



CEO REPORT

September 22, 2021

AGENDA

01 Significant Agenda Items

02 Welcome to New LIPA Trustees

03 Fitch Outlook Upgrade

04 South Fork Wind Farm Update

05 Public Comment on New Tariff Proposals

06 Update on PSEG Long Island Contract

SEPTEMBER BOARD MEETING SIGNIFICANT AGENDA ITEMS

FOR DISCUSSION

- Independent Auditor's 2021 Audit Plan*
- Update on Board Policy Working Groups

FOR APPROVAL

- Isaias Task Force Quarterly Report and Certain Implementation Plans
- Power Purchase Agreement for Riverhead 2 Solar Project
- Integrated Resource Plan Public Comments and Scope of Work
- Annual Report on the Board Policy for Strategic Planning and Oversight
- Annual Report on the Board Policy on Construction of Transmission and Distribution Projects

WELCOME NEW LIPA TRUSTEES!



Nancy Goroff, Ph.D.

- Scientist, Professor, and former Chair of Chemistry Department at Stony Brook University
- **Education:** B.A. from Harvard, Ph.D. from UCLA
- **Community Involvement:** 2020 Congressional Candidate; Member, National Advisory Board, Union of Concerned Scientists; Faculty Affiliate of the Alan Alda Center for Communicating Science at Stony Brook University; Served as Chair of the Graduate Education Advisory Board of the American Chemical Society



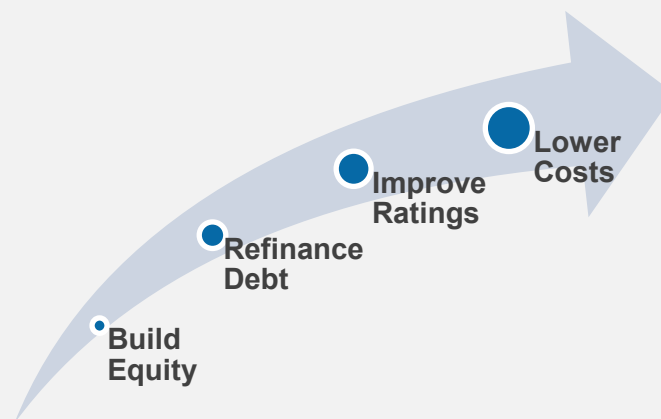
Valerie Anderson Campbell

- Human Resources expert, leads Anderson Campbell Recruiting
- **Education:** B.S. from Long Island University
- **Community Involvement:** Nassau County Director of the Long Island African American Chamber of Commerce; Vice President of Membership for the Uniondale Community Land Trust; Served on Nassau Community College's Presidential Search Committee

FITCH OUTLOOK UPGRADE

- On September 7, 2021, **Fitch Ratings revised its credit rating outlook on LIPA from Stable to Positive**, indicating the potential for a ratings upgrade in the next 12-24 months
- “The Positive Outlook reflects LIPA’s **improved leverage ratio** and Fitch’s expectation that the **deleveraging trend** that began in 2015 will continue through 2025.” – Fitch Ratings
- The LIPA Board adopted a plan in 2015 to reduce LIPA’s leverage and the cost of debt – saving customers over \$500 million and achieving **four upgrades** of LIPA’s bond ratings
- The Board revisited that plan in November 2020 and adopted the [Financial Policy Report](#) with targets for the next five years

LIPA’s Financial Policy: Build Equity to Lower Costs



LIPA Continues to Reduce Leverage and the Cost of Debt for Customers

	2013 Ratings (Outlook)	2021 Ratings (Outlook)
Moody’s Investors Service	Baa1 (Negative)	A2 (Stable)
Standard and Poor’s	A- (Negative)	A (Stable)
Fitch Ratings	A- (Negative)	A (Positive)

SOUTH FORK OFFSHORE WIND UPDATE



New York's First Offshore Wind Farm

- Last month, the Bureau of Ocean Energy Management (BOEM) completed the Final Environmental Impact Statement (FEIS)
- The FEIS determined there will be negligible to minor impacts to air and water quality, marine mammals, and bats, with many impacts offset by the benefits of wind energy in combating climate change
- South Fork Wind Farm will host the **first American-made offshore wind substation** – which are usually produced in either in Europe or Asia. Read the article in [Newsday](#)
- **Next Steps:** A final decision from BOEM on the project is expected in October
- Ørsted and Eversource, the project developers, are working to secure all permits by early 2022, with construction beginning shortly thereafter
- Clean energy to be produced under contract to LIPA

PROPOSED TARIFF CHANGES

Long Island Choice: Implementing improvements from the DPS stakeholder collaborative proceeding

Community Distributed Generation and Remote Crediting: Creating a remote crediting option for Value Stack projects, allowing for CDG credits to be returned more easily to host projects, and making it easier for CDG projects to qualify for a rate codes with lower fixed charges

Annual Budget and Rate Update: Implementing rate updates from LIPA's annual budget process

Customer Benefit Contribution Charge: Ensuring that newly net metered mass market customers contribute to the cost of customer benefit programs including low-income discounts, energy efficiency and beneficial electrification

