Long Island Power Authority

Long Island Power Authority Evaluation of PSEG-LI Performance and Incentive Compensation

2014 Contract Year

5/15/2015

Executive Summary

The Operations Service Agreement ("OSA") between the Long Island Power Authority ("Authority"), through its subsidiary Long Island Lighting Company d/b/a LIPA, and PSEG Long Island ("PSEG-LI") established performance metrics to measure PSEG-LI's performance against operational and customer satisfaction goals (refer to OSA Section 4.3 and Appendix 9). The OSA also established an Incentive Compensation Pool for each contract year to be paid to PSEG-LI based on favorable performance relative to the performance metrics. For 2014, the Incentive Compensation Pool is $5,768,343.

Accordingly, the OSA requires PSEG-LI to submit to the Authority by March 31 of each year its calculation of the incentive compensation due it for the previous year, along with supporting data and information (refer to OSA Section 5.1). Thereafter, the following review process was established by the OSA and the LIPA Reform Act[1]:

- The Authority is required to submit its evaluation of PSEG-LI's performance to the New York State Department of Public Service ("DPS") by May 15
- The DPS is required to make recommendations to the Authority by June 15
- The Authority must notify PSEG-LI of its acceptance or disagreement with the calculation and to pay any undisputed portion by June 30.

This report describes the Long Island Power Authority's ("Authority") evaluation of PSEG Long Island's (PSEG-LI) performance on the 20 customer satisfaction and operational metrics that are used to determine the 2014 Incentive Compensation. In order to be eligible for 100% of the Incentive Compensation during the Contract Year PSEG-LI must meet both Performance Metrics in the Cost Management Performance Category for the Contract Year.

Included in this report are target and reported performance levels for 2014; the Authority's calculation of the incentive compensation to be paid to PSEG-LI and the Authority's evaluation of each metric and the method used to verify the reported performance levels.

The Authority has reviewed the data provided by PSEG-LI and concurs with PSEG-LI that it met or exceeded the target performance levels for 19 of the 20 "Tier One" metrics in 2014. Based on the Authority's evaluation and in accordance with the Operations Services Agreement, Authority staff has concluded that PSEG-LI has earned $5,479,926 in incentive compensation for the 2014 contract year.

It should be noted the Authority's calculation of the incentive compensation achieved differs from the amount calculated by PSEG-LI. PSEG-LI submits that it is entitled to the full amount of the Incentive Compensation Pool, which is $5,768,343. The details of this calculation and the reasons for the Authority's disagreement are set forth in the following sections of this report.

[1] Refer to Section 5.1 of the OSA, Section 3-b(3)(h) of the Public Service Law, and Section 1020-f(hh) of the Public Authorities Law.

2014 Performance Metrics Summary

The Operations Service Agreement (OSA) provides PSEG-LI the opportunity to earn incentive compensation above the annual fixed compensation component specified in the agreement based on performance levels achieved relative to specific metrics.

The OSA, in section 5.1(C) (1), specifies an incentive compensation pool of $5.44 million for the 2014 contract year. This amount is adjusted based on the change in the Consumer Price Index for All Urban Consumers (CPI-U), New York - Northern New Jersey - Long Island (1982-84 = 100) from January 2011 to the beginning of each contract year. The final incentive compensation pool is established based on PSEG-LI's budget performance for the contract year. Operating within budget targets for both the capital and expense budgets sets the pool at 100%. Operating within the budget target for one of the two budget category sets the pool at 50%. Missing both budget targets sets the pool at 0%.

Metrics are designed to improve or maintain performance in the areas of Customer Satisfaction, Technical and Regulatory Performance and Financial Performance.

The Customer Satisfaction metric category provides PSEG-LI the opportunity to achieve 40% of the incentive compensation pool and is comprised of eight metrics that focus on customer satisfaction, performance in the customer service call center and the utilization of self-service customer service options by customers. The eight metrics in this category for 2014 are:

- JD Power Residential Score
- JD Power Business Score
- After-Call Survey (Residential)
- After-Call Survey (Business)
- Personal Contact Survey
- Average Speed of Answer
- Abandonment Rate
- Web Transactions Completed

The Technical and Regulatory Performance category provides PSEG-LI the opportunity to achieve 30% of the incentive compensation pool and is comprised of five metrics that focus on electric reliability and employee safety. The five metrics in this category for 2014 are:

- System Average Interruption Duration Index (SAIDI)
- System Average Interruption Frequency Index (SAIFI)
- Customer Average Interruption Index (CAIDI)
- OSHA recordable employee injury incident rate
- OSHA days away from work after injury

The Financial Performance category provides PSEG-LI the opportunity to achieve 30% of the incentive compensation pool and is comprised of five metrics that focus on the meter reading, billing and collections processes of customer service as well as PSEG-LI's performance in achieving load reductions through energy efficiency programs. The five metrics in this category for 2014 are:

- Actual Meter Read Rate
- Net Write-offs
- Achieved Load Reduction
- Timely Billing
- Days Sales Outstanding

Each metric is assigned a point value within the categories that factors into the calculation of the incentive compensation achieved by PSEG-LI for each category. Actual performance for each metric is identified and the point values are determined to calculate a total performance score for each category. That score is divided by the maximum possible points for the category to determine the percentage of the incentive compensation pool achieved for each category and is capped at 100% of the incentive compensation tied to the category.

2014 Performance Targets and Performance

The table below depicts the 2014 metric targets and performance reported by PSEG-LI. The methods and data utilized by LIPA to verify the reported performance levels are described in Appendix 1. The OSA defines the points assigned to each metric and provides PSEG-LI the opportunity to achieve excess points by accelerating improvement for the improvement metrics towards the industry top quartile goal. Any excess points are used to offset under performance for metrics in the same category. Appendix 2 illustrates the point scale for each improvement metric and highlights the 2014 performance.

