

2015 Performance Measurement Report
of the Long Island Power Authority



2015 AUTHORITY-WIDE STRATEGIC ISSUES:

| GOAL | TARGET PERFORMANCE | ACHIEVEMENT TO DATE |
|--|--|---|
| <p>Achieve a rate case outcome that is reasonable for customers, investors, and other stakeholders</p> | <ul style="list-style-type: none"> • Submit LIPA filings by Feb. 1st deadline • Coordinate with PSEG-LI as necessary to facilitate financial filings • Advise the Board of Trustees as to review and analysis of the DPS recommendation | <ul style="list-style-type: none"> • Rate case submitted and completed according to schedule in the LIPA Reform Act • DPS Recommendation supported LIPA’s key financial policies in all respects • DPS-recommended rates were implemented on January 1 2016 |
| <p>Move the electric system toward achieving the goals of REV</p> | <ul style="list-style-type: none"> • Review pending DPS recommendations on 2014 Utility 2.0 Plan and PSEG-LI’s July 2015 plan update • Seek improved coordination by PSEG with its capital budgeting • Oversee PSEG LI’s participation in the REV proceeding. • Oversee PSEG LI studies of expanded wholesale and retail competition | <ul style="list-style-type: none"> • Review of 2014 Utility 2.0 Plan completed. • PSEG filed 2015 Utility 2.0 Plan update on December 31st • AMI communications platform and initial meter deployment advancing • RFI issued to defer transmission projects in five load pocket areas. • RFP issued to defer transmission projects on South Fork and similar RFP under development for Far Rockaway and Glenwood areas • REV oversight through regular meetings with PSEG-LI to implement Track I programs and coordinate timely response to DPS • Track I tariff programs (Dynamic Load Management and Community DG Net Metering) Notice was submitted to the State Register for public comment, leading to March 2016 consideration by the Board • DPS issued Notice on December 31st initiating Retail Choice Collaborative process and seeking comments by April 1st, 2016 |

2015 DEPARTMENT-SPECIFIC GOALS:

| # | Finance Department Goal Description | Target Performances | Achievement to Date |
|---|---|--|---|
| 1 | Maintain and improve bond ratings and investor relations in the interest of the Authority's customers | <ul style="list-style-type: none"> • Maintain a high level of communication and outreach with rating agencies, investors, and bank lenders throughout the year, particularly during the rate plan filing | <ul style="list-style-type: none"> • Meetings and communications with all three rating agencies have resulted in relatively favorable reports on LIPA's credit and rate case efforts • S&P and Fitch changed their credit outlook from "negative" to "stable;" Moody's moved from "negative" to "stable" in 2014 • Rating agencies appear to be taking a "wait and see" that LIPA follows through on the rate case financial plan designed to improve bond ratings over five years before acting to raise LIPA's ratings |
| 2 | Access debt and bank financing on reasonable terms that fairly represent LIPA's financial standing | <ul style="list-style-type: none"> • Take actions appropriate to improve access to financing on reasonable terms • Establish Senior Notes program to enhance liquidity • Refinance variable rate debt and bank lines of credit due in June 2015, December 2015 and early 2016 • Complete financings required by rate plan filing | <ul style="list-style-type: none"> • Authority approved a new financial policy in December 2015 to reduce trajectory of borrowing and raise credit ratings to A2/A/A over five years • 2015 General Revenue Note program was implemented to replace and enhance LIPA's liquidity on more favorable terms • \$200 million of variable rate debt refinanced on more favorable terms in June • Issued \$117 million of fixed rate debt to fund capital expenditures and \$149 million of variable rate refinancing debt in November 2015 • Received \$1.2 billion of orders for \$266 million of debt • The yield premium paid to investors over AAA-rated bonds on the variable rate deal declined from 0.87% in 2012 to 0.64% • Authority successfully sought UDSA securitization legislation in April 2015, authorizing an additional \$2.5 billion of refinancing of LIPA bonds at a lower cost • 2015 UDSA refinancing completed. Issued \$1.002 billion that produced NPV savings of \$128 million, which compares favorably to the 2013 UDSA deal of \$2.138 billion that generated \$132 million NPV savings. Two more refinancings expected in 2016 |

