2024 Proposed Budget

November 15, 2023

LIPA

AGENDA

01 BUDGET HIGHLIGHTS

02 BUDGET BY THE NUMBERS

03 PUBLIC COMMENTS

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Budget Highlights

LIPA BOARD'S OBJECTIVES FOR SERVICE TO CUSTOMERS

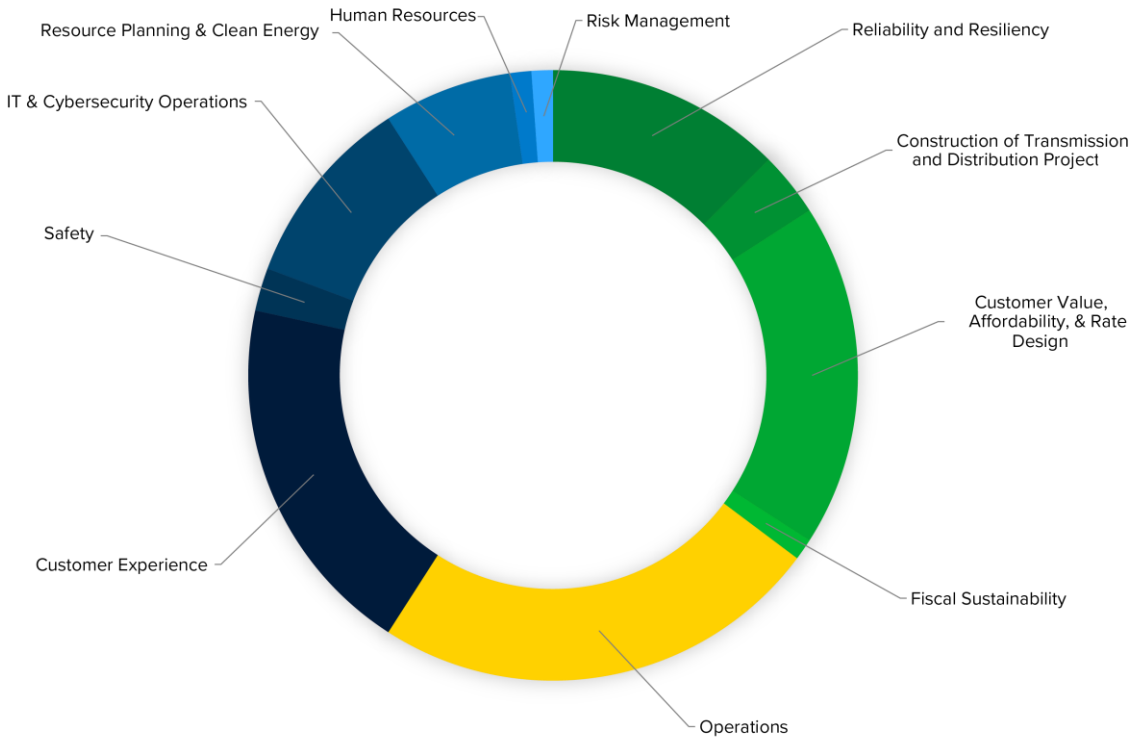
- The LIPA Board provides strategic direction through a set of governance policies.
- The Board's policies define LIPA's purpose and vision and set expectations for the strategic outcomes to deliver in reliability, customer experience, clean energy, affordability, information technology, and fiscal sustainability.
- The budget process starts with the objectives set by the Board of Trustees as reflected in LIPA's policies.

Figure 1: Key Policy Objectives

ACCOUNTABILITY FOR PERFORMANCE

- For 2024, LIPA has proposed **61 performance standards**, which have been independently reviewed and recommended to the LIPA Board by DPS.
- The metrics are distributed across all the management services provided to LIPA and its customers.
- The LIPA Board has until December to determine whether to accept the 2024 proposed budget and the DPS recommended 2024 metrics or return certain metrics to DPS for further review, modification, and recommendation.
- Metrics are designed to be achievable levels of performance that are objectively verifiable, with budgeted funds to achieve this performance.
- **$20 million (2022-inflation adjusted dollars) of Variable Compensation** is at-risk based on these 2024 Performance Metrics.

Figure 3: Focus Areas for 2024 Performance Standards



2024 PERFORMANCE STANDARDS - SUMMARY

- The 2024 Performance Standards proposal includes a total of **61 standards**, out of which **13 are new**. 48 standards have been carried over from 2023, while 45 standards have been removed from 2023. The removed standards were either merged into other metrics or their objectives were achieved in 2023.

- Per the Department of Public Service recommendation, LIPA:
  - Added back CS-19 Complaint Rate to the 2024 standards ($50K allocation).
  - Removed BS-37 Project Outreach from the 2024 standards.

New Performance Standards for 2024

Metric Title	Metric #	Board Policy	Allocated Compensation (2021 Dollars)
Improve Budgeting, Billing, and Collection Efforts for Reimbursable Projects	**BS-34**	Customer Value, Affordability, & Rate Design	$150,000.00
Implement Budget Process Improvements	**BS-35**	Customer Value, Affordability, & Rate Design	$350,000.00
Improve the Rate and Tariff Change Implementation Process	**BS-38**	Customer Experience Customer Value, Affordability, & Rate Design	$150,000.00
Implement Improvements to Budget Process Using New Budget System	**BS-40**	Customer Value, Affordability, & Rate Design	$150,000.00
PJD and Capital Budget Process Improvements	**BS-41**	Customer Value, Affordability, & Rate Design	$150,000.00
Optimize Contact Center Resource Utilization	**CS-30**	Customer Experience	$250,000.00
Call Average Handle Time (AHT)	**CS-31**	Customer Experience	$300,000.00
IT Planning - Ransomware Readiness and Response	**IT-09**	Information Technology and Cyber Security	$200,000.00
System Resiliency - Disaster Recovery Plans and Testing	**IT-10**	Information Technology and Cyber Security	$250,000.00
Transportation Electrification Strategic Initiatives	**PS&CE-14**	Resource Planning and Clean Energy	$400,000.00
Work Management Effectiveness	**T&D-49**	Transmission & Distribution Operations Customer Value, Affordability, & Rate Design	$500,000.00
Storm Outage Response Performance	**T&D-50**	Transmission & Distribution Operations	$300,000.00
Triennial Safety Assessment	**T&D-52**	Safety	$350,000.00

