FAIR PROPERTY TAXES
FOR ELECTRIC CUSTOMERS

2019 UPDATE

LIPA
Long Island Power Authority

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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.

LIPA
Long Island Power Authority

MESSAGE FROM THE CEO

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

America's Highest-Taxed Commercial Properties

LIPA's vintage power plants in Northport, Port Jefferson, Island Park, and Glenwood Landing are among the highest-taxed commercial properties in the United States. Each year, our 1.1 million electric customers pay over $180 million in property taxes on these four plants through their electric bill—more than the Empire State Building, Disneyland, and Sears/Willis Tower combined.

This unsustainable situation results in higher energy costs for all Long Island consumers.

With new clean energy sources powering Long Island such as New York's first offshore wind farm, utility-scale solar farms, and innovative battery storage projects, the use of these vintage plants continues to decline.

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

A "Win-Win" Milestone Reached in 2018

In December 2018, LIPA reached a milestone agreement with the Town of Brookhaven and the Village of Port Jefferson to gradually reduce the tax bill of the Port Jefferson power plant by 50 percent over nine years.

The settlement ensures that the community hosting the Port Jefferson power plant will still retain among the lowest school tax rates in the surrounding area while simultaneously lowering energy costs for 1.1 million customers.

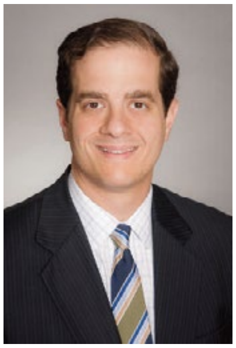
Labor, business, and clean energy leaders welcomed the 2018 settlement as the solution to this long-standing and complex issue that affects all of Long Island.

LIPA has offered the Town of Huntington and Nassau County the opportunity for a fair resolution of ongoing litigation on similar terms.

The Way Forward

As a not-for-profit electric utility, our electric rates reflect our costs. LIPA will continue to advance fairness for all of our customers by ensuring that tax bills on our power plants and other equipment reflect their fair value.

This report describes where we are today and our continued efforts to advance tax fairness for our customers.



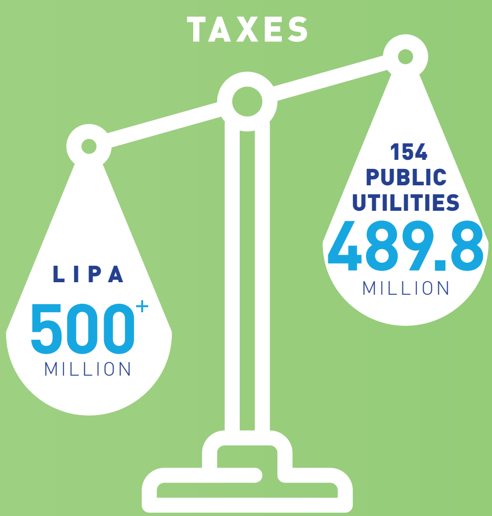
Thomas Falcone
Chief Executive Officer

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 the Rockaways.

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

The Northport power plant is the highest taxed property in the nation.

1	**Northport Power Station***	**$82 M**
2	General Motors Building, NY	$75 M
3	Stuyvesant Town, NY	$66 M
5	MetLife Building, NY	$52 M
11	**E.F. Barrett Power Plant**	**$42 M**
15	Empire State Building, NY	$39 M
21	Exelon-Byron Nuclear Generation Station, IL	$36 M
22	Disneyland® Resort, CA	$35 M
27	**Port Jefferson Power Plant**	**$32 M**
28	Sears/Willis Tower, IL	$31 M
31	Mall Of America, MN	$30 M
44	**Glenwood Landing Power Plant**	**$23 M**
58	Borgata Hotel & Casino, NJ	$20 M
68	Waldorf Astoria, NY	$19 M
76	Xcel Energy Monticello Nuclear Generatin Power Plant, MN	$17 M
94	Bellagio Hotel & Casino, NV	$16 M

*Source: Commercial Cafe

2. High taxes on four legacy power plants

$181 MILLION ANNUAL TAX BILL

FOR

4 LEGACY POWER PLANTS

Northport Pt. Jefferson E.F. Barrett Glenwood Landing

ENERGY OUTPUT

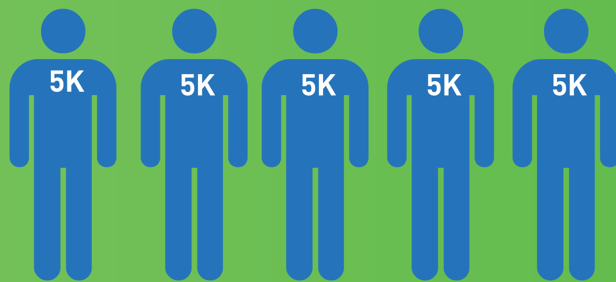
22% OF LONG ISLAND'S ELECTRICITY NEEDS

3. Where do the taxes go?

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

63% FOUR LEGACY POWER PLANT PROPERTY TAXES

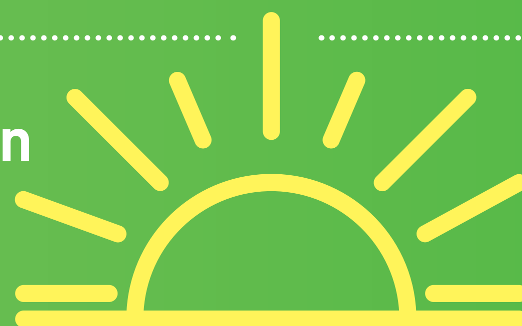
GO TO



25,000 CUSTOMERS

='S 5,000 Customers

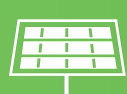
4. A new energy grid on the horizon



New York has a nation-leading mandate to generate 50% of the state's electricity needs from renewable sources by 2030.

