

PROPERTY TAX REDUCTION EFFORTS

2017 Annual Report



LONG ISLAND POWER AUTHORITY

Powering Long Island's clean, reliable, affordable energy future



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MISSION STATEMENT

LIPA is a not-for-profit public utility with a mission to enable clean, reliable, and affordable electric service for our customers on Long Island and the Rockaways.

OVERVIEW

The Board of Trustees of the Long Island Power Authority ("LIPA" or "the Authority") established a policy in 2016 to reduce customer bills by paying only the reasonably and economically justified levels of taxes required by law or contract. The policy also directs LIPA to inform our customers of the burden of taxes in their electric rates and to seek input from the public on the appropriate balance between taxes imposed on electric service relative to all other direct and indirect sources of funding for state and local government services.

In presenting this annual report to the Board, our goal is to demonstrate staff's efforts to carry out the Board's policy and at the same time inform the public (and particularly our customer-owners) about the tax burden that is currently hidden within their electric charges, including the uneven manner in which those hidden taxes are distributed through the tax system. That hidden tax burden, which amounts to more than \$535 million per year, represents approximately 15% of LIPA's charges which are used to fund county, municipal, school, and other governmental services.

The report addresses four key areas:

- the extent to which taxes and tax rates vary by location on Long Island for similar utility property;
- the significantly varying valuation of transmission and distribution ("T&D") property among the Long Island towns;
- the historic rapid growth in local taxes on T&D property, which has only partially been addressed by the 2% annual tax cap on T&D property; and
- the disproportionate level of taxes on power plants on Long Island relative to economic value.

In 2016, LIPA staff implemented the Board's policy in these four areas by providing direct information to our customers and stakeholders about the level of and disparity in taxes in published documents including bill inserts and messages, the 2015 annual report, the 2017 budget and this report. We also limited our tax expenses by challenging tax assessments that exceeded the 2% cap on property tax increases on T&D property; identifying additional property that should be covered by the 2% cap; reviewing existing law to ensure that LIPA is making the appropriate tax payments on future plant investment; and advancing tax litigation on the four legacy National Grid power plants that constitute most of the local tax burden on power supply.

LIPA BOARD POLICY

The Policy on Taxes, PILOTs and Assessments adopted by LIPA's Board on September 21, 2016 states the Authority should:

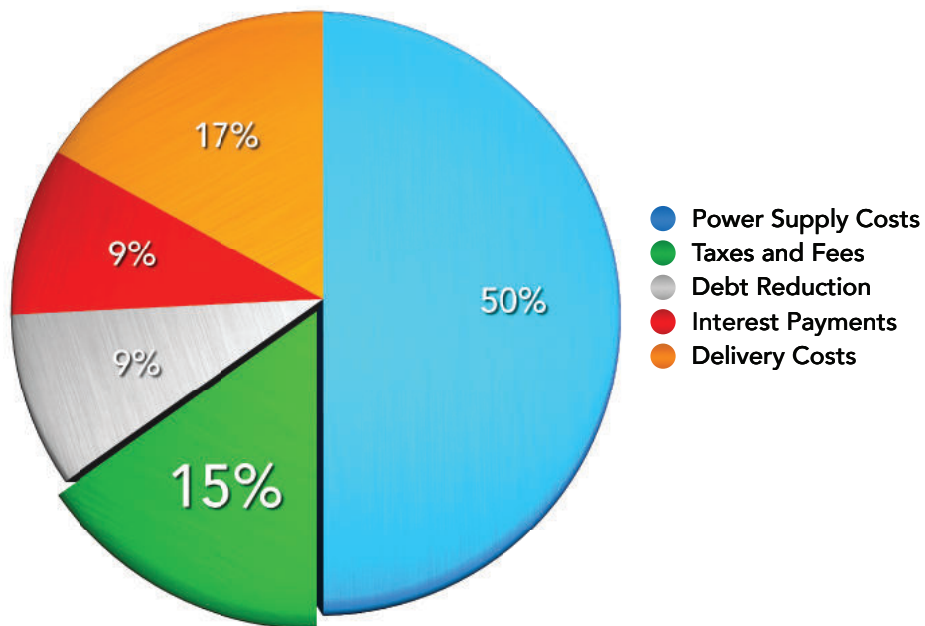
- Pay only such taxes, Payments in-lieu-of Taxes ("PILOTs"), and assessments as are required by law or the Authority's PILOT agreements with local municipalities and avail itself of the lawful right to challenge excessive payment obligations, including a reasonable and economically justifiable level of property taxes imposed on our customers contractually through the providers of generation and transmission service to the Authority.
- Promote tax equity among taxing jurisdictions for all of the Authority's customers to minimize the cross-subsidization of tax payers in some jurisdictions by ratepayers in other jurisdictions and balance the amount of taxes imposed on electricity users compared to all other sources of state and local taxation.
- Inform customers of the burden of taxes, PILOTs, and assessments in their electric rates.
- Seek input from the public on the appropriate balance between taxes, PILOTs, and assessments imposed on electric utility service relative to all other direct and indirect sources of funding for State and local government services.

In carrying out the Board's Policy, the staff has availed itself of a number of strategies that will be discussed in this report. Staff continues to evaluate the effectiveness of its strategies and will seek out new and additional ways to advance the Board's Policy for the benefit of our customer-owners.

