



# CEO Report

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*August 11, 2021*

# AGENDA

**01** August Board Meeting Significant Agenda Items

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**02** Reformed Contract with PSEG Long Island

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**03** LIPA Employee Satisfaction Survey Results



# AUGUST BOARD MEETING SIGNIFICANT AGENDA ITEMS

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## **FOR DISCUSSION**

- Status Update on Board Recommendations and Implementation Plans
- Update on Long Island Transmission Interconnections\*
- Second Quarter Financial Results\*
- Review of Utility 2.0 2021 Filing, Energy Efficiency Plan, and Electric Vehicle Plan\*

## **FOR APPROVAL**

- Board Recommendation to Improve Small Generator Interconnection Procedures
- Board Recommendation to Improve Access to PSEG Long Island Financial and Operational Data
- Report and Amendments on the Board Policy on Diversity, Equity, and Inclusion
- Report on the Board Policy on Economic Development and Community Engagement\*
- Report on the Board Policy on Public Policy Transmission Planning\*
- Power Purchase Agreement with NYPA for the Flynn Power Plant\*
- Authorization to Execute a Commodity Prepay Transaction\*

# REFORMED CONTRACT



- After six months of negotiations, tentative agreement reached with PSEG Long Island on June 26, 2021, that meets Board's reform objectives
- Effectively shortens management contract eight years from 2033 to 2025
- Puts in place stronger management incentives, accountabilities, and oversight

# MANAGEMENT CONTRACT REFORM GOALS

**LIPA's relationship with PSEG Long Island is contractual. The Options Analysis described LIPA's goals for a reformed contract – to align PSEG Long Island management incentives and accountability and strengthen transparency and oversight**

## Strengthens Incentives and Accountability Mechanisms

1

Greater share of management compensation at risk based on performance

2

Expanded performance metrics with greater rigor covering all categories of service

3

Use of gating and default metrics to discourage singularly poor performance

4

Strengthen Long Island based management and accountability for Long Island operations

5

Require candor from service provider

+

## Strengthens Oversight

6

Require compliance with Board recommendations to address known deficiencies

7

Strengthen oversight in long-term planning, project prioritization, and budget development

8

Partition Long Island IT systems and facilitate independent verification and validation

# LIPA'S OBJECTIVES FOR A REFORMED CONTRACT HAVE BEEN ACHIEVED

	ORIGINAL LIPA-PSEG Long Island Contract	REFORMED LIPA-PSEG Long Island Contract
<b>Objective 1: Greater Share of PSEG Long Island Compensation at Risk Based on Performance</b>		
How much of PSEG Long Island's compensation is at risk based on performance?	\$10 million (13% of contract fees)	\$40 million (51% of contract fees)
<b>Objective 2: Expanded Performance Metrics with Greater Rigor Covering all Categories of Service</b>		
How are Performance Metrics set?	Initially in 2013; any changes are with PSEG Long Island's agreement	Annually, by LIPA Board and DPS
How many Performance Metrics affect compensation?	20-26	Up to 110 metrics covering all scopes of management services provided by PSEG Long Island
<b>Objective 3: Use of Gating and Default Metrics to Discourage Singularly Poor Performance (e.g. Storm Response)</b>		
Variable Compensation (up to \$20 million annually) is automatically reduced if gating metrics are not met:	3 Gating Metrics	4 Gating Metrics
• Cost Management	\$5-10 million	\$10-20 million for failure in any contract year
• Emergency Preparedness and Response	—	\$10 million for failure in any contract year
• Reliability	\$13.4 million for 2 failures in 3 consecutive years	\$10 million for failure in any contract year

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	ORIGINAL LIPA-PSEG Long Island Contract	REFORMED LIPA-PSEG Long Island Contract
<b>Objective 3: Use of Gating and Default Metrics to Discourage Singularly Poor Performance (e.g. Storm Response)</b>		
<ul style="list-style-type: none"> <li>Customer Satisfaction</li> </ul>	\$13.4 million for 2 failures in 3 consecutive years on a combination of JD Power and internal customer contact surveys (unlikely to occur)	\$3 million for 2 consecutive annual scores in 4th quartile of JD Power Customer Satisfaction Survey beginning in 2024
Compensation that is subject to reduction (up to \$20 million) by DPS for violations of emergency response plan or for failure to provide safe, adequate, and reliable service to customers	—	\$20 million
<b>Default Metrics and Termination Rights that Discourage Poor Performance</b>		
Can LIPA terminate the contract for failed Emergency Response?	Only after 2 failures in 3 consecutive years	Yes, for any failure
Can LIPA terminate for failing the Customer Satisfaction Gating Metric?	Yes, after 4 consecutive annual scores in 4th quartile	Yes, for 2 consecutive annual scores in 4th quartile of J.D. Power Customer Satisfaction Survey beginning in 2024
Can LIPA terminate for failure to take industry-standard preventative measures for Cyber Security?	No	Yes