LIPA and PSEG Long Island are doing their part:

NY's First Offshore Wind Project



Leading NY in Rooftop and Utility Scale Solar

NY's Largest Utility-Scale Battery Project

NY's 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

Utilities across the United States challenge tax assessments to ensure their customers pay no more than their fair share of taxes through their electric bill. Taxes are the Long Island Power Authority's ("LIPA" or "the Authority") third largest expense at over $545 million, or approximately 15 percent of customer bills.

LIPA strives to minimize the impacts on customers caused by high property taxes. If assessed accurately by local tax assessors, property taxes[1] are fair to both the communities that host electric facilities and the electric customers paying the bills.

A 2018 American Public Power Association survey indicates that the property tax burden embedded in Long Island electric rates is one of the highest in the nation -- roughly three times the national average.

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[2];
- More than 13 property tax assessors[3] 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.

A common misperception is that the property tax burden embedded in electric rates results in lower property taxes for 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 four school districts hosting legacy steam power plants, at the expense of the other 98 percent of customers.

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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] 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.

[3] LIPA's utility property is separately assessed for tax purposes by Nassau County, the ten towns of Suffolk County, the City of New York, and the State of New York, often with different values for similar property. 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 rate increases. In 2016, LIPA's Board of Trustees adopted a Policy to pay only the reasonable and economically justified level of taxes required by law.

The Policy on Taxes and PILOTs states the Authority should:

- Pay only such taxes, payments in-lieu-of taxes ("PILOTs"), assessments, and fees as are required by law or by agreement;
- Avail itself of the lawful right to challenge excessive tax assessments and payment obligations to minimize the cross-subsidization of taxpayers in some taxing jurisdictions by the Authority's customer-owners in other jurisdictions; and
- Inform customers of the burden of taxes, PILOTs, assessments, and fees in their electric bills.

In carrying out the Board's Policy, LIPA staff used 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.

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 New York State Public Service Commission, will continue to benefit the customer-owners of Long Island's electric system.

LIPA'S ANNUAL TAX PAYMENTS

In 2018, LIPA budgeted over $545 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 $31 million, while four power plants total $181 million;
- $289 million of local property taxes on transmission and distribution ("T&D") property; and
- $44 million of state and gross revenue taxes and assessments.

Figure 1:

Taxes are 15% of Customer Bills - 3x National Average

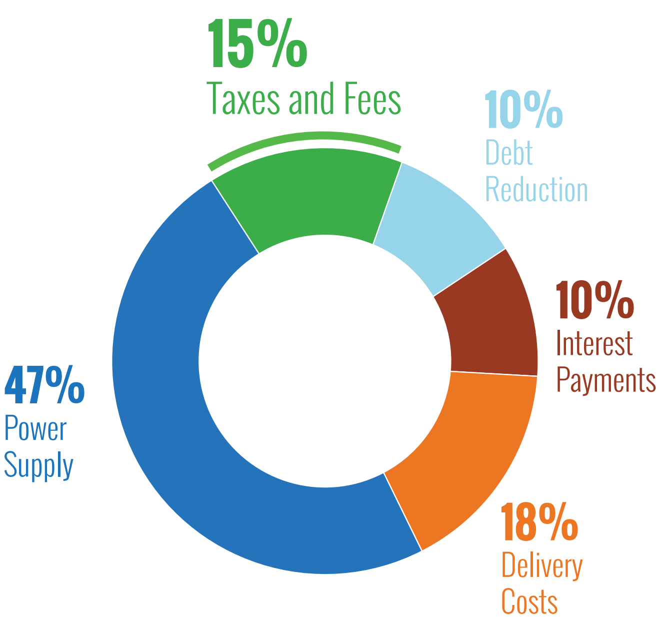
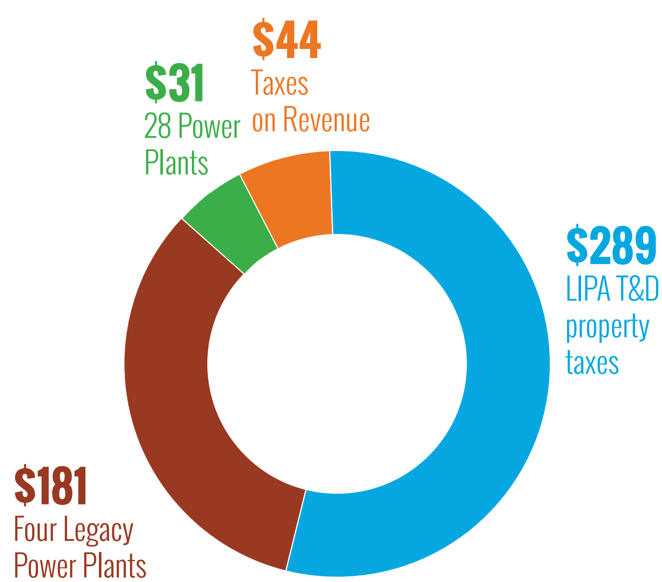


