PSEG-LI outline the plan, budget, and associated risks for SAP R3 becoming unsupported and must transition to SAP S4, etc.</p> <p>Include the following in the LIPA Reporting Plan:</p> <ul style="list-style-type: none"> <li>(a) Monthly status meeting/reports with LIPA.</li> <li>(b) All project deliverables subject to LIPA review and approval</li> </ul>

GMIT3	GMIT3-Lack of standard reporting functionality	4/9/2021	GMIT3-Lack of standard reporting functionality,	Resubmit in June	<p>The PA Consultants review emphasized the following: Construct a list of existing reports/metrics versus needed reports/metrics. Prioritize and create reports as needed via IT support in SAP ERP or end-user self-service creation through SAP BW. PSEG-LI's PIP needs to focus on developing a set of system-generated reports using existing tools and ensuring that those reports are reliable and serve a current business need. The current set of Excel reports requiring various levels of modifications and massaging should be replaced by a consistent set of production reports that are periodically produced and distributed. A 2-year project with an estimated \$300K for just developing requirements is not what was called for. We estimate that the whole effort should not exceed \$100K. Note that LIPA is not asking for a new business capability – merely asking that PSEG perform inventory management at a basic level, protect LIPA's working capital by not having inventory languishing, and perform what they are already contractually committed to executing. Without this information LIPA is unable to provide holistic oversight of the function.</p>
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GMIT5	Perform performance testing to validate the ability of the SAP system to support high volume transactions during a storm.		No PIP Submitted	Submit PIP in June	<b>PIP NOT SUBMITTED.</b> LIPA was informed that PSEG LI will not be submitting PIP for this recommendation. The reason they provided was that they do not regularly do complete performance testing of the SAP system and there are no plans to do any performance testing in the near term. PSEG LI further added, "PSEG constantly monitors transaction response times, batch processing times, dialogue response times, etc. Any drift in those is an indicator of potential performance issues and will be addressed." LIPA is rejecting this response as unacceptable and requesting PSEG-LI resubmit in May. Monitoring system health parameters is not a substitute for stress testing because a system under stress will often behave differently from its behavior under "normal" operation. If PSEG-LI does not stress-test the system, they may be unnecessarily exposing themselves to the risk of logistic systems failing under the stress of excessive transactional demand during a bad storm.
GMIT6	GMIT6-Confirm detailed business continuity plan and fail-over preparations	4/9/2021	GMIT6-Confirm detailed business continuity plan and fail-over preparations	Resubmit in June	PIP is too narrowly focused and does not fully resolve or address the recommendation. Loss of electricity is only one possible issue among many that can contribute to the loss of a store room facility.
IM03	IM3 –Some portion of fundamental inventory metrics to control the business are not available	4/9/2021	IM3-fundamental Inventory Metrics	Resubmit in June	The most recent submission is very general, with most dates TBD. The project is proposed to take in excess of 14 months with possible extensions. Need to identify potential impact to 2022 and 2023 budgets. See LIPA comments on GMIT-3

IM08	IM8 -Inventory policies do not incorporate "storm" clauses (which guarantee supply during critical periods) within supplier contracts	4/9/2021	SP1-Nearly no usage of storm clauses in vendor contracts AND IM8 - Inventory Policies do not Incorporate "Storm" Clauses within Supplier Contracts	Accept	
SP01	SP1-Nearly no usage of storm clauses in vendor contracts	4/9/2021	SP1-Nearly no usage of storm clauses in vendor contracts AND IM8 - Inventory Policies do not Incorporate "Storm" Clauses within Supplier Contracts	Accept	
SP02	SP2-No EDI-VMI Plan	4/9/2021	SP2-No EDI-VMI	Accept	
WM01	WM1 -Bar coding technology is not utilized in material handling			Submit PIP in June	<b>PIP NOT SUBMITTED</b>
WM02	WM2-Exception Reporting	4/9/2021	WM2-Exception Reporting-Plan	Resubmit in June	Very similar to GMIT3 and IM4. Two years for a solution or action is unacceptable. No mention of modifying existing system to address recommendation.

