

**LONG ISLAND POWER AUTHORITY**

**MINUTES OF THE 311th MEETING**

**HELD ON NOVEMBER 16, 2022**

*The Long Island Power Authority (“LIPA”) was convened for the three hundred and eleventh time at 11:34 a.m. at LIPA’s Headquarters, Uniondale, NY, pursuant to legal notice given on November 10, 2022, and electronic notice posted on the LIPA’s website.*

*The following LIPA Trustees were present:*

**Sheldon Cohen, Acting Chair (in person)**  
**Elkan Abramowitz (in person)**  
**Valerie Anderson Campbell (via video conferencing)**  
**Drew Biondo (in person)**  
**Rev. Al Cockfield (in person)**  
**Nancy Goroff (via video conference)**  
**Lauren Harris (in person)**

**Representing LIPA, in person, were Thomas Falcone, Chief Executive Officer; Bobbi O’Connor, General Counsel & Board Secretary; Donna Mongiardo, Vice President-Controller; Billy Raley, Senior Vice President of Transmission & Distribution; Ricky de Aragon, Vice President of Strategy and Performance Management; Carolyn MacKool, Director of Customer Experience; Jen Hayen, Director of Communications; and Andrew Berger, Communications Assistant. Participating via video conferencing were Jason Horowitz, Assistant General Counsel and Assistant Secretary to the Board; and Osman Ahmad, IT-Consultant.**

**Representing Fitch Ratings was Dennis Pidherny, Managing Director, Public Finance.**

*Acting Chair Cohen welcomed everyone to the 311th meeting of the Long Island Power Authority Board of Trustees.*

*During his opening remarks, Acting Chair Cohen thanked former Trustee Ali Mohammed for his service and presented the following resolution which was unanimously approved by the Trustees:*

**1751. THE BOARD OF TRUSTEES OF THE LONG ISLAND POWER AUTHORITY RECOGNIZES THE DEDICATED SERVICE OF ALI MOHAMMED**

**WHEREAS, Trustee Ali Mohammed has had a distinguished business career as an executive at domestic and international organizations, including companies that provide investor communications, technology-driven solutions, and data and analytics to the financial services industry; and**

**WHEREAS, Trustee Mohammed was appointed to the LIPA Board of Trustees in June 2019, during a critical time for New York State's transition to a carbon-free electric grid, and was an advocate for those efforts during his service on the LIPA Board; and**

**WHEREAS, Trustee Mohammed strongly believes in LIPA's purpose of service to our community, and was a tireless advocate for LIPA's customers during his service on the Board, while always maintaining a high level of thoughtfulness on all matters; and**

**WHEREAS, Trustee Mohammed, used his business and technology background to play a leading role on the Board after Tropical Storm Isaias to ensure that our customers received the high level of service they deserve; and**

**WHEREAS, Trustee Mohammed diligently served the customers of Long Island and the Rockaways during his tenure on the LIPA Board and was a vocal advocate for a smarter, cleaner, and more affordable electric grid; and**

**NOW, THEREFORE, BE IT RESOLVED, that the Board of Trustees hereby duly recognizes the friendship and faithful service of Trustee Ali Mohammed.**

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*Acting Chair Cohen stated that the first item on the agenda was the Consideration of the Consent Agenda Items.*

*After questions and a discussion by the Trustees, and the opportunity for the public to be heard, upon a motion duly made and seconded, the following resolutions were unanimously adopted by the Trustees based on the memoranda summarized below:*

**1752. APPROVAL OF MINUTES AND RATIFICATION OF ACTIONS TAKEN AT THE SEPTEMBER 28, 2022 MEETING OF THE BOARD OF TRUSTEES OF THE LONG ISLAND POWER AUTHORITY**

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**RESOLVED**, that the Minutes of the meeting of the Authority held on September 28, 2022 are hereby approved and all actions taken by the Trustees present at such meeting, as set forth in such Minutes, are hereby in all respects ratified and approved as actions of the Authority.

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**Requested Action**

The Board of Trustees (the “Board”) of the Long Island Power Authority (“LIPA”) is requested to adopt a resolution: (i) approving the annual report on the Board Policy on the Power Supply Hedging Program (the “Policy”) for the period since the last annual review; and (ii) finding that LIPA has complied with the Policy, which resolution is attached hereto as Exhibit “A”.

**Background**

By Resolution No.1352, dated March 29, 2017, the Board adopted the Policy to maintain an effective commodity hedging program (“Program”), focused on meeting the expectations of LIPA’s customers for reasonable stability and predictability in power supply costs. The Policy was last reviewed and amended by Resolution No. 1493, dated September 25, 2019.

The Committee, in its charter, was delegated the responsibility of reviewing LIPA’s practices relating to commodity risk management. The F&A Committee considers as part of its review whether LIPA and its Service Provider, PSEG Energy Resources and Trade (“PSEG ER&T”) has remained in compliance with the Policy. As set forth in the Policy, certain responsibilities were delegated by the Board to the Chief Executive Officer, including maintaining a Power Supply Risk Management Committee (“PRMC”) to oversee the activities of PSEG ER&T.

Specifically, the Policy provides that “the Chief Executive Officer, or his or her designee, will provide an annual compliance report on the Power Supply Hedging Program to the Finance and Audit Committee.”