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2024 PERFORMANCE METRICS – SELECTED HIGHLIGHTS

Figure 4: Selected Highlights of the Proposed 2024 Performance Standards

Focus Area	Selected Performance Standards	Customer Benefit
Clean Energy	Heat Pump Strategy: new customer and contractor tools, marketing, and an enhanced contractor network to help customers transition to clean heat	Improved customer experience, reduced carbon footprint, and lower customer energy bills
	Transportation Electrification Strategy: implement programmatic changes to address barriers to customer transportation electrification targeted by segment and aligned with industry best practices	Improved customer experience, reduced carbon footprint, and lower customer energy bills
	Energy Efficiency and Beneficial Electrification: achieve budgeted targets for energy efficiency, EV chargers, and heat pumps, including Climate Act objectives for 35%+ of benefits targeted to disadvantaged communities	Meet LIPA's share of the state's energy efficiency and electrification goals
	Utility Scale Storage: procure 175+ MW of utility-scale battery storage to be in service by 2025	Prepare for increased renewable generation
Information Technology & Cybersecurity	IT Project Delivery: improve IT organizational maturity and the management of IT projects to industry standards	Meet customer needs, while managing costs and schedules
	IT System Resiliency: enhance disaster recovery and business continuity plans for all critical systems	More resilient service to customers
	IT Ransomware Readiness and Response: enhance preparation for ransomware incidents	More resilient service to customers
	Cybersecurity Organization: build a Long Island-based cybersecurity operation under the newly hired Chief Information Security Officer	Strengthen cybersecurity organization to safeguard operations and customer data
	IT System Segregation: execute the Board-approved plan to separate Long Island IT systems from PSEG New Jersey affiliate companies	Strengthen Long Island IT and prepare for the end of PSEG Long Island's contract in 2025
Safety	Minimize Injuries: operate the electric grid in a safe manner, including implementing the findings of a LIPA triennial safety review	Minimize workplace and customer injuries from the operation of the electric grid
Affordability & Cost-Efficient Operations	Low- to Moderate-Income (LMI) Bill Discounts: increase customer enrollment in the discounted rate for LMI customers by about 20%	Improve affordability for customers with the greatest need
	Improve Budgets and Monitoring: improve budget development and monitoring to ensure efficient service delivery	Minimize the cost to provide high quality service to customers

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2024 PERFORMANCE STANDARDS - HIGHLIGHTS

Figure 4: Highlights of the Proposed 2024 Performance Standards

Focus Area	Selected Performance Standards	Customer Benefit
Reliability & Resiliency	Top Decile Reliability: achieve reliability metrics within the top 10% of peer utilities	Industry-leading reliability for customers
	Automatic Circuit Reclosers: operationalize smart grid technology on mainline and branch distribution circuits to minimize outages for customers	Fewer outages for customers
	Storm Hardening and Vegetation Management: continued investment in 5-year resiliency programs	18% reduction in customer minutes of interrupted service from the next major storm by 2025
	Transmission Control Center Replacement: multi-year program to develop a modern grid control room and a modern backup facility	Provide more resilient grid operations and integrate high penetration of renewables
Customer Experience	Transition to Time-of-Day (TOD) Rates: launch marketing, outreach, IT, and customer tools to educate customers about savings opportunities in the transition to TOD rates	More dynamic and lower cost electric grid, lower carbon emission, and customer bill savings opportunities
	Customer Satisfaction: improve J.D. Power customer satisfaction towards first quartile by improving residential satisfaction by four rankings and business satisfaction by three rankings	Improvements to customer experience as measured by customers
	Reduce Call Center Wait Times: improve customer wait time so that 77% of calls are answered within 30 seconds	Greatly reduced customer wait time when calling
	Customer Move In/Out Process Improvements: streamline the residential move-in and move-out process to one efficient transaction	Customer convenience and efficient service delivery
	Enhance Customer Experience: projects to enhance online chat, payment kiosks, and the credit card payment process	Customer convenience and efficient service delivery
	Outage Information Satisfaction: survey customers who lost power on their satisfaction with the information received during the outage	Enhanced customer experience when outages occur

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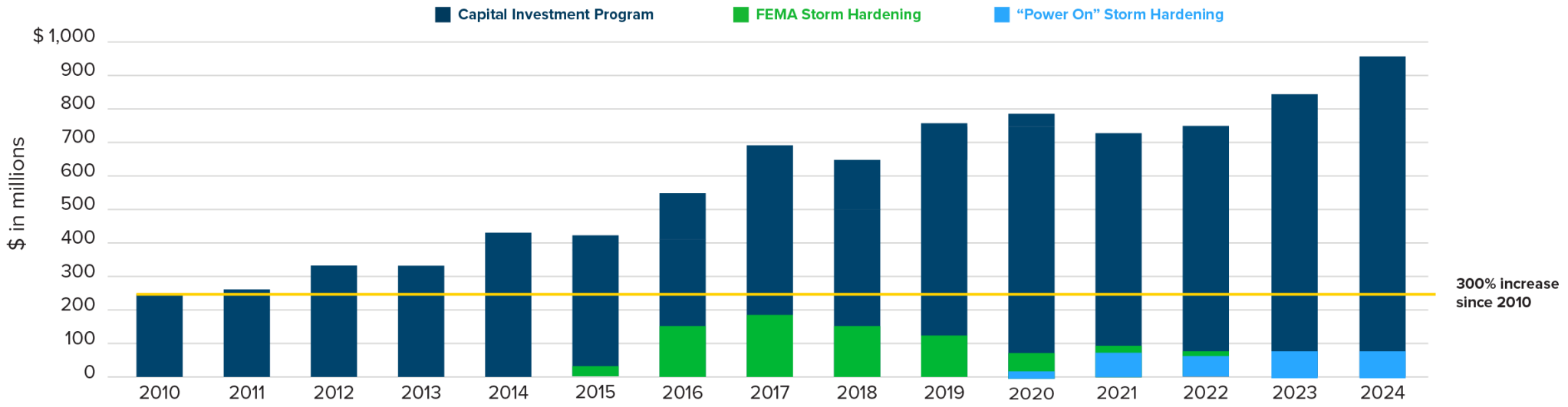
MAKING THE GRID MORE RELIABLE AND RESILIENT

- LIPA has invested a record **$6.4 billion** since 2016 – over three times the pace of investment of a decade ago to achieve industry-leading reliability, improve resiliency, and leverage modern system design and technology to provide value to customers.

