

**PROPOSED FINANCE & AUDIT COMMITTEE AGENDA**

August 15, 2012 (8:00 A.M.) Uniondale

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- I. Adoption of Minutes for June 28th meeting
- II. Executive Session
- III. Summary Financial Information through July 2012 (Kane/Mongiardo)
- IV. Status of Transition Budget (Taunton)

**DRAFT**

**LONG ISLAND POWER AUTHORITY**

**DRAFT MINUTES OF THE FINANCE AND AUDIT COMMITTEE MEETING**

**HELD ON JUNE 28, 2012**

The Finance and Audit Committee of the Long Island Power Authority (the "Authority") was convened at 8:39 a.m. in LIPA's Executive Conference Room in Uniondale, NY, pursuant to legal notice given on June 25, 2012; and electronic notice posted on the Authority's website annually.

The following Trustees of the Authority were present:

**Laurence Belinsky, Committee Chair**  
**Lawrence Waldman**  
**Howard Steinberg, Chairman of the Board**

Representing the Authority were Lynda Nicolino, General Counsel and Secretary; Michael Taunton, VP of Finance and Chief Financial Officer; Michael Hervey, Chief Operating Officer; Kenneth Kane, Controller; Scott Payant, Executive Director of Budgeting and Planning; Corey Horowitz, Director of Risk Management; John Little, Director of Regulatory, Rates and Pricing; Stephen Clark, Executive Director of Finance; and Donna Mongiardo, Assistant Controller.

*Committee Chair Belinsky welcomed everyone to the Finance and Audit Committee meeting of the Long Island Power Authority Board of Trustees.*

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*Committee Chair Belinsky stated that the first item on the agenda is the adoption of the minutes from the May 24, 2012 meeting of the Finance and Audit Committee.*

*Committee Chair Belinsky made a motion to accept the minutes of the May 24, 2012*

*meeting, which was seconded. He asked if there were any additional changes or deletions, and noting none, the minutes were approved.*

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*The Committee Chair stated that the next item on the agenda is the summary of financial information, which would be presented by Donna Mongiardo.*

*Mrs. Mongiardo presented the five months ended May 31, 2012. She and staff took questions from the Trustees, including an update on the pending reimbursement from FEMA.*

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*Committee Chair Belinsky stated the next item on the agenda is an update on the status of operational updates, which would be provided by Mr. Kane and Mr. Clark.*

*Mr. Kane and Mr. Clark presented an update on the ongoing operational audits and took questions from the Trustees.*

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*Committee Chair Belinsky stated the next item on the agenda is an update on LIPA's financing, which would be presented by Mr. Clark.*

*Mr. Clark presented an update to LIPA's financing and took questions from the Trustees.*

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*Committee Chair Belinsky stated the next item on the agenda is an update on LIPA's quarterly Fuel and Purchased Power adjustment, which would be presented by Mr. Taunton and Mr. Little.*

*Mr. Taunton and Mr. Little presented the quarterly update and took questions from the Trustees.*

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*Committee Chair Belinsky stated that the next item on the agenda is an update on a renewal of LIPA's directors and officers insurance, which would be presented by Mr. Taunton.*

*Mr. Taunton presented an update on the continued need for directors and officers insurance at LIPA. Mr. Taunton and Ms. Nicolino took questions from the Trustees.*

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*At approximately 9:25 a.m. Committee Chair Belinsky entertained a motion to adjourn, which was duly made and seconded.*

**Actual and Budgeted Results**  
**For the Year to Date Period Ended July 31, 2012**  
 (Thousands of Dollars)  
 (Unaudited)

<u>Ref.</u>	Actual 7/31/2012	Actual PY 7/31/2011	Increase /(Decrease)	Budget	Favorable /(Unfavorable)
<b>1 Revenues</b>	<b>\$2,004,165</b>	<b>\$2,132,740</b>	<b>(\$128,575)</b>	<b>\$2,127,103</b>	<b>(\$122,938)</b>
<b>Operating Expenses</b>					
<b>2 Fuel and Purchased Power</b>	\$883,679	\$1,072,022	(\$188,343)	\$986,989	\$103,310
<b>3 Operations &amp; Maintenance</b>	532,413	530,400	2,013	557,545	25,132
<b>4 Storm Restoration</b>	33,050	34,879	(1,829)	30,349	(2,701)
<b>5 Salaries and Benefits</b>	12,035	9,758	2,277	11,474	(561)
<b>6 Professional Services &amp; General</b>	14,554	14,043	511	16,410	1,856
<b>7 Depreciation and Amortization</b>	157,819	155,715	2,104	159,960	2,141
<b>8 PILOTS - revenue-based taxes</b>	34,309	33,376	933	36,520	2,211
<b>9 PILOTS - property-based taxes</b>	147,358	136,002	11,356	150,234	2,876
<b>Total Operating Expenses</b>	<b>\$1,815,217</b>	<b>\$1,986,195</b>	<b>(\$170,978)</b>	<b>\$1,949,481</b>	<b>\$134,264</b>
<b>Operating Income (Loss)</b>	<b>\$188,948</b>	<b>\$146,545</b>	<b>\$42,403</b>	<b>\$177,622</b>	<b>\$11,326</b>
<b>10 Other Income and (Deductions)</b>	21,031	21,574	(543)	20,666	365
<b>11 Grant Income</b>	3,598	2,852	746	3,412	186
<b>12 Interest Expense</b>	194,547	191,165	3,382	203,886	9,339
<b>13 Change in Net Assets</b>	<b>\$19,030</b>	<b>(\$20,194)</b>	<b>\$39,224</b>	<b>(\$2,186)</b>	<b>\$21,216</b>

<b>Sales of Electricity (MWh)</b>					
Residential	5,479,400	5,715,442	(236,042)	5,713,441	(234,041)
Commercial & Industrial Sales	5,606,714	5,729,020	(122,306)	5,832,523	(225,809)
Public Authorities/Street Lighting	306,608	333,850	(27,242) *	356,548	(49,940)
<b>Total Sales of Electricity (MWh)</b>	<b>11,392,722</b>	<b>11,778,313</b>	<b>(385,591)</b>	<b>11,902,512</b>	<b>(509,790)</b>

\*28,915 MWhs of the Public Authorities/Street Lighting variance over 2011 is due to the addition of Brookhaven National Labs as of April 2011.

