Long Island Power Authority  
Guidelines for the Use of 
Interest Rate Exchange Agreements  
(as amended on December 13, 2007, February 28, 2013, and March 26, 2015)

Board of Trustees

These Guidelines require approval of the Long Island Power Authority’s (“Authority”) Board of Trustees (“Board”), and the Board must approve any changes to the Guidelines. Changes are effective on the day of approval and shall not be applied retroactively unless explicitly so specified by the Board.

As delegated herein by the Board, the Authority’s Chief Executive Officer shall use the Executive Risk Management Committee (“ERMC”), consisting of the Chief Financial Officer and at least two others members, one of which must be drawn from the senior management of the Authority, to review and approve any interest rate exchange agreements entered into by the Authority. The ERMC is charged with administration of these Guidelines.

Form of Agreements

Interest Rate Exchange Agreements (the “Agreement” or “Agreements”) between the Authority and counterparties may include those payment, term, security (including provisions for collateral by the counterparty), default, remedy, termination, and other terms and conditions, as the Authority deems reasonably necessary or desirable, and to which the Authority and the counterparty may mutually agree. As used herein Interest Rate Exchange Agreements mean, as the context permits or requires, any or all of the following: interest rate swap transactions (either variable to fixed or fixed to variable), basis swaps, forward rate transactions, float transactions, cap transactions, collar transactions, or any other similar transactions (including any option with respect to any of these transactions). Such Agreements shall be entered into by the Authority only to the extent they meet the criteria listed below, provided that failure by the Authority to comply with, or a violation of, the provisions of these guidelines shall not be deemed to alter, affect the validity of, modify the terms of, or impair any contract or Agreement.

For each Agreement, the Authority shall enter into a written agreement based on the ISDA Master Agreement and ISDA Schedule to the Master Agreement, with a related Confirmation and Credit Support Annex, if applicable, setting forth the terms of the particular Agreement.
Interest Rate and Financial Exposure

The Authority may enter into an Agreement if the ERMC has determined that such Agreement is reasonably expected to:

   A. Reduce its exposure to changes in interest rates on a particular financial transaction, or in the context of the management of interest rate risk derived from an asset/liability imbalance; or

   B. Result in a lower net cost of borrowing with respect to the related obligations; or

   C. Manage the financial exposure of the Authority with respect to its current financial condition.

The Authority is prohibited from entering into an Agreement unless the ERMC has determined that such Agreement can be reasonably expected to achieve at least one of the objectives listed above. The Authority is forbidden to enter into such Agreement for speculative purposes.

In addition, the ERMC will consider the risks associated with any Agreement, including (but not limited to) the Authority’s exposure to counterparty risk, termination risk, basis risk (if any), tax-event or tax-basis risk, mismatched amortization risk (if any), and rollover risk.

Compliance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“Dodd-Frank Act”) and Regulatory Considerations

   A. Qualified Independent Representative under the Dodd Frank Act

The ERMC shall review and approve the use of one or more Qualified Independent Representatives (“QIR”) that meet the standards established under the Dodd-Frank Act by the Commodity Futures Trading Commission’s (“CFTC”) and contained at present in CFTC Regulation 23.450(b), subject to any amendments or interpretations by the CFTC and any comparable requirements set forth by other regulators, including, without limitation, the SEC or MSRB. Such QIR(s) shall represent to the ERMC that it meets the requirements of a QIR as set forth in the Dodd Frank Act. Additionally, the QIR representation will be used to certify the QIR status, in accordance with the Authority’s Special Entity and Exempt End User standards, when certifying such status to the Authority’s Swap Dealer and Major Swap Participant counterparties. The Authority will use its best efforts to monitor the performance of its QIR(s) on an ongoing basis consistent with such regulatory provisions.

   B. Documentation

The Authority may execute written agreements with Swap Dealers and Major Swap Participant counterparties or enter into ISDA protocols that are intended to satisfy “safe harbor” provisions benefitting Swap Dealers or Major Swap Participants under external business conduct standards imposed on Swap Dealers or Major Swap Participants by regulation of the CFTC or otherwise intended to satisfy Dodd-Frank Act requirements for
Swap Dealer or Major Swap Participant diligence of its counterparties, other legislation relating to Agreements, related rules and regulations and market practices in response to the foregoing.

C. Recordkeeping and Reporting

The Authority will comply with all recordkeeping and reporting rules imposed on it with respect to Agreements under the Dodd-Frank Act and other legislation relating to Agreements, related rules and regulations and market practices in response to the foregoing.

Term of Agreements

Subject to limitations imposed pursuant to agreements with bondholders, the term of any Agreement cannot exceed the lesser of the final maturity of then outstanding obligations of the Authority or the term of any approved financial plan of the Authority.

