

# **REQUEST FOR INFORMATION**

## **TO PROVIDE ELECTRIC UTILITY MANAGEMENT SERVICES TO THE LONG ISLAND POWER AUTHORITY**

*OCTOBER 13, 2009*

**Prepared by**

**Long Island Power Authority**



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**LONG ISLAND POWER AUTHORITY  
ELECTRIC UTILITY MANAGEMENT SERVICES  
REQUEST FOR INFORMATION**

**GLOSSARY**

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<b>Authority</b>	Long Island Power Authority
<b>Corporate Support Services</b>	Back office and corporate services, including, but not limited to, general management, human resources, finance, budgeting, accounting, payroll, central information technology support, purchasing, fleet management, warehousing, internal auditing, and security, among others.
<b>Electric Utility</b>	The T&D System, LIPA's 18 percent ownership interest in NMP2, and certain other intangible assets resulting from the LIPA/LILCO Merger.
<b>LILCO</b>	Long Island Lighting Company.
<b>LIPA</b>	The name by which the wholly-owned subsidiary of the Authority responsible for the day-to-day management and operation of the Electric Utility (e.g. LILCO) does business.
<b>LIPA/LILCO Merger</b>	The Authority's acquisition of LILCO through a merger with LIPA.
<b>MSA</b>	The Amended and Restated Management Services Agreement, dated January 1, 2006, between LIPA and the Current Service Provider, as amended.
<b>NMP2</b>	The Nine Mile Point 2 Nuclear Power Station located in upstate New York.
<b>NYISO</b>	New York Independent System Operator.
<b>PSPs</b>	Potential service providers.
<b>RFI</b>	LIPA's Request for Information, dated August 11, 2009, related to Electric Utility Management Services.
<b>Service Area</b>	Nassau and Suffolk Counties and the Rockaway Peninsula of Queens County, New York.
<b>T&amp;D System</b>	The electric transmission and distribution system, including assets, facilities, equipment, and contractual arrangements used to provide the transmission and distribution of electrical capacity and energy to electric customers within the Service Area

**LONG ISLAND POWER AUTHORITY  
ELECTRIC UTILITY MANAGEMENT SERVICES  
REQUEST FOR INFORMATION  
October 13, 2009**

**1. Summary**

The Long Island Power Authority (the “Authority”) contracts for services in support of the day-to-day operation and management of its electric utility system (“Electric Utility Management Services”). The contract between the Authority and the current service provider (the “Management Services Agreement”) expires December 31, 2013.

Accordingly, the Authority is issuing this Request for Information (“RFI”) to solicit information from potential service providers (“Potential Service Providers” or “PSPs”) in connection with the provision of Electric Utility Management Services associated with the expiration of the Management Services Agreement. The Authority will not award a contract on the basis of this RFI or pay for information solicited herein. Interested PSPs are encouraged to respond in detail to this RFI, however failure to submit a response will not impact a PSP’s ability to respond to any future competitive solicitation process for Electric Utility Management Services or influence the selection of a service provider going forward.

In response to this RFI, PSPs should keep in mind that the Authority’s mission is to provide highly reliable, economical electric service to its customers, while also being recognized as a leader in the advancement of energy efficiency, and clean and renewable energy. A key goal of the Authority is that it strives to employ a workforce that is driven to exceed its customers’ expectations through superior service and a commitment to transparency in all of its actions. The Authority is also committed to supporting the region’s economic growth and being a responsible steward of the environment. The Electric Utility Management Services described later in this RFI, together with the actions of the service provider in carrying out these services, are crucial to the Authority’s ability to accomplish its mission.

**2. Goals of the RFI**

The primary goals of this RFI include:

- Positioning the Authority to maximize customer satisfaction and operational efficiency through the ultimate selection of one or more highly qualified service providers offering these services at competitive costs.
- Identifying a service delivery strategy that fosters a genuine partnership between the Authority and the service provider(s).
- Assessing the market for Electric Utility Management Services, the potential interest in providing these services to the Authority, and the identity of firms currently providing or capable of providing the same or similar services.
- Enhancing the Authority’s ability to prepare a high quality, well-conceived Request for Proposals for Electric Utility Management Services (a “MSA-RFP”).
- Providing information to help the Authority assess its alternatives relative to structuring the delivery of future Electric Utility Management Services.

The remainder of this RFI discusses issues related to Electric Utility Management Services. The Authority requests PSPs give careful consideration to each area and provide

specific suggestions and feedback, as appropriate. Meetings with PSPs to discuss specific issues will be conducted at the Authority's discretion and PSPs are encouraged to be as thorough as possible in responding to the issues raised herein.

### **3. RFI Communication Requirements**

To facilitate communications between the Authority and PSPs and to ensure that all PSPs have access to the same information, the Authority has established a Web site that will be the means of communications during the RFI process. The RFI and other related documents have been posted on the RFI Web site to facilitate access by interested parties.

All communications during the RFI period shall be submitted via email to: [admin@lipa-msa-rfi.org](mailto:admin@lipa-msa-rfi.org). PSPs may submit questions regarding the RFI to the Authority via this e-mail address through November 6, 2009. PSPs are encouraged to submit questions as early as possible and not wait till this deadline. The Authority's responses to the PSPs' questions shall be posted no later than November 27, 2009, on a Web site dedicated to the RFI: [www.lipa-msa-rfi.org](http://www.lipa-msa-rfi.org).

To access information on the dedicated Web site ([www.lipa-msa-rfi.org](http://www.lipa-msa-rfi.org)), PSPs must obtain a user name and password from the Authority. Instructions for obtaining such a user name and password are posted on the public portion of this Web site. The Authority plans to use this Web site to provide any additional information to PSPs regarding the RFI process.

### **4. Notice of Intent to Respond to the RFI**

**If you are interested in responding to all or portions of this RFI, you are encouraged to send a brief "Notice of Intent to Respond" email to [admin@lipa-msa-rfi.org](mailto:admin@lipa-msa-rfi.org)**, consisting of all pertinent contact information (e.g., organization name, lead contact name, phone and fax numbers, and e-mail address). This notice is for administrative purposes only and is intended to facilitate proper communications between the Authority and PSPs. Notices may be submitted at any time; however LIPA would prefer that all notices be received on or before October 30, 2009. Organizations may submit responses to this RFI even if they have not submitted a notice of intent to respond.

### **5. Responses to the RFI**

**Responses to this RFI are desired by 3 PM, EDT, on Friday, December 11, 2009, in the manner set forth below.** Appendix A includes a response form that should be included with the PSPs response to this RFI. This RFI and its attachments can be obtained in electronic form at [www.lipa-msa-rfi.org](http://www.lipa-msa-rfi.org).