Customer Satisfaction	**2014 Target**	**2014 Actual Performance**	**Base Points**	**Base Points Multiplier**	**Points Achieved**
JD Power satisfaction surveys (residential customers)	542	571	10	150%	15
JD Power satisfaction surveys (business customers)	551	595	5	150%	7.5
After call satisfaction surveys (residential customers)	67.00%	87.40%	5	150%	7.5
After call satisfaction surveys (business customers)	47.60%	81.60%	5	150%	7.5
Personal contact surveys	83.70%	90.70%	5	150%	7.5
Average speed of answer in call center	79	54	7.5	150%	11.25
Call abandonment rate	3.80%	2.60%	7.5	150%	11.25
Web transactions	5%	10.60%	5	150%	7.5
Technical & Regulatory Performance					
SAIDI - Average electric outage duration (minutes)	66.2	59.3	10	N/A	10
SAIFI - Average number of interruptions per customer	0.9	0.73	5	N/A	5
CAIDI - Average customer outage duration (minutes)	84	82	5	N/A	5
OSHA recordable employee injury incident rate	1.67	2.8	5	0%	0
OSHA days away from work after injury	29.81	29.16	5	100%	5
Financial Performance					
Actual meter reading rate	96.80%	97.10%	5	150%	7.5
Days sales outstanding	41.9	37.8	5	150%	7.5
Timely billing (% of billing exceptions completed in 3 days)	61.50%	88.40%	5	150%	7.5
Net write offs per $100 revenue	$0.69	$0.66	5	N/A	5
Achieved load reduction from energy efficiency programs	60.26	69.5	5	125%	6.25
Cost Management					
Capital Budget ($000)	$378,216[2]	$329,700	N/A	N/A	N/A
Operating Budget ($000)	$509,184[3]	$481,700	N/A	N/A	N/A

[2] Target reflects 102% of the approved capital budget
[3] Target reflects 102% of the approved operating budget

Incentive compensation calculation

As described previously, the OSA specifies an incentive compensation pool of $5.44 million for the 2014 contract year, which is to be adjusted based on the change in the Consumer Price Index for All Urban Consumers (CPI-U), New York - Northern New Jersey - Long Island (1982-84 = 100) from January 2011 to the beginning of the contract year . Based on the OSA and change in CPI the adjusted incentive compensation pool for the 2014 contract year is $5,768,343.

The previous section describes metrics and the table shows the allocation of points achieved by PSEG-LI for each of the metric categories – Customer Satisfaction, Technical and Regulatory Performance and Financial Performance. While the OSA permits superior performance to result in an adjustment of the base points earned for a particular performance metric, the OSA also specifies the Maximum Possible Points that may be earned within each Performance Category for performance associated with all the performance metrics within that Performance Category. The OSA does not permit excess points achieved in one Performance Category to offset missed targets in another Performance Category either by applying the points or dollars to that category. The dollars achieved in a category are limited by the maximum possible points assigned to that category. LIPA's calculation of the incentive payment is set forth below.

LIPA Calculation of Incentive Compensation

Performance Categories	Allocation of Incentive Comp Pool	Dollars assigned to category	Max Possible Points	Points achieved	Performance Score	Incentive Earned
Customer Satisfaction	40%	$2,307,337	50	50	1.0	$2,307,337
Technical & Regulatory	30%	$1,730,503	30	25	0.83	$1,442,086
Financial Performance	30%	$1,730,503	25	25	1.0	$1,730,503
		$5,768,343	105	100	N/A	$5,479,926

PSEG LI's submission interprets the OSA as permitting deficient performance in one Performance Category to be offset by performance that exceeds the performance metrics in other Performance Categories. The Incentive Compensation Pool is allocated among three Performance Categories: Customer Satisfaction (40%); Technical and Regulatory Performance (30%); and Financial Performance (30%). The result of the calculation set forth by PSEG LI in Appendix 3 and summarized below is a reallocation of the Incentive Compensation Pool resulting in 60% of the incentive compensation being paid for Customer Satisfaction, 40% being paid for Financial Performance and 25% being paid for Technical and Regulatory Performance. Such a result is at odds with the notion that full incentive compensation should correspond to excellent results in all areas.

PSEG-LI Calculation of Incentive Compensation

Performance Categories	Allocation of Incentive Compensation Pool	Dollars assigned to category	Maximum Possible Points	Points achieved	Performance Score	Incentive Earned
Customer Satisfaction	40%	$2,307,337	50	75	1.5	$3,461,005
Technical & Regulatory	30%	$1,730,503	30	25	0.83	$1,442,086
Financial Performance	30%	$1,730,503	25	33.75	1.35	$2,336,179
		$5,768,343	105	133.75	N/A	$7,239,270

The OSA caps the incentive payment at $5,768,343. As a result, PSEG-LI's claim is for $5,768,343.

Appendix 1 - LIPA verification of metric performance

The Authority staff utilizes a multi-pronged approach to monitoring, reviewing, analyzing, and verifying the performance levels reported by PSEG-LI:

- Review of the monthly scorecard produced by and discussed with PSEG-LI relative to performance metrics
- Review of operational reports and data used by PSEG-LI managers to operate the utility
- Process reviews of individual metrics covering the reported metric performance from the data source through final reporting
- Year-end review of the performance for the full contract year including all required supporting data

Monthly Scorecard Review Process

Following each calendar month during a contract year, PSEG-LI submits to the Authority a report on the performance for each of the performance metrics including monthly and year to date performance. Accompanying the performance data for each metric is supporting detail that highlights performance trends, performance by organization, status and effectiveness of existing and/or new initiatives, and other appropriate breakdowns of the performance reported.

Senior staff from the Authority and PSEG-LI meet monthly to review the scorecard report and to discuss change initiatives, operational events, and issues that impact performance levels.

The Authority's staff reviews these scorecard reports in detail focusing on performance levels that:

- Vary significantly from month-to-month and year to year
- Fail to meet the monthly or year to date target
- Exceed the monthly or year to date target
- Indicate significant variances in the supporting data for a performance metric

Any questions or concerns that arise from the LIPA review of the scorecard report are discussed at the monthly scorecard meeting.

