

LONG ISLAND POWER AUTHORITY

MINUTES OF THE 280TH MEETING

HELD ON JANUARY 23, 2019

The Long Island Power Authority (the “Authority”) was convened for the two-hundred-and-eightieth time at 11:22 a.m. at LIPA’s Headquarters, Uniondale, NY, pursuant to legal notice given on January 18, 2019, and electronic notice posted on the Authority’s website.

The following Trustees of the Authority were present:

**Ralph V. Suozzi, Chairman
Elkan Abramowitz
Drew Biondo
Sheldon Cohen
Matthew Cordaro
Mark Fischl
Peter Gollon**

Representing the Authority were Thomas Falcone, Chief Executive Officer; Anna Chacko, General Counsel; Rick Shansky, Vice President of Operations Oversight; Kenneth Kane, Interim Chief Financial Officer, Bobbi O’Connor, Vice President of Policy, Strategy and Administration & Secretary to the Board of Trustees; Donna Mongiardo, Vice President and Controller; Kathleen Mitterway, Vice President of Audit; Sid Nathan, Director of Communications and Jason Horowitz, Assistant General Counsel.

Representing PSEG Long Island were Daniel Eichhorn, President and COO; Rick Walden, Vice President of Customer Service; John O’Connell, Vice President of Transmission & Distribution; Paul Napoli, Vice President of Power Markets; and Andrea Elder-Howell, Managing Director and Vice President of Legal.

Chairman Suozzi welcomed everyone to the 280th meeting of the Long Island Power Authority Board of Trustees and led the Pledge of Allegiance.

Chairman Suozzi stated that the first item on the agenda was the Chairman's remarks.

After the Chairman's remarks, Chairman Suozzi stated that the next item on the agenda was the Consideration of the Consent Agenda Items.

After questions and a discussion by the Trustees, and the opportunity for the public to be heard, upon a motion duly made and seconded, the following resolutions were unanimously adopted by the Trustees based on the memoranda summarized below:

1460. APPROVAL OF MINUTES AND RATIFICATION OF ACTIONS TAKEN AT THE DECEMBER 19, 2018 MEETING OF THE BOARD OF TRUSTEES OF THE LONG ISLAND POWER AUTHORITY

RESOLVED, that the Minutes of the meeting of the Authority held on December 19, 2018 are hereby approved and all actions taken by the Trustees present at such meeting, as set forth in such Minutes, are hereby in all respects ratified and approved as actions of the Authority.

Requested Action

The Board of Trustees of the Long Island Power Authority (the "Board") is requested to adopt a resolution: (i) approving the annual report on the Board Policy on Oversight (the "Policy"); (ii) finding that the Long Island Power Authority and its subsidiary, LIPA (collectively the "Authority" or "LIPA") have complied with the Policy; and (iii) approving certain amendments to the Policy, which resolution is attached hereto as Exhibit "A".

Background

The Authority utilizes contracts with service providers to provide transmission and distribution operations services, fuel and power procurement, and power supply resources. Under the LIPA Reform Act and the Amended and Restated Operations Services Agreement (the "OSA"), the Authority has oversight rights and certain responsibilities with respect to those contracts, the operation and maintenance of the Long Island electric grid, and the generation assets under contract to LIPA.

By Resolution No. 1409, dated March 29, 2018, the Board adopted the Policy with the purpose of establishing the Board's expectations for oversight by the Authority of the "service providers in a systematic manner that meets the needs and protects the interests of the Authority's customers".

Compliance with the Policy

Staff recommends that, for the reasons set forth below, the Board find that the Authority has complied with the Policy since the adoption of the policy last year.

The Policy requires that the Chief Executive Officer annually report to the Board on the Policy, including: (i) work plans for Authority staff for each year; (ii) accomplishments versus the work plan for the prior year; (iii) oversight findings that involve material deviations from contract standards or that represent a significant risk to the Authority or its customers; (iv) activities that foster continuous improvement; and (v) sufficiency of Authority staff and resources to achieve oversight goals.