# LIPA'S OBJECTIVES FOR A REFORMED CONTRACT HAVE BEEN ACHIEVED

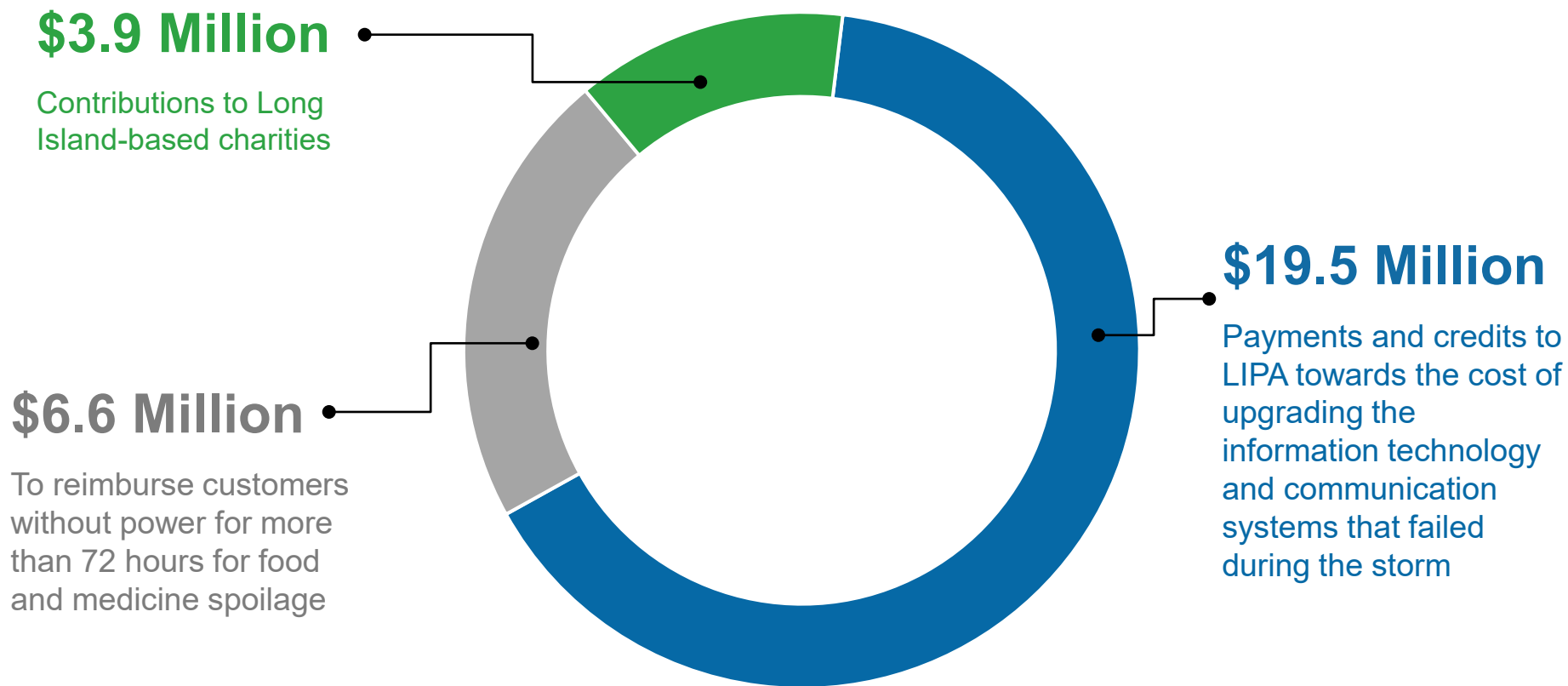
	ORIGINAL LIPA-PSEG Long Island Contract	REFORMED LIPA-PSEG Long Island Contract
<b>Default Metrics and Termination Rights that Discourage Poor Performance</b>		
When does the contract end?	PSEG Long Island has the right to extend the contract for eight years on substantially similar terms to 12/31/2033	12/31/2025
<b>Objective 4: Strengthen Long Island Based Management and Accountability for Long Island Operations</b>		
Does PSEG Long Island have a fully staffed local management team?	34 PSEG Long Island employees report to superiors in New Jersey	Fully staffed Long Island executive team with decision-making authority. All Long Island employees report to a local manager. 5 new local executive positions will be added.
Does the contract require transparency around decisions to hire PSEG affiliates to provide services to LIPA?	No	Yes
<b>Objective 5: Duty of Candor</b>		
Does the contract require timely and accurate disclosure of significant operational issues?	No	Yes
Can LIPA terminate for Violation of the Duty of Candor?	No	Yes



