Long Island Power Authority

PROPERTY TAX REDUCTION EFFORTS

2018 REPORT

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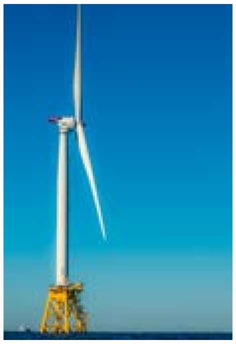
Mission Statement:
LIPA is a not-for-profit public utility with a mission to enable clean, reliable, and affordable electric service for our customers on Long Island and the Rockaways.

LETTER FROM THE CEO



New York's first Offshore Wind Farm, Operational in 2022

Long Island's Electric Grid is Changing

For nearly sixty years, the communities of Northport, Port Jefferson, Island Park, and Glenwood have played host to four large, fossil fuel power plants. Built in the 1950's and 1960's, the power plants once ran to their full capability and were a major source of Long Island's electricity needs.

Over the years, technology has improved, other power plants have been built, and the state has adopted aggressive clean energy goals. LIPA now has 32 power plants under contract, New York state's first offshore wind farm and utility-scale battery projects, three of the state's largest utility-scale solar farms, and the state's largest commitment to clean fuel cell technology. Long Island is also home to New York's most vibrant rooftop solar market, with over 40,000 customers. Meanwhile, new appliances and lighting use less electricity, allowing customers to save on their electric bill. With new clean energy sources, customers using less electricity and producing more of it themselves, the use of the four older plants continues to decline.

Construction of the E.F. Barrett Power Plant in Island Park, NY (1956)

High Property Taxes on Long Island Power Plants

While these four legacy power plants produce less energy every year, the hidden property taxes that LIPA customers pay through their electric bill continues to rise. These hidden property taxes provide school tax relief for the less than 25,000 homeowners in the communities that host the plants. And the taxes on these plants are 20, or more, times their fair value.

If left unchecked, the property taxes on these four legacy plants paid by all of Long Island residents through their electric bills will be more than $2 billion over the next decade.

Customers hosting power plants deserve their fair share of taxes. Our other 1.1 million customers also deserve to pay no more than their fair share for school tax relief in communities other than their own.

Obstacles & Opportunities

LIPA continues to seek fair tax assessments for the four legacy power plants. Our solution involves bringing the taxes paid on these four aging power plants down to a sustainable level over nine years.

LIPA is also pursuing fair taxes in other ways.

Through the release of this report, it is our hope that local leaders and the community at large recognize the obstacles as well as the opportunities to solve these complex issues that affect all of Long Island.

Thomas Falcone
Chief Executive Officer

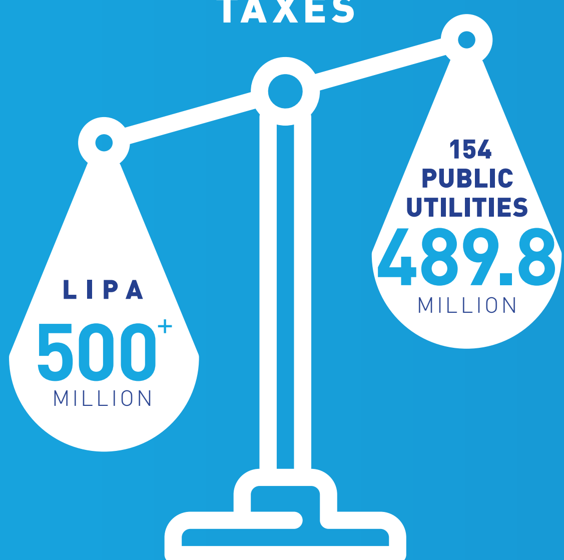
A FAIR TAX, CLEAN ENERGY FUTURE

Reducing utility property taxes furthers LIPA's mission to provide clean, reliable, and affordable energy to our 1.1 million customers on Long Island and Rockaways.

FAST FACTS

1. Where does LIPA Rank?

LIPA customers pay more in taxes and payments-in-lieu-of-taxes ("PILOTs") than 154 utilities* combined.



*Recent APPA Survey

15% of PSEG Long Island bills are taxes and fees

3X the National Average

2. High taxes on legacy power plants

$196 MILLION ANNUAL TAX BILL FOR **4** LEGACY POWER PLANTS

Northport | Pt. Jefferson | E.F. Barrett | Glenwood Landing

ENERGY OUTPUT **22%** OF LONG ISLAND'S ELECTRICITY NEEDS

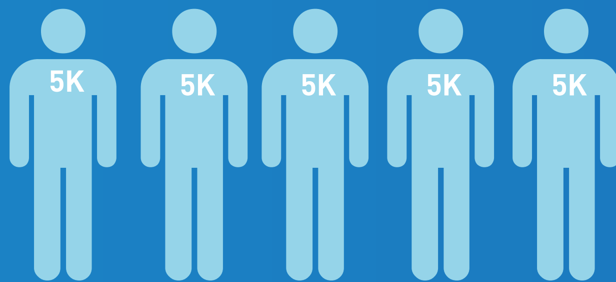
3. Where do the taxes go?

$2 billion will go to pay property taxes on four legacy power plants over the next decade.

63%

LEGACY POWER PLANT PROPERTY TAXES

GO TO



25,000

CUSTOMERS

='S 5,000 Customers

4. A new energy grid on the horizon

New York has a nation-leading mandate to generate 50% of the state's electricity needs from renewable sources.

LIPA and PSEG Long Island are doing their part:

- NY's First Offshore Wind Project
- Leading NY in Rooftop Solar
- NY's First Utility-Scale Battery Project
- Largest Fuel Cell Commitment

5. Decreasing power production from legacy power plants

Energy efficient appliances and renewable energy sources

+

=

Declining use of legacy power plants

EXECUTIVE SUMMARY

Taxes are the Long Island Power Authority's ("LIPA" or "the Authority") third largest expense at over $538 million, or approximately 15 percent of customer bills. As a result, LIPA continually strives to minimize the impacts on bills that are caused by high utility property taxes. Similar to grieving property taxes on residential homes, utilities across the United States challenge tax assessments to ensure our customer-owners pay no more than their fair share of taxes through their electric bill. If assessed accurately by local tax assessors, property taxes[1] are fair to both the communities that host the electric grid and the electric customers paying the bills.

A recent survey[2] indicates that the 15 percent tax burden embedded in Long Island electric rates is one of the highest in the nation -- roughly three times the national average. LIPA's property tax burden is not only among the highest in the nation, but also among the highest in New York state.

There are several causes of the high tax burden in Long Island's electric rates:

- A statewide approach to taxation of public utility property that places more of the cost of government services on utility customers than in other states[3];
- More than 13 property tax assessors[4] for the LIPA service territory, with some assessors valuing utility property at excessively high valuations; and
- Four aging power plants under contract to LIPA that are appraised by the local tax assessors at over 20 times their fair value.

