

LONG ISLAND POWER AUTHORITY

MINUTES OF THE FINANCE AND AUDIT COMMITTEE MEETING

HELD ON SEPTEMBER 25, 2019

The Finance and Audit Committee of the Long Island Power Authority (the "Authority") was convened at 8:51 a.m. at LIPA Headquarters, Uniondale, NY, pursuant to legal notice given on September 20, 2019 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, Committee Member**

Representing the Authority were Thomas Falcone, Chief Executive Officer; Kenneth Kane, Interim Chief Financial Officer, Bobbi O'Connor, Vice President of Policy & Strategy and Secretary to the Board of Trustees; Donna Mongiardo, Vice President and Controller; Kathleen Mitterway, Vice President of Audit; Corey Horowitz, Director of Risk Management; Jessica Swenson, Enterprise Risk Manager; and Richard Muzikar, Enterprise Risk Management Advisor.

Representing PSEG LI were Markus Ramlall, Director of Finance; Richard Tinelli, Manager of Regulatory Requirements; and Steven Oster, Senior Director of Wholesale Energy Services, PSEG Energy Resources & Trade.

Representing KPMG were Edward Lee, Maureen Evers-Willox, John Pontecorvo and Ryan Weidner.

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 July 24, 2019 Committee meeting.

Upon motion duly made and seconded, the minutes of the July 24, 2019 meeting were approved unanimously.

Chair Cohen stated that next item on the agenda is the Overview of Financial Results to be presented by Donna Mongiardo, Marcus Ramlall and Rich Tinelli.

Ms. Mongiardo presented the Overview of Financial Results, and Mr. Ramlall and Mr. Tinelli of PSEG LI reported on the PSEG LI Operating Results and then took questions from the Trustees.

Chair Cohen stated that the next item on the agenda is the Update on the 2019 Plan of Finance to be presented by Kenneth Kane.

Mr. Kane presented the Update on the 2019 Plan of Finance and then took questions from the Trustees.

Chair Cohen stated that the next item on the agenda is the Overview of Quarterly Financials Ended June 30 to be presented by Donna Mongiardo.

Ms. Mongiardo presented the Overview of Quarterly Financials Ended June 30 and then took questions from the Trustees.

Chair Cohen stated that the next item on the agenda is the Discussion of Internal Audit Activities to be presented by Kathleen Mitterway.

Ms. Mitterway presented the Authority's Internal Audit Activities and then took questions from the Trustees.

Chair Cohen stated that the next item on the agenda is the Discussion of Independent Auditor's 2019 Audit Plan to be presented by the representatives from KPMG.

KPMG presented the Discussion of Independent Auditor's 2019 Audit Plan and then took questions from the Trustees.

Chair Cohen stated that the next item on the agenda is the Recommendation to Approve Amendments to the Board Policy on Investments to be presented by Kenneth Kane.

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

Requested Action

The Finance and Audit Committee (the "Committee") of the Board of Trustees (the "Board") of the Long Island Power Authority (the "Authority") is requested to adopt a resolution recommending amendments to the Board Policy on Investments (the "Policy"), which resolution is attached hereto as Exhibit "A".

Discussion

Consistent with Section 2925 of the Public Authorities Law ("PAL"), the Policy was last reviewed and approved by the Board on March 20, 2019. Subsequent to the March 2019 approval, based on Staff review, Staff is proposing additional modifications to the Policy to: (i) replace the definition of "Authorized Persons" in Section 7 of the Policy, entitled Bank Authorization, to be defined as the Authority's Chief Executive Officer (CEO) or authorized designees; and (ii) transfer the monetary threshold requirements to an internal Financial Policy and Procedure. These changes are intended to allow more efficient handling of internal processes related to Treasury while maintaining strong system of internal controls.

The suggested changes to the Policy are more fully set forth in Exhibit "B".

Recommendation

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

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

RESOLUTION RECOMMENDING APPROVAL OF AMENDMENTS TO THE BOARD POLICY ON INVESTMENTS

RESOLVED, that the Finance and Audit Committee of the Board of Trustees hereby recommends approval of the revised Board Policy on Investments in the form presented at this meeting to be effective immediately.