Figure 2:

LIPA Pays Over $545 Million per Year in property taxes, PILOTs, and fees

(dollars in millions)



Long Island Power Authority

FOUR LEGACY POWER PLANTS

To meet the energy needs of Long Island, LIPA maintains 5,762 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. While well-maintained and reliable, the power plants are aging. These four legacy power plants supply just 22 percent of Long Island's electricity needs, but account for $181 million or 85 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 Plants, Unit 3 and 4 and Combustion Turbine, Unit 1
- E.F. Barrett Steam Plant, Units 1 and 2
- Glenwood Landing Combustion Turbine, Units 1, 2 and 3[4]

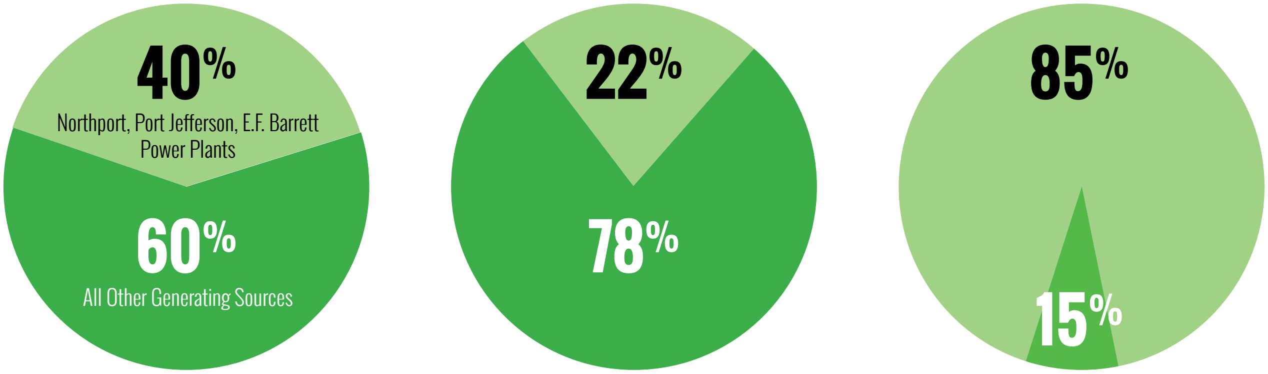
(Photo credit: National Grid Northport Plant circa 1967)

Figure 3:

Capability
Legacy Power Plants are Capable of Producing 40% of Long Island's Electricity Needs

Production
Legacy Power Plants Actually Only Generate 22% of Long Island's Electricity Needs

Taxes
85% of Taxes Paid on All Generating Sources are for the Legacy Power Plants



[4] *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 turbines.*

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 Long Island's residents and businesses.

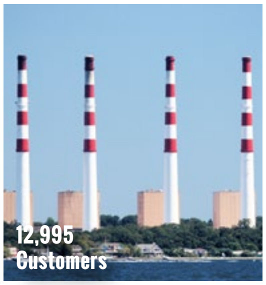
However, only four out of the 124 school districts on Long Island receive most of the power plant tax revenue. As a result, these four school districts have tax rates that are significantly below those in the neighboring school districts.

GLENWOOD LANDING

AVERAGE YEARLY SCHOOL TAXES

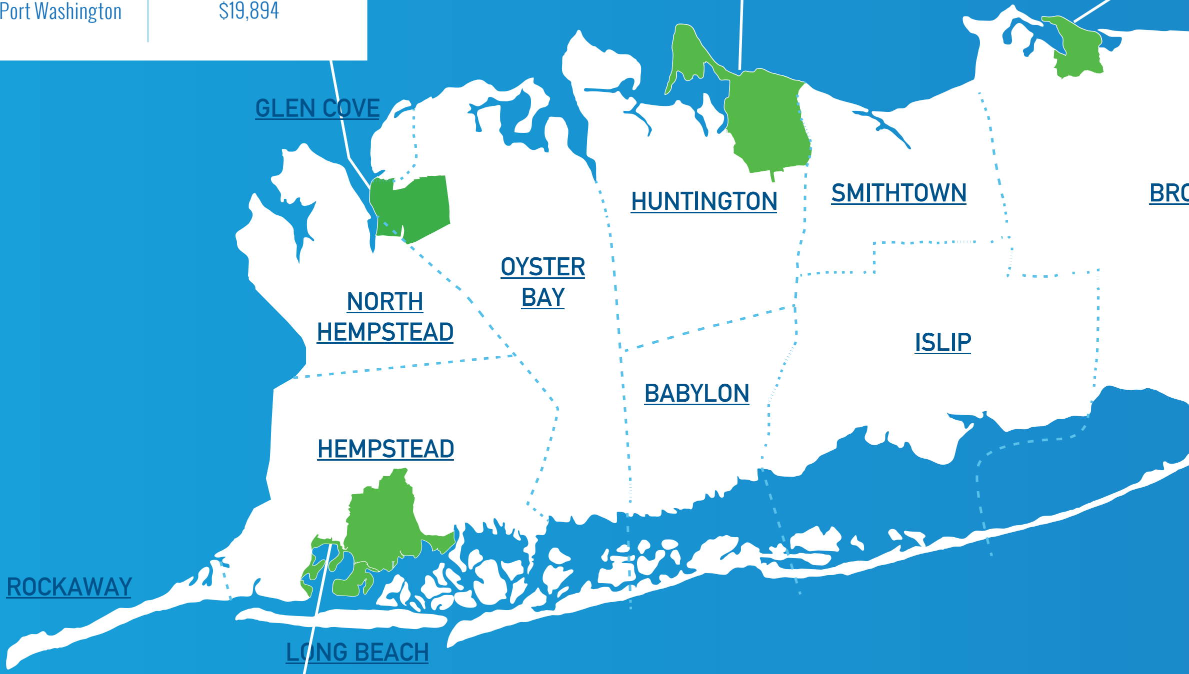
SCHOOL DISTRICTS	2017 CALCULATED TAX
Jericho	$26,227
Locust Valley	$26,169
Roslyn	$23,283
North Shore	$20,309
Port Washington	$19,894

