

LONG ISLAND POWER AUTHORITY

MINUTES OF THE FINANCE AND AUDIT COMMITTEE MEETING

HELD ON DECEMBER 19, 2017

The Finance and Audit Committee of the Long Island Power Authority (the "Authority") was convened at 9:05 a.m. at LIPA Headquarters, Uniondale, NY, pursuant to legal notice given on December 14, 2017 and electronic notice posted on the Authority's website annually.

The following Trustees of the Authority were present:

**Shelly L. Cohen, Committee Chair
Elkan Abramowitz
Mark Fischl
Jeffrey Greenfield**

Representing the Authority were Thomas Falcone, Chief Executive Officer; Joseph Branca, Chief Financial Officer; Jon Mostel, General Counsel & Secretary to the Board of Trustees; Bobbi O'Connor, Vice President of Policy, Strategy and Administration and Assistant Secretary to the Board of Trustees; Ken Kane, Vice President of Financial Oversight; Rick Shansky Vice President of Operations Oversight; Donna Mongiardo, Controller; Corey Horowitz, Director of Risk Management; Kathleen Mitterway, Director of Audit and Richard Muzikar, Enterprise Risk Management Advisor.

Representing PSEG LI were David Lyons, Vice President of Business Services; Markus Ramlall, Director of Finance; and Rick Walden, Vice President of Customer Service.

Representing KPMG were John Pontecorvo and Todd Fowler.

Chair Cohen welcomed everyone to the Finance and Audit Committee meeting of the Long Island Power Authority Board of Trustees.

Chair Cohen stated that the first item on the agenda is the adoption of the minutes from the September 27, 2017 Committee meeting.

Upon motion duly made and seconded, the minutes of the September 27, 2017 meeting were approved unanimously.

Chair Cohen stated that next item on the agenda is the Overview of Financial Results & Hedge Report.

Ms. Mongiardo presented LIPA's financial results, and Mr. Lyons and Mr. Ramlall of PSEG LI reported on the PSEG LI Operating Results and then took questions from the Trustees

Mr. Horowitz presented the Hedge Report and then took questions from the Trustees.

Chair Cohen stated that next item on the agenda is Internal Audit Activities which would be presented by Kathleen Mitterway.

Ms. Mitterway gave a presentation regarding the Authority's Internal Audit Activities and Approval of LIPA's 2018 Audit Plan, and then took questions from Trustees.

A motion was made and seconded, and the Trustees unanimously adopted LIPA's 2018 Audit Plan.

Chair Cohen stated that the next item on the agenda is the Recommendation for Approval of the 2018 Budget which would be presented by Joseph Branca.

Mr. Branca presented the following action item and took questions from the Trustees:

Requested Action

The Finance and Audit Committee is requested to adopt a Resolution (i) recommending approval of the proposed 2018 Operating and Capital Budgets (the "Budget"), consistent with the 2015 Rate Recommendation (as defined below), for the Long Island Power Authority and its subsidiary, the Long Island Lighting Company d/b/a LIPA (collectively the "Authority" or "LIPA"), which is attached hereto as Exhibit B and (ii) recommending

amendments to the 2017 Operating and Capital Budget, as described below and specified in Exhibit B.

Background on 2018 Operating and Capital Budgets

The proposed 2018 Budget sets forth the revenue, grant, other income, and expenditure forecasts for the year ending December 31, 2018, including the Operating and Capital Budgets submitted by PSEG Long Island in accordance with the Amended and Restated Operations Services Agreement (“OSA”).

The proposed 2018 Budget totals \$4.4 billion, including an Operating Budget of \$3.6 billion and a Capital Budget of \$757 million. The proposed 2018 Operating Budget funds delivery and power supply costs, taxes and debt service. The Capital Budget funds long-life infrastructure investments such as transmission, substations, poles and wires.

The proposed 2018 Budget includes rates and charges that are consistent with the Rate Recommendation (the “2015 Rate Recommendation”) of the Three-Year Rate Proposal for the Long Island Power Authority and its Service Provider, PSEG Long Island LLC provided by the Department of Public Service on September 28, 2015. The 2015 Rate Recommendation established the level of revenue used to budget expenditures for 2018, subject to certain specified updates based on actual experience and the latest available assumptions.

The proposed 2018 Budget is also consistent with the financial policy adopted by the Board of Trustees in December 2015 to reduce the Authority’s borrowing and interest cost and raise the Authority’s credit ratings over five years. That policy established a fixed obligation coverage target of 1.40x for LIPA fixed obligation payments for 2018. Staff projects that the 2018 Budget will achieve a coverage ratio of 1.39x in 2018. In addition, the Budget will meet the Board’s financial policy for borrowing, with new debt funding less than 64% of capital spending.

