LONG ISLAND POWER AUTHORITY

MINUTES OF THE 236th MEETING

HELD ON FEBRUARY 28, 2013

The Long Island Power Authority (the “Authority”) was convened for the two-hundred-and-thirty sixth time at 11:19 a.m. at LIPA’s Headquarters, Uniondale, NY, pursuant to legal notice given on February 25, 2013; and electronic notice posted on the Authority’s website.

The following Trustees of the Authority were present:

Lawrence Waldman, Chair
Laurence Belinsky
Matthew Cordaro
Gemma deLeon
Jeffrey Greenfield
Neal Lewis
Michael Maturo
Susan Gordon Ryan
Suzette Smookler
Peter Tully

Trustee John Fabio was not present.

Representing the Authority were Michael Taunton, Chief Operating Officer and Chief Financial Officer; Lynda Nicolino, General Counsel and Secretary; Kenneth Kane, Controller; Paul DeCotis, Vice President - Power Markets; Michael Deering, Vice President - Environmental Affairs; and Nicholas Lizanich, Vice President of Transmission & Distribution Operations.

Chairman Waldman welcomed everyone to the 236th meeting of the Long Island Power Authority Board of Trustees and led the Pledge of Allegiance.

Chairman Waldman welcomed the newest member of the Board of Trustees, Matthew Cordaro.
Chairman Waldman called for a motion to accept the minutes of the January 24, 2013 meeting of the Board of Trustees, which was seconded. He asked if there were any changes or deletions. Upon hearing none, the resolution was then adopted by the Trustees.

Upon motion duly made and seconded, the following motion was approved:

1145. APPROVAL OF MINUTES AND RATIFICATION OF ACTIONS TAKEN AT THE JANUARY 24, 2013 MEETING OF THE BOARD OF TRUSTEES OF THE LONG ISLAND POWER AUTHORITY

RESOLVED, that the Minutes of the meeting of the Authority held on January 24, 2013 are hereby approved and all actions taken by the Trustees present at such meeting, as set forth in such Minutes, are hereby in all respects ratified and approved as actions of the Authority.

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Chairman Waldman then remarked on the following items:

- The status of the transition of service providers from National Grid to PSEG; and
- The future of LIPA.

Chairman Waldman then turned the meeting over to Mr. Taunton for the Operating Report.

Mr. Taunton reported on the following items:

- The status of the future renewables procurement; and
- The success of LIPA’s Efficiency Long Island program.

After Mr. Taunton concluded his remarks, he took questions from the Trustees.

Mike Taunton introduced John Bruckner from National Grid to give a presentation related to the response to Superstorm Sandy and the subsequent Nor’easter.

Mr. Bruckner then reported on the Superstorm Sandy response, which included a description of the restoration process, the lessons learned from Tropical Storm Irene and future plans related to lessons learned from Sandy.

Mr. Bruckner concluded his presentation and took questions from the Trustees.
The Chair stated that the next item on the agenda is the Financial Report, to be presented by Mr. Kane.

Mr. Kane then presented the Financial Report, which included the financial results for the one month ended January 31, 2013.

Mr. Kane concluded his report and took questions from the Trustees.

The Chair stated that the next item on the agenda is the Consideration of Approval of Modifications to the Long Island Power Authority Governing Policy for Energy Risk Management.

After requesting a motion on the matter, which was seconded, the Chair indicated that the matter would be presented by Mr. Taunton.

Mr. Taunton presented the following action item:

Requested Action

The Trustees are being requested to adopt a resolution approving proposed modifications to the “Long Island Power Authority Governing Policy for Energy Risk Management” (the “ERM Policy”) to 1) delegate authority to the Executive Risk Management Committee (“ERMC”) to manage compliance activities associated with the Dodd-Frank W. Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”), and 2) amend the provisions related to the composition of the ERMC.

Background

The Long Island Power Authority (“LIPA”) purchases approximately $1.5 billion annually of natural gas and oil needed to produce electricity at the generation plants under contract to LIPA, as well as power that is imported to Long Island over several transmission cables. Fuel and certain power commodities are purchased on the spot market and the ultimate mix of purchased power, natural gas and oil varies depending on their relative costs and availability, environmental restrictions on their use, as well as other factors. The price of these commodities is volatile, resulting in certain energy price risk to LIPA’s ratepayers. Accordingly, the Trustees adopted the ERM Policy on November 25, 2002, as later amended by resolutions dated January 25, 2007 and October 22, 2009, to govern the activities related to LIPA’s comprehensive energy risk management program in order to mitigate the risk associated with these purchases and to obtain moderate customer price stability. Among other things, the ERM Policy governs the type of hedging instruments that may be used, such as “swaps” and “options,” the term limits on such hedging instruments, and allows
LIPA to financially hedge its fuel and purchased power risk with various counterparties, which is currently comprised of both financial institutions and energy exploration and production companies. The ERM Policy is administered by LIPA’s ERMC, which includes senior staff members, as well as the Chief Financial Officer.