Chair Cohen stated that the next item on the agenda is the Recommendation to Approve the Annual Report and Amendments on the Board Policy on Enterprise Risk Management and Discussion of the Annual Insurance Review to be presented by Corey Horowitz, Jessica Swenson and Richard Muzikar.

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

Requested Action

The Finance and Audit Committee (the “Committee”) of the Board of Trustees of the Long Island Power Authority (the “Board”) is requested to adopt a resolution recommending that the Board: (i) find that the Long Island Power Authority and its subsidiary the Long Island Lighting Company d/b/a LIPA (collectively the “Authority” or “LIPA”) has complied with the Board Policy on Enterprise Risk Management (the “ERM Policy” or “Policy”); (ii) approve the annual report for the Policy; and (iii) approve certain amendments to the Policy, as detailed herein, which resolution is attached hereto as Exhibit “A”.

Background - Board Policy on Enterprise Risk Management

By Resolution No. 1351, dated March 29, 2017, the Board adopted the ERM Policy, focusing on the identification, assessment, management and mitigation of risks. The Policy was last reviewed and amended by the Board by Resolution No. 1428, dated September 27, 2018.

The Finance & Audit Committee (“F&A Committee”) of the Board, in its Charter, was delegated the responsibility of reviewing the Authority’s practices relating to Enterprise Risk Management (“ERM”). The Authority’s Service Provider, PSEG Long Island, also participates in the implementation of the Authority’s ERM Program. There are certain ERM Program requirements, which are described below.

Specifically, the Policy provides that “the Chief Executive Officer or his or her designee will report annually to the F&A Committee of the Board on the Policy, including: review of the significant risks to LIPA’s mission; and compliance with the key provisions of the Policy.”

Compliance with the Policy

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

The Policy provides: “under the direction of the Authority’s Chief Executive Officer, the Authority and its Service Provider shall maintain an Enterprise Risk Management Program with the following key provisions”:

“An Executive Risk Management Committee consisting of the Chief Financial Officer and at least two other Authority staff appointed by the Chief Executive Officer, one of whom must be drawn from LIPA’s senior management, to oversee the processes and procedures of the Program”

- **The Authority has an active Executive Risk Management Committee (“ERMC”) that reviews the ERM process and controls and oversees the implementation of the ERM Program. Over the last twelve months, the ERMC has met seven times to review the progress of the ERM Program at LIPA and PSEG Long Island. This included review of the assessment and mitigation efforts of all LIPA departments, as well as completed actions relating to the DPS Recommendation.**
- **Currently there are seven members on the Committee including the CEO, Interim CFO, the VP Policy, Strategy & Administration and other Staff at the Director level.**
- **The ERMC maintains an ERM procedures manual that was recently updated by the ERM staff and approved by the ERMC reflecting additional risk assessment factors, prioritization criteria, reporting framework and governance practices.**

The ERM Policy also provides that: “An evaluation of the most significant risks facing the Authority and its Service Provider, and corresponding mitigation activities, reported to senior management of the Authority and its Service Provider for review and evaluation on an annual basis, with ongoing monitoring activity between reviews”

- **In 2018, the Authority and PSEG Long Island revised the ERM Program to follow a bottom up approach to engage each department or business unit at LIPA and PSEG Long Island. ERM staff from the Authority and PSEG Long Island collectively facilitated working sessions with the appropriate subject matter experts in each department or business unit.**
- **The ERM process includes the identification of risks affecting LIPA’s and PSEG Long Islands’ goals and objectives and utilizes quantitative and qualitative methods to assess the magnitude of the risk exposure. The ERM process includes a review of the mitigation of each risk. Each department or business unit Vice President is required to review and approve the department risks portfolio and mitigation activities as risk-owner.**
- **LIPA and PSEG Long Island have established a reporting structure whereby a formal presentation of the significant high-priority risks and associated mitigation activities of each department is brought before LIPA’s and PSEG Long Island’s senior management at their Management Review Board meetings.**

- **Annually, the F&A Committee receives an ERM Program Update highlighting the significant risks facing LIPA and PSEG Long Island and mitigation strategies concurrent with this annual report.**

The ERM Policy recognizes insurance and business continuity planning as strategies to mitigate exposure to certain risks, noting:

