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**DPS Releases PSEG LI Management and Operations Audit  
— Independent Auditor Says Long Island Utility Performing Well; Solid Improvements in  
Customer Satisfaction and Financial Oversight; Work Remains to Improve Operations —**

**ALBANY** — As required by the LIPA Reform Act signed into law by Governor Andrew M. Cuomo, the New York State Department of Public Service (Department) today submitted to the Board of Trustees of the Long Island Power Authority (LIPA) an independent audit of the LIPA and PSEG Long Island, the electric utility for Long Island. While the audit report noted significant improvements in the operations of LIPA and PSEG LI, particularly in the areas of customer satisfaction and financial and budget oversight, it also suggested ways to improve the business operations of both entities.

“This independent management and operations audit focuses on where gains have been made and where improvements are needed,” **said Department CEO John B. Rhodes.** “LIPA historically suffered from poor customer satisfaction. However, many of these issues have been faced head-on by LIPA and PSEG LI with remarkable, objective achievements. The Department encourages LIPA’s board of trustees to review the findings and take appropriate action to ensure the best possible service for PSEG LI’s customers.”

A comprehensive, proactive management and operations audit every five years is mandated by the LIPA Reform Act to ensure ongoing improvement of management and operations of Long Island’s electric grid operator. The audit reviewed and evaluated the overall operations and management of LIPA and PSEG LI in the context of LIPA’s duty to protect the interests of Long Island’s energy customers and set rates at the lowest level consistent with sound fiscal and operating practices and provide for safe and adequate service.

The audit included PSEG LI’s construction and capital program planning as it relates to the needs of customers for reliable service, the overall efficiency of LIPA’s and PSEG LI’s operations, the manner in which LIPA is meeting its debt service obligations; and LIPA’s fuel and purchased power cost adjustment clause.

The audit contains a total of 49 recommendations. The most notable findings and recommendations include:

- **PSEG LI Customer Service:** PSEG LI has made significant investments in customer service, which are showing results. Under the terms of the agreement with LIPA, PSEG LI earns incentive compensation for achieving several performance metrics. As these are heavily weighted towards customer satisfaction, PSEG LI has a strong incentive to improve customer service levels and has done so. Customer satisfaction as measured by JD Power surveys has

risen. PSEG LI was no longer in the bottom quarter in residential customer satisfaction ranking. Instead, it now tied for 10th place amongst the 16 large utilities in the east.

- **Exceptional Financial Leadership:** LIPA's exceptional financial leadership has resulted in many noteworthy accomplishments. LIPA is responsible for managing the debt issuance process and providing capital to fund the utility's capital program. LIPA's Chief Financial Officer has responsibility for the debt issuance process, with support from personnel both inside and outside LIPA. LIPA generated over \$186 million of savings for customers from refinancing \$1.5 billion of LIPA and Utility Debt Securitization Authority (UDSA) bonds during 2016. During 2017 UDSA bonds provided another \$45 million. Total savings for all the bonds total \$491 million.
- **Effective Utility Oversight Critical:** Effective oversight is critical when contracting virtually all utility operations and maintenance. Traditional utilities make decisions at the top of their organizational structure – decisions which are then communicated down their chain of command and implemented. Utility managers base decisions on analysis, current information, and past experience focused exclusively on the mission of one entity – their own utility company. In contrast, LIPA is separated from daily utility operations, information and experience by a formal contract with its service provider – PSEG LI. For a utility operating with this business model, the need for strong management skills and a deep understanding of the nuances of utility operations is critical to provide effective oversight and continuous improvement.
- **Driving Performance:** The Department of Public Service recognized that it was critical that Long Island utility customers receive electric service that is both cost-effective and is of the high quality that is comparable to what is demanded of other New York utilities and by PSEG's New Jersey regulators and customers. LIPA has to drive performance improvement while staying within the scope provisions of its agreement with PSEG LI.
- **Audit Recommendations:** The management and operations audit assesses LIPA's and PSEG LI's efficiency and effectiveness in achieving their mission and identifying areas for improvement. Implementation of the audit's recommendations will improve the operations and management of LIPA and PSEG LI and the provision of safe and adequate electric service to Long Island electric customers.
- **Capital Plan Outreach:** PSEG LI is becoming more effective in its communication with customers. With respect to capital projects, PSEG LI should continue to evaluate the effectiveness of its outreach program, develop more formal outreach plans to impart more specific project information to customers, and document meetings with external stakeholders.

In terms of next steps, the audit will be reviewed by the LIPA board of trustees. If the board does not make a preliminary finding of inconsistency within 30 days of receipt of the final report, the recommendations must be implemented in accordance with the time frame specified in the audit report.

The audit may be obtained by going to the Commission Documents section of the Commission's Web site at [www.dps.ny.gov](http://www.dps.ny.gov) and entering Matter Number 16-01248 in the input box labeled "Search for Case/Matter Number". Many libraries offer free Internet access. Commission documents may also be obtained from the Commission's Files Office, 14th floor, Three Empire State Plaza, Albany, NY 12223 (518-474-2500). If you have difficulty understanding English, please call us at 1-800-342-3377 for free language assistance services regarding this press release.