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**PSEG Long Island  
Project Implementation Plan**

**for**

**LIPA Board Adopted Recommendations to  
Improve Inventory Management**

**Project Title: SP1 - Nearly no Usage of "Storm"  
Clauses in Vendor Contracts**

**And**

**IM8 - Inventory Policies do not Incorporate  
"Storm" Clauses within Supplier Contracts**

The following LIPA Board Adopted Recommendations to Improve Inventory Management is directly addressed as part of this plan:

LIPA ID	Report	LIPA Board adopted recommendation to improve inventory management directly addressed in this plan
SP1	Inventory Management	Nearly no usage of "storm" clauses in vendor contracts
IM8	Recommendation	Inventory Policies do not Incorporate "Strom" Clauses within Supplier Contracts

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# 1. Project Definition

Analyze the trade-off between costs associated with vendor held storm inventory and LIPA’s on-site inventory to determine whether to negotiate quantitative contractual “storm clauses”. Despite not having storm event material shortages since the inception of the Operating Services Agreement, this effort will assess on-site inventory carrying costs vs the cost of implementing supplier storm clauses to hold emergency storm inventory offsite.

PSEG Long Island leadership will determine the supply risk versus inventory working capital expense associated with increasing the usage of material supplier “storm clauses” and adjust safety stock inventory based on the decided level of reliance on “storm clauses”.

Contract “storm clauses” require suppliers to maintain a certain level of stock for the company. Softer contract requirements that have no liquidated damages for non-performance are considered “willingness clauses”.

Storm Clauses typically include monetary penalties for supplier non-performance, however, commit the company to the material held and introduce a cost premium for this service. Moreover, storm clauses do not necessarily guarantee performance. A supplier may look at the opportunity of selling the inventory “on hold” elsewhere as being more attractive than the liquid damages of the contract. In contrast, “willingness clauses” may deliver similar benefits and at no cost from some suppliers.

Storm clauses designed as Vendor Managed Inventory (VMI) (inventory the company owns but the vendor manages at their site) presents a union labor conflict. Performing annual internal control physical counts are a negotiated job duty of L1049 materials and logistics employees. Many material suppliers’ inventory is stored throughout the country adding to the complexity of meeting this internal control requirement.

Other material inventory management project plans support this plan. They include IM1 – Formalize and communicate storm strategy inventory and IM2 – Routine Executive level meetings to agree upon inventory strategy.

## 1.1. Project Purpose, Objectives, and Success Criteria

**Project Objectives:** Identify areas of material supply risk that can be cost effectively managed by introducing “storm clauses” in supplier contracts where proven to be cost beneficial to LIPA and have little to no impact on the timely restoration of customer interruptions.

**Project End State and Success Criteria:** An increased reliance on “storm clauses” that reduces working capital expense with no supply risk; especially during storm events.

## 2. Project Deliverables:

Deliverable	Delivery Date	Comments
Cost benefit analysis of the trade-off between vendor held storm inventory and PSEGLI or 3 <sup>rd</sup> party distributor held inventory.	7/31/2021	

Decision on a. Strategy for holding storm inventory b. Implementation of storm clauses in applicable contracts c. Prioritization of critical contracts / deprioritizing of non-critical contracts (If implementing storm clauses)	8/31/2021	
Implementation Plan with milestones and target end dates for implementing future contracts with storm clauses.	9/30/2021	Dependent on Project Implementation Plans IM1 and IM2.

### 2.1. Assumptions, Dependencies, and Constraints

#### Assumption

- The overall cost of day-to-day operations should not increase
- Vendors are willing to provide inventory “storm clauses” for a reasonable price

#### Dependencies

- IM1 – “Formalize and Communicate Storm Inventory Strategy.”
- IM2 – “ Accountable Parties at an Executive Level do not Meet in a Formal and Routine Manner”
- The number of identified vendors that need to have storm clauses in their contracts.
- Execution of storm clauses is dependent on a risk analysis by the D&OP and LIPA cost review.
- Adequate working capital, available warehouse yard space, and turnover frequency.

#### Constraints

- Budget constraints may prevent the implementation of storm clauses if it costs more to keep materials off-site with suppliers
- Some existing materials vendors may refuse to keep “storm” inventories
- Limited Procurement and Legal staff will constrain how quickly contracts can be renegotiated with new storm clauses
- Working capital.
- VMI physical count Internal Controls as it relates to L1049 employee job duties.