In July 2010, the Dodd-Frank Act was passed, which among other things, expands the jurisdiction of the Commodity Futures Trading Commission (the “CFTC”) to regulate swaps. This will affect the risk management strategies and practices of certain energy companies, which includes LIPA, a municipal energy utility and “end-user” of swap instruments for the purposes of managing its commercial risks. In this regard, there are several compliance obligations that will be applicable to LIPA and its counterparties during the first quarter of 2013. Specifically, LIPA will be required to register as a “special entity” and “exempt end-user” so that it is exempt from certain swap clearing requirements; comply with certain reporting and recordkeeping requirements; and designate an appropriate Qualified Independent Representative (“QIR”) to certify LIPA’s status for compliance purposes.

Based on staff’s review, which was performed in consultation with LIPA’s risk management and legal advisors, it was determined that Section 2.01(b) of the ERM Policy should be modified to delegate authority to the ERMC to manage activities of staff in order to comply with regulations applicable to LIPA under the Dodd-Frank Act as noted above. Accordingly, the ERM Policy should be modified to authorize the ERMC to 1) make the determination whether LIPA qualifies for the end-user exception provided in CFTC’s regulations; 2) review and approve the decision to enter into swaps that are exempt from certain requirements of the Dodd-Frank Act; and 3) review and approve the use of a QIR to certify LIPA’s special entity and exempt end user status. These modifications are necessary to ensure that LIPA will be in compliance with the Dodd-Frank Act, and to avoid a potential lapse in LIPA’s ability to hedge its commercial risk and mitigate commodity price volatility.

The ERM Policy should also be modified to provide flexibility in the composition of staff represented on the ERMC. The ERM Policy currently provides that the ERMC consist of the Chief Financial Officer and at least two other members drawn from senior management of LIPA. Due to changes in LIPA personnel, staff proposes to modify this requirement such that the ERMC consists of the Chief Financial Officer and at least two other members, “one of which must be” drawn from senior management of LIPA. This modification would allow the ERMC the ability to continue its administration of the ERM Policy and to use other experienced staff that have broad knowledge and expertise in this area.

Mr. Taunton noted that these proposed modifications have been reviewed by the Finance and Audit Committee of the Board of Trustees.
**Recommendation**

Based upon the foregoing, Mr. Taunton recommended the approval of the above requested action by adoption of a resolution in the form of the draft resolution attached hereto as Exhibit A.

*After a discussion by the Trustees and the opportunity for the public to be heard, the following resolution was unanimously adopted by the Trustees:*

**1146. APPROVAL OF MODIFICATIONS TO THE LONG ISLAND POWER AUTHORITY GOVERNING POLICY FOR ENERGY RISK MANAGEMENT**

WHEREAS, the Long Island Power Authority ("LIPA") adopted the “Long Island Power Authority Governing Policy for Energy Risk Management” (the “ERM Policy”) on November 25, 2002, as amended on January 25, 2007 and October 22, 2009, to govern LIPA’s hedging transactions related to fuel and purchased power and to establish the policies, philosophy, framework, and delegation of authorities necessary to govern the transactions and other activities of LIPA relating to fuel and purchased power risk; and

WHEREAS, as set forth in the accompanying memorandum, in order to recognize the obligations and requirements of LIPA under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”), staff proposes to modify Section 2.01(b) of the ERM Policy to 1) delegate authority to the Executive Risk Management Committee (the “ERMC”) to manage compliance activities associated with the Dodd-Frank Act, and 2) amend the provisions related to the composition of ERMC staff; and

WHEREAS, the Finance and Audit Committee of the LIPA Board of Trustees has reviewed the ERMC’s proposed modifications to the ERM Policy and finds them to be in all respects reasonable, appropriate and in the best interests of LIPA’s customers:

NOW, THEREFORE, BE IT RESOLVED, that the Trustees hereby approve and adopt the “Long Island Power Authority Governing Policy for Energy Risk Management (amended as of February 28, 2013)” in the form presented at this meeting to be effective immediately.

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The Chair stated that the next item on the agenda is the Consideration of Approval of Modifications to the Long Island Power Authority Guidelines for the Use of Interest Rate Exchange Agreements.

After requesting a motion on the matter, which was seconded, the Chair indicated that the matter would be presented by Mr. Taunton.
Mr. Taunton presented the following action item:

Requested Action

The Trustees are being requested to adopt a resolution approving proposed modifications to the “Long Island Power Authority Guidelines for the Use of Interest Rate Exchange Agreements” (the “Guidelines”) to 1) authorize the Executive Risk Management Committee (the “ERMC”) to have oversight responsibility of staff regarding interest rate exchange agreements, and 2) incorporate certain compliance obligations applicable to LIPA under the Dodd-Frank Wall Street Reform Consumer Protection Act of 2010 (the “Dodd-Frank Act”).