LIPA's high local taxes are the result of long-standing issues with both the Nassau and Suffolk County tax assessment systems as well as certain public policy decisions.[5]

LIPA customers pay $196 million in taxes on four legacy power plants that supply only 22 percent of Long Island's energy needs. A common misperception is that the property tax burden embedded in electric rates results in lower property taxes for all of Long Island's residents and businesses. In actuality, there is a significant redistribution of the tax burden, which benefits less than two percent of LIPA's customers that live within the four school districts hosting these legacy power plants, at the expense of the other 98 percent of customers.

The balance of this Annual Report discusses the:

- Policy Adopted by the LIPA Board to Promote Fair Taxation;
- Types of Taxes Paid by LIPA;
- Taxes and Run-Time on Four Overassessed Legacy Long Island Power Plants;
- Proposals to Transition Local Communities to a Sustainable Tax Future; and
- Taxes on LIPA's Transmission and Distribution System.

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[1] The term taxes in this report refers to property taxes, payments-in-lieu-of-taxes ("PILOTs") and other assessments and fees.

[2] Public Power Utilities Give Back, American Public Power Association.

[3] LIPA pays gross receipts and property taxes on utility property. Property is assessed at replacement cost new less depreciation ("RCNLD"). Nassau County and New York City additionally have a four-class tax system with separate tax rates for each class, resulting in higher effective tax rates on utilities. By contrast, most states value utility property based on original cost less depreciation, resulting in lower taxes than RCNLD. And some states, like New Jersey, Idaho, Michigan, Minnesota and Texas apply gross receipts or corporate business taxes to utilities in lieu of property taxes.

[4] LIPA's utility property is separately assessed for tax purposes by Nassau County, the ten towns of Suffolk County, villages in Suffolk County, the City of New York, and the State of New York, often with different values for the same property.

[5] 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 BOARD POLICY ON TAXES

Property taxes are a major component of electric utility costs and a driver of the need for rate increases to recover those costs. In 2016, LIPA's Board of Trustees adopted a Policy to reduce customer bills by paying only the reasonable and economically justified level of taxes required by law.

The Policy on Taxes, PILOTs, and Assessments adopted in a unanimous vote of LIPA's Board on September 21, 2016 states the Authority should:

- Pay only such taxes, Payments-in-lieu of Taxes ("PILOTs"), and assessments as 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 the Authority's customers to minimize cross-subsidization of taxpayers in some jurisdictions by ratepayers in other jurisdictions and balance the 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; and
- 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, LIPA staff has availed itself of several strategies discussed in this report and will continue to seek new and additional ways to advance the Board's Policy for the benefit of our customer-owners.

The New York State Public Service Commission ("PSC") requires New York utilities to report on their efforts to minimize their property tax expenses. ***As a publicly 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 PSC, will continue to provide significant benefits to the customer-owners of Long Island's electric system.

LIPA'S ANNUAL TAX PAYMENTS

In 2017, LIPA budgeted over $538 million in taxes, approximately 15 percent of customer bills, as shown in Figure 1. As shown in Figure 2, LIPA's tax payments include:

- $212 million of local property taxes on power plants owned or under contract to LIPA;
  — 28 power plants total $16 million, while 4 power plants total $196 million.
- $285 million of local property taxes on transmission and distribution ("T&D" property); and
- $41 million of state and local gross revenue taxes and assessments.

The remainder of the Annual Report will discuss power plant taxes and T&D taxes in detail.

Figure 1:

LIPA Pays Over $538 Million per Year in Taxes, PILOTs, and Fees

15% of Customer Bills - 3x National Average

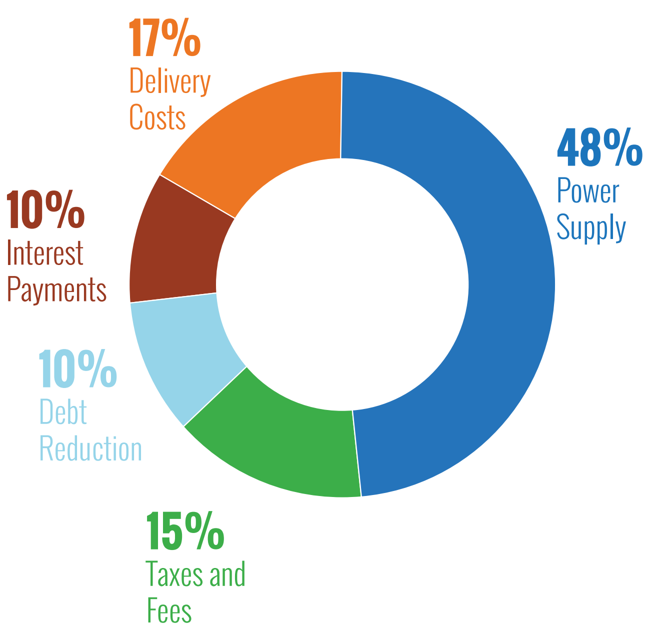
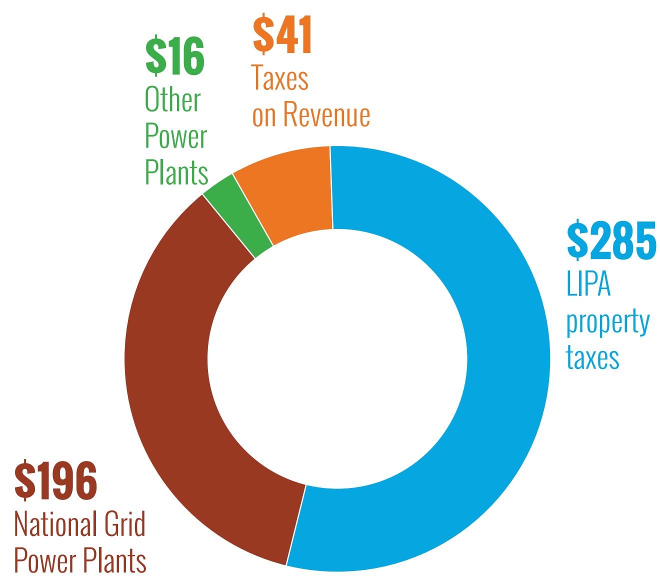


Figure 2:

Components of 2017 Taxes and Fees

(dollars in millions)



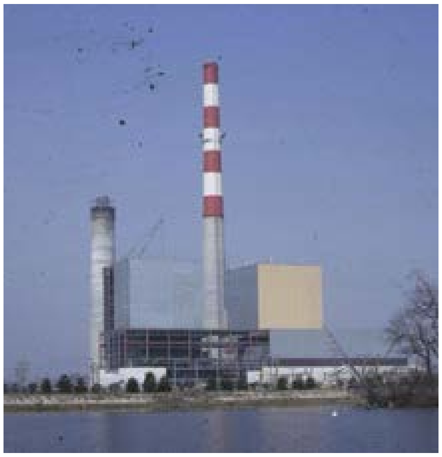
FOUR LEGACY POWER PLANTS

To meet the energy needs of Long Island, LIPA maintains 5,782 megawatts ("MW") of generation under contract. The property taxes on the 32 power plants are $212 million.