Figure 5: Capital Investments in the Long Island and Rockaways Electric Grid Are Up Over 300%



RELIABILITY INVESTMENTS = REAL RESULTS

- LIPA's investment in reliability has led to significantly improved outcomes, including a **37% reduction** in customers experiencing power outages.

Figure 6: Results of Reliability Investments

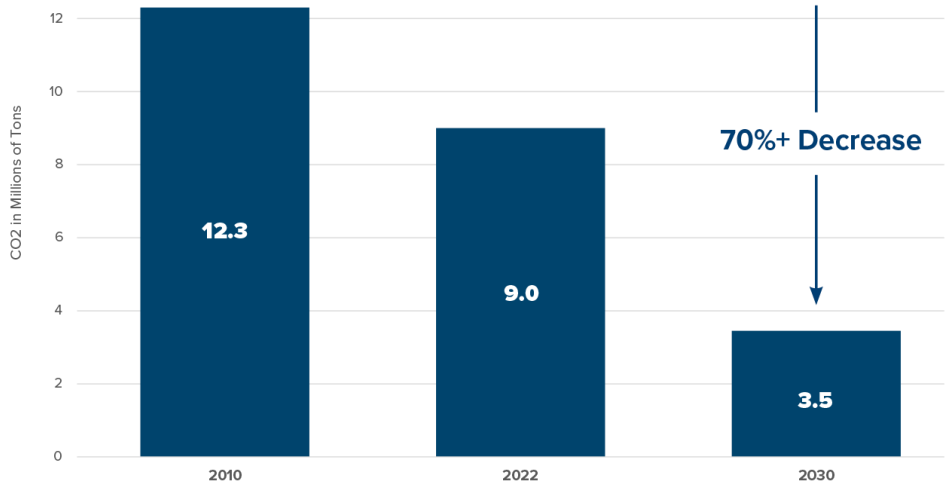
TRANSITIONING TO A ZERO-CARBON GRID

- Assuming projects in development reach commercial operation, Long Island's clean energy will total about **5,800 MW** compared to the 2023 peak demand of approximately 5,000 MW by 2030.
- Long Island clean energy projects will **reduce LIPA's carbon footprint over 70% by 2030.**

Figure 11: Long Island Clean Energy Projects in Service by the Early 2030s

Solar (1,419 MW)	**Size** (MW_{AC})	**In-Service** (Est./Act.)
Long Island Solar Farm	32	2011
Eastern Long Island Solar Project	11	2013
Shoreham Solar Commons	25	2018
Riverhead Solar	20	2019
Kings Park Solar 1 and 2	4	2019
Solar Feed-in Tariffs I-III	89	2021-2022
LI Solar Calverton	23	2021
Behind-the-Meter	1,200	2030
Solar Communities (FIT V)	15	2025
Offshore Wind (3,628 MW)	**Size** (MW_{AC})	**In-Service** (Est./Act.)
South Fork Wind Farm	130	Early 2024
Sunrise Wind	924	Mid-to-Late 2020s
Empire Wind 2	1,260	Late 2020s
Excelsior Wind	1,314	2030s
Energy Storage (750 MW)	**Size** (MW_{AC})	**In-Service** (Est./Act.)
East Hampton & Montauk Storage	10	2018 & 2019
2023 RFP Awards (Pending)	175+	2025
Future Storage Additions	565	2030
TOTAL	**5,797** (MW_{AC})	

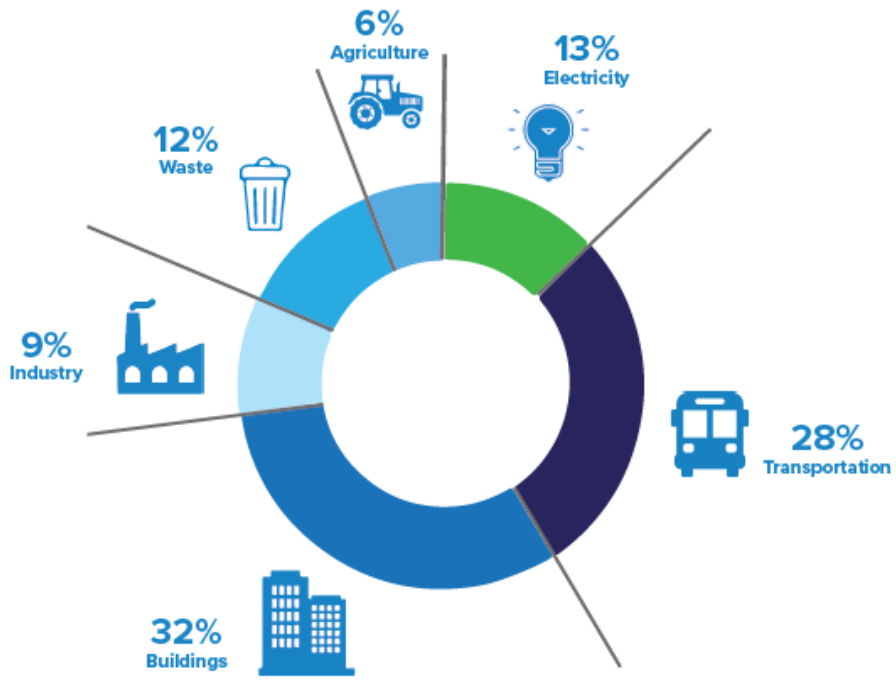
Figure 12: Carbon Emissions Footprint for LIPA's Power Supply from 2010 to 2030



NEW YORK'S CARBON EMISSIONS

- **Buildings and transportation** produce **the majority** of New York's carbon emissions.
- LIPA's 2024 budget funds initiatives to reduce Long Island's carbon footprint, including the electrification of transportation and heat and hot water in buildings and homes.