2018 Work Plan Accomplishments:

- Attached as Exhibit “C” is the 2018 Accomplishments Report (the “2018 Accomplishments Report”). The 2018 Accomplishments Report provides a summary of LIPA staff’s 2018 accomplishments toward meeting the expectations of the LIPA Trustees and serving the needs of LIPA’s customer-owners.
- The 2018 Accomplishments Report documents Staff’s progress on the 91 initiatives identified in the 2018 Work Plan as activities that would further the Board’s policies in LIPA’s key performance areas such as customer service, reliability, clean energy and affordability.
- As discussed in more detail in the 2018 Accomplishments Report, Staff completed 57 of the 91 goals and made significant progress on the remaining 34, with additional work to be completed during 2019.

2019 Work Plan:

- Attached as Exhibit “D” is the 2019 Work Plan. The 2019 Work Plan describes the activities that LIPA Staff intends to undertake to further the Authority’s mission and the Board’s policies in the areas of Reliability, Customer Service, Oversight, Resource Planning, Energy Efficiency and Renewables, Regionally Comparable Electric Rates, and Taxes, PILOTs and Assessments.
- The 2019 Work Plan describes those activities that LIPA Staff believes are critical to advancing the Board Policies and LIPA’s mission and are achievable based on current staffing levels and budgets.
- The 2019 Work Plan includes activities for which LIPA has direct responsibility, like finance and legal, and oversight activities for functions for which LIPA’s service providers, including PSEG Long Island and National Grid have direct responsibility.

Oversight findings that involve material deviations from contract standards or that represent a significant risk to the Authority or its customers:

- Staff has reviewed its oversight observations and audit findings and concludes that none constitute a material deviation or significant risk to the Authority or its customers.

Activities that foster continuous improvement:

- As discussed with specificity in the 2018 Work Plan Accomplishments Report, many of the accomplishments Staff achieved during 2018, and the new plans and initiatives Staff will develop in response to its experiences with the 2018 Work Plan, will foster continuous improvement.
- Specifically, Staff (i) worked with the other stakeholders in the State to implement and advance the clean energy and renewables policies that are currently under development; (ii) explored additional avenues for reducing costs through financial tools; (iii) increased communications with customers and other key stakeholders; and (iv) improved its planning methods, tools and management processes. PSEG Long Island also undertook several initiatives, and the Report describes Staff’s oversight of those projects.

Sufficiency of Authority Staff and resources to achieve oversight goals:

- As shown in the 2018 Accomplishments Report, Staff completed 57 of the 91 goals it set in the 2018 Work Plan and made significant progress on the remaining 34.
- Staff has identified certain gaps in its resources that warrant adding positions or consulting resources in the information technology department. Those positions are expected to be filled in 2019.

Annual Review of the Policy

Staff proposes changes to the Policy, as detailed below and more specifically set forth in Exhibit “B”. In addition to its oversight responsibilities, the Authority has certain responsibilities for managing the affairs of the Authority in the interests of its customer-owners. These responsibilities include budgets, electric rates, and tariffs; setting wholesale markets policy; debt management, and funding the capital program, among other areas. While LIPA management has the primary responsibility for formulating and executing the work plans that advance the Board’s policies in these areas, certain amendments are proposed to the Policy to ensure periodic reporting to the Board of the plans formulated by management to advance the Board’s policies and LIPA’s mission and values.

The Policy will thereby establish the expectations of the Board for both the oversight of the Authority’s service providers and management of the Authority’s affairs and require regular reporting by Staff to enable the Board to assess the activities called for by the Policy. To reflect these Policy amendments, the Policy is proposed to be renamed the Policy on Oversight and LIPA Operations.

Additionally, certain other non-material wording changes are proposed.

Recommendation

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

1461. RESOLUTION APPROVING THE REPORT TO THE BOARD OF TRUSTEES ON THE BOARD POLICY ON OVERSIGHT

WHEREAS, the Board Policy on Oversight (the “Policy”) was originally approved by the Board of Trustees by Resolution No. 1409, dated March 29, 2018; and

WHEREAS, the Board has received the annual Staff report on compliance with the Policy; and

WHEREAS, the Board has reviewed the Policy and approves the changes to the Policy as recommended by Staff.