Four of these power plants were constructed between 1956 and 1977, and while well-maintained and reliable, are of a vintage technology. These four legacy power plants supply just 22 percent of Long Island's electricity needs but account for $196 million or 92 percent of all power plant taxes, as shown in Figure 3.

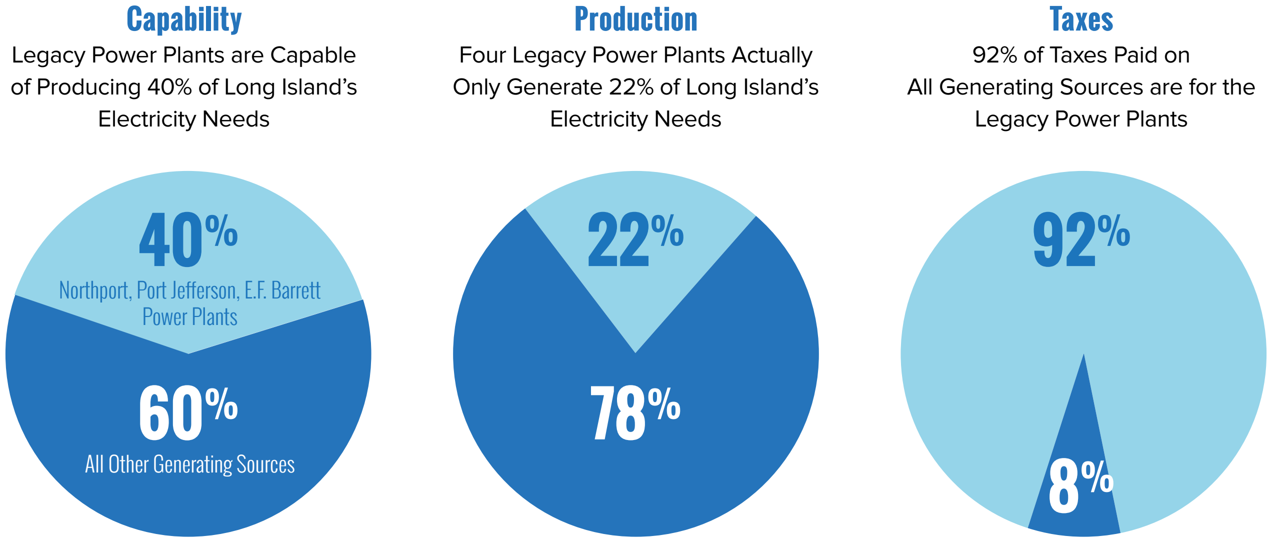
The four power plants are:

- Northport Steam Plant, Units 1-4
- Port Jefferson Steam Plant, Units 2 and 3
- E.F. Barrett Steam Plant, Units 1 and 2
- Glenwood Landing Combustion Turbine[6], Units 2 and 3



(Photo credit: National Grid circa 1967)

Figure 3:



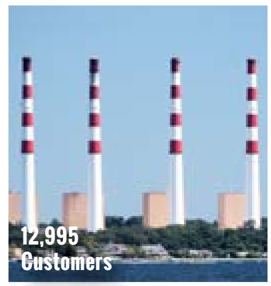
[6] Glenwood Landing is the site of a former 200MW steam plant that was decommissioned in 2012. Most of the tax burden for this former steam plant has now been assigned to the remaining combustion turbine.

POWER PLANTS TAXES SUPPORT FOUR LOCAL SCHOOL DISTRICTS

A common misperception is that the property tax burden embedded in electric rates results in lower property taxes for all of Long Island's residents and businesses.

However, only four out of the 124 school districts on Long Island receive most of power plant tax revenue. As a result, these four school districts have tax rates that are significantly below those in the neighboring school districts.

NORTHPORT



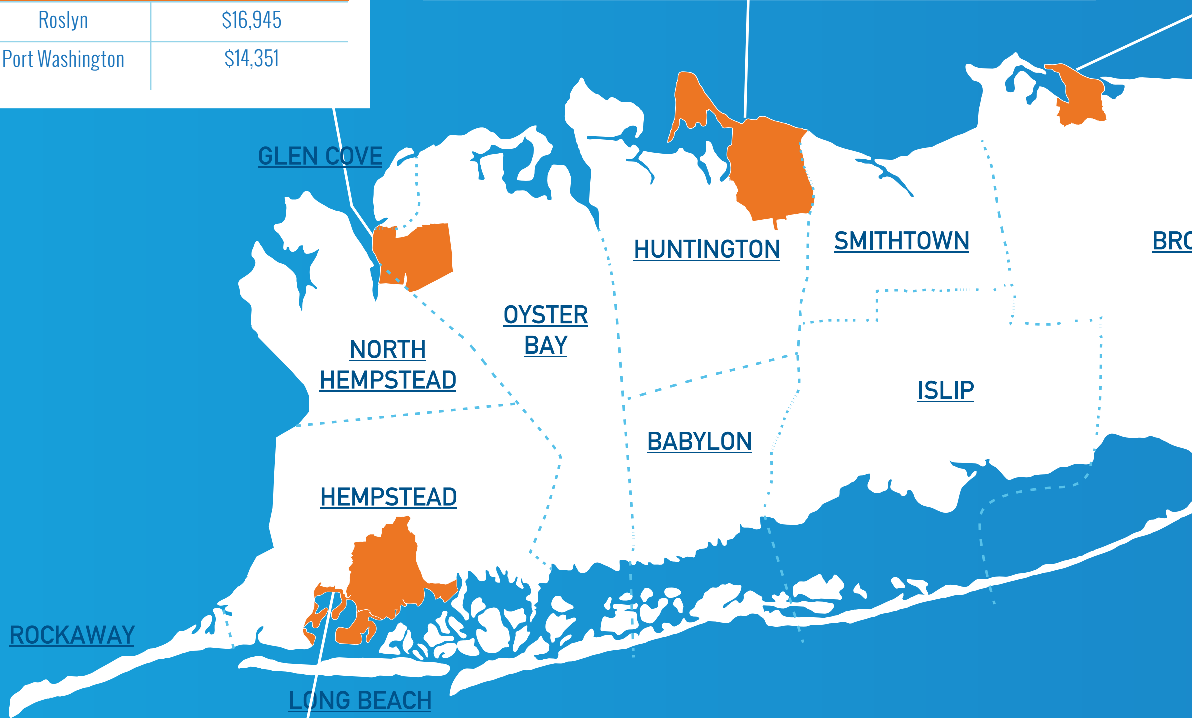
AVERAGE YEARLY SCHOOL TAXES

SCHOOL DISTRICTS	2015 CALCULATED TAX
Elwood	$11,965
Harborfields	$11,582
Huntington	$11,036
Northport/East Northport	$8,333
South Huntington	$11,801

