



Department
of Public Service

LIPA Board of Trustees Briefing

Carrie Meek Gallagher, Nick Forst, Sanielle Worrell

July 27, 2022

AGENDA

- **Recent Updates**
- **LIPA Tariff Change Recommendations**
- **Management Audit Consultant Selection**
- **Utility 2.0 & EEBEDR Plan Public Comment Period**

RECENT UPDATES

- DPS last addressed the LIPA Board December 2021.
- Recent Recommendations:
 - Matter 21-01918: PSEG LI 2021 Incentive-Based Compensation, issued May 13, 2022.
 - Matter 22-00945: LIPA Tariff Changes, issued July 17, 2022.
 - Matter 21-02415: PSEG LI Emergency Response Plan, issued July 22, 2021.

LIPA Tariff Changes – Matter 22-00945

LIPA TARIFF CHANGES

- **Time-of-Use Rate for Large Commercial Customers:**
 - Positive Recommendation by DPS.
 - Shorter Peak Period to better manage energy usage.
 - Seasonal Differential Pricing aligned with Department's 2015 Final Rate Recommendation.
 - Adds to residential and small commercial offerings.
 - Benefits customers and LIPA/PSEG LI.
 - Save customers \$; operational benefits to the utility.

LIPA TARIFF CHANGES

- **Smart Meter Opt-Out Fee:**
 - Positive Recommendation by DPS.
 - Originally envisioned as part of AMI Deployment Plan 2017 & 2018.
 - PSEG LI's AMI installation outpaced original timeline.
 - 99% deployment by Aug 2022; 15 months ahead of schedule.
 - Fee recovers actual costs and \$ amount is consistent with NYS' IOUs.
 - DPS recommends LIPA update Tariff Statement to reflect \$11.40 fee (daily opt-out fee \$0.38).
 - Balances customer concerns with efficient utility operations.

<u>IOU Opt-Out Fees*</u>	<u>Electric</u>	<u>Gas</u>
Con Ed	\$9.50	\$9.50
RGE	\$11.56	\$11.56
NYSEG	\$13.47	\$13.47
NiMo	\$11.64	\$11.64
ORU	\$10	\$10
Central Hudson	\$0	\$0
KEDLI		\$7.77
KEDNY		\$0
<u>Average</u>	<u>\$11.23</u>	<u>\$10.66</u>

*IOU fees reflect bi-monthly meter reads.



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LIPA/PSEG LI Management Audit – Matter 21-00618

LIPA/PSEG-LI MANAGEMENT AUDIT

- **Audit Initiation:**

- DPS addressed the Board in Dec '21 initiating the Audit.
- Request for Proposals issued April 8, 2022, after Second Amended & Restated OSA became effective.
- Distributed to 98 Firms, Posted on DPS Website, Posted on NYS Contract Reporter Website.

AUDIT SCOPE AREAS

- **LIPA Reform Act Mandated Scope Areas:**
 - PSEG LI's construction and capital program planning in relation to the needs of its customers for reliable service;
 - The overall efficiency of LIPA's and PSEG LI's management and operations;
 - The manner in which LIPA is meeting its debt service obligations;
 - LIPA's Fuel and Purchased Power Cost Adjustment clause and recovery of associated costs;
 - LIPA's and PSEG LI's annual budgeting procedures and processes;
 - The application of performance metrics designated in the operations services agreement and the accuracy of the associated data;
 - LIPA's compliance with debt covenants.

ADDITIONAL SCOPE AREAS

Added in 2016:

- Corporate Governance
- Review Implementation of Prior Audit Recommendations

New Scope Topics for 2022:

- COVID-19 Impact on Customer Service
- AMI Smart Meter Deployment
- Climate Leadership & Community Protection Act (CLCPA)
- LIPA's Fixed Obligation Coverage Target
- Cyber Security and System Design and Performance

AUDIT EVALUATION CRITERIA

Audit Approach and Quality

- Understanding scope areas
- Understanding of LIPA, PSEG LI, & audit related subject matter
- Customer Benefit Analyses
- Proposed schedule & time management
- Quality of presentation material & delivery

AUDIT EVALUATION CRITERIA

Experience

- Team dynamics
- Team members' experience relative to their scope area assignments;

MWBE and SDVOB

- Verify Minority and Woman Owned Business Enterprise (MWBE) & Service-Disabled Veteran Owned Business (SDVOB) status.

Cost

DPS SELECTION



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WHY NORTHSTAR?