Figure 16: New York State Carbon Emission Sources

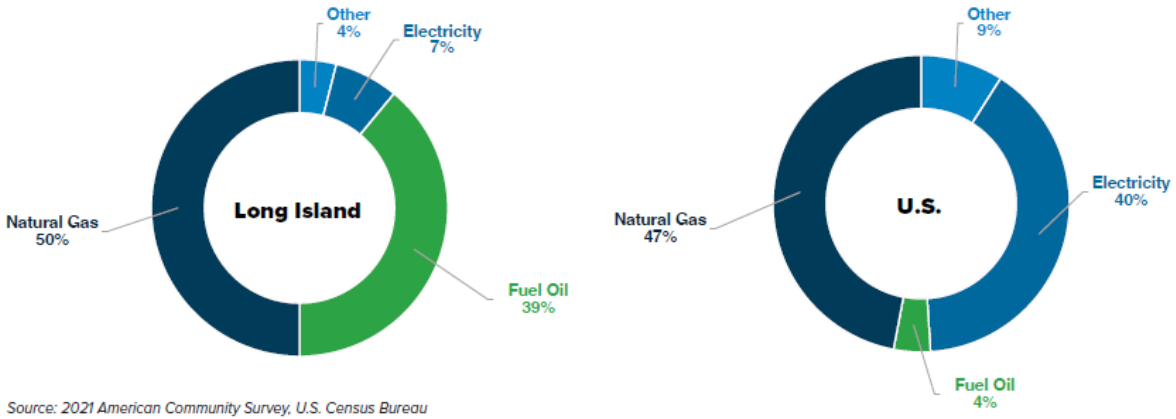


Source: New York State Department of Environmental Conservation 2022 Statewide GHG Emissions Report

BUILDING DECARBONIZATION SAVES MONEY & CARBON FOR LONG ISLAND

- Cold climate heat pumps can help customers **save on both carbon and money for both oil heat and new construction.**
- LIPA is leveraging our customer insights, relationships, and contractor network to accelerate heat pump adoption.

Figure 18: Long Island Homes Heat with Oil at Ten Times the National Average



Source: 2021 American Community Survey, U.S. Census Bureau

Figure 19: Heat Pumps Save Money and Carbon for Oil Heat

Existing Building - Oil Burner	Buy New Central Air Conditioning	Buying New Air-Source Heat Pump
Upfront Cost	$7,278	$16,687
LIPA Rebate*	-	($5,383)
Federal Tax Credit*	-	($2,000)
Net Cost	$7,278	$9,304
Annual Home Heat Bill	$3,824	$1,487
Annual Savings	-	$2,336
Payback Period	-	0.9 years
Carbon Footprint from Heating (2022)	-	-46%
Carbon Footprint from Heating (2040)	-	-100%

Figure 20: Heat Pumps Save Money and Carbon for New Construction

New Construction - Gas Furnace	Buy New Central Air Conditioning + Gas Furnace	Buying New Air-Source Heat Pump
Upfront Cost	$14,080	$16,687
LIPA Rebate*	-	($5,383)
Federal Tax Credit*	-	($2,000)
Net Cost	$14,080	$9,304
Annual Home Heat Bill	$2,366	$1,435
Annual Savings	-	$931
Payback Period	-	Immediate
Carbon Footprint from Heating (2022)	-	-25%
Carbon Footprint from Heating (2040)	-	-100%

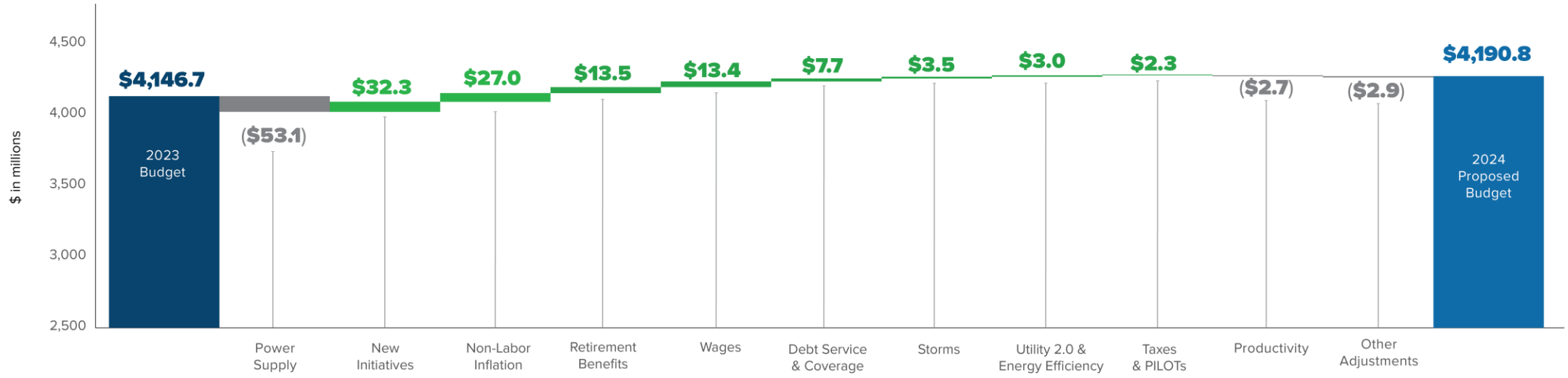
Budget by the Numbers

2024 OPERATING BUDGET

- The 2024 Operating Budget includes Operating Revenues of **$4.19 billion**, an increase of **$44.1 million (1%)** as compared to the 2023 Budget of $4.15 billion.

- Increases for new initiatives ($32 million), non-labor inflation ($27 million), retirement benefits ($14 million), wages ($13 million), and debt service net of interest income ($8 million) were mostly offset by a reduction in budgeted power supply costs (-$53 million).

