

Board Policy: **Power Supply Hedging Program**

Policy Type: **Operating Policies**

Monitored by: **Finance and Audit**

Board Resolution: **#1352, approved March 29, 2017**

#1429, amended September 27, 2018



Board Policy on Power Supply Hedging Program

Electric utilities are exposed to volatile commodity prices in the normal conduct of their operations. The costs to either purchase and deliver the fuel necessary to produce electricity in power plants owned or under contract to the Authority or to purchase power from other suppliers are recovered from the Authority's customers at cost through a Power Supply Charge that changes each month. An effective commodity hedging program provides LIPA's customers with greater stability and predictability in power supply costs than prices in the commodity markets and is consistent with, and expected by, utility best practice.

It is the policy of the Board of Trustees for the Authority to maintain a Power Supply Hedging Program that:

- Mitigates a portion of the volatility of power supply costs in a programmatic and reasonable way on behalf of the Authority's customer-owners;
- Is executed using financial derivative and physical supply and delivery contracts for a portion of the Authority's projected fuel and purchased power purchases, provided, however that:
 - the net hedge position does not exceed 90% of projected fuel and purchased power needs;
 - the term of any such hedge does not exceed ten years without the prior approval of the Board or a term in excess of seventy-two (72) months without the prior approval of the Finance and Audit Committee of the Board;
- Achieves appropriate risk mitigation and is not for purposes of financial speculation; and
- Provides transparency regarding the Authority's commodity risk management activities and the results of such activities.

The Authority's Chief Executive Officer shall appoint an Executive Risk Management Committee ("ERMC") consisting of the Chief Financial Officer and at least two other Authority staff, one of which must be drawn from the senior management of the Authority. The ERMC will establish, maintain, and monitor processes and controls, the conduct of the Authority's Power Supply Hedging Program, and the activities of its Service Provider, PSEG Energy Resource and Trade ("PSEG ER&T"). The key provisions of the ERMC's activities shall include:

- Oversight and ensuring that all Power Supply Hedging Program activities conducted by the Authority and PSEG ER&T are in accordance with this Board Policy Statement;

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- Determining the Authority's tolerance for exposure to fuel and purchased power price movements and power supply cost volatility considering the costs of limiting such exposure;
- Addressing all risk factors that are demonstrably quantifiable, actionable and material to the program;
- Establishing risk boundaries consistent with such tolerances and evaluating allowable financial and physical instruments in executing the Power Supply Hedging Program;
- Establishing appropriate processes and protocols to review and monitor counterparty credit worthiness on a regular basis; and
- Monitoring Commodity Futures Trading Commission rule making and all other regulatory and legal requirements to ensure that the Authority is taking all actions required to maintain compliance with respect to any transactions under the Power Supply Hedging Program.

PSEG ER&T will report to the F&A Committee biannually on the Power Supply Hedging Program. Additionally, the Chief Executive Officer, or his or her designee, will provide an annual compliance report on the Power Supply Hedging Program to the Finance and Audit Committee.