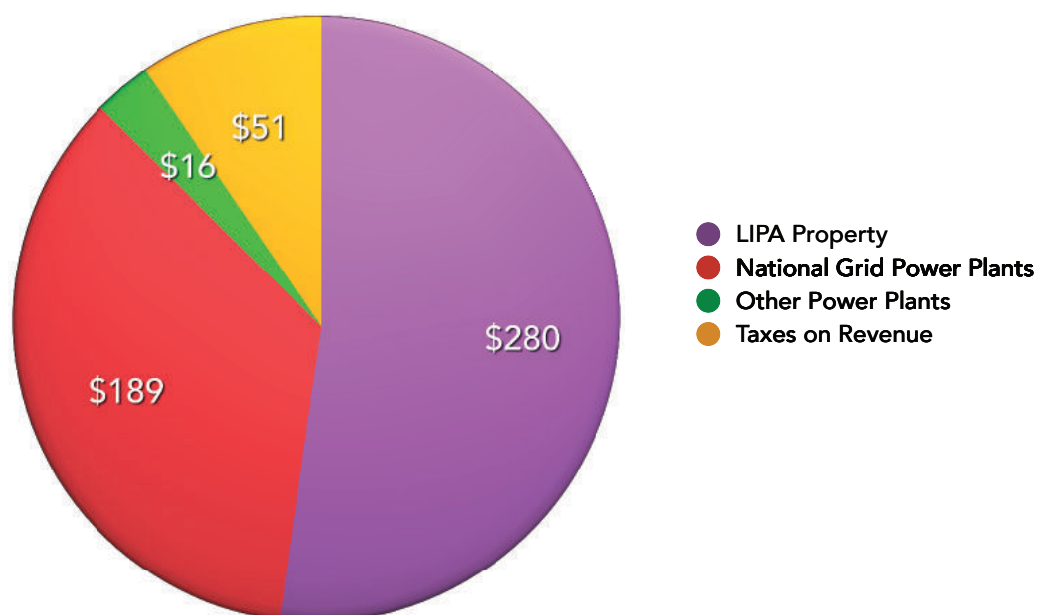
LIPA'S CURRENT LEVEL OF TAX AND PILOT PAYMENTS

The Authority pays over \$535 million per year in property taxes, PILOTs and related fees, or 15% of customers' electric bills – about three times the national average. These are funds that otherwise would go toward reducing customers' electric bills, paying down debt, or investing in reliability and customer service improvements – that is, things that are actually related to the provision of electric service as opposed to providing funds for other municipal services such as roads and schools. It also suggests that electric bills could be 10% lower than they are today if the tax burden on LIPA's electric customers were limited to the national average of approximately 5%.

LIPA Pays Over \$535 Million Per Year in Taxes, PILOTs and Fees
 15% of Customer Bills - 3x National Average



Components of 2016 Taxes and Fees
 (dollars in millions)



This enormous hidden local tax burden imposed on customers through their electric bills consists of:

Property Taxes on Power Plants Under Contract to LIPA. The taxes associated with the four legacy Long Island power plants owned by National Grid Generation are the vast majority of the taxes paid by LIPA on power plants: \$189 million in 2016 and projected at \$196 million in 2017 and \$201 million in 2018. The taxes on all of the other power plants under contract to LIPA are only approximately \$16 million per year. These taxes, as with all power supply costs, are reconciled in electric rates to LIPA's actual payments through LIPA's Power Supply Charge, so customers pay in their electric rates only the actual taxes on power plants that LIPA pays – no more and no less.

Property PILOTs on LIPA-owned T&D Property. LIPA makes payments in lieu of taxes ("PILOTs") on the transmission and distribution property LIPA acquired from Long Island Lighting Company ("LILCO"). The LIPA Reform Act (the "LRA") established a 2% cap in the annual increase in LIPA's T&D property PILOT payments beginning in 2015. Property-based PILOTs were \$280 million in 2016 and are forecast at \$286 million in 2017 and \$291 million in 2018. Our customers pay these costs through LIPA's Delivery Charge, which is adjusted each year to reflect changes in LIPA's T&D PILOT payments so that customers pay in their electric rates only the actual T&D PILOTs that LIPA pays on their behalf – no more and no less.

Revenue-based PILOTs. Revenue based taxes were \$37 million in 2016 and are forecast at \$33 million in 2017 and \$34 million in 2018. Other New York State Assessments on LIPA revenues were \$14 million in 2016 and will fall to \$8 million for 2017 and 2018 with the expiration of the Temporary Conservation Assessment. These taxes, based on LIPA's gross revenues from the sale of electricity, are reconciled in electric rates to LIPA's actual cost through a PILOT payments recovery rider so that customers pay in their electric rates only what LIPA pays on their behalf – no more and no less.

While customers pay in their electric rates only the actual taxes and PILOTs paid by LIPA, the amount of this hidden tax burden is not evident on the face of their electric bill as presently the taxes and PILOTs are combined with other costs in the Delivery and Power Supply Charges. If broken out separately on customer bills, it would be more evident that these taxes and PILOTs to fund government services are more than 15% of LIPA's customer charges.

Below we describe the tax situation by each of the types of taxes or PILOTs imposed on our customers through their electric bill as well as LIPA's efforts to mitigate the effect of these hidden taxes on behalf of our customers.

UNREASONABLY HIGH TAXES ON POWER PLANTS

At the time of LIPA's acquisition of LILCO in 1998, the Authority dismissed all pending tax certiorari cases against municipalities and school districts on its T&D property and the legacy LILCO power plants owned by National Grid Generation. Beginning in 2010, the Authority began filing new tax certiorari challenges against the County of Nassau, the Town of Huntington, the Town of Brookhaven and the Village of Port Jefferson (the "Taxing Jurisdictions") related to the legacy LILCO power plants for which the Authority has committed to purchase power through an amended and restated power supply agreement that runs through 2028. Pursuant to the terms of this power supply agreement, the Authority reimburses National Grid Generation for the property taxes assessed against the plants by the Taxing Jurisdictions. These costs are ultimately paid by LIPA's customers through the rates for electric service. The Authority is pursuing property tax challenges on four local power plants (Barrett and Glenwood in Nassau County; and Northport and Port Jefferson in Suffolk County) because compared to other suburban gas/oil-fired power plants of similar vintage and usage, the taxes on these power plants are grossly over-assessed by 90% or more. The taxes paid on these older units are on average more than double the rate per megawatt of a new plant built on Long Island and triple the rate per megawatt paid for similar vintage plants elsewhere in New York State. The taxes paid by plant are illustrated in the table below.

