

FOR CONSIDERATION

October 24, 2018

TO: The Board of Trustees

FROM: Thomas Falcone

SUBJECT: Authorization to Extend the Power Purchase Agreement with Edgewood Energy

Requested Action

The Trustees are requested to approve and adopt a resolution authorizing the Chief Executive Officer or his designee to execute Amendment No. 3 to the Power Purchase Agreement (“PPA”) between the Long Island Lighting Company d/b/a LIPA (“LIPA”) and Edgewood Energy LLC, to extend the term of the PPA on more favorable terms for the purchase of capacity, energy and ancillary services from the Edgewood electric generating facility located in Brentwood, New York as summarized below.

Background

The Edgewood facility was constructed in 2002 by a subsidiary of PPL, pursuant to a PPA with LIPA that was subsequently extended to 2018. In 2009 Edgewood was purchased by J-Power USA. Edgewood consists of two (2) gas-fired simple cycle LM-6000 gas turbines with a total capacity of 90 megawatts, that is used to meet peak loads and to support local reliability in the Western Suffolk part of the LIPA system. The Edgewood PPA is set to expire on October 31, 2018.

Discussion

In March 2018, J-Power declared its intention to retire Edgewood should the PPA expire. Pursuant to procedures established by the New York Independent System Operator (“NYISO”) and the New York Public Service Commission (“PSC”), NYISO and PSEG Long Island studied the potential retirement of Edgewood and determined that its deactivation would result in reliability problems on Long Island. Accordingly, NYISO sought proposals from market participants and from PSEG Long Island for potential solutions, such as new generation or a reinforcement to the local transmission system. Under NYISO and PSC rules, generators that are needed to maintain reliability, such as Edgewood, must remain in service until a solution can be put in place. PSEG Long Island determined that the necessary transmission reinforcement could not be completed until 2021. Should the PPA not be extended, Edgewood would continue to operate until at least 2021 and be paid a rate determined by NYISO, subject to approval of the Federal Energy Regulatory Commission.

J-Power and PSEG Long Island have agreed on the terms of a 5-year PPA extension that would be more beneficial to LIPA, as it would assure Edgewood’s continued operation while PSEG

Long Island determines the need for peaking units to support the integration of offshore wind and other renewable generation on the LIPA system. The terms include more favorable pricing than the PPA currently provides, with Edgewood taking over the responsibility for paying property taxes. Otherwise, the terms and conditions of the PPA would continue without material modification.

The total cost of the term extension is estimated to be approximately \$48 million.

The need for Edgewood and the economics of any further extension will be examined prior to the end of the 5-year additional term.

Recommendation

Based on the foregoing, I recommend that the Trustees authorize the Chief Executive Officer or his designee to execute Amendment No. 3 of the Edgewood Energy PPA and all other related agreements required.

Attachment

Exhibit A – Resolution Authorization to Enter into Amendment No. 3 to the Power Purchase Agreement with Edgewood Energy LLC

AUTHORIZATION TO ENTER INTO AMENDMENT 3 TO THE POWER PURCHASE AGREEMENT WITH WITH EDGEWOOD ENERGY LLC

WHEREAS, the Long Island Lighting Company d/b/a LIPA (“LIPA”) and Edgewood Energy LLC are parties to the Contract for the Sale and Purchase of Capacity, Energy and Ancillary Services dated as of December 28, 2001, as amended by the letter agreement dated November 19, 2005 (Amendment No.1), as further amended by the Amended & Restated Amendment # 1 August 29, 2008 (A & R Amendment No.1), as further amended by the letter agreement dated November 13, 2009 (Amendment No.2) (as amended, the “PPA”); and

WHEREAS, the PPA will expire on October 31, 2018; and

WHEREAS, Edgewood Energy has agreed to extend the term of the PPA to October 31, 2023 on more favorable terms (“Amendment No. 3”);

NOW, THEREFORE, BE IT RESOLVED, that the Board of Trustees (the “Board”) authorizes the Chief Executive Officer or his designee(s) to execute Amendment No. 3 to the PPA and other related agreements and arrangements, consistent with the terms of the accompanying memorandum, and to perform such further acts and deeds as may be necessary, convenient or appropriate, in the judgment of the Chief Executive Officer or his designee.

Dated: October 24, 2018