# **CEO Report**

August 11, 2021



## AGENDA

**01** August Board Meeting Significant Agenda Items

02 Reformed Contract with PSEG Long Island

**03** LIPA Employee Satisfaction Survey Results

## AUGUST BOARD MEETING SIGNIFICANT AGENDA ITEMS

#### 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\*



\* Items discussed in Committee meetings CEO Report – August 2021

## **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





	ORIGINAL LIPA-PSEG Long Island Contract	REFORMED LIPA-PSEG Long Island Contract			
<b>Objective 1: Greater Share of PSEG Lor</b>	Objective 1: Greater Share of PSEG Long Island Compensation at Risk Based on Performance				
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)			
Objective 2: Expanded Performance Metrics with Greater Rigor Covering all Categories of Service					
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			
Objective 3: Use of Gating and Default Metrics to Discourage Singularly Poor Performance (e.g. Storm Response)					
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			
<ul> <li>Emergency Preparedness and Response</li> </ul>		\$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			



	ORIGINAL LIPA-PSEG Long Island Contract	REFORMED LIPA-PSEG Long Island Contract		
Objective 3: Use of Gating and Default Metrics to Discourage Singularly Poor Performance (e.g. Storm Response)				
Customer Satisfaction	\$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		
Default Metrics and Termination Rights that Discourage Poor Performance				
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		



	ORIGINAL LIPA-PSEG Long Island Contract	REFORMED LIPA-PSEG Long Island Contract		
Default Metrics and Termination Rights that Discourage Poor Performance				
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		
Objective 4: Strengthen Long Island Based Management and Accountability for Long Island Operations				
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		
Objective 5: Duty of Candor				
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		



	ORIGINAL LIPA-PSEG Long Island Contract	REFORMED LIPA-PSEG Long Island Contract		
Objective 6: Require compliance with LIPA Board recommendations to address known deficiencies				
Does the contract require PSEG Long Island to fix operational issues identified by LIPA or DPS in a timely manner?	No	Yes		
Objective 7: Long-term planning, budget development, and cost management				
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		
Objective 8: Partition Long Island IT Systems and Facilitate Independent Validation and Verification				
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



- PSEG Long Island has a limited window to meet the Board's goals before the 2025 contract expiration
- For more information, please see the <u>LIPA Board Policies</u> that discuss these goals, as well as the Board-adopted <u>2021 Operating and Capital Budget</u>



## NEXT STEPS

- 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

- 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

L PA



For the Long Island Power Authority Board of Trustees Submitted by the Isalas Task Force

L PA



90-Day Report



nd hires a management team to oversee operation button grid in 1998, LIPA has contracted out mo The PSES Long Island brand. The Department of Public rsight and recommendations to the LIPA Board of Tru rise, and electric rates and audits LIPA and PSEG Lon

Fact Sheet



Phase II Options Analysis



#### Findings from LIPA's Tropical Storm Isaias Investigation

What problems did PSEG Long Island experience during Tropical Storm Isaias?

Toppical Storm Issues caused 645,000 customers to lose power. On the afternoon of the storm, all of PSEG Long Island's notoration and communication systems failed. **Dwer 1 million customer calls received busy** signals and 300,000 text messages bounced back. The outage map, municipal portal for government officials, and mobile phone application also failed.

Validates, and index ploor application and same SPEIC Long March Costage management system—used to dispatch trucks, estimate restoration the and coordinate outgae restoration—aho failed, resulting a "food war." PSEG Long March was not use how many containers wave without however throughout the storm. The Information PSEC Long Island did communicate with customers was througently incorrect. Estimated restoration time—intri command of 24 of the Home—work insignment of a similar way exist days. Similar estimates in customers and estimates are shown as a similar to a similar way exist days. Similar estimates in similar to an estimate of the Home—work insignment of a similar way exist days. Similar estimates in similar to an estimate of the Home—work insignment of the Home - Hom nstances. Customers with critical emergencies such as wires down ate with PSEG Long Island.

What did LIPA's investigation of PSEG Long Island's storm response find? IPVs investigation found that the problems experienced by PSEC long Island were preventable. While SEG Long Island management initially attempted to blane Version and other venders, it became clear SEG Long Island's mismanagement caused the failures. LIPVs investigation found that PSEC Long land knew it was unprepared for the storm before it landed. In fact, in an enail dated July (5, 2020these veeks before Tropical Storm Isaas landed on Long Island – PSIGE Long Island employee biform monospontet the PSSE Long Island's outpoyr amagement provide the experimental of the psice of the by day basis and (well are definitely NOT prepared for (a) weather event.<sup>2</sup> PSEG Long Island had also not maintained or tosked the belaphone system per industry procedure.<sup>2</sup>

Fact Sheet



**Oversight of LIPA and PSEG** Long Island

30-Day Report

LIPA has used a unique public-private parthenihip business model since purchasing the transmission and distribution system of the Long Island Lighting Company in 1998. This model is designed to combine the lower-co and local control of public ownership with the benefits of contracting with a neighboring utility to manage day-to-day operations. LIPA's nine-member Board of Trustees sets strategy, policy, budgets, and

LIPA's nine-member Board of Trustees sets strategy, policy, budgets, and electric rates, and LIPA owns the electric grid and all the assets used to provide electric service to our customers. LIPA contracts with various comparies to manage nearly all dayle-day operations, most notably with PSEG Long Island, which operates LIPA's electric grid according to a 12 year management contract.

management cover exc. LIM's contract with PSEG Long Island provides PSEG Long Island with responsibility for operations of the utility, including atom preparedness, cultamer communication, and service restoration. LPA, as the owner of utility assets, exercises contractual and statutory oversight over PSEG Long Island's budget and operations

#### Comparison of Regulatory Oversight by DPS

LIPA

Comparison of in Regulatory Oversign (LV) Ov





December 16, 2020

Phase I Options Analysis

For the Long Island Power Authority Board of Trustees

LPA

## 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





# **QUESTIONS?**

