NEW YORK STATE | Department of Public Service

KATHY HOCHUL
Governor

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Chief Executive Officer

June 6, 2025

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. 25-00936 - In the Matter of Department of Public Service Evaluation of PSEG Long Island Performance and Incentive Compensation 2024

Dear Chairwoman Edwards:

I am pleased to provide the recommendation 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 2024 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 15, 2025, relative to the metrics set forth in the Second Amended and Restated Operations Services Agreement (OSA), between LIPA and its Service Provider PSEG LI.

The LIPA Reform Act (LRA) 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 (IOUs) 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 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 OSA provides PSEG LI the opportunity to earn incentive compensation, in addition to its annual fixed compensation, based on its level of performance against certain performance metrics.

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 of the Cost Management metrics. Second, if PSEG LI meets this threshold, then the level of its incentive compensation is determined by its achievement of 61 performance

[1] Public Service Law §3-b(3)(h).

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 2024 contract year, PSEG LI is eligible to earn a maximum of $22.98 million in today's dollars.

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. Further, Staff continuously monitors PSEG LI's performance in the monthly and quarterly scorecard reports, and other reports or documentation that are submitted according to the requirements of each metric.

On March 31, 2025, PSEG LI submitted for LIPA and DPS's review, its report containing PSEG LI's final position regarding its 2024 metrics performance and anticipated compensation.[2] PSEG LI claims that it met or exceeded target levels for 49 out of 61 performance metrics. As such, PSEG LI submitted an invoice for approximately $15.75 million in incentive compensation.

On May 15, 2025, LIPA submitted for DPS review, a report containing LIPA's findings regarding PSEG LI's 2024 metrics performance and LIPA's assessment of the appropriate level of incentive compensation.[3] LIPA determined that for the 2024 contract year, PSEG LI achieved or exceeded target performance for 49 of 61 performance metrics. As such, LIPA contends that PSEG LI qualifies for incentive compensation in the amount of approximately $15.49 million.

The difference in awarded compensation amounts between PSEG LI and LIPA's assessments pertains to metric T&D-26: Improve Reliability Through Vegetation Management Work Plan – Hazard Tree Removal. Metric T&D-26 required PSEG LI to complete the removal of 14,000 hazard trees (9,000 trees & 5,000 limbs) within an approved budget of $11.45 million. Further, this metric allowed a variance for PSEG LI to exceed the approved budget by up to five percent. PSEG LI also reallocated $2 million from the budget of T&D-24: Improve Reliability Through Vegetation Management Work Plan – Cycle Trim and Trim-to-Sky, another vegetation management metric which was under budget, to T&D-26 to ensure completion of the Hazard Tree removal target.

PSEG LI, in its compensation claim, states that it completed the removal of 14,000 hazard trees (9,000 trees & 5,000 limbs) at a cost of $12.99 million. Further, PSEG LI claims that its expenditure of $12.99 million is within the overall budget for vegetation management work. As such, PSEG LI contends that they should be awarded 100 percent of the incentive compensation. In its year-end report, LIPA acknowledged that PSEG LI met its target to

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2 Matter 25-00936, In the Matter of Department of Public Service Evaluation of PSEG Long Island Performance and Incentive Compensation 2024, PSEG Long Island 2024 Operations Services Agreement Year-End Incentive Compensation Claim (filed March 31, 2025).

3 Matter 25-00936, supra, 2024 Year-End Report on PSEG Long Island's Performance Metrics (filed May 15, 2025).

remove 14,000 hazard trees, however, LIPA stated that PSEG LI's $12.99 million expenditure did not meet the budget requirement for the metric, which capped expenses at $12,023,550 . While LIPA recognizes that the budget reallocation enabled PSEG LI to achieve the hazard tree removal target, they explained that the purpose of the metric was to meet the target within the approved budget. As a result, LIPA awarded PSEG LI only partial compensation at 50 percent of the total available for T&D-26. A total of $516,952 was available for the completion of this metric, the amount awarded at 50 percent is $258,476.