GLENWOOD LANDING

AVERAGE YEARLY SCHOOL TAXES

SCHOOL DISTRICTS	2015 CALCULATED TAX
Jericho	$16,119
Locust Valley	$13,441
North Shore	$14,382
Roslyn	$16,945
Port Washington	$14,351

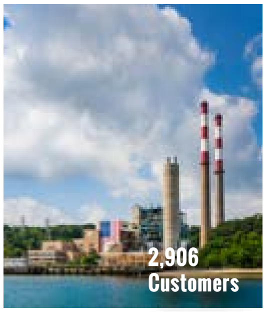


E.F. BARRETT

AVERAGE YEARLY SCHOOL TAXES

SCHOOL DISTRICTS	2015 CALCULATED TAX
East Rockaway	$10,711
Island Park	$6,208
Merrick	$11,321
Oceanside	$8,810
Rockville Centre	$10,545

PORT JEFFERSON



AVERAGE YEARLY SCHOOL TAXES

SCHOOL DISTRICTS	2015 CALCULATED TAX
Brookhaven Comsewogue	$10,141
Miller Place	$10,705
Mount Sinai	$10,415
Port Jefferson	$6,273
Rocky Point	$11,068
Three Village	$10,346

RANKING LONG ISLAND'S SPENDING PER PUPIL

Median:	$23,971
Island Park:	$36,065
North Shore:	$31,813
Port Jefferson:	$31,547
Northport-East Northport:	$25,993

*According to U.S. Census Bureau

2015 data compiled through SeeThroughNY.net with sourced material from the Office of the State Comptroller, with further calculations by the Empire Center for Public Policy. Median home prices sourced from Multiple Listing Service.

MULTIPLE LISTING SERVICE

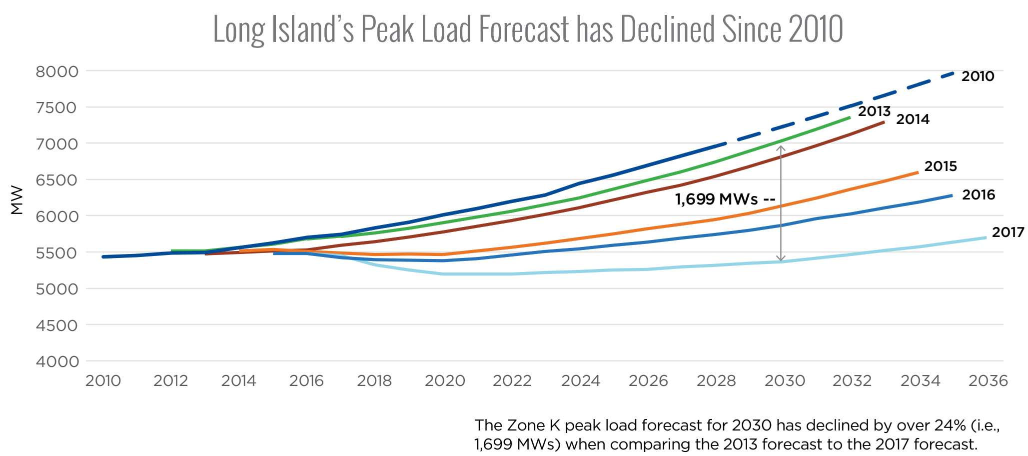
MLS™

USE OF LEGACY POWER PLANTS CONTINUES TO DECLINE

Electric demand continues to decline as consumers use more energy efficient appliances and self-generate electricity from rooftop solar. This, combined with the addition of renewable energy sources to the electric grid such as utility-scale solar and offshore wind, is transitioning more utilities away from baseload generation and toward a distributed electric grid.

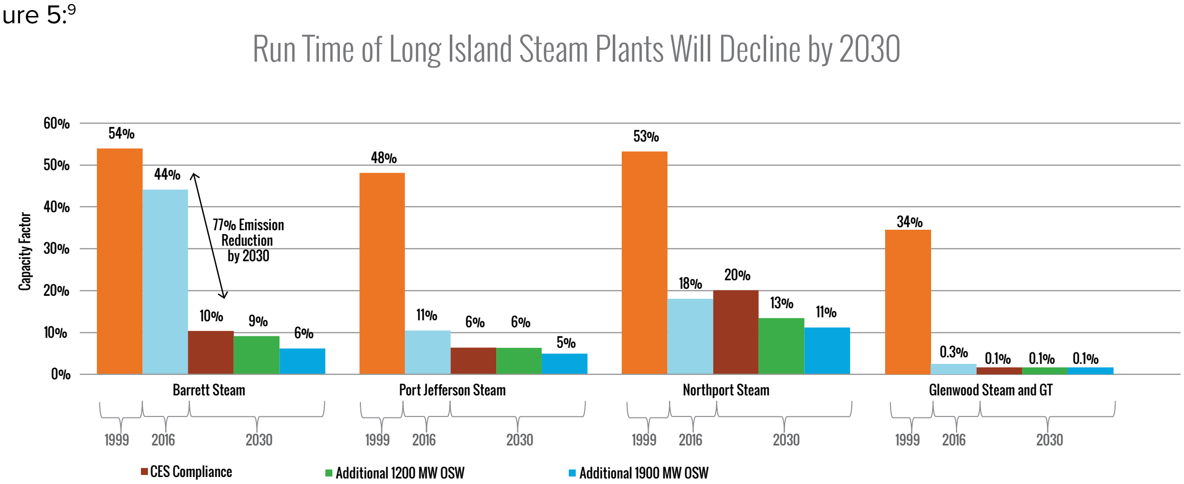
The forecasted need for power plants in 2030 on Long Island has declined by approximately 1,700MW since 2013, which is the equivalent of 3-5 large baseload central station power plants, as shown in Figure 4.[7]

Figure 4:



The decline in run-time is demonstrated in Figure 5, which shows the capacity factor[8] of the four legacy steam plants in 1999 versus 2016, as well as a projection for 2030.

Figure 5:[9]