## 3. Project Structure

### 3.1. Internal Project Organization

Role	Responsibilities
<b>Executive Sponsor</b> Margaret Keane	<ul style="list-style-type: none"> <li>• Provide strategic direction and input on governance</li> </ul>
<b>Project Co-Owner s</b>  Brian Miller Director – Procurement  Greg Player Director – T&D Services	<ul style="list-style-type: none"> <li>• Manage issues and decision making</li> <li>• Remove obstacles that impede the success of the overall project</li> <li>• Provide strategic guidance</li> <li>• Approve procurement of external parties (as needed)</li> <li>• Establish guiding principles for the project</li> <li>• Provide guidance and input on key project decisions</li> </ul>

	<ul style="list-style-type: none"> <li>• Monitor completion of activities</li> <li>• Challenge the project team where appropriate</li> <li>• Approve major changes to the project’s scope, objectives, timelines, costs, etc.</li> <li>• Act as the decision maker for issues requiring escalation</li> <li>• Remove institutional barriers if and when they arise by serving as a project advocate</li> <li>• Review the cost of implementing the “storm clauses” and gather approval.</li> <li>• Provide status update at LIPA/PSEGLI bi-monthly inventory management meetings.</li> </ul>
<b>Project Manager</b> Udi Cohen	<ul style="list-style-type: none"> <li>• Overall project implementation responsibility</li> <li>• Develop and implement phased implementation plan</li> </ul>
<b>Project Support -</b> Long Island Procurement	<ul style="list-style-type: none"> <li>• Cost-benefit analysis showing the trade-off between costs associated with Vendors holding storm inventory, management of the same through a distributor such as Anixter and On-site inventory costs</li> </ul>
<b>Project Support -</b> Materials Management	<ul style="list-style-type: none"> <li>• Decide the strategy for holding storm inventory</li> <li>• Decide to include or not include storm clauses in contracts as appropriate</li> <li>• Prioritize critical contracts / deprioritize non-critical contracts</li> </ul>
<b>Project Support -</b> Procurement Center of Excellence	<ul style="list-style-type: none"> <li>• Support the implementation of the storm clause</li> </ul>
<b>Project Support –</b> Legal	<ul style="list-style-type: none"> <li>• Finalize exact clause to include in contracts</li> </ul>

### **3.2. Other Stakeholders**

The other key stakeholders involved in the execution of this plan are:

- LIPA
- LIPA Board of Trustees
- Storm material vendors
- Storm material distributors
- PSEGLI/LIPA Customers

## 4. Project Plan

### 4.1. Project Work Plan

The following outlines the timeline for completion of the key milestones. Senior Leadership is committed to achieving these milestones in order to build an effective operating model and address the LIPA Board adopted recommendations to improve inventory management.

#	Task	Owner	Current Status	Target End Date
1	Identify "Storm" materials along with the minimum quantities for inventory vs guaranteed coverage required through Storm clause provisions in the respective contracts (IM1 & IM2)	Bill Kane	Pending	5/15/2021
2	Perform a cost-benefit analysis showing the trade-off between costs associated with Vendors holding storm inventory, management of the same through a distributor such as Anixter and On-site inventory costs	Udi Cohen Bill Kane Prathiba Venkataraman	Pending	7/31/2021
3	Based on the analysis in Task# 2 above, decide <ol style="list-style-type: none"> <li>The strategy for holding storm inventory</li> <li>To include or not include storm clauses in contracts as appropriate</li> <li>Prioritization of critical contracts</li> </ol>	Greg Player / Brian Miller	Pending	8/24/2021
4	Review and reach consensus on the recommended prioritization of supplier contract negotiations at bi-monthly LIPA/PSEGLI Inventory Management meeting (ref.: PIP GMT2)	Greg Player / Brian Miller	Pending	8/25/2021
5	<b>If it is decided</b> to include storm clauses in contracts in Task 3 above, develop a time-phased plan with milestones and target end dates to implement storm clauses including 5a-5c below:	Udi Cohen	Pending	9/30/2021

5a	Work with Legal to identify the exact clause to be added into contracts as "Storm Clauses" (Language, quantitative)	Udi Cohen/ Barbara Brudie	Pending	9/30/2021
5b	For applicable new sourcing exercises for storm materials, consider <u>storm clauses</u> in the contracts per the results from plan in Task 4	Udi Cohen	Pending	Ongoing
5c	For existing applicable active contracts for storm materials, use plan in Task 5 to commence negotiation with Vendors on inclusion of storm clauses and actively work through completion	Udi Cohen	Pending	12/31/2021
6	Review supplier RFI responses and cost at bi-monthly LIPA/PSEGLI Inventory Management meeting (ref.: PIP GMT2)	Greg Player / Brian Miller	Pending	2/23/2022
7	Finalize supplier negotiations and execute contract agreements.	Udi Cohen	Pending	6/30/2022

