LONG ISLAND POWER AUTHORITY

MINUTES OF THE 244th MEETING

HELD ON OCTOBER 3, 2013

The Long Island Power Authority (the “Authority”) was convened for the two-hundred-and-forty fourth time at 12:12 p.m. at LIPA’s Headquarters, Uniondale, NY, pursuant to legal notice given on September 30, 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
John Fabio
Jeffrey Greenfield
Neal Lewis
Michael Maturo
Susan Gordon Ryan
Suzette Smookler
Peter Tully, Vice Chair

Representing the Authority were John McMahon, Chief Operating Officer; Michael Taunton, Chief Financial Officer; Lynda Nicolino, General Counsel and Secretary; Kenneth Kane, Vice President - Finance; Paul DeCotis, Vice President - Power Markets and Michael Deering, Vice President - Environmental Affairs.

Also present at the meeting addressing the Trustees were Richard Kauffman (Chair, Energy and Finance and Chair of NYSERDA), Dave M. Daly (President PSEG LI), Audrey Zibelman (Chair, NYS Department of Public Service), Kim Harriman and Wayne Brindley (Department of Public Service).

The Chair called for a motion to enter into Executive Session to discuss litigation matters related to the tax certiorari cases and the proposed acquisition and sale of securities.
1181. 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 contract and personnel issues.

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At approximately 12:14 p.m. the Board of Trustees adjourned into Executive Session, which ended at 1:05 p.m.

After noting that no votes were taken in the Executive Session, the Public Meeting of the Board of Trustees of the Long Island Power Authority reconvened.

Chairman Waldman welcomed everyone to the 244th 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 July 25, 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:


RESOLVED, that the Minutes of the meeting of the Authority held on July 25, 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 remarked on the meeting agenda, noting that several items on the agenda are related to the LIPA Reform Act.
Chairman Waldman then turned the meeting over to Mr. McMahon for the COO’s Report.

Mr. McMahon reported on the following items:

- The revised format of the Operating Report;
- The status of the Request for Proposals for 1) New Generation, Energy Storage and Demand Response Resources and 2) 280 MW of New, On-Island, Renewable Capacity and Energy; and
- The status of the feeder cable construction project on Shelter Island.

The Chair stated that the next item on the agenda is the Financial Report, to be presented by Mr. Taunton.

Mr. Taunton then presented the Financial Report, which included the financial results through August 31, 2013.

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

The Chair stated that the next item on the agenda is the Authorization Related to Restructuring Cost Financing Order.

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 a resolution approving and authorizing the adoption of a Restructuring Cost Financing Order as described below, in accordance with Section 3 of Part B of Chapter 173, Laws of New York, 2013 (the “LIPA Reform Act”), confirming plans to refinance certain debt as described below, designating certain senior officers to be Authority Designees under such Restructuring Cost Financing Order and authorizing the appointment of an information agent and one or more dealer managers to assist in the tender offer described below and agreements with the firms selected.
Background

On July 29, 2013, Governor Andrew Cuomo signed the LIPA Reform Act, which fundamentally alters the role, responsibilities and organization of the Long Island Power Authority (the “Authority”), bringing about the most sweeping changes to the Authority since it acquired the Long Island Lighting Company in 1998. The Reform Act is divided into two distinct parts – Part A, which addresses elements of the Authority’s reorganization through NYS Department of Public Service review, oversight and recommendation functions with respect to the Authority and the Service Provider; and Part B, which authorizes the sale of securitized bonds which will be used to refinance a portion of the Authority’s outstanding debt and certain debt issued by New York State Energy Research and Development Authority for the benefit of the Authority’s subsidiary Long Island Lighting Company d/b/a LIPA (“LIPA”) (all such debt being referred to as the “Target Debt”) at a lower interest rate than the Authority could otherwise obtain.

Part B of the LIPA Reform Act provides for the creation of a special purpose entity authorized pursuant to an expedited public process to issue restructuring or securitized bonds, which would be secured by a new charge on customer bills (the “Charge”), although the total delivery charge (including the Charge) paid by each customer is expected to be reduced on a net present value basis as a result of the securitization financing. The LIPA Reform Act gives the special purpose entity and the Charge on the bill certain attributes that would enable the securitized bonds to be issued at lower interest rates than the interest rates on the Target Debt that would be purchased, redeemed or defeased or that could be issued to refinance the Target Debt.

The special purpose entity – known as the utility debt securitization authority (the “Securitization Authority”) – will be a corporate municipal instrumentality of the state with authority only to issue and service the securitized bonds. It will be "bankruptcy proof" – that is, it is not authorized to be a debtor under the Bankruptcy Code. Its board of three trustees is appointed by the Governor for terms of up to six years.

The Securitization Authority would issue the securitized or restructuring bonds pursuant to a financing order approved by the Authority’s Trustees, following public hearings, and approved (or deemed approved) by the Public Authorities Control Board (“PACB”). Following the public hearings held by the Authority, as discussed below, the financing order was finalized and submitted to PACB. A copy of the financing order as finalized (hereinafter the “Financing Order”) is attached hereto as Exhibit A. The LIPA Reform Act provides that if PACB does not act to approve or disapprove the Financing Order within 30 days of its submission, it is deemed approved.

The LIPA Reform Act requires that the Financing Order include, among other things, a finding by the Authority that the proposed issuance of securitized bonds to refinance the selected Target Debt "is expected to result in savings to [LIPA's] customers on a net present value basis".

After the restructuring bonds have been issued, the Servicer (initially LIPA) will file a notice with the Authority at least annually to adjust the Charge to correct for any over-
collection or under-collection of such Charge. The Charge will need to be adjusted periodically because it is calculated based on kilowatt hour usage and expected ongoing financing costs associated with the restructuring bonds. The adjusted Charge will automatically go into effect not later than 60 days after such notice. The Authority will review the adjustment for mathematical errors and will allow interested parties 30 days in which to comment on mathematical errors. If the Authority determines that the adjustment is mathematically inaccurate, the adjustment shall be changed as soon as is reasonably practical to do so.

While the restructuring bonds remain outstanding, the Charge, as adjusted from time to time, is irrevocable and non-bypassable by customers. The state has pledged in the LIPA Reform Act not to take or permit any action that reduces, alters or impairs the Charge until the restructuring bonds and ongoing financing costs have been paid. If a customer pays only part of its utility bill, the payment would be allocated pro rata between the Charge and other charges on the utility bill unless the customer specifies that a greater portion of such payment is to be allocated to the Charge.

Discussion

At the June 27, 2013 meeting, the Trustees selected Goldman Sachs and Morgan Stanley to serve as underwriters to immediately begin the process of identifying potential structures for the securitization financing, the bonds to be retired with the proceeds of the securitization bonds, the terms of the related financing orders and other financing documents, and materials to be provided to the rating agencies, investors and other market participants in connection with the bond issuance. Based on the review conducted, a preferred structure for the Financing Order was created to achieve meet the statutorily required objectives of the LIPA Reform Act.

In connection with the possible purchase of certain Authority bonds, it is expected that it will increase the net debt service savings achievable if the Authority invites the owners of such Authority bonds to tender them to the Authority for purchase, allowing such Authority bonds to be more quickly retired than would otherwise be possible and thereby achieve greater debt service savings. To meet the current time schedule, it is desirable for the Trustees to authorize the appointment of an information agent and one or more dealer managers to assist the Authority in such tender offer and agreements with the firms selected.

In accordance with the new law, hearings were held by the Authority on September 10, 2013 relating to a proposed form of the Financing Order. After providing an opportunity for comment, the Authority finalized the Financing Order.

Certain key provisions of the Financing Order are briefly summarized, as follows:

Purpose of Financing Order

- The adoption of the Financing Order will permit the Securitization Authority to issue up to $3,500,000,000 of bonds (the “Bonds”) for the purpose of refinancing a portion of the Target Debt.
The Financing Order creates the Restructuring Property as defined therein, which is the right to bill and collect from customers the non-bypassable Charges necessary to pay the Bonds and other Ongoing Financing Costs (as defined in the Financing Order) including the costs required to service the Bonds, collect the Charges, administer the Securitization Authority, and pay other expenses associated with the Bonds.

The Financing Order authorizes the sale of the Restructuring Property to the Securitization Authority pursuant to a sale agreement (the “Sale Agreement”) in exchange for the net proceeds from the sale of the Bonds less the costs required to issue the Bonds and the amount needed to fund the debt service reserve account (collectively, as defined in the Financing Order, the “Upfront Financing Costs”).

In addition to a Sale Agreement, various other agreements relating to the Restructuring Property and the Charge will be entered into by the Authority or LIPA pursuant to the Financing Order, including a Servicing Agreement and an Administration Agreement, all as described in the Financing Order.

The Financing Order approves the costs of purchasing, redeeming, repaying or defeasing a portion of the Target Debt as described in the Financing Order (“Debt Retirement Costs”) and Upfront Financing Costs up to $3,500,000,000 in the aggregate.

The Financing Order authorizes one or more officers of the Authority to review and approve the pricing and terms of the Bonds, authorizes the Securitization Authority to execute and deliver a bond purchase agreement, and provides for the delivery to the Authority and the Securitization Authority of an Issuance Advice Letter (described below) to be filed not later than the third business day after the pricing of the Bonds.

The Authority approves the issuance and sale of Bonds in an aggregate principal amount not to exceed $3,500,000,000, in one or more series or tranches, to be sold at one or more times pursuant to a bond purchase agreement, provided that the Securitization Authority shall only issue and sell the Bonds once within the meaning of subdivision 2(a) of section 4 of the LIPA Reform Act.

The Financing Order will constitute a final rate order of the Authority after approval by the Trustees and the approval (or deemed approval by the PACB), subject only to a 30-day expedited appeal process.