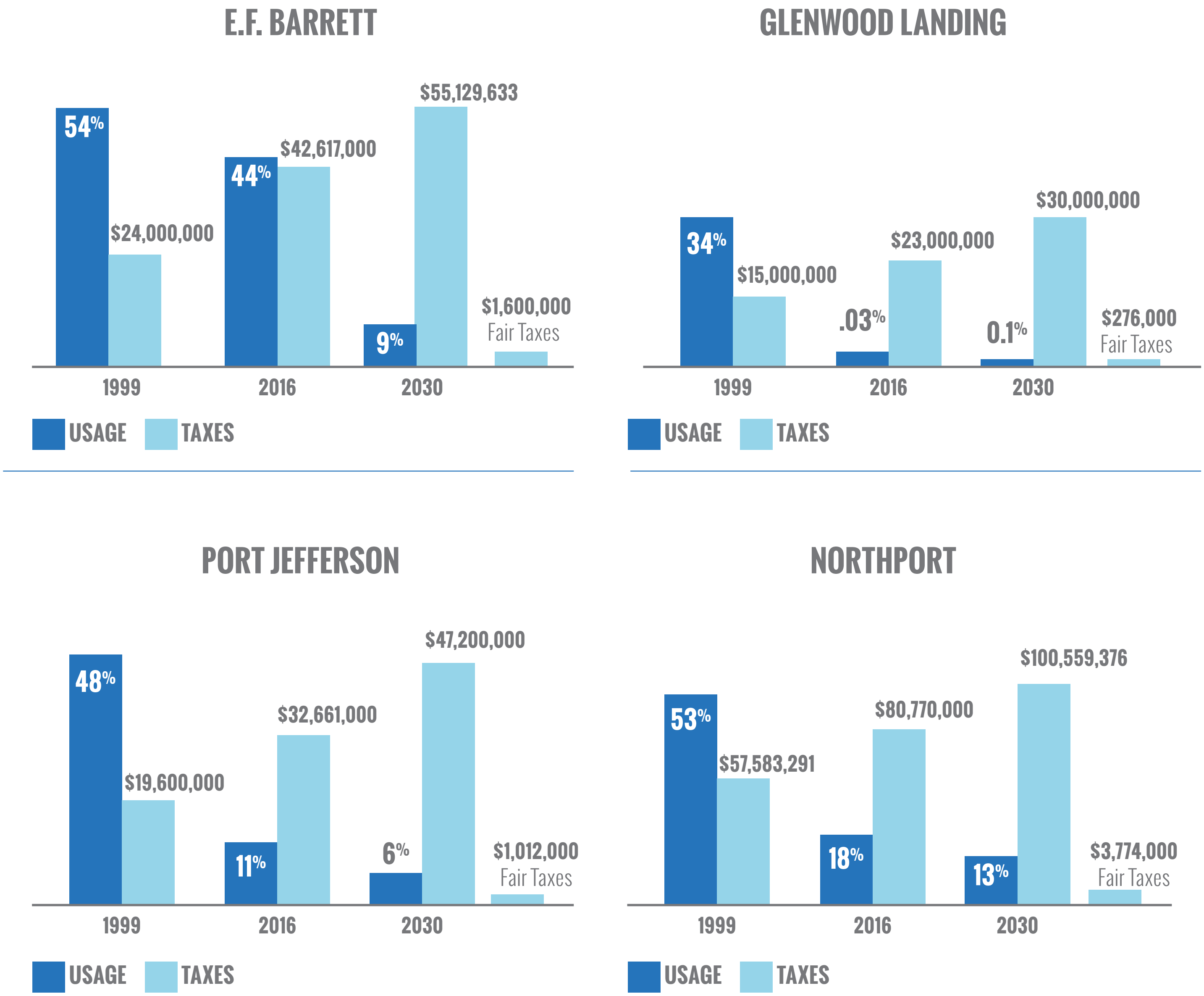


[7] *LIPA's 2017 Integrated Resource Plan and Repowering Study.*
[8] *The capacity factor of a power plant is the amount of power it actually produces relative to its total potential.*
[9] *Projections of 2030 capacity factors vary with the amount of offshore wind and renewables integrated onto LIPA's electric grid.*

In the late 1990s, the legacy plants ran at approximately 34 to 54 percent of capacity. That has now declined to 0.3 percent for Glenwood, 11 percent for Port Jefferson, 18 percent for Northport, and 44 percent for E.F. Barrett. In 2012, the Glenwood steam plant was decommissioned and torn down, with only the combustion turbine remaining on the site. The output of each plant is anticipated to further decline over the next decade.

While usage of the plants has declined sharply, the taxes on the plants have increased, as shown below in Figure 6.

Figure 6:



HIGH TAXES ON POWER PLANTS

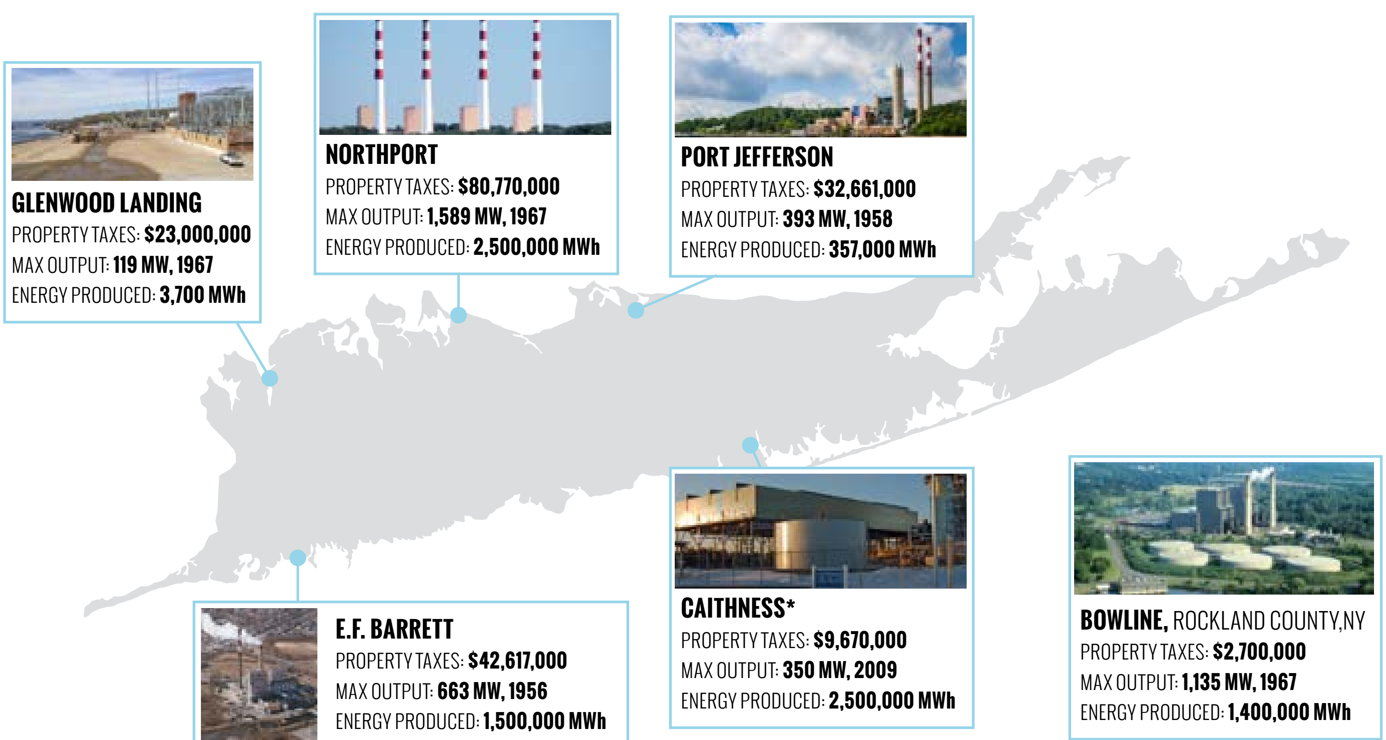
Power plants are supposed to have their taxes assessed based on their value and, if fairly assessed, power plants, like cars, should be worth less with age.

