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DPS RECOMMENDS APPROVAL OF LIPA CONTRACT WITH PSEG AND RELEASES MANAGEMENT AND OPERATIONS AUDIT — Recommendations to be Considered at Upcoming LIPA Board Meeting —

Albany, NY—09/27/13—As required by the LIPA Reform Act signed into law by Governor Andrew M. Cuomo earlier this year, the New York State Department of Public Service (Department) today submitted to the Board of Trustees of the Long Island Power Authority (LIPA) a recommendation to approve the amended contract with PSEG-Long Island (PSEG-LI) to take over utility operations starting on January 1, 2014. In addition, the Department issued its first comprehensive management and operations audit of LIPA and its current management services agreement with National Grid.

Currently, LIPA contracts with National Grid to perform the day-to-day operations and maintenance of the transmission and distribution system. The agreement with National Grid expires on December 31, 2013 and PSEG-Long Island was competitively selected by LIPA's Board of Trustees to take over operations in 2014.

Subsequent to the commencement of the management and operations audit, the Legislature passed the LIPA Reform Act of 2013 that provided greater operational control of the utility to PSEG-LI, and expanded oversight of the utility by the Department. Under the LIPA Reform Act, the Department was charged with reviewing amendments to the PSEG-LI contract governing service — formally called the Operations Services Agreement (OSA) — and making a recommendation to the LIPA Board.

Today, the Department submitted to the LIPA Board a recommendation that it approve amendments proposed by LIPA and PSEG-LI to the OSA. The Department found that the amendments to the OSA are consistent with the LIPA Reform Act and expands the role of PSEG-LI, a utility leader, as asset

manager and provides LIPA with the capabilities to protect the financial integrity of the organization while at the same time ensuring customer interests are met. Moreover, the Department found that the amended OSA already reflected some of the audit recommendations and provided the appropriate tools and incentives for PSEG-LI to implement the remainder of the recommendations.

The audit primarily focused on LIPA's and National Grid's operation of the electric system to date. In addition, given the upcoming expiration of LIPA's contract with National Grid on December 31, 2013, the audit also examined the services contract, executed on December 28, 2011, with PSEG-LI (prior to its amendments).

The comprehensive audit of LIPA and National Grid's operation under the existing agreement serves to highlight deficiencies in LIPA's current operations. Given the changes that will soon take place, the Department expects that the recommendations being made in the audit will be used by LIPA and its new utility provider, PSEG-LI, a subsidiary of Public Service Enterprise Group, to ensure an improved level of service to electric customers on Long Island. The amended contract and the LIPA Reform Act contain tools to control costs that will allow the parties to seek a rate freeze in 2014 and 2015 under the new utility structure.

“We have concluded that the LIPA Reform Act, the amended OSA, and the management and operations audit provide a foundation for achieving meaningful improvement for Long Islanders,” said Department Chair Audrey Zibelman. “Specifically, the amended OSA makes certain that all parties — LIPA, PSEG-LI and the Department — have a common interest and ability to improve service to Long Island electric customers.”

The independently conducted management and operations audit focuses on where improvements are needed going forward. Approval of the amended OSA, coupled with the new oversight of the utility by the Department, would address many of the concerns in the audit and improve overall performance. For recommendations more directed to the service provider, PSEG-LI, LIPA has received a commitment from PSEG-LI that it will implement the recommendations, with a vast majority implemented within the first year of service.

In addition to its 83 recommendations, the 402-page management and operations audit report includes a number of themes that emerged from the analysis. For example, as the entity ultimately

responsible for electric service on Long Island, LIPA has to keep its contractors accountable for results. In addition, LIPA's customers deserve to be treated with maturity and respect, to receive accurate and timely information about system operations, rates and performance, and to have appropriate levels of service.

The audit revealed numerous areas where National Grid's Long Island operations were not treated with the same level of management attention as that shown in National Grid's electric operations in other parts of the state. A recommendation in the audit was that LIPA should not allow itself to become subordinated to its service provider. The amended OSA and the LIPA Reform Act which provides for Department oversight of operations will ensure that this does not occur. It is anticipated that the LIPA Board and PSEG-LI will consider the recommendations made by the independent consultant NorthStar Consulting Group at its meeting scheduled for Oct. 3, 2013.

After a competitive procurement, DPS selected an independent auditor to perform the audit. As required by law, the audit addressed: 1) LIPA's construction and capital program planning in relation to the needs of its customers for reliable service; 2) the overall efficiency of LIPA's operations; 3) LIPA's Fuel and Purchased Power Cost Adjustment clause and recovery of costs associated with such clause; and 4) LIPA's annual budgeting procedures and process.

The operations and management audit can be found here:

<http://documents.dps.ny.gov/public/MatterManagement/CaseMaster.aspx?MatterCaseNo=12-00314&submit=Search+by+Case+Number>

The amended Operations Services Agreement can be found here:

<http://documents.dps.ny.gov/public/MatterManagement/CaseMaster.aspx?MatterCaseNo=13-02006&submit=Search+by+Case+Number>