## 4.2. Risk Management Plan

Category	Project Risk	Mitigation
Cost	Storm clauses may be too costly	Review options such as soft stock where vendor has flexibility to utilize the material, then replenish
Support	Some vendors may not wish to engage in storm clauses	Review secondary suppliers or Anixter willingness to hold the inventory. Review local storage options.
Material Availability	Some vendors are unable to provide quick turnaround in the event of a storm.	Vendors who do not have a local presence may require utilization of Anixter or local storage options.
Legal	A storm clause with liquidated damages does not guarantee inventory will be available when needed and may result in stock outs during storm events.	Penalties need to be high enough to deter vendor from selling needed inventory to other utilities.

### **4.3. Issue Resolution Plan**

The Project Manager will assign issue resolution actions, owners, and completion due dates. Overdue actions will be escalated to the Director – Procurement and the Director T&D Services.

### **4.4. LIPA Reporting Plan**

Not Applicable.

## **5. Technical Execution Plan**

### **5.1. Technical Approach**

The cost benefit analysis will include a comparison of costs to hold inventory on site versus the costs for suppliers to hold inventory. The analysis will include a representative sample of the most relevant storm materials and is not intended to be an exhaustive review of all materials and all stock keeping units.

To calculate the cost to hold inventory on site, an estimate will be made in conjunction with the Materials Management department to determine the actual incremental cost to hold inventory on site. If space would be made available by reducing inventory or net working capital would be freed up, this will be included in this overall cost to hold inventory.

Total on site inventory costs = incremental space / facility rental costs +  
incremental materials management operating costs +  
estimated cost of net working capital tied up in inventory

To calculate the cost for suppliers to hold inventory, suppliers will be asked to provide proposals or estimates for what they would charge PSEG Long Island to hold storm inventory.

Total off-site, supplier held inventory costs = supplier proposed costs for holding and  
guaranteeing storm inventories

### **5.2. Quality Assurance Plan**

Subject matter experts will perform the cost benefit analysis.

The cost benefit analysis will undergo peer review and Project Owner review.

Executive review and challenges at regular D&OP and PEGLI/LIPA inventory management meetings.

Monthly status meeting/reports with LIPA.

All project deliverables subject to LIPA review and approval

**5.3. Documentation Plan**

<b>Document</b>	<b>Created By</b>	<b>Reviewed By</b>	<b>Target Date</b>	<b>Distribution</b>
Identification of Storm Materials with minimum required storm quantities	5/1/2021	5/7/2021	5/7/2021	5/15/2021
Cost Benefit Analysis	7/10/2021	7/17/2021	7/24/2021	7/31/2021
Go/ No Go Decision for Storm Clauses	8/10/2021	8/17/2021	8/24/2021	8/31/2021
Storm Clause Implementation Plan	9/09/2021	9/16/2021	9/23/2021	9/30/2021

## **Revision History**

<b>Name</b>	<b>Date</b>	<b>Reason for Changes</b>	<b>Version</b>
Prathiba Venkataraman	3/24/2021	initial draft	1.0 draft 1
Greg Player	3/31/2021	Project Owner Review	2.0
Brian Miller	4/2/2021	Project Co-Owner Review. Added Sections 5.2 and project manager.	3.0
Greg Player	5/3/2021	Combined SP1 and IM8 as instructed by LIPA	4.0

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# **PSEG Long Island Project Implementation Plan**

**for**

## **LIPA Board Adopted Recommendations to Improve Inventory Management**

### **Project Title: SP2 - No EDI / VMI**

The following LIPA Board Adopted Recommendation to Improve Inventory Management is directly addressed as part of this plan:

<b>LIPA ID</b>	<b>Report</b>	<b>LIPA Board Adopted Recommendation to Improve Inventory Management directly addressed in this plan</b>
SP2	Inventory Management Recommendation	No EDI / VMI

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# 1. Project Definition

Develop a system to track PSEG Long Island inventory material vendors’ Purchase Order cycle times (PO cycle time), defined as time from Purchase Requisition (PR) release to vendor acknowledgement of PO. Perform a cost benefit analysis of Electronic Data Interchange (EDI) transactions and determine whether to expand its use or develop alternative actions to track PO cycle times.

## 1.1. Project Purpose, Objectives, and Success Criteria

**Project Objectives:** Track and report on PO cycle time from Purchase Requisition (PR) release to vendor acknowledgement.