NOW, THEREFORE, BE IT RESOLVED, that consistent with the accompanying memorandum, the Board hereby finds that the Authority has complied with the Policy for the period since the adoption of the Policy, approves the annual report to the Board, and approves updates to the Policy, as recommended herein.

Requested Action

The Board of Trustees of the Long Island Power Authority (the “Authority”) is requested to adopt a resolution approving an amended Board Policy on Audit Relationships, as further described below.

Board Policy on Audit Relationships

The Finance and Audit Committee of the Authority’s Board of Trustees, in its Charter, was delegated the responsibility of reviewing the Authority’s policies regarding Audit Relationships.

The Board Policy on Audit Relationships defines the expectations of the Board regarding the existing authority granted to the Finance and Audit Committee for:

- Selecting an independent certified public accounting firm to conduct annual audits of the Authority.

- The annual review of the audit plan as well as the Charter, activities, staffing, budget, and organizational structure of the Internal Audit Department and confirming the independence of the internal auditors.
- Monitoring, in consultation with the Vice President - Audit, the significant findings of internal audit reports and the status of the implementation of management’s action plans in response to such audit findings.
- Setting forth the procedures for the Board of Trustee’s receipt, review and implementation of any recommendations in a Management and Operations Audit conducted by the New York State Department of Public Service (“DPS”).

Proposed Changes to Board Policy

The proposed changes to the Board Policy include the following:

- To clarify the Finance and Audit Committee’s role in reviewing decisions to hire or dismiss the head of the Audit Department.
- The change in the name of the Oversight and REV Committee.
- The addition of an expectation that the Finance and Audit Committee will review the provisions of the Board Policy on Audit Relationships annually.

Recommendation

Based upon the foregoing, I recommend the approval of the adoption of the resolution in the form attached hereto as Exhibit “A”.

1462. RESOLUTION APPROVING AMENDMENTS TO THE LONG ISLAND POWER AUTHORITY BOARD POLICY ON AUDIT RELATIONSHIPS

WHEREAS, the Board of Trustees of Long Island Power Authority (the “Authority”) oversees the management of the Authority, the contractual relationship with the Authority’s Service Provider, and fulfillment of the Authority’s mission; and

WHEREAS, as stewards of the Authority, the Trustees are responsible for setting the Authority’s audit relationship policy and overseeing its fulfillment; and

WHEREAS, the Finance & Audit Committee of the Authority’s Board of Trustees, in its Charter, was delegated the responsibility of reviewing the Authority’s policies regarding Audit Relationships; and

WHEREAS, in the Authority's By-Laws, the Authority's Board of Trustees delegated certain responsibilities to the Chief Executive Officer for managing and directing the staff of the Authority; and

WHEREAS, policies addressing audit relationships have been recommended by the Finance & Audit Committee for adoption by the Board.

NOW, THEREFORE, BE IT IS RESOLVED, that the Trustees hereby approve and adopt the amended Policy on Audit Relationships, in accordance with the accompanying memorandum; and

BE IT FURTHER RESOLVED, that the Policy on Audit Relationships be subject to annual review and evaluation by the Finance & Audit Committee in accordance with the accompanying memorandum.

Chairman Suozzi stated that the next item on the agenda was the Consideration of a Resolution Acknowledging the Dedicated Service of Trustee Jeffrey H. Greenfield.

After requesting a motion on the matter, which was seconded, Chairman Suozzi read the Resolution Acknowledging the Dedicated Service of Trustee Jeffrey H. Greenfield.

After questions and a discussion by the Trustees, and the opportunity for the public to be heard, upon a motion duly made and seconded, the following resolution was approved by the Trustees.

