

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 Sound Cable Project Facilities and Marketing Agreement with New York Power Authority

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: 2 years

Requested Action:	The Committee is being requested to recommend that the Board authorize the Chief Executive Officer or his designee to execute an agreement for a two-year extension of the existing Sound Cable Project Facilities and Marketing Agreement (“F&M Agreement”).
Summary: (include proposed amendments to Board Policies, if applicable)	LIPA purchases transmission service over the Sound Cable Project (“Project”) under the F&M Agreement, a legacy contract with NYPA that dates from 1987. The Project consists of certain 345 kV transmission facilities between Con Edison’s Sprain Brook substation located in Yonkers, NY and LIPA’s East Garden City Substation. Under the existing arrangement, LIPA pays NYPA’s costs of debt service, maintenance and repair, and assumes certain operating risks. LIPA is also entitled to the revenue from transmission congestion contracts (“TCCs”) associated with the cable, which are valuable financial instruments issued by the New York Independent System Operator (“NYISO”) that provide the financial equivalent of delivering energy purchased in the NYISO market from the Sprain Brook point of injection to Long Island. LIPA is compensated for the “congestion” (essentially, the difference in electricity price) between the two locations. The F&M Agreement is set to expire upon retirement of the Project debt on November 30, 2020.

FOR CONSIDERATION

September 23, 2020

TO: The Oversight and Clean Energy Committee

FROM: Thomas Falcone

SUBJECT: Recommendation to Approve an Extension of the Sound Cable Project Facilities and Marketing Agreement with New York Power Authority

Requested Action

The Oversight and Clean Energy Committee (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 agreement for a two-year extension of the existing Sound Cable Project Facilities and Marketing Agreement (“F&M Agreement”) between the Long Island Lighting Company d/b/a LIPA, a wholly owned subsidiary of the Long Island Power Authority (collectively “LIPA”) and the Power Authority of the State of New York (“NYPA”), which resolution is attached hereto as **Exhibit “A”**.

Background

LIPA purchases transmission service over the Sound Cable Project (“Project”) under the F&M Agreement, a legacy contract with NYPA that dates from 1987. The Project consists of certain 345 kV transmission facilities between Con Edison’s Sprain Brook substation located in Yonkers, NY and LIPA’s East Garden City Substation. Under the existing arrangement, LIPA pays NYPA’s costs of debt service, maintenance and repair, and assumes certain operating risks. LIPA is also entitled to the revenue from transmission congestion contracts (“TCCs”) associated with the cable, which are valuable financial instruments issued by the New York Independent System Operator (“NYISO”) that provide the financial equivalent of delivering energy purchased in the NYISO market from the Sprain Brook point of injection to Long Island. LIPA is compensated for the “congestion” (essentially, the difference in electricity price) between the two locations.

The F&M Agreement is set to expire upon retirement of the Project debt on November 30, 2020. NYPA has been engaged in studying the potential for life extension and modernization (“LEM”) of the Project, which has been in service since 1991. Because the LEM may entail a significant investment by NYPA, the size of which is not known at this time, the net economic benefits to LIPA’s customers of a long-term extension of the F&M Agreement cannot yet be determined. In the event that the F&M Agreement expires, the costs and benefits of the Project would be passed through NYPA’s transmission tariff at the NYISO.

Discussion

In recognition of the impending expiration of the F&M Agreement, the parties have agreed to extend the F&M Agreement for an additional 24 months, from December 1, 2020 to November

30, 2022 in order to allow time for the LEM study to be completed, after which the parties may consider a longer term extension. No significant capital expenditures are expected during the two-year extension. LIPA will continue to pay for facility O&M, approximately six million dollars a year, and receive TCC revenues, which are expected to yield significant net benefits to LIPA during the term of the extension.

It should be noted that there are no significant changes to the other terms and conditions of the F&M Agreement, and a related O&M Agreement that dates from 1991 remains unchanged and in effect until the expiration of the F&M Agreement.

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 AN EXTENSION OF THE SOUND CABLE PROJECT FACILITIES AND MARKETING AGREEMENT WITH NEW YORK POWER AUTHORITY

WHEREAS, LIPA and its predecessor LILCO have paid for transmission service on the Sound Cable Project since 1991 and the current Facilities and Marketing Agreement (“F&M Agreement”) between LILCO and the New York Power Authority is set to expire on November 30, 2020; and

WHEREAS, PSEG Long Island has negotiated a two-year extension of the F&M Agreement (“Extension Agreement”) under favorable terms and conditions which enable LIPA to continue to benefit from the TCC revenues generated by the cable;

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 Extension Agreement and such other documents as may be necessary or appropriate to effectuate it.

Dated: September 23, 2020