**Two (2) hard copies of the PSP's response should be mailed, sent by courier, or hand-delivered to the following address:**

**Long Island Power Authority  
Attn: Mr. Michael Standridge  
Director of Corporate Contracts and Procurement  
333 Earle Ovington Blvd., Suite 403  
Uniondale, New York 11553**

**One hard copy and one electronic copy (via CD) of your response should also be sent to:**

**Long Island Power Authority  
c/o Navigant Consulting, Inc.  
Attn: Patrick Hurley – MSA-RFI  
1400 Old Country Road, Suite 402  
Westbury, New York 11590-5156**

**All material submitted in response to this RFI will become the sole property of the Authority. All costs and expenses associated with developing and/or submitting a response to this RFI and/or any related activity shall be borne by the PSP. While the Authority has endeavored to supply useful information in this RFI, the Authority makes no representation or warranty, express or implied, as to the accuracy or completeness of any information contained herein or otherwise provided to any PSP by or on behalf of the Authority. The Authority shall have no liability relating to or arising from any such information or the use thereof. PSPs are encouraged to conduct their own investigation and analysis of any and all information contained herein or otherwise provided by or on behalf of the Authority. This RFI is not an offer, or an invitation to make an offer, and does not constitute a commitment or a binding agreement of any nature. The Authority reserves the right, in its sole discretion, to withdraw or modify this RFI at any time. Furthermore, the Authority reserves the right to use in the solicitation of offers for the required services any information submitted in response to this RFI that is not protected by patent, copyright, or trademark, or has otherwise demonstrated to the sole satisfaction of the Authority to be proprietary.**

**PSPs are encouraged to provide frank and concise information when responding to this RFI. PSPs shall clearly indicate in their responses what information, if any, is proprietary and confidential and shall, in a separate attachment, discuss the reasons therefore. Except as follows immediately below, and as may be necessary for the purpose of evaluating responses, LIPA will not disclose any material marked “Confidential and Proprietary” other than to LIPA consultants engaged to assist on this project and who have contractually agreed to maintain confidentiality.**

**PSPs are hereby advised that LIPA is subject to the New York State Freedom of Information Law (“FOIL”), Article 6 of the Public Officer’s Law. Material marked “Confidential and Proprietary” will be treated in accordance with LIPA’s obligations under FOIL, other applicable law, regulation, or legal process, and will only be disclosed by LIPA as required by law.**

## **6. Background**

The Authority is a political subdivision of the State of New York authorized under the Long Island Power Authority Act. The Authority, through its subsidiary LIPA, became the retail supplier of electric service in the Service Area (as defined below) on May 28, 1998, by acquiring the Long Island Lighting Company (“LILCO”) through a merger (the “LIPA/LILCO Merger. For purposes of this RFI, the Authority and LIPA are referred to jointly as “LIPA.”

Through the LIPA/LILCO Merger, LIPA acquired various assets, including, among others: (i) an electric transmission and distribution system, including assets, facilities, equipment, and contractual arrangements used to provide the transmission and distribution of electrical capacity and energy to electric customers within the Service Area (the “T&D System”); (ii) an 18 percent ownership interest in the Nine Mile Point 2 Nuclear Power Station (“NMP2”) located in

upstate New York; and (iii) certain other intangible assets resulting from the LIPA/LILCO Merger. These assets, together with all other assets of LIPA used in the furnishing of electric service, constitute the “Electric Utility.”

LIPA provides retail electric service to approximately 1.1 million customers in Nassau County, Suffolk County, and the portion of Queens County known as the Rockaways in the State of New York (the “Service Area”). During 2008, the maximum annual peak demand experienced by LIPA totaled approximately 5,130 MW. During this period, LIPA’s total annual revenues approximated \$3.6 billion.

Appendix B contains a map of LIPA’s service area for reference. Presented in the table which follows are key statistics related to the Electric System.

**Key Statistics  
(2008 Data)**

Annual Revenues from Electric Sales (Million)	\$3,639.7
Annual T&D System O&M (Million) <sup>1</sup>	\$785.3
Annual Capital Expenditures (Million)	\$297.3
Number of T&D System Capital Work Orders	12,300
Number of Customers	1.1 Million
Call Center – Number of Calls Received	2,381,000
Overall Customer Satisfaction Index	77.3%
Annual Energy Sales (GWh)	20,135
Miles of Transmission Line	1,300
Miles of Distribution Line	13,200
Number of Transmission Substations	176
SAIFI	0.771
SAIDI	66
CAIDI	81.7

<sup>1</sup> Excludes fuel and purchased power of \$2,052.7 million and administrative and general of \$31.3 million.

At the time of the LIPA/LILCO Merger, LIPA entered into certain agreements with third party service providers to facilitate the production, acquisition, and delivery of electricity in the Service Area (the “Current Service Provider”). These agreements included a Management Services Agreement, a Power Supply Agreement (the “PSA”), and an Energy Management Agreement (the “EMA”), as well as certain other related agreements (collectively, the “Agreements”). The purpose of the Agreements is to provide LIPA with the operating capabilities and power supply resources necessary for LIPA to provide electric service in the Service Area. The Management Services Agreement was subsequently amended and restated effective January 1, 2006 (the “Amended and Restated Management Services Agreement” or “MSA”). The MSA expires on December 31, 2013. Copies of the Agreements may be obtained for review through LIPA’s corporate Web site ([www.lipower.org](http://www.lipower.org)).

LIPA recently undertook a competitive procurement process for the off-system energy purchases and sales functions of the EMA. As a result of this procurement process, LIPA selected alternative service providers to perform these services. The new contracts for these EMA services will commence January 1, 2010. The PSA expires on May 28, 2013.

The MSA provides for the Current Service Provider to perform the day-to-day operation and maintenance of the T&D System, including, among other functions, transmission and distribution facility operation, customer service, billing and collection, meter reading, financial and operations reporting, planning, engineering, and construction, all in accordance with policies and procedures adopted by LIPA, as more fully defined in Section 4.2 of the MSA. Under the MSA, the Current Service Provider also oversees and manages LIPA's ownership interest in NMP2.

Approximately 70 percent of the work-force providing services to LIPA under the MSA belong to organized labor. Line workers, distribution workers, and laborers belong to the International Brotherhood of Electrical Workers' ("IBEW") Local 1049, as do customer service, clerical and technical workers, and meter readers.

LIPA exercises control over the performance of the T&D System through specific standards for performance and disincentive provisions contained in the MSA. The MSA contains 18 performance metrics related to operations and customer care. LIPA expects any new agreement for Electric Utility Management Services to contain, at a minimum, comparable metrics which will be used to assess the service provider's performance.

The MSA (including the performance metrics), and related pertinent information, may be accessed through LIPA's RFI Web site: [www.lipa-msa-rfi.org](http://www.lipa-msa-rfi.org). Other information available through this Web site includes a copy of LIPA's Energy Plan, LIPA's Biennial Report for the 2006 through 2007 period, the Official Statement in connection with its Electric System General Revenue Bonds, Series 2009A, LIPA's audited financial statement for calendar year 2008, and LIPA's 2009 Operating Budget. In addition, information regarding LIPA may be found at LIPA's corporate Web site: [www.lipower.org](http://www.lipower.org).

PSP's are encouraged to thoroughly review LIPA's Energy Plan. This document provides considerable information on LIPA and the Electric System. Additionally, the Energy Plan sets forth LIPA's strategic objectives, which are central to the provision of Electric Utility Management Services and the prospective selection of a new service provider.

## **7. Services Received Under the Current MSA**

Section 4.2 of the MSA provides a listing of the services currently provided LIPA by the Current Service Provider in connection with the day-to-day management, operation, and maintenance of the Electric System. These services are typical of those required of any large electric utility. A more complete description of these services may be found on the RFI Web site ([www.lipa-msa-rfi.org](http://www.lipa-msa-rfi.org)). These services are summarized below by principal functional activity. The segregation of services below is for informational purposes only and is not intended to be all inclusive.