Credit Rating of Counterparties; Diversification

Unless the obligations of the counterparty under the Agreement are required to be collateralized in accordance with the following section, the Authority’s counterparties shall have credit ratings from at least two nationally recognized statistical rating agencies that are within the three highest grade categories, or the payment obligations of the counterparty shall be unconditionally guaranteed by an entity with such credit ratings.

Collateralization

The mark-to-market value of the swap will not require collateralization unless the counterparty is downgraded by any nationally recognized statistical ratings agency below the three highest grade categories. Any such collateral shall consist of a direct obligation of, or obligations which are guaranteed by, the United States of America.

Each Agreement may include a provision that allows the Authority to exercise a right to terminate the Agreement prior to its scheduled termination date if the counterparty’s, or the counterparty’s guarantor’s rating or ratings are lowered to or below a level specified in the Agreement. In addition, the Authority shall have the right to optionally terminate all or a portion of an Agreement at prevailing market rates at any time over the term of the Agreement.

Swap Counterparty Termination Exposure

The Authority will seek to avoid excessive concentrations of exposure to a single counterparty or guarantor by diversifying its counterparty credit exposure over time. Exposure to any one counterparty will be measured based on the aggregate termination value of all swaps entered into with the counterparty. Termination value will be determined
based on a mark-to-market calculation of the cost of termination of a swap given market conditions on the valuation date. Aggregate swap termination values for each counterparty should take into account netting offsetting transactions (i.e. fixed-to-floating and floating-to-fixed transactions). The ERMC will review current and potential counterparty termination exposure prior to the Authority entering into any Agreements, including potential future exposures based on changing market conditions.

Selection of Counterparties

The Authority will pre-approve counterparties pursuant to a Request for Qualifications. In addition to the credit rating criteria above, the evaluation of such counterparties may include the following criteria.

A. The counterparty should have substantial and significant experience in the swap markets and a demonstrated record of successfully executing swap transactions;

B. The counterparty should be a significant participant in the municipal bond market (if necessary to the transaction);

C. The counterparty should have a record of creating and implementing innovative ideas in the swap market (if necessary to the transaction).

Negotiated Procurement

In determining whether to use a negotiated procurement of an Agreement, the Authority shall consider, among other things, the then existing market for the type of Agreement expected to be entered into, the availability of counterparties for the type of Agreement expected to be entered into, the size of the Agreement, and the costs and expenses associated with a negotiated versus competitive undertaking. In the event that the Agreement is to be negotiated, Authority shall retain the services of an independent, knowledgeable, individual/firm to certify as to the fairness of the pricing and terms of the Agreement.

Competitive Procurement

In the event it is determined that the Agreement will be competitively bid, the Authority reserves the right to (a) limit the number of qualified counterparties that may participate in a single Agreement bid, (b) limit the notional amount of Agreements with any counterparty, either for any individual Agreement or in the aggregate, and (c) structure the bidding process as appropriate in order to best meet the Authority’s objectives.

The Authority shall, based upon the relevant circumstances, select the prospective counterparties to be solicited and shall circulate a schedule setting forth the time for, and manner of, accepting bids. Following the acceptance of bids, the Authority staff shall determine the winning bidder(s) based upon the most advantageous terms to the Authority,
taking into consideration not only the rate(s) bid, but also any other relevant terms and conditions such as credit and legal provisions, if applicable.

The Authority may, prior to the solicitation of bids, select a prospective counterparty to assist it in the preparation of documents relating to the solicitation of bids, and may give such counterparty the opportunity to match the lowest winning bid on no more than 50% of the notional amount of such Agreement.

**Reporting Requirements**

Authority staff will provide a quarterly report to the Finance and Audit Committee of the Board. It has been the Authority’s practice to make such quarterly reports available on the Authority’s website. Such report will include:

1. Interest payments received or paid;
2. Accrued interest payable or receivable on the swap;
3. Swap strategies and management techniques;
4. The current status of interest rate exposure of the Authority, net of the effects of such Agreements;
5. The status of individual Agreements in effect, including notional amount, rates, terms, bases employed and the rating of counterparties / insurers;
6. The credit terms within ISDA documentation, such as ratings-based triggers for termination events and collateral posting terms and requirements;
7. The mark-to-market evaluations of net credit exposures to the Authority by individual counterparties, and collateralization that has been provided;
8. The summary of the terms and conditions of any Agreement that has been executed since the previous report;
9. The status of the QIR(s) under the Dodd-Frank Act.

**Financial Reporting**

The Authority shall comply with any applicable accounting standards with respect to the treatment of Agreements. The Authority’s Controller, the Authority’s financial advisor(s), and the Authority's external auditors shall review and implement the applicable accounting standards.