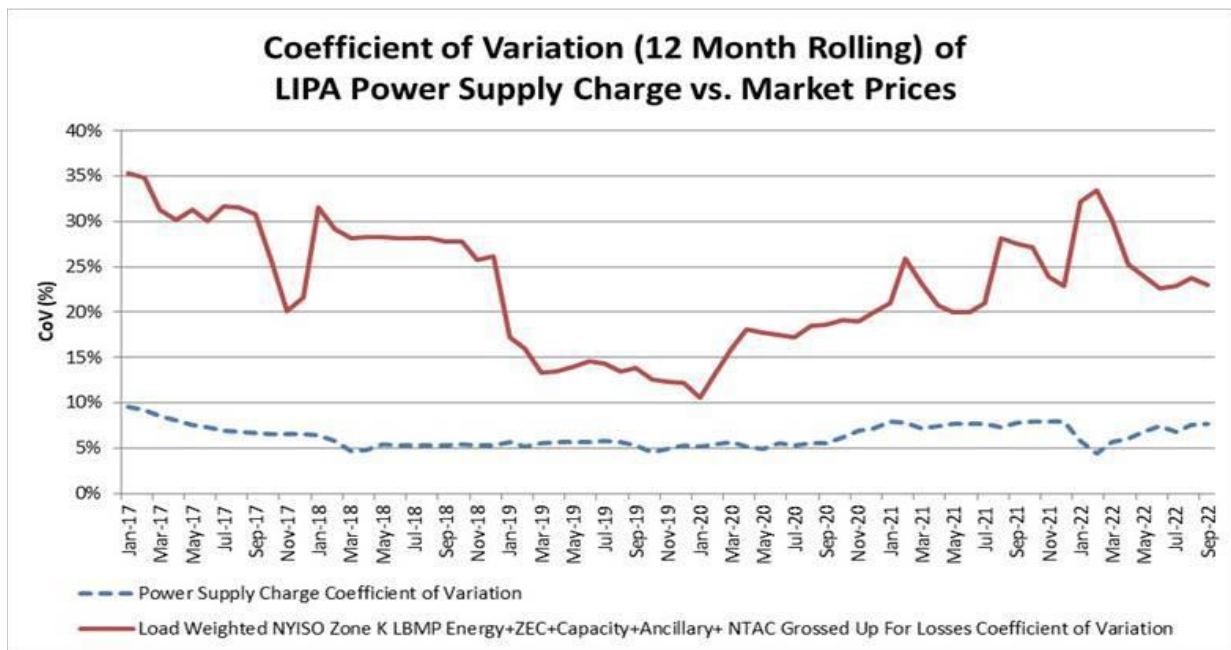
**Compliance with the Policy**

LIPA Staff recommends that, for the reasons set forth below, the Board find that LIPA has complied with the objectives of the Policy for the period since the last annual review.

The Policy is intended to “Mitigate a portion of the volatility of power supply costs in a programmatic and reasonable way on behalf of the LIPA’s customer-owners.”

The PRMC approves the LIPA Hedge Plan, which identifies certain power supply cost components that can be hedged to create reasonable and stable rates. In general, actively hedging these cost components has proven to reduce the Power Supply Charge (“PSC”) volatility for LIPA’s customers compared to purchasing power and fuel in the open market.

As part of its biannual Hedge Program update, on November 16, 2022, Mr. Steven Oster from PSEG ER&T will present to the F&A Committee a graph indicating the actual PSC volatility as compared to the volatility customers would be exposed to based upon unhedged market prices. The following graph indicates that the LIPA’s PSC volatility through September 2022 is approximately 8%, while market price volatility is nearly three times that amount at 23%.



The Policy shall be “executed using financial derivative and physical supply and delivery contracts for a portion of LIPA’s projected fuel and purchased power purchases, provided, however that: the net hedge position does not exceed 90% of projected fuel and purchased power needs; and the term of any such hedge does not exceed ten years without the prior approval of the Board or a term in excess of seventy-two (72) months without the prior approval of the Finance and Audit Committee of the Board.”

- PSEG ER&T authorized traders to execute both financial and physical hedge transactions on LIPA’s behalf for defined volumes that as of November 1, 2022, would be within a 48- month hedge horizon. All transactions are monitored by PSEG Enterprise Risk Management Back-Office operations (“PSEG Back-Office”) for

compliance; PSEG Back- Office generates and distributes hedge ratio position reports daily, weekly, and monthly to LIPA’s PRMC.

- Hedge transactions are triggered based on a time or value trigger protocol that has been established with an independent third-party hedge advisor. Time-trigger transactions allow for the accumulation of minimum required volume hedge levels under all price environments. Value-triggered transactions allow for the accumulation of additional hedge levels based on lower decile pricing levels of value versus four-year historical pricing. In addition, volumes associated with Board-approved Purchase Power Agreements (“PPAs”) having fixed prices and LIPA’s 18% ownership of Nine Mile Point 2 are included as part of the hedged volume. Currently, the PRMC has set a maximum hedge level limit of 85%.
- No hedges exceed a term of seventy-two months, and the net hedge position does not exceed 90% of projected fuel and purchased power requirements, meeting the requirements of the Policy.

The Policy states that the Program shall “Achieve appropriate risk mitigation and is not for purposes of financial speculation.”

- All transactions are based on PRMC Approved projected fuel and power requirements associated with LIPA-approved annual sales forecast. Specific power supply component volumes are also validated against historical actual consumption data. Each hedge transaction is reviewed by PSEG Enterprise Risk Management’s Middle-Office group (“PSEG Middle-Office”) for compliance with the PRMC-approved LIPA Hedge Plan, which is part of the LIPA Policies, Controls and Procedures Manual for Power Supply Hedging Program (“Manual”).

The Policy states that the Program shall “Provide transparency regarding LIPA’s commodity risk management activities and the results of such activities.”

- PSEG ER&T, PSEG Back-Office, and PSEG Middle-Office provide to the PRMC staff on a daily, weekly, and monthly basis a hedge transaction report, hedge position report, and position valuation report. In addition, the following table identifies several other required reports to the PRMC and LIPA’s F&A Committee, their distribution and reporting frequency, and the originator of the reports.

Report	Distribution	Normal Frequency	Originator
Trading Activity Summary	PRMC Traders	Daily Weekly	Front Office Middle Office
Position Report	PRMC Traders	Weekly	Middle Office

Credit Risk Exposure Reports	PRMC Traders	Weekly	Middle Office
PRMC Meeting Minutes	PRMC	As Meetings are Held	PRMC Designated Secretary
Benchmarking	PRMC	Quarterly	Independent third-party hedge advisor
Power Supply Hedging Program	Board Finance & Audit Committee	Bi-annually	PSEG ER&T
Annual Compliance Report	Board Finance & Audit Committee	Annually	CEO or Designee

The Policy requires that “LIPA’s Chief Executive Officer shall appoint a Power Supply Risk Management Committee (“PRMC”) consisting of at least three LIPA staff, two of which must be drawn from LIPA senior management. The PRMC will establish, maintain, and monitor processes and controls, the conduct of LIPA’s Power Supply Hedging Program, and the activities of its Service Provider, PSEG Energy Resource and Trade (“PSEG ER&T”). The key provisions of the PRMC’s activities shall include”:

“Oversight and ensuring that all Program activities conducted by LIPA and PSEG ER&T are in accordance with the Board Policy.”