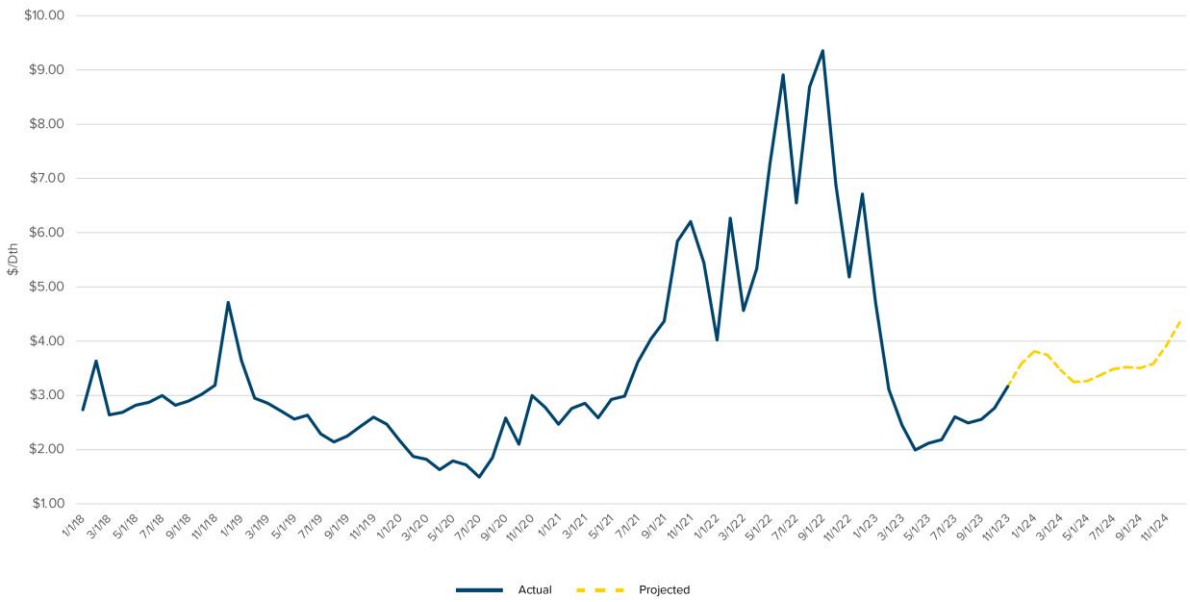
Figure 24: 2024 Operating Budget as Compared to 2023



POWER SUPPLY COSTS

- LIPA's power supply costs are expected to be **$53 million (-3%) lower** in 2024 than budgeted in 2023.
- Actual 2023 power supply costs are projected to come in **$290 million** below budget due to falling commodity prices during the year.
- Future electricity and fuel prices higher in 2024 than in 2023.

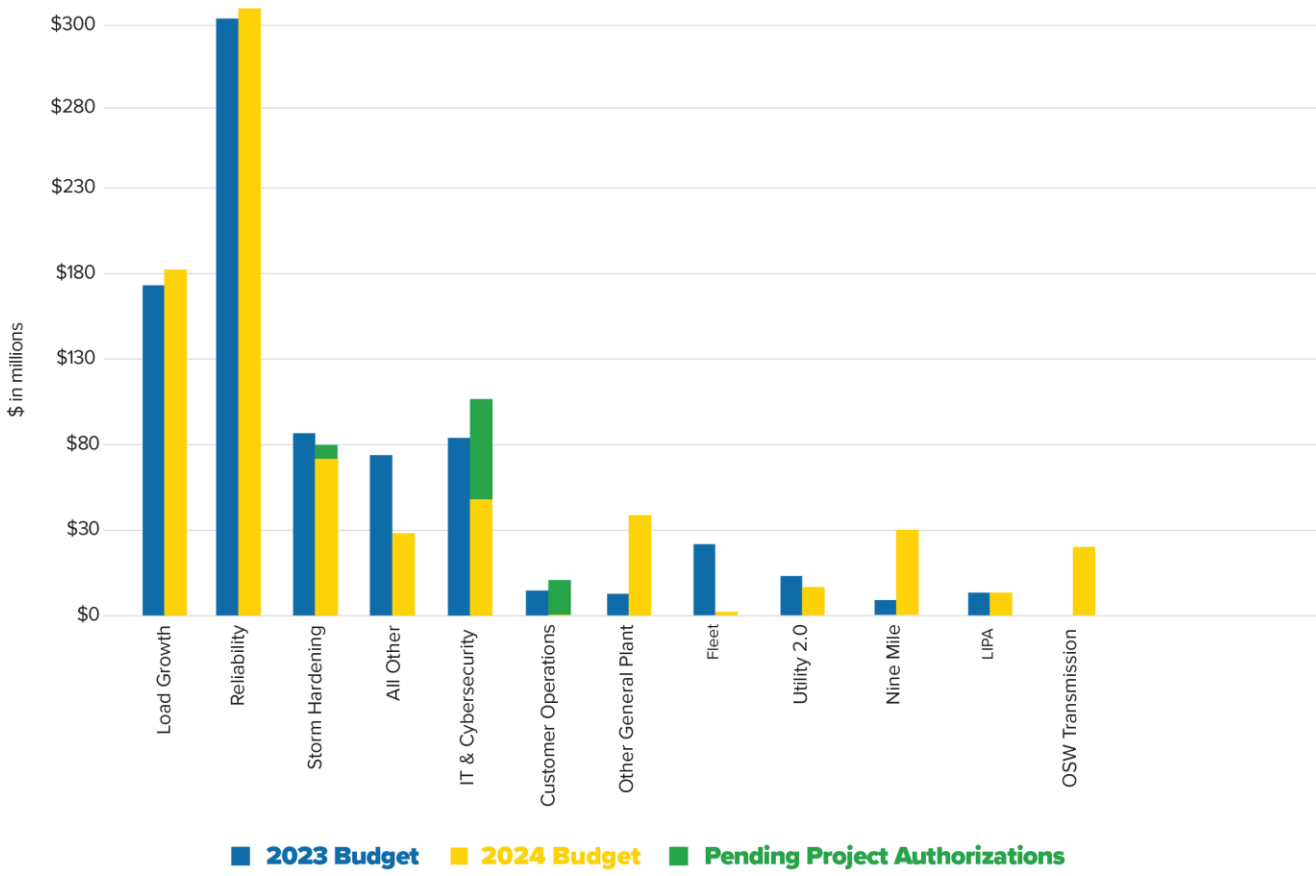
Figure 25: Henry Hub Natural Gas - Historic and Forward Prices
(As of 10/31/2023)



2024 CAPITAL BUDGET

- The proposed 2024 Capital Budget is **$855 million**, a decrease of **$7 million (-1%)** as compared to the 2023 Budget.
- Major changes between 2023 and 2024 include the addition of funds associated with the required infrastructure updates in order to bring offshore wind power to upstate utilities and the addition of funds for property acquisition and development of a new operations yard.