Review of Reports

The Authority reviews reports that are prepared by and/or used by PSEG-LI managers to operate the utility. Most of these reports are produced on a monthly basis and reflect operational statistics by month and year-to-date. In some cases, there are reports that are more detailed to reflect daily performance as well. Reviewing these reports gives the Authority more refined information and deeper insight into the performance metric results as well as a better understanding of how the utility is being managed. The Authority reviews such reports on a monthly basis and periodically meets with PSEG-LI managers to review the reports and to discuss operations.

Statistics and trends on items such as final account balances, estimated time to restore accuracy, capital construction project status, implementation of energy efficiency and renewables programs, and long term no access meters are examples of information that provides the Authority with more insight into the operation of the utility by PSEG-LI. Further, review of these types of reports provides insight for and input to the process of updating the pool of performance metrics in the future.

Process Reviews of Individual Metrics

The performance levels reported by PSEG-LI in the monthly scorecard reports reflect data that flows from a variety of information systems and which are processed by employees throughout the PSEG-LI organization The Authority's Contract Oversight Department partners with the Audit Department to conduct deeper dives into and audits of the performance metrics that span the source of the data through the end reporting and that cover the data flow, calculations, adjustments, exceptions and controls associated with each metric.

The Authority will conduct a process audit for each metric in the first year that a metric is part of the performance metric program. Subsequent process audits are to be conducted as necessary to ensure that the Authority is confident in the veracity of the reported performance data. The introduction of major process changes, new technologies and new programs or initiatives, and new computer systems are examples of measures that may drive subsequent process audits for impacted performance metrics.

Year End Review of Performance and Supporting Data

This section of the document provides LIPA's evaluation of the performance for each of the metrics along with a description of the method used to verify the reported performance.

- **Capital and Operating Budget**

PSEG-LI must achieve spending levels equal to or less than 102% of the approved capital and operating budgets. If both are achieved then PSEG-LI is eligible to earn 100% of the incentive compensation pool, depending on their performance on the remaining metrics. If one of the two is achieved, PSEG-LI is eligible to earn 50% of the incentive compensation pool, depending on their performance on the remaining metrics. If neither is achieved, the PSEG-LI is not eligible to earn any incentive compensation for that contract year.

The approved capital budget for 2014 was $370,760 K and the approved operating budget was $499,191 K. PSEG-LI's actual spending levels were less than the approved budget amounts for both areas. PSEG-LI is therefore eligible to earn 100% of the incentive compensation pool.

LIPA verified the performance for these two metrics by reviewing various financial statements and work papers produced by PSEG-LI, through a reconciliation of the capital budget versus CWIP reporting and via the audit of the 2014 financial statements conducted by KPMG and reported to the LIPA Board of Trustees.

- **JD Power Residential Customer Satisfaction Survey**

JD Power publishes the results of the annual residential survey performance in July each year. The performance reported reflects four waves of surveys conducted from July of the prior year to May of the current year. To isolate PSEG-LI's performance from National Grid, it was necessary to utilize survey results only for the surveys conducted since the start of the PSEG-LI contract on January 1, 2014. Therefore, the results for wave 3 and 4 from the 2014 residential customer survey and waves 1 and 2 from the 2015 residential customer survey were used to calculate PSEG-LI's JD power score for the 2014 contract year. PSEG-LI's performance for this period was a score of 571, surpassing the target performance level of 542. The Authority verified the performance level for this metric by reviewing the performance levels for each of the residential survey waves produced by JD Power.

PSEG-LI is focused on improving customer satisfaction, and the 2014 JD Power performance appears to reflect those efforts. The scores show a recovery from the lower scores achieved by the Long Island Power Authority in the wake of Superstorm Sandy. It's worth noting that while the 2014 score significantly improved from the 2013 baseline performance level of 519, the rest of the industry showed similar improvement in residential customer satisfaction as well. The result is that PSEG-LI, similar to recent years, continues to rank last among large eastern electric utilities in the JD Power survey. PSEG-LI will need to continue to focus on customer service as they strive to surpass their peers and realize top-quartile success in this important customer satisfaction metric.

- **JD Power Business Customer Satisfaction Survey**

Unlike the residential satisfaction survey, JD Power's schedule for the business customer satisfaction survey is aligned with the calendar year. This means that the annual survey result reported by JD Power in January 2015 reflects PSEG-LI's actual performance for calendar year 2014. PSEG-LI's performance for this period was a score of 595, surpassing the target performance level of 551. The Authority verified achievement of the performance level for this metric by reviewing the JD Power press release announcing and the data for the business customer satisfaction survey.

PSEG-LI's focus on customer satisfaction is realizing benefits for business and residential customers. Similar to gains in the residential customer survey, improvements in business customer satisfaction is also coincident with similar gains throughout the industry as PSEG-LI remains last among its peers of large eastern electric utilities. JD Power reports that the industry achieved its highest customer satisfaction levels for business customers since 2009. PSEG-LI's score of 595 shows a significant recovery from the low scores achieved by the Long Island Power Authority in the wake of Superstorm Sandy. It's worth noting that the scores from the business customer surveys that were conducted in the last two waves during the second half of the year showed marked improvement from those conducted in the first two waves during the first half of the year.

- **After call surveys (residential and commercial customers)**

PSEG-LI achieved dramatic improvement in performance on these two metrics associated with the call center from the established baseline performance levels. The efforts to instill a more customer focused and professional approach among the call center staff began to show positive results in March as the percentage of customers indicating they were “satisfied” or “very satisfied” after completing a phone call with a PSEG-LI customer service representative rose significantly and remained at a high level throughout the year. The 87.4% satisfied/very satisfied level for residential customers easily surpassed the target of 67% and the 81.6% satisfied/very satisfied level for business customers also easily surpassed the established target of 47.6%. The Authority verified the performance levels through a review and analysis of the reporting process for these metrics as well as a detailed review of the survey data reported for the full month of July.