- LIPA’s CEO has established a PRMC in compliance with the Board Policy. All active participants of the Power Supply Hedging Program are required to read and comply with the PRMC Approved Policies, Controls and Procedures Manual for Power Supply Hedging Program, which incorporates the Board Policy. All active participants are required to certify compliance with the Manual and Policy by executing the Yearly Certification of Compliance with Risk Management Policy and Procedures Form.

“Determining LIPA’s tolerance for exposure to fuel and purchased power price movements and power supply cost volatility considering the costs of limiting such exposure.”

- The PRMC has approved a Manual for the hedging Program that establishes LIPA’s tolerance for exposure to fuel and purchased power price movements. The PRMC has established minimum and maximum hedging limits by time period as well as collateral posting limits.
- The cost of the hedging Program is evaluated each day in the form of mark-to-market value of the positions and stress testing collateral exposure potential of all positions executed to limit PSC volatility.

“Addressing all risk factors that are demonstrably quantifiable, actionable and material to the Program.”

- **The PRMC-approved Manual specifically identifies authorized markets and delivery points, permissible hedge instruments, and the terms and volumes available for hedging to reduce PSC volatility. Within the Manual, there is also a specific LIPA Hedge Plan that addresses the PSC hedge components that are quantifiable, actionable and there is market liquidity available to hedge the required products and delivery points (i.e. natural gas, gas basis, power, power basis).**

**“Establishing risk boundaries consistent with such tolerances and evaluating allowable financial and physical instruments in executing the Program.”**

- **The PRMC-approved Manual specifically identifies authorized markets, delivery points, permissible hedge instruments, terms, and volumes associated with hedging to reduce PSC volatility. Within the Manual, there is also a specific LIPA Hedge Plan which addresses the minimum and maximum hedge levels by time-period – consistent with utility peers.**

**“Establishing appropriate processes and protocols to review and monitor counterparty credit worthiness on a regular basis.”**

- **The Manual identifies specific procedures carried out by PSEG Credit Risk Management on behalf of LIPA for managing and monitoring counterparty credit risk on an on-going basis. PSEG Credit Risk Management provides the PRMC with a credit report each week as noted above.**

**“Monitoring Commodity Futures Trading Commission rulemaking and all other regulatory and legal requirements to ensure that LIPA is taking all actions required to maintain compliance with respect to any transactions under the Power Supply Hedging Program.”**

- **PSEG ER&T, PSEG Corporate Legal department and LIPA’s internal and outside counsel monitor Commodity Futures Trading Commission regulatory rulemaking to determine what actions, if any, LIPA is required to undertake to assure continued compliance.**

### **Annual Review of the Policy**

**The Policy was last amended by the Board pursuant to Resolution No. 1493, dated September 25, 2019, at which time the Policy was significantly updated. LIPA Staff has completed its annual review of the Policy and has no suggested amendments at this time.**

### **Recommendation**

**Based upon the foregoing, I recommend approval of the above requested action by adoption of a resolution in the form attached hereto.**

**1753. RESOLUTION APPROVING THE ANNUAL REPORT ON THE BOARD POLICY ON THE POWER SUPPLY HEDGING PROGRAM**

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WHEREAS, the Board Policy on the Power Supply Hedging Program (the “Policy”) was originally approved by the Board of Trustees by Resolution No.1352, dated March 29, 2017; and

WHEREAS, the Policy was last reviewed and amended by Resolution No. 1493, dated September 25, 2019; and

WHEREAS, the Finance and Audit Committee (the “Committee”) of the Board of Trustees (the “Board”) has conducted an annual review of the Policy and has recommended that the Policy has been complied with.

NOW, THEREFORE, BE IT RESOLVED, that consistent with the accompanying memorandum, the Board hereby approves the annual report on the Policy and finds that LIPA has complied with the Policy for the period since the last annual review.

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**Requested Action**

The Board of Trustees (the “Board”) of the Long Island Power Authority (“LIPA”) is requested to approve a resolution adopting this report detailing the status of the implementation plan and results from the 2018 NorthStar Management Audit.

**Background**

On June 29, 2018, NorthStar’s Final Management Audit Report was released with 49 recommendations. Recommendation #3 was that “LIPA Internal Audit should perform a comprehensive audit of the implementation status of all audit recommendations annually until the next DPS audit is performed.”

The LIPA Board of Trustee’s Policy on Audit Relationships establishes the Board’s expectations for Internal Audit’s review. Each annual review includes: a summary of the activities completed to date and any revisions to completion targets; and a review of the effectiveness of the implementation plan in addressing each audit recommendation after the completion of the implementation plan for that recommendation. This report is Internal Audit’s fourth annual review of the implementation of the management audit.

The status of the 49 NorthStar Management Audit recommendations are summarized in the APPENDIX “A” – Management & Operations Audit Implementation Plan Progress Report to the LIPA Board of Trustees.

**Summary Observations based on testing performed as of November 16, 2022**



Internal Audit completed the review of 40 of the 49 NorthStar Management Audit recommendations. The review of an additional 9 recommendations is expected to be completed in 2023.

In addition to Internal Audit's testing, LIPA management has identified areas where Board recommendations or Project Implementation Plans will enhance the existing deliverables.

Internal Audit is also collaborating and incorporating comments by the Department of Public Service ("DPS") into our review of the effectiveness of the implementation plans in addressing the NorthStar Management Audit recommendations.

Where required, Internal Audit will revisit the completed recommendations to ensure the management action plans are operating and functioning as intended.