For 2018, staff projects LIPA will fund 57% of the \$757 million Capital Budget from debt issues inclusive of FEMA projects, achieving the Board’s fiscal goal. Excluding the \$171.2 million of FEMA financed projects, staff forecasts 72% would be financed with debt. The 2018 Capital Budget includes additional budget requests for regulatory and load growth driven projects of \$57.4 million and a deferral of certain specified 2017 capital projects totaling \$4.0 million into 2018.

The monthly electric bill for the average residential customer is projected to be \$158.61 in 2018, which is \$3.35, or 2% per month, above the 2017 budgeted level. The primary drivers of the increase are infrastructure investments, higher storm restoration costs, and lower sales partially offset by lower Power Supply Costs.

Allocation of Intra-Year Power Supply Capacity Costs

In December 2015, the Trustees approved a regulatory asset to affect the recovery of certain fixed generation capacity costs in the Power Supply Charge within each year. The effect is to collect from customers a greater share of these fixed generation capacity costs during the summer months when generation capacity is needed most rather than recovering these fixed costs equally through the year. Staff believes this more accurately reflects cost causation in

electric rates. The December 2015 approval by the Trustees specified that the schedule of deferrals and amortization of such costs in future years would be presented in future budgets. There is no net impact on an annual basis from the reallocation of these costs within the year, with allocations by month from plus \$30 million to minus \$22.5 million, as shown in the table below.

	Reallocation of the Proposed Fixed Capacity Costs in the Power Supply Charge
January	(\$22,500,000)
February	(\$22,500,000)
March	(\$10,000,000)
April	(\$10,000,000)
May	(\$5,000,000)
June	\$10,000,000
July	\$30,000,000
August	\$30,000,000
September	\$17,500,000
October	(\$5,000,000)
November	(\$5,000,000)
December	(\$7,500,000)
Annual	\$0 Million

Power Supply Charge

Power Supply Charges are projected to decrease from \$1.993 billion in 2017 to \$1.877 billion in 2018 for a savings of \$116 million. The primary driver of the decline is lower projected commodity prices. In addition to the cost of fuels consumed in generation and purchased power, the Authority's share of costs charged by the ISOs, payments to ESCOs, Zero Emission Credits associated with the adoption by the NYS Public Service Commission of the Clean Energy Standard, as well as other agreements, hedging, and renewable energy costs are included in the Power Supply Charge.

Operating and Deferred Expense

Total operating and deferred expenses are expected to decline by \$2.9 million to \$751.6 million in 2018 from \$754.5 million in 2017. These expenses are primarily the costs associated with operating the T&D system. They consist of PSEG Long Island Operating Expenses, including: T&D, Customer Service, Power Markets, Renewable Energy programs and additional costs in 2018 associated with Utility 2.0, which costs must remain within 102% of budget for PSEG Long Island to receive incentive compensation. Also included are Managed Expenses, which are managed by PSEG Long Island, but not within their control. These include storm preparation and restoration and PILOTs. LIPA Operating and Deferred Expenses include PSEG Long Island's management fee, Authority staff and professional consultants. The management fee will follow a revised methodology in 2018 based on PSEG Long Island labor allocations.

Taxes, PILOTs and Assessments

PILOTs are budgeted at \$544.8 million in 2018 from \$538.5 million in 2017. PILOTs are both revenue-based and property-based. Property-based PILOTs are on Authority owned properties and the LIPA Reform Act establishes a 2% annual cap on increases. In addition, the Authority incurs real property taxes associated with generating assets under contract through the National Grid Power Supply Agreement. The Authority continues to challenge these property taxes which are significantly over-assessed.

Staged Updates

On December 6, 2017, PSEG Long Island prepared a revised Third Staged Update superseding our November 1, 2017 submission to address input received from the Department of Public Service Staff regarding adjustments to property-based taxes, modifications to short-term interest rates, and removal of Utility 2.0 short-term capital costs from the Third Staged adjustments. With these revisions, the total Third Staged Update resulted in a reduction of \$6.22 million to 2018 rates as compared to the Three-Year Rate Plan. DPS has reviewed the Third Staged Update and their recommendation is attached as Exhibit D.