NORTHPORT



AVERAGE YEARLY SCHOOL TAXES

SCHOOL DISTRICTS	2017 CALCULATED TAX
Harborfields	$16,450
Half Hollow Hills	$16,315
Huntington	$15,487
Commack	$15,481
Northport/East Northport	$13,615



E.F. BARRETT

AVERAGE YEARLY SCHOOL TAXES

SCHOOL DISTRICTS	2017 CALCULATED TAX
Hewlett-Woodmere	$22,549
Merrick	$20,393
Rockville Centre	$19,367
Oceanside	$14,879
Island Park	$10,285

PORT JEFFERSON

AVERAGE YEARLY SCHOOL TAXES

SCHOOL DISTRICTS	2017 CALCULATED TAX
Three Village	$15,643
Miller Place	$12,630
Mount Sinai	$11,454
Port Jefferson	$10,463

RANKING LONG ISLAND'S SPENDING PER PUPIL

North Shore:	$38,417
Port Jefferson:	$37,384
Island Park:	$36,789
Northport-East Northport:	$30,588
Median:	$28,820

Source: New York State Department of Education

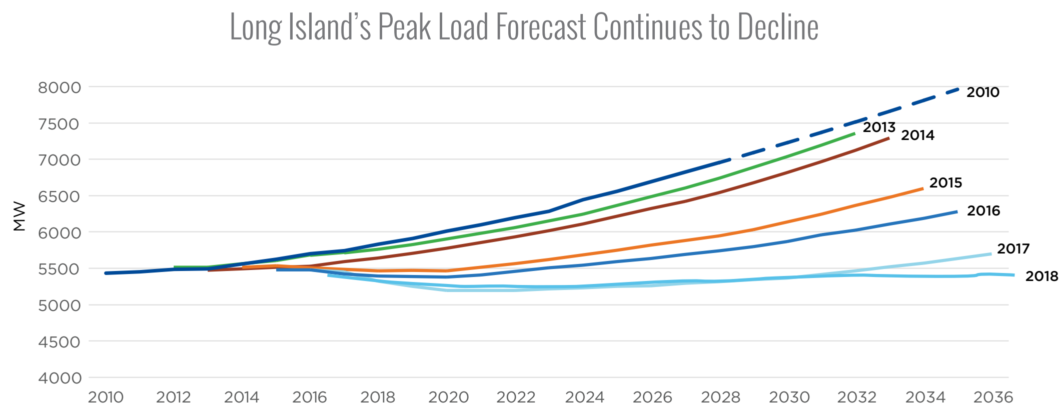
2017 data compiled through SeeThroughNY.net with sourced material from the Office of the State Comptroller, and further calculations by the Empire Center for Public Policy. Median home prices sourced from Multiple Listing Service.

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 towards a distributed electric grid.

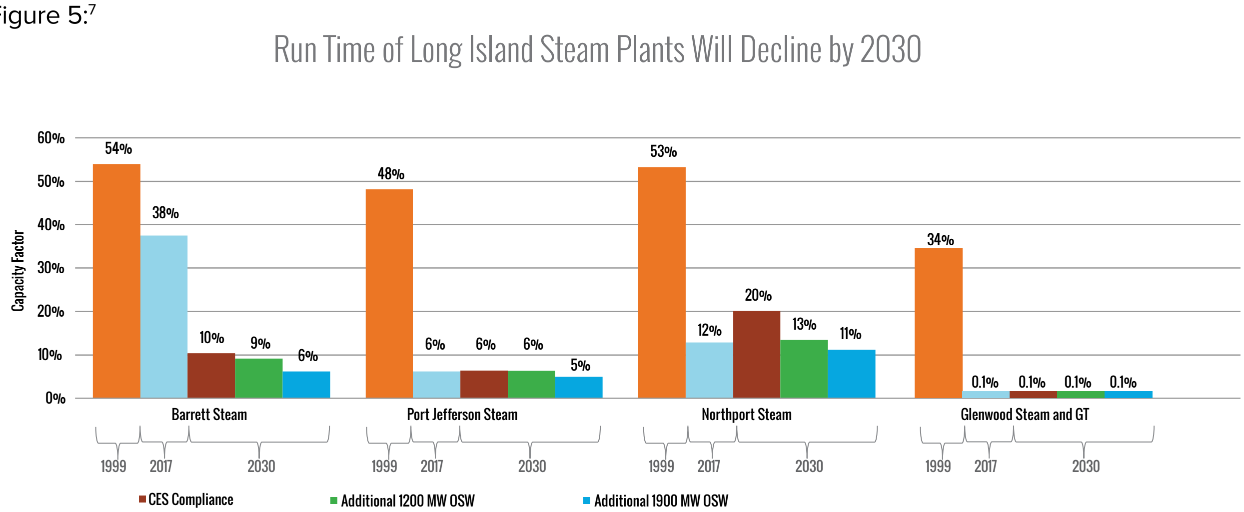
The forecasted need for power in 2030 on Long Island has declined by approximately 1,700 megawatts since 2010, which is the equivalent of 3-5 large baseload central station power plants, as shown in Figure 4.[5]