Prolonged Outage Relief: Suspending daily service charges during prolonged outages

Miscellaneous Clean-up: Discontinuing outdoor lighting service in municipalities with "dark sky" ordinances, clarifying ambiguous tariff language

TARIFF PROPOSAL TIMELINE

September 22: Proposals published for public comment

November 29: Public comment sessions

December 6: Last day for written public comments to be incorporated into Board briefing materials

December 15: LIPA Board consideration

Proposals and instructions to join virtual public comment sessions available at: <https://www.lipower.org/about-us/tariff/proposed-rulemaking/>

Written comments should be sent to: tariffchanges@lipower.org

UPDATE ON PSEG LONG ISLAND CONTRACT



- After six months of negotiations, tentative agreement reached with PSEG Long Island on June 26, 2021 that meets [Board's reform objectives](#)
- Term sheet needs to be turned into a contract
- Public will have 30-days to review and comment on the proposed contract ahead of Board consideration

CONTRACT, METRICS, AND BUDGET

September 2021

January 2022

Contract

LIPA & PSEG LI Come to Agreement on 2nd Amended & Restated OSA

30-Day Public Comment Period

LIPA Board Approval

Review and Approval by Attorney General & OSC

Contract in Place for January 1, 2022

2022 Metrics

LIPA Develops Metrics in line with Term Sheet Agreement

PSEG LI Review & Comment

DPS Review and Recommend

November 2021 Public Hearing on Proposed 2022 Metrics and Budget

December 2021 LIPA Board Votes on Metrics

New Performance Metrics for January 1, 2022

2022 Budget

LIPA / PSEG LI Review the 2022 Operating and Capital Budget

November 2021 Public Hearings on Proposed 2022 Metrics and Budget

December 2021 LIPA Board Votes on 2022 Budget

Adopted Budget for January 1, 2022

2022 PERFORMANCE METRICS

- LIPA owns the Long Island and Rockaways electric Transmission and Distribution (T&D) system and contracts with PSEG Long Island for management services at a current fee of approximately \$80 million per year
- Variable Compensation of \$20 million is at stake pending the successful achievement of performance metrics
- An additional \$20 million is at stake for violations of the Emergency Response Plan or failure to provide safe, adequate, and reliable service to customers
- According to the term sheet agreement, there can be up to 110 metrics to determine Variable Compensation distributed among the five Scope Functions:
 - Information Technology
 - Transmission and Distribution
 - Customer Service
 - Power Supply and Clean Energy
 - Business Services

METRICS CRITERIA

Metrics must meet the following criteria:

- Relate to the general nature of one or more Scope or Sub-Scope Functions
- Be objectively verifiable — achievement is not based on LIPA’s subjective judgment or discretion (while permitting reasonable judgements such as “approval by LIPA not to be unreasonably withheld”)
- Be reasonably achievable
- Be such that the applicable budget available or to be made available is sufficient to provide a reasonable opportunity to achieve the applicable Scope Function-Specific metrics
- LIPA’s metric proposal includes traditional utility service level statistics and “project” metrics for completing specific deliverables on time and budget
 - The Board has adopted 146 project implementation plans to remediate specific management deficiencies (see [September 2021 Quarterly Report](#))
 - These and other projects will deliver tangible results to customers in areas where traditional utility service level statistics are too high level or unavailable
 - Metrics and budgets will align the Board’s policy goals with the objectives and results the utility will deliver each year

ILLUSTRATIVE SCOPE FUNCTIONS, METRIC AREAS AND INCENTIVE COMPENSATION

Transmission & Distribution	Customer Service	Information Technology	Business Services	Power Supply & Clean Energy
40% = \$8M	20% = \$4M	15% = \$3M	15% = \$3M	10% = \$2M
<ul style="list-style-type: none"> Reliability Metrics Asset Mgmt. Work Management Employee Overtime and Timekeeping Storm Hardening Vegetation Management Inventory Management Employee, Contractor and Public Safety Estimated Time of Restoration (ETR) Project Design, Construction and Cost Control 	<ul style="list-style-type: none"> Customer Experience Projects JD Power Survey Performance Customer Transactional Performance CAS Modernization Billing – Improve Quality/Timeliness, Eliminate Long-Term Estimates Collections: Net Write Offs, A/R Aging, DSO and LMI Program Contact Center: First Call Resolution / Live Agent Average Speed of Answer Customer Office Roadmap 	<ul style="list-style-type: none"> Cyber Security Organizational Performance Maturity Level Organizational Performance System and Software Lifecycle Management System Implementation System Segregation Business Continuity and Disaster Recovery Plans 	<ul style="list-style-type: none"> Strategic Planning Risk Management Human Resources Legal Performance Vendor Performance Accounting & Budgets Rates & Tariffs External Affairs & Communications Contract Administration Manual 	<ul style="list-style-type: none"> Long-Range Planning Studies, including IRP Power Contract Administration Utility 2.0 Program DER Interconnection TOU Pricing PILOTs Billing System Regulatory Requirements

Discussion

Questions?