Savings

The Financing Order includes a finding that the securitization financing is expected to result in savings to consumers of electric transmission and distribution services in the service area on a net present value basis and provides a methodology for calculating those savings. The Financing
Order provides for such savings on a net present value basis to be calculated as the difference between (i) the present value of the Expected LIPA Debt Service and (ii) the present value of the Securitization Debt Service, each as defined in and calculated pursuant to the Financing Order. “Expected LIPA Debt Service” is defined in the Financing Order and includes, among other things, expected debt service on outstanding fixed rate bonds, as well as expected debt service on fixed rate bonds which the Authority plans to issue absent securitization to refund (i) any portion of the Authority’s variable rate demand bonds, (ii) any debt under the Authority’s revolving line of credit agreement when the Bonds are issued, (iii) any of the Authority’s commercial paper balances outstanding when the Bonds are issued, and (iv) the Authority’s Series 2010A bonds.

Issuance Advice Letter

- An Issuance Advice Letter will be filed with the Authority and the Securitization Authority after the pricing of the Bonds, will establish the initial Charge and will include details and estimates of the Debt Retirement Costs and the specific Target Debt to be purchased, redeemed, repaid, or defeased, and the Upfront Financing Costs, and estimates of the Ongoing Financing Costs. The Issuance Advice Letter will also set forth a calculation of the expected savings to consumers on a net present value basis.

- Under the LIPA Reform Act, after the filing of the Issuance Advice Letter, the Authority is required to confirm in a notice to the Securitization Authority that the pricing of the Bonds complies with the Financing Order. An Authority Designee will confirm that the pricing of the Bonds and the other matters described in the Issuance Advice Letter comply with the Financing Order and approve the Debt Retirement Costs, the expected Upfront Financing Costs, the expected Ongoing Financing Costs and the forms of the agreements attached to the Issuance Advise Letter.

True-up Adjustment Mechanism

- In order to provide for timely payment of principal and interest on the Bonds and payment of other Ongoing Financing Costs, the Financing Order establishes a true-up adjustment mechanism to adjust the level of Charges to correct for any over-collection or under-collection.

- As described more particularly in the Financing Order, adjustments will include: (1) mandatory annual true-up or true-down, (2) mandatory semi-annual true-up if the Servicer forecasts a shortfall, and (3) optional interim true-up implemented at any time for any reason by the Servicer.
State Pledge

- As provided in the LIPA Reform Act, the State of New York has pledged and agreed that the State will not in any way take or permit any action that limits, alters or impairs the value of Restructuring Property or, except as required by the adjustment mechanism described in the Financing Order, reduce, alter or impair the Charges that are imposed, collected and remitted for the benefit of the owners of the Bonds, any assignee, and all financing entities, until any principal, interest and redemption premium in respect of the Bonds, all ongoing financing costs and all amounts to be paid to an assignee or financing party under an ancillary agreement are paid or performed in full.

Not Debt of State or Authority

- As provided in the LIPA Reform Act, the Bonds shall not constitute a debt, general obligation or a pledge of the faith and credit or taxing power of the State of New York or of any county, municipality or any other political subdivision, agency or instrumentality of the State.

- The Financing Order provides that the Bonds shall be without recourse to the credit or any assets of the Authority or LIPA.

As set forth in the Financing Order, Staff and its advisors have determined that (i) the structure of the Bonds is consistent with the LIPA Reform Act, (ii) the Bonds are restructuring bonds under the LIPA Reform Act, (iii) the Restructuring Costs are approved restructuring costs under the LIPA Reform Act, (iv) the Restructuring Property is restructuring property under the LIPA Reform Act, (v) the Charges are transition charges under the LIPA Reform Act, and (vi) the Financing Order meets the requirements of a restructuring cost financing order under the LIPA Reform Act. The Financing Order was submitted to the PACB for its approval or disapproval, which is due October 21, 2013. The Financing Order is being submitted to the Trustees for their approval at this time to demonstrate to the PACB that the Trustees approve the Financing Order and to expedite the time in which the Financing Order becomes a final rate order of the Authority, the appeal period runs, a tender offer for Authority bonds may be initiated and the Bonds may be issued.

Recommendation

Based on the foregoing, Mr. Taunton recommended that the Trustees adopt a resolution in the form of the resolution attached.

After a discussion by the Trustees and the opportunity for the public to be heard, the following resolution was unanimously adopted by the Trustees:
WHEREAS, Part B of the LIPA Reform Act authorizes the Authority to adopt a restructuring cost financing order; and

WHEREAS, the Authority prepared a proposed restructuring cost financing order and has conducted two public hearing relating thereto pursuant to Part B of the LIPA Reform Act; and

WHEREAS, following such hearings, the Authority finalized such restructuring cost financing order in the form presented at this meeting (such finalized restructuring cost financing order being referred to herein as the “Financing Order”); and

WHEREAS, the Financing Order has been submitted to the Public Authorities Control Board (“PACB”) in accordance with Part B of the LIPA Reform Act; and

WHEREAS, the Financing Order would, among other things, approve the imposition and collection of Charges (as defined in the Financing Order), the payment of Restructuring Costs (as defined in the Financing Order), which would consist of the costs of purchasing, redeeming, repaying or defeasing a portion of the Target Debt (as defined in the Financing Order) as described in the Financing Order (“Debt Retirement Costs”) and Upfront Financing Costs (as defined in the Financing Order) and the financing of Restructuring Costs through the sale of Restructuring Property (as defined in the Financing Order) to the Securitization Authority and the issuance of up to $3,500,000,000 of Bonds by the Securitization Authority; and

WHEREAS, the proposed Financing Order would authorize the sale of the Restructuring Property to the Securitization Authority by the Authority pursuant to a sale agreement (the “Sale Agreement”) in exchange for the net proceeds from the sale of the Bonds, less the Upfront Financing Costs; and

WHEREAS, in addition to a Sale Agreement, various other agreements relating to the Restructuring Property and the Charges would be entered into by the Authority or its subsidiary, Long Island Lighting Company d/b/a LIPA (“LIPA”), pursuant to the Financing Order, including a Servicing Agreement and an Administration Agreement, each as described and defined in the Financing Order; and
WHEREAS, the proceeds of the issuance of the Bonds would be applied to the payment of 
Upfront Financing Costs and to the purchase of the Restructuring Property, and the 
proceeds of the sale of the Restructuring Property would be applied by the Authority to the 
payment of Debt Retirement Costs to purchase, redeem or defease a portion of the Target 
Debt; and

WHEREAS, the proposed Financing Order approves the payment of Debt Retirement 
Costs and Upfront Financing Costs up to $3,500,000,000 in the aggregate; and

WHEREAS, it is expected that it will increase the net debt service savings achievable if the 
Authority invites the owners of certain Authority bonds to tender them to the Authority for 
purchase, allowing such Authority bonds to be more quickly retired than would otherwise 
be the case; and

WHEREAS, it is desirable to authorize the appointment of an information agent and one 
or more dealer managers to assist the Authority in such tender offer and agreements with 
the firms selected; and

WHEREAS, the proposed Financing Order includes a finding that the securitization 
financing is expected to result in savings to consumers on a net present value basis and 
provides a methodology for calculating those savings and provides for the filing of an 
Issuance Advice Letter with the Authority and the Securitization Authority after the 
pricing of the Bonds which will, among other things, set forth a calculation of the expected 
savings to consumers on a net present value basis; and

WHEREAS, the transactions contemplated by the Financing Order and these resolutions 
have been determined to be in the best interests of the Authority and its creditors, and 
represent a practicable course of action that will not impair the rights and interests of the 
Authority’s creditors; and

WHEREAS, in connection with such calculation of savings the Financing Order describes 
certain planned refundings of debt of the Authority (the “Planned Refundings”) by the 
Authority which are expected to occur in the event that the Bonds are not issued; and

WHEREAS, the proposed Financing Order includes a mechanism to require periodic 
adjustments to Charges to ensure the collection of Charges sufficient to provide for the 
timely payment of scheduled debt service on the Bonds and all other Ongoing Financing 
Costs; and

WHEREAS, pursuant to the Financing Order, the Authority will approve the issuance and 
sale of Bonds in an aggregate principal amount not to exceed $3,500,000,000, in one or 
more series or tranches, to be sold at one or more times pursuant to a bond purchase 
agreement, provided that the Securitization Authority shall only issue and sell the Bonds 
once within the meaning of subdivision 2(a) of section 4 of the LIPA Reform Act; and

WHEREAS, the Financing Order provides that the Bonds shall be without recourse to the 
credit or any assets of the Authority or Long Island Lighting Company; and
WHEREAS, as provided in the LIPA Reform Act, the Bonds shall not constitute a debt, general obligation or a pledge of the faith and credit or taxing power of the State of New York or of any county, municipality or any other political subdivision, agency or instrumentality of the State; and

WHEREAS, the Financing Order sets forth various findings, determinations, approvals and authorizations relating to the Bonds, the Financing Order, the Charges, the Restructuring Property, the Restructuring Costs and other related matters:

NOW THEREFORE BE IT RESOLVED that:

1. The Planned Refundings as described in Finding of Fact 6 of the Financing Order are hereby approved.

2. The Financing Order, in the form attached hereto, is hereby approved and adopted by the Authority in accordance with Part B of the LIPA Reform Act.

3. The findings and determinations by the Authority in the Financing Order are hereby ratified and adopted.

4. Each of the chief operating officer and the chief financial officer of the Authority is hereby designated and appointed as an Authority Designee as defined in the Financing Order and each is hereby authorized to take any and all actions authorized by the Financing Order to be taken by an Authority Designee.

5. The Authority Designees are, and each of them is, hereby further authorized to appoint an information agent and one or more dealer managers to assist the Authority in a tender offer for any portion of the Target Debt approved by an Authority Designee and to execute and deliver, in the name of and on behalf of the Authority, all such agreements, instruments and other documents with the firms selected to act as information agent and dealer managers, and to take any and all such further action to effect such tender offer, as any Authority Designee determines to be necessary or desirable to effect such tender offer.

6. The actions of the officers of the Authority heretofore taken in connection with the Financing Order, and the transactions contemplated thereby, are hereby ratified and approved, and the officers of the Authority are hereby authorized to execute and deliver, in the name of and on behalf of the Authority, all such agreements, instruments and other documents, and to take any and all such further action to effect the transactions contemplated by the Financing Order or these resolutions, as any Authority Designee determines to be necessary or desirable.

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The Chair stated that the next item on the agenda is the Approval of Authorization to Execute Amended and Restated Operations Services Agreement.