### Summary of Annual Audit Results

#### NorthStar Management Audit (2018) Recommendation #2

LIPA and PSEG LI should develop an implementation plan for all audit recommendations (new recommendations and outstanding recommendations that LIPA, PSEG Long Island and DPS determine remain relevant) within 90 days of the Final Audit Report acceptance and submit the implementation plan to the LIPA Board of Trustees and the DPS. The Report could take the form required of the investor-owned utilities.

#### Test Procedures Performed and Test Results:

Reviewed supporting documentation to ascertain that:

- LIPA and PSEG Long Island filed an implementation plan with the LIPA Board of Trustees and DPS on October 24, 2018.
- LIPA submitted an Implementation Plan Progress Report to the LIPA Board of Trustees, posted the report on the LIPA website, and filed the report with DPS on November 17, 2021.

No exceptions noted.

#### NorthStar Management Audit (2018) Recommendation #3

LIPA Internal Audit should perform a comprehensive audit of the implementation status of all audit recommendations annually until the next DPS audit is performed. The results of LIPA's audit should be submitted to LIPA executive management, the LIPA Board of Trustees, PSEG Long Island, and the DPS. Within each LIPA audit:

- An evaluation of progress performance should be included.
- A progress tracking document should show activities completed to date and those in process.
- Any revisions to completion targets should be highlighted for management review.

#### Test Procedures Performed and Test Results:

Reviewed supporting documentation to ascertain:

The submission of the third annual report to the Oversight and Clean Energy Committee of the Board, the DPS, and PSEG Long Island of the status of the implementation plan and the results of the initial annual audit on November 17, 2021.

No exceptions noted.

**NorthStar Management Audit (2018) Recommendation #5**

LIPA should formally request appointments or confirm extensions to Board member term periods at least six months prior to term expirations.

**Test Procedures Performed and Test Results:**

Reviewed supporting documentation to ascertain:

The schedule prepared of trustee term expiration dates, calendar notification reminders of expirations and letters sent to the appropriate approving authorities at least six months prior to term expirations.

No exceptions noted.

**NorthStar Management Audit (2018) Recommendation #6**

- LIPA and PSEG Long Island should continue to develop an effective, comprehensive ERM process. Perform a periodic ERM Maturity Assessment Review- Initial.
- Review, and if necessary, propose revisions to the LIPA ERM Board Policy Statement.
- Identify a risk liaison per line of business to help increase risk awareness (identify Risk Liaisons for LIPA Departments and PSEG Long Island lines of business - Customer Operations, Electric Operations, Power Markets, and Business Services).
- Establish process to integrate ERM information/findings into the LIPA Strategic Planning process.
- Develop risk reporting framework for department, organization, and Board reporting (frequency and depth).
- Review of the LIPA/PSEG Long Island joint ERM Procedures Manual (internal document).
- Develop prioritized portfolio view of all enterprise/corporate risks.
- Review risk profile with each department V.P. for consensus.
- Establish a framework and identify emerging risks.
- Perform second annual ERM Maturity Assessment - Review.
- Introduce velocity as an additional component in assessing risk.
- Perform deep-dive analysis on key enterprise/corporate risks.
- Document response strategy and current mitigation actions for top enterprise/corporate risks.
- Perform third annual periodic ERM Maturity Assessment Review.
- Establish a framework to monitor and measure the effectiveness of risk mitigation/reduction efforts.
- Perform fourth annual periodic ERM Maturity Assessment Review.
- Perform fifth annual periodic ERM Maturity Assessment Review.

- Integrate updated and revised risk data into the business planning cycle to help prioritize O&M, capital and resource allocations.

#### **Test Procedures Performed and Test Results:**

##### **Reviewed supporting documentation to ascertain:**

- The ERM Maturity Assessment Review was performed and the results of the assessment performed by the CEB Risk Management Leadership Council was provided entitled “CEB Ignition (Gartner) Diagnostic for Risk Management – PSEG Long Island Results” (dated July 2018).
- Review the LIPA ERM Board Policy Statement and proposed revisions.
- Review risk liaison per line of business assigned to help increase risk awareness (identify Risk Liaisons for LIPA Departments and PSEG Long Island lines of business - Customer Operations, Electric Operations, Power Markets, and Business Services).
- Review documentation on establishing a process to integrate ERM information/findings into the LIPA Strategic Planning process
- Review documentation on developing a risk reporting framework for department, organization, and Board reporting (frequency and depth).
- Examine the Review of the LIPA/PSEG Long Island joint ERM Procedures Manual (internal document) revised 6/20/2019.
- Review the prioritized portfolio view developed of all enterprise/corporate risks.
- Review risk profiles reviewed with each department V.P. for consensus.
- Review documentation of the establishment of a comprehensive ERM framework for LIPA and PSEG Long Island and identify emerging risks.
- The Second Annual ERM Maturity Assessment was performed. The results of the assessment performed by Gartner were provided in the attached report entitled "Risk Management Score - 2019 ERM Program Maturity Assessment" (Gartner) (dated July 31, 2019).
- Review documentation entitled "ERM Risk Velocity and Outlook Framework" supporting the introduction of velocity as an additional component in assessing risk in the enterprise risk assessment process.
- Review supporting documentation for the deep-dive analyses performed on key enterprise/corporate risks.
- Review the documented response strategy and current mitigation actions for the top enterprise/corporate risks.
- Review the supporting documentation for the performance of the third annual ERM Maturity Assessment - Review. The results of the assessment performed by Gartner were provided in the attached report entitled "Risk Management Score - LIPA 2020 ERM Program Maturity Assessment" (Gartner) (dated June 17, 2020).
- Review supporting documentation that LIPA ERM established a framework to monitor and measure the effectiveness of risk mitigation/reduction efforts.