**Project End State and Success Criteria:**

1. Understand the potential use of EDI messages already set up in other areas of PSEG that could be leveraged for PSEG Long Island.
2. Gain a better understanding of the costs and benefits of EDI and recommend the most cost effective solution for tracking PO cycle time for PSEG Long Island.
3. Decide if EDI or an alternative solution should be implemented for tracking PO cycle time.
  - For vendors that PSEG Long Island implements EDI, the PO cycle times will be tracked automatically.
  - For vendors that PSEG Long Island does not implement EDI, an alternative such as manual tracking of PO cycle times may be proposed.
4. Implement EDI / Alternative PO cycle time tracking solution with periodic reports to LIPA.

## 2. Project Deliverables:

Deliverable	Delivery Date	Comments
Understand the potential use of EDI as already used in PSEG	06/01/2021	
Cost benefit analysis of EDI	08/01/2021	
Decision on implementation of EDI / Alternative solution to track PO cycle time	09/01/2021	
Implementation of EDI / Alternative solution to track PO cycle time	07/31/2022	Manual implementation can begin sooner - as additional resources are approved and acquired.

## **2.1. Assumptions, Dependencies, and Constraints**

### **Assumptions**

- Costs for EDI include sourcing the EDI vendor and implementation and ongoing maintenance / upgrades with PSEG Long Island's Inventory vendors.
- Benefits may include confirmed order receipts, faster orders and automated reports.
- If implementing EDI,
  - The project team will have access to all the resources needed to complete the project, both human, material and financial. This includes URB approved funding and support from IT Procurement, IT, and PSEG Long Island Materials Management and Procurement.
  - The scope of the project will not change throughout the life cycle.
- Regardless the solution, the overall cost of day-to-day operations should only increase marginally.

### **Dependencies**

- The EDI project will be given adequate IT resources to implement and maintain.
- PSEG Long Island URB approved project funding and additional human resources.
- Timely completion of project deliverables and subsequent actions are dependent on LIPA's prompt review and approval of preceding deliverables.

### **Constraints**

- PSEG has two current EDI providers.
  - One current EDI provider – Accenture - is exiting the EDI business with a commitment to provide EDI services for PSEG Long Island (2 suppliers) through 12/31/2021. The vendor may be willing to continue services through 12/31/2022 for the 2 suppliers but at a much higher cost. They will not be able to support any suppliers not currently using EDI.
  - The other EDI provider – ESG – only provides EDI services for retail electric billing. They will be approached and evaluated as to whether they have the capacity and capability to provide supply chain EDI, and also transfer PSEG Long Island's suppliers from Accenture and expand to additional suppliers. If found to be a feasible option, this may require a new contract amendment which could take 1-3 months.
- If a new EDI provider is required, PSEG Long Island would run a competitive bid. Sourcing and Contracting would take 6-12 months.
- The quoted time to transfer the existing EDI suppliers to another EDI provider will take an additional 2 months.
- Implementation of EDI will depend on the suppliers' ability to transfer and receive data in acceptable file transfer methodologies.

### 3. Project Structure

#### 3.1. Internal Project Organization

Role	Responsibilities
<b>Executive Sponsor</b> Margaret Keane	<ul style="list-style-type: none"> <li>Provide strategic direction and governance</li> </ul>
<b>Project Co-Owners</b> Brian Miller (Procurement)  Greg Player (T&D Services)	<ul style="list-style-type: none"> <li>Manage issues and decision making</li> <li>Remove obstacles that impede the success of the overall project</li> <li>Provide strategic guidance</li> <li>Approve procurement of external parties (as needed)</li> <li>Establish guiding principles for the project</li> <li>Provide guidance and input on key project decisions</li> <li>Monitor completion of activities</li> <li>Challenge the project team where appropriate</li> <li>Approve major changes to the project's scope, objectives, timelines, costs, etc.</li> <li>Act as the decision maker for issues requiring escalation</li> <li>Remove institutional barriers if and when they arise by serving as a project advocate</li> </ul>
<b>Project Manager</b> Prathiba Venkataraman	<ul style="list-style-type: none"> <li>Drive work stream tasks and deliver recommended solution</li> <li>Coordinate business resources to support the project</li> <li>Key point of contact to for questions from the vendor</li> <li>Provide sign off for deliverables that require business input/acceptance</li> <li>Deliver the project on time and on budget</li> <li>Overall project execution responsibility</li> </ul>
<b>Project Support -</b> Long Island Procurement	<ul style="list-style-type: none"> <li>RFI to materials vendors</li> <li>EDI cost benefit analysis</li> </ul>
<b>Project Support –</b> <b>IT Procurement</b>	<ul style="list-style-type: none"> <li>Establish contracts with IT vendors for EDI</li> </ul>
<b>Project Support –</b> <b>IT</b>	<ul style="list-style-type: none"> <li>Establish SOWs / Contracts</li> <li>Support implementation of EDI</li> </ul>
<b>Project Support -</b> Procurement Center of Excellence	<ul style="list-style-type: none"> <li>SAP Vendor data management</li> <li>Potential use of EDI as already used in PSEG</li> </ul>