Property Taxes Paid on Legacy Power Plants

National Grid Power Plant	Property Taxes	Summer Capability (MW)	Property Taxes (\$/MW)
Glenwood	\$17,000,000	114	\$148,395
Port Jefferson	\$28,000,000	393	\$70,356
Barrett	\$36,000,000	663	\$53,818
Northport	\$76,600,000	1,589	\$48,200

The over-taxation of these local power plants can readily be seen in the below chart:

Northport Power Plant 95% Over-Assessed

Plant	Age (years)	Size	Taxes	Capacity Factor
Bowline (units 1-2) Rockland County, NY	42-44	1,135MW	\$2,700,000 (\$2,375 per MW)	15%
Northport (units 1-4) Suffolk County, NY	39-49	1,589MW	\$76,600,000 (\$48,200 per MW)	22%

The above chart compares the taxes on two suburban New York City gas/oil fired power plants of similar early-1970s vintage. Both plants, due to their older technology, run at only 15 to 20 percent of their capacity. Both plants are supposed to have their taxes assessed on the basis of their value. However, the Northport plant, located in Suffolk County, pays approximately \$76.6 million per year, or \$48,200 per megawatt, in property taxes while the Bowline plant, located in Rockland County, pays only \$2.7 million per year, or \$2,375 per MW, a difference of 95 percent. Comparison to the Bowline plant is also particularly relevant and informative because the taxes paid by this plant were significantly reduced following prolonged tax litigation. Taking into account functional and economic obsolescence, and resolving tax challenges dating to 2009, the assessment on the Bowline plant was reduced by over 90% and the North Rockland School District found itself obligated to issue a bond to pay a \$224.5 million tax refund to the former owner of the power plant.

The situation with the property taxes at the steam legacy power plant site in Glenwood Landing is particularly egregious. National Grid decommissioned and tore down the outdated steam facility at Glenwood Landing in 2013 leaving only 114 MW of 1960's vintage obsolete gas turbines on that tax parcel. Today the site of the former steam plant is a large vacant lot. (See page 7)

Glenwood Plant Before Decommissioning

Taxes on 200 MW steam plant + 114 MW gas turbines ~ \$23 million



Glenwood Plant Today

Taxes on 114 MW gas turbines ~ \$17 million



The stark difference in the value of the facilities before and after the decommissioning is quite evident from the pictures, but removing all that structure and equipment from the site had only a minimal effect on the taxes at the site. The generating capacity at that location was reduced by 64%, but the property taxes were only reduced by 27%. In effect, the tax rate per megawatt of remaining capacity was doubled from \$74,000 per megawatt to \$148,000 per megawatt for gas turbines with little functional remaining life.

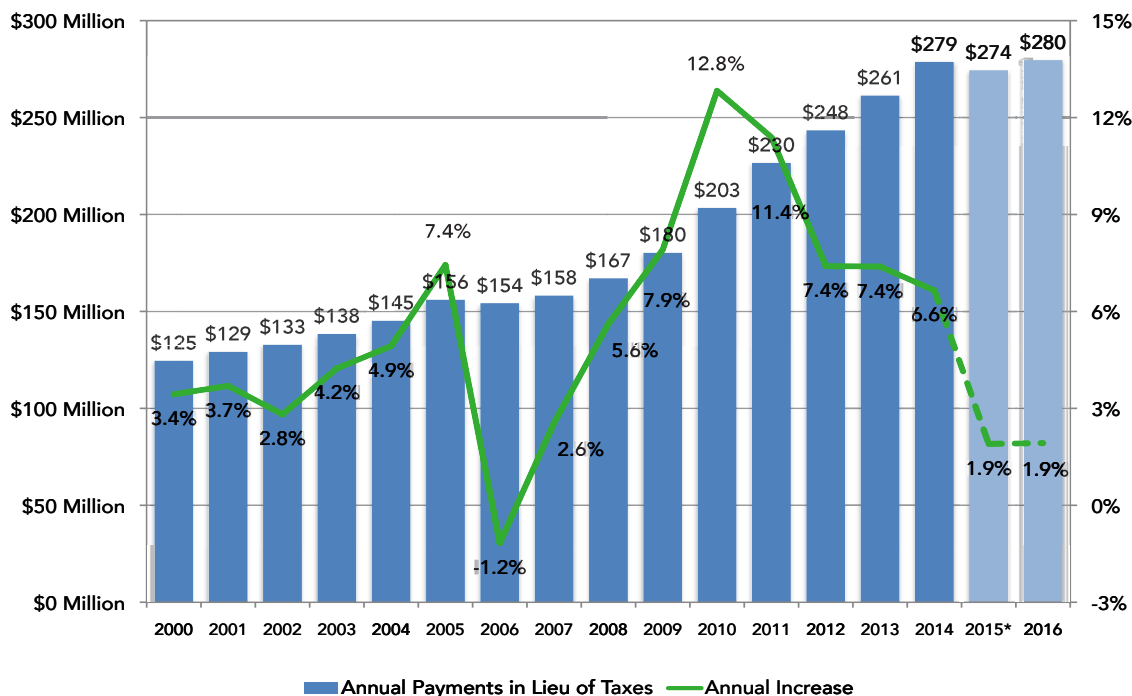
We have sought, and continue to seek through negotiation, an amicable solution for our customers with the Taxing Jurisdictions. To date that solution has been elusive but efforts continue in the Courts. In mid-January 2017, a meeting was arranged with the judge supervising the Northport case at which time the parties, and their appraisal experts, met to discuss a trial schedule.

We hope that the prospect of movement toward trial, in which the Authority would assert among other things appropriate recognition of functional obsolescence and economic obsolescence for these vintage power plants, will prompt the Town of Huntington and the other Taxing Jurisdictions to return to mutually beneficial negotiations. The longer these over-assessments continue, the greater the potential tax refund owed to LIPA's customers by these Taxing Jurisdictions. We estimate that a fair market value assessment of these legacy LILCO plants would reduce the Authority's tax obligation by more than \$185 million per year, which would be passed along immediately to our customers to lower their electric bills.

GROWTH IN LOCAL TAXES ON LIPA'S T&D PROPERTY

The real property tax is an “ad valorem” tax, meaning it is based on the value of taxable real property. With few exceptions, all tangible utility property, plus the value of the franchise right to operate in the public way, are assessable for property tax purposes. The original LIPA Act provides the Authority with tax-exempt status as a publicly owned entity with respect to its property and any property it acquired from LILCO. However, in recognition of the potentially drastic fiscal impact on municipalities of the sudden loss of all real property taxes previously paid by LILCO, the LIPA Act also provides for the Authority to make payments of PILOTs to municipalities and school districts on the T&D System property directly acquired from LILCO.