2018 Utility 2.0 Plan

The 2018 Proposed Budget includes \$15.5 million in Capital funding and \$4.3 million in Operating funding for Utility 2.0 initiatives. In accordance with a DPS recommendation (attached as Exhibit E), these amounts are lower than the amounts reflected in the preliminary 2018 Proposed Budget released in November 2017 and PSEG Long Island's Utility 2.0 proposal. DPS recommended that PSEG Long Island proceed with the first year of a five-year smart meter rollout. DPS also recommended that certain elements of the original Utility 2.0 proposal be adopted in limited part and that others be revised and re-submitted in future Utility 2.0 Long Range Plans. Specifically, DPS did not recommend any incremental spending on the Smart Grid Interconnection Portal until the proposal is updated to more closely align with the Public Service Commission's phased approach and refiled in July 2018 for the 2019 budget year. DPS also did not recommend funding of the Transportation Storage Demonstration Project, the On-bill Financing Project, and recommended lower than proposed spending on the Electric Vehicle Project.

Amendment of the 2017 Operating and Capital Budgets

PSEG Long Island's 2017 approved Budget is being increased by \$10.2 million to account for unplanned costs incurred that were beyond their control. These include costs incurred for unrealized storm preparation related to Hurricane Jose1 and two approved new initiatives: Residential Credit Card Transaction Fee project and maintenance and security of the Shoreham facility. PSEG Long Island is reducing its approved 2017 Capital Budget by \$4.0 million to defer projects to 2018 related to the new Kings Highway substation and renovations at the Hicksville operation center.

Public Comment on the 2018 Operating and Capital Budgets

The Authority held two public comment sessions on the 2018 Budget, one each in Nassau and Suffolk Counties, on November 15, 2017. No spoken or written comments were received from the public at either session, and no written or e-mailed comments have been received subsequently.

The Department of Public Service reviewed the Authority's Staged Update filing and Utility 2.0 filing as described above.

Recommendation

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

A motion was made and seconded, and the Trustees unanimously adopted the following resolution:

RECOMMENDING APPROVAL OF THE 2018 OPERATING AND CAPITAL BUDGETS AND AMENDMENT OF THE 2017 BUDGETS

WHEREAS, the Long Island Power Authority ("Authority"), through its wholly owned subsidiary, LIPA, owns the electric transmission and distribution system serving the counties of Nassau and Suffolk and a small portion of the County of Queens known as the Rockaways; and

WHEREAS, the Board of Trustees is required to approve annual budgets for the operations of the Authority and for capital improvements; and

WHEREAS, the Board of Trustees approved implementation of the Department of Public Service's Rate Recommendation regarding the Three-Year Rate Proposal for the Long Island Power Authority and Service Provider, PSEG Long Island LLC (the "Rate Recommendation") on December 16, 2015 and the level of revenues used to budget expenditures for the 2018 Budget presented to the Board is consistent with the Rate Recommendation; and

WHEREAS, the Authority released its proposed 2018 Operating and Capital Budgets on November 14, 2016 and held two public comment sessions on November 15, 2017; and

WHEREAS, the memorandum accompanying this resolution includes a schedule of deferrals and amortizations of certain generation capacity costs within the months of the year to affect the more accurate reflection of cost causation in electric rates within each month of the year; and

WHEREAS, the Board of Trustees approved certain changes to the Tariff for Electric Service regarding the Power Supply Charge that have been reflected in the Operating Budget presented to the public and the Trustees.

NOW, THEREFORE, BE IT RESOLVED, that consistent with the accompanying memorandum, the Finance and Audit Committee recommends the approval of the proposed 2018 Operating and Capital Budgets, which are attached hereto; and

BE IT FURTHER RESOLVED, that the Finance and Audit Committee recommends that the Authority amend its approved 2017 Capital Budget to reduce expenditures by \$4.0 million so as to defer these expenditures to 2018; and

BE IT FURTHER RESOLVED, that the Finance and Audit Committee recommends that the Authority amend its approved 2017 Operating Budget to reflect an increase in expenditures by \$10.2 million for unplanned costs beyond the control of PSEG Long Island; and

BE IT FURTHER RESOLVED, that the Finance and Audit Committee recommends approval of the Authority's intention to finance the requirements of the 2018 and 2019 Capital Budgets, as adjusted from time to time, through a combination of internally-generated funds and the issuance of tax-exempt or taxable debt of the Authority and authorizes the Officers of the Authority to evidence such intent by appropriate certifications.

Chair Cohen stated that the next item on the agenda is the Recommendation for Approval of Plan of Finance and Bond Authorizations for 2018 which would be presented by Joseph Branca.