1463. THE BOARD OF TRUSTEES RECOGNIZES THE DEDICATED SERVICE OF JEFFREY H. GREENFIELD TO THE CUSTOMERS OF THE LONG ISLAND POWER AUTHORITY

WHEREAS, Jeffrey H. Greenfield is a lifelong Nassau County resident with a distinguished record of service to his community as Trustee of the Village of Rockville Centre, 44-year first responder with the Rockville Centre Fire Department, Director of the Rockville Centre Community Fund, Chair of the Rockville Centre Board of Appeals, Chair of the Nassau County Planning Commission, President of Temple B'nai Sholom, President of the Kiwanis Club, and Trustee of Molloy College; and

WHEREAS, Trustee Greenfield is a local business owner and prominent insurance industry professional, serving as Managing Member of NGL Group L.L.C., and as past president of three major insurance organizations, including the Professional Insurance Agents of New

York, the Council of Insurance Brokers of Greater New York, and the Downstate Insurance Agents Association; and

WHEREAS, Trustee Greenfield served on the Board of Trustees of the Long Island Power Authority from December 14, 2012 to December 31, 2018; and

WHEREAS, Trustee Greenfield used his experience in business, insurance, and local government, as well as his humor, to be a vocal advocate for a smarter, cleaner, and more affordable electric grid for Long Island and the Rockaways; and

WHEREAS, Trustee Greenfield diligently and thoughtfully served the people of Long Island and the Rockaways.

NOW, THEREFORE, BE IT RESOLVED, that the Board of Trustees hereby duly recognizes the friendship and faithful service of Trustee Greenfield to the customers of the Long Island Power Authority.

Chairman Suozzi stated that the next item on the agenda was the CEO's Report presented by Thomas Falcone.

Mr. Falcone presented the CEO Report and took questions from the Trustees.

Chairman Suozzi stated that the next item on the agenda was the CFO's Report, to be presented by Kenneth Kane.

Mr. Kane presented the CFO Report and then took questions from the Trustees.

Chairman Suozzi stated that the next item on the agenda was the Secretary's Report on Board Policies and Communication, to be presented by Bobbi O'Connor.

Ms. O'Connor presented the Secretary's Report and then took questions from the Trustees.

Chairman Suozzi stated the next item on the agenda was the PSEG Long Island Operating Report and Discussion of PSEG Long Island 2018 Metric Performance, to be presented by Daniel Eichhorn.

Mr. Eichhorn presented the PSEG Long Island Operating Report and lead the Discussion of PSEG Long Island 2018 Metric Performance and took questions from the Trustees.

Chairman Suozzi stated that the next item on the agenda was the Approval of the Annual Report and Amendments on the Board's Policy on Taxes, PILOTs and Assessments, to be presented by Kenneth Kane.

After requesting a motion on the matter, which was seconded, Mr. Kane presented the following action item and took questions from the Trustees.

Requested Action

The Board of Trustees of the Long Island Power Authority (the "Board") is requested to adopt a resolution: (i) finding that the Long Island Power Authority and its subsidiary, LIPA (collectively the "Authority" or "LIPA") have complied with the Board Policy on Taxes, PILOTs and Assessments (the "Policy"); (ii) approving the annual report for the Policy; and (iii) approving certain amendments to the Policy, which resolution is attached hereto as Exhibit "A".

Background

By Resolution No. 1320, dated September 21, 2016, the Board adopted the Policy for the purposes of: (i) paying only such taxes, PILOTs, and assessments as are required by law or the Authority's PILOT agreements with local municipalities; (ii) promoting tax equity among taxing jurisdictions; (iii) informing customers of the burden of taxes, PILOTs, and assessments in their electric rates; and (vi) seeking 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.

Since 2016, LIPA has published an annual tax report to update the Board and the public on LIPA's efforts to reduce the tax burden and lower energy costs for all 1.1 million customers.

Compliance with the Policy

Staff recommends that, for the reasons set forth below, the Board find that the Authority has complied with the Policy for the period since the last review.

The Policy provides that the Authority “pay only such taxes, Payments in-lieu-of Taxes (“PILOTs”), and assessments as are 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.”

