LONG ISLAND POWER AUTHORITY

MINUTES OF THE 237th MEETING

HELD ON MARCH 21, 2013

The Long Island Power Authority (the “Authority”) was convened for the two-hundred-and-thirty seventh time at 11:13 a.m. at LIPA’s Headquarters, Uniondale, NY, pursuant to legal notice given on March 18, 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
John Fabio
Jeffrey Greenfield
Neal Lewis
Michael Maturo
Suzette Smookler
Peter Tully

Trustee Susan Gordon Ryan was not present.

Representing the Authority were Michael Taunton, Chief Operating Officer and Chief Financial Officer; Lynda Nicolino, General Counsel and Secretary; Kenneth Kane, Vice President - Finance; 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 237th meeting of the Long Island Power Authority Board of Trustees and led the Pledge of Allegiance.
Chairman Waldman called for a motion to accept the minutes of the February 28, 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 with Trustee Fabio abstaining.

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


RESOLVED, that the Minutes of the meeting of the Authority held on February 28, 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
- A discussion of a new Outage Management System.

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

Mr. Taunton reported on the following items:

- The status of revenue collections and arrears; and
- The flood storm areas and the actions LIPA would take in conjunction with municipalities during future storms related to National Grid’s presentation at last month’s meeting.

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

Mr. Taunton introduced Thomas Beisner of National Grid’s Electric T & D Operations Department to address five follow up questions relating to John Bruckner’s presentation at last month’s meeting regarding the response to Superstorm Sandy and the subsequent Nor’easter.
Mr. Beisner discussed the emergency restoration procedures for operations, service completion after Hurricane Gloria, responses to flood areas in conjunction with municipalities, whether the restoration response was in line with the response to other storms and the use of firehouses for restoration and response in lieu of substations.

Mr. Beisner concluded his discussion 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 two months ended February 28, 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 Authorization to Establish Regulatory Asset Related to Superstorm Sandy

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

Mr. Kane presented the following action item:

Requested Action

The Trustees are being requested to approve a resolution authorizing the establishment of a regulatory asset related to the Long Island Power Authority’s (the “Authority”) recovery of unreimbursed costs incurred as a result of Superstorm Sandy.

Background

In October 2012, Superstorm Sandy (“Sandy”) hit the United States causing more than $71 billion of damage to 24 states, including the entire eastern seaboard, with particularly severe damage in New York and New Jersey. When Sandy hit Long Island, LIPA’s entire service territory endured extended periods of high winds and precipitation that took down trees, poles and power lines and caused extensive flooding from the unprecedented storm surges experienced on the south shore of Long Island. Sandy caused significant damage to LIPA’s electric transmission and distribution system (“T&D system”) resulting in widespread power outages that affected approximately 90% of LIPA’s customers. In light of the devastating storm, President Obama declared New York State a federal major disaster area
on October 30, 2012. Due to the enormity of the damage, the costs associated with Superstorm Sandy make it the second-costliest hurricane event in US history.

Discussion

Restoration of LIPA’s T&D system in the aftermath of Sandy (and the subsequent Nor’easter that hit Long Island 10 days later) involved an unprecedented amount of resources, including assistance from utility crews all across the nation, at a cost that is currently estimated at $806 million. In light of the magnitude of Sandy, the Authority expects to receive reimbursement from the Federal Emergency Management Agency (FEMA) for eligible costs of no less than 75% and up to 90% of eligible costs related to the restoration effort. In this regard, it should be noted that the higher percentage of reimbursement is possible because New York State incurred costs in excess of the federally mandated per capita level, and has thus, petitioned FEMA to provide more than the traditional reimbursement funding percentage. Although not official until President Obama has approved the request for additional funding, staff believes that the damage caused by Superstorm Sandy will exceed the federal threshold and allow for the President to provide such approval.

Given the timing and the economic uncertainties surrounding the extraordinary events of Sandy, the Authority’s 2013 Operating Budget, which was approved by the Trustees on December 17, 2012, did not include a provision for the recovery of storm costs in excess of those reasonably anticipated for the upcoming year. Based on current circumstances, however, which include the desire for the Authority to maintain its financial stability and strong credit rating, staff is recommending the recovery of any unreimbursed storm costs from its customers in a manner consistent with how neighboring investor-owned utilities are recovering them. Specifically, staff recommends that a regulatory asset be established authorizing the collection of these costs over time, starting next year. The amount of the regulatory asset would be equal to the difference between the final costs incurred as a result of the recovery efforts and the ultimate amount of disaster recovery reimbursement to be collected from FEMA.