“A review of the Authority’s insurance and other forms of coverage against insurable risks, including the availability and economics of such coverage, performed each year.”; and

“Business continuity plans for LIPA and its Service Provider that are reviewed each year”

Insurance:

- **Each year the Authority and its insurance advisor oversee the placement of various policies by PSEG Long Island such as property insurance and general liability insurance and other required coverages as deemed prudent to protect the interest of the Authority’s bondholders and customer-owners.**
- **The AR OSA requires the Authority to provide written notification to PSEG Long Island regarding the renewal of required policies, desired changes in coverages, and any requests to investigate other types of coverages. The Authority’s notification is sent each December.**
- **The Authority maintains several other insurance policies including directors and officers liability, premises general liability and property insurance as well as cyber insurance and employee practices liability insurance.**
- **The levels of coverage were reviewed during 2019 and prudent and economic levels of coverage are in place for each type of policy, including:**
 - **D&O Insurance \$200M Limit/\$1M Retention**
 - **Excess 3rd Party General Liability \$300M Limit/\$3M Retention**
 - **Property Insurance (all risks, excludes wires and poles) \$500M/CAT\$300M Limit adder/\$1.5-\$7.5M Retention; includes U.S. Property Terrorism**
 - **Cyber Insurance:**
 - **LIPA named insured on PSEG Long Island’s Cyber Insurance \$15M Limit/\$2.5M Retention**
 - **LIPA Business Office Cyber Policy \$5M Limit/\$10K retention**
 - **Nuclear Electric Replacement (NMP2) \$300M Limit/12-week deductible period**
 - **Employee Practices Liability Insurance \$5M Limit + \$1M Additional Defense Cost/\$15K Retention**
 - **LIPA premises Liability and Property Insurance \$150K-\$3M Limit/\$0 Retention**

Business Continuity:

- The Authority maintains departmental and corporate level business continuity plans (“BCPs”). PSEG Long Island also maintains detailed business continuity plans for each operational area within each business unit.
- LIPA and PSEG Long Island’s BCPs are reviewed annually and were reviewed during 2019.
- Alternative operations within the BCPs are tested on a periodic basis to assure the most essential business functions are maintained or returned to service in appropriate time frames. Most tests have been completed, with the remaining tests and exercises to be completed by the end of 2019.

The ERM Policy also requires a maturity assessment of the ERM Program to assure the continued development of an effective ERM process, stating: “An annual review of the maturity of the Program compared to industry best practices, will be provided to senior management and the Authority’s Internal Audit staff.”

- The updated maturity model was provided to senior management and discussed at the ERMC’s September meeting.
- The Authority’s Internal Audit department received a copy of the 2019 ERM maturity assessment and diagnostic report prepared by a third-party vendor which measures the current maturity of the Authority’s ERM Program and comparison to industry benchmark.

Annual Review of the Policy

Authority Staff has reviewed the Policy and recommends: (i) renaming the Executive Risk Management Committee as the Enterprise Risk Management Committee and minor modifications to the required composition of the Committee; and (ii) certain other non-material wording changes. The proposed changes to the Policy are more particularly set forth in Exhibit “B”.

Recommendation

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

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

RESOLUTION RECOMMENDING APPROVAL OF THE ANNUAL REPORT AND AMENDMENTS ON THE BOARD POLICY ON ENTERPRISE RISK MANAGEMENT

WHEREAS, the Enterprise Risk Management Policy (the “Policy”) was originally approved by the Board of Trustees by Resolution No. 1351, dated March 29, 2017; and

WHEREAS, the Policy was last reviewed and amended by Resolution No. 1428, dated September 27, 2018; and

WHEREAS, the Finance and Audit Committee (the “Committee”) of the Board of Trustees of the Long Island Power Authority (the “Board”) has conducted an annual review of the Policy and recommends that the Policy has been complied with and that the changes to the Policy are due and proper.

NOW, THEREFORE, BE IT RESOLVED, that consistent with the accompanying memorandum, the Committee hereby recommends that the Board find that the Authority has complied with the Policy for the period since the last annual review and approve the annual report; and

BE IT FURTHER RESOLVED, that consistent with the accompanying memorandum, the Committee recommends that the Board adopt the changes to the Policy that are reflected in Exhibit “B”.

