

FOR CONSIDERATION

June 23, 2021

TO: The Board of Trustees

FROM: Thomas Falcone

SUBJECT: Consideration of the Adoption of Certain Implementation Plans Relating to Affiliate Services

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,” adopting certain Project Implementation Plans for the use of affiliate services to provide Shared Services, as defined in the Amended and Restated Operations Services Agreement (“OSA”) by and between LIPA and PSEG Long Island, in accordance with recommendations that were adopted by the Board on March 29, 2021.

Background

The use of PSEG subsidiaries as “affiliates” is permitted under the terms of the OSA. LIPA has a Pass-Through Expenditure obligation pursuant to Section 5.2(A)(7) of the OSA for certain costs incurred by the Service Provider in connection with the use of other PSEG subsidiaries, commonly referred to as “affiliate” costs. Further, pursuant to Section 4.4(16), Rights and Responsibilities of LIPA, of the 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. . .”

The services that PSEG Long Island typically uses affiliates to perform include: Information Technology (“IT”) system support, IT project support, Human Resources, Procurement, Treasury, and Legal Services.

However, the current procedures relating to the use of affiliates do not provide LIPA with sufficient detail to determine whether the use of such affiliates is the most economic approach and in the best interest of LIPA’s customers. LIPA reimbursed PSEG Long Island a total of \$23 million for affiliate related services in 2020. Of this, \$17 million, or 75 percent of the total affiliate costs are allocated based on a formula that assigns Long Island a percentage of aggregated “pooled” costs. As a result, LIPA has little accounting detail on the majority of the affiliate costs. Lastly, affiliate costs typically come with a premium due to facility, support, and administrative overhead costs being added to direct labor costs. A “fully-loaded” affiliate cost is typically higher than the cost of PSEG Long Island in-house personnel.

Board Recommendations to PSEG Long Island

To address these issues, the Board adopted the following recommendations on March 29, 2021:

1. Enhanced Affiliate Budget Transparency

a. Cost Benefit Justification

- PSEG Long Island should prepare cost and benefit justifications for affiliate use as part of the 2022 annual budget development process. Include in the cost justification an alternative analysis comparing the cost and benefit of providing the service through an affiliate as compared to the same service using PSEG Long Island in-house employees or by a third-party vendor. The analysis should reference the assumed ServCo employee costs, contracted rates, or proposals from vendors to perform similar work.
- For affiliate services identified that would be less costly if provided by ServCo employees or a vendor, PSEG Long Island should identify the steps it will take to secure these savings for Long Island electric customers.

b. Transactional Cost Allocation

- PSEG Long Island should minimize the use of transactional cost allocation. For service areas that use a transactional cost allocation methodology, LIPA expects these areas to shift to a direct, or “Professional” cost allocation methodology as a way to provide for increased accountability and transparency. Where a direct cost allocation is not feasible, PSEG Long Island must provide a justification as to why it is necessary to continue to utilize a transactional method. Further, this should include a review of the basis of the allocation percentage to ensure that Long Island customers are not subsidizing New Jersey services. The detailed transactional cost information should delineate labor costs and hours by title and the use of contractors and their associated roles.

c. IT Services

- Over 25 percent of total affiliate charges are associated with IT Customer Support and IT Client Project Support. Therefore, the budget plan needs to document the specific projects the affiliate will be working on in the upcoming year, the estimated affiliate cost by project, as well as the affiliate role in supporting the project.

d. Activity/Billing Hourly Rates

- The budget submission must include supporting documentation reflecting the calculation of the Activity/Billing Hourly Rates. This should include itemizing titles and their average salaries that comprise the Activity/Billing Rate as well as include any data and formulas that reflects any adjustments to or weighting of average salaries in the calculation of the Activity/Billing Rate. The calculation should ensure rates are an accurate representation of labor costs incurred and are not disproportionately impacted by inclusion of high salary positions in a particular Activity/Billing Rate. Positions with salaries outside a reasonable range from the average should be moved to a separate activity type.

e. Submission Due Date

- The affiliate cost and justification must be furnished to LIPA for review no later than August 15, 2021.