- Long Island power plants are nationally recognized as among the highest taxed commercial properties in the United States. The excessive tax burden on power plants has resulted in operational costs that are no longer competitive with prices of power in the electric market. As such, the Authority has availed itself of the lawful right to challenge excessive payment obligations on four legacy power plants for each year beginning in 2010.**
- The Authority entered into power purchase agreements for two “fast track” power plants that transferred the obligation to pay taxes to the owners of the plants, thereby reducing related tax payments by approximately \$5 million per year.**
- In December 2018, LIPA entered into a settlement agreement with the Town of Brookhaven and the Village of Port Jefferson to gradually reduce the taxes on the Port Jefferson power plant, which are approximately \$33 million per year, by 50 percent over nine years. If the parties fulfill the terms of the settlement, the Authority will waive a refund for back tax years estimated at over \$225 million, plus interest.**
- LIPA and PSEG Long Island have implemented procedures to ensure that PILOTs on each annual bill related to transmission and distribution equipment owned by the Authority do not exceed 102% of the prior calendar year’s payment, consistent with the provisions of the LIPA Reform Act. The Authority has also taken action to defend itself in litigation challenging the 2% tax cap in certain jurisdictions on Long Island.**
- During 2018, LIPA undertook a review of selected substations across the service territory. The review found that similar assets with regard to size (voltage), function, condition, and age have a wide range of assessed values that varies primarily due to the tax assessor valuing the property.**

Accordingly, LIPA filed challenges on several over-assessed substations, and will continue its review of assessed valuations across the service territory to identify additional over-assessed transmission and distribution equipment.

The Policy provides that the Authority “promote tax equity among taxing jurisdictions for all of the Authority’s customers to minimize the cross-subsidization of tax payers in some jurisdictions by ratepayers in other jurisdictions and balance the amount of taxes imposed on electricity users compared to all other sources of state and local taxation.

- The Authority has sought to achieve this objective by the actions stated above. The Policy provides that the Authority “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”.
- The Authority issued a Property Tax Report during 2018, which is available on its website, and was provided to community leaders, stakeholders, elected officials, media, and investors in response to inquiries related to the burden of taxes on the Authority’s customers.
- LIPA staff regularly meets with stakeholders and local leaders to discuss the impact of taxes on energy bills.
- Attached as Exhibit “B” is the 2019 Tax Report. The report provides additional detail on the tax burden in Long Island electric bills and the Authority’s tax reduction efforts.

Annual Review of the Policy

Staff proposes to amend the Policy to provide for a reporting requirement to the Board, consistent with other Board policies, and to authorize the Chief Executive Officer to take such actions necessary to effectuate and implement settlement agreements with taxing jurisdictions.

Additionally, staff proposes non-material wording changes and to amend the title of the Policy. The proposed changes are shown in Exhibit “C”.

Recommendation

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

After questions and a discussion by the Trustees, and the opportunity for the public to be heard, upon a motion duly made and seconded, the following resolution was approved by the Trustees.

**1464. RESOLUTION APPROVING THE REPORT TO THE BOARD OF TRUSTEES
ON THE BOARD POLICY ON TAXES, PILOTS AND ASSESSMENTS**

WHEREAS, the Board Policy on Taxes, PILOTs and Assessments (the “Policy”) was originally approved by the Board of Trustees by Resolution No. 1320, dated September 21, 2016; and

WHEREAS, the Board has received the annual Staff report on compliance with the Policy; and

WHEREAS, the Board has reviewed the Policy and approves the changes to the Policy, as recommended by Staff.

NOW, THEREFORE, BE IT RESOLVED, that consistent with the accompanying memorandum, the Board hereby finds that the Authority has complied with the Policy for the period since the last annual review of the Policy, approves the annual report to the Board, and approves updates to the Policy, as recommended herein.

Chairman Suozzi stated that the last item on the agenda was the Approval of Selection of Financial and Swap Advisors, to be presented by Kenneth Kane.

After requesting a motion on the matter, which was seconded, Mr. Kane presented the following action item and took questions from the Trustees.

Requested Action

The Board of Trustees of the Long Island Power Authority (the “Board”) is requested to approve a resolution authorizing the Chief Executive Officer, or his designee, to engage PFM Financial Advisors LLC (“PFM”) and Mohanty Gargiulo LLC (“Mohanty”) to provide financial advisory and swap advisory services, respectively, to the Long Island Power Authority and its subsidiary, the Long Island Lighting Company d/b/a LIPA (collectively, “LIPA” or the “Authority”) for a term not to exceed five years.

