



Public Comment Session: Reformed Management Contract with PSEG Long Island

December 2, 2021

LIPA ISAIAS TIMELINE



Tropical Storm Isaias Hits Long Island

645,000 customer outages. 8-Day Restoration. Multiple IT and communications systems failed.

ITF Issues 30-Day Report

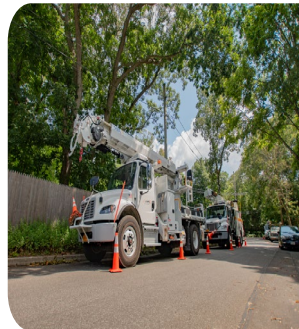
Initial findings presented related to IT system failures. Recommendations made to repair IT and communications systems with urgency.



August 5, 2020

August 4, 2020

September 23, 2020



Isaias Task Force (ITF) Created

Charged with conducting a review of the circumstances and root causes that led to the lapses in PSEG Long Island's systems. DPS also launched an independent investigation.

LIPA ISAIAS TIMELINE

DPS Issues Interim Report, LIPA Issues 90-Day Report

LIPA identifies management failures as root cause. Board and DPS ask LIPA staff to evaluate terminating or renegotiating contract to improve management and incentives. Board directs PSEG LI to implement over 85 ITF recommendations under LIPA staff oversight.

Phase II Options Analysis

Provides detail on four management alternatives. LIPA board directs staff to issue RFI as discussions with PSEG LI have not led to contract reforms.