2. **Enhanced Affiliate Actual Cost Transparency**

a. Budget Variance Report

- PSEG Long Island must provide LIPA with a quarterly affiliate report, detailing actual use of affiliates as compared to budget including variance explanations that are grounded in the budget details provided to LIPA pursuant to Recommendation 1.

b. Full-time Affiliate Positions

- As part of the quarterly Budget Variance Report, detailed support must be provided for positions utilized to support PSEG Long Island at a level equivalent to one full-time equivalent. The ServCo model anticipates a workforce dedicated to supporting PSEG Long Island at a full-time level to be a PSEG Long Island employee. An explanation should accompany this analysis that confirms the employee's transition to PSEG Long Island or a justification as to why this is not possible and why the particular PSEG employee is used to support PSEG Long Island on a full-time basis.

3. **Former ServCo Employees**

- a. LIPA requires PSEG Long Island immediately request approval for hiring former ServCo positions by its affiliates, pursuant to its contractual obligations. The request for approval must include the work the position will perform, why it is necessary or beneficial to LIPA for the affiliate to hire the person, and how PSEG Long Island will ensure that any affiliate charges to PSEG Long Island for the position will not exceed what LIPA would have paid had the positions remained with ServCo. The request will also include an estimate of time dedicated to PSEG Long Island as an affiliate.

At the May 19, 2021 Board meeting, for the Board adopted the Project Implementation Plan for Recommendation 3. At that time, LIPA was still engaged with PSEG Long Island on the development of Project Implementation Plans for Recommendation 1 and 2. Leading up to the May Board meeting, PSEG Long Island had submitted draft Project Implementation Plan for Recommendation 1 and 2. However, LIPA Staff was not able to accept the plans and required PSEG Long Island to modify the plans, especially in terms of schedule and clarity.

On June 16, 2021, PSEG Long Island provided LIPA with updated Project Implementation Plans for Recommendation 1 and 2. The updated plans addressed LIPA's concerns. As such, LIPA is submitting Project Implementation Plans for Recommendation 1 and 2 to the Board for approval.

LIPA Staff recommends the Board adopt the Implementation Plans for Recommendation 1 and 2 attached hereto as **Exhibit "B"**. The implementation plan for Recommendation 1 provides for enhanced transparency of affiliate budgets and work plans. The implementation plan for Recommendation 2 provides for increased transparency on actual affiliate costs and budget variances.

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" Project Implementation Plans for Recommendations 1 and 2

RESOLUTION ADOPTING CERTAIN IMPLEMENTATION PLANS RELATING TO AFFILIATE SERVICES

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, the use of PSEG subsidiaries as “Affiliates” is permitted under the terms of the OSA; and

WHEREAS, the services that PSEG Long Island typically uses Affiliates to perform include IT system support, IT project support, Human Resources, Procurement, Treasury, and Legal Services. Affiliate costs are charged to PSEG Long Island, and therefore funded by LIPA; and

WHEREAS, LIPA reimbursed PSEG Long Island a total of \$23 million for all Affiliate related services in 2020, including IT system and project support, support for the processing of Tropical Storm Isaias food and medicine spoilage claim processing as well as for handling overflow customer calls and other support during Tropical Storm Isaias; and

WHEREAS, the Board adopted the Affiliate Services Recommendations on March 29, 2021; and

WHEREAS, LIPA has developed these recommendations to incorporate into the budget development process a thorough cost justification review of Affiliate work plans and costs; and

WHEREAS, on April 16, 2021 and on May 7, 2021, PSEG Long Island submitted to LIPA Staff the proposed Implementation Plans; and

WHEREAS, at the May 19, 2021 Board meeting, the Board adopted the Project Implementation Plan for Recommendation 3; and

WHEREAS, on June 16, 2021, PSEG Long Island provided LIPA Staff with updated Project Implementation Plans for Recommendation 1 and 2; and

WHEREAS, the updated plans address LIPA’s comments, and LIPA Staff is recommending that the Board adopt the Project Implementation Plans for Recommendation 1 and 2.

NOW, THEREFORE, BE IT RESOLVED, the Board hereby adopts the Implementation Plan relating to the Affiliate Services attached hereto as **Exhibit “B”** as amended to address all such hires from ServCo; 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 Affiliate Services Implementation Plans no less than quarterly until they are completed.