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| 3 | Implement tariff changes required in 2015 budget | <ul style="list-style-type: none"> • Coordinate with PSEG-LI on SAPA notice and amended tariff leaves • Present tariff changes to Board of Trustees | <ul style="list-style-type: none"> • 2015 Tariff changes approved by Board at March meeting and implemented in billing system by April 1st |
| 4 | Review power supply charge framework and make changes as appropriate | <ul style="list-style-type: none"> • Work with PSEG-LI to review industry standards and best practices | <ul style="list-style-type: none"> • PSEG recommendation on recovery of monthly fixed costs was approved by the Trustees at December Board meeting |
| 5 | Work with PSEG-LI to transition power supply payments and accounting to PSEG-LI | <ul style="list-style-type: none"> • Establish timeline for transition • Establish procedures for LIPA oversight | <ul style="list-style-type: none"> • LI Choice payments and related accounting have been transitioned • Nine Mile call for funds have been transitioned • Transition of remaining power supply payments remains under discussion for 2016 |
| 6 | Work with PSEG-LI to improve the flow and accessibility of financial reports and information to the Authority | <ul style="list-style-type: none"> • Develop a tier 2 metric to track financial reporting • Obtain access to and training in PSEG-LI SAP system • Review options for integrating LIPA accounting system with PSEG-LI SAP • Implement procedures for updates on plant accounts and CWIP balances from PSEG-LI to ensure balances appropriately reflect the status of individual capital projects • Work with PSEG-LI to improve capital spending reporting to ensure timely reimbursements to LIPA of capital outlays and compliance with all IRS and FEMA record keeping requirements | <ul style="list-style-type: none"> • Financial scorecard presented to F&A Committee periodically • SAP access has been arranged and training has been initiated • ERP plan is being developed that will address system integration • Progress continues on improvements in plant accounts and CWIP • Improvements in capital spending reports continue to be made |

| # | Finance Department Goal Description | Target Performances | Achievement to Date |
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| 7 | Work with PSEG ER&T to transition Power Supply Hedging Program functions (front, middle, back office), including hedge execution, trade capture system, reporting and monitoring functions | <ul style="list-style-type: none"> • Update LIPA’s hedge plan • Revise LIPA’s internal “Policies, Controls and Procedures Manual for Power Supply Hedging Program” • Develop hedge oversight activities and coordinate access to PSEG ER&T trading floor | <ul style="list-style-type: none"> • Transition Completed • LIPA ERMC approved new LIPA Hedge Plan and Procedures Manual on Feb. 5th, 2015; periodic reviews by the ERMC have led to revisions • PSEG/PSEG-LI Front, Mid and Back office daily emails to LIPA • Weekly Hedge compliance report and Weekly Credit Report provided by PSEG mid-office for ERMC program monitoring • PSEG/ PSEG ER&T and LIPA hold monthly ERMC meetings • Daily contact between LIPA Staff and PSEG and PSEG ER&T staff |
| 8 | Develop Enterprise-wide Risk Management (ERM) program Board policy, implementation plan and program deployment | <ul style="list-style-type: none"> • Engage with outside ERM consultant for the development of ERM framework in conjunction with PSEG-LI • Prepare ERM Program Policy to Board • Assess risks of providing electric service with participation; evaluate likelihood and magnitude of potential risks, align with strategic objectives, and develop monitoring plan | <ul style="list-style-type: none"> • Protiviti was hired to help facilitate ERM program development • Board Policy approved by Board in August 2015 • Internal ERM Procedures Manual completed and approved by ERMC, and monitoring practices developed • Roles of LIPA staff, ERMC Chair, Internal Audit have been defined • Initial Enterprise Risk Assessment, prioritization of Key Risks (“KR”), KR Owners and KR mitigating activities documented. • Continuous monitoring of KR initiated • Quarterly survey KR Owners for new or emerging risks |
| 9 | Develop and implement the 2015 Internal Audit Plan | <ul style="list-style-type: none"> • Prepare the 2015 audit plan based on a documented risk assessment process • Work with PSEG LI Audit Department and further enhance coverage of risk areas in systematic process | <ul style="list-style-type: none"> • The 2015 LIPA Internal Audit Plan was presented to the Finance& Audit Committee on March 26, 2015. The 2015 Audit Plan is substantially complete • The LIPA Internal Audit Director meets bi-weekly with the PSEG LI Internal Audit Manager to review and discuss the PSEG IA Internal Audit activities |