Mr. Branca presented the following action item and took questions from the Trustees:

Requested Action

The Finance and Audit Committee is requested to recommend to the Board of Trustees to authorize the issuance of up to \$880,000,000 aggregate principal amount of Electric System Revenue Bonds (the "Authorized Bonds") for the purposes of (i) funding costs of system improvements and/or reimbursing such costs already incurred, including refinancing of notes or revolving credit agreement borrowings incurred to finance such costs, up to a principal amount of \$430,000,000, (ii) refunding outstanding bonds of the Authority, (iii) financing capitalized interest on the bonds to be issued, (iv) funding amounts due for the termination of Financial Contracts entered into in connection with any Authorized Bonds or refunded bonds, and (v) paying fees and expenses in conjunction with each of the foregoing and the issuance of the bonds, including reimbursement of fees and expenses expended by the Authority in connection therewith, all as described herein. The Trustees are also being requested to authorize the execution and delivery of one or more interest rate or basis swaps relating to the Authorized Bonds and the termination, assignment or amendment of any swaps relating to any refunded bonds.

Plan of Finance

The Authority is considering issuing the Authorized Bonds for the purposes described above. The Authority has outstanding fixed rate bonds eligible for advanced refunding. Should appropriate market conditions exist, the Authority is requesting authorization to refund such bonds. The Authority has also determined that it may be appropriate to enter into one or more interest rate or basis swaps (“Financial Contracts”) relating to the Authorized Bonds, should they provide debt service savings or mitigate interest rate risk for the Authorized Bonds as compared to merely issuing bonds. Authorization to enter into such agreements with an aggregate notional amount of up to \$430,000,000 is requested. The material terms of the agreements relating to any such Financial Contracts are expected to be substantially similar to agreements previously entered into by the Authority and may include interest rate risk, basis risk, settlement risk, termination risk, counterparty risk, and certain continuing covenants.

Authorized Actions

The Authorized Bonds will be issued as either fixed rate or variable rate bonds or a combination thereof and sold either on a negotiated basis (i) to one or more underwriters for resale to investors or (ii) directly to one or more investors or financial institutions at such price or prices and on such terms and conditions as they shall determine to be the most cost effective and advantageous for the Authority. The new Authorized Bonds could be issued in conjunction with such previously authorized, but not yet issued, bonds or be sold separately.

To the extent that any variable rate bonds are secured by letters of credit, the selection of bank letters of credit providers to credit enhance such Bonds will be made by a selection committee comprised of Authority staff pursuant to a new procurement process. The proposed terms and conditions of the bank letter of credit agreements are expected to be substantially similar to the agreements previously executed by the Authority with letter of credit banks.

Any underwriter, dealer, or swap counterparty will be one of the firms approved pursuant to the Authority’s most recent procurement for underwriting, investment banking and swap counterparty services, which firms include BofA Merrill Lynch, Barclays, Citigroup, Goldman, Sachs & Co., J.P. Morgan, Jefferies, Morgan Stanley, RBC Capital Markets, Ramirez & Co. Inc., Siebert Cisneros Shank & Co. LLC, TD Securities and Wells Fargo Securities. The Trustees are requested to permit the Chief Executive Officer or Chief Financial Officer of the Authority to designate, as necessary, the underwriters, remarketing agents, or swap counterparties, as applicable, assigned to each bond series from the Board approved list of firms.

As and to the extent that Refunding Bonds are issued for the purpose of refunding bonds with respect to which there are existing interest rate swap agreements, the Chief Executive Officer, Chief Financial Officer or Controller of the Authority will be authorized to allocate such interest rate swap agreements to other Authority bonds or notes or to terminate or amend such agreements, all as such officer may determine appropriate so as to permit the Authority to obtain the benefit of such interest rate swap agreements or to minimize the cost associated with the refunding and to the extent that such agreements are terminated or amended, some or all of the costs of such termination or amendment may be funded with the proceeds of the Refunding Bonds.

Recommendation

Based upon the foregoing, I recommend that the Finance and Audit Committee adopt the resolution attached hereto recommending that the Board of Trustees authorize the issuance of up to \$880,000,000 aggregate principal of Electric System General Revenue Bonds, of which no more than \$430,000,000 in bonds may be issued to fund new money capital expenditures, the execution and delivery of one or more new interest rate swap agreements, and the termination or amendment of one or more interest rate swap agreements, all as described above.