Background

LIPA has an on-going need for financial and swap advisory services related to accessing the bank and capital markets, assisting in the evaluation and adoption of the Authority’s financial policies, assisting in the filing of rate cases, maintaining rating agency and investor relationships, and evaluating financing strategies and structures. The Authority last conducted a solicitation for these services for a five-year term in February 2014. The resulting contracts will expire on June 30, 2019.

Discussion

On November 27, 2018, LIPA issued a Request for Proposals (“RFP”) seeking qualified firms to provide: (i) financial advisory services; and (ii) swap advisory services to LIPA.

The RFP was distributed to fourteen firms plus 146 minority and women-owned business enterprises (M/WBE), advertised in the NYS Contract Reporter, and posted on LIPA’s website.

On December 21, 2018, two firms submitted proposals to provide financial advisory services and three firms submitted proposals for swap advisory services. A selection committee of three LIPA staff evaluated the technical aspects of the proposals (the “Technical Team”), while LIPA Procurement Staff evaluated the costs of each bid and the proposed participation of M/WBE and service-disabled veteran-owned businesses (“SDVOB”). The Technical Team consisted of the Director of Finance and Treasury Operations, the Manager of Treasury Operations, and the Budget Analyst. Interviews were conducted by LIPA’s Technical Team.

Financial Advisory Services

Based on the technical and cost reviews, M/WBE and SDVOB capabilities and interviews, PFM had the highest overall score for financial advisory services and was determined to provide the best overall value for the Authority’s customers. PFM has provided advisory services to the Authority since 2008 and has demonstrated an in-depth working knowledge and understanding of the Authority, its debt, and operations. PFM has extensive knowledge and significant experience in the public power field, including serving as advisor to the majority of the members of the Large Public Power Council.

The PFM proposal includes a dedicated team of professionals who have served LIPA well during the term of its last contract. Finally, PFM provided a thorough and thoughtful response to the RFP and interview questions and offered insightful and relevant recommendations specific to LIPA. Additionally, PFM’s costs were determined to be reasonable.

Swap Advisory Services

Based on the technical and cost reviews, M/WBE and SDVOB capabilities and interviews, Mohanty had the highest overall score for swap advisory services and was determined to provide the best overall value for the Authority’s customers. Mohanty has in-depth working knowledge and understanding of the Authority and its swap portfolio, as Mohanty has served as a subcontractor to PFM in providing such services to LIPA since 2014. Their technical expertise, client focus, and dedicated resources have also allowed them to be advisor to various sophisticated issuers with large and complex portfolios, including several issuers within New York State. Mohanty is an M/WBE firm.

Additionally, Mohanty’s costs were determined to be reasonable.

Recommendation

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

After questions and a discussion by the Trustees, and the opportunity for the public to be heard, upon a motion duly made and seconded, the following resolution was approved by the Trustees.

1465. RESOLUTION AUTHORIZING THE ENGAGEMENT OF FIRMS TO PROVIDE FINANCIAL ADVISORY AND SWAP ADVISORY SERVICES

NOW, THEREFORE, BE IT RESOLVED, that consistent with the attached memorandum, the Chief Executive Officer or his designee be, and hereby is, authorized to engage PFM Financial Advisors LLC to provide financial advisory services and Mohanty Gargiulo LLC to provide swap advisory services to the Long Island Power Authority and its subsidiary the Long Island Lighting Company d/b/a LIPA with a contract for a period of five years.

Chairman Suozzi then allowed public comment to be heard, and then announced that the next Board meeting is scheduled for Wednesday, March 20, 2019 at 11:00 a.m. in Uniondale.

Chairman Suozzi then asked for a motion to adjourn to Executive Session and announced that no votes would be taken and that the Board would not be returning to Open Session. The motion was duly made and seconded, and the following resolution was adopted:

1466. EXECUTIVE SESSION – PURSUANT TO SECTION 105 OF THE PUBLIC OFFICERS LAW

RESOLVED, that pursuant to Section 105 of the Public Officers Law, the Trustees of the Long Island Power Authority shall convene in Executive Session for the purpose of discussing personnel and litigation matters.

At approximately 1:34 p.m. the Open Session of the Board of Trustees was adjourned on a motion to enter into Executive Session.