| # | Contract Oversight Department Goal Description | Target Performances | Achievement to Date |
|---|---|---|---|
| 1 | Manage OSA performance metrics to promote continued improvement | <ul style="list-style-type: none"> Reach agreement with PSEG-LI and implement 2015 metrics changes Continue to develop metrics for Power Markets Review metrics on safety and customer satisfaction to facilitate continued improvement. | <ul style="list-style-type: none"> Completed. Added power supply invoice metric Reviewing potential for other Power Market metrics Reviewing possible changes for 2016 |
| 2 | Strengthen Oversight Capability | <ul style="list-style-type: none"> Continue development of department staff's oversight skills Complete documentation of department's oversight processes Oversee PSEG-LI's improvement and completion of the Contract Administration Manual Coordinate oversight with DPS-LI to leverage respective capabilities | <ul style="list-style-type: none"> Training on OMS system held for all staff Completed department process documentation Identified new CAMs Update of previously approved CAMs underway Ongoing meetings with DPS-LI with respect to metrics, IRP and RFPs |
| 3 | Oversee PSEG-LI acquisition of resources to meet emerging needs | <ul style="list-style-type: none"> Oversee timely issuance and implementation of RFPs for needs on East End, Rockaways and Glenwood | <ul style="list-style-type: none"> South Fork RFP issued 6/24/15, proposals received on 12/4/15. Rockaways and Glenwood RFP renamed Western Nassau RFP to be issued in 1st Quarter 2016 |
| 4 | Assure fulfillment of renewable energy goals set forth in the LIPA Reform Act | <ul style="list-style-type: none"> Oversee completion of contracts for 122 MW and issuance and implementation of 160 MW RFP Oversee implementation of eligible proposals in the non-solar feed-in tariff | <ul style="list-style-type: none"> Approx. 96MW of projects are moving through the SEQRA process and finalization of PPAs. Individual contracts will be brought to the Trustees for approval "2015 Renewable RFP for New Renewable Capacity & Energy" was issued 12/22/15 for renewable resources 1 MW or larger Fuel Cell Feed-in Tariff for up to 40 MW of projects is targeted for public comment during the Q1 2016 Commercial Solar Feed-in Tariff for up to 20 MW of solar projects greater than 200 kw but less than 1 MW is targeted for public comment in Q1 2016. Monitoring PSEG LI implementation of Non-Solar FIT |

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| 5 | Ensure successful conduct and implementation of the IRP by PSEG LI | <ul style="list-style-type: none"> • Oversee (substantial) completion by December 2015 • Review work plan and results and provide guidance and feedback to PSEG LI in coordination with DPS LI. • Encourage effective public outreach • Brief the Board of Trustees on progress and results | <ul style="list-style-type: none"> • IRP schedule shifted to Q2 2016 • Ongoing feedback on IRP work plan and provide guidance • Public outreach process in Q1 2016 • Periodic briefings of Contract Oversight Committee during 2015 |
| 6 | Establish a Long Island Public Policy Transmission Planning Process | <ul style="list-style-type: none"> • Establish LIPA Board of Trustees procedures when and as approved by FERC • Conduct first planning process in coordination with PSEG LI and input from stakeholders | <ul style="list-style-type: none"> • Procedures established. First planning process to be conducted in 2016 in conjunction with PSC and NYISO |
| 7 | Complete and oversee NorthStar audit recommendations pertaining to Contract Oversight | <ul style="list-style-type: none"> • Brief the Board of Trustees on PSEG LI's 2016-18 capital budgets • Oversee (substantial) completion of the IRP by December 2015 • Oversee completion of recommendations pertaining to PSEG-LI | <ul style="list-style-type: none"> • PSEG LI provided 2015 capital budget briefing at the June 26 and August 7 Board Meetings • PSEG LI presented 2016-2018 budget briefing at the November 2015 workshop • IRP schedule shifted to Q2 2016 • Most PSEG-LI recommendations completed by end of 2015 • LIPA staff requested PSEG LI to ensure completeness of the NorthStar audit recommendations. Response expected by 2/2016 |
| 8 | Develop and strengthen initiatives to maximize operational efficiency of service provider | <ul style="list-style-type: none"> • Encourage PSEG-LI to establish framework to foster ongoing focus on operational efficiency of the utility (e.g. work management, project management, capital planning) | <ul style="list-style-type: none"> • Reviewed and continuing to monitor PSEG LI project management process • PSEG implemented new project estimating techniques • OMS system installed • AMI investment will add operational efficiencies |