The excessive tax burden on the four vintage units has resulted in operational costs that are no longer competitive with prices of power in the electric market. The output of the legacy National Grid power plants is sold into the competitive wholesale market operated by the New York Independent System Operator ("NYISO"). The plants operate at a loss because the revenue LIPA receives for the power is less than the costs (including the excessive property taxes) LIPA reimburses National Grid under its contract. Those losses, the amount by which costs exceed the value of the power, are paid by all 1.1 million electric customers.

Figure 7 shows the comparative taxes on the four legacy plants compared to a new 350 megawatt ("MW") combined-cycle unit named Caithness built in 2009. The Caithness plant ran at 87 percent of capacity in 2016, producing 2,531,819 megawatt-hour ("MWh") of energy, with taxes of $9.7 million or approximately $28,000 per megawatt. For comparative purposes:

- The Port Jefferson plant is approximately the same size as Caithness, with 357,409MWh of energy production at 10.3 percent capacity, and **three times the taxes**;
- The Northport plant is approximately four times the size of Caithness, with 2,502,265MWh of energy production at 18.2 percent capacity, and **eight times the taxes**;
- The E.F. Barrett plant is approximately two times the size of Caithness, with 1,471,971MWh of energy production at 43 percent capacity, and **four times the taxes**; and
- The Glenwood combustion turbine is approximately 33 percent the size of Caithness, with 3,745MWh of energy production at 0.3 percent capacity, and **double the taxes**.

Figure 7:



*Caithness is not one of the legacy power plants.
Photo credit: https://www.caithnesslongisland.com/

The taxes paid on the four legacy power plants are, on average, more than double the rate per megawatt of a new plant on Long Island and triple the rate per megawatt paid for similar vintage plants elsewhere in New York state.

Bowline Plant Tax Case History
West Haverstraw, New York

In 2014, following a four-year dispute between local taxing jurisdictions and the owner of the Bowline power plant in West Haverstraw, New York, a court ruling reduced the taxes by over 90 percent. The North Rockland school district had to pay a refund of $224.5 million in back taxes for prior years. The chart below compares the taxes on Northport plant to those of the Bowline plant – both are of similar 1970s vintage. Both plants, due to their old technology, run at only 13 to 18 percent of their capacity. However, in 2017, Northport plant taxes totaled $80.7 million, while Bowline plant taxes totaled $2.7 million – a difference of 95 percent, as shown in Figure 8.

Figure 8:
NORHTPORT POWER PLANT 95% OVER-ASSESSED

	Age (yrs)	Summer Capability (MW)	Taxes	Capacity Factor
Bowline (units 1-2) Rockland County, NY	43-45	1,125.8	$2,700,000 ($2,398 per MW)	13%
Northport (units 1-4) Suffolk County, NY	40-50	1,584.6	$80,770,000 ($50,972 per MW)	18%

Glenwood Landing History

The decommissioned power plant site at Glenwood Landing is even more inequitable and is emblematic of the redistribution of ratepayer dollars between communities on Long Island. National Grid tore down the outdated steam facility in 2013, leaving only 119MW of 1960's vintage gas turbines, for which LIPA paid approximately $23.5 million in taxes in 2017. Today, the site of the former steam plant is a large vacant lot. Though the structure and equipment was removed, which caused a 64 percent reduction in the generating capacity of the site, the property taxes decreased by just 19 percent. In effect, the tax rate per megawatt of the remaining generating facilities more than doubled from approximately $80,000 per megawatt to $148,000 per megawatt for gas turbines with little functional remaining life.

Glenwood Plant Before Decommissioning

Glenwood Plant Today

Historical Retrospective: Shoreham Nuclear Power Plant

Nearly two-thirds of states have direct responsibility for valuing power plants. By contrast, power plants are valued by local tax assessors in New York.

This difference has resulted in long-standing issues in fairly valuing power plants on Long Island, most notably the judgement and refund obligation by the Town of Brookhaven for the overtaxation of the inoperative Shoreham Nuclear Power Plant.

Shoreham Nuclear Power Plant

After the Shoreham plant was decommissioned in 1994, the New York State Supreme Court determined that Suffolk County, the Town of Brookhaven, and the Shoreham-Wading River School District had overtaxed the Shoreham plant by a staggering amount. In 2000, the court re-valued the taxes based on the value of the plant and ordered Suffolk County to pay a $1.3 billion tax refund.

As part of the acquisition of the Long Island Lighting Company's (LILCO) in 1998, LIPA acquired the right to recover the $1.3 billion Shoreham tax judgement. To prevent a calamitous outcome for Suffolk County and the Town of Brookhaven, LIPA agreed to accept 50 percent less than what the court ordered and collect the refund through a surcharge of approximately 2.75 percent on electric bills paid by Suffolk County customers through 2025.

Current Tax Challenges

Beginning in 2010, LIPA filed tax certiorari challenges against Nassau County, the Town of Huntington, the Town of Brookhaven, and the Village of Port Jefferson (the "taxing jurisdictions") in an attempt to obtain a fair tax assessment on the four legacy plants. LIPA has committed to purchase power from these plants through a Power Supply Agreement ("PSA") that runs through April 30, 2028. Under this PSA, LIPA reimburses National Grid for the property taxes assessed by each taxing jurisdiction.

PROPOSALS TO PROVIDE A FAIR TAX FUTURE

LIPA has offered the taxing jurisdictions the ability to avoid the same grim outcomes of the Shoreham and Bowline power plants through generous settlement offers. LIPA hopes to reach a fair solution for the less than 25,000 customers within the taxing jurisdictions and for its other 1.1 million customers.

Unfortunately, the method of assigning the tax refund liability has complicated attempts to settle these cases amicably. In Suffolk County, residents in the Towns of Brookhaven and Huntington would be responsible for paying the refunds owed as a result of the overassessment – not the school districts – and in Nassau County, all county residents would be responsible. This means that the residents who have benefitted from the high tax payments in the Northport – East Northport, Port Jefferson, Island Park, and Glenwood Landing school districts are not the ones who pay the tax refunds, as shown in Figure 9.