Figure 4:



The decline in run-time is demonstrated in Figure 5, which shows the capacity factor[6] of the four legacy steam plants in 1999 versus 2017, as well as a projection for 2030.

Figure 5:[7]



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

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In the late 1990s, the legacy plants ran at approximately 34 to 54 percent of capacity. In 2017, that declined to 0.1 percent for Glenwood, 6 percent for Port Jefferson, 12 percent for Northport, and 38 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

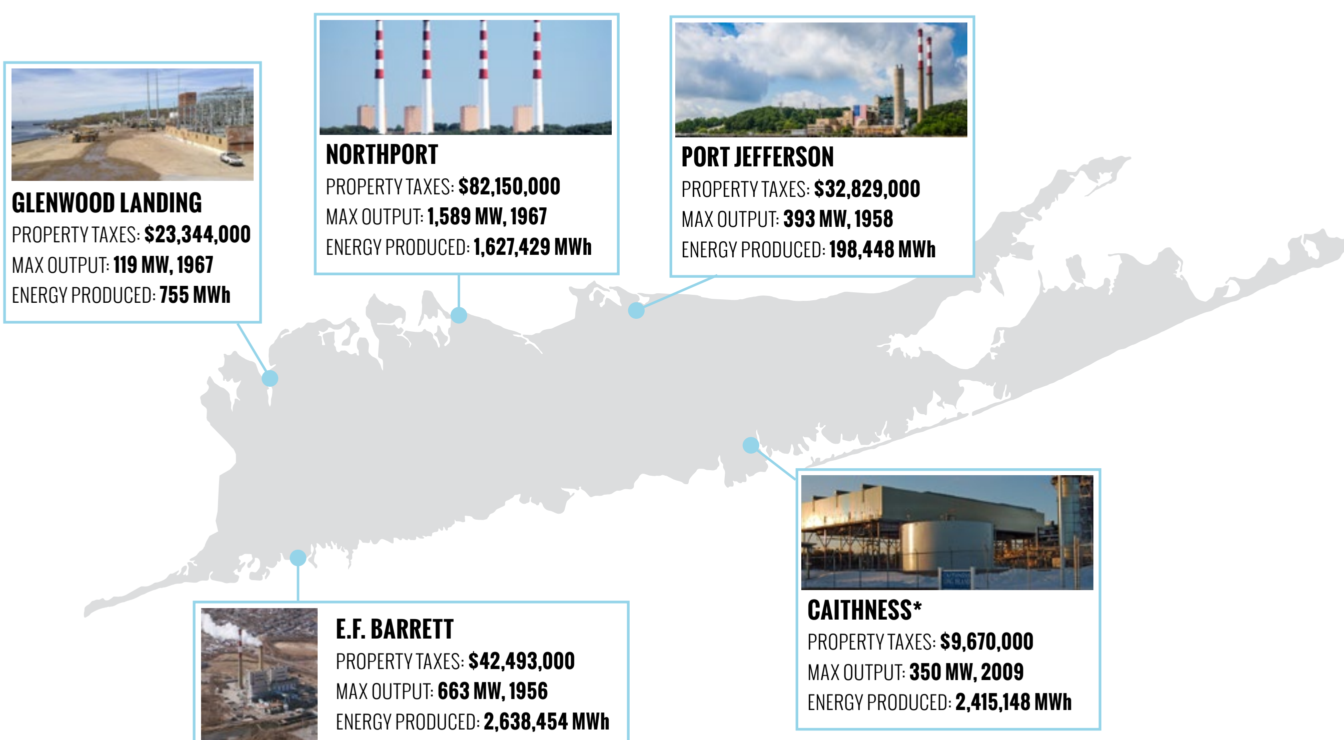
Power plants are supposed to have their taxes assessed based on their value and, if fairly assessed, power plants, like cars, should be worth less with age.

The output of the legacy power plants are sold into the competitive wholesale market operated by the New York Independent System Operator (“NYISO”). The excessive tax burden on the four vintage units results in operational costs that are not competitive with power prices in the electric market.

Figure 7 shows the taxes on the four legacy plants compared to a relatively new 350 megawatt (“MW”) combined-cycle unit named Caithness built in 2009. The Caithness plant ran at 84.5 percent of capacity in 2017 producing 2,415,148 megawatt-hour (“MWh”) of energy, with taxes of $9.7 million or approximately $28,000 per megawatt.