DPS Staff reviewed both PSEG LI and LIPA's assessments, as well as PSEG LI's performance and found that PSEG LI successfully completed the removal of 14,000 hazard trees while spending $12.99 million: confirming both analyses. Although PSEG LI exceeded the allocated budget, the reallocation of budget dollars from T&D-24 did not create additional monetary impacts to customers. Moreover, PSEG LI succeeded in meeting the volumetric target, which provided a net benefit to customers by increasing the reliability of the electric system.

In addition, as part of the criteria for the 2025 metrics, PSEG LI is explicitly allowed to reallocate funding at the Distribution Vegetation Program level, which should obviate future disagreements of this kind. Accordingly, DPS Staff concludes that PSEG LI should receive fifty percent of the allotted compensation for T&D-26, or $258,476.

Regarding system reliability, PSEG LI failed to meet metrics T&D-07 (System Average Interruption Duration Index (SAIDI) Reliability) and T&D-08 (System Average Interruption Frequency Index (SAIFI) Reliability) due to increased storm activity adversely impacting performance. The primary factor contributing to PSEG LI's inability to meet its reliability metrics in 2024 was the higher volume of storms affecting PSEG LI's service territory as compared to previous years. In 2024 PSEG LI experienced an increase in non-major storms, which impacted its reliability performance. Compared to 2023, the number of customer minutes of interruption increased by twenty-two percent due to non-major storms. The increase in storms resulted in a significant increase in outages caused by equipment failure. Transformer failure due to mechanical damage had the greatest impact on the number of customer minutes of interruption. The rise in the number of customer interruptions and duration of interruptions caused by non-major storms in 2024 resulted in PSEG LI not meeting its targets for SAIFI and SAIDI. It is worth noting that although PSEG LI did not meet its 2024 SAIDI and SAIFI targets, those incentive targets were more stringent than those in effect in 2023 to drive PSEG LI to improve performance in 2024.

PSEG LI's current reporting does not include the Customer Average Interruption Duration Index (CAIDI). This does not align with the reporting standards of New York State's other Investor-Owned Utilities. CAIDI is one of the metrics commonly used by electric utilities to measure reliability.[4] To ensure PSEG LI's reliability measurements remain consistent with the IOUs, Staff recommends that PSEG LI include CAIDI as part of their monthly reliability scorecard and its operation reports. DPS also recommends that PSEG LI provide all supporting data underlying PSEG LI's CAIDI results to DPS Staff.

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4 Case 24-E-0140, In the Matter of the 2023 Electric Reliability Performance in New York State, 2023 Electric Reliability Performance Report (Issued June 20, 2024), p.1.

As was the case in 2024, LIPA's report concerning PSEG LI's metrics performance awarded partial incentive compensation that was not explicitly detailed for certain metrics.[5] Although PSEG LI's actual metrics performance may warrant compensation that differs from the original target compensation level, it is important to ensure that the alignment of performance with award allotment is consistent with the explicit language of the metric, as recommended by DPS, and as adopted by the LIPA Board. The 2025 metrics include tiered incentive compensation amounts, and PSEG LI will be authorized to reallocate funding at the Distribution Vegetation Program level. Therefore, this concern, i.e., awards of partial compensation not explicitly included in the metric, is addressed for 2025, however, LIPA should continue to be attentive to this issue in the development of metrics going forward.

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 $15.49 million in incentive-based compensation for its 2024 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
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Carrie Meek Gallagher, DPS LIO Director
Nicholas Forst, DPS LIO Deputy Director
Peter Hilerio, DPS LIO Assistant Counsel

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5 Matter 23-00219, In the Matter of Department of Public Service Evaluation of PSEG Long Island Performance and Incentive Compensation 2023, Incentive Compensation Letter (dated June 11, 2024).