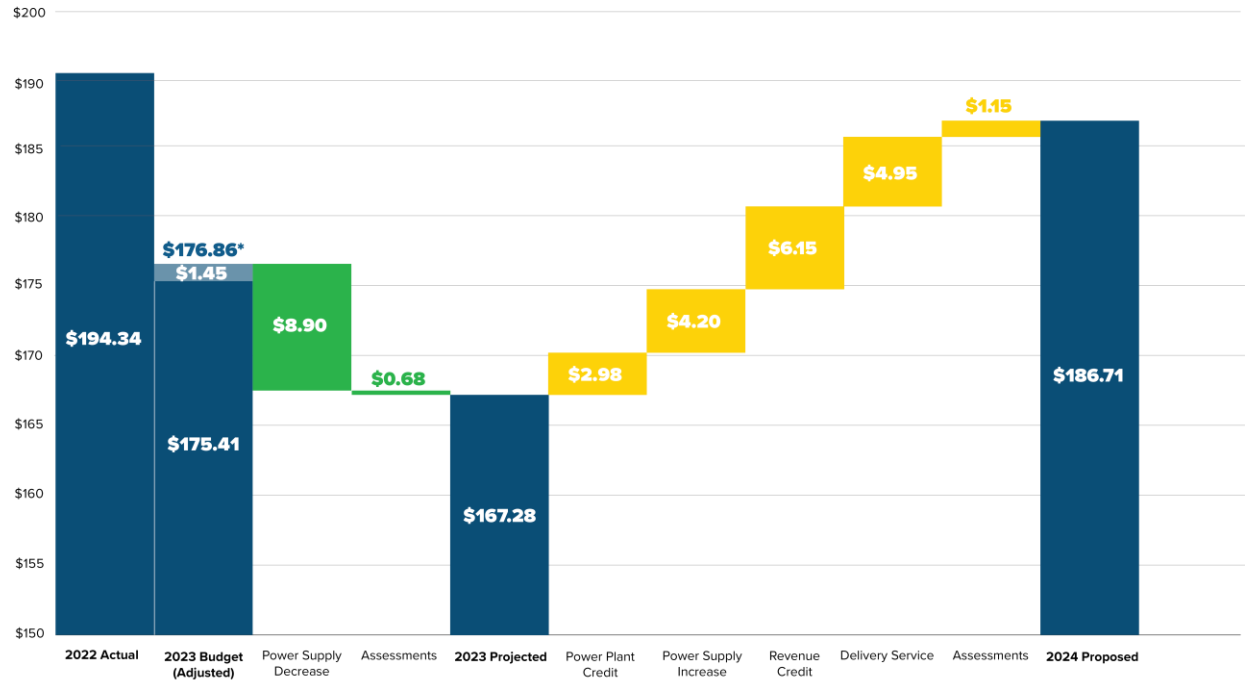
Figure 31: Changes in the 2024 Capital Budget as Compared to 2023



RESIDENTIAL BILLS FOR 2024

- The typical residential customer bill in 2023 is projected to be **$9.58 lower** than budgeted.
- While operating revenues are up only 1%, the typical customer bill is projected to be **$9.85** higher than budgeted in 2023 and **$19.43** higher than projected:
  - A Power Supply Charge one-time bill credit of $2.98 in 2023 resulting from a change in the timing of payments related to certain property tax settlements that will not reoccur.
  - Higher power supply costs in 2024 of $4.20.
  - Revenue Decoupling Mechanism (i.e. above budget sales in 2022) bill credits of $6.15 per month were fully refunded to customers in 2023.
  - Delivery Service rates are expected to increase $4.95 per month.

Figure 32: Projected Change in Typical Residential Customer Bill in 2024*

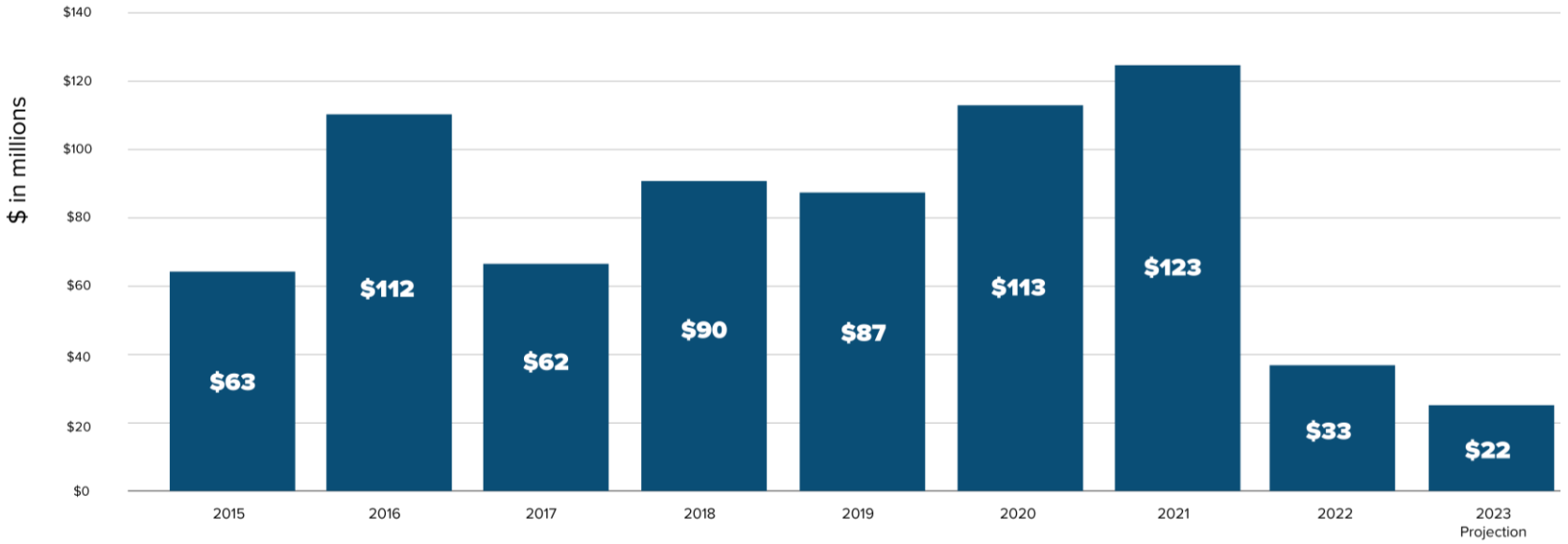


**Residential bills for 2023 (on a budget basis) were re-forecast $1.45 higher per month to be comparable to the projected 2024 bill. The change results from a new estimating procedure implemented for the projected 2024 typical residential bill that LIPA believes is modestly more accurate.*

BUDGETING FOR EXTREME WEATHER

- LIPA's storm budget funds the preparation, response, and repairs necessary to restore electric service after major storms.
- The 2024 storm budget of $84 million reflects an increase of $4 million over the prior year.
- This increase in the storm budget provides for a sufficient level of funds to address typical storm costs each year.