# LIPA'S OBJECTIVES FOR A REFORMED CONTRACT HAVE BEEN ACHIEVED

	ORIGINAL LIPA-PSEG Long Island Contract	REFORMED LIPA-PSEG Long Island Contract
<b>Objective 6: Require compliance with LIPA Board recommendations to address known deficiencies</b>		
Does the contract require PSEG Long Island to fix operational issues identified by LIPA or DPS in a timely manner?	No	Yes
<b>Objective 7: Long-term planning, budget development, and cost management</b>		
Are management objectives, budgets, and performance metrics tied together to deliver value for customers?	Limited to Utility 2.0 Plans (energy efficiency and electrification programs); limited recourse for failure to deliver approved plans	Each scope of management services has a long-term plan approved by the LIPA Board. Budget proposals and performance metrics are aligned with delivering on long-term plans
<b>Objective 8: Partition Long Island IT Systems and Facilitate Independent Validation and Verification</b>		
Can LIPA independently stress test and validate the performance of mission-critical information technology systems, such as those that failed during Tropical Storm Isaias?	No	Yes
Are LIPA IT Systems entangled with PSEG Long Island's parent company systems?	Partially merged with PSEG Long Island's parent company systems, with limited LIPA insight	Separate, independently testable, LIPA-owned IT system

# PSEG LONG ISLAND FORFEITS \$30 MILLION FOR TROPICAL STORM ISAIAS FAILURES



# LIPA BOARD'S OBJECTIVES FOR SERVICE TO CUSTOMERS

The LIPA Board has set high objectives for service to customers. The reformed contract provides management alignment and accountability with these objectives



**Customer satisfaction**  
among the top 25%  
of electric utilities  
in the country



**Reliability**  
within the top 25% of  
peer electric utilities



**Industry leading  
emergency  
response**



**70% renewable  
energy by 2030**  
and a carbon-free  
electric grid by 2040



**Rates**  
comparable to or  
below neighboring utilities  
in the New York City  
metropolitan area

- *PSEG Long Island has a limited window to meet the Board's goals before the 2025 contract expiration*
- *For more information, please see the [LIPA Board Policies](#) that discuss these goals, as well as the Board-adopted [2021 Operating and Capital Budget](#)*

# NEXT STEPS

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- **Term Sheet Needs to be Turned into Contract:** LIPA and PSEG Long Island must negotiate a revised contract based on the agreed upon terms
- **DPS Recommendation:** Senior DPS leadership participated in term sheet negotiations. DPS will provide its evaluation of revised contract terms to the LIPA Board
- **30-Day Public Comment Period:** The public will have 30-days to review and comment on the proposed contract ahead of Board approval
- **LIPA Board Approval:** The LIPA Board will evaluate and consider the revised contract
- **NYS Comptroller & Attorney General Approval:** The revised contract will be subject to review and approval by both Comptroller DiNapoli and Attorney General James