In light of staff’s reasonable belief that 90% reimbursement from FEMA is achievable, it is recommended that an $80 million regulatory asset be established and collected over a 10-year recovery period, scheduled to begin in early 2014, with no carrying costs. Deferring recovery until 2014 allows the Authority to ensure that the amount collected from customers is consistent with the actual amount of FEMA reimbursement to be received, which will be better understood in the upcoming months. It should be noted that the amount of the regulatory asset would be adjusted as necessary in the event that the actual reimbursement achieved from FEMA is different from what is reasonably anticipated at this time and customers are not paying more or less than what is necessary.

Recommendation

Based on the foregoing, Mr. Kane recommended approval of the above-requested action by adoption of a resolution in the form of the attached draft resolution.
After a discussion by the Trustees and the opportunity for the public to be heard, the
following resolution was unanimously adopted by the Trustees:

1150. ESTABLISHMENT OF REGULATORY ASSET RELATED TO SUPERSTORM SANDY

WHEREAS, in October 2012 Superstorm Sandy ("Sandy") hit the United States, causing
more than $71 billion of damage to 24 states, including along the entire eastern seaboard
from Florida to Maine, with particularly severe damage having occurred in New York and New Jersey; and

WHEREAS, on October 30, 2012, President Obama declared New York State a federal
major disaster area as a result of Sandy; and

WHEREAS, Sandy caused significant damage to Long Island, including the Long Island
Power Authority’s (the “Authority”) electric transmission and distribution system (“T&D
system”), which resulted in widespread power outages that affected approximately 90% of
LIPA’s customers; and

WHEREAS, the restoration of LIPA’s T&D system in the aftermath of Sandy involved an
unprecedented amount of resources, including assistance from utility crews all across the
nation, at a cost currently estimated at $806 million; and

WHEREAS, reimbursement of eligible storm costs is expected from the Federal Emergency
Management Agency (FEMA) related to the restoration effort in an amount that would be
no less than 75% of LIPA’s total claim, and possibly as much as 90% in light of the
magnitude of Sandy; and

WHEREAS, under the federal rules, the higher percentage of reimbursement is possible
because New York State incurred costs in excess of the federally mandated per capita level,
and has thus, petitioned FEMA to provide more than the traditional 75% reimbursement
funding percentage; and

WHEREAS, it is staff’s understanding that the authorization for the 90% higher
reimbursement is subject to President Obama’s approval, which should be granted; and

WHEREAS, given the extreme devastation caused by Sandy, the significant unbudgeted
expenditures involved, and the desire for the Authority to maintain its financial stability
and strong credit rating, the Authority seeks to collect the unreimbursed storm costs from
customers over time; and
WHEREAS, staff has recommended that an $80 million regulatory asset be established and
collected over a 10-year recovery period starting in early 2014 in order to allow the
Authority to ensure that the amount collected from customers is consistent with the actual
amount of FEMA reimbursement to be received when better understood in the upcoming
months; and
WHEREAS, staff also recommends that the amount of the regulatory asset be adjusted as necessary in the event that the actual reimbursement achieved from FEMA is different from what is reasonably anticipated at this time so customers are not paying more or less than what is necessary; and

WHEREAS, the Finance and Audit Committee of the Board has reviewed staff’s request and has adopted a resolution recommending approval by the Trustees:

NOW, THEREFORE BE IT RESOLVED, that the Authority incorporate into rates through straight-line amortization over a ten-year period starting in early 2014, a regulatory asset in the amount of $80 million related to the unreimbursed Superstorm Sandy costs; and be it further

RESOLVED, that the amount of the regulatory asset be adjusted as soon as practicable and necessary to reflect the amount equal to the difference between the final costs incurred as a result of the Sandy recovery efforts and the ultimate amount of disaster recovery reimbursement to be collected from FEMA.

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The Chair stated that the next item on the agenda is Consideration of Approval of the Financial Report in LIPA’s 2012 Annual Report.