The provision of Electric Utility Management Services to LIPA may require the PSP to manage the personnel, systems, and physical resources required for the day-to-day operation, maintenance, and expansion of the Electric System. The personnel may be employed by or on-behalf of the PSP, while some of the systems and resources may be owned by LIPA and some may be owned by the PSP. The PSP may be expected to manage the personnel, systems, and resources in an integrated fashion as required to deliver the services described below.

## **7.1 T&D System Maintenance**

The T&D System Maintenance function entails responsibility for (i) the performance of normal T&D System maintenance activities, including preparation of root cause analyses, assessment/understanding of failure mode and consequences, establishment of maintenance standards and programs, assignment of personnel, allocation of resources, and outage planning; and (ii) marketing and management of LIPA's assets and rights of way to telecommunications and cable providers and management of associated pole attachment agreements, including negotiation and administration of contracts, auditing of annual payments and receipts, and coordination of requests for new attachments and right of way access.

## **7.2 T&D System Operations**

The T&D System Operations function involves responsibility for (i) operation of the T&D System, including maintenance of operating guides and procedures, employee training, operation of information infrastructure, resource schedule, materials procurement, and safety programs; (ii) management of research, development, and demonstration projects designed to enhance reliability, reduce costs, and improve customer service; and (iii) short-term operational forecasting.

## **7.3 T&D Engineering**

The T&D Engineering function involves development, implementation, and management of design activities, including (i) creation of design standards and ratings; (ii) preparation of engineering designs; (iii) updating T&D System mapping information; (iv) performance and reliability monitoring; and (v) documentation of environmental and regulatory compliance.

## **7.4 T&D Construction**

The T&D Construction function includes responsibility for (i) customer contact and needs assessments; (ii) processing of easements and agreements; (iii) processing and managing customer contribution contracts, including ensuring contributions in aid of construction are received by LIPA; (iv) establishing construction standards, work practices, safety standards, and training; (v) performance of work management activities; (vi) scheduling of work and materials; (vii) management of construction vehicles and tools; (viii) managing contract labor; (ix) preparation of closeout reports; (x) administration, scheduling, and management of public works improvements.

## **7.5 System Planning**

The System Planning function has overall responsibility for the preparation of (i) load research studies by rate class; (ii) sales and load forecasts and operating reports; (iii) network models and analyses, system protection studies, life cycle cost assessments, risk assessments, and feasibility studies; (iv) capital expansion plans and supporting analyses, permit applications, construction work management plans, progress reports, and construction close-out reports; and (v) system planning studies, including system expansion assessments, revenue requirement studies, and production cost simulation forecasts.

## **7.6 Asset Management**

The Asset Management function entails responsibility for (i) performance of asset optimization studies, including assessments of risk drivers, cost structures, political and financial factors, regulatory needs, and asset characteristics; (ii) management of LIPA's owned property, property needs, payments in-lieu of taxes, easements, and leases; (iii) leased and owned vehicles used by LIPA employees and contractors; (iv) procurement of materials and services used in the T&D System, including the establishment of purchasing strategies and policies, targeted stocking levels, and life cycle cost methodology; (v) emergency preparation and planning; (vi) performance of environmental compliance services, including development of compliance strategies, monitoring, reporting, training, auditing, and regulatory watch activities; and (vii) administration and management, at the direction of LIPA, of LIPA's interest in Nine Mile Point 2, including participating in meetings of the joint owners of Nine Mile Point 2.

## **7.7 Marketing and Sales**

The Marketing and Sales function includes responsibility for (i) program and service development (both new and mature); (ii) energy efficiency programs; (iii) economic development programs; (iv) major accounts management; (v) marketing of programs and services; (vi) sales communication to support the sales efforts; (vii) ongoing market research to identify opportunities for new programs and services; (viii) assessment of the effectiveness of existing programs and services; (ix) developing specific market and customer segments; (x) promotion of specific programs and services; (xi) direct sales of these programs and services to customers; (xii) developing specific goals and targets for various markets and customer segments; (xiii) trade ally program management; (xiv) promotion of programs and services for electric demand response; (xv) direct management of these programs and services to customers; (xvi) customer satisfaction program; and (xvii) management of retail access programs.

## **7.8 Customer Contact**

The Customer Contact function includes responsibility for (i) responding to customer inquiries for information/explanations of programs, services, and issues; (ii) managing call center activities, including direct telephone contact with customers; (iii) maintaining, staffing, and operating a customer contact center and 12 district offices; (iv) overseeing authorized customer payment centers; (v) developing, maintaining, and overseeing Web sites for customer access to information and service offerings; (vi) managing customer account services; (vii) monitoring customer satisfaction; (viii) performance of field services, including investigations of high billings, disconnects, reconnects, fraud investigations, and service and repair; (ix) emergency response to storm events; (x) management of customer correspondence; (xi) preparation of written communications, including bill inserts, newsletters, rate booklets, and media notifications; and (xii) oversight of mass printings of written customer communications.

## **7.9 Billing and Revenue Cycle**

The Billing and Revenue Cycle function includes responsibility for (i) cost of service and pricing studies; (ii) rate design and strategy; (iii) tariff development, implementation, enforcement, and administration; (iv) establishment of billing and collections policies and mitigation of credit risk; (v) monitoring legislation and initiatives related to consumer rights and protections; (vi) meter reading; (vii) bill calculation and delivery; (viii) payment processing; (ix) fund deposit management; (x) collections; (xi) customer accounting; (xii) revenue protection,

including prevention of meter tampering, theft of services, and fraud; (xiii) operation and systems management of customer-side facilities; and (ix) metering and meter data management.

#### **7.10 Finance and Accounting**

The Financing and Accounting function entails responsibility for financial reporting and accounting activities, including (i) accurate tracking, accounting, and reporting of business operations and plant balances in accordance with the Federal Energy Regulatory Commission accounting standards, including collection of monthly capital and operating expenditures, recording of necessary general ledger accounting entries, production of monthly trial balances and reports, and monitoring of accounting pronouncements and rules; (ii) management of the collection and payment of all taxes, including payroll and payments in-lieu of taxes; (iii) preparation of timely and accurate financial reports in accordance with the LIPA's bond indentures; and (iv) determination of insurance coverage requirements and maintenance of appropriate policies.

#### **7.11 Market Operations**

The Market Operations function involves the performance of day-to-day activities associated with (i) oversight of LIPA's ownership interest in NMP2; (ii) LIPA's participation in the New York Independent System Operator (the "NYISO"), including Reliability Council representation and reporting, real-time bidding, and calculation of OASIS data; (iii) power supply contract management; (iv) transmission services contract management; (v) management of requests for proposals for demand side management, power supply, and transmission services; (vi) project development support; and (vii) coordination of market optimization efforts.

#### **7.12 Communications**

The Communications function involves the management and performance of (i) media relations; (ii) government relations; (iii) advertising; (iv) Web site management; (v) emergency response and crisis communications; (vi) customer communications; and (vii) community relations.