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 adopt a resolution authorizing the Chief Operating Officer or his designee to execute an Amended and Restated Operations Services Agreement ("Amended OSA") with PSEG Long Island LLC ("PSEG LI"). The Amended OSA reflects the requirements and objectives of changes in the law related to the provision of electric service on Long Island and the Rockaways and the reorganization of the Long Island Power Authority (the "Authority"), as more fully set forth below.

Background

On December 15, 2011, the Trustees approved a resolution authorizing the execution of a ten-year Operations Services Agreement ("Existing OSA") between the Long Island Power Authority’s subsidiary, LIPA, and PSEG LI (together, the "Parties") to provide operations, maintenance and related services for LIPA’s transmission and distribution system (the “T&D System”) beginning on January 1, 2014. The Existing OSA was subsequently approved by the NYS Attorney General and State Comptroller and a favorable private letter ruling from the Internal Revenue Service was obtained verifying that the agreement did not jeopardize the tax-exempt status of LIPA’s revenue bonds.

On July 29, 2013, the LIPA Reform Act was signed by Governor Andrew M. Cuomo, in response to a number of concerns related to the contractual and organizational relationship between Authority and its current service provider, including difficulties during storm preparation, response and restoration of customer service; overlapping responsibilities with respect to service, operations and management; limited accountability of the service provider and lack of oversight and transparency in the Authority's ratemaking process. The LIPA Reform Act amends the New York Public Service Law ("PSL") and the New York Public Authorities Law ("PAL"), and imposes additional regulatory oversight and requirements on the Authority and mandates additional duties for any service provider operating the T&D System.

An important element of the LIPA Reform Act is the establishment of a separate office in the New York State Department of Public Service ("DPS") on Long Island, which will provide oversight and recommendations to the Authority’s Board of Trustees related to the following: operations and terms and conditions of service; rates and budgets established by the Authority and/or its service provider; capital expenditures proposed by the service provider; emergency response plans of the Authority and the service provider; management and operations audits of the Authority and service provider; customer complaints; net metering programs; energy efficiency measures, distributed generation or advanced grid technology programs; and the metrics and incentive compensation components of LIPA’s agreement with its service provider.
The LIPA Reform Act amends the PAL to substantially change the way the Authority and LIPA manage the T&D System's operations. The LIPA Reform Act imposes new substantive obligations on a service provider and effectively shifts the major operational and policy-making responsibilities for the T&D System, including significant responsibilities relating to capital expenditures and emergency response, from LIPA to the service provider. Consistent with this approach, the LIPA Reform Act requires that staffing at the Authority be kept at levels only necessary to ensure that the Authority is able to meet obligations with respect to its bonds and notes and all applicable statutes and contracts, and oversee the activities of the service provider. The LIPA Reform Act imposes a number of new obligations on the service provider, including requiring the service provider to prepare and maintain an emergency response plan to assure the reasonably prompt restoration of service in the case of an emergency event and establish separate responsibilities of the Authority and service provider; submit for review to DPS a report detailing the service provider's planned capital expenditures; consider, consistent with maintaining system reliability, renewable generation and energy efficiency program results and options in establishing capital plans; and submit to DPS for review, data, information and reports on the service provider's actual performance related to the metrics in the Amended OSA, including the Authority's evaluation thereof, prior to the Authority's determination of the service provider's annual incentive compensation.

In anticipation of enactment of the LIPA Reform Act, the Parties and the Governor’s Office negotiated a “Term Sheet for Amendments to the Operations Services Agreement” dated June 6, 2013 (“Term Sheet”) in order to set forth the material, substantive terms of proposed amendments to the Existing OSA intended to reflect a realignment of the rights and responsibilities of the Parties. The Term Sheet provides that, the Service Provider will have, to the extent legally permissible and subject to the terms of LIPA’s Bond Resolutions and bond and other financing agreement covenants, contractual and legal obligations and oversight responsibilities, autonomy and responsibility to operate and maintain the T&D System and establish related plans, policies, procedures and programs. There are numerous changes to the Existing OSA that stem either directly or indirectly from the LIPA Reform Act and/or the Term Sheet, including, of critical importance, identifying PSEG LI as the utility brand in LIPA’s service territory.

Implementation of the LIPA Reform Act and Term Sheet will require the transfer of substantial operational duties and obligations to PSEG LI and greater operational flexibility for PSEG LI to carry out its related duties. As such, the Authority is now proposing that LIPA enter into the Amended OSA with PSEG LI (the form of which is attached hereto as Exhibit B) to address the different relationship between the Parties in connection with the provision of electric service in LIPA’s service territory. A summary of the key changes in terms and conditions between the Existing OSA and the Amended OSA, as proposed, is set forth below.

Proposed Amended OSA

Key Provisions
Term The Amended OSA will extend the term of the Existing OSA term from 10 to 12 years, expiring December 31, 2025. Additionally, the Amended OSA includes a provision that if the Service Provider achieves certain levels of performance based on criteria set forth in Appendix 9 of the Amended OSA during the first 10 years, the Parties will negotiate in good faith an eight year extension of the Amended OSA on substantially similar terms and conditions.

Compensation The Amended OSA, with certain modifications, retains the compensation structure of the Existing OSA: (1) an annual fixed component or Fixed Direct Fee as referred to in the 2012 IRS Ruling Letter; (2) an Incentive Compensation component; and (3) the reimbursement of Pass-Through Expenditures.

Fixed and Incentive Compensation. The Amended OSA increases the annual fixed component of the Management Services Fee beginning with the 2016 contract year from $36.3 million to $58 million and increases the annual Incentive Compensation Pool beginning with the 2016 contract year from $5.44 million to $8.7 million, consistent with the Service Provider assuming additional responsibilities and the obligation to use the PSEG brand related to the provision of electric service on Long Island.

Pass-Through Expenditures. The Amended OSA has identified and included a number of additional costs resulting from the restructuring that will be treated as Pass-Through Expenditures.

Other Cost or Payment Provisions

Additional cost and payment provisions have been added to the Amended OSA that, while technically not part of the compensation arrangements, are nevertheless related to the restructuring of services, as summarized below:

Non-Storm Emergencies. The Amended OSA adds a provision that if an event or condition, other than a storm event, that is beyond the reasonable control of the Service Provider, occurs and if the Service Provider determines that certain non-budgeted expenditures are required in order for it to provide operations services in accordance with the contract standards or repair, replace or restore damaged components of the T&D System, the Service Provider will make such expenditures and elect, in its sole discretion, to treat the expenditures as either (i) reallocations between different budget items, (ii) excess expenditures (up to the 2% of budget excess expenditure allowance) or (iii) "Non-Storm Emergency Expenditures." If the Service Provider elects to treat the expenditures as Non-Storm Emergency Expenditures, the Service Provider will submit a request to LIPA to approve the Non-Storm Emergency Expenditures and a related budget amendment. If LIPA agrees that such expenditures are required in order for the Service Provider to provide operations services in accordance with contract standards, such expenditures will then qualify as Non-Storm Emergency Expenditures, and LIPA shall either (i) approve as promptly as practicable the proposed budget amendment or (ii) permit the Service Provider to include in the relevant budgets for subsequent contract years a separate account sufficient to provide for the Non-Storm Emergency Expenditures over the remainder of the Amended OSA term.
Disallowed Costs. Consistent with the Service Provider’s increased autonomy and operational control, but in order to provide an incentive against excessive and/or unreasonable expenditures, the Amended OSA adds a provision that in the event that (i) all or a portion of certain costs incurred by the Service Provider in connection with a Major Storm or Non-Storm Emergency Expenditures are determined to have been incurred unreasonably and imprudently, applying the same scope of review and standards as those DPS applies to investor owned utilities and/or (ii) FEMA denies reimbursement of all or a portion of certain Major Storm Costs or Non-Storm Emergency Expenditures incurred by the Service Provider on grounds that actions taken by the Service Provider were in violation of FEMA standards for reimbursement and the denial becomes final, the Service Provider will be liable for such costs (and such costs shall not be treated as Pass-Through Expenditures) up to an amount of (x) $5 million in each of contract year 2014 and 2015 and (y) $10 million in each contract year after 2015, in each case in the aggregate for Major Storm Costs and Non-Storm Emergency Expenditures; provided, however, that the Service Provider will have no such liability for the relevant contract year in the event LIPA terminates the Amended OSA due to a Major Storm Performance Metric failure by the Service Provider (discussed below).

Scope of Services. The Services Provider’s scope of services and LIPA’s reserved rights have been adjusted to reflect the shift in operations, management and policy making responsibilities while enhancing LIPA’s oversight rights. In addition, as provided in the Term Sheet, beginning January 1, 2015, an affiliate of PSEG LI will assume certain power supply management, fuel procurement and related services that have historically been provided pursuant to separate agreements between LIPA and the relevant vendor outside the Existing OSA. Those agreements are incorporated into the Amended OSA, and are generally consistent with the terms and conditions previously agreed to by LIPA and its current service providers. Including these agreements as appendices to the Amended OSA is consistent with the Term Sheet and the goal of having most, if not all, electric-related services centralized in one service provider group. In this regard, the LIPA Power Supply Group will be transferred to PSEG LI or an affiliate over the course of 2014, except that LIPA will retain certain power markets policy and decision making responsibilities to the extent necessary for FERC regulatory purposes.

Service Provider Termination Fee. The provisions of the Amended OSA regarding payments to be made to the Service Provider upon termination of the Amended OSA are generally the same as the Existing OSA. Under the Amended OSA, however the Service Provider will have the right to terminate the agreement in the event of either a (i) LIPA privatization, (ii) LIPA municipalization or (iii) Change in Regulatory Law (as defined). The Service Provider will be entitled to an early termination fee, in addition to the other amounts payable to the Service Provider upon termination payable by LIPA upon termination of the Amended OSA (i) by LIPA or by the Service Provider due to a privatization (unless the Service Provider or an affiliate is a purchaser of the T&D System or LIPA in such transaction or enters into a replacement agreement with the successor owner to operate the T&D System or LIPA) or a municipalization (ii) by the Service Provider for an event of default by LIPA, or (iii) by the Service Provider due to a Change in Regulatory Law (other than a FERC regulatory change). The Service Provider termination fee will be equal to $66.7 million (in 2011 Dollars escalated by CPI), subject to
a 10% annual reduction commencing in the 2021 contract year so that by the 2025 contract year, the Service Provider termination fee amount will be equal to 50% of the amount of the initial fee.