Chair Cohen stated that the next item on the agenda is the Presentation from PSEG ER&T on Power and Fuel Supply Management and Hedging and Recommendation to Approve the Annual Report and Amendments on the Board Policy on the Power Supply Hedging Program to be presented by Corey Horowitz and Steven Oster.

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

Requested Action

The Finance and Audit Committee (the “Committee”) of the Board of Trustees of the Long Island Power Authority (the “Board”) is requested to adopt a resolution recommending that the Board: (i) find that the Long Island Power Authority and its subsidiary the Long Island Lighting Company d/b/a LIPA (collectively the “Authority” or “LIPA”) has complied with the Board Policy on the Power Supply Hedging Program (the “Policy”); (ii) approve the annual report for the Policy; and (iii) approve certain amendments to the Policy, as detailed herein, which resolution is attached hereto as Exhibit “A”.

Background - Board Policy on the Power Supply Hedging Program

By Resolution No.1352, dated March 29, 2017, the Board adopted the Policy to maintain an effective commodity hedging program, focused on meeting the expectations of the Authority’s customers for reasonable stability and predictability in power supply costs. The Policy was last reviewed and amended by Resolution No. 1429, dated September 27, 2018.

The Finance & Audit Committee (“F&A Committee”) of the Authority’s Board of Trustees, in its charter, was delegated the responsibility of reviewing the Authority’s practices relating to commodity risk management. Certain responsibilities, as set forth in the Policy, were delegated by the Board to the Executive Risk Management Committee (“ERMC”).

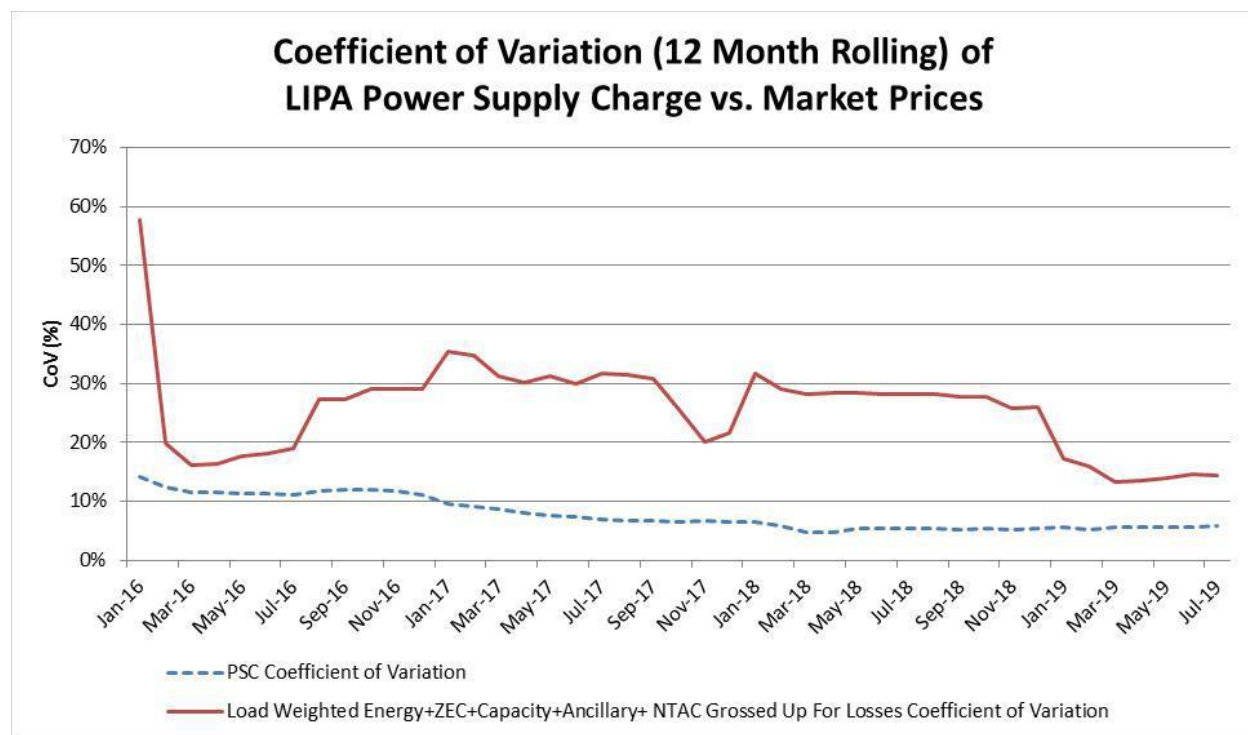
Specifically, the Policy provides that “the Chief Executive Officer, or his or her designee, will provide an annual compliance report on the Power Supply Hedging Program to the Finance and Audit Committee.”