Transmission and Distribution Property Taxes



*2015 Reduction Due to Elimination of Nassau County Sanitation District Tax

LONG ISLAND POWER AUTHORITY

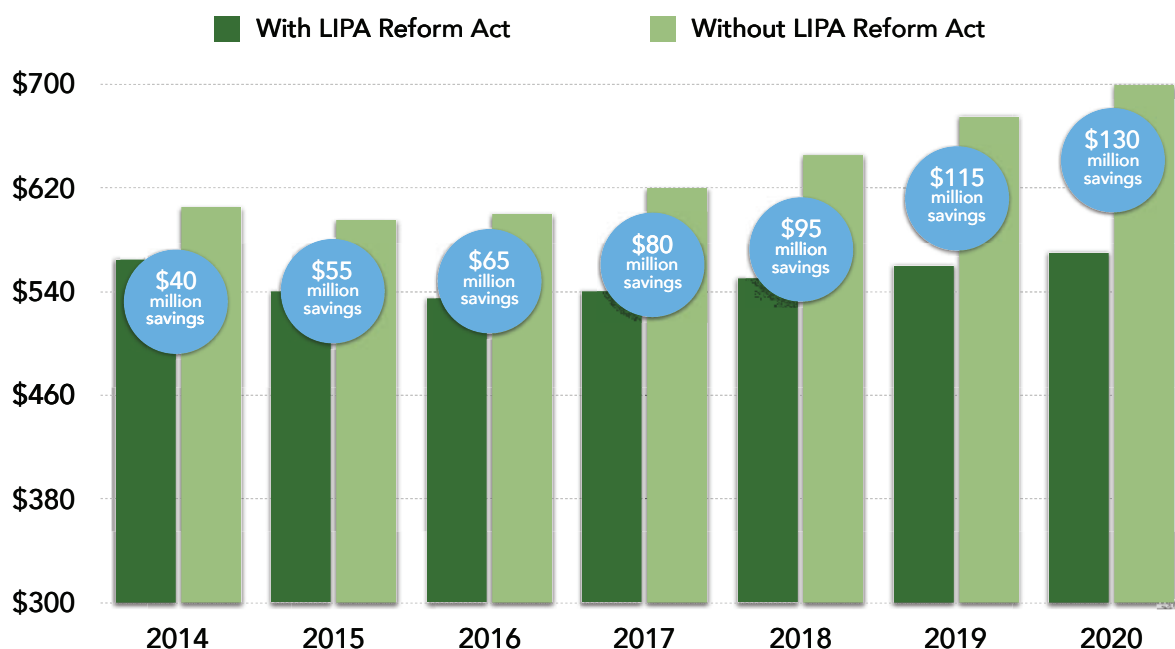
Annual Report on Property Tax Reduction Efforts

February 14, 2017

As illustrated in the previous chart, in the years following the LILCO acquisition, property PILOT payments to local governments grew at a rapid pace – on average 6.6% per year between 2004 and 2014, including increases in excess of 10% per year in 2010 and 2011. This high rate of growth more than doubled the amount of hidden taxes on LIPA's T&D property recovered through electric rates from our customers.

This high and hidden burden was partially addressed with the LIPA Reform Act of 2013. The LIPA Reform Act effectively capped the annual future increase in property tax payments on any parcel to no more than 2% over the payment made in the prior calendar year for that same parcel. The LIPA Reform Act also eliminated a portion of LIPA's revenue tax obligation, which saved an additional \$40 million per year for customers. The benefit of these changes has been substantial. As noted in the chart below, the impact of the LIPA Reform Act is anticipated to produce cumulative savings of \$580 million through 2020, compared to the growth rate in T&D PILOTs before the Governor and the Legislature stepped in to provide relief to LIPA customers.

Taxes, PILOTs & Fees With and Without the LIPA Reform Act (\$000)



EFFORTS TO REDUCE T&D PILOT PAYMENTS

LIPA's efforts to reduce PILOT payments on the T&D system are focused on (1) ensuring that all taxing jurisdictions abide by the 2% tax cap that applies to LIPA; (2) identifying additional property subject to the 2% tax cap; (3) monitoring high assessments for T&D property by the various taxing jurisdictions on Long Island and challenging such overassessments; and (4) conducting a review of the PILOTs assessed on new property additions subsequent to the LILCO acquisition. These efforts are described further below.

Monitoring of the 2% Cap on Increased Annual PILOT Payments

The potential savings from the 2% cap on T&D tax increases contained in the LIPA Reform Act need to be monitored to ensure that they are realized. Beginning in January 2015, the Authority commenced a review of the PILOT payment invoices received from the various Long Island taxing jurisdictions to monitor compliance by the tax assessors with the 2% cap. That review found that certain municipalities and school districts had billed LIPA for increases of more than 2% over the 2014 calendar year. In these situations, LIPA limited its remittance to the statutory amount and informed the taxing authorities of its action. A law suit filed in January 2016 by 45 Nassau County school districts reached a settlement that affirms the Authority's calculations and implementation of the 2% tax cap. The Authority continued to work with municipalities and school districts across the service territory in 2016 to ensure proper implementation of the 2% cap.

Identification of Additional Properties for Further Application of the 2% Tax Cap

Another step that LIPA is taking to reduce the burden of T&D PILOTs is to identify all the LIPA-owned T&D property where the 2% tax cap should apply but at present does not. During implementation of the 2% cap, the Authority identified that certain T&D equipment owned by LIPA is located on tax parcels jointly used by LIPA and National Grid ("joint use property"). The valuation of the LIPA equipment is often incorrectly billed to National Grid as the records of the taxing jurisdictions do not always reflect the proper ownership. National Grid then invoices LIPA for its share of the taxes. A working group comprised of LIPA, PSEG Long Island, and National Grid staff has been established to identify these joint use parcels and ensure the taxing jurisdictions separate this property into separate tax parcels by owner. By separating the joint use property, the portions used exclusively by LIPA for the provision of electric service will properly reflect the 2% cap going forward.