December 16, 2020

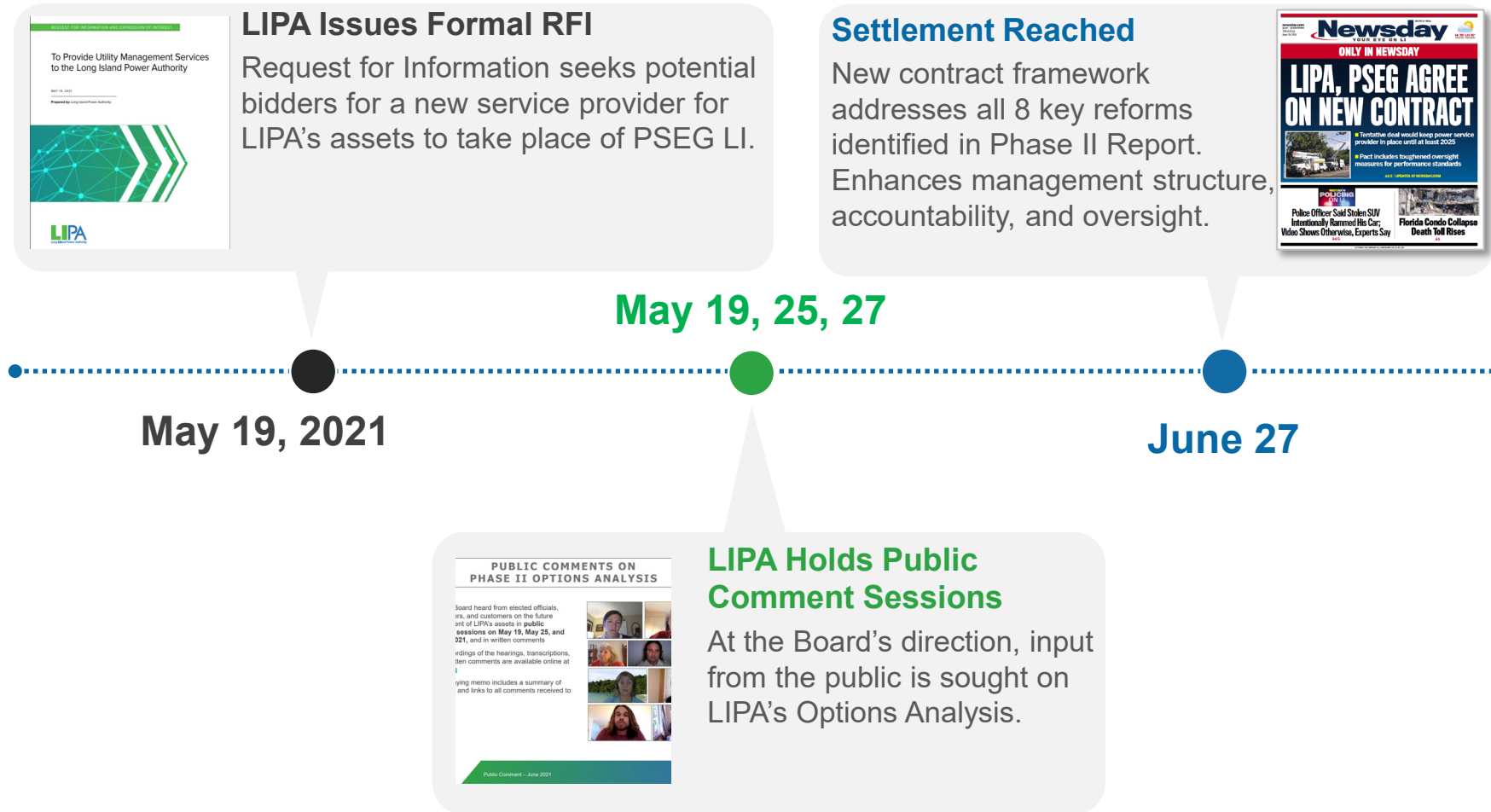
November 19, 2020

April 28, 2021

Phase I Options Analysis

Report lays out initial analysis options for future management of LIPA assets. Discussions with PSEG LI and further review of alternatives begin.

LIPA ISAIAS TIMELINE



JUNE 26 TERM SHEET AGREEMENT WITH PSEG LONG ISLAND



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

NOVEMBER 9 PROPOSED SETTLEMENT AGREEMENT WITH PSEG LONG ISLAND

LIPA & PSEG Long Island Reach Proposed Settlement Agreement, including 2022 Performance Standards and Budget



November 9

- New contract addresses all eight core contract reforms consistent with Board's publicly-stated requirements
- Enhances oversight, while driving management accountability and performance
- Consistent with the terms of the June term sheet with PSEG Long Island

Eight Core Contract Reforms Required for a New Contract with PSEG Long Island

Strengthen 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 the management services provided to LIPA
- 3** Strong gating and default metrics to discourage singularly poor performance (e.g., storms)
- 4** Strengthen Long Island-based management and accountability for Long Island operations
- 5** Require candor from service provider



Strengthen 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 by LIPA

LIPA'S OBJECTIVES FOR A REFORMED CONTRACT HAVE BEEN ACHIEVED

Reformed PSEG Long Island Contract

	Original 2013 LIPA-PSEG Long Island Contract	REFORMED 2022 LIPA-PSEG Long Island Contract	Description
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)	The reformed management contract increases the amount of PSEG Long Island's annual compensation at risk from \$10 million to \$40 million.
Objective 2: Expanded Performance Metrics with Greater Rigor Covering all Categories of Management Services			
How are Performance Metrics set?	Initially in 2013; any changes are with PSEG Long Island's agreement	Annually, by LIPA Board and DPS	Under the existing contract, PSEG Long Island is effectively able to set its own standards of performance by declining to update metrics for evolving industry trends and customer needs. Now, Performance Metrics will be set by LIPA and DPS and voted on by the LIPA Board in a public meeting at the beginning of each year.
How many Performance Metrics affect compensation?	20-26	Up to 110	PSEG Long Island will be subject to detailed performance requirements set annually by the LIPA Board and DPS to ensure the company meets industry best practices across all the management services provided to LIPA and its customers.

LIPA'S OBJECTIVES FOR A REFORMED CONTRACT HAVE BEEN ACHIEVED

	Original 2013 LIPA-PSEG Long Island Contract	REFORMED 2022 LIPA-PSEG Long Island Contract	Description
Objective 3: Strong Gating and Default Metrics to address Failure to Achieve Minimum Performance			
• Cost Management: spending more than 102% of LIPA budgeted funds	\$5-10 million	\$10-20 million	PSEG Long Island's compensation pool is automatically reduced if PSEG Long Island does not stay within budget or fails to meet minimum levels of performance in four core customer-facing categories. A new gating metric has been added for emergency preparation and response. A new default metric has been added for cybersecurity.
• Emergency Preparedness and Response: failure to achieve minimum performance score on a 48-hour or 72+ hour storm	Right to terminate after two failures on 72+ hour storm in three consecutive years	\$5 million (48-hour) to \$10 million (72+ hour) and right to terminate (72+ hour) on a single failure	
• Reliability: average customer minutes without power exceeds utility benchmark	\$13.4 million for 2 failures in 3 consecutive years (>95 Minutes)	\$10 million for failure in any contract year (>85 minutes)	
• Customer Satisfaction: failure to meet minimum customer satisfaction performance	\$13.4 million for 2 failures in 3 consecutive years on a combination of JD Power and internal customer contact surveys (unlikely to occur); right to terminate after 4 consecutive annual scores in 4th quartile	\$3 million and right to terminate for 2 consecutive annual scores in 4th quartile of JD Power Customer Satisfaction Survey beginning in 2024	
Violations of emergency response plan for failure to provide safe, adequate, and reliable service to customers	-	Up to \$20 million	The reformed contract includes a new DPS investigative process with compensation reductions for violations of PSEG Long Island's emergency response plan or failures to provide safe, adequate, and reliable service to customers.
Cybersecurity: failure to implement measures to achieve NIST Cybersecurity Framework Tier 3	-	Right to terminate	The reformed contract has a termination right for failed cybersecurity performance.

