

Long Island Power Authority

COMPREHENSIVE GUIDELINES

FOR THE

USE OF INTEREST RATE EXCHANGE AGREEMENTS

ADOPTED BY THE BOARD OF TRUSTEES: 05/18/2016

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Article I. PURPOSE OF THE INTEREST RATE EXCHANGE AGREEMENTS

Section 1.01 Introduction

Interest Rate Exchange Agreements (“Agreement” or “Agreements”), as defined in this Comprehensive Guidelines For The Use of Interest Rate Exchange Agreements (“Guidelines”), provide alternative financial instruments for the Authority to diversify its debt portfolio, mitigate potential market risks, or lower the cost of borrowings.

The Guidelines describe the objectives, framework, delegation of authority, and management oversight governing the activities of the Authority related to the management and mitigation of interest rate exposures (the “Exchange Program”). The Authority will conduct the Exchange Program activities, controls, and procedures in accordance with the Guidelines, which supersedes any previously issued Guidelines.

Section 1.02 Interest Rate Exchange Agreement Objectives

The objective of the Exchange Program is to manage and mitigate interest rates exposures on a portion of the Authority’s debt portfolio. The Authority may enter into an Agreement under the Exchange Program only if the Authority’s Executive Risk Management Committee (“ERMC”) has determined that such Agreement is reasonably expected to provide one or more of more of the following objectives:

- A. Reduce the Authority’s exposure to changes in interest rates on a particular financial transaction, or in the context of the management of interest rate risk derived from an asset/liability imbalance; or
- B. Result in a lower net cost of borrowing with respect to the related obligations; or
- C. Manage the financial exposure of the Authority with respect to its current financial condition.

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

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

Article II. DELEGATION OF AUTHORITY

Section 2.01 Delegation to ERMC to Provide Program Oversight**(a) Board of Trustees**

This set of Guidelines requires approval of the Authority's Board of Trustees (the "Board"), and the Board must approve any changes to the Guidelines. Changes to the Guidelines are effective on the day of approval and shall not be applied retroactively unless explicitly so specified by the Board.

(b) Executive Risk Management Committee

As further described in Article III below, the Guidelines hereby establish the Executive Risk Management Committee as management's controlling authority with respect to the Exchange Program. The Board delegates authority to the Authority's Chief Executive Officer or individual acting in such capacity to staff an Executive Risk Management Committee consisting of the Chief Financial Officer ("CFO") who shall be the Chairperson, and at least two other members, one of which must be drawn from senior management of the Authority. The ERMC shall provide executive management oversight for the Program.

Article III. EXECUTIVE RISK MANAGEMENT COMMITTEE

Section 3.01 Executive Risk Management Committee Responsibilities**(a) Administrative Responsibilities**

As delegated herein by the Board, the ERMC is charged with administration of the Guidelines and is granted authority and responsibilities as follows:

1. Review and approve any Interest Rate Exchange Agreements entered into by the Authority in accordance with the objectives and considerations detailed in Section 1.02.
2. To ensure that all Exchange Program activities of the Authority are in accordance with this set of Guidelines.
3. Adopt appropriate processes and protocols to review and monitor Exchange Program counterparty's credit rating from S&P, Moody's or Fitch (or any other nationally recognized statistical rating organization, if applicable), along with other factors, including credit and overall portfolio management, that should be monitored on a regular basis.
4. To prescribe controls and review the effectiveness of all aspects of the Exchange Program including Exchange Program audits, as appropriate.
5. Certify the reassignment or amendment of existing interest rate or basis swap agreements relating to refunded bonds.

(b) Compliance with Dodd-Frank Act and Regulatory Considerations

The ERMCM will seek to assure that the Authority maintains compliance with certain provisions under the Dodd-Frank Act, specifically for the following items:

A. Qualified Independent Representative under the Dodd Frank Act

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

B. Documentation

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

C. Recordkeeping and Reporting documentation

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

Article IV. PROVISIONS OF INTEREST RATE EXCHANGE AGREEMENTS

Section 4.01 Form of Agreements

Agreements between the Authority and counterparties may include those payment, term, security (including provisions for collateral by the counterparty), default,

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

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

Section 4.02 Terms of Agreements

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

Section 4.03 Credit Rating of Counterparties; Diversification

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

Section 4.04 Collateralization

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

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

Section 4.05 Swap Counterparty Termination Exposure

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

Section 4.06 Selection of Counterparties

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

- A. The counterparty should have substantial and significant experience in the swap markets and a demonstrated record of successfully executing swap transactions;
- B. The counterparty should be a significant participant in the municipal bond market (if necessary to the transaction);
- C. The counterparty should have a record of creating and implementing innovative ideas in the swap market (if necessary to the transaction).

Section 4.07 Negotiated Procurement

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

Section 4.08 Competitive Procurement

In the event it is determined that the Agreement will be competitively bid, the Authority reserves the right to (a) limit the number of qualified counterparties that may participate in a single Agreement bid, (b) limit the notional amount of Agreements with any counterparty, either for any individual Agreement or in the

aggregate, and (c) structure the bidding process as appropriate in order to best meet the Authority's objectives.

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

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

Article V. INTEREST RATE EXCHANGE AGREEMENT REPORTING

Section 5.01 Reporting Requirements

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

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

Section 5.02 Financial Reporting

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