#### **7.13 Legal**

The Legal function involves the performance of day-to-day legal responsibilities related to the operation and maintenance of the T&D System and performance of capital projects, including, but not limited to, environmental, regulatory, commercial, contract, litigation, and claims matters.

In addition to the above services, MSA provides for back office and corporate services necessary to support the day-to-day operation, maintenance, and management of the Electric System (referred to hereinafter as "Corporate Support Services"). Examples of such services include, but are not limited to, general management, human resources, budgeting, payroll, central information technology support, purchasing, fleet management, warehousing, internal auditing, security, and related activities.

### **8. Alternative Service Delivery Structure**

LIPA is committed to providing reliable, efficient, and economical electric service to its customers. A key element in achieving that objective is the service delivery structure and

associated management contract. Pursuant to the MSA, the Current Service Provider is responsible for delivering functional services in accordance with a detailed Scope of Services. Figure 1 illustrates this current delivery structure.

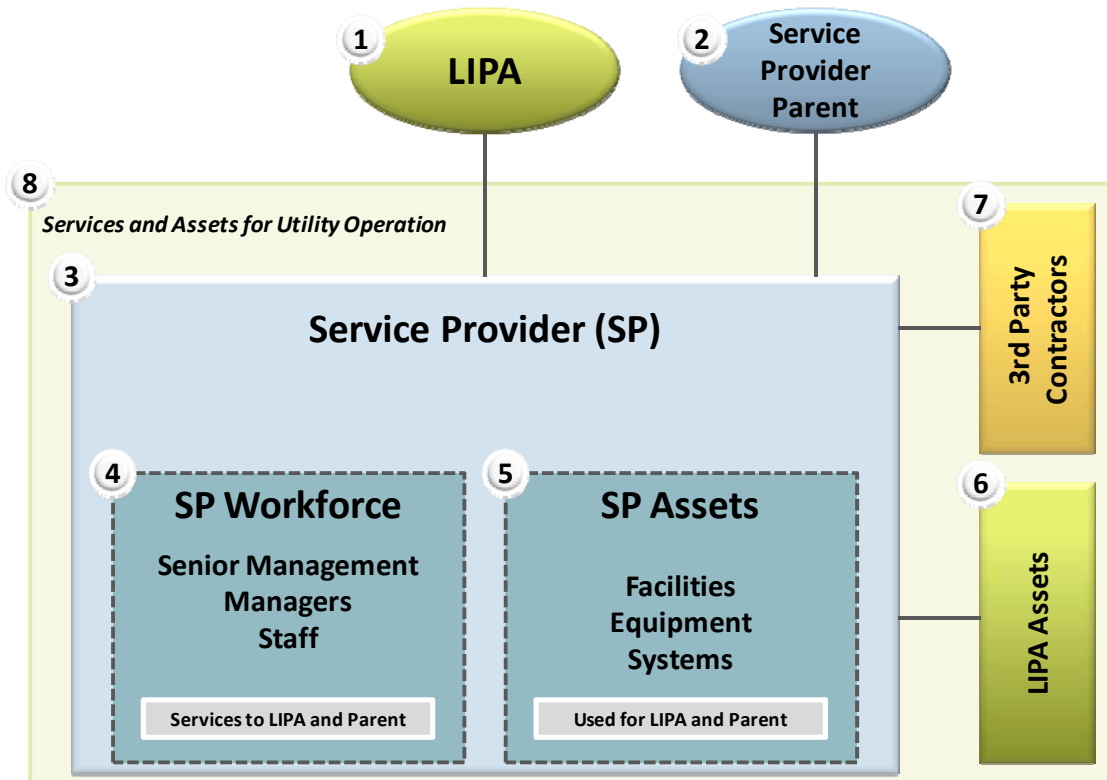
LIPA believes there may be alternative structures that would be beneficial for the day-to-day operation and maintenance of the T&D System. For example, in contrast to the MSA, under which the Current Service Provider is responsible for managing a work force and delivering services, with only certain input from LIPA, a possible alternative structure would require the service provider to only manage a work force. The work force would be dedicated to LIPA and would be responsible for delivering services solely to LIPA. This alternative structure is illustrated in Figure 2 and is one example of a service delivery structure about which LIPA is interested in receiving input from PSPs.

Key elements of this alternative structure are described below.

- Through the creation of an employee organization (referred to as “Employee-Co”) and the transition of existing personnel thereto, the PSP would be responsible for securing, retaining, managing, and directing a dedicated workforce responsible for providing the day-to-day services required by LIPA;
- The PSP would be evaluated based on the adequacy of the services delivered to LIPA, based on an agreed-upon set of performance metrics;
- All employees, other than senior personnel and any corporate support personnel employed directly by the PSP, would be assigned to Employee-Co, which may be a subsidiary of the PSP, LIPA, or could be a separate organization;
- The PSP would be obligated to maintain the Employee-Co at a specified level of full time equivalent employees (“FTE”) agreed to by LIPA;
- Labor-related costs associated with employees assigned to the Employee-Co would be passed directly through to LIPA;
- LIPA would provide some, if not all, Key Assets (as described in Section 9 of this RFI) required for the delivery of day-to-day services associated with the T&D System and Customer Care; and
- The PSP would receive a management fee which would compensate it for employees and expenses directly provided/incurred by it, as well as a profit margin.

Among other possible benefits of the alternative service delivery structure, LIPA believes the existence of an Employee-Co might facilitate the transition to a new service provider in the future and could provide additional flexibility in maintaining these employees’ existing compensation and benefit levels. Section 9 of this RFI requests input from the PSPs regarding this alternative arrangement and other potential service delivery structures.