**LIPA Termination Rights.** Under the Existing OSA, LIPA has the right to terminate the Amended OSA in the event of a municipalization or privatization, or a Service Provider Change of Control. In the Amended OSA, LIPA has the additional right to terminate the agreement if the Service Provider fails to satisfy either the new Major Storm or Minimum Performance Metric for two out of any three consecutive year period beginning in 2016.

**Optional Capital Improvements by Service Provider.** The Amended OSA retains the provisions of the Existing OSA regarding capital improvements and generally provides that all additions to the T&D System purchased or constructed in conjunction or for the use with any part of the T&D System during the term are the property of LIPA. The Amended OSA gives the Service Provider or its designated affiliate the opportunity to propose to LIPA, capital investments which would be made and owned by the Service Provider in those programs and projects described in Appendix 8 to the Amended OSA, but only if they can be expected to result in a meaningful reduction in customer energy usage and the overall cost of energy. No such investments may be made if they would either (i) jeopardize, in LIPA’s sole discretion, the tax exempt status of the Authority’s bonds or violate the Bond Resolutions or related bond covenants; or (ii) violate any of LIPA’s related local franchise agreements. If LIPA decides to accept the Service Provider’s proposal and the Service Provider should make any such capital investments, the Service Provider will have the opportunity to earn a reasonable rate of return thereon consistent with the returns permitted to be earned on such investments by New York electric transmission and distribution utilities. LIPA’s acceptance of such a proposal would be subject to applicable procurement rules and guidelines governing such a solicitation and would depend upon all of the circumstances at the time.

**Service Provider as LIPA’s Agent.** The Amended OSA designates the Service Provider as LIPA’s agent to enter into purchase, rental and other contracts on behalf of and for the account of LIPA as necessary or appropriate to properly operate and maintain the T&D System and to maintain the records of LIPA, and to make such additions and extensions to the T&D System and to enter into certain customer-related contracts under LIPA’s tariff, as required from time to time by LIPA. The designation as agent is intended to enhance the financial benefits and relationship between the Parties under the agreement, including the ability to achieve certain sales and use tax savings.

**DPS Long Island**

In accordance with the LIPA Reform Act, the Amended OSA contains provisions related to the process to be used for proceedings, including the statutorily mandated three-year rate plan for the 2016-2018 period, and rate proposals that seek to increase rates in excess of 2.5% of aggregate revenues on an annual basis, for review by the DPS and recommendation to the Authority’s Trustees. Also as provided in the LIPA Reform Act, the Amended OSA sets forth the process and agreement between the Parties related to any voluntary rate submissions to DPS. These provisions are intended to clarify the intent
expressed in the Term Sheet and the requirements under the LIPA Reform Act, and to ensure that each Party has a full and fair opportunity to be heard and fulfill its statutory and contractual obligations and goals. The Amended OSA specifically acknowledges the LIPA Board’s sole right to set final and interim rates.

**Three Year Rate Plan.** The Amended OSA provides that the Service Provider will prepare a preliminary “Three Year Rate Plan” including information supplied by LIPA, designed to ensure that LIPA and the Service Provider are able to provide safe and adequate transmission and distribution service in the service territory at rates which are (i) at the lowest level consistent with sound fiscal operating practices and (ii) sufficient to generate revenues necessary to satisfy LIPA’s obligations to its bondholders, lenders and other creditors and contract counterparties including the Service Provider. Each Party will prepare its own portion of the related underlying budgets, which the Service Provider will consolidate for presentation in the rate case.

**DPS Rate Proceeding.** The Amended OSA provides that in any DPS rate proceeding (i.e., related to the Three Year Rate Plan or for increases in excess of 2.5% of annual revenues or otherwise), LIPA will be responsible for providing evidentiary and other support and submitting its views with respect to the LIPA portion of the rate plan, and the Service Provider will be responsible for the rest of the rate plan, and may submit its own views as well. If DPS proposes a draft recommendation to either Party, the Parties are required to work together to determine if the proposed recommendation is consistent with the Amended OSA and LIPA’s statutory obligations. If the Parties are unable to agree on such a conclusion, but the recommendation is presented to the Trustees for approval anyway, the Service Provider may present its views about the recommendation to the Trustees at any Board meeting prior to a vote. Upon receipt of a final recommendation from DPS, the Parties have 21 days to negotiate and finalize a budget, during which time the LIPA Board would not take final action on the DPS recommendation except if necessary to comply with bond covenants or applicable law. If agreement is not reached within 21 days, then the Parties would proceed to expedited arbitration, the result of which will be either a mutual agreement in writing between the Parties, or a final, binding arbitration award that the LIPA Board would adopt.

**Customer Rate Changes.** The Amended OSA allows either Party to propose to the other, a rate change deemed to be necessary, upon the same basis as stated above. Following negotiations, the Service Provider will prepare a proposal within 30 days for LIPA’s review and within 30 days thereafter, the Parties will engage in good faith discussions to reach agreement on the rate change proposal. Following this process, LIPA can implement a change in rates or charges provided it is consistent with the Amended OSA and the LIPA Reform Act.

**Voluntary DPS Rate Filing.** For any rate filing that is permitted, but not required under the LIPA Reform Act, the Amended OSA sets forth that the process described above will be followed for a DPS proceeding.

**Additional Termination Rights.** As stated above, and consistent with the Term Sheet, the Amended OSA adds additional termination rights providing the Service Provider with the right to terminate the Amended OSA in the event of either a (i) privatization,
(ii) municipalization or (iii) Change in Regulatory Law (as defined), with in all but one case, a termination fee. In the case of a privatization or municipalization, these rights are intended to compensate the Service Provider for the lost opportunity resulting from LIPA’s or the State’s determination to make LIPA fully private or public. With respect to a Change in Regulatory Law, the Amended OSA allows the Service Provider to exit the service territory, and effectively withdraw its brand name, if the change in regulatory law materially alters either the regulatory oversight of the Service Provider or the contractual arrangement between the Parties.

The Amended OSA provides that in the event of a Change in Regulatory Law that results in rate or other substantive regulation of the Service Provider by DPS, the Service Provider may terminate the agreement effective one day prior to the effectiveness of the change in law, unless waived by the Service Provider. In the event of any other Change in Regulatory Law, the Service Provider would provide LIPA with at least 12-month notice of termination (or 14 months in the case of an OSA Change (as defined) or a FERC Regulatory Change (as defined) to allow for a 2-month period to negotiate a potential resolution). Such period may be extended, at LIPA’s option for an up to additional 6 months at a monthly option exercise fee of 1.175 times the monthly management fee. If the termination date is delayed beyond such extension (for example, due to an arbitration or judicial order), the Service Provider will continue to provide service for an additional monthly fee of 1.55 times the monthly management fee. The notice period, with the optional extensions, is anticipated to give LIPA sufficient time to take appropriate action in the event a termination is triggered by the Service Provider, which could include issuing another competitive procurement for a new service provider. Payment of the higher monthly fee(s) is largely within LIPA’s control, and serves as an incentive to take prompt steps to effectuate a transition of service providers, or any other suitable course of action. Following termination, the Service Provider would be required to provide Back-End Transition Services for up to 12 months.

*Performance Metrics*

The performance metrics in the Amended OSA are consistent with those in the Existing OSA, in that they remain designed to achieve LIPA’s desired performance levels, which is generally first quartile performance as determined by agreed industry peer benchmarks. The performance metrics are structured both to maintain good performance and improve poor performance, through two distinct types of performance metrics, “Maintenance metrics” and “Improvement metrics.” Maintenance metrics are currently at first quartile performance levels and the objective is to maintain that satisfactory level of performance. Improvement metrics are currently lower than first quartile performance levels and the objective is to improve the level of performance to first quartile performance.

Under the Amended OSA, the Service Provider is still evaluated based on target and minimum performance metrics related to incentive compensation or penalties with respect to budget compliance, reliability, operational and customer satisfaction goals. The metrics are arranged in two tiers, and can be adjusted over time to address improvement and/or maintenance performance goals. Under the Amended OSA, performance metrics are essentially the same but are streamlined to include fewer metrics (21 vs. 27 tier 1 metrics), while still providing more focus and accountability on the JD Power results for residential
and business customers. In addition, the penalty metrics are streamlined to adjust and reduce the customer survey performance goal by 10% (from 70% to 60% of the total points assigned), with no change to the SAIDI metric, which will remain at first quartile.

DPS Recommendation

The LIPA Reform Act, requires that the DPS review the Amended OSA and provide a recommendation to the Authority’s Board of Trustees prior to the Board’s vote. Accordingly, by letter dated September 27, 2013 (a copy of which is attached hereto as Exhibit A), the Chair of the DPS notified the Board that DPS has conducted a comprehensive review of the LIPA Reform Act, the Term Sheet, the proposed Amended OSA and the management and operations audit of LIPA recently conducted by NorthStar Consulting on behalf of the DPS, and based upon such review, recommends that the Trustees approve the Amended OSA. In its recommendation, the DPS made the following key findings:

- the Amended OSA clearly satisfies the requirements of the LIPA Reform Act;
- the Amended OSA allows the Board of Trustees to function as an effective and efficient asset owner;
- the Amended OSA provides PSEG-LI with the ability and incentive to be a top-tier asset manager;
- DPS has the capability and tools to effectively oversee PSEG-LI;
- the compensation level and structure for PSEG LI is reasonable; and
- the Amended OSA provides the mechanisms to ensure that Long Island customers receive high quality, efficient and affordable electric service.

