



June 11, 2024

Via E-mail and U.S. Mail

Honorable Tracey Edwards, Chairwoman
Board of Trustees
Long Island Power Authority
333 Earle Ovington Blvd. Suite 403
Uniondale, New York 11553
boardoftrustees@lipower.org

Re: Matter No. 23-00219 - In the Matter of Department of Public Service Evaluation
of PSEG Long Island Performance and Incentive Compensation 2023

Dear Chairwoman Edwards:

I am pleased to provide the recommendations of the New York State Department of Public Service (DPS or the Department) regarding PSEG Long Island's (PSEG LI or the Service Provider) annual incentive compensation for the 2023 contract year. The Department has reviewed the Long Island Power Authority (LIPA or the Authority) evaluation of PSEG LI's performance, submitted to DPS on May 17, 2024, relative to the metrics set forth in the Second Amended and Restated Operations Services Agreement (the New OSA), between LIPA and its Service Provider PSEG LI.

The LIPA Reform Act (LRA), signed into law on July 29, 2013, contains numerous provisions intended to improve electric utility service to customers on Long Island and the Rockaways. A long-term objective of the LRA is to provide customers with electric service consistent with that provided by investor-owned utilities in New York State. The LRA authorizes the Department to review the data, reports, and other pertinent information submitted to LIPA by PSEG LI related to its performance with respect to the New OSA metrics, as well as LIPA's evaluation of such data and reports, and make a recommendation to the LIPA Board of Trustees with respect to PSEG LI's annual incentive-based compensation.¹

The New OSA provides PSEG LI the opportunity to earn incentive compensation, in addition to the annual fixed compensation specified in the A&R OSA, based on its level of performance against certain performance metrics.

¹ Public Service Law §3-b(3)(h).

For PSEG LI to be eligible to receive incentive compensation, it must meet a certain threshold. First, PSEG LI must not trigger any gating metrics including failing to meet one or both Cost Management metrics. Second, if PSEG LI meets this threshold, then the level of its incentive compensation is determined by its achievement of 93 performance metrics allocated among five categories: Electric Transmission & Distribution (T&D), Customer Service (CS), Information Technology (IT), Business Services (BS), and Power Supply & Clean Energy Programs (PS&CE). These categories are valued at 40 percent, 20 percent, 15 percent, 15 percent, and 10 percent of the total incentive compensation amount, respectively. For the 2023 contract year, PSEG LI is eligible to earn a maximum of \$22.29 million in today's dollars.

On March 29, 2024, PSEG LI submitted for LIPA and DPS review, its report containing PSEG LI's final position regarding its 2023 metrics performance and anticipated compensation.² PSEG LI determined that it met or exceeded target levels for 78 out of 93 performance metrics. As such, PSEG LI submitted an invoice for \$17.05 million in incentive compensation.

On May 17, 2024, LIPA submitted for DPS review its report regarding PSEG LI's 2023 metrics performance and recommended compensation³ LIPA determined that for the 2023 contract year, PSEG LI achieved or exceeded target performance for 75 of 93 performance metrics. As such, LIPA contends that PSEG LI qualifies for incentive compensation in the amount of approximately \$15.38 million.

DPS Staff reviewed both PSEG LI and LIPA's reports, including the various supporting documentation and other deliverables provided to evidence completion or a failure to complete each metric. Staff continuously monitors PSEG LI's performance in the monthly and quarterly scorecard reports, and other reports or documentation submitted consistent with the requirements of each metric. Based on DPS's review of the information provided by PSEG LI, and the evaluation performed and provided by LIPA, DPS recommends that LIPA award PSEG LI \$15.38 million in incentive-based compensation for its 2023 metrics performance.

PSEG LI has continued to perform well in system reliability measured by several metrics in the T&D scope area. Also, PSEG LI has achieved lower (more favorable) results than metric target requirements in all major reliability indices.

There have been significant improvements in the PS&CE scope area. PSEG LI successfully met the quantitative targets for both Energy Efficiency and Building Electrification metrics to support LIPA's share of the CLCPA goals. Additionally, PSEG LI implemented the necessary deliverables for PS&CE-13 to simplify and streamline the heat pump adoption strategy for LIPA customers.

Concerning the CS scope area, PSEG LI has exceeded the target level for several metrics that aim to ensure that customers receive a timely and accurate bill. PSEG LI's J.D. Power

² Matter 23-00219, In the Matter of Department of Public Service Evaluation of PSEG Long Island Performance and Incentive Compensation 2023, PSEG Long Island 2023 Operations Services Agreement Year-End Incentive Compensation Claim (filed March 29, 2024).

³ Matter 23-00219, supra, 2023 Year-End Report on PSEG Long Island's Performance Metrics (filed May 17, 2024).

Customer Satisfaction Survey score in both residential and business categories has also improved.

Additionally, LIPA's report concerning PSEG LI's 2023 metrics performance included certain partial compensation awards, i.e., partial credit or award. Although PSEG LI's actual metrics performance may warrant a partial compensation award it is important to ensure alignment with compensation award targets. In the future, compensation awards should be clearly defined and clarified so that these awards are consistent with the compensation targets that were set at the beginning of the metrics process.

Based on DPS's review of the information provided by PSEG LI and the evaluation performed and provided by LIPA, Staff determined that LIPA's report findings regarding PSEG LI's 2023 metrics performance are reasonable. Accordingly, DPS recommends that LIPA award PSEG LI \$15.38 million in incentive-based compensation for its 2023 metrics performance.

Respectfully submitted,



Rory M. Christian
Chief Executive Officer

cc: John Rhodes, LIPA Acting Chief Executive Officer
Bobbi O'Connor, LIPA General Counsel and Secretary to the Board of Trustees
Werner Schweiger, LIPA Acting Chief Operating Officer
David Lyons, PSEG LI Interim President and Chief Operating Officer
Andrea Elder-Howell, PSEG LI Vice President Legal Services
Nicholas Nolau, PSEG LI Manager Enterprise Business Intelligence & Performance
Carrie Meek Gallagher, DPS LIO Director
Nicholas Forst, DPS LIO Deputy Director
Peter Hilerio, DPS LIO Assistant Counsel