- **Personal Contact Surveys**

The satisfaction of customers that have been in personal contact with a PSEG-LI employee is another important metric. The metric includes surveys conducted for the energy efficiency hotline in the call center, electric field representatives responding to partial light complaints, major account representatives and the customer walk-in centers. The metric score reflects a combination of the results from these four survey categories.

The combined score of 90.7% customers satisfied for the four survey categories surpassed the target performance level of 83.7%. The biggest contributor to success for this metric was a dramatic improvement in the customer satisfaction levels for the energy efficiency hotline. This group is part of the call center and benefited from the improvements PSEG-LI made in the call center instilling a more customer-focused and professional demeanor among call center staff. PSEG-LI realized solid improvements in the satisfaction level for major account customers and maintained good performance for the electric field representative and walk-in center surveys.

The Authority verified the performance levels for the surveys via a process review for each survey as well as a detailed review of the survey results for a full month. One key finding from the process review conducted by the Authority was a weakness in the sampling methodology used for the walk-in center surveys. The method used by PSEG-LI to identify the population of customers to be surveyed relied on a report that required manual manipulation of the data to ensure that the customers submitted to the vendor conducting the surveys accurately reflected a list of customers that recently visited a walk-in center. The end result lacked a true statistical sample of the customers to be surveyed and the offices visited. While the Authority does not believe this sampling weakness resulted in a significant impact on the reported metric score, PSEG-LI was notified of the issue and has responded by developing a revised sampling technique to address the concerns.

- **Average speed of answer (ASA) and call abandonment rate**

These metrics measure the experience that customers have in getting to speak with a customer service representative in the call center. The average speed of answer is measured as a combination of those customers who have their question or issue resolved via the automated Integrated Voice Response system (IVR) and those customers who opt out of the IVR and wait to speak with a customer.

About 40% of the calls are satisfied via the IVR with the remaining 60% opting to speak with a person. The abandonment rate reflects those customers who, after opting to speak with a person, abandon the call and hang up before they are connected to the person. PSEG-LI made excellent improvement in this area through better utilization of resources and managing to the peak call volumes days and times. The ASA performance of 54 seconds easily surpassed the established target of 79 seconds and represents a dramatic improvement over the 2013 baseline performance level of 92 seconds.

It's worth noting that the 2013 performance level of 92 seconds represented an aberration as the 2011 and 2012 performance was 74 and 63 seconds, respectively. PSEG-LI's performance surpassed each of these years and represents substantial progress towards achieving top quartile goal of 26 seconds. Similarly, the call abandonment rate of 2.6% easily surpassed the target of 3.8% and the 2013 established baseline performance level of 4.2%. Also, similar to the ASA, the call abandonment rate in 2013 was an aberration with the 2011 and 2012 performance levels both at 3.6%. Again, PSEG-LI's performance in 2014 still surpassed those years and has put them within striking distance of the top industry quartile level of 2.2%. PSEG-LI implemented a new call distribution system and a new IVR system in August of 2014 that includes features that will help to improve the customer experience and allowed PSEG-LI to host the after call surveys in-house.

Rapid or innovative changes in technology infrastructure can often bring disruptions to a business as the kinks are worked out after implementation. While PSEG-LI experienced some technical issues in the weeks following the August implementation, the impact of these issues were relatively minor and were resolved in a timely manner.

The Authority analyzed and verified the reported performance for these call center metrics in via a process review and by reviewing the reports generated by the call center call distribution system, the IVR system and the high volume call center vendor that is used to augment the call center resources in high volume call times for the month of November 2014.

- **Web transactions**

This metric measures the percentage increase in transactions completed on-line and the website for eleven specified transaction types. The specific transactions include bill payments through banks, the website, IVR payments and direct payments. Also included are requests for paperless billing, the update of personal information, entering meter readings, balance billing enrollment requests, reporting of outages via web/text and the utilization of web designed energy efficiency audits. The option for a customer to pay their electric bill via credit card, while originally considered, was eliminated from the 2014 program due to delays associated with the rollout of this feature. Each of the noted transactions is weighted and the goal was to achieve a 5% improvement in the total number of these customer self-service transactions. PSEG-LI achieved a 10.6% improvement through their bill insert and marketing efforts.

The Authority verified the performance level for this improvement by securing supporting data from third party vendors supporting these efforts, inputs from payments processed reports and details from web reports.

- **Electric reliability metrics – SAIDI, SAIFI and CAIDI**

These three metrics collectively provide a measure of PSEG-LI's performance relative to electric outage frequency, customers affected and duration. During 2014, LIPA conducted a process review of these metrics that included a sampling of outages for 2013. The review found that the process included a quality assurance step that frequently resulted in changes to outage durations reported initially. These changes in outage durations required documentation of the rationale via email by the supervisor initiating the change. Unfortunately, due to the change in service providers, the supporting documentation could not be located. This naturally raised concerns about the veracity of the reported 2014 outage performance data. LIPA issued an audit report with the finding and recommended that PSEG-LI engage industry experts to review and verify the 2014 performance. PSEG-LI engaged PA Consulting, a firm that has extensive electric utility experience and, specifically, expertise in the SAIDI, SAIFI and CAIDI metric calculation. PA Consulting has provided verification of PSEG-LI's 2014 performance on the reliability metrics.

PA Consulting also conducted an assessment of the impact of the new outage management system (OMS), installed in August 2014, on target and 2014 performance levels for the reliability metrics. The implementation of a new OMS in electric utilities can have a significant impact on reliability metrics due to the system's ability to more accurately identify all customers impacted by an outage. The OSA defines the requirement to conduct such an assessment and to make any necessary changes to the metric performance levels discovered. PA Consulting found that the implementation of the new OMS had little to no impact on the target and 2014 performance levels. The minimal impact on the 2014 performance level does not alter PSEG-LI's achievement of the metrics for the year. The table below describes the results of the assessment.