Dated: June 23, 2021

PSEG Long Island

Project Implementation Plan

for

Improved Affiliate Oversight

Recommendation No. 1

**Project Title: Enhanced
Affiliate Budget Transparency**

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1. Project Definition

While the vast majority of services provided for LIPA are provided by PSEG Long Island's workforce or contractors directly, in certain circumstances, functions and/or services required under the OSA are more efficient and/or cost effective to be performed by PSEG Service Corporation. Examples include certain back-office functions, such as IT or Employee Benefits, where standing up a group directly on Long Island would not be as cost-effective as the expertise and economies of scale of leveraging those services provided to a broader organization. For context, our total O&M and Capital Budget in 2020 was \$1.4 billion, of which \$16 million or ~1% was from our affiliates. Over half that amount was for IT services and, together with HR, represented almost 80% of the total. All such charges are billed on a cost basis (i.e., no profit or mark-up). As noted in separate communications, regardless of which entity is providing the service – PSEG Long Island employees, third party contractors, or our affiliate, PSEG Long Island's President and COO has the ultimate authority for the delivery of service to LIPA and our customers. For those services provided by our affiliate, PSEG Service Corporation charges PSEG Long Island on a monthly basis. These charges are commonly known or referred to as "affiliate" costs. Affiliate costs are typically charged under two main categories:

- Hourly Charges:
 - These are actual hours charged by PSEG Service Corporation employees for time spent directly supporting PSEG Long Island functions and services. These hours are multiplied by Billing Rates derived by PSEG Service Corporation which include salary costs and applicable overhead support costs
- Transactional Charges:
 - Transactional affiliate charges are derived from an allocation of PSEG Services Corporation pooled costs based on a cost driver metric percentage

This project is to provide LIPA with enhanced transparency into the Affiliate Budget methodology and assess shifting scope/functions to LI ServCo or a vendor.

1.1. Project Purpose, Objectives, and Success Criteria

Purpose:

The purpose of this project is to enhance the transparency into the use of affiliate services by PSEG Long Island from both a budget/plan perspective as well as actual cost and charges.

Scope:

The scope of this project is to create and supply LIPA the following analysis as it relates to the Affiliate Budget process. In general, the plan provides for increased transparency starting in 2021, creates improved Budget Justification for IT Client Projects and Custom Support starting with the 2022 Budget development process, and implements more comprehensive Cost Justification Analysis for selected areas in 2022 and continuing into 2023.

- **Transparency and incremental supporting information:**
 - Starting in August 2021, PSEG Long Island will provide enhanced transparency on Affiliate charges. The enhanced transparency will focus on the largest cost categories first, IT and HR, which cover 80% of the total Affiliate costs. The increased transparency will be comprehensive and informative.
 - PSEG Long Island will address specific questions that LIPA has provided and are attached to this PIP.
 - Increased transparency will continue as established practice and will be expanded to the balance of affiliate charges starting in 2022.

- The initial focus will be on transparency of actual costs as well as the 2022 work plan for IT Projects and Custom Support.
- A comprehensive Cost Benefit Justification for mutually agreed affiliate areas or tasks will begin in March 2022.

- IT Services
 - Over 25 percent of total affiliate charges are associated with IT Custom Support and IT Client Project Support. Therefore, the budget plan will document the specific projects when known. Prior to projects starting additional support will be provided that includes the estimated affiliate and affiliate role in supporting the project. This will be included as part of a comprehensive review of IT Projects' scope, implementation strategy rationale, project benefit and justification and cost.

- Professional Services Activity/Billing Hourly Rates
 - Annually, PSEG Services Corporation's budget submission will include supporting documentation reflecting the calculation of the Activity/Billing Hourly Rates. This should include itemizing titles and their average salaries that comprise the Activity/Billing Rate as well as including any data and formulas that reflect any adjustments to or weighting of average salaries in the calculation of the Activity/Billing Rate. The calculation will ensure rates are an accurate representation of labor costs incurred.

- Transactional Cost Allocation
 - PSEG Service Company will work to minimize the use of transactional cost allocation and utilize direct charging where feasible. Some of this effort may require certain system or broader planning changes within the PSEG Service Company, which either may not be justified or may take place in a subsequent planning cycle. PSEG Service Company will provide a justification as to why it is necessary to continue to utilize a transactional method. Further, this will include a review of the basis of the allocation percentage to ensure that Long Island customers are not subsidizing New Jersey services. This effort will start with IT Projects and Custom Support as part of the 2022 budget development process and may be achieved by providing LIPA with supplemental detail reports itemizing charges.