In addition, the DPS noted that as a whole, the Amended OSA “conforms to the language and spirit of the Reform Act,” and provides the opportunity to cure the operational deficiencies that existed under the prior operating structure. Of importance, the DPS Chair indicated that

the Reform Act, the amended OSA, and the NorthStar Report provide a foundation for achieving meaningful improvement in electric service for Long Islanders. Implementing the change contemplated will take considerable effort, will not occur overnight, and will require effective customer outreach and attention of LIPA, PSEG-LI and the Department. The Department concludes that the amended OSA makes certain that all parties have the common interest and ability to strike a course of action that will benefit Long Island electric
customers. For that reason, we recommend that the Board immediately approve the amended OSA in order that we can begin the process of achieving our mutual objectives. (See Exhibit A, page 7).

Recommendation

Based on the foregoing, Ms. Nicolino recommended approval of the above-requested actions 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 then adopted with Trustee Cordaro abstaining.

1184. AUTHORIZATION TO EXECUTE AMENDED AND RESTATE OPERATIONS SERVICES AGREEMENT

WHEREAS, the Long Island Power Authority’s subsidiary, LIPA, and PSEG Long Island LLC (“PSEG LI”) (together, the “Parties”) have entered into a ten-year Operations Services Agreement, dated as of December 28, 2011 (the “Existing OSA”) pursuant to a resolution of the Trustees approved on December 11, 2011, to provide operations, maintenance and related services for LIPA’s transmission and distribution system (the “T&D System”) to commence on January 1, 2014; and

WHEREAS, on July 29, 2013, the LIPA Reform Act was signed by Governor Andrew M. Cuomo, in response to a number of concerns related to the contractual and organizational relationship between Authority and its current service provider; and

WHEREAS, the LIPA Reform Act amends the New York Public Service Law and the New York Public Authorities Law, imposes additional regulatory oversight and requirements on the Authority and mandates additional duties for any service provider operating the T&D System; and

WHEREAS, a “Term Sheet for Amendments to the Operations Services Agreement” dated June 6, 2013 (“Term Sheet”) was negotiated between the Parties and the Governor’s Office which sets forth the material, substantive terms of proposed amendments to the Existing OSA intended to reflect a realignment of the rights and responsibilities of the Parties as contemplated by the LIPA Reform Act; and

WHEREAS, the Term Sheet, contemplates that the Service Provider, to the extent legally permissible and subject to the terms of LIPA’s Bond Resolutions and bond and other financing agreement covenants, contractual and legal obligations and oversight responsibilities, shall have autonomy and responsibility to operate and maintain the T&D System and establish related plans, policies, procedures and programs; and

WHEREAS, the LIPA Reform Act establishes a separate office in the New York State Department of Public Service (“DPS”) on Long Island, to provide oversight and
recommendations to LIPA’s Board of Trustees related to rates, operations, emergency response, management, customer complaints, energy efficiency and other related resource programs and measures, among other things; and

WHEREAS, implementation of the LIPA Reform Act and Term Sheet require that the Authority transfer additional operational duties and obligations to PSEG LI than now provided under the Existing OSA, and provide PSEG LI with greater operational flexibility related to those duties, and the terms and mechanisms to allow for the additional review processes established under the LIPA Reform Act; and

WHEREAS, an Amended and Restated OSA (“Amended OSA”) with PSEG LI has been negotiated to address the restructured relationship between the Parties in connection with the provision of electric service in LIPA’s service territory and to implement the LIPA Reform Act and Term Sheet; and

WHEREAS, under the LIPA Reform Act, the DPS is required to review the Amended OSA and provide a recommendation to LIPA’s Board of Trustees prior to the Board’s vote; and

WHEREAS, by letter dated September 27, 2013, the Chair of the DPS notified the Board that DPS has conducted a comprehensive review of the LIPA Reform Act, the Term Sheet, the proposed Amended OSA and the management and operations audit of LIPA recently conducted by NorthStar Consulting on behalf of the DPS, and based upon such review, recommends that the Trustees immediately approve the Amended OSA; and

WHEREAS, as more fully set forth in its “Review and Recommendation Regarding Proposed Amendments to the Long Island Power Authority's Operations Services Agreement with PSEG Long Island LLC” (Case Matter 13-02006), the DPS believes that the Amended OSA is consistent with the language and spirit of the LIPA Reform Act, and further provides the opportunity to achieve meaningful improvement to the provision of electric service to customers in LIPA’s service territory:

NOW, THEREFORE, BE IT RESOLVED, that based on the foregoing, the Trustees hereby authorize the Chief Operating Officer (“COO”) or his designee to execute and deliver, in the name and on behalf of LIPA, the Amended OSA in the form presented at this meeting; and further authorize the COO or his designee to execute and deliver, in the name and on behalf of LIPA, such other instruments, agreements and other documents and take all such other action as the COO or his designee shall deem necessary, appropriate or advisable to effectuate the objectives set forth more fully in the accompanying memorandum.

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The Chair stated that the next item on the agenda is Consideration of Authorization to Adopt Management and Operations Audit Recommendations

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 adopt for the purpose of implementation, the recommendations set forth in the Comprehensive Management and Operations Audit Final Report (the “Report”), dated September 13, 2013, issued by NorthStar Consulting Group (“NorthStar”), in accordance with the Long Island Power Authority Oversight and Accountability Act (the “Oversight Act”).

Background

On February 1, 2012, the New York State Legislature enacted the Oversight Act, directing the New York State Department of Public Service (“DPS”) to undertake a comprehensive audit focusing on and evaluating the Long Island Power Authority’s (“LIPA”) operations and management in the context of its duty to set rates consistent with the standards and procedures provided in LIPA’s enabling statute. After a competitive procurement, DPS selected NorthStar to conduct the audit, and in August 2012, DPS, LIPA and NorthStar entered into a contract for such services.

As required by the Oversight Act, the audit addressed: 1) LIPA’s construction and capital program planning in relation to the needs of its customers for reliable service; 2) the overall efficiency of LIPA’s operations; 3) LIPA’s Fuel and Purchased Power Cost Adjustment clause and recovery of costs associated with such clause; and 4) LIPA’s annual budgeting procedures and process. Due to a schedule delay caused by SuperStorm Sandy, and the need to complete the audit as close to the original timeline as possible, DPS directed NorthStar to delete two topics from the audit scope: (i) the manner in which LIPA meets its debt service obligations; and (ii) LIPA’s compliance with debt covenants.

Additionally, the Oversight Act requires that the Board make a preliminary determination related to the findings and recommendations of the audit if any particular finding or recommendation is inconsistent with LIPA’s sound fiscal operating practices, existing contractual or operating obligations, or the provision for providing safe and adequate electric service. Unless such a determination is made, the Oversight Act requires the Board to implement such findings and recommendations in accordance with the timeframe specified under the audit.

With the requirements of the Oversight Act in mind, LIPA approached this audit as an opportunity to identify and assess those areas of its operations and management that need focus and improvement going forward, including with respect to its impending change of service providers. Throughout the course of the audit, DPS, NorthStar and LIPA (with support provided by National Grid Electric Service, LLC (“National Grid”) and PSEG Long Island, LLC (“PSEG-LI”)) worked collaboratively to facilitate a comprehensive review. In total, LIPA responded to 908 data requests and 185 interview requests as part of the audit. As noted in the Report, the audit was conducted in an open and constructive
manner, including frank and meaningful discussions about NorthStar’s findings, conclusions and recommendations.

Discussion

Given the timing of the audit, NorthStar focused primarily on operations under the Management Services Agreement with National Grid; the management and oversight of those operations by LIPA; and the Operations Services Agreement (“OSA”), dated December 28, 2011, with PSEG-LI. The unique timing of this audit, which was expressly contemplated in the Oversight Act related to LIPA’s transition of service providers, was complicated by not only the delay caused by SuperStorm Sandy, but legislative activities during the audit period that suggested further changes to LIPA’s operating structure. Before the audit was complete, but after it was substantially underway, the LIPA Reform Act was enacted, which substantially restructures the relationship between LIPA and its service provider, and requires a significant amount of oversight from the DPS in connection with the provision of electric service in LIPA’s service territory. As such, NorthStar crafted its findings and recommendations in such a way that will facilitate implementation over time, consistent with both the impending new organizational structure at LIPA, and the amended and restated OSA with PSEG-LI.

In total, NorthStar offered 83 recommendations (see Exhibit A), including 43 that are directly applicable to LIPA, and 40 that LIPA will seek to have PSEG-LI adopt and implement. Staff believes that the 43 LIPA-specific recommendations being presented for adoption are, in all respects, appropriate and beneficial to LIPA’s operations and customers, and if implemented, would not be inconsistent with LIPA’s sound fiscal operating practices, any existing contractual or operating obligation, or the provision of safe and adequate service.

Staff believes these recommendations can be implemented starting in 2013, and then more fully in 2014 and 2015, after LIPA is restructured pursuant to the Reform Act and certain aspects of its new relationship with PSEG-LI are underway. Ms. Nicolino noted that a preliminary implementation plan has been provided (see Exhibit B) to identify the general manner in which Staff expects to undertake the implementation of the specific recommendations applicable to LIPA, all of which are expected to occur within the timeframe required by the Report (i.e., before the commencement of the next management audit, which is required to commence no later than December 15, 2016).

With respect to recommendations that LIPA will seek to have PSEG-LI adopt, it should be noted that PSEG-LI has performed a preliminary review of the recommendations and has indicated to LIPA that a vast majority are already planned to be implemented in 2014, and the rest to follow as soon as practicable.