**Figure 1**  
**Illustration of Current Structure**

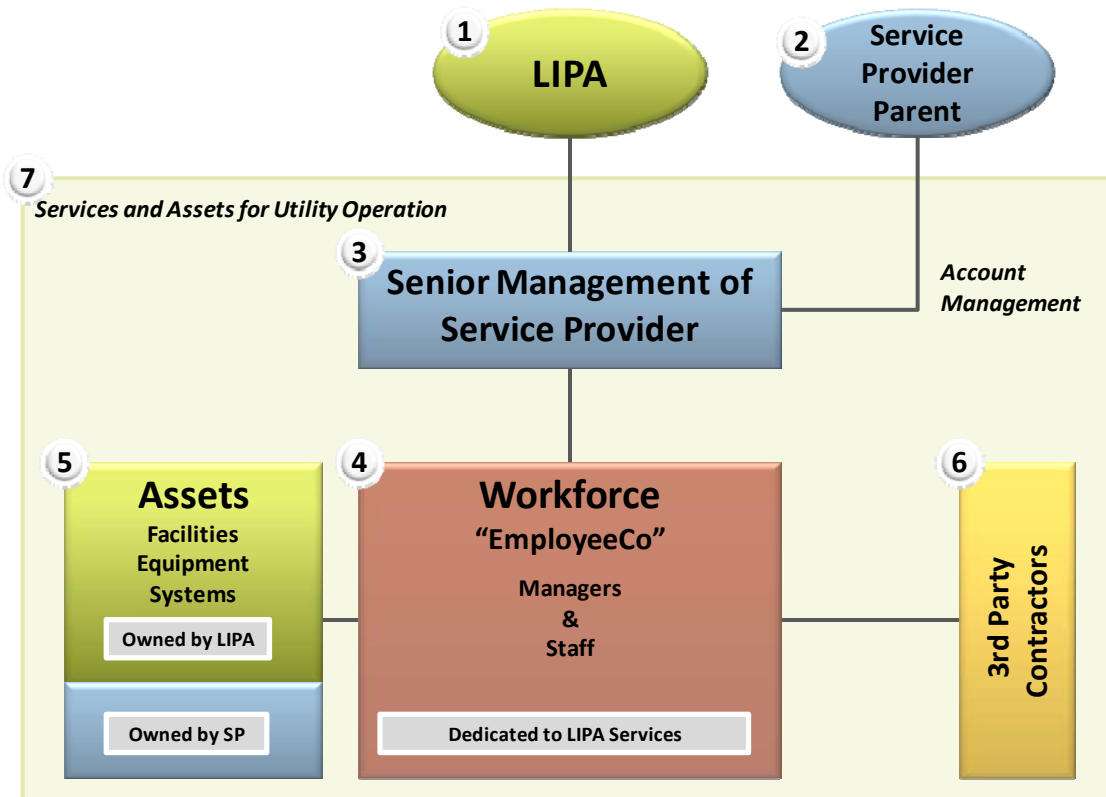


Notes (numbers reference the numbered objects in the illustrations).

Figure 1: Illustration of Current Service Delivery Structure

1. LIPA establishes policy and strategy, and provides overall direction to Service Provider as these relate to LIPA’s utility system.
2. Service Provider parent implements policy and strategy, and provides overall direction to Service Provider as these relate to Parent’s utility system. These may not be aligned with LIPA’s directives.
3. Service Provider manages LIPA’s system with regard to directives from both LIPA and parent. Service Provider is not dedicated to LIPA services.
4. The workforce consists of senior management, managers and staff. Some, but not all, are dedicated to LIPA services. The workforce includes back office and other services that are shared between LIPA and parent (e.g., procurement, human resources).
5. The Service Provider owns key assets that are essential to the ongoing operation of LIPA’s system (the “Key Assets”). These include physical facilities and information systems. LIPA has certain rights to acquire these assets or the use of these assets upon expiration of the MSA.
6. In addition to the T&D System itself, LIPA owns or controls (licenses) certain Key Assets and is taking steps to exercise its rights to acquire or lease other Key Assets prior to expiration of the MSA.
7. The Service Provider routinely retains subcontractors for certain services such as construction contractors.
8. Taken as a whole, the provision of services to LIPA entails the Service Provider workforce, Service Provider assets, LIPA assets and subcontractors.

**Figure 2**  
**Illustration of Possible Alternative Structure**



Notes (numbers reference the numbered objects in the illustrations).

Figure 2: Illustration of Possible Alternative Service Delivery Structure

1. LIPA establishes policy and strategy, and provides overall direction to Service Provider as these relate to LIPA’s utility system.
2. The role of the Service Provider parent would be primarily account management. Shared services provided by the parent may be treated like 3<sup>rd</sup> party contractors.
3. The Service Provider provides advice and assistance to LIPA in establishing policy and strategy, and provides senior management of the other elements necessary for utility operation. The Service Provider has no conflicting interests in the deployment of workforce, assets or contractors.
4. The primary workforce includes all except the senior management and any shared personnel resources of the Service Provider. The workforce is employed by an organization dedicated to serve LIPA (“EmployeeCo”). EmployeeCo may be a subsidiary of the Service Provider, LIPA or otherwise established as practicable. If owned by the Service Provider, EmployeeCo would be transferred to any subsequent service provider upon expiration of the then current management contract.
5. Under the direction of the Service Provider, EmployeeCo would operate and maintain the assets of LIPA and those assets of the Service Provider (if any) used in the provision of Electric Utility Management Services for LIPA. LIPA would own or control all Key Assets.
6. EmployeeCo would manage 3<sup>rd</sup> party contractors.
7. Taken as a whole, the provision of services to LIPA entails the Service Provider, workforce (EmployeeCo), assets and subcontractors.

## **9. Key Issues Related to the MSA-RFP**

The following sections address issues related to Electric Utility Management Services that could impact the development of any future MSA-RFP and the nature of the services sought by LIPA. PSPs are asked to submit responses to these issues to educate LIPA on the industry's views and reactions to these issues, which will be of particular benefit to the preparation of any future MSA-RFP.

PSPs do not need to respond to every section or question contained herein and may provide information on issues and aspects of providing Electric Utility Management Services that LIPA may not have considered. PSPs responding to this RFI should reference specific sections in their comments.

### **9.1 Service Delivery Approach**

Sections 7 and 8 provide a description of the service delivery approach under the current MSA and an alternative arrangement, respectively. LIPA is interested in your organization's thoughts with respect to these arrangements and which you find most appealing.

- Which approach would you find more attractive to your organization and why? Are there any disadvantages to your preferred approach from your perspective?
- With respect to the approach you did not select, what do you feel are its greatest advantages and disadvantages from your perspective?
- Which approach do you think would be the most beneficial from LIPA's perspective and why?
- Would you be more interested or less interested in responding to a MSA-RFP if LIPA were to adopt the alternative approach in lieu of that underlying the current MSA?
- Are there other service delivery arrangements that your organization believes would be beneficial for LIPA to consider? As an example, has your organization developed or employed any synergistic arrangements that have proven beneficial to the parties? If so, please describe.

### **9.2 Interest in Providing Electric Utility Management Services**

LIPA is one of the largest publicly-owned electric utilities in the United States. The management, operation, maintenance, and expansion of the Electric System are multi-faceted efforts that require the skills and expertise of a broad range of management and staff. Under the current MSA's structure, the PSP would be delivering a broad range of services to LIPA, with the PSP determining the personnel and physical resources needed to deliver those services. LIPA would like to determine the breadth of PSPs available to perform these services, the type of services they provide, and the depth of experience offered by these PSPs. Questions of particular interest to LIPA include the following:

- Which of the services described in Section 6 of this RFI would your organization be capable of performing without major partners or subcontractors (please respond to this question by completing the table in Appendix C)?
- Where do you currently provide these services geographically?

- Would you be willing to join with one or more other service organizations in order to submit a proposal to perform the full scope of services described in Section 7 (and as more fully described on the RFI Web site)?
- If you were to team with other PSPs, would your contribution be systems-based (i.e. software or information technology related) or functionally-based (i.e. direct supervision and performance of a functional service, such as testing of meters)?
- Have you performed similar Electric Utility Management Services (e.g. those that you could perform on your own) on an outsourcing basis for other clients? If so, how many and of what relative size?
- What do you believe are the minimum qualifications necessary to provide these services?
- Would you anticipate difficulties providing the required Corporate Support Services, either independently or in combination with other firms you have teamed with? If so, please explain.
- If you have not provided outsourcing services in the past, what do you see as the greatest obstacles to providing these services for the first time and how would you overcome them?
- What do you see as your biggest advantage as a provider of outsourcing services?

If LIPA were to adopt the alternative service delivery structure described in Section 8, LIPA would have significant input to the personnel and physical resources relied on to deliver the desired services. In this case, the PSP would manage the Employee-Co and ensure the services are provided in the manner required by LIPA. In this regard, LIPA is interested in your organization's response to the following questions.