- **NorthStar Consulting Group, Inc.**
 - Scored the highest points and provides the best value.
 - Prior audit experience from 2016 and 2012.
 - Located in Santa Maria, California and specializes in services to the utility, transportation and public service industries.
 - Experienced and qualified.
 - Currently concluding CECONY and O&R audit for DPS.
 - Has performed six prior DPS audits:
 - National Grid Electric MA (2009), Central Hudson Gas and Electric MA (2011), LIPA MOA (2013), National Grid Gas Companies MA (2014), CECONY and O&R MOA (2016), LIPA PSEG LI MOA (2018), and National Fuel Gas MA (2020).
- Not-to-exceed cost of \$1,922,400.



NEXT STEPS

- LIPA Board Approval to enter into contract between LIPA, NorthStar, and DPS – July 27, 2022.
- Submission of package to the NYS Office of the Attorney General and NYS Office of the State Comptroller for review and approval.
- Public Input Hearings anticipated September/October 2022.
- Audit activities to begin shortly thereafter.
- Audit anticipated to run through end of 2023.

Utility 2.0 and EEBEDR Plan Review – Public Comment Period



PUBLIC COMMENT PROCESS

- Public Comment Notice issued July 6, 2022:
 - **Initial comments by Monday, August 22, 2022**
 - **Reply comments by Wednesday, September 7, 2022**
- Plans available on DPS' website
 - www.dps.ny.gov by searching for Matter 14-01299 or may be viewed at www.dps.ny.gov/longisland by following the appropriate links.
 - Electronic comments by e-filing through the Department's Document and Matter Management System (DMM).
 - Mail comments addressed to the Hon. Michelle L. Phillips, Secretary, New York State Department of Public Service, Three Empire State Plaza, Albany, NY 12223-1350.
 - Refer to "Matter 14-01299 – PSEG LI Utility 2.0 Plan" or "Matter 14-01299 - PSEG LI EEBEDR Plan."
- All comments filed with the Secretary will be posted to the Department's website and considered by the Department in its review and development of recommendations.

FOR CONSIDERATION

July 27, 2022

TO: The Board of Trustees

FROM: Thomas Falcone

SUBJECT: Consideration of Approval of the Engagement of Consultant to Provide Management and Operations Audit Services

Requested Action

The Department of Public Service (“DPS”) is recommending that the Trustees adopt a resolution authorizing the Chief Executive Officer, or his designee, to engage NorthStar Consulting Group, Inc. (“NorthStar”), to provide management and operations audit services for and under the direction of DPS in accordance with the LIPA Reform Act of 2013 (the “LIPA Reform Act”).

Background

The Department of Public Service (“DPS” or “Department”) issued a Request for Proposals (“RFP”) on April 8, 2022, seeking an experienced consulting firm to conduct the audit. The RFP was: (i) distributed to 98 firms on a list maintained by DPS (identifying firms that have indicated an interest in receiving requests for proposals regarding management and operations audits of utilities in New York State), (ii) posted on the DPS website, and (iii) posted on the State Contract Reporter website.

The Department received three proposals by the June 8, 2022 deadline for responses to the RFP. DPS disqualified one proposal for failure to conform to the requirements of the RFP. An evaluation committee made up of 16 representatives from various offices within DPS conducted a comprehensive review of the remaining proposals. The evaluation criteria were based on the following factors:

(1) Audit Approach and Quality – considers and evaluates a) proposed methods to perform the audit, b) how well the firm demonstrates an understanding of the scope areas to be reviewed, c) amount of research the firm did regarding LIPA and its Service Provider and audit related subject matter, d) customer benefit analyses approach, e) proposed schedule, and f) time allocated for each scope area to be reviewed; g) Quality – considers and evaluates the consulting firm’s quality of writing and its ability to clearly convey an understanding of each scope area in the proposal evaluation and then considers and evaluates the preparation and presentation exhibited by the proposed team during the finalist interviews;

(2) Relevant Experience of the Firm and Individuals – considers and evaluates the relevant experience of the firm performing an audit, the proposed team’s ability to work together, and the experience of the proposed members of the team relative to their scope area assignments;

(3) MWBE and SDVOB – reviews and evaluates if the firm is certified as a Minority and Women Owned Business Enterprise (MWBE) or a Service Disabled Veteran Owned Business (SDVOB); and

(4) Cost – based on a formula.