- The Port Jefferson plant is approximately the same size as Caithness, with 198,448 MWh of energy production at 6 percent capacity, and more than **three times the taxes**;
- The Northport plant is approximately four times the size of Caithness, with 1,627,429 MWh of energy production at 12.2 percent capacity, and more than **eight times the taxes**;
- The E.F. Barrett plant is approximately two times the size of Caithness, with 2,638,454 MWh of energy production at 38 percent capacity, and more than **four times the taxes**; and
- The Glenwood combustion turbines are approximately 1/3 the size of Caithness, with 755 MWh of energy production at 0.1 percent capacity, and more than **double the taxes**.

Figure 7:



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

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 for over taxation in prior years. The chart below compares the taxes on the Northport plant to those of the Bowline plant – both are of similar 1970s vintage. Both plants, due to their older technology, run at only 11 to 12 percent of their capacity. However, in 2018, Northport plant taxes totaled $82.1 million, while Bowline plant taxes totaled $2.7 million – a difference of 95 percent, as shown in Figure 8.

BOWLINE, ROCKLAND COUNTY,NY
PROPERTY TAXES: **$2,700,000**
MAX OUTPUT: **1,135 MW, 1967**
ENERGY PRODUCED: **1,400,000 MWh**

Figure 8:
NORTHPORT POWER PLANT 95% OVER-ASSESSED

	Age (yrs)	**Summer Capability** (MW)	**Taxes**	**Capacity Factor**
Bowline (units 1-2) Rockland County, NY	43-45	1,130.7	**$2,700,000** ($2,398 per MW)	11%
Northport (units 1-4) Suffolk County, NY	40-50	1,587.4	**$82,150,000** ($51,751 per MW)	12%

Long Island Power Authority

Glenwood Landing History

The decommissioned power plant site at Glenwood Landing is even more inequitable and is emblematic of the redistribution of electric customer dollars between communities on Long Island. The plant's owner tore down the outdated steam facility in 2013, leaving only 119 MW 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 were 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

Shoreham Nuclear Power Plant

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 tax judgment and refund obligation by the Town of Brookhaven for the overtaxation of the inoperative 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 (LILCO) in 1998, LIPA acquired the right to recover the $1.3 billion Shoreham tax judgment. 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 three percent on electric bills paid by Suffolk County customers through 2025.

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NEW AGREEMENT TOWARDS A FAIR TAX FUTURE

In an attempt to obtain a fair tax assessment on the four legacy power plants[8] and to lower energy costs for 1.1 million customers, LIPA began filing tax certiorari challenges against Nassau County, the Town of Huntington, the Town of Brookhaven, and the Village of Port Jefferson in 2010.

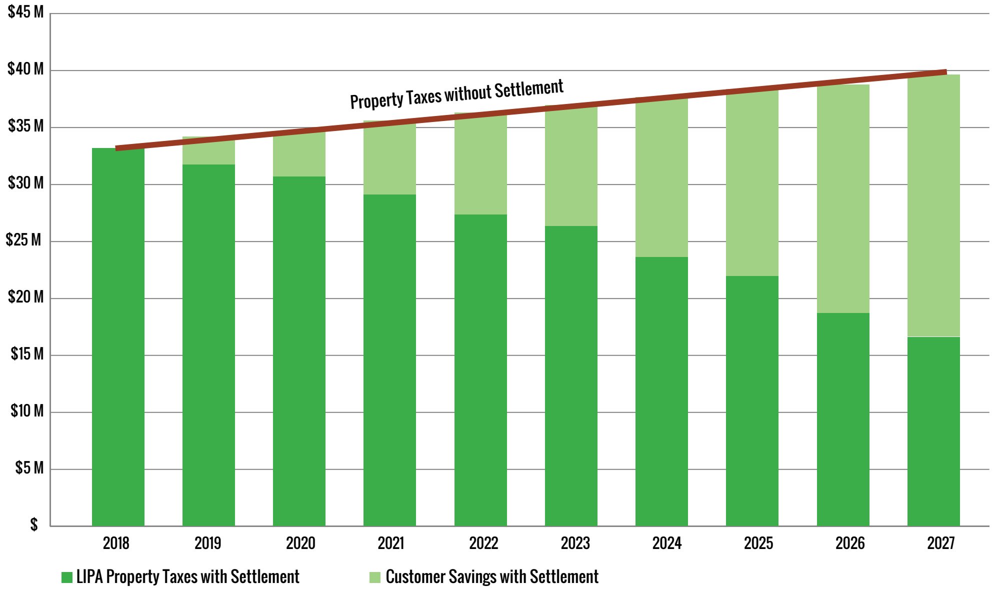
In December 2018, local leaders of the Town of Brookhaven and the Village of Port Jefferson came to an agreement with LIPA to gradually lower taxes on the Port Jefferson power plant over nine years. The agreement marks significant progress toward a fair tax future.

The following settlement terms secure financial certainty for both the local community hosting the plant and LIPA's 1.1 million customers:

- The host community retains among the lowest school tax rates in the surrounding area;
- LIPA waives $225+ million tax refund liability owed by the Town of Brookhaven and the Village of Port Jefferson;
- 50 percent reduction in annual taxes over nine years to 2026/2027 tax year; and
- Saves $22 million in tax payments, as shown in the Figure 9 below.

Figure 9:

LIPA PROPERTY TAXES ON PORT JEFFERSON POWER PLANT



Port Jefferson Settlement Savings at a Glance

- Without a settlement, 1.1 million customers would pay nearly $40 million in property taxes for the Port Jefferson power plant in 2027
- With a settlement, customers will pay less than $17 million for Port Jefferson power plant property taxes in 2027

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[8] 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 all costs, including the property taxes assessed by each taxing jurisdiction.