Reducing PILOTs by Reviewing Unreasonably High T&D Assessments

The PILOTs for the Authority's T&D system encompass two types of property taxes: special franchise tax and real estate tax. Special franchise tax is paid on equipment owned by LIPA situated on land that is owned by the public, such as roads, highways and bridges. Real estate tax is paid on land, structures, and equipment located on property owned by the Authority (or privately-owned property used by LIPA).

There are two components to property tax PILOT calculations: the value of the property being taxed and the assessment rate on that property. The assessment rate (often expressed per \$100 of assessed value) is determined by the taxing jurisdiction at a level intended to produce the amount of tax revenues required for that tax year. A handful of assessment rates may be developed, with a different rate applicable to a different class of property (residential, commercial, etc.), but all property in the class is assessed at the same rate. The value of the assessed property, however, is not that straight-forward, and deserves further description.

The State Board of Real Property Tax Services (the "SBRPTS") is charged with valuing special franchise utility property (i.e. utility equipment located in public right of way) and the Office of Real Property Tax Services (the "ORPTS"), part of the New York State Department of Taxation and Finance, effectuates the policies of the SBRPTS. By contrast, local tax assessors are charged with valuing real estate property (i.e. that utility property and equipment located on LIPA-owned land or private land used by LIPA). New York law provides no standard, formulaic methodology for assessing this real property. Within the Authority's service territory there are at least twelve local tax assessors who prepare assessments on the Authority's real property: the New York City Department of Finance, the Nassau County Assessor and the assessors in each of the ten towns in Suffolk County.¹

It is fair to say that some local property assessors have little experience in determining the value of utility property. As a result, LIPA finds that identical property with regard to function, condition and age may be assessed at markedly different values depending solely on which tax assessor valued it.

¹ In addition, the 97 incorporated villages and two cities in Nassau may also assess the value of parcels of real property located within their municipal boundaries.

LIPA and PSEG Long Island have formed a working group to review the assessments of the Authority's property (e.g., substations, warehouses, service and dispatch centers, etc.) throughout the service territory in order to identify where a tax assessment may be disproportionate vis-a-vis other similar property within the service territory. LIPA intends to file tax certiorari grievances in order to seek correction of unreasonably high property assessments on an ongoing basis. The grievances would, among other things, question the valuation determination in light of its disproportionate nature as well as assert appropriate recognition of functional and economic obsolescence. The potential for unreasonably high tax assessments is great given the large number of individual assessing units within the service territory and the potential that individual assessors may apply different standards.

Reviewing tax assessments is a routine function performed by all electric utilities in New York. Certain of the major electric utilities in New York have in the past supported legislative proposals that would centralize the valuation of all utility property in ORPTS, which due to their expertise and independence would ensure greater consistency among taxing jurisdictions as well as provide for a uniform method of assessment of utility property statewide. Such a proposal would reduce the number of separate tax grievances required to be filed by utilities.

Review of PILOTs on New Infrastructure Investments

LIPA's ongoing investment in the T&D infrastructure used to serve customers leads to higher tax payments and, therefore, higher electricity bills. For example, the Authority's 2017 Capital Budget funds \$716.5 million in infrastructure investment earmarked to improve reliability and resiliency that when added to assessments on LIPA's existing T&D System results in additional increases in LIPA's annual PILOT payments (subject to the 2% cap).

The Authority is reviewing its enabling statute, which indicates that investment in additional infrastructure is exempt from taxation and should be excluded from the calculation of the tax assessments on its T&D system. The Authority's statutory obligation to make PILOT payments applies only to "property theretofore owned by LILCO [that was] acquired by the [A]uthority." Taxing jurisdictions currently do not reflect this statutory exemption on infrastructure improvements in their property tax assessments.

Obstacles to Reducing Property Taxes and PILOTs on T&D Property

One of the largest hurdles in managing the Authority's PILOT payment burden is the property tax law itself, which assigns a greater tax burden to utility property than in most other states. The Real Property Tax Law ("RPTL") subjects virtually all of utility infrastructure and equipment to property taxation. The RPTL specifically mandates inclusion of public utility property in the definition of real property, including:

(e) Mains, pipes and tanks permitted or authorized to be made, laid or placed in, upon, above or under any public or private street or place for conducting steam, heat, water, oil, electricity or any property, substance or product capable of transportation or conveyance therein or that is protected thereby;

(f) Boilers, ventilating apparatus, elevators, plumbing, heating, lighting and power generating apparatus, shafting other than counter-shafting and equipment for the distribution of heat, light, power, gases and liquids, but shall not include movable machinery or equipment consisting of structures or erections to the operation of which machinery is essential, owned by a corporation taxable under article nine-a of the tax law, used for trade or manufacture and not essential for the support of the building, structure or superstructure, and removable without material injury thereto;

No other companies in the State commercial class (Class 4) pay property tax on the equipment they own, as their tax is paid only on their real estate (land) and buildings. Likewise, other businesses in New York are not required to pay taxes on their equipment. If property tax was applied to the State's manufacturing industry it would likely drive the manufacturing industry out of the State. LIPA's stakeholders are often surprised to learn that an electric cable transporting energy under the street is subject to property tax. In other states, property taxes are not typically applied to such utility equipment. For instance, in New Jersey, utilities pay property taxes only on the land and structures they own, not on the value of the equipment in the public right-of-way or within their buildings.

Another major hurdle in managing our property tax cost is the varying effect of the "class share" tax classification system applicable in only Nassau County and New York City (Rockaways portion of Queens County), which generally results in higher tax payments to local governments than in Suffolk County.

There are four classes of property in the Nassau and New York City jurisdictions:

- Classes 1 and 2 pertain to various forms of residential property.
- Class 3 contains most utility property. Special franchise property is included within this class.
- Class 4 contains all commercial and industrial properties, such as office, retail, factory buildings and all other properties not included in tax classes 1, 2 or 3.

