

BOARD AGENDA SUMMARY SHEET

Committee or Board: Oversight and Clean Energy	Date: September 18, 2020	Board Meeting Date: September 23, 2020
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For All Board Voting Items:

Title of Agenda Item: Recommendation to Approve an Extension of the Power Purchase Agreement for FitzPatrick

Consent Agenda: Yes No

Accompanying Presentation: Yes No

LIPA Presenter: Rick Shansky

PSEG Long Island Presenter: N/A

For Contract Approvals Only:

RFP: Yes No

Term: 3 years

Requested Action:	The Committee is being requested to recommend the authorization of the Chief Executive Officer or his designee to execute an amendment to the Power Purchase Agreement (“PPA”) between the Long Island Lighting Company d/b/a LIPA, a wholly owned subsidiary of the Long Island Power Authority (collectively “LIPA”) and Exelon Generation Company, LLC (“ExGen”) for the continued purchase of nuclear energy from the FitzPatrick Nuclear Power Plant (the “FitzPatrick Plant”).
Summary: (include proposed amendments to Board Policies, if applicable)	<p>LIPA has purchased power from the FitzPatrick Plant under a legacy contract dating back to 1975 (“Contract UD-3S”). The FitzPatrick Plant supplies approximately five percent of Long Island’s energy requirements. In March 2017, ExGen purchased the FitzPatrick Plant and took assignment of Contract UD-3S from Entergy. The energy price under the Agreement is fixed and serves as a financial hedge against volatile fossil fuel and electricity costs. Additionally, the energy provided under the Agreement is associated with legacy transmission service agreements with Niagara Mohawk and Con Edison that have been used since 1975 to deliver the energy from the FitzPatrick Plant to Long Island.</p> <p>In recognition of these transmission service agreements, the New York Independent System Operator (“NYISO”) awarded LIPA “grandfathered” transmission congestion contracts (“TCCs”) which are valuable financial instruments that provide the financial equivalent of delivering the FitzPatrick energy to Long Island by compensating LIPA for the “congestion” (essentially, the difference in electricity price) between the plant’s location in Scriba, New York and Long Island. To maintain the full benefits of the grandfathered transmission agreements, the NYISO requires that LIPA have a corresponding purchase agreement in place for power produced by the FitzPatrick Plant. The PPA, which was last extended in 2017, is scheduled to expire on December 31, 2020.</p>

FOR CONSIDERATION

September 23, 2020

TO: The Oversight and Clean Energy Committee

FROM: Thomas Falcone

SUBJECT: Recommendation to Approve the Authorization to Execute an Amendment to the FitzPatrick Power Purchase Agreement

Requested Action

The Oversight and Clean Energy (the “Committee”) of the Board of Trustees of the Long Island Power Authority (the “Board”) is requested to approve a resolution recommending the authorization of the Chief Executive Officer or his designee to execute an amendment to the Power Purchase Agreement (“PPA”) between the Long Island Lighting Company d/b/a LIPA, a wholly owned subsidiary of the Long Island Power Authority (collectively “LIPA”) and Exelon Generation Company, LLC (“ExGen”) for the continued purchase of nuclear energy from the FitzPatrick Nuclear Power Plant (the “FitzPatrick Plant”), which resolution is attached hereto as **Exhibit “A”**.

Background

LIPA has purchased power from the FitzPatrick Plant under a legacy contract dating back to 1975 (“Contract UD-3S”). The FitzPatrick Plant supplies approximately five percent of Long Island’s energy requirements. In March 2017, ExGen purchased the FitzPatrick Plant and took assignment of Contract UD-3S from Entergy. The energy price under the Agreement is fixed and serves as a financial hedge against volatile fossil fuel and electricity costs. Additionally, the energy provided under the Agreement is associated with legacy transmission service agreements with Niagara Mohawk and Con Edison that have been used since 1975 to deliver the energy from the FitzPatrick Plant to Long Island.

In recognition of these transmission service agreements, the New York Independent System Operator (“NYISO”) awarded LIPA “grandfathered” transmission congestion contracts (“TCCs”) which are valuable financial instruments that provide the financial equivalent of delivering the FitzPatrick energy to Long Island by compensating LIPA for the “congestion” (essentially, the difference in electricity price) between the plant’s location in Scriba, New York and Long Island. To maintain the full benefits of the grandfathered transmission agreements, the NYISO requires that LIPA have a corresponding purchase agreement in place for power produced by the FitzPatrick Plant. The PPA, which was last extended in 2017, is scheduled to expire on December 31, 2020.

Discussion

In recognition of the impending expiration of the PPA, and potential loss of the associated TCCs, PSEG Long Island and ExGen have negotiated an amendment providing for another three-year

extension, which will begin on January 1, 2021 and provide for the purchase by LIPA of annual energy volumes generally equivalent to those set forth in the current Agreement, i.e. 160 MW of baseload energy in the summer and 124 MW in the winter, amounting to approximately 1.2 million MWh/yr. The energy will be scheduled by ExGen on a day-ahead basis in accordance with NYISO rules.

The energy price will be fixed for the three-year term at a rate which reflects a reduction from the current price and is consistent with the market prices that are anticipated to prevail at the point of sale during the next three years. PSEG Long Island advises that this pricing, when combined with the net benefits of the TCCs (i.e., the amount by which the TCC revenues related to the contract are expected to exceed the charges under the transmission service agreements), will provide economic benefits to LIPA's customers compared to the alternative of not extending the contract and securing the energy elsewhere. The estimated total contract value of the three-year extension is approximately \$90 million, not including transmission charges and TCC revenues.

It should be noted that the other terms and conditions of the Agreement will remain substantially the same.

Recommendation

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

Attachments

Exhibit "A" Resolution

RESOLUTION RECOMMENDING APPROVAL OF THE AUTHORIZATION TO EXECUTE AMENDMENT TO THE POWER PURCHASE AGREEMENT WITH EXELON GENERATION COMPANY, LLC

WHEREAS, LIPA and its predecessor LILCO have been purchasing power from the Fitzpatrick nuclear plant since 1975 and the current power purchase agreement between LILCO and the current plant owner Exelon Generation is set to expire on December 31, 2020 (“FitzPatrick PPA”); and

WHEREAS, PSEG Long Island has negotiated an extension of the FitzPatrick PPA under favorable terms and conditions which enable the Authority to continue to purchase carbon-free energy to supply approximately 5% of its annual energy requirements (“FitzPatrick PPA Amendment No. 6”);

NOW, THEREFORE, BE IT RESOLVED, that consistent with the accompanying memorandum, the Oversight and Clean Energy Committee hereby recommends that the Board authorize the Chief Executive Officer or his designee to execute the FitzPatrick PPA Amendment No. 6 and such other documents as may be necessary or appropriate to effectuate it.

Dated: September 23, 2020