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| 9 | Ensure successful migration of power supply function | <ul style="list-style-type: none"> • Ensure that PSEG-LI Power Markets is performing all required tasks in accordance with agreed-upon metrics • Ensure that PSEG ER&T is performing all required services in accordance with agreed-upon metrics • Oversee PSEG implementation of power supply invoice payment during 2015 | <ul style="list-style-type: none"> • All required services are being performed by ER&T • ER&T is meeting or exceeding metric benchmarks • Regularly meet with power market staff to review power supply invoices and seek clarification on provided documentation • Power supply invoice payment to be discussed further |

| # | Legal Department Goal Description | Target Performances | Achievement to Date |
|---|--|--|---|
| 1 | Provide adequate legal resources to support continuity and enhanced capabilities with respect to legal issues/matters | <ul style="list-style-type: none"> Hire attorney to meet identified needs for corporate and regulatory legal services | <ul style="list-style-type: none"> In 2015, the Authority has hired a General Counsel, two Assistant General Counsels, and a Special Counsel for Ethics and Risk The legal department is now fully staffed |
| 2 | Advise on OSA issues to preserve LIPA's rights under the contract and to establish terms of the relationship between LIPA and PSEGLI | <ul style="list-style-type: none"> Interpret issues related to respective rights and responsibilities of LIPA and PSEGLI | <ul style="list-style-type: none"> The Authority's legal team advises the Authority staff and engages PSEGLI regarding interpretation of the OSA on an as-needed basis The Authority consistently takes positions regarding the OSA that preserve LIPA's rights thereunder |
| 3 | Administer compliance obligations to meet requirements under state law and internal policies and procedures | <ul style="list-style-type: none"> Compile and submit annual report filing Measure performance against existing policies and procedures (e.g., procurement, property disposition, record retention) Administer and measure necessary training | <ul style="list-style-type: none"> The Authority's 2015 Annual Report was completed and filed on time, together with its Procurement Report and its Property Disposition Report On March 5, 2015, the Authority submitted its Ethics Training Report to JCOPE, indicating that all Authority employees were current in their ethics training and the Authority expects to make the same submission in March 2016 |
| 4 | Monitor and track progress on management audit recommendations | <ul style="list-style-type: none"> Confirm completion of 43 LIPA-directed recommendations Oversee PSEG-LI's progress on 40 PSEG-LI recommendations | <ul style="list-style-type: none"> 38 of the LIPA-directed recommendations have been completed, and the remaining 5 are substantially complete The Authority periodically conducts a forward-looking review of all 43 LIPA-directed recommendations with a view toward continuous improvement The Authority reviews PSEG-LI's progress on its recommendations on an ongoing basis. As of January 1, 2016, PSEG LI indicated that all of the PSEG-LI-directed recommendations had been completed. The Authority is currently reviewing PSEG LI's documentary support of this conclusion |

