

LONG ISLAND POWER AUTHORITY

MINUTES OF THE OVERSIGHT and CLEAN ENERGY COMMITTEE MEETING

HELD ON NOVEMBER 16, 2022

The Oversight and Clean Energy Committee of the Long Island Power Authority (“LIPA”) was convened at 10:03 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)
Rev. Al Cockfield, Committee Member (in person)
Nancy Goroff, Committee Member (via video conferencing)
Elkan Abramowitz (in person)
Valerie Anderson Campbell (via video conferencing)
Drew Biondo (in person)
Lauren Harris (in person)

Representing LIPA, in person, were Thomas Falcone, Chief Executive Officer; Bobbi O’Connor, General Counsel & Board Secretary; Billy Raley, Senior Vice President of Transmission & Distribution; Jen Hayen, Director of Communications; and Andrew Berger, Communications Assistant. Participating via video conferencing was Jason Horowitz, Assistant General Counsel and Assistant Secretary to the Board.

Representing PSEG Long Island, in person, were David Lyons, Interim President and Chief Operating Officer; and Michael Sullivan, Vice President of T&D Operations. Participating via video conferencing was Lou Debrino, Managing Director and Vice President of Customer Operations.

Acting Chair Cohen welcomed everyone to the Oversight and Clean Energy Committee meeting of the Long Island Power Authority Board of Trustees.

Acting Chair Cohen stated that the first item on the agenda is adoption of the minutes from the September 28, 2022 Oversight and Clean Energy Committee meeting.

Upon motion duly made and seconded, the minutes of the September 28, 2022 meeting

were approved unanimously.

Acting Chair Cohen stated that the next item on the agenda is the PSEG Long Island Operating Report to be presented by David Lyons, Michael Sullivan and Lou Debrino.

Mr. Lyons and members of PSEG Long Island staff presented the PSEG Long Island Operating Report and took questions from the Trustees.

Acting Chair Cohen stated that the final item on the agenda is the Consideration of Recommendation of Report Detailing the Status of the Implementation and Results from the 2018 Management Audit to be presented by Billy Raley.

Mr. Raley presented the following action item and took questions from the Trustees:

Requested Action

The Oversight and Clean Energy Committee (the “Committee”) of 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 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

A motion was made and seconded, and the Trustees unanimously adopted the following resolution:

RESOLUTION RECOMMENDING ADOPTION OF THE REPORT DETAILING THE STATUS OF THE IMPLEMENTATION PLAN AND RESULTS FROM THE 2018 NORTHSTAR MANAGEMENT AUDIT

NOW, THEREFORE, BE IT RESOLVED, that the Oversight and Clean Energy Committee of the Board of Trustees of the Long Island Power Authority hereby recommends adoption of 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.

Acting Chair Cohen then entertained a motion to adjourn, which was duly made and seconded, after which the meeting concluded at approximately 10:52 a.m.