LIPA'S OBJECTIVES FOR A REFORMED CONTRACT HAVE BEEN ACHIEVED

	Original 2013 LIPA-PSEG Long Island Contract	REFORMED 2022 LIPA-PSEG Long Island Contract	Description
Contract Term			
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	The reformed contract eliminates PSEG Long Island's option to extend the contract on substantially similar terms for eight years, effectively shortening the termination date to December 31, 2025. Any renewal of the contract will be based on demonstrated performance.
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 to be added	The President and Chief Operating Officer of PSEG Long Island will have full and final operational decision-making authority. All Long Island employees report to a local manager. Local senior executives will be added to strengthen information technology, cybersecurity, emergency response, business services, and human resources.
Does the contract require transparency by PSEG Long Island around decisions to hire PSEG affiliates to provide services to LIPA?	No	Yes	The reformed contract requires a demonstration of cost savings or improved service for hiring or retaining a PSEG affiliate to perform services for LIPA. LIPA has the right to reject affiliate services that do not meet this standard.
Objective 5: Duty of Candor			
Does the contract require timely and accurate disclosure of significant operational issues?	No	Yes	The reformed contract requires timely, affirmative disclosure to LIPA and DPS of issues that significantly impair PSEG Long Island's ability to provide reliable service, emergency response, cybersecurity, financial impairment, noncompliance with laws, or circumstances that may endanger public health, safety, and welfare.
Can LIPA terminate for Violation of the Duty of Candor?	No	Yes	LIPA may terminate the contract if the PSEG Long Island violates the Duty of Candor.

LIPA'S OBJECTIVES FOR A REFORMED CONTRACT HAVE BEEN ACHIEVED

	Original 2013 LIPA-PSEG Long Island Contract	REFORMED 2022 LIPA-PSEG Long Island Contract	Description
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	The reformed contract requires PSEG Long Island to implement plans to fix known operational issues identified by LIPA management or DPS, with oversight by the LIPA Board, pursuant to agreed upon plans.
Objective 7: Long-term Planning, Budget Development, and Cost Management			
Are management objectives, budgets, and performance metrics tied together to deliver value for LIPA 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	The reformed contract requires 5-year plans for each scope of management services provided by PSEG Long Island management. Budgets and performance metrics are tied to delivering on the objectives of these plans, providing greater transparency and accountability for delivering projects and services on time and within budget.
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?	No	Yes	The reformed contract has new rights to allow LIPA to independently stress test and validate the performance of mission-critical information technology systems, such as those that failed during Tropical Storm Isaias.
Are LIPA IT systems entangled with PSEG Long Island's parent company system?	Partially merged with PSEG Long Island's parent company systems, with limited LIPA oversight	Separate, independently testable, LIPA-owned IT systems	The reformed contract requires PSEG Long Island to separate information technology platforms from New Jersey-based systems to ensure better accountability and oversight and to reduce barriers to switching to a new provider in the future, if desirable.