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 approve the proposed financial report in the 2012 Annual Report of the Long Island Power Authority (the “Authority”), prepared in accordance with Section 2800(1) of the Public Authorities Law (“PAL”), in the form attached hereto as Exhibit A.

**Background**

Section 2800(1) of the Public Authorities Reform Act of 2009 (“PARA”) requires the Authority to submit to the Governor, the Chairman and ranking minority member of the Senate Finance committee, the Chairman and ranking minority member of the Assembly Ways and Means committee, the State Comptroller, and the Authorities Budget Office, within ninety days after the end of the Authority’s fiscal year, an Annual Report, which includes, among other things, its financial report. Under Section 2800(1)(a)(2) of PARA, the “financial report” is comprised of the following: audited financials; grant and subsidy
programs; operating and financial risks; current bond ratings; and long-term liabilities (the “Financial Report”).

Section 2800(3) of PARA requires the Financial Report to be certified in writing by the chief executive officer and chief financial officer and approved by the Trustees. Accordingly, the proposed Financial Report has been so certified in writing, and thoroughly reviewed by the Finance and Audit Committee of the Board, which has approved a resolution recommending the Trustee’s approval of the Financial Report at this time.

Recommendation

Based upon the foregoing, Mr. Taunton recommended that the Trustees adopt a resolution in the form of the draft resolution attached hereto as Exhibit B.

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

1151. APPROVAL OF FINANCIAL REPORT IN 2012 ANNUAL REPORT OF THE LONG ISLAND POWER AUTHORITY

WHEREAS, Section 2800(1) of the Public Authorities Reform Act of 2009 (“PARA”) requires public authorities such as the Long Island Power Authority (the “Authority”) to prepare an Annual Report; and

WHEREAS, the Annual Report includes, among other things, a financial report, as defined under Section 2800(1)(a)(2) of PARA (the “Financial Report”); and

WHEREAS, the Authority has prepared its Financial Report, which has been, in accordance with Section 2800(3) of PARA, certified in writing by the Chief Operating Officer/Chief Financial Officer; and

WHEREAS, the Finance and Audit Committee has thoroughly reviewed the Authority’s Financial Report and approved a resolution recommending its approval by the Trustees at this time:

NOW, THEREFORE, BE IT RESOLVED, that the Trustees hereby approve the Financial Report in the 2012 Annual Report of the Long Island Power Authority, in the form presented at this meeting.

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The Chair stated that the next item on the agenda is the Consideration of Engagement of Vendor to Provide Disaster Management Response and Recovery Assistance

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

Requested Action

The Trustees are being requested to approve a resolution authorizing the Chief Operating Officer, or his designee, to engage a firm to provide disaster management response and recovery services to the Long Island Power Authority and its subsidiary, LIPA, (collectively “LIPA”) for a period of one year, with the option to renew for two additional one-year terms, as needed.

Background

LIPA has incurred substantial storm costs as a result of Superstorm Sandy (“Sandy”) for which it is entitled to reimbursement from the Federal Emergency Management Agency’s (“FEMA”) Public Assistance Program. Based on past claims and LIPA’s current understanding, LIPA is entitled to reimbursement of at least 75% of the estimated $806 million of costs associated with Sandy, and potentially as much as 90% of those costs. Given LIPA’s recent experience with processing the claim for Tropical Storm Irene and the considerable financial exposure due to Sandy, it is important that LIPA make every effort to maximize the amount of available recovery for its customers. Staff believes that there is significant value in engaging a consultant experienced with federal regulations, FEMA policies, practices and guidelines to assist LIPA in effectively managing, accounting for and expediting the recovery of available disaster relief funds. LIPA is aware that other public entities across the State and country have successfully utilized the expertise of disaster management professionals in the past and are currently doing so with respect to Sandy relief funds.

In order to access these services, LIPA issued a request for proposals (“RFP”) pursuant to the Disaster Recovery Purchasing Program administered by the U.S. General Services Administration (“GSA”), which allows State and local governments to streamline the competitive process related to the procurement of products and services for recovery activities resulting from a major disaster declared by the President. The RFP was distributed to six eligible firms with GSA contracts based on the nature and extent of their experience and ability to handle the claim volume.