**Actual Year to Date Results vs. Prior Year:**

**Ref.**

- 1 **Revenues** decreased approximately \$129 million primarily due to lower sales impacting revenue by \$77 million, and a reduction in the power supply charge totaling \$127 million. These decreases were partially offset by higher delivery rates impacting revenue by \$68 million, higher late payment charges of \$3 million and higher recognition of ELI related revenues of \$4 million.
- 2 **Fuel and purchased power expenses** decreased \$188 million. The decrease was due to lower net commodity prices of \$168 million and lower sales impacting fuel cost by \$42 million. These decreases were offset by the amortization of KeySpan settlement bill credits of \$22 million in 2011. The bill credits were fully amortized in 2011; therefore, no such credits will be amortized in 2012.
- 3 **Operations and Maintenance expense** increased \$2 million due to higher ELI expenses of \$7 million, higher NMP2 charges of \$2 million partially offset by lower bad debt expense of \$4 million, lower PSA expenses of \$2 million and lower various miscellaneous expenses of \$1 million.
- 4 **Storm restoration expense** decreased \$2 million. LIPA incurred 13 storms in 2012 compared with 14 in 2011.
- 5 **Salaries and benefits expense** increased \$2 million due to an updated OPEB actuarial study.
- 7 **Depreciation & Amortization expense** increased \$2 million due to higher utility plant balances.
- 9 **PILOTS – property-based** increased \$11 million due to increased town and school taxes.
- 11 **Grant income** increased \$1 million due primarily to a \$600,000 solar grant.
- 12 **Interest charges** increased \$3 million due to a 2011 GASB No. 53 retroactive adjustment.

**Actual Year to Date Results vs. Budget:**

- 1 **Revenues** were approximately \$123 million lower than budget reflecting lower than expected growth in sales of \$66 million, lower pricing of \$38 million, weather effects of \$22 million, offset by \$3 million of higher miscellaneous revenues.
- 2 **Fuel and Purchased Power** expenses were \$103 million lower than budget due to lower average commodity pricing that contributed \$62 million to the variance and lower sales that contributed \$40 million.
- 3 **Operations and Maintenance** expenses were under budget by \$25 million due to \$9 million in lower Efficiency & Renewables program expenses, \$7 million in lower MSA fees primarily due to lower than expected sales, \$5 million in lower Power Supply Agreement charges primarily due to a true-up of property taxes on the GenCo plants, \$2 million in lower NYS Conservation Assessments due to lower revenues/sales, \$1 million lower bad debt expense, and \$1 million due to lower miscellaneous expenses.
- 4 **Storm Restoration** is over budget by \$3 million primarily due to higher storm activity, primarily in June and July.
- 6 **Professional Services and General Expenses** were \$2 million below budget primarily due to delays in consulting activities.
- 9 **PILOTS – property-based** were \$3 million favorable to budget due to lower than expected Nassau County taxes related to the 2011-12 tax year.
- 12 **Interest Expense** was \$9 million lower than budget due to lower interest rates related to variable rate debt, and a delayed debt issuance at a lower than budgeted interest rate.

**Estimated Front-End Transition Expenses**  
(Excludes Capital)

Line No.		June 2012 – Year to Date				2012 PYE	Estimated 2013
		Budget	Actual	Difference			
				Amount	Percent		
1	<b>PSEG/LM Expenses</b>						
2	Labor (Including Overheads)	\$2,907,967	\$2,087,701	\$(820,266)	-28.21%	\$ 8,194,527	\$13,457,000
3	Expenses	409,388	195,351	(214,037)	-52.28%	2,713,230	2,652,000
4	Milestone Payments	-	-	-	0.00%	-	1,000,000
5	<b>Total PSEG/LM Expenses</b>	<b>\$3,317,355</b>	<b>\$2,283,052</b>	<b>\$(1,034,303)</b>	<b>-31.18%</b>	<b>\$10,907,757</b>	<b>\$17,109,000</b>
6							
7	<b>LIPA Direct Expenses</b>						
8	Software	\$ -	\$ -	\$ -	0.00%	\$ -	\$ 693,000
9	National Grid Incremental Expenses	459,199	-	(459,199)	-100.00%	411,500	1,526,000
10	Professional Services	2,689,624	1,010,075	(1,679,549)	-62.45%	2,570,000	4,339,000
11	<b>Total LIPA Direct Expenses</b>	<b>\$3,148,822</b>	<b>\$1,010,075</b>	<b>\$(2,138,747)</b>	<b>-67.92%</b>	<b>\$ 2,981,500</b>	<b>\$ 6,558,000</b>
12							
13	<b>Total Transition Expenses</b>	<b>\$6,466,177</b>	<b>\$3,293,127</b>	<b>\$(3,173,051)</b>	<b>-49.07%</b>	<b>\$13,889,257</b>	<b>\$23,667,000</b>
14							
15	<b>Budgeted 2012 Transition Expenses</b>					<b>\$17,047,000</b>	
16	<b>Increase (Decrease) from 2012 Budget</b>					<b>\$(3,157,743)</b>	