	SAIDI Original	SAIDI Adjusted	SAIFI Original	SAIFI Adjusted	CAIDI Original	CAIDI Adjusted
Target performance	79.0	79.0	0.90	0.91	87	87
2014 Performance	59.3105	60.0421	0.7258	0.7288	81.7162	82.3883

LIPA verified the performance level for the electric reliability metrics via a review of the set of outages for the full month of November and through acceptance of the certification provided by PA Consulting.

- **Occupational Safety and Health Administration (OSHA) recordable employee injury incident rate and days away from work after injury**

These two metrics measure PSEG-LI's performance on employee safety – the rate at which employees are injured on the job and the severity of those injuries. OSHA provides guidance to organizations in determining when an injury or illness is deemed to be recordable to OSHA.

PSEG-LI's performance for the injury incident rate was 2.80, reflecting 58 recordable injuries and missing the target performance level of 1.67. This is the sole metric where PSEG-LI did not meet the target performance level in 2014. The OSHA injury incident rate represents the number of injuries for each 100 full time employees.

PSEG-LI initiated a number of safety initiatives in 2014 including driver training, group safety meetings, enhanced safety communications and the use of motivational speakers. These programs have not yet yielded the desired improvements in reducing injuries and we look forward to a better year in 2015.

On a positive note, PSEG-LI did realize improvement in reducing the severity of injuries by achieving an employee days away from work rate of 29.16 days, surpassing the target of 29.81 days. The OSHA days away from work rate represents the number of lost work days due to injury for each 100 full time employees.

The Authority reviewed, analyzed and verified the performance levels for these metrics via a process review of the injury recording process and the calculation of the incident and days away rate. Further, the Authority reviewed the injury reports for all recordable and non-recordable injuries and the time reporting codes used to determine the hours that employees were exposed to the work environment, an important component of the metric calculations.

- **Actual Meter Reading Rate**

This metric measures PSEG-LI's performance in accessing and reading meters as part of the revenue cycle. PSEG-LI's performance on this metric in 2014 was 97.1%, surpassing the target of 96.8%. PSEG-LI aggressively managed the meter reading operation to improve performance in this area by focusing on long-term/no-access situations, making multiple attempts to read meters and by optimizing meter reading routes to improve productivity.

The Authority reviewed, analyzed and verified the performance for this metric via a process review and by reviewing the reports produced by the meter reading system that show the details uploaded to the billing system as well as the reports produced by the billing system showing the counts of meter reads received versus those indicating no access or not received from the meter reading system. Further, the Authority reviewed a random set of meter reading routes and verified the read or no read status for individual customer accounts.

- **Days sales outstanding (DSO)**

This metric measures PSEG-LI's timeliness in collecting money billed for energy sales. DSO depicts the average number of days of sales represented by the current accounts receivable amount. Performance on this metric is impacted by the state of the local economy and certainly by major incidents like Superstorm Sandy. Historically, the DSO level has been in the mid-30-days range for Long Island. Starting in 2011, the number of days outstanding began to lengthen and peeked close to 45-days in 2013 in the aftermath of Sandy.

PSEG-LI's 2014 performance of 37.8 days surpassed the established target of 41.9 days. Early in the year, large write-offs of uncollectible balances helped to drive the performance on this metric. These write-offs stemmed from balances resulting from post-Sandy issues with customers unable to pay final bill balances. However, as the year progressed and the write-offs leveled, PSEG-LI continued to drive down the DSO to 37.8

days, a level that hadn't been achieved since 2011. PSEG-LI is on the right track to return DSO performance to its historic levels and once again achieve top quartile performance.

The Authority reviewed, analyzed and verified the performance for this metric via a process review and by reviewing revenue and receivables reports from the billing system as well as trend reports for DSO performance going back to 2006.

- **Net write offs per $100 revenue**

This metric measures PSEG-LI's performance in collecting final bill balances before collection attempts are exhausted and receivables are written off. This metric is defined as a maintenance metric as the baseline performance level of $0.55 was already at the top quartile level among the peer group.

PSEG-LI's performance for 2014 was $0.66. While this performance level reflects deterioration in performance from the baseline, the targets for maintenance metrics are defined in the OSA as allowing performance within two standard deviations of the mean performance over the past 10 years. The result for this metric was a target of $0.69.

It appears that 2014 included a large number of write-offs for balances from final accounts resulting from Superstorm Sandy. The write-off amounts leveled off to more normal historic levels in the second half of the year.

The performance level for this metric is calculated as the net of the gross write-offs minus any amounts recovered that were previously written off. The gross write-off amount is based on final bill balances that age past 120 days plus accounts that go into bankruptcy, which are written off sooner.

The recovery amounts reflect the collection of monies by collection agencies and the transfer of written off balances to active customer accounts, if discovered to be the same customer. In late 2014, PSEG-LI undertook an aggressive initiative to transfer previously written off balances to active customer accounts in order to meet the target performance level. While nothing in the OSA prevents such behavior, the Authority is concerned about the efficacy of transferring monies written off years past to active customer accounts and has conveyed that concern to PSEG-LI. PSEG-LI has indicated confidence in the approach and expects to collect the monies transferred to active accounts.

The Authority reviewed, analyzed and verified the performance level for this metric via a process review and by reviewing revenue, final account balance and final accounts charge-off reports generated from the billing system and accounting reports produced by the National Grid accounting staff providing services to the Authority/PSEG-LI.

- **Timely Billing**

This metric measures PSEG-LI's performance in processing billing exceptions generated from the billing system during the nightly billing run. Note that the metric does not necessarily measure the speed at which customer accounts are billed, only how quickly the exception is processed.

PSEG-LI's performance in 2014 was 88.4% of billing exceptions processed in three business days, easily surpassing the target of 61.5%. PSEG-LI focused on improving performance in this area early on and directed the appropriate amount of resources to ensure that improvement.