With minor exceptions, the vast majority of the Authority's property and National Grid Generation's power plants located in Nassau County and the Rockaways are included in Class 3, with the remainder included in Class 4. Each class in Nassau County and New York City is responsible for a specific share of the property tax levy, known as the "class share." This classification system virtually ensures that the Authority will pay an unfair tax burden in Nassau County and New York City compared to other classes of property owners. It does so by singling out public utilities and keeping the properties for which the Authority is responsible as the lion's share of the assessed value in a separate tax class. It ensures that the utility class pays a disproportionate share of the tax levy in relation to the market value of the property, and it acts to prevent reassessment of the Authority's property in Nassau County and the Rockaways from allowing the tax burden to shift to other property classes to result in a more equitable valuation. Con Edison, which is also subject to this system in New York City, has long supported legislative efforts to merge the two non-residential property classes (Classes 3 and 4) to address this issue.



Northport Power Plant (photo by Rotor Air Cam)

VARYING TAX AND PILOT PAYMENTS BY TAXING JURISDICTION

While all customers bear the burden of excessive property taxes within their electric bill, the relative tax burden is significantly different depending on where the customer is located on the Island. An analysis of local property taxes reveals significant ratepayer inequity as some Long Island towns transfer the cost of their local government services to electric customers in other municipalities through LIPA tax and PILOT payments. Customers pay similar electric rates all throughout the Island. The taxes and PILOTs that LIPA remits to the local governments, however, vary widely by jurisdiction for reasons described previously.

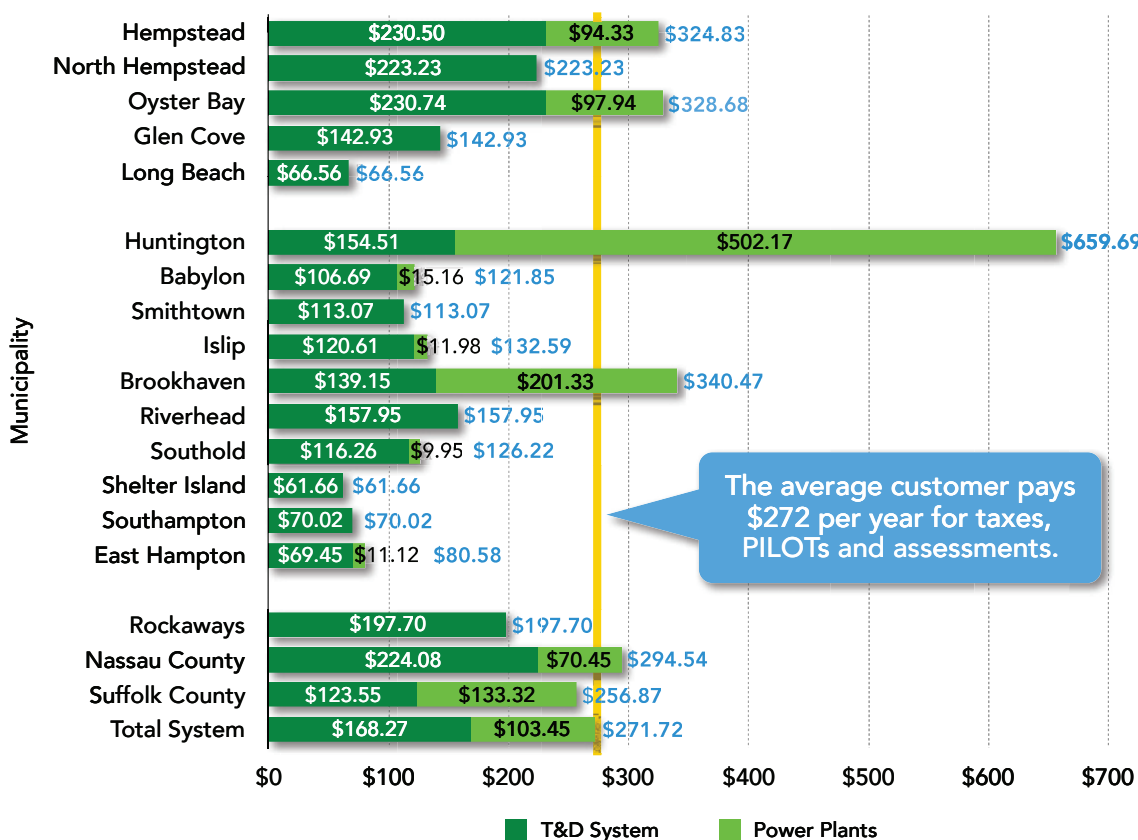
The graph on the following page shows the taxes and PILOTs transferred to governments within each town on Long Island compared to the amount paid by customers in that town through their electric bills. A typical LIPA residential customer pays approximately \$1,800 per year for electric service. Of that amount, approximately \$272 per year (15%) of their electric bill funds the tax and PILOTS payments LIPA is billed for local government services.

While the average resident of the Town of Huntington pays \$272 per year for local taxes imposed on LIPA, the graphic shows that the Town of Huntington bills LIPA almost \$657 per customer per year (35% of the typical electric bills in that town), a benefit of \$385 per year per typical household that is funded by residents of all the other towns on Long Island. Essentially, residents in the Town of Huntington receive transfer payments from other LIPA customers to support local government services. Those transfer payments are more than twice as much as the amount they pay LIPA to fund taxes in their electric bill.

By contrast, customers in Babylon get back only about \$122 per year (5%) per year for the \$272 per year (15%) they pay in taxes through their electric bills. This form of indirect tax subsidy occurs throughout LIPA's service territory.