A motion was made and seconded, and the Trustees unanimously adopted the following resolution:

RECOMMENDATION FOR AUTHORIZATION RELATING TO THE ISSUANCE OF ELECTRIC SYSTEM GENERAL REVENUE BONDS FOR THE PURPOSES OF FUNDING COSTS OF SYSTEM IMPROVEMENTS AND CERTAIN OTHER COSTS AND REFUNDING CERTAIN OUTSTANDING BONDS

WHEREAS, on May 13, 1998, Long Island Power Authority (the “Authority”) adopted its Electric System General Revenue Bond Resolution (the “General Resolution”), which authorizes bonds, notes or other evidences of indebtedness of the Authority, such bonds to be designated as “Electric System General Revenue Bonds” (the “Bonds”), for, among other purposes, funding Costs of System Improvements (as defined in the General Resolution) and other lawful purposes of the Authority and refunding other bonds of the Authority; and

WHEREAS, the Authority may sell Bonds on a negotiated basis to one or more underwriters for resale to the public or by private placement to one or more investors or institutions at such price or prices as the Authority shall determine; and

WHEREAS, Article II of the General Resolution requires that the issuance of each series of Bonds by the Authority shall be authorized by a supplemental resolution or resolutions of the Authority adopted at or prior to the time of issuance, subject to further delegation to certain officers to establish the details of the terms of such Bonds; and

WHEREAS, the Authority has various series of outstanding Bonds and Subordinated Indebtedness (as defined in the General Resolution) that may advantageously be refunded; and

WHEREAS, the Authority wishes to authorize the issuance of one or more series of Bonds (the “Authorized Bonds”) for the purpose of funding Costs of System Improvements (as defined in the General Resolution) and/or reimbursing such costs already incurred, including refinancing of notes or revolving credit agreement borrowings incurred to finance such costs and for the purpose of refunding all or a portion of outstanding fixed or variable rate Bonds and Subordinated Indebtedness (the “Specified Bonds”), which Authorized Bonds shall be in an aggregate principal amount not to exceed \$880,000,000, of which no

more than \$430,000,000 in principal amount shall be issued for the purpose of funding Costs of System Improvements; and

WHEREAS, the Authority has entered into interest rate swap agreements relating to certain of the Specified Bonds and, to the extent that such Specified Bonds are refunded, it is anticipated that such interest rate swap agreements will either be reallocated to other bonds or notes of the Authority, assigned to or assumed by other counterparties, or terminated, as determined by the by the Chief Executive Officer or Chief Financial Officer; and

WHEREAS, the Authority wishes to issue the Authorized Bonds as either a fixed rate or variable rate or a combination thereof; and

WHEREAS, in order to achieve such purposes there has been prepared and submitted to the Trustees a form of Twenty-Seventh Supplemental Resolution (the “Twenty-Seventh Supplemental General Resolution”); and

WHEREAS, the General Resolution permits the Authority to enter into Financial Contracts (as defined therein), which include interest rate caps or collars and forward rate, future rate and certain swap agreements with Qualified Counterparties (as defined therein); and

WHEREAS, the Authority has determined that the use of such swap agreements is appropriate in certain circumstances but recognizes that certain risks can arise in connection with their use and the Authority has adopted guidelines (the “Guidelines”) for the use of such agreements in order to assure that such agreements are used for appropriate purposes and to assure that the risks potentially associated with such agreements are effectively managed and minimized; and

WHEREAS, under current market conditions the Authority has determined that it may achieve debt service savings by entering into one or more such interest rate swap agreements in an aggregate notional amount of up to \$450,000,000 relating to all or a portion of the Authorized Bonds pursuant to which the Authority and the counterparties thereto would agree to make payments to one another based principally upon certain indices, formulae or methods to be specified therein; and

WHEREAS, the decision as to which specific strategy or strategies to be employed in connection with such new or existing interest rate swap agreements and the indices, formulae or methods to be used in calculating payments to be made to the Authority or the counterparties will be made by the Chief Executive Officer or Chief Financial Officer, taking into account market conditions and the advice of the Authority’s Financial Advisor, with the intention of lowering the effective rate of interest payable in connection with the Authority’s indebtedness or mitigating risks associated with such indebtedness consistent with interest rate and other risk considerations;

NOW, THEREFORE, BE IT RESOLVED, THAT THE FINANCE AND AUDIT COMMITTEE OF THE BOARD OF TRUSTEES RECOMMENDS ADOPTION OF THE FOLLOWING RESOLUTIONS BY THE FULL BOARD:

1. The Twenty-Seventh Supplemental General Resolution, in the form

presented to this meeting and made a part of this resolution as though set forth in full herein, is hereby approved and adopted. The Chief Executive Officer, Chief Financial Officer, Controller and General Counsel and Secretary (collectively, the “Authorized Officers”) are each hereby authorized to deliver the Twenty-Seventh Supplemental General Resolution to The Bank of New York Mellon, as the Trustee for the Bonds, with such amendments, supplements, changes, insertions and omissions thereto as may be approved by such Authorized Officer, which amendments, supplements, insertions and omissions shall be deemed to be part of such resolution as approved and adopted hereby.