- Have you ever provided management services of the nature described under the alternative service delivery structure in Section 8 of this RFI?
- Do you believe your organization is capable of performing these management services without assistance from other firms?
- What do you believe are the minimum qualifications necessary to provide these services under the alternative approach?
- If you were to provide these management services as a single entity, would you foresee any difficulty providing the required Corporate Support Services?

Any request for Electric Utility Management Services may contain Minority and Women-Owned Enterprise ("M/WBE") subcontracting goals. Accordingly, LIPA is interested in the following issues:

- Does your organization have previous experience complying with such goals in similar contracts; and
- What is your organization's corporate commitment to fostering opportunities for M/WBE participation?

### **9.3 Organization and Single Point of Contact**

If LIPA were to adopt the service delivery approach underlying the current MSA, some PSPs may elect to team with other PSPs to provide the full range of services required by LIPA. Whether this team consists of two firms or a multitude of firms, LIPA wishes to ensure that it has a single point of contact and accountability for all matters related to the new service agreement.

Consequently, LIPA is interested in your organization's thoughts relative to the following issues as they relate to the service delivery approach under the current MSA:

- Would you be willing to be included on a list of PSPs that others could contact to join them in responding to any future MSA-RFP?
- How might a group of service providers be organized to ensure that LIPA receives the services it requires, yet has only one point of contact under the agreement?
- How might the accountability of the group's performance be assured?
- What actions might the group take so that LIPA receives a seamless delivery of services?
- What sort of "command and control" mechanisms might be put in place to ensure each of the firms act in a unified manner?
- What might the group do to ensure that each firm instills a professional, service-oriented, customer-centric culture to the provision of services under the agreement?

#### **9.4 Personnel Resources (Recruitment, Employment, and Administration)**

The Current Service Provider employs approximately 1,125 FTEs to provide the Electric Utility Management Services to LIPA. These employees range from mid- to senior-level management personnel, to line personnel and back office staff. LIPA's objective is to ensure, to the fullest extent practicable, that these employees are not negatively impacted should there be a change in MSA service provider, including the opportunity to retain their current job positions, compensation and benefit levels, seniority, employment safeguards, and other factors.

In this regard, LIPA is considering, amongst others, two principal options: (i) direct retention of the employees by the PSP (this would apply only under the current MSA approach), with these employees enjoying the same compensation and benefit levels of the PSP's other employees; or (ii) formation of an Employee-Co (this option would be necessary under the alternative service delivery approach and optional under the current MSA approach). The Employee-Co could be managed by a separate, third party Professional Employer Organization ("PEO"), or could be operated as a subsidiary of the PSP. In either event, these employees would be managed and supervised by the PSP on a day-to-day basis. Likewise, the PSP, in consultation with LIPA, would establish compensation levels, work rules, and promotion criteria, and would administer discipline and corrective actions, as necessary, among other actions. The PSP would also be responsible for interacting with the applicable bargaining units and for negotiating new contracts, when appropriate. LIPA anticipates that compensation and benefits for the Employee-Co workforce would be a pass-through to LIPA.

LIPA believes the existence of an Employee-Co might facilitate the transition to a new service provider in the future and could provide additional flexibility in maintaining these employees' existing compensation and benefit levels. However, this approach may not be the approach preferred by the PSPs. Consequently, LIPA is interested in responses to the following questions:

- Has your organization ever "acquired" employees from another organization as a result of being retained to provide outsourcing services? If so, what were key obstacles to that process and how were they overcome?
- What obstacles or advantages do you see with the Employee-Co (whether a subsidiary of your organization or a separate entity)?

- What obstacles or advantages do you see in the direct employment of the employees as part of your organization?
- What ideas do you have for recruiting the Current Service Provider’s employees, particularly senior level employees serving LIPA (whether or not an Employee-Co exists)?
- The Current Service Provider employs individuals that devote time to both electric and natural gas functions, and electric transmission and distribution (LIPA) and generation functions. How might LIPA address this issue in terms of determining how many employees might be required going forward and identifying specific employees for recruitment? What additional information would you need to prepare a proposal as it concerns shared employees?
- How would you ensure the employees mesh with the remainder of your organization?
- What other approaches should LIPA consider for the retention and management of employees?

## **9.5 OPEBs**

The Financial Accounting Standards Board’s SFAS 106 (Employer’s Accounting for Postretirement Benefits Other Than Pensions) and the Governmental Accounting Standards Board Statement Number 45 (known as “GASB 45”) mandates companies to recognize future expenses related to providing other postretirement benefits (“OPEBs”) as they are earned by employees and not only when these benefits are given to retirees. Expenses considered part of the overall OPEB costs are service costs, interest costs, return on plan assets, gains and losses, and transition obligations. The options available for recognizing these costs include (i) accrual of a liability for future OPEBs; (ii) prefunding OPEBs through a dedicated fund; or (iii) prefunding OPEBs through a trust fund, among others.

The Current Service Provider offers its employees a defined retirement and benefit program that includes medical and other benefits during postretirement. Consequently, the PSP can expect to be obligated for OPEBs associated with employees assigned to Employee-Co. (as with salaries and benefits for the Employee-Co workforce, LIPA anticipates these OPEBs would be a pass-through to LIPA). LIPA is interested in the PSPs’ responses to the following questions.

- How are you presently accounting for/funding OPEB obligations, if any, for your existing employees?
- Would the obligation for OPEBs influence your decision to bid on the MSA-RFP?
- What could LIPA do to mitigate or overcome any obstacles OPEBs represent to PSPs?

## **9.6 Assets**

Appendix D to this RFI contains a list of Key Assets that LIPA considers critical to the day-to-day performance of the Electric Utility Management Services. Under the Agreements, the Current Service Provider owns these assets, but is obligated to make them available to LIPA at the conclusion of the MSA. In the case of the Current Service Provider’s “common” facilities, LIPA has a 99-year right to lease the assets. In the case of assets used exclusively for the T&D System (such as the T&D System control room, the portions of the SCADA system not owned by LIPA, and the outage management system), LIPA has the right to purchase these assets. LIPA expects that agreement for the purchase or lease of these assets (as appropriate) by LIPA for use by any potential new service provider will be reached in a timely manner prior to the transition to

any such potential new service provider. However, LIPA would like to explore other options that may be available for the replication or functional delivery/substitution of the Key Assets:

- Of the assets owned by LIPA, which do you believe you could effectively utilize in providing services to LIPA? Of those that you could utilize, what do you need to know relative to these assets? What time period would you envision you would need to familiarize yourself with these assets such that you could effectively utilize by January 1, 2014?
- Which, if any, of these types of assets do you currently own that could be used in the provision of Electric Utility Management Services to LIPA?
- If you possess some or all of these types of assets, would you be opposed to leasing or selling them to LIPA following the expiration of the contract for Electric Utility Management Services?
- In the event you do not own or have access to some or all of these types of assets, do you foresee any obstacles or issues related to the acquisition of the assets for use with LIPA?
- Would you be adverse to LIPA acquiring and owning Key Assets, but allowing you access to them to provide the requisite services to LIPA?
- Would you foresee issues or obstacles related to you being responsible for the upgrade and maintenance of the assets? If so, what are they?
- What length of lead time do you believe would be necessary to acquire and implement these assets?
- What is your experience partnering with asset owners in developing a strategy for the transition and integration of operating and customer care systems into day-to-day operations, and the related maintenance, upgrade, and replacement of these systems?