Based on DPS Staff's proposal evaluations, interviews were conducted with the two highest scored firms based on the evaluation criteria outlined above. Following the interviews, the selection committee determined that NorthStar Consulting Group, Inc. scored the highest points and provides the best value, also taking into account its prior audit experience that is aligned with this audit and NorthStar's proven ability to be responsive to changes.

NorthStar is located in Santa Maria, California and specializes in services to the utility, transportation and public service industries. NorthStar's core members have worked on numerous engagements for utilities and public utility commissions, and they are working on the current Con Edison and Orange and Rockland (CECONY and O&R) Management and Operations Audit, which is scheduled to be finalized in August 2022. In addition, NorthStar has performed the following six prior DPS audits (year indicates when the final audit report was released publicly): National Grid Electric MA (2009), Central Hudson Gas and Electric MA (2011), LIPA MOA (2013), National Grid Gas Companies MA (2014), CECONY and O&R MOA (2016), LIPA PSEG LI MOA (2018), and National Fuel Gas MA (2020). Furthermore, based on NorthStar's proposal and interview, DPS determined that each member of NorthStar's proposed team demonstrated a sufficient understanding of LIPA, and had sufficient experience to properly conduct the audit, which set NorthStar apart from its nearest competitor. NorthStar has proposed to conduct the audit for a not-to-exceed cost of \$1,922,400.

Recommendation

Based on the foregoing, DPS recommends approval of the above-requested action by adoption of a resolution in the form of the attached draft resolution.

Attachment

Exhibit "A" Resolution

Exhibit "B" DPS Selection Letter

**ENGAGEMENT OF CONSULTANT TO PROVIDE MANAGEMENT AND
OPERATIONS AUDIT SERVICES TO THE DEPARTMENT OF PUBLIC SERVICE**

RESOLVED, that consistent with the accompanying memorandum, the Chief Executive Officer, or his designee be, and hereby is, authorized to engage NorthStar Consulting Group, Inc., to provide management and operations audit services for and under the direction of the Department of Public Service consistent with the LIPA Reform Act of 2013, and to take such other and further actions necessary to effectuate and implement such audit.



**Department of
Public Service**

Rory M. Christian
Chair and
Chief Executive Officer

125 East Bethpage Road, Plainview, NY 11803
www.dps.ny.gov/longisland

July 18, 2022

Via Electronic Mail:

Mr. Thomas Falcone
Chief Executive Officer
Long Island Power Authority
333 Earle Ovington Blvd.
Suite 403
Uniondale, NY 11553
tfalcone@lipower.org

Re: Matter 21-00618 – In the Matter of a Comprehensive and Regular
Management and Operations Audit of Long Island Power Authority and
PSEG Long Island LLC

Dear Mr. Falcone:

The Department of Public Service (the Department), pursuant to Public Service Law (PSL) §3-b(3)(d), has selected NorthStar Consulting Group, Inc., (NorthStar or the Auditor) to perform a Comprehensive and Regular Management and Operations Audit of the Long Island Power Authority (LIPA or the Authority) and its Service Provider, PSEG Long Island LLC.

Further, PSL §3-b(3)(d) authorizes the Department to require LIPA to enter into a contract with the Auditor, whereby the auditor shall work for and under the direction of the Department, and whereby the cost of the audit is paid by LIPA. The actual cost of the audit shall not exceed \$1,922,400.

A memorandum and supporting materials have been provided for action by the LIPA Board of Trustees at its meeting on July 27, 2022, for LIPA to enter into a contract to engage NorthStar for their services. Upon approval by the Board and subsequent execution by LIPA, please return three original contracts to the Department. The fully executed contracts will be submitted to the New York State Office of the Comptroller and the Office of the Attorney General for their approval.

If you have any questions, please contact the Department's Project Managers, Daniel Pohorecky at (516) 490-2319 and Pooja Oberoi at (516) 490-2328. Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "Rory Christian", with a stylized flourish at the end.

Rory Christian
Chair & CEO

CC: Bobbi O'Connor, LIPA General Counsel & Secretary to the Board of Trustees
David C. Lyons, PSEG LI Interim President and Chief Operating Officer
Andrea Elder-Howell, PSEG LI VP – Legal Services, Engagement Director
Michael Ennis, PSEG LI Regulatory Compliance Manager, Project Manager
Carrie Meek Gallagher, DPS LI Director
Nicholas Forst, DPS LI Counsel
Peter Hilerio, DPS LI Counsel