The Authority reviewed, analyzed, and verified the performance level for this metric via a process review and by reviewing daily performance levels for the entire year using reports from the billing exception system.

- **Achieved load reduction from energy efficiency programs and renewables**

This metric measures PSEG-LI's performance in delivering load reductions through the operation of various energy efficiency programs and renewables. These programs vary from the purchase of energy efficient light bulbs by customers through the installation of the solar panels and complex lighting and building management systems on customer premises. PSEG-LI's performance in 2014 was a reduction of 69.55 megawatts, surpassing the target of 60.5 megawatts.

Verification of performance in this area is complex and has historically been conducted by a 3rd party with subject matter expertise. PSEG-LI has engaged Opinion Dynamics Corporation (ODC) to verify the reported megawatt savings. ODC has provided their verification of PSEG-LI's 2014 performance. LIPA verified the 2014 performance via acceptance of the ODC verification and via a review of the tracking spreadsheets, invoices and customer applications used by the PSEG-LI Energy Efficiency staff to manage the various PSEG-LI programs.

Appendix 2 – Improvement Metrics Point Scales

OSA Targets - JD Power Electric Residential Survey

2.1 JD Power Residential Customer Satisfaction Survey

Year	Target Performance Level	Minimum Performance Level	150%	125%	100%	50%	25%
Baseline Performance Level			519.0	519.0	519.0	519.0	519.0
2014	634.0	530.5	557.3	547.8	542.0	538.2	535.4
2015	634.0	542.0	595.7	576.5	565.0	557.3	551.9
2016	634.0	553.5	634.0	605.3	588.0	576.5	568.3
2017	634.0	565.0		634.0	611.0	595.7	584.7
2018	634.0	576.5			634.0	614.8	601.1
2019	634.0	588.0				634.0	617.6
2020	634.0	599.5					634.0
2021	634.0	611.0					
2022	634.0	622.5					
2023	634.0	634.0					

Baseline Performance Level	519
Target Performance Level	634

2014 Performance - 571

OSA Targets - JD Power Business Survey

2.2 JD Power Business Customer Satisfaction Survey

Year	Target Performance Level	Minimum Performance Level	150%	125%	100%	50%	25%
Baseline Performance Level			525.0	525.0	525.0	525.0	525.0
2014	653.5	537.9	567.8	557.1	550.7	546.4	543.4
2015	653.5	550.7	610.7	589.3	576.4	567.8	561.7
2016	653.5	563.6	653.5	621.4	602.1	589.3	580.1
2017	653.5	576.4		653.5	627.8	610.7	598.4
2018	653.5	589.3			653.5	632.1	616.8
2019	653.5	602.1				653.5	635.1
2020	653.5	615.0					653.5
2021	653.5	627.8					
2022	653.5	640.7					
2023	653.5	653.5					

Baseline Performance Level*	525
Target Performance Level	654

*Baseline is the result of the 2014 survey, fielded in 2013.

2014 Performance - 595

OSA Targets - After Call Survey – Residential

2.3 After Call Survey Residential

Year	Target Performance Level	Minimum Performance Level	150%	125%	100%	50%	25%
Baseline Performance Level			63.7%	63.7%	63.7%	63.7%	63.7%
2014	80.0%	65.3%	69.1%	67.8%	67.0%	66.4%	66.0%
2015	80.0%	67.0%	74.6%	71.8%	70.2%	69.1%	68.4%
2016	80.0%	68.6%	80.0%	75.9%	73.5%	71.8%	70.7%
2017	80.0%	70.2%		80.0%	76.7%	74.6%	73.0%
2018	80.0%	71.8%			80.0%	77.3%	75.3%
2019	80.0%	73.5%				80.0%	77.7%
2020	80.0%	75.1%					80.0%
2021	80.0%	76.7%					
2022	80.0%	78.4%					
2023	80.0%	80.0%					

Baseline Performance Level	63.7%
Target Performance Level*	80.0%
Target % Improvement by Contract Year 5	24.0%

*Rounded up from 79%

2014 Performance - 87.4%

OSA Targets - After Call Survey – Business

2.4 After Call Survey Business

Year	Target Performance Level	Minimum Performance Level	150%	125%	100%	50%	25%
Baseline Performance Level			43.7%	43.7%	43.7%	43.7%	43.7%
2014	63.4%	45.7%	50.3%	48.6%	47.6%	47.0%	46.5%
2015	63.4%	47.6%	56.8%	53.5%	51.6%	50.3%	49.3%
2016	63.4%	49.6%	63.4%	58.4%	55.5%	53.5%	52.1%
2017	63.4%	51.6%		63.4%	59.4%	56.8%	54.9%
2018	63.4%	53.5%			63.4%	60.1%	57.7%
2019	63.4%	55.5%				63.4%	60.6%
2020	63.4%	57.5%					63.4%
2021	63.4%	59.4%					
2022	63.4%	61.4%					
2023	63.4%	63.4%					

Baseline Performance Level	43.7%
Target Performance Level	63.4%
Target % Improvement by Contract Year 5	45.0%

2014 Performance - 81.6%

OSA Targets – Personal Contact Survey

2.5 Personal Contact Survey

Year	Target Performance Level	Minimum Performance Level	150%	125%	100%	50%	25%
Baseline Performance Level			81.9%	81.9%	81.9%	81.9%	81.9%
2014	91%	83%	84.9%	84.1%	83.7%	83.4%	83.2%
2015	91%	84%	88.0%	86.4%	85.5%	84.9%	84.5%
2016	91%	85%	91.0%	88.7%	87.3%	86.4%	85.8%
2017	91%	86%		91.0%	89.2%	88.0%	87.1%
2018	91%	86%			91.0%	89.5%	88.4%
2019	91%	87%				91.0%	89.7%
2020	91%	88%					91.0%
2021	91%	89%					
2022	91%	90%					
2023	91%	91%					