- LIPA will conduct a biennial review of the maturity of the Program compared to industry best practices, which will be provided to the Board of Trustees, senior management, and LIPA's Internal Audits staff.
- Review documentation for the integration of the updated and revised risk data into the business planning cycle to help prioritize O&M, capital and resource allocations.
- Review the supporting documentation for the performance of the fifth annual ERM Maturity Assessment - Review. The results of the assessment performed by Gartner were provided in the attached report entitled "Risk Management Score - LIPA 2022 ERM Maturity Assessment" (Gartner) (dated August 31, 2022)

**Test Procedures Performed (2021 Feedback) and Test Results:**

Reviewed supporting documentation to ascertain:

- Additional enhancements have been implemented over the course of 2021 and 2022 including the development of regular "deep dive" analysis, improved reporting on risk and risk mitigation as seen in the 2022 ERM Annual Report. Training sessions were facilitated during Q4 2021 and will continue to be facilitated annually. Risk correlations were identified for the major storm and transmission system vulnerability risks. A process was established to escalate to senior leadership at LIPA and PSEG Long Island as significant issues are identified outside of the annual risk assessment process.
- LIPA has two metrics for 2022 to incentivize further improvements to PSEG Long Island's ERM program which include improvement to the annual report and establishment of Key Risk Indicators (KRIs).
- The 2022 ERM Annual Report included significant improvements compared to 2021, most notably around the inclusion of mitigation actions that are underway or those that have been recently accomplished, and increased insights into overall year-over-year changes in the risk profile. KRIs have been identified for five significant risks on the PSEG Long Island risk profile and will be included in the inaugural update to the ERM Annual Report due in December.

No exceptions noted.

**NorthStar Management Audit (2018) Recommendation # 9**

Update the PSEG LI budget procedure to include the determination of incremental O&M expenses associated with new construction

**Test Procedures Performed and Test Results:**

Reviewed supporting documentation to ascertain:

The current Budget Policy and 12/31/2018 Procedures were revised to include evaluation of capital projects and development of a Capital Project O&M Assessment Analysis as part of the budget development process.

**Test Procedures Performed (2021 Feedback) and Test Results:**

Reviewed supporting documentation to ascertain:

- The Metric for 2023 Capital Impact Assessments was adopted and incorporated in the Second Amended & Restated (A&R) Operations Services Agreement (OSA).
- The Capital Project Impact analysis was implemented and included within PSEG Long Island's internal budget procedure entitled "Capital Project Impact Analysis."
- In addition, a Project Implementation Plan (PIP) entitled "Capital Project and Budget Review and Approval Process" was adopted. All Deliverables identified in the PIP have been implemented.

No exceptions noted.

**NorthStar Management Audit (2018) Recommendation # 13**

Develop evaluative criteria or other measures to assess the effectiveness of the planning process. Effectiveness should be measured based on specifics, for example:

- Number and timeliness of system studies
- Timeliness of development of [Project Justification Documents] PJDs
- Quality of PJDs (e.g., do they contain all requisite information?)
- Relative accuracy of conceptual level estimates

**Test Procedures Performed and Test Results:**

Reviewed supporting documentation to ascertain:

- Feedback was obtained from internal and external stakeholders, including LIPA and the DPS.
- Proposed criteria and measures have been developed and approved.
- Meetings were held to review the proposal with internal and external stakeholders, including LIPA and the DPS.
- The criteria and measures have been implemented.

Reviewed how management confirmed the effectiveness of the criteria and measures, including supporting evidence of management's evaluation.

Observations noted and remediated.

**Test Procedures Performed (2021 Feedback) and Test Results:**

Reviewed supporting documentation to ascertain:

- Project Implementation Plan (PIP) for Capital Budget Development and Monitoring Process Improvements was adopted and incorporated in Second Amended & Restated (A&R) Operations Services Agreement (OSA).
- The joint PSEG Long Island and LIPA work group was established.
- PJD enhancements were implemented.

No exceptions noted.

**NorthStar Management Audit (2018) Recommendation #25**

Formalize and incorporate contingency management in capital project cost estimating and cost management. Formally report the expenditure of contingency funds separately from

project estimates rather than inflate total project budget amounts. It is critical that reliable project budgets include contingency funds based on baseline estimates and their relative risks. In addition to project specific contingency elements, a contingency should also be established to address project scope changes and the need for unforeseen administrative or legal support. In order to audit contingency management, the following activities should be included:

- Review the project budgets and individual budget elements including management, design, construction, and project specific contingencies.
- Determine whether contingency levels were appropriately evaluated and reviewed in each evolution of project estimating and each project stage.
- Relate contingency levels with recognized uncertainty and risks at specific levels of planning, design, and construction.
- Evaluate project design for unforeseen conditions that might arise or be discovered during the design process and whether these conditions fall within the original project scope (i.e., the program requirements initially articulated by the user in the project definition stage).
- Establish and formalize project cost contingency to cover additional project detail such as unforeseen site conditions, interference, delays or other circumstances that would not have been known at initiation and expanded or changed project scope not identified during the scope definition phase.

#### **Test Procedures Performed and Test Results:**

Reviewed supporting documentation to ascertain:

- Project cost contingency methods and contingency levels have been established and formalized.
- Project designs are evaluated for unforeseen conditions that might arise or be discovered during the design process and whether these conditions fall within the original project scope.
- Contingency levels relate with recognized uncertainty and risks at specific levels of planning, design & construction.
- Contingency levels were appropriately evaluated at each estimate level and each project stage.
- Construction budgets and individual budget elements, including management, design, construction, and budget specific contingencies were reviewed.

Observations were noted relating to supporting documentation and were subsequently remediated and validated.

#### **Test Procedures Performed (2021 Feedback) and Test Results:**

Reviewed supporting documentation to ascertain:

- Project Implementation Plan (PIP) Capital Project and Budget Review and Approval Process was adopted.
- Periodic PJD updates have been provided.
- Changes have been incorporated in the Second Amended & Restated (A&R) Operations Services Agreement (OSA).

- Six (6) Metrics have been implemented.
- Follow-up meetings have confirmed that recommended changes are in place.

No exceptions noted.

### **Recommendation**

Based upon the foregoing, I recommend approval of the above requested action by adoption of a resolution in the form attached hereto.