Community Support for the Port Jefferson Settlemnent

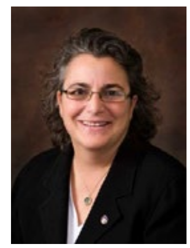
Brookhaven Town Supervisor, Ed Romaine

"This deal puts an end to the uncertainty of this plant over the course of nine years and gives finality to this issue. LIPA has said throughout this process that savings from the lower assessment will be returned to the ratepayers in the form of lower electric bills, which will benefit all Brookhaven residents. I have always believed that all property assessments should be fairly based on property value."

Brookhaven Supervisor
Ed Romaine

Village of Port Jefferson Mayor, Margot Garant

"The power plant has been supplementing this community and even at the end of the agreement we will still be equivalent or below the taxes of our neighbors. If we put this off further, it will have a greater impact."



Village of Port Jefferson Mayor
Margot Garant

"

Association for a Better Long Island, Kyle Strober

"For far too long this issue has put Long Island's ratepayers on the edge of a volcano. With this action Supervisor Romaine and Mayor Garant have acknowledged that the current situation is unsustainable and needs to be resolved. One can only hope that other elected officials will follow their lead and put an end to an unfair assessment practice."

Association for a Better Long Island
Kyle Strober, Executive Director

President of the Long Island Builders Institute, Mitch Pally

"As both taxpayers and LIPA customers, we congratulate and commend the vision and leadership of Brookhaven Supervisor Ed Romaine, the Village of Port Jefferson Mayor Margot Garant and LIPA CEO Tom Falcone in successfully achieving a settlement that results in a reduction in taxes paid by LIPA customers while providing a multi-year glide path for the school district. We hope that this settlement will inspire other parties to likewise engage in serious discussions to reach similar agreements."

President of the Long Island Builders Institute
Mitch Pally, President

LIPA
Long Island Power Authority

TRIAL DATE NEARS FOR NORTHPORT POWER PLANT

LIPA continues to offer a fair settlement proposal to the Town of Huntington ahead of a 2019 trial date. Patterned off of the Port Jefferson agreement, LIPA's proposal to the Town of Huntington would permit the community hosting the Northport power plant to retain among the lowest school tax rate in the Town of Huntington and waives over $650 million in tax refunds due to LIPA's customers.

Unfortunately, the method of assigning the tax refund liability has complicated attempts to settle this tax litigation. Residents in the Town of Huntington would be responsible for paying the refunds owed as a result of the overassessment—not the school district—and in Nassau County, all county residents would be responsible. Therefore, the residents in the school district who have benefited from the high tax payments are not the ones who would pay the tax refunds, as shown in Figure 10.

Figure 10:

Power Plant	Primary 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
Northport	Northport - East Northport	Town of Huntington	$650,000,000+	12,995	70,626
E.F. Barrett	Island Park & Oceanside	Nassau County	$327,000,000+	2,916	426,796
Glenwood	Glenwood Landing	Nassau County	$176,000,000+	5,919	
		Total	$1.1 billion+	21,830	497,422

Northport Settlement vs. Court Action

A fair settlement proposal presented by LIPA to the Northport community reduces the taxes on the plant by 50 percent over nine years, keeps school tax rates low, and waives hundreds of millions in tax liability from Town of Huntington residents.

The alternative is a court trial 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.

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

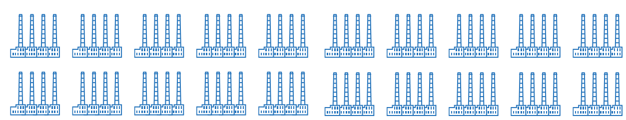
School Taxes Remain Below Area Average

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

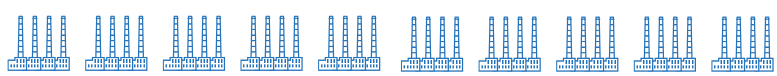
* Includes Annual Cost of Financing a $650+ Million Refund Liability

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

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



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



2018 LIPA Taxes (General & School)	Settlement for YE 2027	Fair Taxes for 2018 ($2,375/mW)
$82,150,000	$40,385,009	$3,773,875

HIGH TAXES ON TRANSMISSION AND DISTRIBUTION PROPERTY

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

Similar to power plant property taxes, over-assessed T&D property contributes to higher Long Island energy costs. LIPA has over 180 substations and more than 15,000 miles of overhead and underground lines.

In 2018, LIPA staff reviewed the assessed values on a cross-section of substations in various taxing jurisdictions throughout the service territory. As shown in figure 12, the LIPA review revealed examples of significantly over-assessed utility equipment:

Figure 12: **Illustrative Example of Over-Taxed Substations:**

	Assessed Value	Fair Value[9]	Taxes Paid	%
Example Substation #1	**$63,872,501**	**$8,000,000**	**$1,528,373**	**88%** over-assessed
Example Substation #2	**$19,064,600**	**$2,805,000**	**$325,848**	**85%** over-assessed

LIPA has filed grievances for the substations identified as significantly overvalued for tax purposes to date and will now review a larger sample of substations and other T&D equipment for tax fairness.