2. The Authorized Officers, are each authorized to sell all Bonds issued on a negotiated basis either (i) to one or more underwriters for resale to investors or (ii) by private placement to one or more investors or financial institutions at such price or prices as determined to be the most cost effective and advantageous for the Authority.

3. Each Authorized Officer is hereby authorized with respect to each series of the Authorized Bonds, to execute and deliver a Bond Purchase Agreement (a “Bond Purchase Agreement”) in substantially the form of the bond purchase agreement executed by the Authority in connection with the issuance of the Authority’s Electric System General Revenue Bonds, Series 2016B, with such modifications thereto as any Authorized Officer, upon the advice of counsel to the Authority, approves, or in in connection with any private placement of the Authorized Bonds, a placement continuing covenant or other financing, loan or credit agreement (each a “Placement Agreement”) with the purchaser(s) thereof in such form, upon advice of counsel to the Authority, as may be approved by such Authorized Officer, which approval in each case shall be conclusively evidenced by the execution thereof by such Authorized Officer.

4. Each Authorized Representative is hereby authorized and directed to execute and deliver any and all documents, including but not limited to the execution and delivery of one or more official statements or other disclosure documents and instruments and to do and cause to be done any and all acts necessary or proper for carrying out each Bond Purchase Agreement or Placement Agreement, the issuance, sale and delivery of the Authorized Bonds and for implementing the terms of each Bond Purchase Agreement or Placement Agreement, and the transactions contemplated thereby, the Twenty-Seventh Supplemental General Resolution and this resolution.

5. As and to the extent that Refunding Bonds (as defined in the General Resolution) are issued for the purpose of refunding Specified Bonds with respect to which there are existing interest rate swap agreements, the Chief Executive Officer, the Chief Financial Officer and Controller are each authorized to allocate such interest rate swap agreements to such other outstanding Authority bonds or notes, or to terminate such agreements, as such officer may determine appropriate so as to permit the Authority to obtain the benefit of such interest rate swap agreements or to minimize the cost associated with the refunding and, to the extent that such agreements are terminated, some or all of the costs of such termination may be funded with the proceeds of the Refunding Bonds, as determined by such officer. Any such officer is also hereby authorized to arrange for the assignment and assumption of any existing interest rate agreement to another counterparty or the amendment of any such agreement, to the extent determined to be advisable.

6. Any Authorized Officer is hereby authorized to arrange for the execution and delivery of a new interest rate agreement on substantially the same terms as such agreements previously entered into by the Authority, including without limitation, the basis swap entered into in connection with the Authority's Series 2016A Bonds or the reallocation of any existing interest rate agreement to another counterparty or the amendment of any such agreement, to the extent determined to be advisable.

7. As and to the extent that the Chief Executive Officer or the Chief Financial Officer determines that it would be advantageous in current market conditions to issue bond anticipation notes, such officer is hereby authorized to determine whether such bond anticipation notes shall be issued as "Bonds" or "Subordinated Indebtedness" (as defined in the General Resolution). In the event that bond anticipation notes are issued as Subordinated Indebtedness, the details thereof shall be incorporated in a Note Certificate executed by such officer and delivered to the trustees under the General Resolution and the Authority's Electric System General Subordinated Revenue Bond Resolution, along with a copy of this resolution. Such Note Certificate may include such amendments and modifications to the provisions of this resolution as such officer shall determine necessary and appropriate to effectuate such determinations and details. A copy of such Note Certificate also shall be filed with this resolution into the records of the Authority and, upon such filing, shall be deemed to be a part of this resolution as if set forth in full herein.

8. The Authorized Officers of the Authority are, and each of them hereby is, authorized to enter into interest rate swap agreements in an aggregate notional amount of up to \$450,000,000 relating to the Authorized Bonds with such Qualified Counterparties (as defined in the General Resolution) as such officers may select in accordance with the Guidelines, which agreements shall (i) commence on such date or dates as such Authorized Officer specifies, (ii) have a term ending on or prior to the anticipated final maturity of the bonds to which they relate, as the Authorized Officer specifies, (iii) provide for payments to the Authority determined based upon such index, formula or method as may be approved by the Authorized Officer, and (iv) otherwise be in accordance with the Guidelines and substantially in the form of interest rate swap agreements entered into by the Authority in relation to other interest rate swap transactions, with such changes and additions to and omissions from such form as such authorized executing officer deems in his discretion to be necessary or appropriate, such execution to be conclusive evidence of such approval. In connection with the authorizations herein set forth, the Authority has determined, after consideration of the risks inherent in the use of interest rate swap agreements, including those outlined in the memo submitted to the Trustees in connection with the financing authorized hereby and the advice of the Authority's financial advisor relating to the use of the proposed interest rate swap agreements, that (a) the use of such interest rate swap agreements will, in the judgment of the Authority, result in lowering the effective rate of interest payable in connection with the Authority's indebtedness, (b) the risks of the proposed interest rate swap agreements are both manageable and reasonable in relation to the potential benefits; and (c) the proposed interest rate swap agreements are necessary or convenient in the exercise of the power and functions of the Authority under the Act.