### **1754. RESOLUTION ADOPTING THE REPORT DETAILING THE STATUS OF THE IMPLEMENTATION PLAN AND RESULTS FROM THE 2018 NORTHSTAR MANAGEMENT AUDIT**

NOW, THEREFORE, BE IT RESOLVED, that the Board of Trustees of the Long Island Power Authority hereby adopts the report, as provided in the accompanying memorandum, detailing the status of the implementation plan, results from the 2018 NorthStar Management Audit, and describing additional activities Staff has undertaken to enhance performance in certain areas of the business.

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### **Requested Action**

The Board of Trustees (the “Board”) of the Long Island Power Authority (“LIPA”) is requested to approve a resolution authorizing the Chief Executive Officer, or his designee, to engage the following firms to provide Co-Sourcing of Internal Audit Services: Ernst & Young, LLP, Clifton Larson Allen, LLP, PricewaterhouseCoopers LLP, and Baker Tilly US LLP, for a period not to exceed five years.

### **Background**

LIPA has a need for internal audit co-sourcing services in addition to auditing services related to the examination of LIPA’s annual financial statements, which are provided under a separate contract. LIPA has chosen the co-sourced model for the internal audit function, which builds on the accomplishments of the existing internal audit function by providing additional subject matter expertise or resources, when necessary.

LIPA has an Internal Audit department under the management of the Director of Audit. The Department from time to time requires outside assistance to complete unusually large, time-sensitive, or specialized projects. Specifically, the firms engaged under the proposed contracts will be requested to assist with internal audit staffing and services for a variety of projects including operational, financial, information technology, and compliance audits, risk assessments, fraud investigations, advisory and consulting, data analytics, and professional training.

LIPA Staff anticipates using up to 3,000 hours of co-sourced internal audit services each year. The scope of these services will cover LIPA, as well as PSEG Long Island's operations supporting LIPA on Long Island and in Newark, NJ.

### Discussion

On September 6, 2022, LIPA issued a Request for Proposals ("RFP") seeking qualified firms to provide internal audit services for a term of five years. The RFP was noticed in the NYS Contract Reporter, posted to LIPA's webpage, and distributed to 68 firms. By October 6, 2022, eight firms responded to the RFP. A selection committee of LIPA Staff evaluated the technical aspects of the proposals, while the Procurement staff evaluated MWBE, SDVOB, and Cost aspects. The proposals were then scored in relevant categories. Based upon the submissions, Ernst & Young, LLP, Clifton Larson Allen, LLP, PricewaterhouseCoopers LLP, and Baker Tilly US LLP received the highest overall scores and were determined to provide the best value for the Authority's customers.

These four firms are nationally recognized audit firms and have extensive power and utility experience and offices in New York. The fees charged by the firm were determined to be reasonable to the scope of services requested.

### Recommendation

Based upon the foregoing, I recommend approval of the above-requested action by adoption of the resolution in the form of the attached draft resolution.

### 1755. ENGAGEMENT OF FIRMS TO PROVIDE INTERNAL AUDIT SERVICES

RESOLVED, that consistent with the attached memorandum, the Chief Executive Officer or his designee be, and hereby is, authorized to engage the following audit firms to provide internal audit services to the Long Island Power Authority, the Long Island Lighting Company d/b/a LIPA and the Utility Debt Securitization Authority, on an as needed basis, with the contract for a period of five years each: Ernst & Young, LLP, Clifton Larson Allen, LLP, PricewaterhouseCoopers LLP, and Baker Tilly US LLP.

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*Acting Chair Cohen stated that the next item on the agenda was the Rating Agency Presentation to be presented by Dennis Pidherny.*

*Mr. Pidherny presented the Rating Agency Presentation and took questions from the Trustees.*

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*Acting Chair Cohen stated that the next item on the agenda was the 2023 Budget and Metric Presentation to be presented by Thomas Falcone.*

*Mr. Falcone presented the 2023 Budget and Metric Presentation and took questions from the Trustees.*

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*Acting Chair Cohen stated that the next item on the agenda was the Quarterly Report on the Status of PSEG Long Island 2022 Metrics and the Isaias Task Force and Management Recommendations to be presented by Ricky de Aragon.*

*Mr. de Aragon presented the Quarterly Report on the Status of PSEG Long Island 2022 Metrics and the Isaias Task Force and Management Recommendations and took questions from the Trustees.*

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*Acting Chair Cohen stated that the next item on the agenda was the Consideration of the Annual Report on the Board Policy on Customer Experience to be presented by Carolyn MacKool.*

*After requesting a motion on the matter, which was seconded, Ms. MacKool presented the following action item and took questions from the Trustees.*

#### **Requested Action**

**The Board of Trustees (the “Board”) of the Long Island Power Authority (“LIPA”) is requested to adopt a resolution: (i) approving the annual report on the Board Policy on Customer Experience (the “Policy”); and (ii) finding that LIPA has complied with the Policy, which resolution is attached hereto as Exhibit “A.”**

#### **Background**

**In July 2017, the Board adopted the Policy with the purpose of providing a framework to achieve a high level of customer service and satisfaction. The Policy was last reviewed and amended by the Board at its meeting in November 2021. At that time, the Board worked**

with Leading Resources, Inc. to review the Policy and to facilitate discussion amongst the Trustees on amending the Policy. At that November 2021 meeting, the Board adopted a revised Customer Service Policy, and renamed it the Customer Experience Policy. The Policy provides that “the Chief Executive Officer, or his or her designee, will report annually to the Board on compliance with the key provisions of the Customer Experience Policy.”

### **Compliance with the Policy**

Performance for 2022 continues to be overshadowed by poor storm performance in 2020 and COVID-19 financial impacts. Failure to successfully resolve open performance improvement plans has negatively impacted customers’ trust. While strides are being made with improvements to billing and outage enhancements, significant vacancies in the Call Center have left a poor customer contact experience.

This report covers customer experience activities from the Board’s November 2021 review to the present. PSEG Long Island’s performance on several 2022 Performance Metrics has fallen short of the desired results, as further described below. LIPA Staff recommends that, for the reasons set forth below, the Board find that LIPA has substantially complied with the Policy since the last annual review, as LIPA staff continues to work with PSEG Long Island to improve service delivery to customers.