- **Cost Benefit Justification** – Following the above incremental supporting information, we will prepare cost-benefit analyses (i.e., 'make or buy') for LIPA for our affiliate services. This will be done on a cycle such that all affiliate services are covered within a three-year period. Given the 2022 planning cycle is in flight (and with substantial acceleration and incremental information, in addition to the above information), as well as incremental projects for IT and other areas required under other requests, we will prepare the first wave of these analyses in 2022 for the 2023 budget cycle.
 - PSEG Service Corporation will prepare cost and benefit justifications for affiliate services, comparing its cost and level of service (as appropriate) with the alternative of providing the service by standing up a team within PSEG Long Island directly and/or outsourcing it to a third-party vendor (as appropriate).
 - PSEGLI will develop a Comprehensive Cost Justification/Alternative Analysis template for LIPA to review and approve prior to initiating analysis
 - PSEG Long Island will confer with LIPA on the development of the roll-out strategy including the selection of services to study as well as the timeframe.

Project End State and Success Criteria:

PSEG Long Island and PSEG Service Company are proposing a phased in approach to this recommendation. The project end state is to have a documented process to provide LIPA with the appropriate details to enable proper oversight and understanding of affiliate costs as well as to ensure that the use of affiliate services is cost effective and in the best interest of the customer. The Cost Benefit Justification will be performed over a three-year cycle to cover all material services provided. This will be a continuous cycle to ensure the services are being reviewed periodically for the most updated and cost beneficial information. As Information Technology and Human Resources cover almost 80% of affiliate costs, these areas would receive the priority focus in the short term.

2. Project Deliverables:

Describe applicable Project Deliverables:

Deliverable	Delivery Date	Comments
LIPA Transactional Audit Follow-up Questions <ul style="list-style-type: none"> Address all open questions received from LIPA as part of the Transactional Internal Audit 	6/30/21	Address all open questions received by PSEG
2021 IT Affiliate Budget & Actuals <ul style="list-style-type: none"> For IT Baseline Product, provide model with accompanying walk through of inputs, assumption and logic supporting calculation of costs For IT Projects and Custom Support, provide additional transparency to inputs and assumptions used to develop 2021 Plan For IT Projects and Custom Support, provide greater detail of YTD actuals. Detail will include individuals, hours, rates and third party costs by vendor Provide revised 2021 full year forecast for IT Projects and Custom Support 	Model by 6/30/21 with walk through scheduled in July 2021 6/30/2021 Quarterly – Beginning 7/31/2021 8/31/21	Model and analysis will include review of total costs associated with service level provided by affiliate, and cost distribution methodology and data Due to system limitations, it is not possible to convert IT Projects and Custom Support to Direct Charge. However, in lieu of a conversion, a supplemental report will be provided to LIPA each quarter that provides detail break down of actual labor charges (rates and hours) in a manner similar to what LIPA currently receives for Professional (Direct) Charge affiliates. This will become part of 'standard reporting' going forward each quarter on a one month lag

<p><u>2022 Budget IT Projects and Custom Support</u></p> <p>Starting as part of the 2022 Budget development process, PSEG Long Island will provide LIPA with a comprehensive IT Project Plan that reflects IT Projects’ scope, implementation strategy rationale, project benefit and justification, and cost. The PSEG Long Island IT Budget, including the associated affiliate budget, will be based on this plan. PSEG Long Island will provide LIPA with regular updates to the plan, including a year-end forecast</p>	<p>11/30/21</p>	<p>The IT Project and Custom Support planning is an iterative process that needs to be integrated with overall IT Project Planning Process. As such, initial budget plans will be based on a preliminary IT plan, updated accordingly. This effort will continue going forward</p>
<p><u>Professional Services Activity/Billing Hourly Rates</u></p> <ul style="list-style-type: none"> • Provide analysis of impact (actual costs vs billed costs) resulting from use of ‘average rates’ for top 5 utilized Professional (Direct) Services. Analysis will be based on 6 months of 2021 actuals • Provide LIPA with detailed support and justification for positions that charged affiliate services at a full-time level. 	<p>8/31/2021 and then annually</p> <p>8/31/2021 and then annually</p>	<p>After the first analysis, each year in February PSEG will provide this analysis for the prior year’s actuals</p> <p>If any material inaccuracies in billing become evident based on this analysis, the methodology to calculate Activity Hourly Rates will be modified to yield a more accurate result.</p> <p>This effort will continue going forward.</p> <p>This effort will continue going forward.</p>