Local Property Taxes and PILOTS Paid per Year Expressed in terms of a Typical Residential Electric Bill

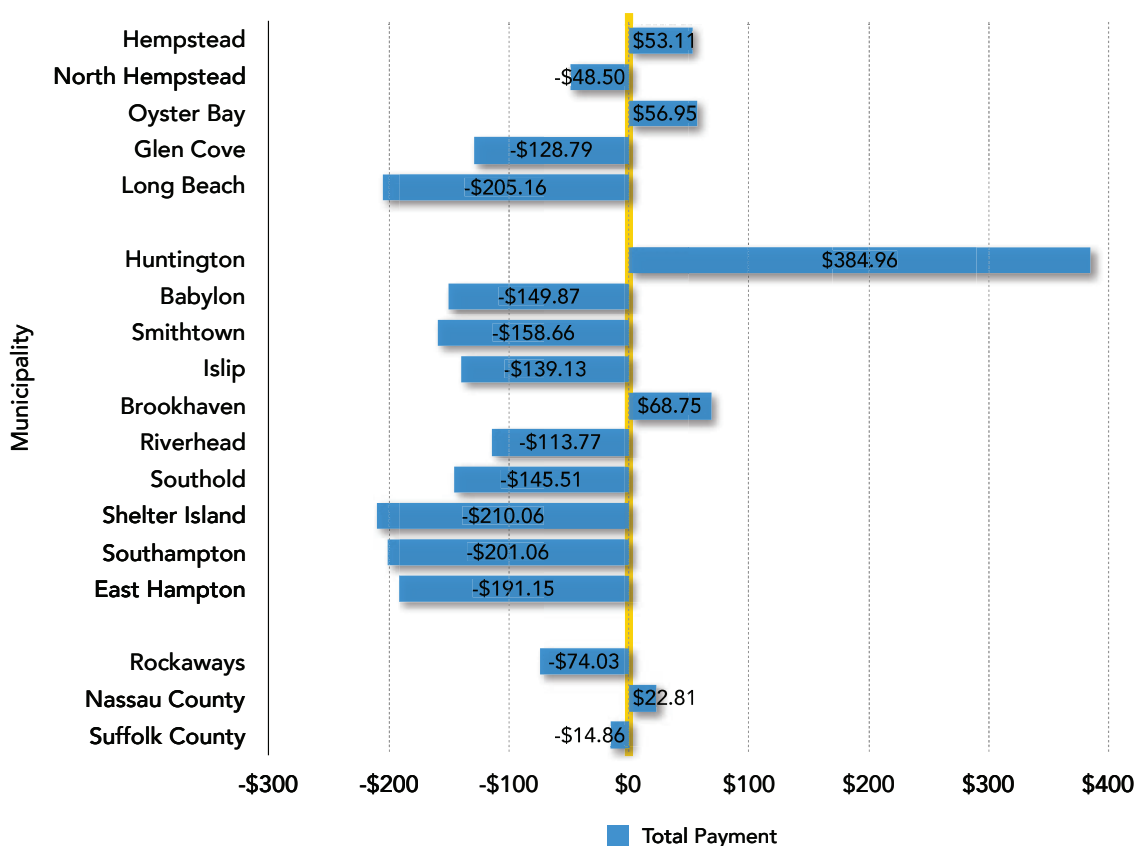
Municipalities with Greater than Average Bill Receive More in Property Taxes from other Jurisdictions
Than Their Residents Pay in their Electric Bills



Local Property Taxes, PILOTs and Fees Paid to Municipality expressed as a Customer Bill

The next table portrays the difference between how much each town receives in taxes from LIPA compared to how much the residents of that town contribute through their electric bill. For example, the average resident of the Town of Hempstead receives about \$53 per year more in taxes from LIPA than they pay through their electric charges, while the average resident in North Hempstead receives about \$48 per year less in taxes from LIPA than they pay through their electric charge. As this chart shows, residents of the Towns of Huntington and Brookhaven are net beneficiaries of the current system because of the legacy power plants located in those towns. The Nassau Towns of Hempstead and Oyster Bay are net beneficiaries as a result of their higher taxes on LIPA's T&D system (for reasons relating to state law described above). Customers in the remaining towns are net subsidizers of those four towns.

Net Impact of Local Property Taxes and PILOTS Expressed in terms of a Typical Annual Residential Electric Bill

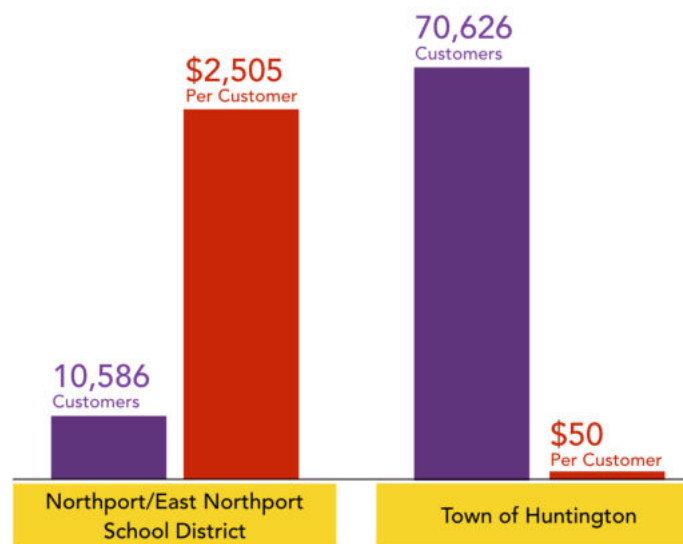


Local Property Taxes, PILOTs and Fees Paid to Municipality less Amount Charged on a Customer Bill

For clarity of presentation, the previous charts indicated this phenomenon at the township level. The following charts, however, depict the even greater disparity between taxing jurisdictions when examined at the village or school district level, because there are multiple school districts in each town with different tax rates and different tax bases. This is particularly true for the towns with the legacy National Grid steam power plants.