In addition to these Key Assets, LIPA owns other assets (such as vehicles and equipment) required to provide the day-to-day operation, maintenance, and expansion of the Electric System. LIPA is interested in your organization's response to the following issues:

- The new service provider will be responsible for managing all of the assets owned and/or controlled by LIPA. Is your organization experienced in the management of such assets? What ideas do you have for managing these assets that may improve their cost-effectiveness or efficiency?
- Do you own or possess assets that could be relied on by or for LIPA that could provide material technological advancement, efficiency, or cost effectiveness for LIPA?
- Where are the assets located that you own or control that could be used for LIPA? Explain how LIPA would be guaranteed dependable use of the assets. Are there benefits of locating these assets remotely from Long Island? How might LIPA replace these assets at the end of the contract period?

## **9.7 Pricing and Contract Duration**

LIPA is a tax-exempt entity and therefore federal tax law limits the compensation methods and associated contract length and terms that LIPA may enter into with a PSP. Depending on the nature of the services to be provided, LIPA may consider the full range of contract terms permitted by federal tax law. LIPA would prefer arrangements that provide for a fixed initial term, with options for extension. LIPA would also anticipate including a termination

provision in any management services contract that LIPA could unilaterally exercise with an appropriate notice period.

As a general rule, LIPA prefers to tie a portion of compensation to the performance of the PSP relative to clearly defined standards. LIPA anticipates that any new Electric Utility Management Services contract would contain a pricing method with a performance assurance system based on demonstrated and measurable service in a variety of areas. Such a contract would necessarily contain a set of metrics to measure performance. Depending on the nature of the services provided, LIPA would expect the percentage of performance-based compensation to vary.

To assist it in the development of any future MSA-RFP, LIPA is interested in responses to the following questions:

- Are you familiar with the federal tax laws as they related to management contracts with tax-exempt entities?
- Have you ever provided third-party management services to a tax-exempt entity subject to these tax laws?
- What, if any, obstacles do you foresee as a result of having to comply with the federal tax laws?
- How would you view an initial contract term of three to five years, with two renewal terms of three years each?
- What are your thoughts on tying compensation directly to performance?
- What are your thoughts on assessing financial penalties for inadequate performance?
- How would you establish performance standards? How many and what kind may be necessary to ensure proper assessment of the PSP's performance from your perspective?
- How would you recommend the PSP's performance relative to the performance standards be measured?
- It is possible that some of the Corporate Support Services will be performed by your direct employees that are not part of an Employee-Co. If an Employee-Co is established (regardless of ownership) and the associated labor and related costs are passed directly through to LIPA, how would you propose to account for time spent by your staff that are not part of the Employee-Co, but serve LIPA in a part time role?
- How would any synergies and their associated cost savings between the PSP's existing operations and the work performed for LIPA be measured and passed on to LIPA?
- Would you be willing to perform services jointly for LIPA and the Current Service Provider (such as joint meter reading)?

## **9.8 Technology Advancements**

LIPA is committed to being an early adopter of technology that enhances and supports the provision of high quality, cost effective services to its customers, with the goal of achieving first quartile performance in system operations and customer satisfaction. Accordingly, LIPA is interested in your responses to the following issues.

- How would your organization embrace the above philosophy and facilitate the adoption and deployment of technological advances (both physical resources and information systems) throughout the Electric System?
- What experience does your organization have with Smart Grid or related technology?
- What experience does your organization have with advanced automated payment systems and other technological improvements related to customer services?
- What technology improvements supporting customer service and customer satisfaction do you believe LIPA should be investigating and considering over the next five years?
- How would your organization introduce and integrate technological improvements within the Electric System?
- What specific technology improvements do you believe LIPA should be focusing on over the next 10 years?

### **9.9 Transition Issues**

If LIPA were to select a new service provider, a significant number of activities will need to occur between the contract award date and the expiration of the current MSA. Personnel transfers, adoption of employee benefit systems, implementation of new methods and procedures, initiation of internal communications, transfer of records and information, access to critical assets, and integration of the service provider's corporate culture are some of the activities and issues that will need to be accomplished prior to the MSA's expiration date.

In this regard, LIPA is interested in responses to the following questions:

- Have you ever taken over third party management/operating services from an incumbent service provider? If so, what were the key issues faced during the transition and how were they resolved?
- What do you foresee as the most critical transition issues that need to be accomplished for LIPA before expiration of the MSA?
- How would you accomplish these transition activities?
- What do you foresee as potential obstacles, if any, to completing the transition activities in a timely manner? How much transition time should be allotted for resolving these potential obstacles?
- How much time do you believe should be allotted for transition issues related to recruitment and retention of the existing workforce?
- How much time do you believe should be allotted for transition activities related to accessing and integrating Key Assets owned by LIPA and/or Key Assets provided by the PSP?

### **9.10 Responses to an RFP**

Any future MSA-RFP is expected to be extensively detailed and require meaningful time and effort to respond to. Information that may be required includes, but may not be limited to, the following:

- A. Approach to Performance of the Requested Services
- B. Support Services
- C. Personnel Management
- D. Transition Plan

- E. Respondent's Team
- F. Required Subcontractors
- G. Respondent Qualifications and Experience
- H. Respondent Financial Qualifications
- I. Response to LIPA's Proposed Contract Terms
- J. Respondent's Pricing Information
- K. References
- L. Vendor Responsibility

To ensure LIPA allows adequate time for the PSP to respond to any future MSA-RFP, LIPA is interested in responses to the following questions:

- Is the detailed description of the services currently provided, which is on the RFI Web site, sufficient for you to fully understand the scope of work to be performed and allow you to prepare a proposal to perform Electric Utility Management Services for LIPA?
- If these service descriptions are not sufficiently detailed, what additional information would you need to fully understand the services to be delivered to LIPA?
- The pricing of services provided to LIPA will depend upon the service delivery structure proposed by a PSP (for example, the current MSA structure may call for an all-in pricing approach, whereas an alternative structure may only require a proposed management fee that would cover PSP senior employees, shared resources, and profit margin). Despite these differences, what additional information would you need to be able to price these services (such as required policies, procedures, and practices; available software systems and usage protocols; understanding of physical assets; labor rates and work rules; etc.)?
- In addition to the information contained in this RFI and the information available through LIPA's Web site ([www.lipa-msa-rfi.org](http://www.lipa-msa-rfi.org)), what information not addressed above would you need to prepare a response to any future MSA-RFP?
- How much time would you need to prepare a proposal in response to any future MSA-RFP?

#### 9.11 Other Comments

In addition to the above input, please provide any additional thoughts or comments that you believe would be of value to LIPA.

#### 10. RFI Response Time and Target Schedule

For LIPA to gain the insight desired to begin development of any future MSA-RFP in a timely manner, it would like to obtain responses to this RFI and compile information gained from these responses no later than January 2010. To facilitate that deadline, LIPA has developed the following schedule for the issuance of this RFI and receipt of responses from PSPs.