Compliance with each element of the Policy is discussed in detail below, including areas designated for improvement.

“Deliver top quartile performance in J.D. Power’s utility residential and business customer satisfaction studies and on industry-standard customer service metrics.”

- PSEG Long Island remains in the fourth quartile for both Residential and Business satisfaction and is unlikely to achieve the third quartile target for 2023. Despite requests from LIPA, PSEG Long Island failed to develop an effective plan to address JD Power performance drivers or best practices. Instead, they felt focusing on 2022 Performance Metrics would deliver the desired results in the JD Power surveys.
- LIPA created a cross-functional internal team accountable for driving success in each of the JD Power score drivers. The team members reviewed best practices, interviewed top performers, and defined operational metrics for tactical and strategic improvement opportunities. The 61 insights identified were shared with PSEG Long Island, and several 2023 metrics were built based on these learnings. In addition, the 2023 metrics for JD Power were expanded to include the requirement that PSEG Long Island complete a tactical plan that integrates best practices and a defined approach to achieving the Board’s JD Power objectives.
- PSEG Long Island has not met the Call Center Service level for answer rate all year, and performance has consistently deteriorated throughout the year due to staff vacancies. LIPA provided numerous recommendations throughout the year and has requested that PSEG Long Island develop a Project Implementation Plan to

address poor Call Center in the short and long term. This plan was requested for October 2022; however, PSEG Long Island asked for additional time and LIPA anticipates receiving it in November 2022.

- PSEG Long Island has made significant improvements in billing performance. The results include the following:
  - Billing cycle on-time delivery improved from 94.8% to 98.2%.
  - Cancels and rebills reduced from 0.76% down to 0.24%.
  - The number of estimates on active accounts decreased from 3,126 to 1,302 and is anticipated to decline to 700 by year-end.
  - Unauthorized use on accounts decreased from 2,256 to 352 accounts.
- For the first half of 2022, PSEG Long Island reported the lowest complaint rate with the New York Department of Public Service compared to the other utilities in the State. As of June, complaint rates increased due to the resumption of collections and issues in the Call Center, although, as of September, PSEG Long Island is still performing within the top quartile. Continued challenges with the Call Center may put the performance at risk.

**“Demonstrate continual improvement in customer satisfaction, ease of interaction, and value as measured by internal, end-to-end customer post-transaction assessments”**

- PSEG Long Island implemented customer transactional surveying in January of 2022 to understand customers’ overall satisfaction and ease of execution for the following completed transactions: billing, payment, payment agreement, move-in and out, and outage transactions. In addition, the foundation was built to understand the fundamental cost per transaction based on channel.
- PSEG Long Island made preliminary recommendations in August about proposed opportunities, which will be further refined by the end of the year.
- LIPA reviewed the customer transaction feedback and data, PSEG Long Island recommendations, the customer survey approach, and cost-per-transaction analysis to provide recommendations on how to improve the customer experience and data collection on transactional performance for deeper customer insights. These were included in the 2023 metrics. PSEG Long Island does not find customer transactional surveys to have the same value as LIPA in identifying improvements for customers; however, they are an industry best practice and performed by leading utilities.

**“Invest in technologies to enhance the service, flexibility, convenience, and cost-effectiveness of billing, payment, appointments, emergency restoration, and other customer interactions. Ensure simple, accurate, and proactive customer communications related to customer billing, energy usage, emergency response, and estimated times of restoration.”**

- PSEG Long Island efforts included both long- and short-term projects designed to enhance the customer experience. Longer-term projects include establishing the

foundation to implement a state-of-the-art Customer Information System, Customer Contact platform, and credit card processor replacement.

- This year's work included building the Customer Information System program's expected outcomes and clearly documenting the current environment and associated business processes.
- In 2022, PSEG Long Island began the design and build of the new Customer Contact platform, which will expand capabilities for customers to resolve issues twenty-four hours a day, seven days a week and facilitate a more fluid process by allowing customers to express what they want without having to follow scripted predefined patterns. Once implemented in 2023, the new system will also allow for enhanced analytics and expanded reporting at a lower cost than the current system.
- PSEG Long Island procured a new credit card processing vendor in 2022, which will save the utility \$700,000 a year in residential credit card fees and provide customers with more modern payment methods and features when implemented in 2023.
- In 2022, PSEG Long Island improvements for emergency communications include the integration of Automated Meter Infrastructure (AMI) data into the Outage Management System (OMS), expansion of the mobile application to allow more detailed tracking of outage status, inclusion of time ranges in estimated time to restore (ETR) communications, and enablement of text notification to conduct wellness checks for life support equipment customers during a storm.
- PSEG Long Island implemented a new bill print vendor, which resulted in cost savings of \$1.2 million in 2022.
- PSEG Long Island delivered tools that will enhance the cost-effectiveness of field collector performance and improve safety by automating field disconnect and contacting customers scheduled for termination prior to the visit to allow for making a payment and/or payment agreement. Since the notification started in July 2022, they resolved 25% of the accounts without dispatching a collector and collected \$4.5 million.
- PSEG Long Island added information to the mobile application to allow customers to understand exactly where they are with usage and days left in the billing cycle to allow them to improve control of their cost of usage. They also added the ability to enroll in a payment arrangement via the mobile channel.

**“Effectively target communications across customer segments and socioeconomic groups, with particular attention to low income and disadvantaged communities”**

- PSEG Long Island conducted three marketing campaigns to validate the effectiveness of third-party segmentation analysis for more targeted residential customer communications. Conversion rates did not prove to be more successful for customers marketed to through the segmentation approach as opposed to traditional messaging. The segmentation model was developed pre-pandemic, and a new segmentation approach appears warranted.