By March 8, 2013, two firms responded to the RFP and a third proposal was rejected as untimely. The two proposals were evaluated by a selection committee comprised of LIPA staff members. Based on the selection committee’s evaluation of the proposals and an assessment of LIPA’s needs, the selection committee concluded that Ernst & Young LLP (“E&Y”) is best situated to serve LIPA’s needs in this area.

In this regard, E&Y has more than 50 years of combined FEMA and emergency management experience, having served public sector and utility clients in more than 40 states and is familiar with the Stafford Act under federal law, as well as local disaster
recovery activities that are unique to New York. The key staff proposed to be used by E&Y to service LIPA’s needs all have direct, personal experience with processing FEMA claims related to numerous similar disasters such as Hurricanes Andrew, Katrina and Rita, and includes a proposed project leader who is the former Chief Financial Officer of FEMA and the National Weather Service, as well as a former Assistant Inspector General for Emergency Management Oversight with the Department of Homeland Security. E&Y proposed an approach to the recovery process that demonstrates a scalable process that promises a complete and expeditious recovery of funds.

Ms. Nicolino noted that the proposed range of rates for services is $123-$352 per hour, which represents a 10-25% discount off E&Y’s standard GSA rates. These reduced rates compare favorably to the other proposal and are both reasonable and cost-effective for these services. Staff anticipates that the total fee associated with these services would be less than one million dollars and would qualify for recovery from FEMA.

Recommendation

Based on the foregoing, Ms. Nicolino recommended the approval of the above requested action by adoption of a resolution in the form of the draft resolution.

After a discussion by the Trustees and the opportunity for the public to be heard, the following resolution was then adopted with Trustee Cordaro abstaining due to a family member being employed by E&Y.

1152. ENGAGEMENT OF FIRM TO PROVIDE DISASTER MANAGEMENT RESPONSE AND RECOVERY SERVICES

RESOLVED, that the Chief Operating Officer or his designee be, and hereby is, authorized to engage Ernst & Young LLP to provide disaster management response and recovery services to the Long Island Power Authority and its wholly-owned subsidiary, LIPA, with the contract term to be one year with the option to renew for two additional one-year terms.

The Chair stated that the next item on the agenda is the Consideration of Engagement of Vendor to Provide Fixed Income Asset Management Services.

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

Ms. Nicolino presented the following action item:
**Requested Action**

The Trustees are being requested to approve a resolution authorizing the Chief Operating Officer or his designee, to engage Standish Mellon Asset Management Company LLC (“Standish Mellon”) to provide fixed income asset management services to the Long Island Power Authority and its subsidiary, LIPA, (collectively “LIPA”) for a five-year term.

**Background**

LIPA owns an undivided 18% interest in the Nine Mile Point 2 Nuclear Power Station (“NMP2”) located in upstate New York. The plant is operated by Constellation Energy Nuclear Group, LLC (a division of Constellation Energy Group, Inc.), which owns the remaining 82%. NMP2 is a 1,148 MW reactor that operates under a Nuclear Regulatory Commission license that expires on October 31, 2046.

Pursuant to federal law, all nuclear plant owners are required to establish and maintain Nuclear Decommissioning Trust (“NDT”) funds to provide for future decommissioning costs. As of February 28, 2013, the market value of the three fixed income investment portfolios maintained by LIPA related to its interest in NMP2 was approximately $60 million, the equity portion of the NDT fund was approximately $37 million for the same period, but management of these assets is not part of the scope of services for this RFP. LIPA has historically engaged the services of an asset manager related to these portfolios, the last contract having recently expired.

As such, on September 26, 2012, LIPA issued a request for proposals (“RFP”) seeking experienced firms to provide fixed income asset management services for the NDT funds. The RFP was advertised in the NYS Contract Reporter, posted on LIPA’s website and distributed to 26 firms (including 9 M/WBE firms). LIPA received 23 proposals by October 19, 2012 in response to this RFP. Two proposals received after that date were rejected as untimely.