Activity	Target Date
RFI Issued	October 13, 2009
Notice of Intent to Respond Due	October 30, 2009
Questions Related to RFI Due from PSPs no Later Than	November 6, 2009
Answers to Questions Posted on RFI Web Site no Later Than	November 27, 2009
Responses to RFI Due from PSPs	December 11, 2009

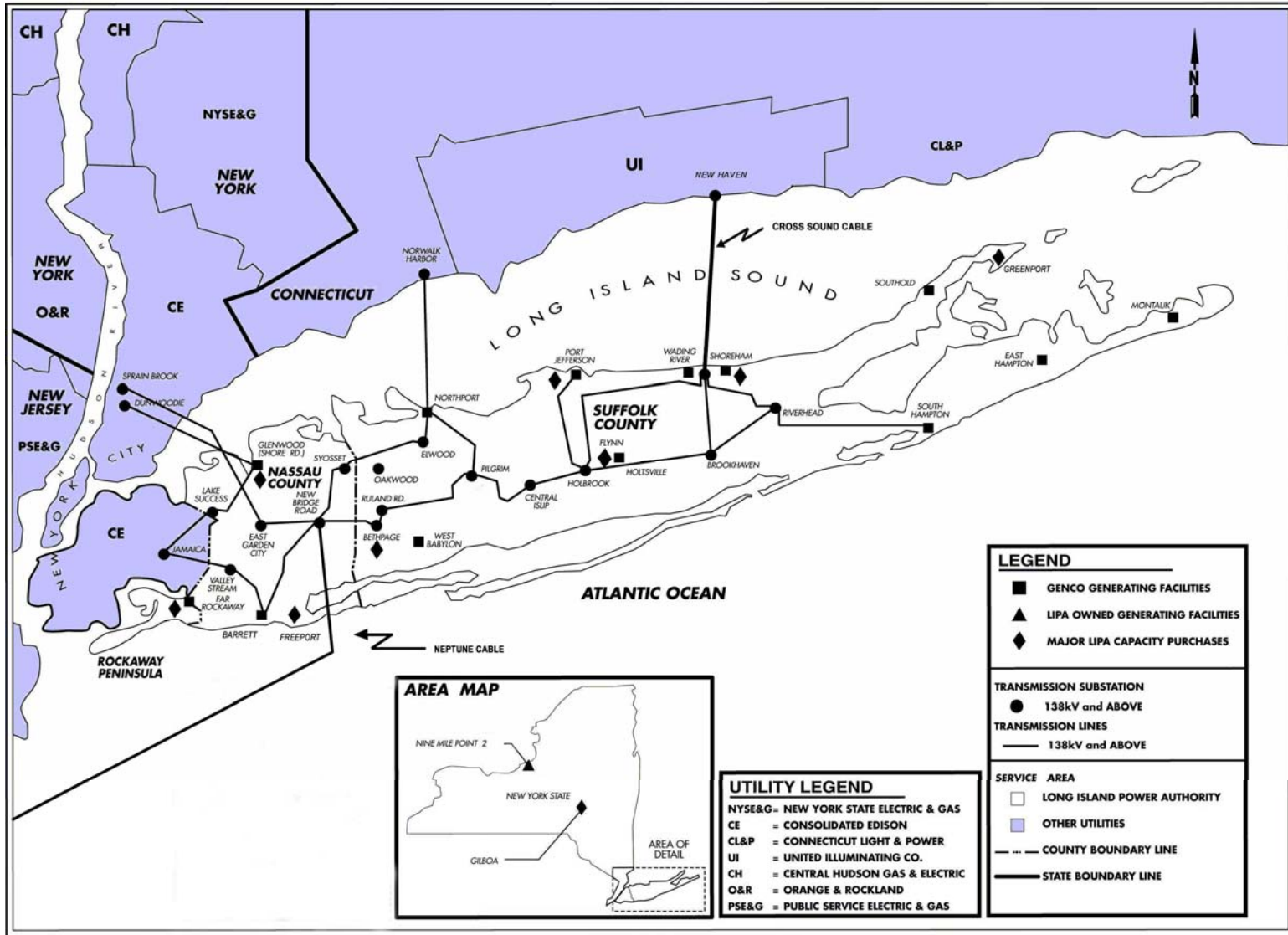
**APPENDIX A**  
**RFI RESPONSE FORM LIPA MSA SERVICES**

This form was developed by LIPA to facilitate its review of the responses received. Please provide the information indicated below.

**Contact Information** (Required Data):

Name of PSP:		
Address:		
Address (2):		
Contact:		
Title:		
Telephone:		
Fax:		
E-Mail:		

## APPENDIX B LIPA'S ELECTRIC SYSTEM



**APPENDIX C**  
**SERVICES PROVIDED BY RESPONDENT'S ORGANIZATION<sup>1</sup>**

Service Area	Provided by PSP <sup>2</sup> ?	Comments <sup>3</sup>
1. T&D System Maintenance		
2. T&D System Operations		
3. T&D System Engineering		
4. T&D System Construction		
5. System Planning		
6. Asset Management		
7. Marketing and Sales		
8. Customer Contact		
9. Billing and Revenue Cycle		
10. Finance and Accounting		
11. Market Operations		
12. Communications		
13. Legal		

<sup>1</sup> These are services that would be delivered under the existing MSA service delivery structure. In addition to the services included in this list, the service provider will be expected to provide Corporate Support Services, as described in Section 7. Issues related to the provision of these services should be addressed in response to the question posed in Section 9.2.

<sup>2</sup> Please place an "X" in this column if you provide the services indicate. Refer to Section 7 of the RFI for a more detailed description of specific responsibilities.

<sup>3</sup> The respondent may use the Comment column to more fully describe the services it is capable of providing. Such explanation is not required, however.

**APPENDIX D  
KEY ASSETS**

- A. T&D Control Room
  - 1. Control Room Facility
  - 2. Energy Management System & SCADA
  - 3. Distribution Automation Applications
  - 4. Alternate Control Center and Systems
  - 5. Related Systems
  
- B. T&D Telecommunications Systems
  - 1. Radio Network- Wireless and cellular services
  - 2. Fiber Optic Network
  
- C. Outage Management System
  - 1. Geographic Information System
  - 2. Computer Assisted Restoration of Electrical Services
  
- D. T&D System Planning and Design
  - 1. Mapping System and Viewer
  - 2. CAD / CAE System
  - 3. Document Management System
  - 4. Production Simulation and Load Flow Software
  - 5. Related Applications
  
- E. T&D Field Support Systems
  - 1. Radio Dispatch System
  - 2. Meter & Test Dispatch System
  - 3. Fleet Management Applications
  - 4. Supply Chain Applications
  - 5. Related Software
  
- F. General and Enterprise Systems
  - 1. Scheduling Software
  - 2. Billing Software
  - 3. Data Management Software
  
- G. Customer Care Systems
  - 1. Customer Accounting System
  - 2. Corporate Meter Reading System
  - 3. Call Center Software
  - 4. Related Systems and Applications
  
- H. Finance and Accounting
  - 1. Accounting Systems and Software
  
- I. Facilities and Equipment
  - 1. Real Estate, Including Offices, Yards, and Warehouses
  - 2. Specialized Vehicles and Equipment