Figure 28: LIPA Storm Costs (in $ millions)*



** Excludes storm costs that were reimbursed by FEMA grants.*

MINIMIZING COST TO CUSTOMERS

- LIPA continues to pursue significant grant opportunities to help offset the cost of storm recovery and climate resiliency for its customers. LIPA's status as a public power utility makes it eligible for federal grants for storm recovery not available to for-profit utilities.
- LIPA has received multiple grants, reducing the costs that would otherwise be paid by customers by $2.2 billion.

Figure 8: Summary of FEMA Grants for Storm Recovery Costs and Hardening Programs

$ in millions

Federally Declared Weather and Other Events	LIPA Recovery Costs	Federal Grants
Tropical Storm Irene (2011)	$170	$154
Superstorm Sandy (2012) **Sandy Mitigation**	$671 --	$604 $665
Winter Storm Nemo (2013)	$17	$11
Winter Storm Stella (2017)	$14	$4
Tropical Storm Isaias (2020) **Isaias Mitigation**	$309 --	$276 $446*
COVID-19 Pandemic (2020-2022) **COVID-19 Pandemic Mitigation**	$26 --	$6* $10*
Tropical Storm Ida (2021)	$9	$7
Winter Storm Elliott (2022)	$3	$2*
Total	**$1,219**	**$2,185**

*Applied for - LIPA waiting for FEMA decision.

MINIMIZING COSTS FOR CUSTOMERS

- The LIPA Board has tasked staff with aggressively managing costs to minimize the burden on customers.
- The table on the right shows the savings from operating lean for the 2024 Budget, which are the cumulative effects of many decisions and initiatives since 2014.
- The **$1.2 billion** of cost savings in 2024 equals 27% of electric bills, or about $50 per month for a typical residential customer.

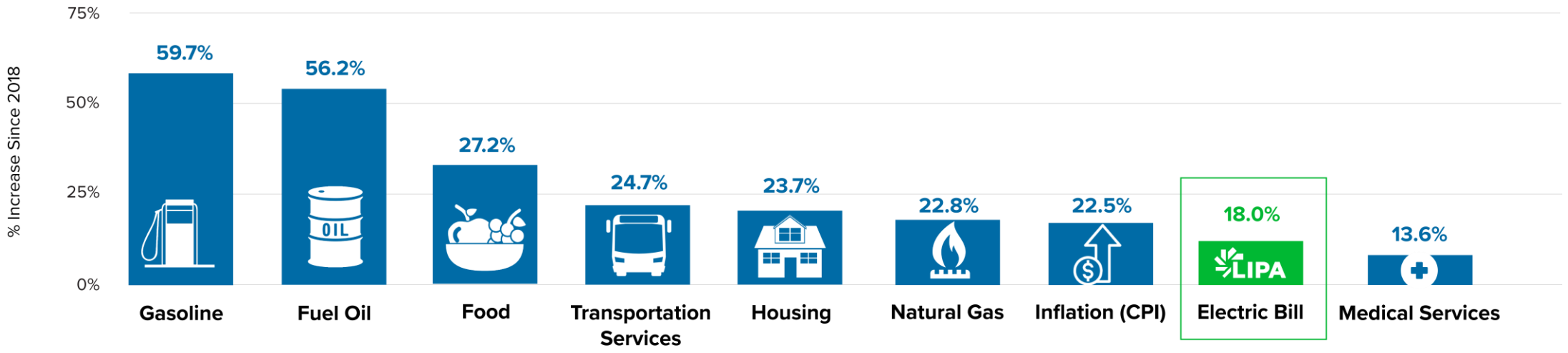
Figure 34: Saving Customers Over a Billion Dollars in 2024 from Operating Lean

	(in $millions)
LIPA Reform Act 2% Tax Cap	$416
Discontinued Investments in Combined Cycle Plants	$355
Refinancing Existing Debt and Debt Service Savings	$142
LIPA Reductions to PSEG Long Island 2024 O&M Budget Request	$75
Power Plant Property Tax Savings	$66
Renegotiating Expiring Power Purchase Agreements	$64
Reduction to Wholesale Market and Off-Island Transmission Costs	$57
Smart Meter Savings	$23
Investing in Cost-Effective Energy Efficiency	$23
Operating Savings, Cost Avoidance, and Productivity	$17
Power Supply Pension and Retirement Savings	$8
Commodity Hedging (Based on Current Prices)	$5
Total (in $ millions)	**$1,251.0**

ELECTRIC BILL VERSUS INFLATION

- As the price of goods and services throughout the country has increased, so have utility bills.
- Despite these challenges, LIPA remains committed to providing electricity at the lowest possible cost for customers.
- Electric bill increases remain below the rate of inflation.

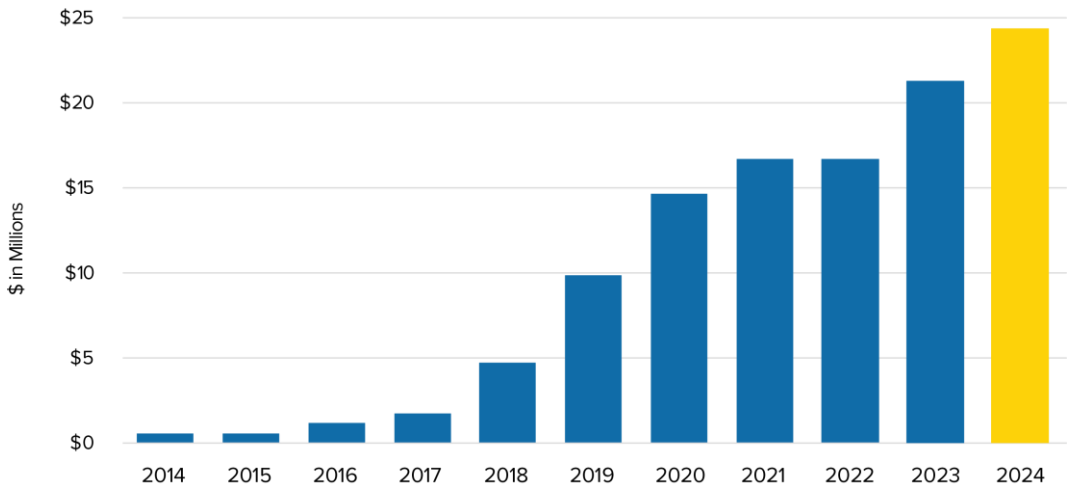
Figure 33: Rising Costs of Goods and Services Since 2018