Baseline Performance Level	81.9%
Target Performance Level	91.0%

2014 Performance - 90.7%

OSA Targets - Average Speed of Answer

2.6 Average Speed of Answer

Year	Target Performance Level	Minimum Performance Level	150%	125%	100%	50%	25%
Baseline Performance Level			92.5	92.5	92.5	92.5	92.5
2014	26.0	85.9	70.4	75.9	79.2	81.4	83.0
2015	26.0	79.2	48.2	59.3	65.9	70.4	73.5
2016	26.0	72.6	26.0	42.6	52.6	59.3	64.0
2017	26.0	65.9		26.0	39.3	48.2	54.5
2018	26.0	59.3			26.0	37.1	45.0
2019	26.0	52.6				26.0	35.5
2020	26.0	46.0					26.0
2021	26.0	39.3					
2022	26.0	32.7					
2023	26.0	26.0					

Baseline Performance Level	93
Target Performance Level	26

2014 Performance - 54

OSA Targets - Abandonment Rate

2.7 Abandonment Rate

Year	Target Performance Level	Minimum Performance Level	150%	125%	100%	50%	25%
Baseline Performance Level			4.2%	4.2%	4.2%	4.2%	4.2%
2014	2.2%	4.0%	3.5%	3.7%	3.8%	3.9%	3.9%
2015	2.2%	3.8%	2.9%	3.2%	3.4%	3.5%	3.6%
2016	2.2%	3.6%	2.2%	2.7%	3.0%	3.2%	3.4%
2017	2.2%	3.4%		2.2%	2.6%	2.9%	3.1%
2018	2.2%	3.2%			2.2%	2.5%	2.8%
2019	2.2%	3.0%				2.2%	2.5%
2020	2.2%	2.8%					2.2%
2021	2.2%	2.6%					
2022	2.2%	2.4%					
2023	2.2%	2.2%					

Baseline Performance Level	4.2%
Target Performance Level	2.2%

2014 Performance - 2.6%

OSA Targets - Web Transactions Completed

2.8 Web Transactions Completed

Year	Target Performance Level	Minimum Performance Level	150%	125%	100%	50%	25%
Baseline Performance Level			0.0%	0.0%	0.0%	0.0%	0.0%
2014	25.0%	2.5%	8.3%	6.3%	5.0%	4.2%	3.6%
2015	25.0%	5.0%	16.7%	12.5%	10.0%	8.3%	7.1%
2016	25.0%	7.5%	25.0%	18.8%	15.0%	12.5%	10.7%
2017	25.0%	10.0%		25.0%	20.0%	16.7%	14.3%
2018	25.0%	12.5%			25.0%	20.8%	17.9%
2019	25.0%	15.0%				25.0%	21.4%
2020	25.0%	17.5%					25.0%
2021	25.0%	20.0%					
2022	25.0%	22.5%					
2023	25.0%	25.0%					

Baseline Performance Level*	0.0%
Target Performance Level	25.0%

*Since metric is a percentage improvement from baseline, baseline is assumed to be zero.

2014 Performance - 10.6%

OSA Targets - OSHA Recordable Incidence Rate

3.4 OSHA Recordable Incidence Rate

Year	Target Performance Level	Minimum Performance Level	150%	125%	100%	50%	25%
Baseline Performance Level			1.67	1.67	1.67	1.67	1.67
2014	1.66	1.67	1.67	1.67	1.67	1.67	1.67
2015	1.66	1.67	1.66	1.67	1.67	1.67	1.67
2016	1.66	1.67	1.66	1.66	1.67	1.67	1.67
2017	1.66	1.67		1.66	1.66	1.66	1.67
2018	1.66	1.67			1.66	1.66	1.66
2019	1.66	1.67				1.66	1.66
2020	1.66	1.66					1.66
2021	1.66	1.66					
2022	1.66	1.66					
2023	1.66	1.66					

Baseline Performance Level*	1.67
Target Performance Level	1.66

*Baseline reflects a 3 year average

2014 Performance - 2.8

Year	Result
2011	2.01
2012	1.64
2013	1.37

OSA Targets - OSHA Days Away Rate

3.5 OSHA Days Away Rate (Severity)

Year	Target Performance Level	Minimum Performance Level	150%	125%	100%	50%	25%
Baseline Performance Level			32.48	32.48	32.48	32.48	32.48
2014	19.14	31.14	28.03	29.14	29.81	30.25	30.57
2015	19.14	29.81	23.59	25.81	27.14	28.03	28.67
2016	19.14	28.48	19.14	22.47	24.48	25.81	26.76
2017	19.14	27.14		19.14	21.81	23.59	24.86
2018	19.14	25.81			19.14	21.36	22.95
2019	19.14	24.48				19.14	21.05
2020	19.14	23.14					19.14
2021	19.14	21.81					
2022	19.14	20.47					
2023	19.14	19.14					

Baseline Performance Level*	32.48
Target Performance Level	19.14

*Baseline reflects a 3 year average

2014 Performance - 29.16

Year	Result
2011	37.72
2012	25.59
2013	34.12

OSA Targets - Timely Billing

4.2 Timely Billing

Year	Target Performance Level	Minimum Performance Level	150%	125%	100%	50%	25%
Baseline Performance Level			56.8%	56.8%	56.8%	56.8%	56.8%
2014	80%	59%	64.6%	62.6%	61.5%	60.7%	60.1%
2015	80%	61%	72.3%	68.4%	66.1%	64.6%	63.4%
2016	80%	64%	80.0%	74.2%	70.7%	68.4%	66.8%
2017	80%	66%		80.0%	75.4%	72.3%	70.1%
2018	80%	68%			80.0%	76.1%	73.4%
2019	80%	71%				80.0%	76.7%
2020	80%	73%					80.0%
2021	80%	75%					
2022	80%	78%					
2023	80%	80%					

Baseline Performance Level*	56.8%
Target Performance Level	80.0%
Target % Improvement by Contract Year 5	40.8%