<p>HR & IT Transactional Transparency</p> <ul style="list-style-type: none"> For transactional services, provide transparency to 2022 planning assumptions including total costs (labor, material, outside services, etc), costs distributed to PSEG-LI, services provided, and basis for distribution Conduct analysis of all Transactional Services (including Baseline) and assess possibility of moving components to professional services (effective 2023) <p>Cost Benefit Justification</p> <ul style="list-style-type: none"> In advance of the cost-benefit justification, we will review with LIPA and mutually agree upon template, scope, priorities, and detailed schedule Conduct cost/benefit justification for mutually agreed upon scope of HR & IT Services and finalizing sourcing plans (PSEG-LI, affiliate, third party) for 2023 	<p>3/31/2022</p> <p>6/30/2022</p> <p>4/30/2022</p> <p>9/30/22</p>	<p>We will provide detail for transactional services for a significant majority of the transactional costs for each department as mutually agreed upon with LIPA</p> <p>This effort will continue on a regular basis going forward as mutually agreed upon between PSEG and LIPA</p> <p>This effort starts an annual recurring cycle where approximately 1/3 of all affiliate costs are reviewed each year</p>
<p>Procurement/Legal/Risk/Treasury/Other 2023 Actuals / 2024 Plan</p> <ul style="list-style-type: none"> For transactional services, provide transparency to 2023 planning assumptions including total costs (labor, vendors etc), costs distributed to PSEG-LI and basis for distribution In advance of the cost-benefit justification, we will review with LIPA and mutually agree upon scope, priorities, and detailed schedule Conduct analysis of transactional services and assess possibility of moving components to professional services (effective 2024) 	<p>3/31/2023</p> <p>4/30/2023</p> <p>6/30/2023</p>	<p>We will provide detail for transactional services for a significant majority of the transactional costs for each department as mutually agreed upon with LIPA</p>

<ul style="list-style-type: none"> Conduct cost/benefit justification for mutually agreed upon scope of services and finalizing sourcing plans (PSEG-LI, affiliate, third party) for 2024 	9/30/23	This continues the 3-year cycle.
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2.1. Assumptions, Dependencies, and Constraints

Assumptions

For the 2022 Budget Briefing Books, an assumption of a 3% escalation rate for affiliate charges will be utilized from the 2021 budget levels. This may differ from the final 2022 Affiliate budget that is calculated through the full budget process of PSEG Service Company.

3. Project Structure

3.1. Internal Project Organization

Internal Project Organization

Group/Individual	Role/Responsibility
PSEG Service Company Finance Team	<ul style="list-style-type: none"> Provided enhanced transparency to professional rate build up Potentially disaggregate transactional services (as feasible)
PSEG Long Island Finance	<ul style="list-style-type: none"> Will continue to include affiliate costs in management reporting, including reporting of material variances
PSEG Service Company Affiliate services areas: IT, HR, Procurement, Other PSEG Service Company Finance PSEG Long Island	<ul style="list-style-type: none"> Develop cost-benefit analysis - collaborate amongst the teams to provide a cost-benefit analysis

3.2. Other Stakeholders

- PSEG Long Island Senior Leadership
- LIPA Senior Leadership
- LIPA Board of Trustees

4. Project Plan

4.1. Project Work Plan

Tasks and Target Dates have been outlined in the Section 2 - Deliverables

Task	Target Date
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4.2. Risk Management Plan

The incremental resource requirement from various groups, particularly if the above phased in timeline were not followed, could result in unnecessary management distractions for certain areas (i.e., IT, Finance). The preparation of the analyses will require resources and results in incremental costs.

4.3. Issue Resolution Plan

This section is not applicable for this implementation plan.

4.4. LIPA Reporting Plan

PSEG Long Island will be working collaboratively with LIPA throughout the process and report progress as such. PSEG LI will provide monthly status reports and meet with LIPA monthly to provide status updates.

5. Technical Execution Plan

5.1. Technical Approach

There are no technical approaches required beyond the steps outlined in the above project plan.

5.2. Quality Assurance Plan

This quality assurance plan is to review the analysis and deliverables stated above with LIPA to ensure all required expectations are met.