HELPING LOW-TO-MODERATE-INCOME CUSTOMERS

- LIPA offers electricity bill discounts to low- to moderate-income (LMI) customers with the goal that household energy bills should be **no greater than 6% of household income**.
- In July 2022, LIPA increased its base LMI discounts by **33%** with an additional **6.7%** increase in 2023 to adjust for cost-of-living increases experienced by our customers.
- For 2024, LIPA is proposing an additional **$4 million of funding (20%)** through the combination of 3.8% increase in the annual discount and a 25% increase in participation levels.
- LIPA has requested the Board expand the eligibility for the low-income program and has set a goal of expanding participation from just under 40,000 participants in 2023 to **50,000 participants** by the end of 2024.

Figure 35: Funding for Low-Income Customer Discounts



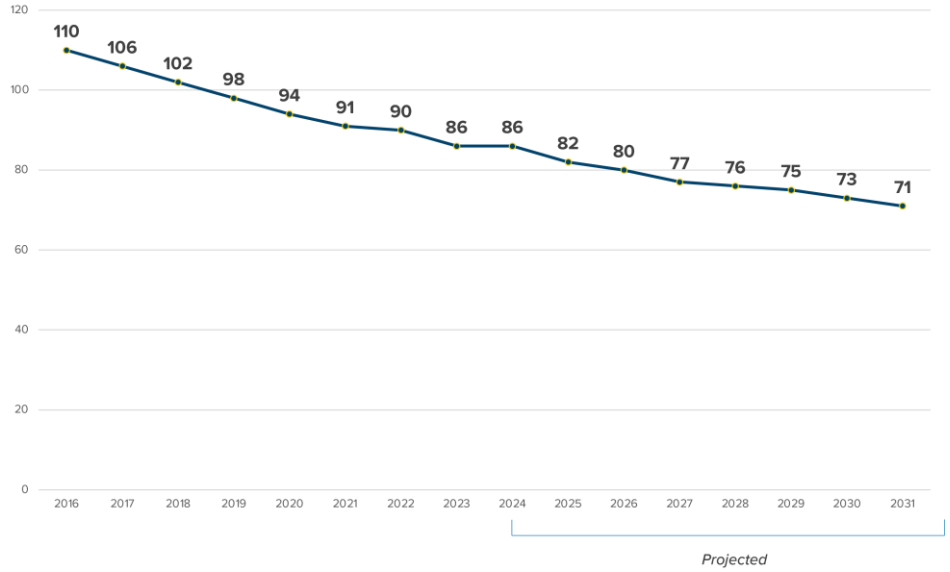
2024 BUDGET MAINTAINS FISCAL SUSTAINABILITY

- LIPA has achieved **four** **credit rating upgrades since 2013 and is on positive outlook by Fitch** for an upgrade in the next 12-to-24 months.
- The Board's plan will continue to **reduce LIPA's debt-to-asset ratio from 110% in 2016 to ~70% by 2030.**

Figure 29: LIPA Continues to Receive Credit Rating Upgrades

	2013 Ratings (Outlook)	2023 Ratings (Outlook)
Standard and Poor's	**A-** (Negative)	**A** (Stable)
Fitch Ratings	**A-** (Negative)	**A** (Positive)
Moody's Investor Service	**Baa1** (Negative)	**A2** (Stable)

Figure 30: LIPA's Debt-to-Asset Ratio Compared to Public Power Peers

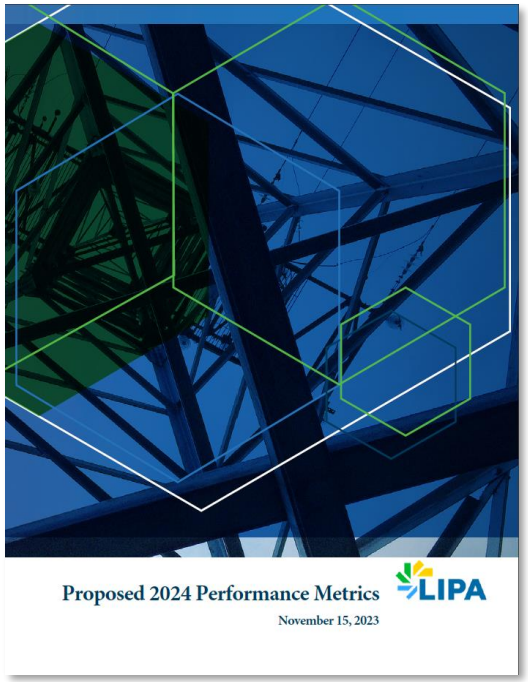


Public Comments

2024 PROPOSED BUDGET AND STANDARDS

- The 2024 Proposed Budget and Performance Standards are available for the public to view and download at lipower.org.

2024 Proposed Budget



2024 Proposed Performance Standards

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PUBLIC COMMENT SESSIONS

How can the public participate in the budget process?

- **Sign up to speak** at the above hearings at lipower.org to participate virtually.
- Appear **in person** at noted times and locations below.
- **Submit written comments** on the proposed budget to tariffchanges@lipower.org by December 3, 2023.
- The LIPA Board will be voting on the 2024 Proposed Budget on December 13, 2023.

Public Comment Session #1 **Monday, November 27, 2023** 10:00 a.m.	**H. Lee Dennison Building,** 100 Veterans Memorial Highway, Hauppauge, NY 1178
Public Comment Session #2 **Monday, November 27, 2023** 6:00 p.m.	**The OMNI Building** 333 Earle Ovington Blvd., 4th Floor, Uniondale, NY 11553

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Discussion

Questions?