LIPA BOARD'S OBJECTIVES FOR SERVICE TO CUSTOMERS

The LIPA Board has set high objectives for clean, reliable, customer-first service. The reformed contract provides PSEG Long Island management accountability for these objectives



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



Reliability
within the top 10% 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

- For more information, please see the [LIPA Board Policies](#) that discuss these goals

ACCOUNTABILITY FOR PERFORMANCE

- The reformed contract between LIPA and PSEG Long Island includes **\$40 million of at-risk compensation**, or 51% of the total management fees paid each year by LIPA, including:



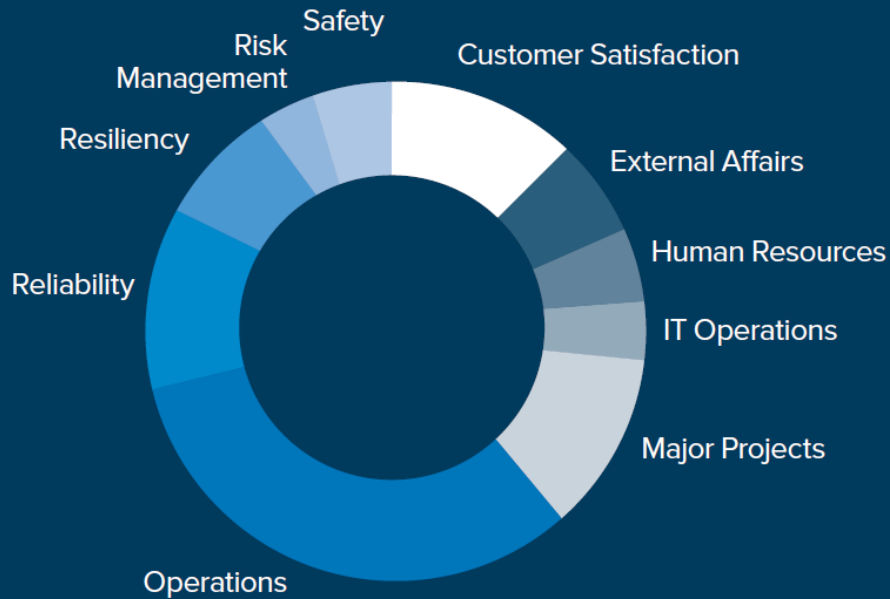
\$20 million of Variable Compensation at-risk based on performance standards set by LIPA, with an independent recommendation to the LIPA Board by the Department of Public Service (DPS)



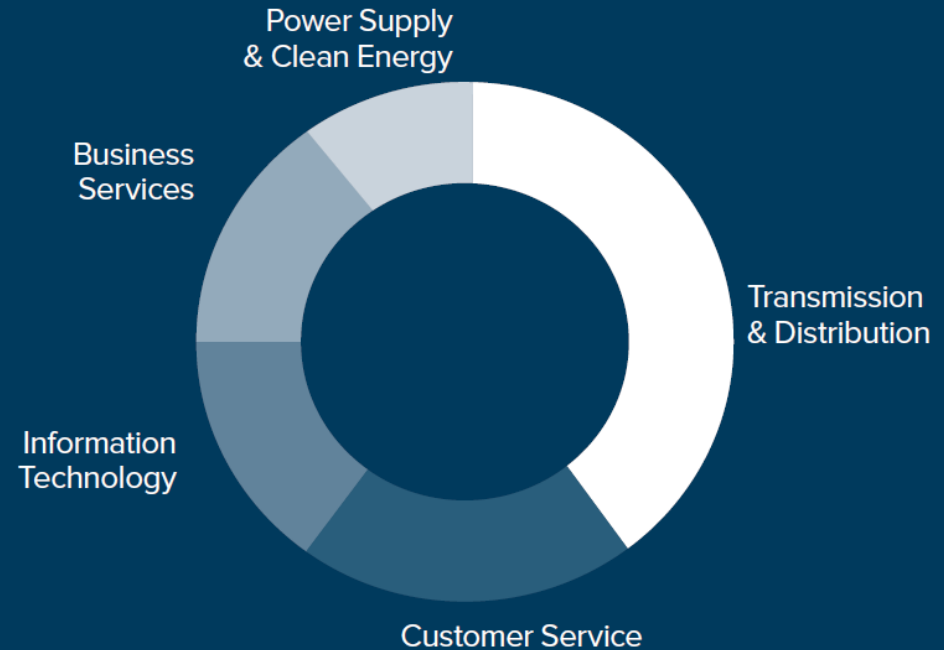
\$20 million of DPS Compensation at-risk if PSEG Long Island violates its Emergency Response Plan or fails to provide safe and adequate service, as determined by an independent DPS investigation and recommended to the LIPA Board.