9. The Authorized Officers are, and each of them hereby is, authorized to enter into reimbursement or other agreements with banks or other financial institutions providing Credit Facilities (as defined in the General Resolution) in connection with the Authorized

Bonds, which agreements shall be substantially similar to such agreements previously entered into by the Authority in relation to other Credit Facilities, with such changes and additions to and omissions from such prior agreements as such authorized executing officer deems in his discretion to be necessary or appropriate, such execution to be conclusive evidence of such approval. Such agreements may be entered into with Barclays Bank PLC, Bank of Montreal, Citibank NA, Royal Bank of Canada, State Street Bank and Trust Company, TD Bank NA, US Bank, and/or Wells Fargo Bank, NA.

10. Each Authorized Officer is hereby further authorized and directed to execute and deliver any and all documents and instruments and to do any and all acts necessary or proper for carrying out and implementing the terms of, and the transactions contemplated by this resolution and each of the documents authorized thereby and hereby.

11. This resolution shall take effect immediately.

Chair Cohen stated that the next item on the agenda is the Recommendation for Approval of Request to IRS to Disqualify the Qualified Nuclear Decommissioning Trust Fund which would be presented by Joseph Branca.

Mr. Branca presented the following action item and took questions from the Trustees:

Requested Actions

Recommend to the Board of Trustees the approval of a Resolution of support to the Internal Revenue Service.

The Finance and Audit Committee is requested to recommend to the Board of Trustees the approval of a Resolution of support to the Internal Revenue Service to disqualify the qualified Nuclear Decommissioning Trust Fund (the “Qualified Fund”) for Nine Mile Point 2 Nuclear Power Station and transfer the assets to the non-qualified Nuclear Decommissioning Trust Fund (the “Non-Qualified Fund”) (together, the “Funds”).

Background

The Long Island Lighting Company (“LILCO”), a wholly-owned subsidiary of LIPA, owns an 18 percent interest in the Nine Mile Point Nuclear Power Station Unit 2 (the “Plant”), a nuclear generating facility near Oswego, New York. In connection with such ownership, LILCO must maintain one or more nuclear decommissioning funds to hold assets set aside for the purpose of decommissioning the Plant. LILCO has both a qualified nuclear decommissioning fund and a non-qualified nuclear decommissioning fund for the Plant. The sole difference between the Funds is their Federal income tax treatment. Since acquiring LILCO in 1998, LIPA has been paying Federal income tax on the earnings of the Qualified Fund. Now, for tax and administrative reasons, LILCO desires to terminate the Qualified Fund and transfer all its assets to the Non-Qualified Fund. Such action would relieve LILCO of its income tax obligation under the Qualified Fund. LIPA believes such a transfer will

result in present value tax savings of approximately \$16 million, while continuing to preserve all the assets required for decommissioning the Plant.

On May 29, 1990, LILCO signed a trust agreement (the “Trust Agreement”) with Mellon Bank as Trustee. Under the Trust Agreement, LILCO established both the Qualified Fund and the Non-Qualified Fund to hold monies for decommissioning the Plant. LILCO also established a trust (the “Trust”) for the collective investment of both Funds. As of October 30, 2017, approximately \$125.8 million is in the collective Trust; 53 percent of this amount is in the Non-Qualified Fund, while the remaining 47 percent is in the Qualified Fund. Because the Funds’ assets are held together in the Trust, transferring assets from one fund to the other would be considered an allocation rather than a physical transfer of assets. LIPA also expects that the transfer will trigger a one-time Federal income tax liability of approximately \$1.77 million on the gain on the assets held in the Qualified Fund.