Compliance with the Policy

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

The Policy is intended to “Mitigate a portion of the volatility of power supply costs in a programmatic and reasonable way on behalf of the Authority’s customer-owners.”

- The ERMC approves the LIPA Hedge Plan which identifies certain power supply cost components which can be fixed to create reasonable and stable rates. In general, hedging these cost components has proven to reduce the Power Supply Charge (“PSC”) volatility in the absence of a hedging program and purchasing power in the open market. PSEG Energy Resource and Trade (“PSEG ER&T”) presented to the F&A Committee at the September 25, 2019 meeting the following graph indicating the actual PSC volatility as compared to the volatility customers would be exposed to based upon unhedged market prices.



The Policy shall be “executed using financial derivative and physical supply and delivery contracts for a portion of the Authority’s projected fuel and purchased power purchases,

provided, however that: the net hedge position does not exceed 90% of projected fuel and purchased power needs; and the term of any such hedge does not exceed ten years without the prior approval of the Board or a term in excess of seventy-two (72) months without the prior approval of the Finance and Audit Committee of the Board.”

- PSEG ER&T authorized traders to execute both financial and physical hedge transactions on the Authority’s behalf for defined volumes that as of January 1, 2020 would be within a 59-month hedge horizon. All transactions are monitored by PSEG Enterprise Risk Management (“PSEG ERM”) back office for compliance; PSEG ERM generates and distributes hedge ratio position reports daily, weekly and monthly to the Authority’s ERMC staff.
- Hedge transactions are triggered based on a time or value trigger protocol that has been established with an independent third-party hedge advisor. Time-trigger transactions allow for the accumulation of minimum required volume hedge levels under all price environments, value-triggered transactions allow for the accumulation of additional hedge levels based on lower decile pricing levels of value versus 4-year historical pricing. In addition, volumes associated with Board Approved Purchase Power Agreements (“PPAs”) having fixed prices and the Authority’s 18% ownership of Nine Mile Point 2 are included as part of the hedged volume. Currently, the ERMC has set a maximum hedge level limit of 85%.
- No hedges exceed a term of seventy-two months and the net hedge position does not exceed 90% of projected fuel and purchased power needs, meeting the requirements of the Policy.

The Policy states that the program shall “Achieve appropriate risk mitigation and is not for purposes of financial speculation.”

- All transactions are based on ERMC Approved projected fuel and power requirements associated with the Authority-approved annual sales forecast. Specific power supply component volumes are also validated against historical consumption data. Each hedge transaction is reviewed by PSEG ERM’s middle-office risk management group for compliance to ERMC approved LIPA Hedge Plan and procedures.

The Policy states that the program shall “Provide transparency regarding the Authority’s commodity risk management activities and the results of such activities.”

- PSEG ER&T and PSEG ERM provide to the ERMC staff on a daily, weekly and monthly basis a hedge transaction report, hedge position report and position valuation report. In addition, the following table identifies several other required reports to the ERMC and to the Authority’s F&A Committee, their distribution and reporting frequency and the originator of the reports.

Report	Distribution	Normal Frequency	Originator
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Trading Activity Summary	ERMC Traders	Daily Weekly	Front Office Middle Office
Position Report	ERMC Traders	Weekly	Middle Office
Credit Risk Exposure Reports	ERMC Traders	Weekly	Middle Office
ERMC Meeting Minutes	ERMC	As Meetings are Held	ERMC Designated Secretary
Benchmarking	ERMC	Quarterly	Independent third-party hedge advisor
Power Supply Hedging Program	Board Finance & Audit Committee	Bi-annually	PSEG ER&T
Annual Compliance Report	Board Finance & Audit Committee	Annually	CEO or Designee

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

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

- All active participants of the Power Supply Hedging Program are required to read and comply with the ERMC Approved Policies, Controls and Procedures Manual for Power Supply Hedging Program (“Manual”), which incorporates the Board Policy. All active participants are required to certify compliance with the Manual and Policy by executing the Yearly Certification of Compliance with Risk Management Policy and Procedures Form.

