

FOR CONSIDERATION

September 27, 2017

TO: Oversight Committee of the Board of Trustees

FROM: Thomas Falcone

REQUEST: Consider Recommending that the Board Authorize the Execution of an Amendment to the Energy Purchase Agreement with Exelon Generation Company, LLC for the FitzPatrick Plant

Requested Action

The Oversight Committee (the “Committee”) of the Board of Trustees is requested to recommend that the Board approve and adopt a resolution authorizing the Chief Executive Officer or his designee to execute an amendment to the energy purchase agreement between the Long Island Lighting Company d/b/a LIPA (“LIPA”) and Exelon Generation Company, LLC (“ExGen”) for the continued sale of nuclear energy from the FitzPatrick Nuclear Power Plant (the “FitzPatrick Plant”) to LIPA, as set forth herein.

Background

LIPA has purchased power from the FitzPatrick Plant under a legacy contract dating back to 1975 (“Contract UD-3S”). The FitzPatrick Plant supplies approximately five percent of Long Island’s energy requirements. Since its acquisition of the FitzPatrick Plant from Entergy in March 2017, ExGen has been providing power to LIPA pursuant to Contract UD-3S¹ (the “Agreement”). The energy price under the Agreement is fixed, and serves as a financial hedge against volatile fossil fuel and electricity costs. Additionally, the energy provided under the Agreement is associated with LILCO’s transmission service agreements with Niagara Mohawk and Con Edison that have been used since 1975 to deliver the energy from the FitzPatrick Plant to Long Island.

In recognition of these transmission service agreements, the New York Independent System Operator (“NYISO”) awarded LIPA “grandfathered” transmission congestion contracts (“TCCs”) which are valuable financial instruments that provide the financial equivalent of delivering the FitzPatrick energy to Long Island by compensating LIPA for the “congestion” (essentially, the difference in electricity price) between the plant’s location in Scriba, New York and Long Island. To maintain the full benefits of the grandfathered transmission agreements, the NYISO requires that LIPA have a corresponding energy purchase agreement in place. The Agreement, which was last extended in 2014, is scheduled to expire on December 31, 2017.

¹ Effective March 31, 2017, ExGen assumed all of Entergy Nuclear Power Marketing, LLC’s rights and obligations under the Fourth Amended and Restated Contract UD-3s, pursuant to an Agreement and Consent to Assignment, Assumption and Novation, dated as of February 1, 2017 among LIPA, Entergy Nuclear Power Marketing, LLC and ExGen.

Discussion

In recognition of the impending expiration of the Agreement, LIPA and ExGen have negotiated an amendment providing for another three-year extension, which would begin on January 1, 2018 and provide for the purchase by LIPA of annual energy volumes generally equivalent to those set forth in the current Agreement. The energy would be scheduled to LIPA by Entergy on a day-ahead basis in accordance with NYISO rules.

The energy price would be fixed for the three-year term at a rate significantly lower than the current price, which reflects the market prices which are anticipated to prevail during the next three years. PSEG Long Island advises that this pricing, when combined with the net benefits of the TCCs (i.e., the amount by which the TCC revenues related to the contract are expected to exceed the charges under the transmission service agreements), would provide economic benefits to LIPA's customers compared to the alternative of not extending the contract and securing the energy elsewhere. Additionally, the fixed price non-fossil based energy provides a hedge against energy price volatility as well as providing a carbon free energy source to LIPA. The estimated total contract value of the 3-year extension is approximately \$102 million.

It should be noted that the other terms and conditions of the Agreement will remain substantially the same.

Recommendation

Based on the foregoing, I recommend approval of the above-requested action by adoption of a resolution in the form of the attached draft resolution.

Attachment

Exhibit A Resolution

RESOLUTION TO RECOMMEND FOR APPROVAL THE FITZPATRICK CONTRACT EXTENSION

WHEREAS, the Authority and its predecessor LILCO have been purchasing power from the Fitzpatrick nuclear plant since 1975 and the current power purchase agreement between LILCO and the current plant owner Exelon Generation is set to expire on December 31, 2017 (“FitzPatrick PPA”); and

WHEREAS, PSEG Long Island has negotiated an extension of the FitzPatrick PPA under favorable terms and conditions which enable the Authority to continue to purchase carbon-free energy to supply approximately 5% of its annual energy requirements (“FitzPatrick PPA Amendment No. 5”);

NOW, THEREFORE, BE IT RESOLVED, that the Oversight Committee of the Board of Directors recommends that the Board authorize the Chief Executive Officer or his designee to execute the FitzPatrick PPA Amendment No. 5 and such other documents as may be necessary or appropriate to effectuate it, consistent with the accompanying memorandum.