Recommendation

Based on 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:

1185. AUTHORIZATION TO ADOPT THE RECOMMENDATIONS RELATED TO THE COMPREHENSIVE MANAGEMENT AND OPERATIONS AUDIT REPORT

WHEREAS, on February 1, 2012, the New York State Legislature enacted the Long Island Power Authority Oversight and Accountability Act (the “Oversight Act”), directing the New York State Department of Public Service (“DPS”) to undertake a comprehensive audit focusing on and evaluating the Long Island Power Authority’s (“LIPA”) operations and management in the context of its duty to set rates consistent with the standards and procedures provided in LIPA’s enabling statute; and

WHEREAS, after a competitive procurement, DPS selected NorthStar Consulting Group (“NorthStar”), and on August 15, 2012, the Board authorized LIPA to enter into a contract with DPS and NorthStar for such auditing services; and

WHEREAS, NorthStar conducted the management and operations audit of LIPA, and issued the Comprehensive Management and Operations Audit Final Report (the “Report”) on September 13, 2013; and

WHEREAS, the Report sets forth 83 recommendations, including 43 that are directly applicable to LIPA, and 40 that are applicable to PSEG Long Island, LLC (“PSEG-LI”), as the future operator of the electric system; and

WHEREAS, Staff believes the LIPA-specific recommendations can be implemented starting in 2013, and then more fully in 2014 and 2015, after LIPA is restructured pursuant to the July 2013 enactment of the LIPA Reform Act and certain aspects of its new relationship with PSEG-LI are underway:

NOW, THEREFORE, BE IT RESOLVED, that the Trustees do not find the recommendations in the Report to be inconsistent with LIPA’s sound fiscal operating practices, any existing contractual or operating obligation, or the provision of safe and adequate service; and be it further

RESOLVED, that based on the foregoing, the Trustees hereby authorize the adoption of the 43 recommendations that are directly applicable to LIPA as set forth in the Report.

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The Chair stated that the next item on the agenda is Consideration of Authorization Related to Outage Management System

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

Mr. Daly presented the following action item:

Requested Action

The Trustees are being requested to approve a resolution authorizing certain expenditures related to the design and implementation of a new CGI Outage Management System (“CGI OMS”) intended to benefit customers in the Long Island Power Authority’s service territory.

Background

The existing OMS system and associated storm response processes are inadequate to meet the growing operational demands of the electrical system and the needs of LIPA customers. In 2011, a contract with Efacec ACS, Inc. (“ACS”) for a pilot OMS project along the Route 110 corridor in Melville was commenced to test the viability and integrity of the ACS system. In 2012, following the impact of Hurricane Irene, the contract was expanded to provide for a full deployment of the ACS system in three phases, the last of which was targeted to be in service by March 2013. Due to numerous delays, setbacks and other concerns about the viability of the project, the contract with ACS has been terminated, and PSEG LI, LIPA’s new service provider, has recommended that a different OMS product be implemented to better meet its needs as future operator of the transmission and distribution system. In making its recommendation, PSEG LI has indicated that all useful aspects of the ACS system have been captured and reflected in the project cost estimate.

Discussion

After a thorough review of current options, PSEG LI has proposed to implement a CGI Outage Management Solution (“CGI OMS”), a mature, proven and comprehensive system, which will utilize tested PSEG storm management processes, and will significantly reduce risk and achieve results related to outage management. This new system would manage storm restoration centrally, and significantly improve the ability to identify and manage outage conditions and level of information available to the customers and customer service representatives. Of significant importance, the outage communications process improvements will ensure that PSEG LI is able to provide more timely and accurate information to important stakeholders, customers, state and local government officials, municipal Emergency Management personnel, regulators, company executives, and the media during storm and related outage incidents. PSEG LI has identified the following additional benefits associated with moving to a CGI OMS:

► Reduced operating costs associated with more accurate outage data and more efficient use of existing manpower during restoration activities.
► Reduced operating costs associated with a reduction in customer complaints due to the availability of more accurate and timely restoration data in the call centers.
► Reduced operating costs associated with facility record management due to the implementation and full utilization of the GIS connected model.
► Improved efficiency of capital investment and reduced maintenance expenses due to increased granularity of reliability and “root-cause” data (Asset Management based decisions).
► Improved accuracy in the identification of outage locations through the replacement of the current polygon-based outage analysis with a “GIS Connected Model” analysis system.
► Enhanced data integration and analysis to aid in the prioritization and dispatch of orders.

The estimated cost of the CGI OMS is currently $29.4 million for one-time hardware and software purchases; outside services; labor for PSEG, Lockheed Martin and National Grid resources; training and contingencies. In addition, PSEG-LI would be eligible to receive a milestone payment of $1.2M if the project goes live no later than mid-July 2014. CGI OMS hardware, software, and labor and materials will be paid for by LIPA at actual cost under the Transition Services Agreement and on-going operation and maintenance costs will be pass-through expenditures under the Amended and Restated Operations Services Agreement (“Amended OSA”). LIPA staff is currently seeking reimbursement for these costs under various state and federal programs, including certain FEMA-eligible programs.

Lockheed Martin, as subcontractor to PSEG LI, will act as project manager and system integrator, and will proceed with the following key assumptions:

- PSEG-LI will hold certain licenses used to create the system and own the processes used to support the system;
- National Grid resources will be available to fulfill key project roles;
- Access to IT Systems and Interfaces will be provided to fulfill key project milestones;
- System and processes will be implemented across LIPA territory in a single deployment;
- Training costs include trainers and training materials and labor costs for attendees is included in the project; and
- Post-project process support and advanced and ongoing user training will be provided after project implementation and is not included in project estimates.

The expected useful life of the Transition OMS is 8-10 years, which is shorter than the initial term of the Amended OSA. However, in the event the OSA is terminated early and PSEG-LI is no longer the service provider, the system will be available for use for up to 2 years after such termination to allow for the new service provider to secure an alternate system.

**Recommendation**
Based on the foregoing, Mr. Daly recommended that the Trustees adopt a resolution in the form of the resolution attached hereto.

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

1186. AUTHORIZATION RELATED TO DESIGN AND IMPLEMENTATION OF NEW OUTAGE MANAGEMENT SYSTEM

WHEREAS, PSEG Long Island LLC (“PSEG-LI”) will assume responsibility for operating and maintaining the Long Island Power Authority’s (the “Authority”) transmission and distribution system (“T&D System”) pursuant to a and Amended and Restated Operations Services Agreement beginning on January 1, 2014; and

WHEREAS, the existing outage management system (“OMS”) and associated storm restoration processes are not meeting the growing operational and customer demands of the system; and

WHEREAS, implementation of a new OMS project that was undertaken in 2011 and expanded in 2012 has experienced numerous delays and setbacks that jeopardized the viability of the project; and

WHEREAS, based on a comprehensive review, PSEG-LI has advised LIPA staff that a different OMS solution is necessary to better meet its needs as future operator of the transmission and distribution system; and

WHEREAS, PSEG-LI has proposed a CGI Outage Management Solution (“CGI OMS”), which combines CGI OMS products with PSEG storm management processes, among other things, to create a mature, proven and comprehensive system that will significantly reduce risk and achieve results related to outage management; and

WHEREAS, this new system would manage storm restoration centrally, and significantly improve the ability to identify and manage outage conditions and the level of information available to the customers and customer service representatives; and

WHEREAS, as more fully set forth in the accompanying memorandum, the expected life on the CGI OMS is 8-10 years, and the estimated cost is currently $29.4 million, including hardware, software, outside services, labor and contingency costs, for which LIPA is seeking reimbursement under eligible state and federal programs; and

WHEREAS, PSEG-LI would be eligible to receive a milestone payment of $1.2M if the project goes live no later than mid-July, 2014; and

WHEREAS, CGI OMS hardware, software, and labor and materials will be secured by PSEG LI and paid for by LIPA at actual cost under the Transition Services Agreement,
and on-going operation and maintenance costs will be pass-through expenditures under the Amended and Restated Operations Services Agreement (“Amended OSA”); and

WHEREAS, in the event the Amended OSA is terminated early for any reason, LIPA would be able to use the components of the CGI OMS not owned by LIPA for a period of up to two years, while an alternate system is secured by a new service provider; and

WHEREAS, PSEG-LI and its subcontractor Lockheed Martin have presented the proposed benefits associated with moving to the CGI OMS, including significant operational enhancements and cost-reducing capabilities during storms and other outage-related incidents to the Transition Committee of the Board of Trustees:

NOW, THEREFORE, BE IT RESOLVED, that the Trustees authorize the expenditure of the funds necessary to allow PSEG LI to implement the CGI OMS, and to take such other and further actions as reasonable and necessary to effectuate the intent reflected in the accompanying memorandum.

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The Chair stated that the next item on the agenda is Consideration of Approval of Modifications to LIPA’s Tariff for Electric Service Related to Clean Solar Initiative Feed-In Tariff

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

Mr. Little presented the following action item:

Requested Action

The Trustees are being requested to approve a resolution adopting modifications to the Long Island Power Authority’s (“LIPA”) Tariff for Electric Service (“Tariff”) to authorize a modification to LIPA’s Clean Solar Initiative Feed-In Tariff under Service Classification No. 11 Buy-Back Service (“SC-11”) to implement the purchase of an additional 100 MW of electricity produced by solar photovoltaic (“PV”) generators for a fixed price pursuant to a 20-year standard power purchase agreement (“PPA”).

Background

LIPA established goals with respect to future power supply in its Electric Resource Plan, 2010-2020 (the “Plan”). The Plan contemplates, among other things, the development of renewable resources and the purchase by LIPA of renewable energy from newly constructed resources within the service territory, including additional utility-scale solar PV generation resources. LIPA proposed to purchase additional utility-scale solar PV
generation through, among other things, a “Feed-In Tariff”, which is generally described as a standard offer by an electric utility to purchase renewable generation supplied or “fed” directly into the electric grid, at a fixed price and for a fixed term.

By resolution dated June 28, 2012, the Trustees established LIPA’s Clean Solar Initiative Feed-In Tariff under SC-11 for the purchase of up to 50 MW of distributed solar PV generation renewable resources for a fixed price of $0.22 per KWh under a 20-year PPA (“FIT I”). To effectuate the FIT I, participants were required to enter into a 20-year PPA, as well as an interconnection agreement pursuant to LIPA’s Smart Grid Small Generator Interconnection Procedures. The solar PV generators are required to sell to LIPA 100% of the output (energy, capacity and renewable energy certificates) and are not eligible for other LIPA incentive programs, such as LIPA’s Solar Entrepreneur rebates or net metering. The FIT I was designed to allow for the development of up to 50 MW within two years, after which the enrollment period would expire. The FIT I was fully subscribed and LIPA expects that the projects will commence commercial operation during 2014.

On October 25, 2012, the Trustees, in their resolution regarding the Generation and Transmission Request for Proposals, also directed Staff to set forth a proposal to modify the Tariff so that LIPA could purchase up to an additional 100 MW of solar PV generation under LIPA’s Clean Solar Initiative Feed-in Tariff (“FIT II”).