| # | Legal Department Goal Description | Target Performances | Achievement to Date |
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| 5 | Advise trustees on roles and responsibilities | <ul style="list-style-type: none"> Public Officer’s Law; PARA; LIPA Reform Act; OSA Bylaws; Committee charters; Trustee Code of Conduct | <ul style="list-style-type: none"> The Authority conducted Trustee trainings during 2015 and the Board approved an updated Trustee Code of Conduct on June 26, 2015 The Authority’s legal team regularly advises the Board on all applicable laws, codes, and internal charters |
| 6 | Update LIPA and UDSA Governance Documents and LIPA Procurement Documents to ensure internal consistency across policies and to reflect best practices; finalize new securitization legislation | <ul style="list-style-type: none"> LIPA By-laws; procurement guidelines; hedging policies; Administrative Protocols and Procedures Manual (Appendix XI to the PSM Agreement UDSA bylaws | <ul style="list-style-type: none"> The Authority’s Board approved an updated procurement policy on August 7, 2015 The Authority’s Board approved updates to the Swap Agreement Guidelines on April 23, 2015 The Authority’s Board approved Interest Rate Exchange Agreement Guidelines and Investment Guidelines on March 26, 2015 |
| 7 | Finalize real property contracts to complete transition of real estate issues from National Grid | <ul style="list-style-type: none"> Finalize leases of office space, warehouses and Fire Island property | <ul style="list-style-type: none"> The Authority’s legal team completed the purchases from National Grid of properties in Levittown, Babylon and Fire Island and continues to meet on a regular basis with PSEG LI’s legal team as well as outside counsel to resolve other open real estate issues with National Grid |
| 8 | Coordinate legal and other issues with DPS LI Staff to ensure appropriate coverage related to statutory duties and contract oversight functions | <ul style="list-style-type: none"> Establish guide/policies for division of labor | <ul style="list-style-type: none"> The Authority’s legal team, with assistance from outside counsel, coordinated and advised on issues related to the recently completed rate case |
| 9 | Continue active pursuit of reasonable outcome to pending tax challenges | <ul style="list-style-type: none"> Oversee filing of “trial ready” notices in all pending cases Resolve issues delaying progress on the Town of Huntington case re: Power Supply Agreement | <ul style="list-style-type: none"> The Authority’s legal team continues to work with outside tax cert counsel to advance the pending tax cert cases. “Trial ready” notices have been filed |

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| 10 | Support Contract Oversight group in addressing conflicts of interest with PSEG-LI with the objective of achieving public confidence and fairness in power supply actions and activities | <ul style="list-style-type: none"> Develop, monitor and implement protocols to address conflict issues related to power supply activities | <ul style="list-style-type: none"> The Authority's legal team continues to engage in discussions with PSEG LI's legal team regarding conflicts of interest issues, specifically in matters before FERC and the ISOs |

| # | Human Resources Goal Description | Target Performances | Achievement to Date |
|---|---|---|---|
| 1 | Identify professional development plans for LIPA employees | <ul style="list-style-type: none"> Partner with supervisors to prepare and implement a professional development plan for all staff and skills training initiative for administrative staff | <ul style="list-style-type: none"> Designed and implemented on-line training program for all employees Continuing to seek opportunities to arrange for LIPA employees to attend training programs provided by PSEG LI Working with departments to identify Executive Management Programs at business schools in New York that would benefit high-potential employees |
| 2 | Provide management skills training opportunities for LIPA supervisors | <ul style="list-style-type: none"> Incorporate management skills training into the 2015 training initiative | <ul style="list-style-type: none"> See above |
| 3 | Continue to staff the organization, seek opportunities to continue and improve employee communication | <ul style="list-style-type: none"> Complete staffing the organization | <ul style="list-style-type: none"> Actively recruiting for CEO Successfully on-boarded 9 highly skilled utility professionals and 2 highly skilled Administrative professionals Qualified utility professionals are responding to our ads Employee staff meetings held monthly; providing staffing updates and utility presentations |
| 4 | Resolve Uniondale real estate issues | <ul style="list-style-type: none"> Complete office renovations and employee workstation relocations Assist each department with identifying and properly filing/discarding the boxes and files located throughout the LIPA office Generally organize the LIPA office suite | <ul style="list-style-type: none"> Renovations complete, employee relocations complete Document management continues; significant progress has been achieved Additional renovations are currently underway to improve the work space and accommodate workstation relocations |
| 5 | Working with LIPA management, develop a succession plan | <ul style="list-style-type: none"> Develop a succession planning program that aligns talent management with the needs of LIPA, ensures employees have development opportunities to hone their leadership skills, and/or identify interim solutions to senior vacancies | <ul style="list-style-type: none"> Emergency/Interim succession plan completed Executive position profiles completed |