Background

The Long Island Power Authority’s (“LIPA”) Board of Trustees created and adopted the Guidelines in 1998, as later amended on December 13, 2007. The Guidelines provide the rules for the use of interest rate exchange agreements, including the parameters for which these agreements shall be used.

In July 2010, the Dodd-Frank Act was passed, which among other things, expands the jurisdiction of the Commodity Futures Trading Commission (the “CFTC”) to regulate swaps. This will affect the risk management strategies and practices of certain energy companies, which includes LIPA, a municipal energy utility and “end-user” of swap instruments for the purposes of managing its commercial risks. In this regard, there are several compliance obligations that will be applicable to LIPA and its counterparties during the first quarter of 2013. Specifically, LIPA will be required to register as a “special entity” and “exempt end-user” so that it is exempt from certain swap clearing requirements; comply with certain reporting and recordkeeping requirements; and designate an appropriate Qualified Independent Representative (“QIR”) to certify LIPA’s status for compliance purposes.

Based on staff’s review, which was performed in consultation with LIPA’s risk management and legal advisors, it was determined that the Guidelines should be modified to authorize the ERMC to have oversight responsibility of staff with respect to the activities covered by the Guidelines, and to incorporate the Dodd-Frank Act compliance regulations applicable to LIPA. In this regard, the Guidelines should be modified to authorize the ERMC to review and approve any interest rate exchange agreements entered into by LIPA. The proposed modifications will also authorize the ERMC to 1) make the determination whether LIPA qualifies for the end-user exception provided in CFTC’s regulations; 2) review and approve the decision to enter into swaps that are exempt from certain requirements of the Dodd-Frank Act; and 3) review and approve the use of a QIR to certify LIPA’s special entity and exempt end user status. These modifications are necessary to ensure that LIPA will be in compliance with the Dodd-Frank Act, and to avoid a potential lapse in LIPA’s ability to hedge its commercial risk and mitigate interest rate volatility.

Mr. Taunton noted that these proposed modifications have been reviewed by the Finance and Audit Committee of the Board of Trustees.
Recommendation

Based upon the foregoing, Mr. Taunton recommended the approval of the above requested action by adoption of a resolution in the form of the draft resolution attached hereto as Exhibit A.

After a discussion by the Trustees and the opportunity for the public to be heard, the following resolution was unanimously adopted by the Trustees:

1147. APPROVAL OF MODIFICATIONS TO THE LONG ISLAND POWER AUTHORITY GUIDELINES FOR THE USE OF INTEREST RATE EXCHANGE AGREEMENTS

WHEREAS, the Long Island Power Authority (“LIPA”) adopted the “Long Island Power Authority Guidelines for the Use of Interest Rate Exchange Agreements” (the “Guidelines”), in 1998, as amended on December 13, 2007, to provide rules for the use of interest rate exchange agreements, including the parameters for which these agreements shall be used; and

WHEREAS, as set forth in the accompanying memorandum, in order to recognize the obligations and requirements of LIPA under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”), staff proposes to modify the Guidelines to 1) authorize the Executive Risk Management Committee (the “ERMC”) to have oversight responsibility of staff regarding interest rate exchange agreements, and 2) incorporate certain compliance obligations applicable to LIPA under the Dodd-Frank Act; and

WHEREAS, the Finance and Audit Committee of the LIPA Board of Trustees has reviewed the ERMC’s proposed modifications to the Guidelines and finds them to be in all respects reasonable, appropriate and in the best interests of LIPA’s customers:

NOW THEREFORE BE IT RESOLVED, that the Trustees hereby approve and adopt the “Guidelines for the Use of Interest Rate Exchange Agreements (amended as of February 28, 2013)” in the form presented at this meeting to be effective immediately.

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The Chair then allowed public comment to be heard, after which he announced that the next Board meeting is scheduled for March 21, 2013 at 11:00 a.m. in Uniondale. The Chair then asked for a motion to adjourn to Executive Session to discuss litigation involving tax certiorari cases, the class actions related to Superstorm Sandy and other legal matters.
RESOLVED, that pursuant to Section 105 of the Public Officers Law, the Trustees of the Long Island Power Authority shall convene in Executive Session for the purpose of discussing litigation matters.

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At approximately 1:49 p.m. the Open Session of the Board of Trustees was adjourned on a motion to enter into Executive Session, which commenced at 2:01 p.m.

After noting that no votes were taken in the Executive Session, Chairman Waldman entertained a motion to adjourn, which was duly made and seconded, after which the meeting ended at 2:45 p.m.

Respectfully submitted,

Lynda Nicolino