5.3. Documentation Plan

Throughout the project the implementation team will document and deliver the key deliverables as listed above in Section 2. The due date of each deliverable will be based off the Project Schedule as outlined in Section 4.1.

Revision History

Name	Date	Reason for Changes	Version
R. Tinelli	1/7/21	initial draft	1.0 draft 1
M. Shames	1/9/21	Revised based on 1/8 call with Gerry Ring	
M Shames	6/9/21	Responded to LIPA feedback	

Appendix – LIPA Transactional Audit Follow-up Questions

- Transactional Audit Follow-up Questions - Baseline:
 - LIPA is allocated a % of \$19.7M Enterprise Software and Support. PSEGLI needs to detail the costs for labor by activity type and a breakdown of non-labor costs by contract and function.
 - If costs include licensing or other direct costs, confirm that the allocation methodology is fair and reasonable. And why an alternative approach could not be carved out to have a portion of the transactional costs be made direct.
 - Please provide a list of all the SAP modules included in PSEG’s enterprise SAP contract and identify which modules are currently being used by Long Island.
 - Please provide more detail on the depreciation expenses allocated to Long Island. What is the amount of depreciation and what system(s) is it associated with?
 - Please provide the raw values for headcount and SAP user IDs used to calculate the allocation percentage.

- Transactional Audit Follow-up Questions – Client Projects:
 - How are client projects initiated and authorized?
 - Why are client projects that are specific to Long Island (e.g. CRM modernization – LI, Alexa – LI) not treated as direct expenses?
 - Provide a description of the role performed by the affiliate in support of IT projects as compared to the role performed by PSEG Long Island.
 - Provide a description of any new projects planned for 2021 and the estimated affiliate costs for each project.

- Transactional Audit Follow-up Questions – Custom Support:
 - How are custom support services initiated and authorized?
 - Why are custom support services (provided in response to specific Long Island IT needs) not treated as direct expenses?

- Transactional Audit Follow-up Questions – HR Baseline:
 - Please provide a description of the functions and services for the following categories of affiliate support: Recruitment Support, Outreach & Diversity, Medical Services, HR Systems & Reporting, and Employee Benefits
 - For ‘HR Operations and Overhead,’ please provide a list of the titles included in the labor pool and a description of services included in the non-labor pool?
 - Please confirm that all of the costs in the table above are allocated based on share of employee headcount.
 - Do other PSEG operating companies have dedicated HR departments like PSEG Long Island?

PSEG Long Island

Project Implementation Plan

for

Improved Affiliate Oversight

Recommendation No. 2

**Project Title: Enhanced
Affiliate Actual Cost
Transparency**

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1. Project Definition

While the vast majority of services provided for LIPA are provided by PSEG Long Island's workforce or contractors directly, in certain circumstances, functions and/or services required under the OSA are more efficient and/or cost effective to be performed by PSEG Service Corporation. Examples include certain back-office functions, such as IT or Employee Benefits, where standing up a group directly on Long Island would not be as cost-effective as the expertise and economies of scale of leveraging those services provided to a broader organization. For context, our total O&M and Capital Budget in 2020 was \$1.4 billion, of which \$16 million or ~1% was from our affiliates. Over half that amount was for IT services and, together with HR, represented almost 80% of the total. All such charges are billed on a cost basis (i.e., no profit or mark-up). As noted in separate communications, regardless of which entity is providing the service – PSEG Long Island employees, third party contractors, or our affiliate, PSEG Long Island's President and COO has the ultimate authority for the delivery of service to LIPA and our customers. For those services provided by our affiliate, PSEG Service Corporation charges PSEG Long Island on a monthly basis. These charges are commonly known or referred to as "affiliate" costs. Affiliate costs are typically charged under two main categories:

- **Hourly Charges:**
 - These are actual hours charged by PSEG Service Corporation employees for time spent supporting PSEG Long Island functions and services. These hours are multiplied by Billing Rates derived by PSEG Service Corporation which include salary costs and applicable overhead support costs
- **Transactional Charges:**
 - Transactional affiliate charges are derived from an allocation of PSEG Services Corporation pooled costs based on a cost driver metric percentage

This project is to provide LIPA with enhanced transparency into the actual vs. budget variances related to Affiliate costs.

1.1. Project Purpose, Objectives, and Success Criteria

Purpose:

This project is to provide LIPA with enhanced transparency into the actual vs. budget variances related to Affiliate costs.