A selection committee comprised of LIPA staff members carefully examined each proposal, first for compliance with the terms of the RFP and then based on the evaluation criteria. The proposals were then scored on a qualitative and quantitative basis. Based on the written submissions, and an assessment of LIPA’s needs, it was determined that Standish Mellon is best suited to serve as LIPA’s NDT fund asset manager. In this regard, some of the strengths of Standish Mellon include: extensive experience with separately managed, long-term fixed income assets, including 12 NDT accounts; excellent working knowledge and understanding of LIPA and its operations; solid investment management compliance controls and reporting capabilities; and reasonable fees. As a wholly-owned subsidiary of The Bank of New York Mellon Corporation (“BNY Mellon”), Standish enjoys the support and backing of a well-capitalized parent company with a strong balance sheet. As BNY Mellon is currently the custodian for LIPA’s NDT assets, transaction fees will be waived. Standish Mellon originally proposed the same fee schedule that existed under its prior contract with LIPA, which was: 0.20 basis points (bps) on the first $100 million; 0.15 bps on the next $200 million, and 0.10 bps on all assets over $300 million. Staff was able to negotiate a reduction of the fee for servicing to a flat fee of 0.18 basis points, which would...
result in a reduction of the annual fee from $120,000 to $108,000 based on the value of a $60 million portfolio.

Recommendation

Based upon the foregoing, Ms. Nicolino recommended approval of the above-requested action by adoption of a resolution in the form of the attached draft resolution.

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

1153. ENGAGEMENT OF FIRM TO PROVIDE FIXED INCOME ASSET MANAGEMENT SERVICES

RESOLVED, that the Chief Operating Officer or his designee be, and hereby is, authorized to engage Standish Mellon Asset Management Company LLC to provide fixed income asset management services to the Long Island Power Authority and its subsidiary, LIPA (collectively, “LIPA”), related to LIPA’s nuclear decommission trust fund for Nine Mile Point Unit 2, with the contract term to be five years.

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The Chair stated that the next item on the agenda is the Consideration of Election of Vice Chair to the Board.

After requesting a motion on the matter, which was seconded, the Chair indicated that the matter would be presented by Trustee Fabio, as Chair of the Governance Committee.

Trustee Fabio then presented the item, indicating the value of appointing a Vice Chair as a good governance practice and to provide leadership continuity.

After a discussion by the Trustees and the opportunity for the public to be heard, the following resolution was then adopted with Trustee Tully abstaining.

1154. APPROVAL OF ELECTION OF VICE CHAIR TO THE BOARD OF TRUSTEES OF THE LONG ISLAND POWER AUTHORITY

WHEREAS, the By-Laws of the Long Island Power Authority (the “Authority”) provide for, among other things, the election and appointment of officers of the Authority, including one or more Vice Chairs to the Board of Trustees (the “Board”); and
WHEREAS, pursuant to the Authority’s By-Laws, each Vice Chair “shall possess such powers and shall perform such duties as may be assigned to him from time to time by the Trustees”; and

WHEREAS, a Vice Chair is further empowered to be Acting Chairman in the absence, disability or incapacity of the Chairman, and shall assume the powers and perform all duties of the Chairman if the Chairman is unable to perform such duties for any reason; and

WHEREAS, the Trustees have determined that it is advisable at this time to elect a Vice Chair pursuant to the By-Laws:

NOW THEREFORE, BE IT RESOLVED, that Peter K. Tully be, and hereby is, elected to the office of Vice Chair of the Board of Trustees, effective as of March 21, 2013, until the earlier of his resignation or removal; and be it further

RESOLVED, that the incumbent of the Office of the Vice Chair shall be an officer of the Authority and its subsidiary, LIPA, within the meaning of the Authority’s enabling legislation (Chapter 517 of the Laws of 1986), as amended, including Section 1020-bb of the Public Authorities Law, and all other applicable laws.

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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 April 25, 2013 at 11:00 a.m. in Uniondale. The Chair then asked for a motion to adjourn to Executive Session to discuss litigation, including the pending class actions and investigations resulting from Superstorm Sandy and personnel matters, including those related to the employment history of a person or persons.

1155. EXECUTIVE SESSION - PURSUANT TO SECTION 105 OF THE PUBLIC OFFICERS LAW

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 and personnel matters.

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At approximately 12:40 p.m. the Open Session of the Board of Trustees was adjourned on a motion to enter into Executive Session, which commenced at 2:15 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 2:15 p.m.

Respectfully submitted,

Lynda Nicolino