LIPA/DPS Support Requirement

The Authority has been working with outside counsel to determine the best way to eliminate the ongoing tax liability. After discussions with counsel and a conference with the IRS, LIPA pursued the disqualification of the Qualified Fund. The Trust Agreement contains two provisions relevant to the termination of the Qualified Fund and transferring its assets. Section 5.02 of the Trust Agreement provides that the “applicable portion of the Qualified Fund shall terminate upon its disqualification from the application of 468A of the Code, whether pursuant to an administrative action on the part of the [IRS] or the decision of any court of competent jurisdiction.” Section 5.04 of the Trust Agreement further provides that, upon termination of any fund, the Trustee shall liquidate the assets of the fund and distribute them to LILCO; “provided, however, that no such distribution shall be made unless either (a) an Order¹ has been issued which specifically authorizes such distribution or (b) the Trustee has received an opinion of legal counsel to [LILCO] to the effect that no such Order is necessary to authorize the distribution.”

Because the disqualification of the Qualified Fund will not result in a physical transfer of assets, and all assets will remain solely dedicated to decommissioning, an Order is unnecessary to satisfy the Trust Agreement, but the IRS indicated that a letter of support from the PSC would be required to obtain a favorable ruling. The reasoning for the IRS request is that state regulatory agencies like PSC help ensure sufficient funding is available to decommission nuclear power plants.

Counsel has informed the IRS that the PSC does not have regulatory jurisdiction over LILCO and requested permission to provide support from LIPA’s Board of Trustees and the Department of Public Service (“DPS”). The IRS indicated that they want the support to come from the entity that approves the contributions to the Funds. Because LIPA’s Board of Trustees approves the contributions, and DPS has limited oversight authority over LIPA, support from these entities should be sufficient for IRS purposes. Counsel also plans to prepare a brief memorandum to explain to the IRS why LIPA and DPS – and not PSC – are the proper entities to provide such support.

Recommendation

Based upon the foregoing, I recommend approval of the above requested action by the adoption of the Resolution in the form attached.

A motion was made and seconded, and the Trustees unanimously adopted the following resolution:

RESOLUTION RECOMMENDING THAT THE BOARD OF TRUSTEES SUPPORT THE PROPOSED TRANSFER OF ASSETS FROM THE QUALIFIED NUCLEAR DECOMMISSIONING FUND (THE "QUALIFIED FUND") TO THE NON-QUALIFIED NUCLEAR DECOMMISSIONING FUND (THE "NON-QUALIFIED FUND"), AS ESTABLISHED FOR THE NINE MILE POINT NUCLEAR POWER STATION UNIT 2 FACILITY (THE "PLANT")

WHEREAS, on May 29, 1990, the Long Island Lighting Company ("LILCO") entered into a trust agreement (the "Trust Agreement") with Mellon Bank as Trustee establishing both a qualified nuclear decommissioning fund and a non-qualified nuclear decommissioning fund (collectively the "Funds") to hold monies for decommissioning the Plant; and

WHEREAS, LILCO also established a trust (the "Trust") for the collective investment of both Funds; and

WHEREAS, pursuant to transactions undertaken in 1997, LILCO is now a wholly-owned subsidiary of the Long Island Power Authority ("LIPA"), a tax-exempt municipal instrumentality of the State of New York; and

WHEREAS, in 1998, LILCO and LIPA obtained a private letter ruling from the IRS, which provided that LILCO is not subject to tax so long as it remains wholly-owned by LIPA and continues to operate as a state agency; and

WHEREAS, in connection with the transfer of assets from the Qualified Fund to the Non-Qualified Fund, LILCO would no longer pay federal income tax on the investment earnings for the Qualified Fund but all assets in the Funds will continue to be solely dedicated to the decommissioning of the Plant; and

WHEREAS, the Internal Revenue Service ("IRS") has requested that the entity that approves contributions to the Funds support such transfer of assets; and

WHEREAS, the LIPA Finance and Audit Committee desires to recommend that the LIPA Board of Trustees support the proposed transfer of assets from the Qualified Fund to the Non-Qualified Fund.

NOW, THEREFORE, BE IT RESOLVED, that the LIPA Finance and Audit Committee hereby recommends that the LIPA Board of Trustees support the proposed transfer of assets from the Qualified Fund to the Non-Qualified Fund.

Chair Cohen stated that next item on the agenda is the Presentation from KPMG on the 2018 Audit Plan which would be presented by Todd Fowler and John Pontecorvo from KPMG.

Mr. Fowler and Mr. Pontecorvo gave the KPMG presentation regarding the 2018 Audit Plan and then took questions from Trustees.

Chair Cohen stated the last item on the agenda is the Discussion of Enterprise Risk Management Activities which would be presented by Corey Horowitz and Richard Muzikar.

Mr. Horowitz and Mr. Muzikar gave the presentation regarding Enterprise Risk Management and then took questions from Trustees.

Chair Cohen then entertained a motion to adjourn, which was duly made and seconded, after which the meeting concluded at approximately 10:10 a.m.