Scope:

The scope of this project is to create and supply LIPA the following analysis as it relates to actual Affiliate costs

- **Budget Variance Report**
 - PSEG Long Island will provide LIPA with a quarterly affiliate report, detailing actual use of affiliates as compared to budget including variance explanations that are grounded in the budget details
 - PSEG Long Island proposes a threshold for variance explanations of 10% and greater than \$100K by Director area (YTD Basis)

Project End State and Success Criteria:

The project end state is to have a process to provide LIPA with the appropriate reports and explanations that enhance affiliate costs actual vs. budget variances.

2. Project Deliverables:

Describe applicable Project Deliverables:

Deliverable	Delivery Date	Comments
2021 Budget Year <ul style="list-style-type: none"> • Budget Variance Report <ul style="list-style-type: none"> ○ PSEG Long Island will provide LIPA with a quarterly affiliate report, detailing actual use of affiliates as compared to budget including variance explanations that are grounded in the budget details ○ PSEG Long Island proposes a threshold for variance explanations of 10% and greater than \$100K by Director area (YTD Basis) 	12/1/2021 3/1/2021	N/A
2022 Budget Year <ul style="list-style-type: none"> • Budget Variance Report <ul style="list-style-type: none"> ○ PSEG Long Island will provide LIPA with a quarterly affiliate report, detailing actual use of affiliates as compared to budget including variance explanations that are grounded in the budget details ○ PSEG Long Island proposes a threshold for variance explanations of 10% and greater than \$100K by Director area (YTD Basis) 	6/1/2022 9/1/2022 12/1/2022 3/1/2023 (Quarterly Basis Going Forward)	N/A

2.1. Assumptions, Dependencies, and Constraints

N/A

3. Project Structure

3.1. Internal Project Organization

Internal Project Organization

Group/Individual	Role/Responsibility
PSEG Long Island Finance	<ul style="list-style-type: none"> • Prepare and analyze Budget Variance Report for Affiliate costs on a quarterly basis

	<ul style="list-style-type: none"> • Provide variance explanations for amounts that meet proposed thresholds
PSEG Service Company Finance Team	<ul style="list-style-type: none"> • Provide Support and further details for variance explanations

3.2. Other Stakeholders

- PSEG Long Island Senior Leadership
- LIPA Senior Leadership
- LIPA Board of Trustees

4. Project Plan

4.1. Project Work Plan

Task	Target Date
2021 Budget Year <ul style="list-style-type: none"> • Budget Variance Report <ul style="list-style-type: none"> ○ PSEG Long Island will provide LIPA with a quarterly affiliate report, detailing actual use of affiliates as compared to budget including variance explanations that are grounded in the budget details ○ PSEG Long Island proposes a threshold for variance explanations of 10% and greater than \$100K by Director area (YTD Basis) 	12/1/2021 3/1/2021
2022 Budget Year <ul style="list-style-type: none"> • Budget Variance Report <ul style="list-style-type: none"> ○ PSEG Long Island will provide LIPA with a quarterly affiliate report, detailing actual use of affiliates as compared to budget including variance explanations that are grounded in the budget details ○ PSEG Long Island proposes a threshold for variance explanations of 10% and greater than \$100K by Director area (YTD Basis) 	6/1/2022 9/1/2022 12/1/2022 3/1/2023 (Quarterly Basis Going Forward)

4.2. Risk Management Plan

Acceleration or expansion of this request will require additional resources, which will result in incremental costs to LIPA.

4.3. Issue Resolution Plan

This section is not applicable for this implementation plan.

4.4. LIPA Reporting Plan

PSEG Long Island will begin providing proposed reporting on a quarterly basis in 2022.

5. Technical Execution Plan

5.1. Technical Approach

There are no technical approaches required beyond the steps outlined in the above project plan.

5.2. Quality Assurance Plan

This quality assurance plan is to review the analysis and deliverables stated above with LIPA to ensure all required expectations are met.

5.3. Documentation Plan

Throughout the project the implementation team will document and deliver the key deliverables as listed above in Section 2. The due date of each deliverable will be based off the Project Schedule as outlined in Section 4.1.

Revision History

Name	Date	Reason for Changes	Version
R. Tinelli	XX	initial draft	1.0 draft 1