2014 Performance - 88.4%

OSA Targets - Days Sales Outstanding

4.3 Days Sales Outstanding

Year	Target Performance Level	Minimum Performance Level	150%	125%	100%	50%	25%
Baseline Performance Level			43.50	43.50	43.50	43.50	43.50
2014	35.50	42.70	40.84	41.50	41.90	42.17	42.36
2015	35.50	41.90	38.17	39.50	40.30	40.84	41.22
2016	35.50	41.10	35.50	37.50	38.70	39.50	40.07
2017	35.50	40.30		35.50	37.10	38.17	38.93
2018	35.50	39.50			35.50	36.83	37.79
2019	35.50	38.70				35.50	36.64
2020	35.50	37.90					35.50
2021	35.50	37.10					
2022	35.50	36.30					
2023	35.50	35.50					

Baseline Performance Level	43.50
Target Performance Level	35.50

2014 Performance - 37.8

OSA Targets: Energy Efficiency and Renewable Achieved Load Reduction

2014 Target	60.26 MW

OSA Metric Scoring - Peak Load Reduction (MW) – Based on Annual Budget					
MW Level Achieved	20% above Target	10% above Target	Target	10% below Target	20% below Target
Percent of Base Points Earned	150%	125%	100%	50%	0% (MPL)
Number Base Points Earned	7.5	6.25	5	2.5	0
2014 Targets	72.31 MW	66.29 MW	60.26 MW	54.23 MW	48.21 MW

2014 Performance - 69.5

Appendix 3 – PSEG-LI submittal of incentive compensation calculation

PSEG Long Island
2014 Balanced Scorecard Result

			Result	Base Points		OSA Targets						
			2014 Result	Base Points	Points Earned	150%	125%	100%	50%	25%	Upper Boundary	Mean of Historical
1.1	Operating Budget ($M)	OSA	481.7	N/A	Met			499.2				
1.2	Capital Budget ($M)	OSA	329.7	N/A	Met			370.8				
	Cost Management Total				**Met**							
2.1	JD Power Customer Satisfaction Survey (Residential)	OSA	571	10	15	557	548	542	538	535		
2.2	JD Power Customer Satisfaction Survey (Business)	OSA	595	5	7.5	568	557	551	546	543		
2.3	After Call Survey (Residential)	OSA	87.4%	5	7.5	69.1%	67.8%	67.0%	66.4%	66.0%		
2.4	After Call Survey (Business)	OSA	81.6%	5	7.5	50.3%	48.6%	47.6%	47.0%	46.5%		
2.5	Personal Contact Survey	OSA	90.7%	5	7.5	84.9%	84.1%	83.7%	83.4%	83.2%		
2.6	Average Speed of Answer	OSA	54	7.5	11.25	70	76	79	81	83		
2.7	Abandonment Rate	OSA	2.6%	7.5	11.25	3.5%	3.7%	3.8%	3.9%	3.9%		
2.8	Web Transactions Completed	OSA	10.6%	5	7.5	8.3%	6.3%	5.0%	4.2%	3.6%		
	Customer Satisfaction Total			**50**	**75.0**							
3.1	SAIDI	OSA	59.1	10	10						66.2	54.6
3.2	SAIFI	OSA	0.72	5	5						0.90	0.77
3.3	CAIDI	OSA	82	5	5						84	71
3.4	OSHA Recordable Incidence Rate	OSA	2.80	5	0	1.6688	1.6699	1.6706	1.6711	1.6714		
3.5	OSHA Days Away Rate (Severity)	OSA	29.16	5	5	28.03	29.14	29.81	30.25	30.57		
	Technical & Regulatory Total			**30**	**25**							
4.1	Actual Meter Read Rate	OSA	97.1%	5	7.5	97.0%	96.8%	96.8%	96.7%	96.7%		
4.2	Timely Billing	OSA	88.4%	5	7.5	64.6%	62.6%	61.5%	60.7%	60.1%		
4.3	Days Sales Outstanding	OSA	37.8	5	7.5	40.8	41.5	41.9	42.2	42.4		
4.4	Net Write-Offs per $100 Billed Revenue	OSA	0.66	5	5						0.69	0.55
4.5	Electric Damages per 1,000 Locates	OSA	0.75	N/A	Tracking							
4.6	EE and Renewable Achieved Load Reduction	OSA	69.5	5	6.25	72.3	66.3	60.3	54.2	N/A		
	Financial Performance			**25**	**33.8**							

OSA Category	**Weight**	**Base Points**	**Points Earned**	**Performance Score**
Cost Management	Gate		Both met	100%
Customer Satisfaction*	40%	50	75.0	150%
Technical and Regulatory Performance	30%	30	25.0	83%
Financial Performance	30%	25	33.75	135%
TOTAL		**105**	**133.8**	

Weighted Percent of Incentive Comp Earned	**100%**	
Payout ($M)	**$ 5.44**	Escalation on next tab
Escalated ($M)	**$ 5.77**	

Calculation of Incentive Payment

	Allocation of Incentive	Incentive Earned
Customer Satisfaction*	$ 2.31	$ 3.46
Technical and Regulatory Performance	$ 1.73	$ 1.44
Financial Performance	$ 1.73	$ 2.34
Total	$ 5.77	$ 7.24
Incentive Compensation to be paid to PSEG Long Island		**$ 5.77**

(C) Annual Incentive Compensation Component.
(1) An amount of (i) $5.44 million, annually, for each of the 2014 and 2015 Contract Years and (ii) $8.7 million, annually, for each Contract Year thereafter, in each case expressed in 2011 Dollars and prorated as appropriate for a partial Contract Year, shall comprise the "Incentive Compensation Pool" to be earned based on favorable performance relative to the Performance Metrics. The Performance Metrics are set forth in Appendix 9 hereto and may be modified from time to time as provided elsewhere herein and updated as appropriate in the Contract Administration Manual.