PSEG LONG ISLAND'S VARIABLE COMPENSATION BY SCOPE AND AREA FOR 2022

Focus Areas for 2022 Performance Standards



2022 Performance Standards by Function



Visit www.lipower.org/reformedcontract for proposed contract and 2022 performance standards

NEW PERFORMANCE STANDARDS - HIGHLIGHTS

Major Projects	<ul style="list-style-type: none"> • Asset Management Program: Plan and implement a new asset management program consistent with ISO-55001, including developing effective asset management plans, surveying assets, and deploying a new Enterprise Asset Management System to track assets, work, maintenance, and inventory levels, to enable preventative and predictive maintenance that increases reliability and reduces cost to customers. • Primary Transmission Control Center Replacement: Complete strategic and conceptual design of a new control center to manage the electric flows on the Long Island electric grid. • Customer Information System (CIS): Plan for and deploy a new, flexible, modern CIS capable of effective and efficient customer transactions, billing and customer services.
Reliability	<ul style="list-style-type: none"> • Reliability Performance: Maintain average reliability among the top 10% of utilities; reduce the number of customers with four or more outages by 22%; reduce customers with “flicker” outages by 13%; and reduce customers with six or more “flicker” outages by 20%.
Resiliency	<ul style="list-style-type: none"> • Resiliency: Meet milestones for storm hardening program, while developing pilots and plans to underground rear-yard branch circuits, harden transmission feeds to load pockets, and operationalize smart switches. • Tree Trimming: Utilize data to target vegetation management plans to improve effectiveness, implement a new “trim to sky” protocol, and increase removal of “hazard” trees from 3,000 to 12,000 per year.
Customer Satisfaction	<ul style="list-style-type: none"> • Customer Experience Projects: Deliver seven projects to improve the customer contact and billing experience, including smart meter features, upgrading credit card vendors, enhancing the mobile app, and enhanced texting of outage information. • Call Center: Answer 80% of calls with a live agent within 30 seconds and resolve at least 80% of calls on the first call. • Email Resolution: Answer 70% of emails within 24 hours. • Social Media: Respond to 90% of social media inquiries related to health and safety with a live agent within 2 hours on blue sky days and 80% within 3 hours during storms. • Low Income Discounts: Increase participation in the low-income discount program by 34% compared to the 3-year average.

NEW PERFORMANCE STANDARDS - HIGHLIGHTS

Clean Energy	<ul style="list-style-type: none"> • Integrated Resource Plan: Complete LIPA IRP per agreed upon scope. • Energy Storage RFP: Complete studies to award contracts for 180 MW of battery storage. • Energy Efficiency and Beneficial Electrification: Achieve targets contained in annual Utility 2.0 filing. • EV Make Ready: Achieve targets in annual Utility 2.0 filing for deploying EV chargers. • DER Interconnection: Improve the interconnection process for solar systems per LIPA Board recommendations. • Time of Use Rates (TOU): Implement new TOU rates for space heating and large commercial customers; enroll 12,000 new customers in optional TOU pricing plans.
Operations	<ul style="list-style-type: none"> • Work Management: Implement new practices for short and long-term scheduling and tracking of work to optimize staffing levels, increase productivity, and reduce overtime. • Construction: Implement a minimum of 85% of capital projects on time and within the estimated cost. • Safety: Maintain the incidents rate for employee injuries among the top 25% of utilities while reducing serious injuries resulting in days away by 22%. • Contractor Performance: Implement a new contractor evaluation system to benefit from suppliers that have demonstrated experience in cost controls, performance, quality, risk management, innovation, and transformation. • Estimated Times of Restoration: Improve the accuracy of restoration time estimates provided to customers in blue sky conditions by 10%.
Information Technology	<ul style="list-style-type: none"> • IT Organizational Maturity: Improve the organization's ability to manage and implement IT projects to Level 3 as measured by the Capability Maturity Model Integration (CMMI) model. • Disaster Recovery: Complete a robust IT resiliency plan that includes thoroughly exercised disaster recovery and business continuity plans for all critical systems/processes. • Lifecycle Management: Upgrade IT assets to be within their active service life and under general support by the product vendor. • IT System Implementation: Implement 21 major IT system projects. • IT Board Recommendations: Implement 9 major IT projects related to recommendations adopted by the LIPA Board, including the Outage Management System. • IT System Segregation: Plan for and separate LIPA IT systems from PSEG New Jersey systems.