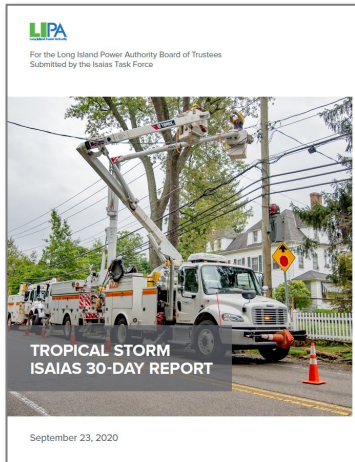


# FREQUENTLY ASKED QUESTIONS

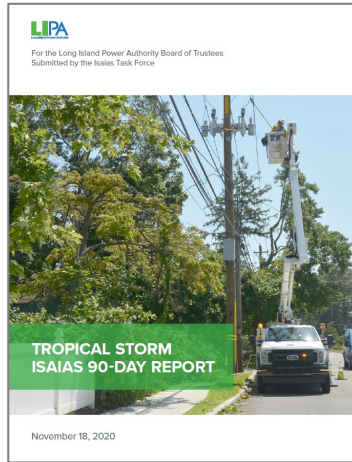
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- What is the timeline for finalizing a reformed contract with PSEG Long Island?
- How can LIPA suddenly move forward with PSEG Long Island?
- Why didn't LIPA complete its request for information from other potential management contractors?
- Members of the State Assembly want a fully public power utility. Can LIPA still take over management? What is needed?

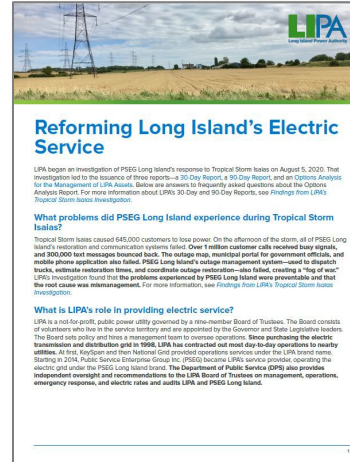
# LIPA FINDINGS AND REPORTS



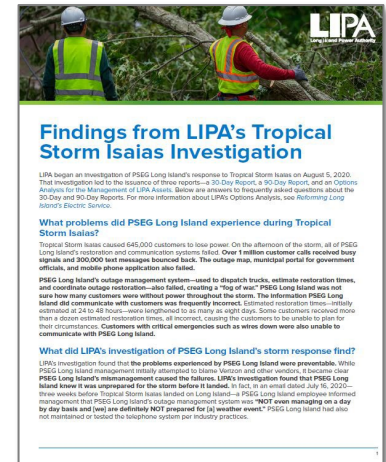
[30-Day Report](#)



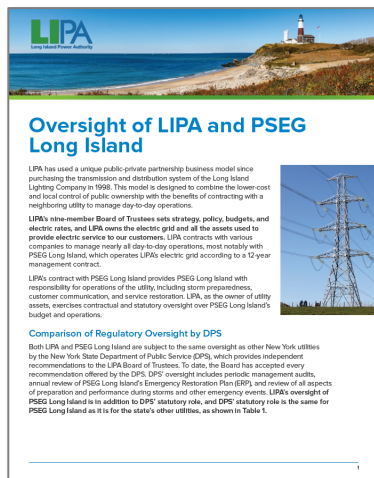
[90-Day Report](#)



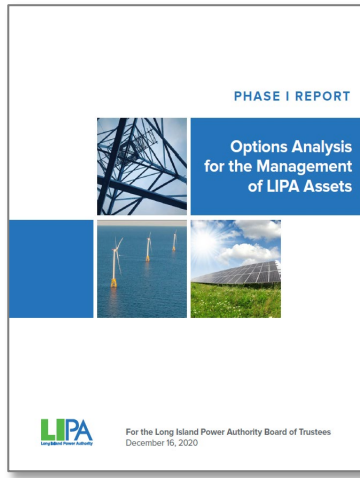
[Fact Sheet](#)



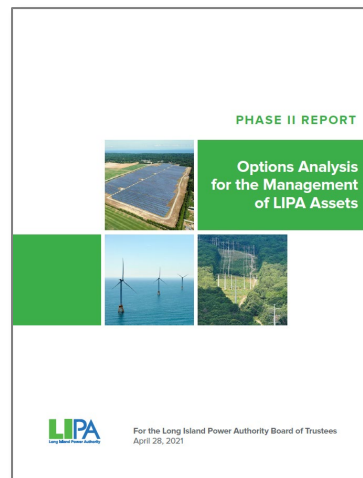
[Fact Sheet](#)



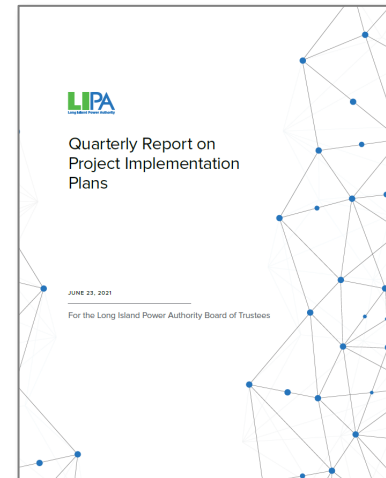
[Fact Sheet](#)