- PSEG Long Island outreach and expanded assistance included delivery of financial assistance notices and conducting assistance webinars. Since November 2021, 15,912 customers have received about \$43 million in assistance from COVID-19 emergency programs. PSEG Long Island implemented an arrears management forgiveness program in partnership with the state Energy Assistance Working group to assist 7,876 low-income customers with past due arrearage as a result of COVID-19. \$20,399,413 in arrears forgiveness was provided through the initial rollout of this program, which customers may continue to benefit from through December 31, 2022.
- As part of 2022 metrics, a program was developed to automate the enrollment of low to moderate-income customers into the Household Assistance Rate. This enrollment would also make them eligible for the arrears forgiveness program. The automation project allowed for the automatic renewal of 14,365 households and identified 8,335 new enrollees. However, overall enrollment in the Household Assistance Rate has trended downward due to a significant number of customers not renewing their enrollment.

**“Evaluate the success of our rate options, clean energy programs, and other offerings by customer adoption and satisfaction and use the information to regularly review and improve our offerings”**

- Customer uptake of time-of-use rate pilots, while slow to take hold in the beginning of 2022, surged in the second half of the year due to expanded marketing and outreach efforts. PSEG Long Island is currently on track to achieve its 2022 metric target of 12,000 enrollments.
- Enrollment in the Household Assistance Rate (HAR or bill discounts) has trended downward throughout most of 2022. PSEG Long Island is not projected to meet its HAR enrollment metric.
- Electric vehicle programs continue to be popular among customers. Thousands of residential customers have applied for and received Smart Charger incentives. Make-ready infrastructure incentives were also popular in 2022. PSEG Long Island is expected to meet its metric for DC Fast Charging incentives; however, Level 2 Charging incentives have seen less uptake. PSEG Long Island has implemented a methodology to identify electric vehicle customers and began sending personalized monthly charging alerts.
- Long Island continues to be a leader in customer adoption of rooftop solar through LIPA’s net metering, Community Distributed Generation, and Value of Distributed Energy Resources tariffs. In 2022, we added over 6,800 solar projects, a five-year high. With 40% of the State’s solar projects, LIPA has more projects in total than any other New York utility, despite being only 12.5% of the State’s electric load.

**Enterprise Risk Management Discussion**

The Board has adopted a Policy on Enterprise Risk Management. Enterprise risks are brought to the Board's attention throughout the year. There are two risks related to this Policy. The first risk is "Customer and stakeholders' dissatisfaction with PSEG Long Island's response to a storm or major event can result in increased negative perception and/or averse reputational impact." The second risk is related to decreased call center performance which could result in negative customer perception and reputational impact.

The Customer and Stakeholders' Dissatisfaction risk is rated as a high-level risk. In the customer experience area, PSEG Long Island mitigates this risk with oversight from LIPA through extensive testing of communication systems, development of a non-digital communication library of messages (e.g., radio, outreach centers) to keep customers informed, a quality control plan to ensure consistency of messaging across communication channels, and an Emergency Response Plan for customer communication protocols during restoration. PSEG Long Island has worked to improve relationships with customers and the media and has developed an updated crisis communications plan. While progress has been made in improving mitigations, this remains a significant risk to the Authority.

The Decreased Call Center Performance risk has emerged over the course of 2022, with an increased number of calls being unanswered and wait times exceeding acceptable levels. This risk is the result of staffing constraints and has worsened over the course of the year. PSEG Long Island will miss its 2022 performance metrics in this area. PSEG Long Island is in the process of filling staff vacancies, but prior plans have fallen short. Other plans to help mitigate this risk in the short term include increased overtime for Call Center staff, reviewing productivity, and increased reliance on surge vendor support beyond outage calls. LIPA is working with PSEG Long Island to identify and implement additional actions to mitigate this risk; however, in its current state the risk is increasing and not being sufficiently managed to meet agreed-upon metrics and overall customer expectations. As described above, LIPA has requested PSEG Long Island to develop a Project Implementation Plan to address call center performance in the short term as well as long-term opportunities for improvement.

### **Annual Review of the Policy**

As discussed above, the Policy was last updated in November 2021, where a working group of Trustees together with its consultant Leading Resources, Inc. provided substantial edits to the Policy to more fully reflect the Board's strategic direction in this area. As such, LIPA Staff has reviewed the Policy for this annual review and proposes no changes at this time.

### **Recommendation**

Based upon the foregoing, I recommend approval of the above requested action by adoption of a resolution in the form attached hereto.

*After questions and a discussion by the Trustees, and the opportunity for the public to be heard, upon a motion duly made and seconded, the following resolutions were approved by the Trustees.*

**1756. RESOLUTION APPROVING THE REPORT TO THE BOARD OF TRUSTEES ON THE BOARD POLICY ON CUSTOMER EXPERIENCE**

**WHEREAS, in July 2017, the Board originally adopted what was then known as the Customer Service Policy (the “Policy”) for the purpose of providing a framework to achieve a high level of customer service and satisfaction; and**

**WHEREAS, the Policy was last reviewed and amended by the Board at its meeting in November 2021 where the Board, among other substantial edits, renamed the Policy to the Board Policy on Customer Experience to more fully reflect the Board’s strategic direction in this area; and**

**WHEREAS, the Board has conducted an annual review of the Policy and affirms that the Policy has been complied with.**

**NOW, THEREFORE, BE IT RESOLVED, that consistent with the accompanying memorandum, the Board hereby finds that LIPA has complied with the Policy for the period since the last annual review and approves the annual report to the Board.**

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*Acting Chair Cohen then stated that the final agenda item, Secretary’s Report on Board Policies and Communications, would be in written submission only, and available at the Long Island Power Authority website for viewing.*

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*Acting Chair Cohen then announced that the next Board meeting is scheduled for Wednesday, December 14, 2022.*

*Acting Chair Cohen then asked for a motion to adjourn to Executive Session to discuss litigation matters and announced that no votes would be taken and that the Board would not be*

*returning to Open Session. The motion was duly made and seconded, and the following resolution was adopted:*

**1757. EXECUTIVE SESSION – PURSUANT TO SECTION 105 OF THE PUBLIC OFFICERS LAW**

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**RESOLVED**, that pursuant to Section 105 of the Public Officers Law, the Trustees of the Long Island Power Authority shall convene in Executive Session for the purpose of discussing litigation matters.

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*At approximately 1:53 p.m. the Open Session of the Board of Trustees was adjourned on a motion to enter into Executive Session.*

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