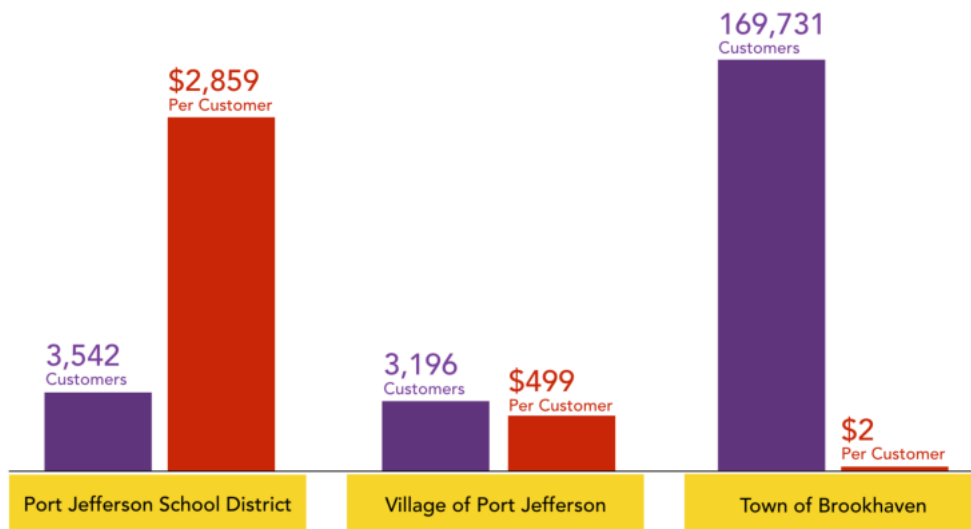
Within the Town of Huntington, while the average gain for the whole town is about \$385 per customer per year, much of the taxes imposed on the Northport Plant are remitted to the Northport-East Northport School District while neighboring school districts in Elwood, Commack and Harborfields receive no payment. A resident of Elwood for example, while in the Town of Huntington, receives only \$50 per year of benefit from the current tax system, while most of the benefits flow exclusively to 10,586 customers of the portion of Huntington served by the Northport-East Northport School District, who get \$2,505 per year of benefit.

Benefit to Residential Customers in Huntington Town from Taxes on Northport Power Plant

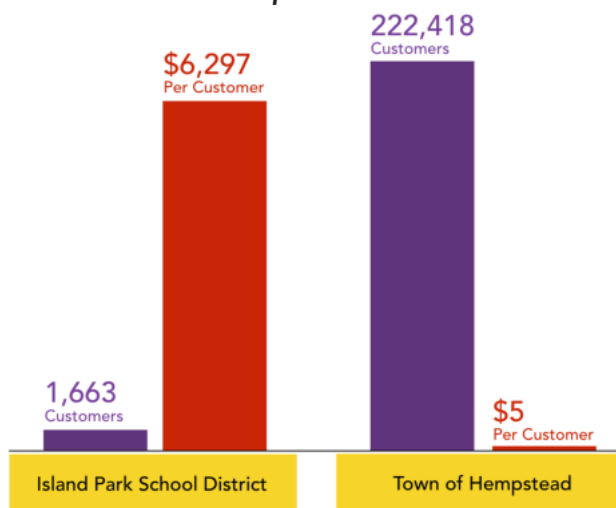


This same phenomenon occurs in the towns of Hempstead and Brookhaven. As shown on the following charts, the approximately 5,200 customers located in the Island Park and Port Jefferson school districts benefit greatly from the school taxes paid by the legacy power plants in their districts, but the majority of customers in those towns actually receive only \$2-\$5 per year from these power plants under the current property tax system.

Benefit to Residential Customers in Brookhaven from Taxes on Port Jefferson Power Plant

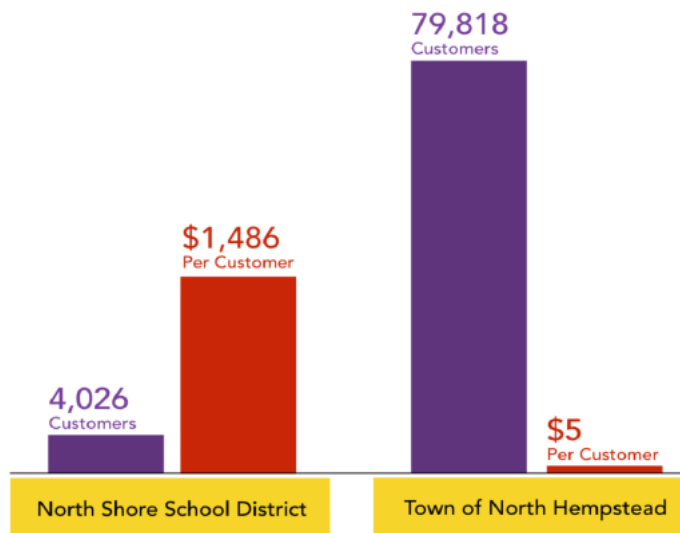


Benefit to Residential Customers in Hempstead Town from Taxes on Barrett Power Plant



The situation at Glenwood power plant is emblematic of the redistribution of ratepayer dollars between communities combined with over-assessment on LIPA's property. The power plant site at Glenwood Landing is located in the town of North Hempstead, but the school taxes predominantly benefit residents of the North Shore School District, which straddles the town boundaries of the towns of North Hempstead and Oyster Bay. Furthermore, these taxes are being paid on a power plant that was decommissioned and dismantled, essentially vacant land. Except for the 4,000 customers located in the North Shore School District, all other residents of the towns of North Hempstead and Oyster Bay also subsidize the four school districts that benefit disproportionately from the current property tax paradigm.

Benefit to Residential Customers in North Hempstead from Taxes on Glenwood Power Plant



FUTURE ACTIVITIES

Property taxes are a major component of electric utility costs and a major driver of the need for rate increases to recover those costs. For over a decade, the Public Service Commission has required New York investor owned utilities ("IOUs") to report on their efforts to minimize their property tax expenses to the greatest extent possible. Typically, IOUs are provided significant incentives by the Commission to contain current property tax expenses and also to pursue fundamental taxation changes to benefit customers. The Authority pursues the same goals but does not retain any portion of reduced taxes or refunds. Instead, as a publically owned authority, 100 percent of any refunds or reductions are directly returned to customers. The Authority's ongoing efforts, which are consistent with the practices of utilities regulated by the Public Service Commission, will continue to provide significant benefits to the customer-owners of Long Island's electric system.

The Policy on Taxes, PILOTs and Assessments approved by LIPA's Board in September of 2016 has highlighted the ongoing activity and effort by LIPA to achieve tax equity and inform our customers about the local municipal taxes that are being collected through LIPA's charges for electricity. The activities already underway for 2017 include the continued pursuit of tax relief on power plants through the Courts, the review of the addition of infrastructure investment in property tax assessments, and the proper recording of real estate ownership for joint use property so as to ensure the application of the 2% cap on such property. By way of this annual report on taxes, the Authority will continue to inform the Board and the public of staff's efforts to meet the expectations of the Board's policy.