The Proposal

LIPA’s FIT II Proposal provides that the SC-11 Tariff would be modified to enable LIPA to purchase up to an additional 100 MW of solar PV generation from new facilities that are installed in LIPA’s service territory. Based on LIPA’s experience with FIT I, and to foster robust participation such that the benefits could be disseminated to a broader range of participants and location, Staff proposes certain changes for FIT II, which are as follows:

- change the size limit to be between 100 kW and 2,000 kW (i.e., 2 MW) for eligible projects;
- provide for an auction process to establish a “market clearing price” that would apply to every developer that meets the criteria specified in FIT II up to the maximum level of enrollment of 100 MW;
- provide an additional payment of $0.07 per kWh for projects located at specific substations on the South Fork, based on the value of deferring transmission reinforcements; and
- modify the PPA to reflect the changes under FIT II.

Discussion

In order to better determine the most cost-effective price to pay for solar photovoltaic resources, Staff is proposing to use an auction process to set the price for energy purchases. Since LIPA is seeking to purchase a standardized product at a fixed rate for a 20-year period, it is relatively simple for bidders to offer a specified price and for LIPA to rank the bids in economic order to determine the appropriate market-clearing price for that generation. Consistent with other economic markets, including the New York Independent System Operator (“NYISO”) markets for energy and capacity, Staff proposes to rank the
price offers from lowest to highest. Bidders would be accepted in order from lowest to highest bid price, up to the lower of 100 MW (based on nameplate capacity net of inverter losses), or 90% of the offered capacity. The auction’s market clearing price would be set at the last bid price accepted and all accepted bidders would be paid this clearing price. The purpose of the 90% limit is to assure that none of the accepted bidders is able to exercise market power. The proposed Tariff provides specific rules in the event of ties. Staff also proposes to establish a locational price adder of $0.07 per kWh for bidders that would interconnect their projects on the South Fork, east of the Canal substation. LIPA is facing an immediate need to invest approximately $84 million in transmission upgrades east of the Canal substation; further transmission additions and additional generation will be required to meet projected future load growth. Solar PV generation in this area could defer the immediate investment and reduce or defer future expenditures, resulting in estimated net present value savings of $60 million assuming that 40 MW of solar generation can be developed at these locations. In the event that less than 40 MW of capacity is selected in these areas from the auction process, then no premium will be paid to any of these customers, as LIPA will likely need to pursue the transmission alternatives and no costs would be avoided.

The cost of the Feed-in Tariff would be recorded as purchases of electricity under Service Classification No. 11 Buy-Back Service, and recovered from customers through the Power Supply Charge. LIPA expects to purchase approximately 157.7 million kWhs per year from the 100 MW of solar generation that is being solicited, which displaces generation that would have been purchased from other sources. The cost of this round of the Feed-in Tariff will reflect the market price to procure such resources and LIPA retains the right to reject any bid price in excess of what LIPA determines it would agree to pay. The premium paid for South Fork locations should be financially neutral since it should approximate the avoided cost with the recognition that the cost will flowed entirely through the Fuel and Purchased Power Cost Adjustment while the benefit accrues partially to the power supply charge and partially to delivery rates.

It is important to note that LIPA’s solar programs to date have been instrumental in shaping certain segments of the solar market on Long Island. LIPA’s rebate program achieved the goal of advancing small, customer-owned solar PV for net metering purposes, and LIPA’s 2008 Request for Proposals for utility-scale solar PV advanced the goal of siting large solar projects on Long Island. The FIT II would continue that trend by encouraging the development of mid-sized generation, a market segment with yet unrealized potential. Also, the FIT II would build on FIT I and would help meet the goals set forth in both the New York State Energy Plan and Governor Andrew Cuomo’s New York Sun Initiative; contribute to New York State’s Renewable Portfolio Standard performance; support the local economy and create green jobs; and facilitate partnerships with the state and local government, community organizations and businesses.

LIPA held public hearings on September 3, 2013 at the Omni Building in Uniondale and the H. Lee Dennison Building in Hauppauge and written comments were accepted through September 10, 2013. The comments received are summarized in Exhibit D to this memorandum.
Based on the comments, which demonstrate overwhelming support for the FIT II Proposal in its current form, Staff is not recommending any modifications to the existing Proposal; however, Staff is recommending that the Tariff identify two (2) additional substations within the designated area on the South Fork.

Recommendation

For the reasons stated, Mr. Little 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:*

1187. APPROVAL OF MODIFICATIONS TO LIPA’S TARIFF FOR ELECTRIC SERVICE IMPLEMENTING AN ADDITIONAL 100 MW OF SOLAR PHOTOVOLTAIC GENERATION UNDER THE FEED-IN TARIFF

WHEREAS, the Long Island Power Authority’s (“LIPA”) Electric Resource Plan, 2010-2020 (the “Plan”) contemplates, among other things, the development of renewable resources and the purchase by LIPA of renewable energy from newly constructed resources within the service territory, including additional utility-scale solar photovoltaic (“PV”) generation; and

WHEREAS, in accordance with the Plan, by resolution dated June 28, 2012, the Trustees authorized the modification of LIPA’s Tariff for Electric Service (“Tariff”) to establish LIPA’s Clean Solar Initiative Feed-In Tariff under Service Classification No. 11 Buy-Back Service (“SC-11”) for the purchase of up to 50 MW of distributed solar PV generation renewable resources for a fixed price of $0.22 per KWh under a 20-year power purchase agreement (“FIT I”); and

WHEREAS, on October 25, 2012, the Trustees, in their resolution regarding the Generation and Transmission Request for Proposals, also directed Staff to set forth a proposal to modify the Tariff so that LIPA could purchase up to an additional 100 MW of solar PV generation under LIPA’s Clean Solar Initiative Feed-in Tariff; and

WHEREAS, in accordance with the October 25, 2012 Trustee resolution, Staff proposed modifications to the Tariff to implement the purchase of an additional 100 MW of electricity produced by solar PV generators for a fixed price pursuant to a 20-year standard power purchase agreement, which price will be determined by an auction that will establish a market clearing price (“FIT II”); and

WHEREAS, the FIT II will also provide for an additional premium of $0.07 per kWh to be paid for projects located east of the Canal Substation on the South Fork of Long Island if at least 40 MWs of capacity are selected in that area as a result of the auction; and
WHEREAS, enrolling up to 100 MW of solar PV generation under the FIT II for 20 years at a price that reflects the market conditions for solar generation on Long Island and the cost of the Feed-In Tariff would be recorded as purchases of electricity under SC-11, and recovered from customers through the Power Supply Charge; and

WHEREAS, following the issuance of public notice in the State Register on July 17, 2013 of LIPA’s proposal, two public hearings were held in Nassau and Suffolk counties on September 3, 2013, and comments were received at the hearing from the public and written comments were received during the comment period, and the public comment period has since expired; and

WHEREAS, based upon the comments received, Staff is recommending that the FIT II proposal, as modified as set forth in the accompanying memorandum, be adopted:

NOW, THEREFORE, BE IT RESOLVED, that for the reasons set forth herein and in the accompanying memorandum, the proposed FIT II is hereby adopted and approved as modified; and be it further

RESOLVED, that the attached Tariff Leaves reflecting our action herein are approved; and be it further

RESOLVED, that any and all actions necessary to implement the FIT II proposal are hereby authorized.

***

The Chair stated that the next item on the agenda is Consideration of Approval of Modifications to LIPA’s Tariff for Electric Service Related to Residential Submetering

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

Mr. Little presented the following action item:

Requested Action

The Trustees are being requested to approve a resolution adopting modifications to the Long Island Power Authority’s (“LIPA”) Tariff for Electric Service (“Tariff”) to authorize the use of submetering for residential purposes and adopt requirements for residential submetering, consistent with New York Public Service Commission regulations adopted in February 2013.

Background

Submetering for residential purposes is already authorized under the LIPA Tariff for residential cooperatives and condominium that comply with relatively few conditions,
including initiation notification of the intent to submeter, development of a complaint procedure to be administered by the building operator, and a rate cap not to exceed LIPA’s rate for residential service. Under the existing provisions, LIPA has no role in submetering beyond these basic requirements and any submetering disputes are considered to be contractual matters between landlord and tenant.

In February 2013, the Public Service Commission adopted Part 96 of 16 New York Codes, Rules and Regulations (“NYCRR”), which sets forth how customers seeking to submeter electricity for residential purposes can meet the requirements of the Home Energy Fair Practices Act (“HEFPA”). HEFPA affords certain protections to consumers of electricity for residential purposes. Part 96 extends the option of submetering to all buildings occupied for residential purposes, and extends HEFPA protections to all building occupants.

As more fully set forth in the attached Proposal (see Exhibit B), the proposed “Requirements for Submetering for Residential Purposes” are modeled directly from Part 96 and would extend the protections afforded under that regulation to LIPA’s customers, as well as provide for an occupant’s right to submit complaints regarding submetered service and authorize LIPA to impose penalties on submeterers who violate the requirements.

In connection with this request, LIPA issued a Notice of Proposed Rulemaking inviting public comment on the Proposal, which was published in the State Register on July 17, 2013. Two public hearings in Nassau and Suffolk counties were held on September 3, 2013, where the public was given the opportunity to submit written comments to LIPA by September 10, 2013. No comments were received by LIPA during the comment period, which has now expired.