#### 3.2. Other Stakeholders

The other key stakeholders involved in the execution of this plan are:

- LIPA
- LIPA Board of Trustees
- PSEG Long Island's Inventory Material Suppliers
- EDI Providers

## 4. Project Plan

### 4.1. Project Work Plan

The following outlines the timeline for completion of the key milestones. Senior Leadership is committed to achieving these milestones in order to build an effective operating model and address the LIPA Board adopted recommendations to improve inventory management.

#### Plan Milestones

#	Task	Owner	Current Status	Target End Date	Notes
1	Understand the potential use of EDI for PSEG Long Island as already used in PSEG	Prathiba Venkataraman	Not Started	06/01/2021	
2	Issue an RFI to materials vendors to determine their EDI capability and willingness	Joe LaMotta	Not Started	07/01/2021	
3	Perform a cost benefit analysis for implementation of EDI	Prathiba Venkataraman	Not Started	08/01/2021	
4	Decision on implementation of EDI / Alternative solution to track PO cycle time	Greg Player	Not Started	09/01/2021	
5	Implementation of EDI / Alternative solution to track PO cycle time	Project Manager	Not Started	10/31/2022	6-12 months for the competitive bidding for EDI provider + 2 months for Implementation, testing and go-live.  Manual implementation can begin sooner - as additional resources are approved and acquired.

### 4.2. Risk Management Plan

Category	Project Risk	Mitigation
Project Delays	Project could be delayed due to a lack of resources	The project needs to be prioritized appropriately against other competing projects and given appropriate resources.

Costs	Budgeted costs may not be sufficient to support implementation	Accurate cost benefit analysis will be done initially before any decisions are made to go forward with EDI implementation.
Costs	EDI implementation and manual tracking can be expensive.	PSEGLI may focus on connecting the largest 2-3 suppliers into EDI, and letting the others remain manual (email, phone, fax, etc.)

**4.3. Issue Resolution Plan**

The Project Manager will record issues and assigned actions, owners and due dates for resolution. Overdue issue resolutions will be escalated to the Project Co-Owners.

**4.4. LIPA Reporting Plan**

- a) Monthly status meeting/reports with LIPA.
- b) All project deliverables subject to LIPA review and approval.

**5. Technical Execution Plan**

**5.1. Technical Approach**

Source a new EDI provider or amend the contract with one of the existing providers. Submit a Request for Information (RFI) to 77 vendors to better understand the technical capabilities of each vendor. Based on the information available, pursue EDI/Alternative solution based using a cost-benefit approach to track PO cycle time.

**5.2. Quality Assurance Plan**

Subject matter experts will perform the EDI cost benefit analysis and recommend solutions. The cost benefit analysis and recommended solution will undergo a peer review and a Project Owner review before pursuit.

**5.3. Documentation Plan**

<b>Document</b>	<b>Created By</b>	<b>Reviewed By</b>	<b>Target Date</b>	<b>Distribution</b>
<b>EDI Cost Benefit Analysis</b>	07/15/2021	07/22/2021	07/31/2021	08/01/2021
<b>Decision on implementation of EDI / Alternative solution to track PO cycle time</b>	08/27/2021	08/31/2021	08/31/2021	09/01/2021
<b>Closeout Report with Actions Taken</b>	11/15/2022	11/22/2022	11/30/2022	11/30/2022

## **Revision History**

<b>Name</b>	<b>Date</b>	<b>Reason for Changes</b>	<b>Version</b>
Prathiba Venkataraman	03/24/2021	Initial draft	1.0 draft 1
Greg Player	03/31/2021	Project Owner Review	2.0
Brian Miller	04/02/2021	Project Co-Owner Review. Added Project Manager.	3.0
Prathiba Venkataraman	05/05/2021	LIPA Comments / Guidance from Donald Schaaf	4.0