Figure 9:

Power Plant	Tax Revenue Beneficiary (School District)	Refund Paid By	Potential Liability for Tax Refund (2010 to Present)	Residential Customers to Benefit from Over Taxation (School Districts)	Residential Customers Liable for Refunds
Glenwood	Glenwood Landing	Nassau County	$153,000,000+	5,832	426,796
E.F. Barrett	Island Park & Oceanside	Nassau County	$285,000,000+	2,916	426,796
Northport	Northport - East Northport	Town of Huntington	$570,000,000+	12,995	70,626
Port Jefferson	Port Jefferson	Town of Brookhaven	$225,000,000+	2,904	169,731
		Total	$1.2 billion+	24,647	667,153

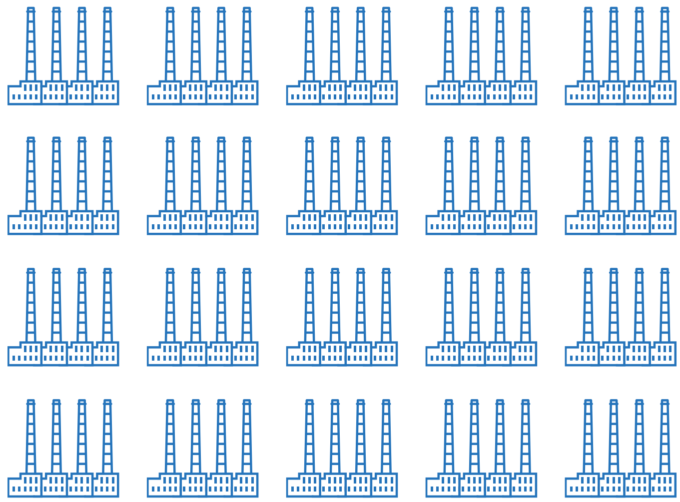
Proposed Settlement Terms

LIPA has offered to phase in a 50 percent reduction in taxes over nine years and waive the refund liability, estimated at over $1.2 billion plus interest. The school tax rates of the host communities would still remain below the area average after the reductions are fully phased in.

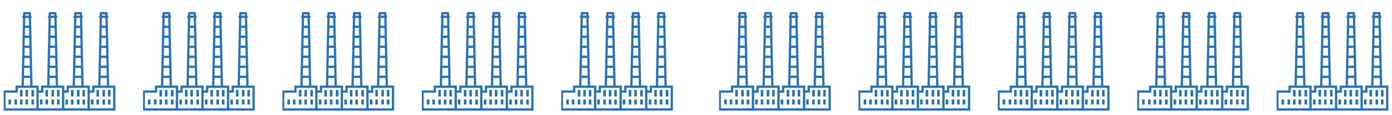
Figure 10:

Northport Power Plant Produces
the Same Amount of Energy
as Caithness – at eight times the Taxes

Today, LIPA customers pay the equivalent of
20 Northport Power Plants:



Nine years from now, LIPA proposes to pay the
equivalent of 10 Northport Power Plants:



2017 LIPA Taxes (General & School)	Settlement for YE 2027	Fair Taxes for 2017 ($2,375/mW)
$80,770,018	$40,385,009	$3,773,875

Northport Settlement Vs. Court Action

LIPA has filed tax grievances for the four legacy plants for every year since 2010. The first of the four tax certiorari trials is for the Northport plant, which is scheduled for mid-2018. A fair settlement proposal has been presented by LIPA to the Northport community to gradually reduce the taxes on the plant by 50 percent over nine years. Moreover, LIPA's proposal would include waiving the estimated potential $570 million tax refund that, if ordered, would become an obligation of all Town of Huntingtons taxpayers.

The proposed settlement would result in an approximately two percent per year tax increase for Northport residents. After the potential increase, the Northport-East Northport area would still have the lowest school tax rate in the Town of Huntington, even at the end of the settlement period. The alternative is a court determination that could result in an immediate 30 percent property tax increase for residents within the Northport-East Northport School District. Figure 11 shows a monthly estimated settlement increase versus an increase for the local community from potential court action.[10]

Figure 11:

LIPA PROPOSAL	Monthly Tax Increase on Average Household (Phased in Annually)
Northport - East Northport School District	$13
Suffolk County	$0.06
Town of Huntington	$0.60

School Taxes Remain Below Area Average

COURT ACTION	Monthly Tax Increase on Average
Northport - East Northport School District	$212
Suffolk County	$0.88
Town of Huntington	$62

* Includes Annual Cost of Financing a $570+ Million Refund Liability

Property Tax Promise

Affected schools districts have cited alleged promises by a former LIPA official to never challenge property assessments on power plants. Policies, as opposed to contractual agreements, evolve over time as circumstances change. The 1997 policy, as evidenced in this report, has proven to be unsustainable. The four power plants are aging and run less with each year. LIPA's current policy (on page 7), unanimously approved by the Board of Trustees, attempts to put an unsustainable tax situation back on a sustainable path.

[10] *Estimated tax increase based on average home value of $510,000, as sourced from the Office of the New York State Comptroller and the Multiple Listing Service of Long Island.*

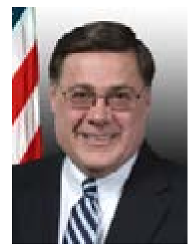
Local Officials Realize Current System is Unsustainable

LIPA hopes the Town of Huntington will join other local communities on Long Island that are working with LIPA to reach a fair settlement to put the unsustainable tax situation illuminated throughout this report back onto a sustainable path.

Supervisor Ed Romaine Announces Support for Town of Brookhaven Settlement
(Port Jefferson Power Plant) April 2018

"We have a framework with LIPA to settle this case and avoid unnecessary costs that result from continuing this case. These taxes are paid by all our residents in their electric bills, but disproportionately benefit a small number of taxing districts near the plant."

"Property assessments have to be just and fair. They've [school districts] collected for many years a great deal of money on a plant that some people say has been over assessed. This property was out of line. We're bringing it into line. So they will have to live the way other school districts do."



Brookhaven Supervisor
Ed Romaine

Nassau County Executive Laura Curran Supports Tax Settlements
(E.F. Barrett and Glenwood Landing Power Plants)
March 28, 2018 - State of the County Address

There are many "risks which go to the heart of our failed tax assessment system. The first risk relates to future tax certiorari refunds ... and tax certiorari claims including utility claims for prior years. This amount is estimated to be more than $500 million. We are reviewing the pending utility litigation and we must ensure that we are not plagued with more debt."