TIMELINE FOR PUBLIC REVIEW



Contract released for 30+ day public review period



Public Comment Hearings

Comments may also be submitted in writing to taskforce@lipower.org

December Board Meeting

Board expected to consider reformed contract, metrics, and budget

November 17

December 9

November 9

December 2

December 15

November Board Meeting

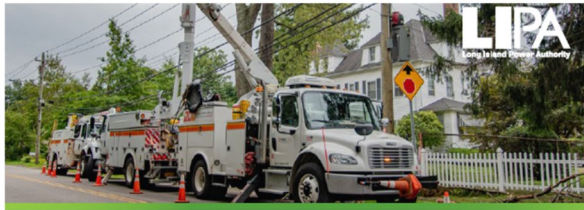
Board briefed on reformed contract and 2022 performance standards

Written Public Comment Period Ends

All comments will be provided to the LIPA Board prior to the December 15th Meeting



FOR MORE INFORMATION



Reforming Long Island's Electric Service

On November 9, 2021, LIPA announced a revised management services contract and settlement with PSEG Long Island that includes reforms designed to drive performance and accountability. This new contract is the strongest in LIPA's history, offering an unprecedented level of oversight of PSEG Long Island's operations. The reformed contract puts \$40 million in annual PSEG Long Island management fees at risk based on performance under new contract terms.

Below are answers to frequently asked questions about the contract reforms.

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

Tropical Storm Isaias caused 650,000 customers outages. On the afternoon of the storm, all PSEG Long Island's restoration and communication systems failed. Over 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 failed. PSEG Long Island's outage management system—used to dispatch trucks, estimate restoration times, and coordinate outage restoration—also failed, hampering restoration efforts.

How did LIPA respond to PSEG's failures during Tropical Storm Isaias?

On August 5, 2020, LIPA and the New York Department of Public Service (DPS) began an investigation of PSEG Long Island's response to Tropical Storm Isaias. That investigation led to the issuance of six reports between September 2020 and September 2021, including 30-Day and 90-Day reports as well as two Options Analysis reports and two Quarterly Reports.

LIPA's investigation found that the problems experienced by PSEG Long Island during the storm were preventable and that the root cause of the issues was management.

How is LIPA addressing the problems identified in the investigative reports?

The 30-Day and 90-Day Reports directed PSEG Long Island to implement 85 specific recommendations to address management, emergency management, and information technology. In subsequent Board meetings, the Board has adopted an additional 79 recommendations concerning non-storm areas of management.



Reforming Long Island's Electric Service: Accountability for Performance

The reformed contract between LIPA and PSEG Long Island includes **\$40 million of at-risk compensation**, or 51% of the total management fees paid each year by LIPA, including:

- \$20 million of Variable Compensation at-risk based on performance standards set by LIPA, with an independent recommendation to the LIPA Board by the Department of Public Service (DPS), the staff arm of the State Public Service Commission. These performance standards ensure that PSEG Long Island's compensation is tied to delivering meaningful results for Long Island and Rockaways electric customers.
- \$20 million of DPS Compensation at-risk if PSEG Long Island violates its Emergency Response Plan or fails to provide safe and adequate service, as determined by an independent DPS investigation and recommended to the LIPA Board.

For 2022, LIPA and PSEG Long Island have agreed to **96 performance standards**, distributed across all of the management services provided to LIPA and its customers. These metrics, which will be reset annually by LIPA and DPS, are designed to be achievable levels of improvement (or to maintain already high levels of service) that are objectively verifiable. The funds to achieve this performance are also budgeted, tying realistic plans and budgets to achievable, measurable outcomes each year.

Q: How do the performance standards under the reformed contract compare to LIPA's existing management contract with PSEG Long Island?

LIPA's existing contract has a limited number of performance standards that were negotiated in 2013 and that can only be updated by mutual agreement between LIPA and PSEG Long Island. Those metrics cover only a small share of the management services provided to LIPA by PSEG Long Island and only determine \$10 million (12%) of PSEG Long Island's compensation, as illustrated in Figure 1. The reformed contract includes performance standards for all the management services PSEG Long Island provides and the metrics are set independently by LIPA and DPS each year.

Figure 1: Accountability for Performance

	EXISTING CONTRACT	NEW CONTRACT
	20-26 *	96 **
Number of Performance Metrics		
Compensation at Risk	\$10 million	\$40 million

* Set in 2013 and only change with PSEG Long Island's consent
** Up to 100 metrics set annually by LIPA and DPS

[Fact Sheet: Reforming Long Island's Electric Service](#)

[Fact Sheet: Accountability for Performance](#)

Visit www.lipower.org/reformedcontract for full contract and related documents

Public Comments