“Determining the Authority’s tolerance for exposure to fuel and purchased power price movements and power supply cost volatility considering the costs of limiting such exposure.”

- The ERMC has approved a Manual for the hedging program that establishes the Authority’s tolerance for exposure to fuel and purchased power price movements. The ERMC has established minimum and maximum hedging limits by time-period as well as collateral posting limits.

- **The cost of the hedging program is evaluated each day in the form of mark-to-market value of the positions and stress testing collateral exposure potential of all positions executed to limit PSC volatility.**

“Addressing all risk factors that are demonstrably quantifiable, actionable and material to the program.”

- **The ERMIC approved Manual specifically identifies authorized markets and delivery points, permissible hedge instruments and the terms and volumes available for hedging to reduce PSC volatility. Within the Manual there is also a specific LIPA Hedge Plan that addresses the PSC hedge components that are quantifiable, actionable and there is market liquidity available to hedge the required products and delivery points (i.e. natural gas, gas basis, power, power basis).**

“Establishing risk boundaries consistent with such tolerances and evaluating allowable financial and physical instruments in executing the Power Supply Hedging Program.”

- **The ERMIC approved Manual specifically identifies authorized markets, delivery points, permissible hedge instruments, terms and volumes associated with hedging to reduce PSC volatility. Within the Manual there is also a specific LIPA Hedge Plan which addresses minimum and maximum hedge levels by time-period – consistent with utility peers. “Establishing appropriate processes and protocols to review and monitor counterparty credit worthiness on a regular basis.”**
- **The Manual identifies specific procedures carried out by PSEG Credit Risk Management on behalf of the Authority for managing and monitoring counterparty credit risk on an ongoing basis. PSEG Credit Risk Management provides the ERMIC with a credit report each week as noted above.**

“Monitoring Commodity Futures Trading Commission rule making and all other regulatory and legal requirements to ensure that the Authority is taking all actions required to maintain compliance with respect to any transactions under the Power Supply Hedging Program.”

- **PSEG ER&T, PSEG Corporate Legal department and the Authority’s internal and outside counsel monitor Commodity Futures Trading Commission regulatory rule-making to determine what actions, if any, the Authority is required to undertake to assure continued compliance.**

Annual Review of the Policy

Authority Staff has reviewed the Policy and recommends: (i) renaming the Executive Risk Management Committee as the Power Supply Risk Management Committee and minor modifications to the required composition of the Committee; and (ii) certain other non-material wording changes. The proposed changes to the Policy are more particularly set forth in Exhibit

“B”.

Recommendation

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

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

RESOLUTION RECOMMENDING APPROVAL OF THE ANNUAL REPORT AND AMENDMENTS ON THE BOARD POLICY ON THE POWER SUPPLY HEDGING PROGRAM

WHEREAS, the Board Policy on the Power Supply Hedging Program (the “Policy”) was originally approved by the Board of Trustees by Resolution No.1352, dated March 29, 2017; and

WHEREAS, the Policy was last reviewed and amended by Resolution No. 1429, dated September 27, 2018; and

WHEREAS, the Finance and Audit Committee (the “Committee”) of the Board of Trustees (the “Board”) conducted an annual review of the Policy and recommends that the Policy has been complied with and the changes to the Policy are due and proper.

NOW, THEREFORE, BE IT RESOLVED, that consistent with the accompanying memorandum, the Committee hereby recommends that the Board find that the Authority has complied with the Policy for the period since the last annual review and approve the annual report; and

BE IT FURTHER RESOLVED, that consistent with the accompanying memorandum, the Committee hereby recommends approval of the changes to the Policy that are reflected in Exhibit “B”.

Chair Cohen then entertained a motion to adjourn, which was duly made and seconded, after which the meeting concluded at approximately 10:04 a.m.