While the estimated savings per site will be considerably less than the savings associated with power plants, in aggregate LIPA pays nearly $289 million per year in PILOTs on T&D equipment, which is well in excess of the payments called for by law.

PILOTs on LIPA-owned T&D Property

As illustrated in Figure 13, 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 $289 million in 2018.

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 14, the LRA is anticipated to produce cumulative savings of $513 million through 2021, compared to the growth rate in T&D PILOTs before New York State stepped in to provide relief to LIPA customers.

[9] *Under New York State law, utility equipment is to be taxed based upon what it would cost to reproduce similar assets (known as reproduction costs new less depreciation).*

Monitoring the Two Percent Tax Cap on Annual PILOT Payments

LIPA's efforts to pay only the fair PILOT payments on T&D property include ensuring that all taxing jurisdictions abide by the two percent tax cap of the LRA.

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 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 filed suit in 2018 to prohibit 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 follow the two percent cap, as well as several towns in Suffolk County.

Figure 13:

TRANSMISSION & DISTRIBUTION PROPERTY TAXES (MILLIONS)

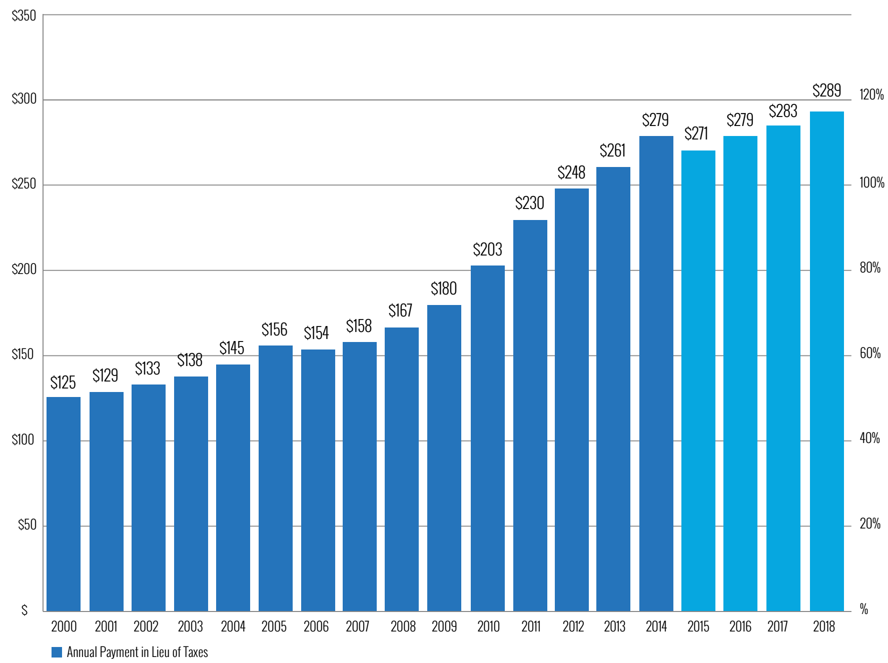
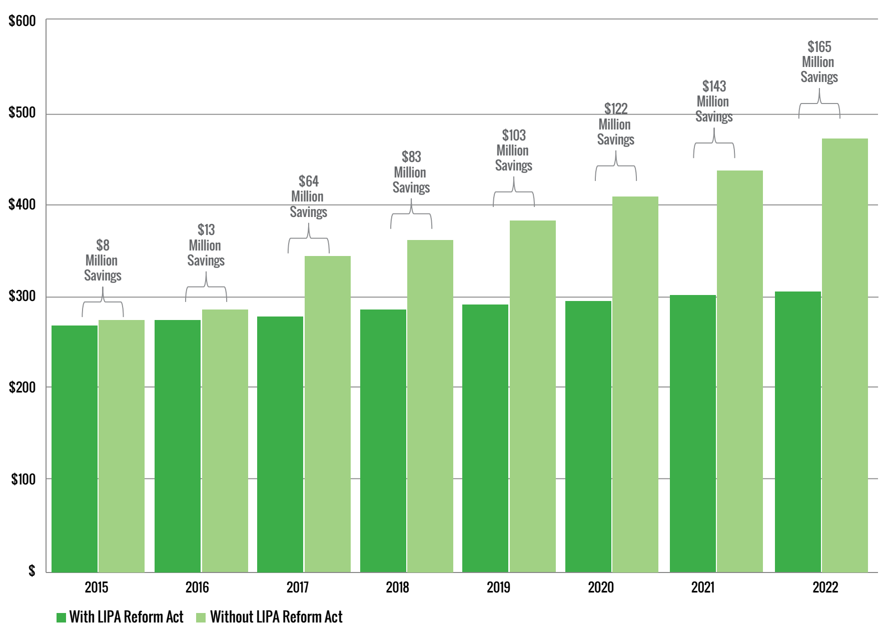


Figure 14:

TRANSMISSION & DISTRIBUTION TAXES
WITH AND WITHOUT LIPA REFORM ACT (MILLIONS)



CONCLUSION

LIPA made significant progress in pursuing a fair tax bill for its customers in 2018. We settled the tax case on the Port Jefferson power plant in a manner fair to both our customers and the local community, defended the two percent tax cap on our T&D property in Suffolk County, and filed challenges on certain substations that are grossly over-assessed. In 2019, we will continue to advance each of these initiatives to manage the substantial cost of taxes and PILOTs on our customers' behalf.

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