[Phase I Options Analysis](#)



[Phase II Options Analysis](#)



[June Quarterly Report](#)

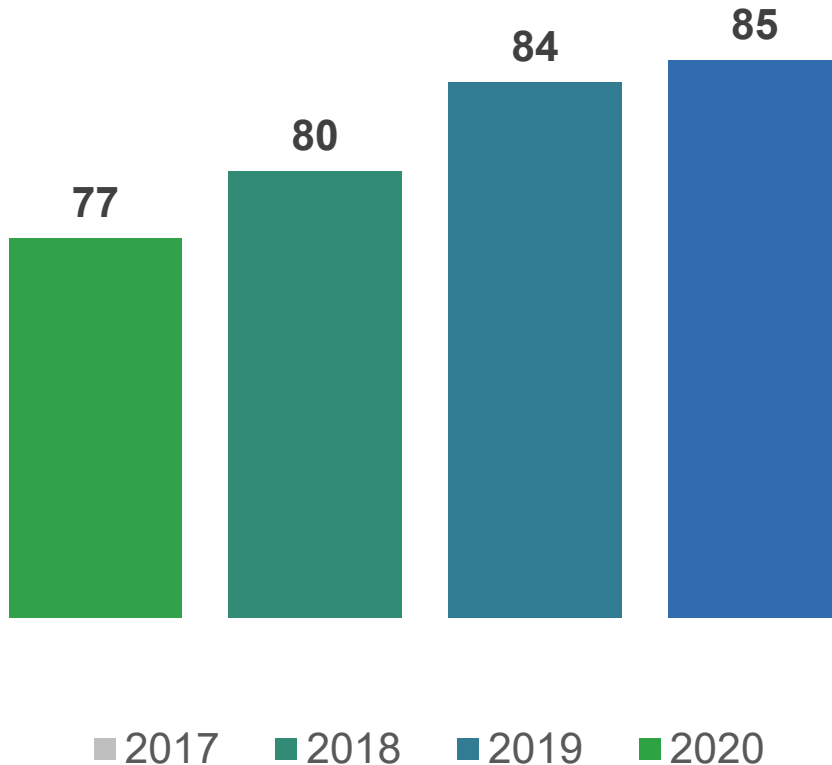
# LIPA EMPLOYEE SATISFACTION SURVEY

- Starting in 2017, LIPA began an employee engagement initiative using anonymous employee satisfaction surveys conducted by a third-party human resources expert to obtain the honest feedback of employees on working at LIPA
- Each year, every LIPA employee is invited via email to participate in the online survey. The 2020 survey was conducted between November 13 and December 3
- 59 of 62 employees (95%) participated in the survey completed in January 2021. The response rate continues to be high across all previous survey administrations (88% in 2019, 85% in 2018, 90% in 2017)

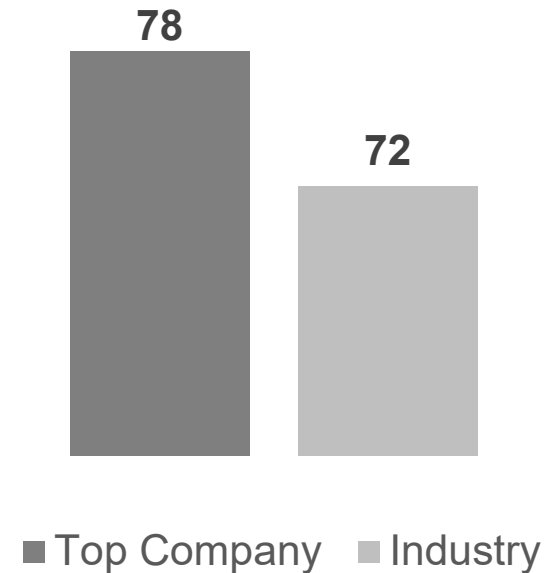


# LIPA EMPLOYEE SATISFACTION SCORES ARE AMONG THE TOP 10% OF COMPANIES

## LIPA Engagement Scores



## Benchmark







# QUESTIONS?