**Recommendation**

For the reasons stated, Mr. Little 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:

**1188. APPROVAL OF MODIFICATIONS TO LONG ISLAND POWER AUTHORITY TARIFF RELATED TO SUBMETERING**

WHEREAS, the Long Island Power Authority’s (“LIPA”) Tariff for Electric Service (“Tariff”) authorizes submetering for residential purposes for residential cooperatives and condominiums that comply with certain limited conditions; and

WHEREAS, in February 2013, the Public Service Commission (“PSC”), adopted Part 96 of 16 NYCRR which extended the option to submeter to all buildings occupied for residential purposes and afforded certain protections afforded under the Home Energy Fair Practices Act (“HEFPA”) to building occupants; and
WHEREAS, in accordance with PSC’s action, Staff issued a Proposal to extend those same protections to LIPA’s customers, as well as provide for an occupant’s right to submit complaints to LIPA regarding submetered service and authorize LIPA to impose penalties on submeterers who violate the requirements; and

WHEREAS, following Public Notice in the State Register on July 17, 2013 of LIPA’s Proposal, in accordance with the State Administrative Procedures Act, public hearings in Nassau and Suffolk Counties were held on September 3, 2013, and no public comments were presented at the hearing, and no written comments were received during the comment period, which has since expired:

NOW, THEREFORE, BE IT RESOLVED, that as more fully set forth in the accompanying memorandum, the Proposal is hereby adopted and approved; and be it further

RESOLVED, that the attached Tariff leaves reflecting our action herein are approved.

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The Chair stated that the next item on the agenda is Consideration of Approval of Modifications to LIPA’s Tariff for Electric Service Related to Historical Billing Information

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

Mr. Little presented the following action item:

Requested Action

The Trustees are being requested to approve a resolution adopting modifications to the Long Island Power Authority’s (“LIPA”) Tariff for Electric Service (“Tariff”) to change the fee charged for the retrieval of historical customer billing information.

Background

Pursuant to LIPA’s Tariff, customers, energy service companies and direct retail customers may request up to twenty-four (24) months of a customer’s most recent hourly, monthly or bi-monthly historical meter reading data without a charge to the customer. The Tariff also sets forth a charge of $5.50 for each monthly or bi-monthly meter reading data for periods from twenty-four (24) months to seventy-two (72) months, and for 15-minute remotely-read interval data covering any period.

LIPA Staff proposes to change the fee for retrieval of meter reading data from $5.50 for each monthly or bi-monthly meter reading, to a flat fee of forty dollars ($40.00) for historic data for periods from twenty-four (24) months to seventy-two (72) months (i.e., receipt of 6-
years’ worth of data). The charge related to 15-minute remotely-read interval data would remain unchanged, which is a $5.50 per month charge.

Staff believes that a flat fee is appropriate because it better reflects the actual cost of retrieving the historical billing information, and since accomplished in a single action, costs the same regardless of how many months of historical data is requested. This change would also align LIPA with other New York State electric utilities’ policies, which also impose a single fixed fee for historical billing information.

The expected reduction in revenue related to implementing the flat fee is approximately $8,000 per year, assuming 2 to 3 monthly requests for up to 48-months of data, which would otherwise cost a customer $264. Further, providing up to twenty-four (24) months of hourly, monthly or bi-monthly historical meter reading information will continue to be offered to customers at no charge, because this data is readily available and is inexpensive to provide.

In connection with this request, LIPA issued a Notice of Proposed Rulemaking inviting public comment on the Proposal, which was published in the State Register on July 17, 2013. Two public hearings in Nassau and Suffolk counties were held on September 3, 2013, and the public was given the opportunity to submit written comments to LIPA by September 10, 2013. No comments were received by LIPA during the comment period, which has now expired.

Recommendation

For the reasons stated, Mr. Little 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:

1189. APPROVAL OF MODIFICATIONS TO LONG ISLAND POWER AUTHORITY TARIFF RELATED TO HISTORICAL BILL INFORMATION

WHEREAS, the Long Island Power Authority’s (“LIPA”) Tariff for Electric Service (“Tariff”) allows customers, energy service companies and direct retail customers to request up to twenty-four (24) months of a customer’s most recent hourly, monthly or bi-monthly historical meter reading data without charge to the customer; and

WHEREAS, the Tariff also sets forth a charge of $5.50 for each monthly or bi-monthly meter reading data for periods from twenty-four (24) months to seventy-two (72) months, and for 15-minute remotely-read interval data covering any period; and

WHEREAS, LIPA Staff issued a Proposal to make modifications to the Tariff to authorize a flat fee of forty dollars ($40.00) for available information for historical periods between
twenty-four months and seventy-two months of standard monthly or bi-monthly metering reading information; and

WHEREAS, following Public Notice in the State Register on July 17, 2013 of LIPA’s Proposal, in accordance with the State Administrative Procedures Act, public hearings in Nassau and Suffolk Counties were held on September 3, 2013, and no public comments were presented at the hearing, and no written comments were received during the comment period, which has since expired:

NOW, THEREFORE, BE IT RESOLVED, that as more fully set forth in the accompanying memorandum, the Proposal is hereby adopted and approved; and be it further

RESOLVED, that the attached Tariff leaves reflecting our action herein are approved.

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The Chair stated that the next item on the agenda is Consideration of Authorization to Execute Operation Facilities Agreements with Customer Operations Related to Management Transition.

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 execute a lease between the Long Island Power Authority (the “Authority”) or its operating subsidiary, the Long Island Lighting Company d/b/a LIPA, and Merrick Willoughby LLC for a customer service office to be located at 3524 Merrick Road in Seaford, New York, with a fifteen-year term, and a 10-year renewal option.

Background

On January 1, 2014, PSEG Long Island LLC (“PSEG-LI”) will assume responsibility for operating and maintaining the Authority’s transmission and distribution system (“T&D System”) pursuant to an operating agreement with the Authority. In order to effectuate this transition, the Authority must first acquire an interest in the necessary industrial and office facilities, including customer offices. Accordingly, PSEG and Lockheed Martin formed an “Asset Acquisition Team” to identify suitable facilities within the service territory to conduct its operations.
By resolution dated October 25, 2012, the Trustees authorized the Authority to negotiate and execute lease and purchase agreements with National Grid for facilities and properties necessary for PSEG-LI to operate and maintain the Authority’s T&D System, as identified by the Asset Acquisition Team.

In addition to the National Grid properties previously identified, it became necessary to identify an alternate customer service office for the south Nassau area when National Grid determined that the current customer office in Bellmore, New York, which is owned by National Grid, would be used exclusively for its natural gas operations.

**Discussion**

In identifying an alternative to the Bellmore location, the Asset Acquisition Team determined that convenience to the customers who use the Bellmore office was of paramount importance, and consequently decided to limit the search to available sites reasonably close to the current location. In addition, the selected site would need to be of sufficient size to accommodate the PSEG-LI Customer Operations personnel and equipment needed for that office. The Asset Acquisition Team engaged Colliers International to search the area and commence a process to select suitable space.

A Request for Proposals (“RFP”) was sent to landlords and developers, and based on the RFP responses, four properties were determined to be viable alternatives to the Bellmore location which were as follows: 1) 2375-2395 Merrick Road in Bellmore; 2) Sunrise Highway and Seaford Avenue in Wantagh; 3) 2208 Sunrise Highway in Seaford; and 4) 3524 Merrick Road in Seaford. For each of these four potential alternatives an analysis was performed, which included site inspections, a review of potential environmental issues, a review of proposed rents and Landlord contribution and a review of Long Island market comparables.

After review and consideration of the findings and recommendations submitted by the Asset Acquisition Team, Authority Staff agreed that locating the customer service office within a building located at 3524 Merrick Road in Seaford having approximately 4,000 square feet of space, which is only about 2.5 miles from the current customer service office in Bellmore, offers the best alternative for the Authority and its customers. This property provides excellent visibility and customer access. It is a single story property with street parking, as well as dedicated parking, which is a significant benefit for customers.

The rent initially proposed by Merrick Willoughby was the lowest of the four alternatives at $45/square foot as compared to $46-47/square foot proposed by the other landlords. In addition, Merrick Willoughby subsequently agreed to lower the rent to $41/square foot, and to provide $75.80/square foot in landlord contribution towards a turnkey build-out of the space, abate the rent for nine (9) months after delivery of possession and to provide seven (7) dedicated parking spots. The estimated contract value for the lease is $164,000 annually, subject to a 3% annual escalation commencing in the 3rd year of the lease, which is consistent with market appraised values for this type of property.
Recommendation

Based on the foregoing, Ms. Nicolino recommended that the Trustees adopt a resolution in the form of the resolution attached hereto.

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

1190. AUTHORIZATION TO EXECUTE LEASE AGREEMENT RELATED TO MANAGEMENT TRANSITION

WHEREAS, PSEG Long Island LLC ("PSEG-LI") will assume responsibility for operating and maintaining the Long Island Power Authority’s (the “Authority”) transmission and distribution system (“T&D System”) pursuant to the Operations Services Agreement beginning on January 1, 2014; and

WHEREAS, PSEG-LI will need to use industrial and office facilities to operate and maintain the Authority’s T&D System; and

WHEREAS, PSEG-LI and its subcontractor, Lockheed Martin, have analyzed available sites and the attendant costs as an alternative to the current customer service office in Bellmore, New York that is located in a building owned by National Grid and which National Grid wants to use exclusively for its natural gas operations; and

WHEREAS, PSEG-LI and Lockheed Martin recommended to the Authority that it execute a lease to locate a customer service office within a building located at 3524 Merrick Road in Seaford having approximately 4,000 square feet of space, which is only about 2.5 miles from the current customer service office in Bellmore, which offers the best alternative for the Authority and its customers; and

WHEREAS, the Authority has accepted the recommendations made by PSEG-LI and Lockheed Martin; and

WHEREAS, Merrick Willoughby LLC has agreed to lease 4,000 square feet of space within a building located at 3524 Merrick Avenue in Seaford, New York for 15 years, with a 10-year renewal option, at a cost of $164,000 annually, subject to a 3% annual escalation commencing in the 3rd year of the lease, and to contribute $75.80/square foot to the build-out of a turnkey customer service office, which have been determined to be consistent with market appraised values:

NOW, THEREFORE, BE IT RESOLVED, that the Chief Operating Officer, or his designee, be and hereby is authorized to execute a lease with Merrick Willoughby LLC for space within a building located at 3525 Merrick Avenue in Seaford, New York, consistent with the above, and to take such other and further actions as reasonable and necessary to effectuate this transaction.
The Chair then allowed public comment to be heard, after which he announced that the next Board meeting is scheduled for November. The Chair then asked for a motion to adjourn.

At approximately 3:38 p.m. the Open Session of the Board of Trustees was adjourned.

Respectfully submitted,

Lynda Nicolino