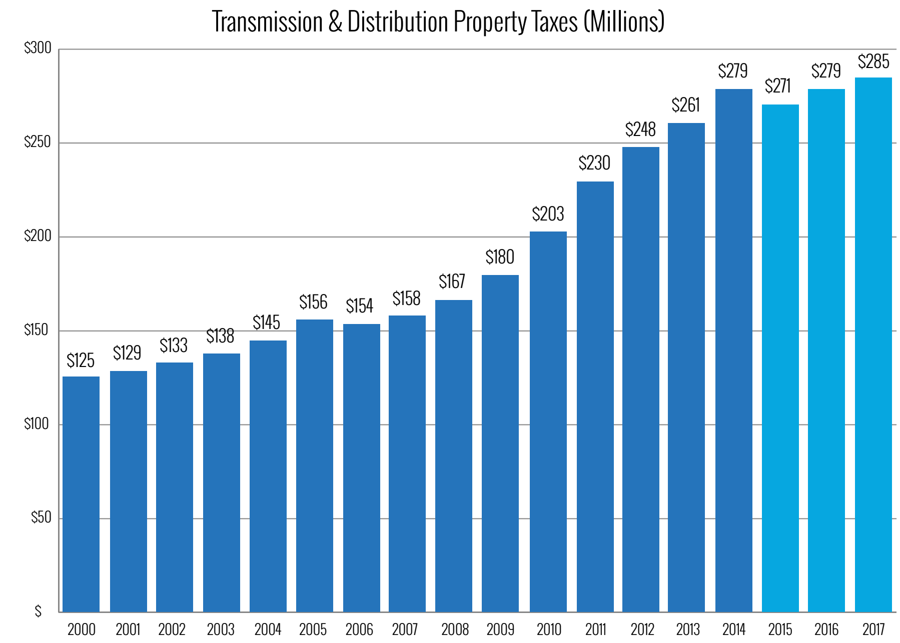
Nassau County Executive
Laura Curran

HIGH TAXES ON TRANSMISSION AND DISTRIBUTION PROPERTY

PILOTs on LIPA-owned T&D Property

In addition to taxes on power plants, LIPA also makes payments-in-lieu-of-taxes ("PILOTs") on the transmission and distribution ("T&D") property LIPA acquired from LILCO. The T&D property consists of power lines, substations, and transformers used to connect electricity to customers.

Figure 12:



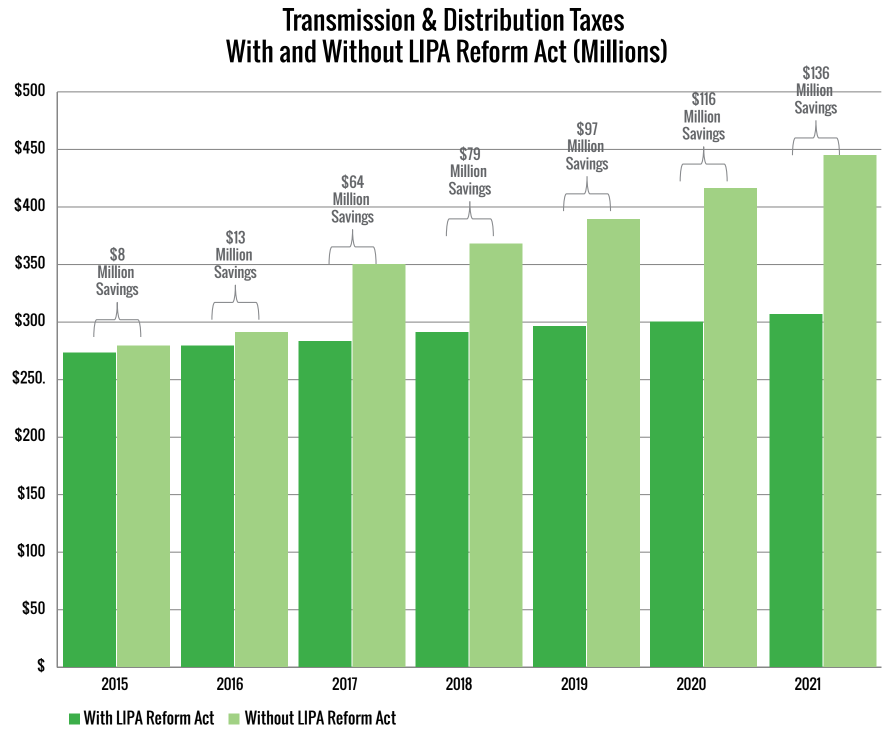
As illustrated in Figure 12, in the years following the LILCO acquisition, property PILOT payments to local governments grew at a rapid pace – on average 6.6 percent per year between 2004 and 2014, including increases in excess of 10 percent per year in 2010 and 2011. This high rate of growth more than doubled the amount of hidden taxes on LIPA's T&D property from $125 million in 2000 to $285 million in 2017.

This high, and hidden, tax burden was partially addressed with the LIPA Reform Act of 2013 ("LRA"), which effectively capped the annual future increase in property tax payments on any parcel to no more than two percent over the payment made in the prior calendar year. The LRA 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 Figure 13, the LRA is anticipated to produce cumulative savings of $513 million through 2021, compared to the growth rate in T&D PILOTs before the Governor and the Legislature stepped in to provide relief to LIPA customers.

Efforts to Reduce T&D PILOT Payments

LIPA's efforts to reduce PILOT payments on the T&D system are focused on ensuring that all taxing jurisdictions abide by the two percent tax cap of the LRA and on challenging unreasonably high assessments for T&D property. LIPA uses several strategies to ensure PILOTs on the T&D system are fair, as described further below.

Figure 13:



Monitoring the Two Percent Cap on Annual PILOT Payments

LIPA reviews the PILOT payments sent by local tax jurisdictions to ensure compliance with the two percent cap. Certain municipalities and school districts in Suffolk County continue to bill LIPA for increases in excess of the amounts permitted by law. In these situations, LIPA limits its remittance to the statutory amount and informs the taxing authorities.

A new lawsuit filed in January 2016 by 45 Nassau County school districts reached a settlement that affirms the Authority's tax calculations and the implementation of the two percent tax cap. LIPA continues to urge certain Suffolk County municipalities to comply with the two percent tax cap and, late in 2017, filed suit to enjoin Suffolk County from taking actions that ignore this statutory requirement. The Authority continues to meet and work with municipalities and school districts across the service territory to ensure proper implementation of the two percent cap. All taxing jurisdictions in Nassau County and the City of New York are in compliance with the two percent cap, as well as several towns in Suffolk County.

Reducing PILOTs by Reviewing Unreasonable High T&D Assessments

Local tax assessors are charged with valuing real property for tax purposes (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 such property. Within LIPA's service territory, there are at least 13 local tax assessors who prepare assessments on the Authority's property: the New York City Department of Finance, the Nassau County Assessor, and the assessors in each of the ten towns in Suffolk County.

It is fair to say that some local property assessors have little experience in determining the value of utility property. 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.

LIPA and its service provider, PSEG Long Island, annually review assessments of the Authority's property (i.e. substations, warehouses, service, and dispatch centers) throughout the service territory to identify where a tax assessment may be disproportionate vis-a-vis other similar property within the service territory. Based upon an initial review of assessed valuations across the service territory, LIPA engages a utility consulting firm with significant experience in utility valuations to review the valuations assigned by each assessor. Based upon this review, LIPA files tax certiorari grievances to seek correction of unreasonably high property assessments. The grievances, 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 varying tax assessments for similar equipment is great given the large number of individual assessing units within the service territory and the potential that individual assessors may apply different or unreasonable standards.

CONCLUSION

The Long Island Power Authority's mission is to provide clean, reliable, and affordable electricity to our more than 1.1 million customers. Customers hosting power plants and T&D equipment deserve their fair share of tax compensation. Our other 1.1 million customers also deserve to pay no more than their fair share for school tax relief in communities other than their own. While difficult decisions lie ahead, solutions to keep our region competitive are within reach. LIPA looks forward to issuing future reports to offer ways to contain costs and protect our customers.

Long Island Power Authority
www.lipower.org

Long Island Power Authority